energetix group

Annual Report & Financial Statements 2006

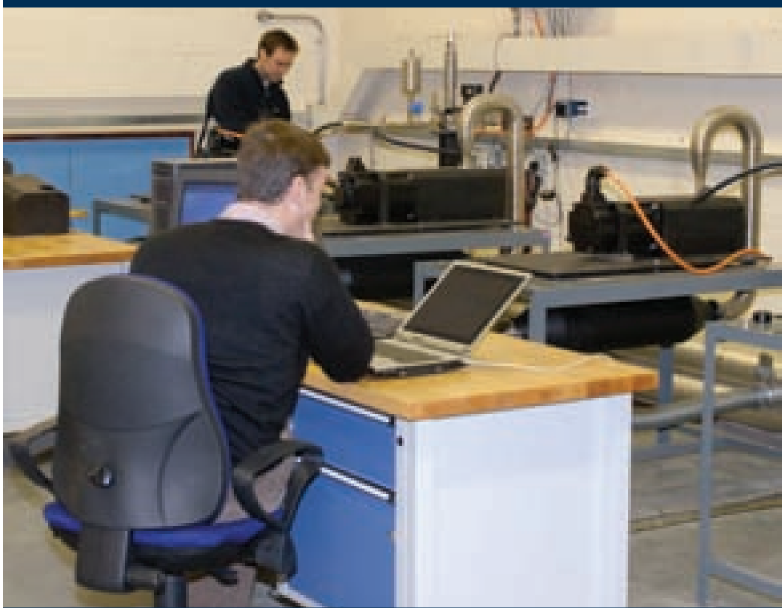
delivering value
new energy
new power

Energetix Group is a leading developer of new energy products, focusing on using robust proven technologies to deliver fast to market low cost product solutions.

With an initial focus on distributed generation and energy storage, Energetix has grown businesses to develop and commercialise new products for these markets.

www.energetixgroup.com

Genlec boiler installed in kitchen.



Pnu Power's life test facility.

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highlights

Energetix Group plc is a leading developer of new energy products. Initially focusing on distributed generation and energy storage, the Group aims to short cut the new product development cycle by creating products predominantly using existing mass-produced components whilst developing strong intellectual property.

2006 achievements

Operational highlights

- Genlec Field Trial under household conditions commenced in early 2007;
- key micro Combined Heat and Power (mCHP) patent granted in Europe;
- Pnu Power Uninterruptible Power Supply System output increased by 50% from 20kW to 30kW;
- dedicated management teams for both Genlec and Pnu Power now in place.

Financial highlights

- raised £5.4 million net of expenses and admission to the AIM Market of the London Stock Exchange plc ("AIM");
- cash in bank and in hand at 31 December 2006 £4.4 million;
- loss before taxation £1.0 million (2005: £0.3 million).

2007 activities:

- initial mCHP field trials followed by wider trial, winter 2007/08;
- Pnu Power life cycle testing to be completed mid 2007;
- commercialisation partners for both Genlec and Pnu Power to be confirmed;
- sales of Pnu Power projects and product to commence in second half of 2007.

Commenting on the results, Adrian Hutchings, Chief Executive Officer, said:

"2006 was a milestone year for Energetix and since floating on AIM in August, the Group has made significant progress in all areas of the business, particularly with the Genlec product which was granted a key patent and is now undergoing field trials supporting our strategy of being first to market with a lightweight wall hung mCHP boiler."

"The Group's expansion and progress is underpinned by the new facilities that have been established for both Pnu Power and Genlec and two highly skilled and dedicated management teams have been put in place to maintain the rapid progress towards commercialisation of these two products."

smart engineering

chairman's and chief executive's review

We are pleased to present your Group's first Annual Report and we would like to welcome our new shareholders following our listing on the AIM Market of the London Stock Exchange plc ("AIM") when we raised £5.4 million net of expenses.

Since the flotation the Group has made excellent progress towards its ambition of cementing its position as the leading developer of new energy products. In particular, the Group has:

- established high calibre dedicated management teams to lead its two key subsidiaries, Energetix Genlec Limited ("Genlec") and Energetix Pnu Power Limited ("Pnu Power");
- achieved all the key development and performance testing targets;
- established new facilities for both businesses; and
- continued to develop partnerships with both suppliers and routes to market.

In January 2007, Genlec achieved a major milestone with the successful installation and demonstration of a fully integrated wall hung mCHP domestic boiler. This pre-production system has been installed in a test house and is currently undergoing life and performance testing. This Genlec mCHP boiler has the same footprint and size as a normal boiler and is lightweight, enabling it to be wall hung and installed as a normal boiler which is important given that *circa* 90 per cent. of the Western European boiler market comprises wall hung units. This appliance will also have very similar service and maintenance requirements to normal boilers. This is seen as a key part of our strategy of being first to market with a wall hung mCHP appliance that can capitalise on existing and new routes to market.

We believe that the planned field trials of Genlec over the winter 2007/08 will create international interest in this new product, demonstrating its advanced stage of development and the benefits, in both cost and performance, of utilising mass-produced components.

Pnu Power has designed, installed, and set to work a dedicated Pnu Power lifecycle testing facility and has already successfully completed the first series of life cycle tests.

By the middle of 2007, the life cycle testing of Pnu Power compressed air batteries should be completed, enabling the generation of revenue from projects and early product sales. Initial discussions have been held with potential clients for early Pnu Power projects in Europe, the USA and South Africa. We are confident of achieving our objective of generating Pnu Power revenue in the second half of 2007.

Over the coming year the Group's strong and growing intellectual property portfolio will enable the subsidiaries to further develop partnerships with global suppliers and routes to markets through Original Equipment Manufacturers (OEMs), utilities and service companies, and Mechanical, Electrical & Instrumentation (ME&I) contractors.

As a result of the Group's increased activity and progress towards commercialisation of Genlec and Pnu Power, the loss attributable to shareholders has increased to £1,021,076 (2005: £301,124). Research and development expenditure is directed towards the commercial development of the Group's products and their preparation for market launch, total expenditure in the year was £591,220 (2005: £415,100) further details of which are contained in the Directors' report. Administration expenditure, before depreciation and amortisation, of £1,005,405 (2005: £568,247) includes £234,564 of one-off costs related to the Group's admission to AIM.

Overall, the financial performance for the Group was in line with our plans and with our focus on cash control and at the year end, the Group had bank balances of £4,444,731 (2005: £219,109).

The small amount of income reported for the year relates to a consultancy contract carried out by Energetix (Europe) Limited which concluded in April 2006. Future earnings for the Group are expected to commence in the second half of 2007.

At this stage in the Group's development, the Board is not recommending a dividend in respect of the year to 31 December 2006.

Investment in property, plant and equipment in the year totalled £78,096 (2005: £8,483) as the business established its new facilities. Further details are contained in Note 15.

We are delighted with the excellent progress Energetix has made this year, and we look forward to 2007 with confidence to continued growth and delivering value to our shareholders. We would like to thank all management and staff for their dedication and commitment without which, of course, this progress would not have been possible.

Alan Aubrey
Chairman

Adrian Hutchings
Chief Executive

Above: Genlec field trial test house.

Worldwide marketed energy consumption is projected to grow by 71 per cent. between 2003 and 2030, according to the reference case projection from the International Energy Outlook 2006. This is driving the need for alternative power generation technologies to increase efficiency and reduce the environmental impact of energy consumption. In addition, the continuous reliance on IT and telecommunications is driving the need for increased power quality and reliability.

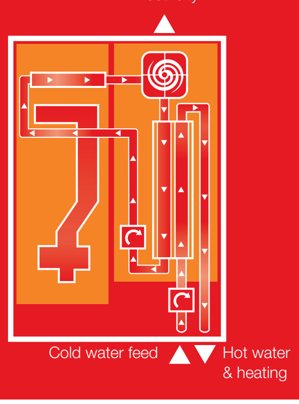
Founded in 1997, Energetix Group specialises in developing products to meet these needs.

“This typical house is the site of Energetix Genlec’s first mCHP boiler. Installed in January 2007, this major achievement was a clear step in the Company’s ambition to be first to market with a lightweight, wall hung mCHP appliance.”

Above: Genlec's field trial mCHP boiler.

Genlec is based on a process known as the Organic Rankine Cycle (ORC), which is effectively the same process as used in fridges, freezers and air-conditioning systems, but operating in reverse. In fact, most of Genlec's components are from air-conditioning and refrigeration component suppliers, with the power generator being a modified car air-conditioning unit.

With only five main components, Genlec's patent protected yet simplistic design will support our first-to-market strategy.



"This fully operational pre-production Genlec unit is the future for a range of lightweight, wall hung Genlec boilers that heat the home and generate electricity at the same time."

Above: Power protection without the need for costly, unreliable lead acid batteries.

Air is stored in normal cylinders. When the power fails, the air is released into a modified automotive air-conditioning unit where it drives a generator to deliver electrical power. A single unit can produce over 20kW of electricity and also deliver cold air for cooling. Multiple units can be ganged together to produce a large-scale UPS or back-up system.

With a wide range of markets and applications, Pnu Power is initialty targeting the valuable UPS and telecommunications back-up power markets.

“The first viable alternative to lead acid batteries for reliable power, Pnu Power is powered by clean, reliable air.”

board of directors

A J Aubrey

Non-Executive Chairman

Alan is the CEO of IP Group plc, a FTSE 500 company that specializes in investing in and building technology businesses based on intellectual property originating from universities and other research intensive institutions. He is the Non-Executive Chairman of Proactis Group Limited, an AIM listed software company, based in York. He is a Non-Executive Director and investor in Syntopix Group plc, a Bradford based, AIM listed company that is developing new therapeutics for dermatology markets and a Non-Executive Dector and investor in Avacta Group plc, a York based AIM listed Company that has developed a number of products in the area of chemical and biological detection. Previously, Alan was the founder and CEO of Techtran Group Limited, a business that was sold to IP Group plc in 2005. From 1995 to 2000 Alan was a partner in KPMG where he specialized in providing corporate finance to and raising money for fast-growing technology businesses. Alan holds a BA in Economics and an MBA with Distinction from the University of Bradford and is a fellow of the Institute of Chartered Accountants of England and Wales.

A C Hutchings

Chief Executive Officer

Prior to founding Energetix Group in 1997, Adrian was the Managing Director of International Energy Systems Ltd (IES), a subsidiary of BNFL which developed, manufactured, and marketed a high technology flywheel for storing electrical energy, for the UPS and distributed generation markets.

Before this, Adrian was a Commercial Manager with BNFL New Business Ventures. His role was identifying technologies and business opportunities based on internal intellectual property, for non-nuclear applications, as part of a diversification programme. Prior to this he was the BNFL Project manager for a £50 million capital, £500 million life cycle, design and construction project for a major facility at the Sellafield site. Adrian has a degree in Chemical Engineering.

R H Smith

Chief Financial Officer

A Fellow of the Chartered Institute of Management Accountants with an MBA from Warwick University, he was previously Finance Director for Ultraframe (UK) Limited (2001 to 2004), and Finance Director for Norcros Adhesives (1997 to 2001) which comprised subsidiary, joint venture and licensee operations in the UK, Europe, the Middle East and India. From 1995 to 1997 Rick worked with Adrian Hutchings as the Finance Director for IES and prior to this was the Financial Controller for Robinson Healthcare, a division of Robinson Limited that manufactured consumables for the healthcare industry.

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A C Elsborg
Non-Executive Director

Following roles in finance and general management with Lucas Aerospace Limited, Anton joined David Brown Group plc as Finance Director after a £46 million MBI in January 1990. David Brown later floated (in April 1997) at a valuation of £90 million on the London Stock Exchange. Continued growth through new products and international expansion lead to the purchase by Textron Inc of the David Brown Group in 1998 for approximately £260 million. Anton remained with Textron as President of the Power Transmission Division until July 2001 and joined Energetix Group Limited in 2002. Anton graduated in Chemical Engineering, gained a Masters in Industrial Management and is a Chartered Management Accountant.

B M Gray (MBE)
Non-Executive Director

Bryan is Chairman of the Northwest Regional Development Agency. Previously he was Chairman of Baxi Technologies, now part of Baxi Group Limited. He is Vice-President of the Micropower Council, promoting new energy technologies. He is Non-Executive Chairman of Westmorland Limited and Pro-Chancellor of Lancaster University.

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directors' report

The Directors present their report and the audited financial statements for the year ended 31 December 2006.

Incorporation, changes in share capital, Group restructuring, basis of preparation of the Financial Statements and admission to AIM

The Company was incorporated on 17 May 2006 as Futurebay Limited with an authorised share capital of 1,000 ordinary shares of £1 each.

On 7 August 2006, the Company increased its authorised share capital to £3,000,000 denominated in ordinary shares of 5 pence each, with each issued and unissued ordinary share of £1 being subdivided into 20 ordinary shares of 5 pence each.

On 8 August 2006, the Company issued 29,999,980 ordinary shares of 5 pence each credited as fully paid in consideration for the acquisition of the entire issued share capital of Energetix (Europe) Limited and re-registered as a public limited company changing its name to Energetix Group plc.

On 9 August 2006, as part of a further Group reconstruction, Energetix (Europe) Limited, a wholly owned subsidiary of the Company, transferred four of its investments in subsidiaries to the Company at net book value.

On 15 August 2006, the Company was admitted to AIM following the placing of 2,500,000 ordinary shares of 5 pence each at 40 pence per ordinary share. Trading in the existing 30,000,000 ordinary shares and the 2,500,000 EIS Placing shares commenced on 15 August 2006.

On 16 August 2006, the 12,500,000 General Placing shares were admitted to, and trading began on, AIM.

The Financial Statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board and as adopted by the European Union. In accordance with IFRS, the Financial Statements reflect the results of Energetix Group plc since incorporation and of Energetix (Europe) Limited and its subsidiaries for the year ended 31 December 2006 and for the corresponding period in 2005. Further details are provided in Note 2.1 and 2.2 to the Financial Statements.

Principal activities

Energetix Group plc is focused on the commercialisation of intellectual property and technical product development of alternative energy products for global markets.

Results and dividends

The loss for the year after taxation amounted to £1,021,408 (2005: £301,723). The Directors do not recommend the payment of a dividend.

Review of business and future developments

The business has continued to develop its core products and the Directors are pleased to report that development progress to date has been in line with or ahead of targets.

A more detailed appraisal of business developments is given in the Chairman's and Chief Executive's Review on page 2 and future developments as set out in the highlights on page 1.

Risk review

The Directors monitor the progress of the overall Group strategy and a more detailed appraisal of its two key operating subsidiaries Energetix Genlec Limited and Energetix Pnu Power Limited.

A review of the Key Performance Indicators (KPIs) is contained in the Chairman's and Chief Executive's review on page 2. The Directors believe that, given the Group's current early stage of development, the relevant KPIs are: progress towards income, research and development costs, administrative expenses, capital expenditure and cash management.

The key business risks affecting the Group are set out below:

Value creation

The Group's success will depend on its ability to develop a portfolio of products and services which address identified market needs, establish appropriate assembly and supply chain capabilities and capture value from business opportunities.

The Group's business model involves focusing development on identified market needs and seeking revenue generation from project sales, product sales and licensing and the building of a supply chain around multiple suppliers. These activities are all undertaken within appropriate commercial arrangements.

Attraction and retention of key employees

The Group depends on its Directors and other key employees and whilst it has entered into contractual arrangements with these individuals with the aim of securing the services of each of them, retention of these services cannot be guaranteed. The Group has attempted to reduce this risk by offering competitive remuneration packages including the opportunity to participate in a share option scheme. The Group also invests in training, development and succession planning.

Intellectual property

A significant part of the Group's future depends on its intellectual property for development and growth. If intellectual property is inadequately protected, the Group's future success could become adversely affected.

The Group continues to invest in the protection and expansion of its intellectual property portfolio. In addition, the Group has established internal procedures and controls to capture new intellectual property, to prevent unauthorised disclosure to third parties and protect the Group's rights when dealing with supply chain partners.

Market Acceptance

The Group's technologies are incorporated into the products or processes of third parties. There can be no assurance that such products or processes will achieve commercial success or be an attractive alternative to conventional products or processes. If a mass market for any product or process fails to develop or develops more slowly than anticipated, the Group may fail to achieve profitability in respect of the technology associated with such product or process.

The Group's strategy of producing products from existing components enabling lower costs for early products plus seeking specific channel partnerships which cover defined market applications and geographical focus is designed to facilitate adoption of the products and to drive mass-market uptake.

Directors' interests in ordinary shares

The Directors who held office in the year and their beneficial interests in ordinary shares of the Company are shown below. Each Director served throughout the period unless otherwise indicated:

	Shares held as at 31 December 2006
A J Aubrey (Non-Executive Chairman) (Appointed 5 May 2006)	1,074,486
A C Hutchings (Chief Executive Officer)	11,267,965
R H Smith (Chief Financial Officer)	1,740,377
A C Elsborg (Non-Executive Director)	1,162,884
B M Gray (Non-Executive Director) (Appointed 15 August 2006)	—

A J Aubrey is also a director and shareholder in Axiomlab Group plc, which holds 7,400,069 shares in the Company.

Prior to A J Aubrey's appointment as Non-Executive Chairman he fulfilled the role of nominee director on behalf of Axiomlab Group plc and resigned this position on 5 May 2006.

Directors' options

The Directors who have held office during the year have the following interests in options over the shares of the Company under the Group's unapproved share option scheme.

	Date of grant	At 1 January 2006	Granted during the year	**At 31 December 2006**	Exercise price (p)	Earliest exercise date	Expiry date
B M Gray	15.08.06	—	337,500	**337,500**	40	15.08.06	14.08.16

The fair value charge recognised in the Consolidated Income Statement in respect of share options granted to Directors was £43,890.

The middle market price of ordinary shares on 31 December 2006 was 49 pence. The high and low market prices during the year were 52.5 pence and 46 pence respectively.

Employees

Throughout the year Directors of the Group provide relevant information to employees and engage in consultation with them to ensure that their views are considered.

Applications for employment by disabled persons are given full and fair consideration for all vacancies in accordance with their particular aptitudes and abilities. In the event of employees becoming disabled every effort is given to retrain them in order that their employment with the Group may continue.

It is the policy of the Group that training, career development and promotion opportunities should be available to all employees.

Research and development

The business undertakes a significant amount of research and development to address opportunities in the alternative energy market. In 2006 the Group incurred research and development costs of £591,220 (2005: £415,100) of which £564,673 (2005: £310,110) has been capitalised in accordance with IAS 38 "Intangible Assets". The Group continues to expand its portfolio of intellectual property and is pleased to announce that in September 2006 it was given a Notice of Allowance for a European patent for its compressed air energy storage product.

During the year the Group also agreed to waive a current and deferred debtor of £3,278,433 (2005: £nil) to secure the return of certain intellectual property relating to mCHP to the Group. In addition, the Group assumed a liability of £2,508,574 debt due to Battelle Memorial Institute of the USA in return for their 40% interest in the same intellectual property. This intellectual property was capitalised as an intangible asset of the Group at £5,787,007. See Note 14.

Financial risk management objectives and policies

In addition to the proceeds from the issue of shares, the Group uses various financial instruments that include loans, cash, and various items, such as trade receivables and trade payables arising directly from its operations. The main purpose of these financial instruments is to finance the Group's operations.

The existence of these financial instruments exposes the Group to a number of financial risks, which are described in more detail below.

The main risks arising from the Group's financial instruments are credit risk and liquidity risk. The Directors review and agree policies for managing risk and these risk management policies have remained unchanged from previous years.

directors' report continued

Liquidity risk
The Company seeks to manage financial risk by ensuring sufficient liquidity is available to meet foreseeable needs and to invest cash assets safely and profitably. The Group had net cash balances of £4,444,731 as at 31 December 2006 (2005: £219,109).

The maturity of borrowings is set out in Note 18 to the Financial Statements.

Credit risk
The Company's principal financial asset is cash. The credit risk associated with cash is limited.

Supplier payment policy
It is the Group's policy, in respect of all suppliers, to agree payment terms in advance of the supply of goods and services and to adhere to those payment terms. Trade creditors of the Group at the year end as a proportion of amounts invoiced by suppliers during the year represent 51 days (2005: 52 days).

Going concern
Having made reasonable enquiries, the Directors are of the opinion that the Group has adequate resources to continue in operational existence for the foreseeable future and hence these Financial Statements have been prepared on a going concern basis.

Major shareholdings
In addition to the Directors' beneficial interests shown on page 9, as at 30 March 2007 the Company had been notified of the following interests in 3% or more of the Company's issued share capital, pursuant to section 211 of the Companies Act 1985:

	%
Axiomlab Group plc	16.4
Merrill Lynch Investment Managers	10.0
AXA Framlington	7.8
G Barker	5.6
AMVESCAP plc	5.5

corporate governance statement

The Directors are committed to maintaining high standards of Corporate Governance. This statement sets out how the Board has applied the principles of good corporate governance in its management of the business in the period ended 31 December 2006.

Board of Directors

During the period under review the Board comprised two executive and three non-executive Directors. Biographies of the Directors are provided on pages 6 and 7 and set out the broad range of commercial, technical and financial expertise possessed by Board members. The combination of skills and talents ensures that strategic focus and sound commercial stewardship is available to the Group. The Non-Executive Directors are highly experienced, exercise independent judgements on issues arising and are able to challenge constructively the decisions of the Executive Directors.

The roles of Chairman and Chief Executive are separate, ensuring an appropriate division of responsibilities at the head of the Group.

All Directors are subject to election by shareholders and re-election thereafter is by rotation at intervals of not more than three years.

All Directors are offered an opportunity to request information and training relevant to their legal and other duties as a Director. They are also given written rules and guidelines setting out their responsibilities within an AIM listed company. All Directors are able to take independent legal and professional advice, if required, at the expense of the Company. Directors have access at all times to the services of the Company Secretary who is responsible to the Board for ensuring that all agreed policies and procedures are followed and all relevant rules and guidelines are complied with.

Meetings of the Board

The Board, which meets at least ten times per year, has overall responsibility for the strategic direction and management of the business. All key decisions affecting the Group are considered by the Board as a whole. The annual Group budget and business plan, trading and cash flow forecasts, major items of capital expenditure and any other significant strategic actions all require Board approval.

Board meetings are subject to a formal agenda and receive reports on the performance of each of the Group's businesses. Monthly management accounts, that compare actual results with budget, are subject to detailed review. Other strategic and commercial issues are considered as required. Board decisions are communicated on a timely basis to management to ensure that operational implementation occurs without delay.

Audit Committee

The members of the Audit Committee are A C Elsborg (Chairman), A J Aubrey and B M Gray. Executive Directors are permitted to attend meetings at the discretion of the Chairman of the Committee. The Committee meets at least twice a year and there is an opportunity for any meeting to be in private between the non-executive Directors and the Company's auditors to consider any matter they wish to bring to the attention of the Committee.

The terms of reference and areas of delegated responsibility of the Audit Committee are in the consideration and approval of the following matters:

- monitoring the quality and effectiveness of the internal control environment, including the risk management procedures followed by the Group;
- reviewing the Group's accounting policies and ensuring compliance with relevant accounting standards;
- reviewing the Group's reporting and accounting procedures;
- ensuring that the financial performance of the business is properly measured and reported on;
- recommending the reappointment of the auditors and the level of their remuneration;
- considering reports from the auditors on the outcome of the audit process and ensuring that any recommendations arising are communicated to the Board and implemented on a timely basis;
- reviewing the Board's statement on internal control in the annual report and accounts; and
- ensuring compliance with the relevant requirements of the AIM Rules for Companies.

Remuneration Committee

The members of the Remuneration Committee are A C Elsborg (Chairman), A J Aubrey and B M Gray. The Committee meets at least once a year and at such other times as its Chairman shall require and its terms of reference and areas of delegated responsibility are:

- determining the terms and conditions of service of all Directors including their remuneration and the granting of share options;
- seeking professional advice, as required, in order to ensure that the Group's remuneration arrangements are both competitive and appropriate to its scale and complexity by reference to other similar businesses; and
- ensuring that the Group complies with the relevant requirements of the AIM Rules for Companies.

Members of the Committee are not involved in any decisions in meetings at which their own remuneration is discussed.

Communication with Shareholders

The Board is committed to constructive dialogue with its shareholders. The Company uses the AGM as an opportunity to communicate with its shareholders. The AGM will be held at 10 a.m. on 16 May 2007 at the Company's registered offices, Steam Packet House, 76 Cross Street, Manchester, M2 4JU.

The Group's website (www.energetixgroup.com) is the primary source of information on the Group. This includes an overview of the activities of the Group, information on the Group's subsidiaries and details of all recent Group announcements.

Internal Control

The Board has overall responsibility for ensuring that the Group maintains a system of internal control to provide them with reasonable assurance regarding the reliability of financial information used within the business and for publication. The Board is also responsible for ensuring that assets are safeguarded and risk is identified as early as practically possible. As noted, the Audit Committee has a significant role in this area. The internal control systems established are designed to manage rather than completely eliminate risk and can only provide reasonable but not absolute assurance against misstatement or loss.

corporate governance statement continued

The Board reviews the effectiveness of the systems of internal control and its reporting procedures and augments and develops these procedures as required to ensure that an appropriate control framework is maintained at all times.

The principal control mechanisms deployed by the Group are:

- Board approval for all strategic and commercially significant transactions;
- detailed scrutiny of the monthly management accounts with all material variances investigated;
- executive review and monitoring of key decision-making processes at subsidiary board level;
- Board reports on business performance and commercial developments;
- periodic risk assessments at each business involving senior executive management;
- standard accounting controls and reporting procedures; and
- regular liaison with the Group's auditors and other professionals as required.

Statement of Directors' responsibilities

The Directors are responsible for preparing the Annual Report and the Financial Statements in accordance with applicable law and International Financial Reporting Standards as adopted by the European Union.

United Kingdom company law requires the Directors to prepare Financial Statements for each financial year which give a true and fair view of the state of affairs of the Company and of the Group and of the profit or loss of the Group for that period. In preparing these Financial Statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements 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;
- prepare the Financial Statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Group and Company and enable them to ensure that the Financial Statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

In so far as the Directors are aware:

- there is no relevant audit information of which the Company's auditors are unaware; and
- 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.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of Financial Statements may differ from legislation in other jurisdictions.

Auditors

Grant Thornton UK LLP were appointed as first auditors of the Company in accordance with Section 385(3) of the Companies Act 1985, and offer themselves for reappointment.

On behalf of the Board

Adrian Hutchings
Chief Executive Officer
2 April 2007

report of the independent auditors to the members of Energetix Group plc

We have audited the Consolidated Financial Statements (the "Financial Statements") of Energetix Group plc for the year ended 31 December 2006 which comprise the Consolidated Income Statement, the Consolidated Statement of Changes in Equity, the Consolidated Balance Sheet, the Consolidated Cash Flow Statement, Notes to the Consolidated Financial Statements. 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 Auditor's Report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and Auditors

The Directors' responsibilities for preparing the Annual Report and the Consolidated Financial Statements in accordance with United Kingdom law and International Financial Reporting Standards (IFRS) as adopted by the European Union are set out in the Statement of Directors' Responsibilities.

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 whether the Financial Statements have been properly prepared in accordance with the Companies Act 1985 and whether, in addition, the Consolidated Financial Statements have been properly prepared in accordance with Article 4 of the IAS Regulation. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the Financial Statements. The information given in the Directors' Report includes that specific information presented in the Chairman's and Chief Executive's Review that is cross-referred from the Business Review section of the Directors' Report.

In addition we 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 other transactions is not disclosed.

We read other information contained in the Annual Report and consider whether it is consistent with the audited Financial Statements. The other information comprises only the Directors' Report and the Chairman's and Chief Executive's Review. 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 judgements made by the Directors in the preparation of the Financial Statements, and of whether the accounting policies are appropriate to the Group's and 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.

Opinion

In our opinion:

- the Consolidated Financial Statements give a true and fair view, in accordance with IFRS as adopted by the European Union, of the state of the Group's affairs as at 31 December 2006 and of its loss for the year then ended;
- the Consolidated Financial Statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation; and
- the information given in the Directors' Report is consistent with the Financial Statements.

As explained in Note 2.1 to the Consolidated Financial Statements, the Group in addition to complying with its legal obligation to comply with IFRS as adopted by European Union, has also complied with the IFRS as issued by the International Accounting Standards Board.

Accordingly, in our opinion the Consolidated Financial Statements give a true and fair view, in accordance with IFRS, of the state of the Group's affairs as at 31 December 2006 and of its loss for the year then ended.

Grant Thornton UK LLP
Registered Auditors
Chartered Accountants
Manchester
2 April 2007

consolidated income statement

	Note	Year ended 31 December 2006 £	2005 As restated £
Revenue	4	**66,948**	183,106
Cost of sales	4	**(46,441)**	(163,721)
Gross profit		**20,507**	19,385
Administrative expenses	4	**(1,219,741)**	(570,277)
Operating loss		**(1,199,234)**	(550,892)
Finance income	5	**67,678**	249,169
Other gains — net	6	**110,148**	—
Loss before income tax	4	**(1,021,408)**	(301,723)
Income tax expense	10	**—**	—
Loss for the year		**(1,021,408)**	(301,723)
Attributable to			
Equity holders of the Company		**(1,021,076)**	(301,124)
Minority interest		**(332)**	(599)
		(1,021,408)	(301,723)
Loss per share attributable to the equity holders of the Company during the year			
— Basic and diluted	12	**(2.86)p**	(1.00)p

All revenue and costs originate from continuing activities.

The Notes on pages 18 to 30 are an integral part of these Consolidated Financial Statements.

consolidated statement of changes in equity

	Attributable to equity holders of the Company							
	Share capital £	Share premium £	Retained earnings £	Reverse acquisition reserve £	Warrant reserves £	Other reserves £	Minority interest £	Total equity £
Balance at 1 January 2005	160	179,050	3,009,036	—	—	—	(25,157)	3,163,089
Proceeds from shares issued	6	2	—	—	—	—	—	8
Total recognised loss for the year	—	—	(301,124)	—	—	—	(599)	(301,723)
As previously reported in Energetix (Europe) Limited as at 31 December 2005	166	179,052	2,707,912	—	—	—	(25,756)	2,861,374
Cost of acquisition	1,499,763	—	—	(1,499,763)	—	—	—	—
Balance at 31 December 2005 as restated	1,499,929	179,052	2,707,912	(1,499,763)	—	—	(25,756)	2,861,374
Shares issued 6 April 2006	61	—	—	—	—	—	—	61
8 August 2006 Loan note conversion (Note 18)	10	499,842	—	—	—	—	—	499,852
Proceeds from EIS Placing — 15 August 2006	125,000	875,000	—	—	—	—	—	1,000,000
Proceeds from General Placing — 16 August 2006	625,000	4,375,000	—	—	—	—	—	5,000,000
Share issue expenses	—	(402,575)	—	—	—	—	—	(402,575)
Warrants issued	—	(256,500)	—	—	256,500	—	—	—
Total recognised income/(loss) — Loss for the year	—	—	(1,021,076)	7	—	43,890	(332)	(977,511)
Provision against minority interest	—	—	—	—	—	—	26,088	26,088
Balance at 31 December 2006	**2,250,000**	**5,269,819**	**1,686,836**	**(1,499,756)**	**256,500**	**43,890**	**—**	**8,007,289**

Minority interest

Energetix Laser Technologies Limited, a 60% owned subsidiary of Energetix (Europe) Limited, had net liabilities at 31 December 2006 resulting in a debit minority interest. However, the Directors have made a provision against this balance on the basis that it is potentially irrecoverable and hence there is no balance attributable to minority interests in the Consolidated Balance Sheet.

Other reserves

Other reserves comprise the fair value provision for the costs of options granted.

The Notes on pages 18 to 30 are an integral part of these Consolidated Financial Statements.

consolidated balance sheet

	Note	As at 31 December 2006 £	2005 As restated £
ASSETS			
Non-current assets			
Goodwill	13	**—**	—
Other intangible assets	14	**6,456,833**	310,110
Property, plant and equipment	15	**76,506**	7,789
Trade and other receivables	16	**—**	2,378,433
		6,533,339	2,696,332
Current assets			
Trade and other receivables	16	**135,138**	934,130
Cash and cash equivalents	17	**4,444,731**	219,109
		4,579,869	1,153,239
Total assets		**11,113,208**	3,849,571
LIABILITIES			
Non-current liabilities			
Financial liability — borrowings	18	**2,558,574**	360,000
		2,558,574	360,000
Current liabilities			
Financial liability — borrowings	18	**200,000**	500,000
Trade and other payables	19	**347,345**	128,197
		547,345	628,197
Total liabilities		**3,105,919**	988,197
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital	20	**2,250,000**	1,499,929
Share premium		**5,269,819**	179,052
Reverse acquisition reserve		**(1,499,756)**	(1,499,763)
Warranty reserve		**256,500**	—
Other reserves		**43,890**	—
Retained earnings		**1,686,836**	2,707,912
Total shareholders' equity		**8,007,289**	2,887,130
Minority interest		**—**	(25,756)
Total equity		**8,007,289**	2,861,374
Total equity and liabilities		**11,113,208**	3,849,571

The Notes on pages 18 to 30 are an integral part of these Consolidated Financial Statements.

These Financial Statements were approved by the Board of Directors on 2 April 2007 and were signed on its behalf by:

A C Hutchings
Chief Executive Officer

R H Smith
Chief Financial Officer

consolidated cash flow statement

	Note	Year ended 31 December 2006 £	2005 £
Cash flows from operating activities			
Cash consumed by operations	21	**(796,976)**	(205,014)
Cash flows from investing activities			
Expenditure on intangible fixed assets	14	**(564,673)**	(310,110)
Purchases of property, plant and equipment	15	**(78,096)**	(8,483)
Interest received		**67,678**	23,224
		(575,091)	(295,369)
Cash flows from financing activities			
Net proceeds from the issue of ordinary shares		**5,597,689**	8
Net increase/(decrease) in cash and cash equivalents		**4,225,622**	(500,375)
Cash and cash equivalents at the beginning of the year		**219,109**	719,484
Cash and cash equivalents at the end of the year	17	**4,444,731**	219,109

The notes on pages 18 to 30 are an integral part of these Consolidated Financial Statements.

notes to the consolidated financial statements

1. General information

Energetix Group plc ("the Company") and its subsidiaries (together "the Group") develop products that provide solutions to certain identified problems in the alternative energy market.

2. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these Consolidated Financial Statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The Consolidated Financial Statements of Energetix Group plc have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union. The Consolidated Financial Statements have been prepared under the historical cost convention, except that they have been modified to include the revaluation of certain non-current assets.

The preparation of Financial Statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the Consolidated Financial Statements, are disclosed below.

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the present circumstances.

Management have reviewed the Group's research and development activities and have made estimates and judgements on the amount of development expenditure it is appropriate to capitalise. The criteria which management have to make judgements about are set out in Note 2.10.

Management have exercised judgement in selecting the appropriate discount rate for application against future deferred receivables and liabilities and have selected 6.75% to represent the best estimate of the cost of debt to the Group, see note 14.

Management have reviewed the expenditure related to its admission and placing on AIM and, where appropriate, made judgements as to how much of the expenditure related to the placing of existing shares, and should therefore be charged to the Consolidated Income Statement, and how much related to the placing of new shares, and should therefore be charged against share premium.

Management have conducted an impairment review of intangible assets and had to make judgements as to the likelihood of them generating future cash flow, over what period those cash flows will be received and what costs are attributable against them.

Management have reviewed the challenge by HM Revenue & Customs to a subsidiary's claim to Substantial Shareholding Exemption as set out in Note 10 and have concluded that no provision is necessary.

2.2 Basis of consolidation

The Company was incorporated on 17 May 2006 as Futurebay Limited. On 8 August 2006, the Company changed its name to Energetix Group plc and re-registered as a public limited company. On 8 August, the Company became the legal holding company of Energetix (Europe) Limited via a share exchange see Note 20.

Under IFRS 3, "Business Combinations", the share for share exchange has been accounted for as a reverse acquisition. Although these Consolidated Financial Statements have been issued in the name of the legal parent, the company it represents in substance is a continuation of the financial information of the legal subsidiary, Energetix (Europe) Limited because after the transaction former Energetix (Europe) Limited shareholders held 100% of the share capital of the legal parent. The following accounting treatment has been applied in respect of the reverse acquisition:

a) the asset and liabilities of the legal subsidiary, Energetix (Europe) Limited are recognised and measured in the Consolidated Financial Statements at the pre-combination carrying amounts, without reinstatement to fair value;

b) the retained (loss)/earnings and other equity balances recognised in the Consolidated Financial Statements reflect the retained (loss)/earnings and other equity balances of Energetix (Europe) Limited immediately before the business combination, and the results of the period from 1 January 2006 to the date of the business combination are those of Energetix (Europe) Limited as the Company did not trade prior to the transaction. However, the equity structure appearing in the Consolidated Financial Statements reflects the equity structure of the legal parent, including the equity instruments issued under the share for share exchange to effect the business combination;

c) comparative numbers presented in the Consolidated Financial Statements are those reported in the Consolidated Financial Statements of the legal subsidiary, Energetix (Europe) Limited for the year ended 31 December 2005 apart from equity structure of the legal parent; and

d) Energetix (Europe) Limited reported under IFRS for the year ended 31 December 2005 and as such no reconciliation is provided between UK GAAP and IFRS.

The Company had no significant assets, liabilities or contingent liabilities of its own at the time that the share for share exchange took effect and no cash consideration was paid in respect of the business combination. Transaction costs of equity transactions relating to the issue and listing of the Company's shares are accounted for as a deduction from equity where it relates to the issue of new shares and listing costs are charged to the profit and loss account as a general expense.

Inter-company

Inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated on consolidation but are used as an indicator of any impairment to the related asset. Any permanent impairment in value of an asset is charged to the Consolidated Income Statement. Accounting policies of the subsidiaries have been established to ensure consistency with the policies adopted by the Group.

Transactions with minority interests

The Group applies a policy of treating transactions with minority interests as transactions with parties external to the Group. In accordance with IAS 27, losses applicable to minority interests, whereby the minority does not have a binding obligation to cover the losses, have been fully provided.

Goodwill

Goodwill arising on the reverse acquisition of Energetix (Europe) Limited represents the difference between the cost of the business combination and the net fair value of Energetix Group plc's identifiable assets and liabilities.

2.3 Intangible assets

The carrying values of intangible assets are tested for impairment at least annually or when events or changes in circumstances indicate that the carrying amount may not be recoverable.

Intellectual property costs are included at cost and amortised on a straight-line basis over their useful economic lives from the date of acquisition over a period not exceeding 20 years or the remaining life of the patent if shorter.

Development costs capitalised, which form part of the Group's intangible assets, are amortised on a straight-line basis over a period not exceeding 15 years starting from the point that those products resulting from the development activity commence sales.

An impairment loss is recognised in the Consolidated Income Statement for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of fair value, reflecting market conditions less costs to sell, and value in use based on an internal discounted cash flow evaluation. Intangible assets are subsequently reassessed for indications that an impairment loss previously recognised may no longer exist.

2.4 Property, plant and equipment

Plant and equipment is stated at historical cost less depreciation. Depreciation of assets is calculated using the straight-line method to allocate their cost over their estimated useful lives as follows:

— Property plant and equipment	3 years

Material residual value estimates are updated as required, but at least annually, whether or not the asset is revalued. Gains and losses on disposal are determined by comparing net proceeds with carrying amount. These are included in the Consolidated Income Statement.

2.5 Trade receivables

Trade receivables are recognised initially at their fair value and subsequently measured at amortised cost using the effective interest method.

2.6 Cash and cash equivalents

Cash and cash equivalents comprise cash in hand and demand deposits together with other short-term highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value.

2.7 Trade Payables

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

notes to the consolidated financial statements continued

2. Summary of significant accounting policies continued

2.8 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost using the effective interest method, with interest related charges recognised as an expense in finance costs in the Consolidated Income Statement.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the Balance Sheet date.

2.9 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities excluding VAT and trade discounts. Revenue is recognised as follows:

(a) Sales of goods

Revenue from the sales of goods will be recognised when all the following conditions have been satisfied;

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods which is when the goods have been delivered to, or collected by the buyer;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold which is when the goods have been delivered to, or collected by the buyer;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Group; and
- the costs incurred or to be incurred in respect of the transaction can be measured or estimated reliably.

(b) Sales of services

The Group has historically provided services through the provision of consultancy to selected partners. When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the Balance Sheet date. The outcome of the transaction is deemed to be able to be estimated reliably when all the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Group;
- the stage of completion of the transaction at the Balance Sheet date can be measured reliably and is estimated by reference to timesheets; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured or estimated reliably.

(c) Interest income

Interest is recognised using the effective interest method which calculates the amortised cost of a financial asset and allocates the interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the asset to the net carrying amount of the financial asset.

(d) Other income

Other income includes the revaluation of long-term receivables as the term to payment reduces in accordance with IAS 18.

(e) Contingent income

Contingent income is only recognised when the contingent sale crystallises. Crystallisation will vary dependent on the specific terms of the sale to which it refers.

2.10 Research and development

Research costs are charged against income as incurred. Certain development costs are capitalised as intangible assets, when it is probable that future economic benefits will flow to the Group. Such intangible assets are amortised on a straight-line basis from the point at which the asset is ready for use over the period of the expected benefit, and are reviewed for impairment at each Balance Sheet date. Other development costs are charged against income as incurred since the criteria for their recognition as an asset are not met.

The criteria for recognising expenditure as an asset are:

- completion of the intangible asset is technically feasible so that it will be available for use or sale;
- the Group intends to complete the intangible asset and use or sell it;
- the Group has the ability to use or sell the intangible asset;
- the intangible asset will generate probable future economic benefits. Among other things, this requires that there is a market for the output from the intangible asset or for the intangible asset itself, or, if it is to be used internally, the asset will be used in generating such benefits;
- that the Group has available to it adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- that the Group can reliably measure the expenditure attributable to the intangible asset during its development.

The costs of an internally generated intangible asset comprise all directly attributable costs necessary to create, produce, and prepare the asset to be capable of operating in the manner intended by management. Directly attributable costs include employee (other than Directors) costs incurred on technical development, testing and certification, materials consumed and any relevant third party costs. The costs of internally generated developments are recognised as intangible assets and are subsequently measured in the same way as externally acquired intangible assets. However, until completion of the development project, the assets are subject to impairment testing only.

Careful judgement by the Directors is applied when deciding whether the recognition requirements for development costs have been met. This is necessary as the economic success of any product development is uncertain and may be subject to future technical problems at the time of recognition. Judgements are based on the information available at each Balance Sheet date which includes progress with field trials, testing and certification and progress on, for example, establishment of commercial arrangements with third parties. In addition, all internal activities related to research and development of new products are continuously monitored by the Directors.

2.11 Operating leases

The Group's building and fixtures and fittings leases are regarded as operating leases and the payments made under them are charged to the Consolidated Income Statement on a straight-line basis over the lease term. Lease incentives are spread over the term of the lease.

2.12 Deferred tax

Deferred income taxes are calculated using the liability method on temporary differences. Deferred tax is generally provided on the difference between the carrying amounts of assets and liabilities and their tax bases. Deferred tax is not provided on the initial recognition of goodwill, nor on the initial recognition of an asset or liability unless the related transaction is a business combination or affects tax or accounting profit. Temporary differences include those associated with shares in subsidiaries and joint ventures if reversal of these temporary differences can be controlled by the Group and it is probable that reversal will not occur in the foreseeable future. In addition, tax losses available to be carried forward as well as other income tax credits to the Group are assessed for recognition as deferred tax assets.

Deferred tax liabilities that are recognised are provided in full, with no discounting. Deferred tax assets are recognised to the extent that it is probable that the underlying deductible temporary differences will be able to be offset against future taxable income. Current and deferred tax assets and liabilities are calculated at tax rates that are expected to apply to their respective period of realisation, provided they are enacted or substantively enacted at the Balance Sheet date.

Changes in deferred tax assets or liabilities are recognised as a component of tax expense in the Consolidated Income Statement, except where they relate to items that are charged or credited directly to equity (such as the revaluation of land) in which case the related deferred tax is also charged or credited directly to equity.

2.13 Employee benefits

Pension costs and other post-retirement benefits

The Group operates a defined contribution pension scheme for employees. The assets of the scheme are held separately from those of the Group. The annual contributions payable are charged to the profit and loss account.

Share-based payments

Share-based incentive arrangements are provided to management and certain employees. Share options are valued at the date of grant using the Black-Scholes option pricing model and are charged to operating profit over the vesting period of the award with a corresponding credit to “other reserves”.

Warrants relating to the Company's placing and admission to AIM have been provided to certain third parties. Warrants are valued at the date of grant using the Black-Scholes option pricing model and are charged to share premium with a corresponding credit to “warrant reserve”.

Bonus plans

The Group operates discretionary staff bonus schemes for its employees and Directors. The maximum annual bonus payable under the scheme is 50% of the relevant employee's basic annual salary (plus social security costs). Payments in excess of 10% of an employee's annual basic salary can be settled by the allocation of equity at the Company's discretion.

notes to the consolidated financial statements continued

3. Segmental information

The business of the Group comprises one segment, alternative energy, and as such no segmental information is provided.

4. Revenue and loss before income tax

Revenue and loss before income tax are attributable to the principal activity of the Group, which is carried on entirely in the United Kingdom. All revenue and costs originates from continuing operations.

	2006 **£**	2005 as restated £
Amortisation (Note 14)	**204,957**	—
Depreciation (Note 15)	**9,379**	2,030
Employee benefit expense (Note 8)	**784,876**	628,740
Research costs	**167,251**	104,990
Operating lease rentals		
— furniture, fixtures and equipment	**—**	5,524
— buildings	**24,209**	19,640
Audit services:		
— fees payable to Company auditor for the audit of parent company and Consolidated Financial Statements	**15,250**	9,000
Non-audit services:		
— Other services pursuant to legislation	**72,816**	—
— Tax services	**10,000**	16,501

Other services pursuant to legislation relate to the Company's flotation on AIM £72,816 (2005: £nil); of this, £24,272 has been charged against share premium and £48,544 to the Consolidated Income Statement.

5. Finance income

	2006 **£**	2005 £
Interest income on bank deposits	**67,678**	23,224
Fair value gain on long-term receivables	**—**	225,945
	67,678	249,169

6. Other gains

Following an agreement with Axiomlab Group plc to restructure amounts due to them, the Group made a gain of £110,148 (2005: £nil). See Note 18.

7. Directors' remuneration

	2006 **£**	2005 £
Directors' emoluments		
Aggregate emoluments	**299,361**	244,580

Highest paid Director

The above includes remuneration of the highest paid Director as follows:

	2006 **£**	2005 £
Aggregate emoluments	**120,923**	123,203

8. Employee benefit expense

	2006 £	2005 £
Wages & salaries	**664,628**	556,733
Social security costs	**74,808**	70,316
Share options granted to Directors	**43,890**	—
Pension costs — stakeholder schemes	**1,550**	1,691
	784,876	628,740

Average number of persons employed

	2006 No.	2005 No.
Finance and administration	**2**	1
Research and development	**8**	7
Total	**10**	8

Employee benefits capitalised in the development asset total £397,422 (2005: £231,088). See Note 14.

9. Share-based payments

The Company established in June 2006 two share option schemes in relation to ordinary shares, namely the Energetix Unapproved Share Option Scheme 2006 and the Energetix Enterprise Management Incentive Scheme 2006.

The Group grants options over the ordinary shares of the Company at not less than the market value of the Company's ordinary shares on the date of grant. The vesting period is generally three to four years. If the option remains unexercised after a period of 10 years from the date of grant, the options expire. The Group has no legal or constructive obligation to repurchase or settle the options in cash. The movement in the number of share options is set out below:

	2006 No.	2005 No.
Number of outstanding share options at 1 January	**—**	—
Granted during the year	**337,500**	—
Number of outstanding share options at 31 December	**337,500**	—

As at 31 December 2006, 337,500 share options were capable of being exercised (2005: Nil). The options outstanding at 31 December 2006 had a weighted average exercise price of 40 pence (2005: Nil pence), and a weighted average remaining contractual life of nine years, eight months. No options were exercised during the year.

The Group uses the Black-Scholes model to fair value the Group's share options which resulted in a fair value provision of £43,890 charged to the Consolidated Income Statement and credited to other reserves.

Assumptions

The following assumptions are used to determine the fair value of share options at the respective date of grant:

Date of grant	Exercise price (p)	Ordinary shares under option	Share price at date of grant (p)	Expected volatility	Interest rate	Life of option (years)	Expected dividends
15 August 2006	40	337,500	46	45.7%	5%	3	Nil

The middle market price of ordinary shares on 31 December 2006 was 49 pence. The high and low market prices during the year were 53.5 pence and 46 pence respectively.

Expected volatility is derived from observation of the volatility of quoted shares in similar sectors to the Group.

The expected life used in the model has been adjusted based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural conditions.

National insurance is payable on gains and losses made by employees on exercise of share options granted to them.

notes to the consolidated financial statements continued

10. Income tax expense

	2006 £	2005 £
Current tax	—	—

The tax on the Group's loss before tax differs from the theoretical amount that would arise using the weighted average rate applicable to profits of the Consolidated entities as follows:

	2006 £	2005 £
Loss before income tax	(1,021,408)	(301,723)
Loss before income tax multiplied by rate of corporation tax in the UK of 30% (2005: 30%)	(306,422)	(90,517)
Expenses not deductible for tax purposes	(54,319)	(113,518)
Capital allowances in excess of depreciation	2,375	(893)
Other temporary differences	(3,600)	3,600
Increase in tax losses for which no deferred income tax asset was recognised	361,966	201,328
Current tax	—	—

Unrelieved tax losses of £2,806,667 (2005: £1,600,113) remain available to offset against future taxable trading profits. No deferred tax asset has been recognised in respect of the losses as recoverability is uncertain.

As part of a routine enquiry into the corporation tax return for the period ended 31 December 2004, HM Revenue & Customs are challenging a subsidiary's claim for Substantial Shareholding Exemption from a transaction in 2004. If HM Revenue & Customs were to be successful in their challenge, a tax liability of £310,000 to £1,500,000 could arise. No provision has been made for this item in the Financial Statements.

11. Deferred tax

The unprovided deferred taxation asset calculated at a tax rate of 30% is set out below.

	2006 £	2005 £
Accelerated capital allowances	(2,000)	375
Other timing differences	—	(3,600)
Share option and warrants	10,000	—
Trade losses	(842,000)	(480,034)
	(834,000)	(483,259)

12. Loss per share

The loss per share is based on the loss of £1,021,076 (2005: loss of £301,124) and 35,718,812 (2005: 29,998,580) ordinary shares of 5p each, being the weighted average number of shares in issue during the period. The weighted average number of ordinary shares for the period ended 31 December 2006 assumes that the 29,998,580 ordinary shares issued in relation to the reverse acquisition of Energetix Group plc existed for the entire period. Energetix Group plc shares have been included since 8 August 2006, the date of the reverse acquisition, and all shares have been included in the computation based on the weighted average number of days since issuance. The weighted average number of shares for the year ended 31 December 2005 is assumed to be equal to the 29,998,580 ordinary shares issued in relation to the reverse acquisition.

	2006	2005
		As restated
	£	£
Loss attributable to equity holders of the Group	**(1,021,076)**	(301,124)
Weighted average number of ordinary shares in issue	**35,718,812**	29,998,580
Basic and diluted loss per share (pence)	**(2.86)**	(1.00)

The share options and warrants in issue are anti-dilutive in respect of the basic loss per share calculation and have therefore not been included.

13. Goodwill

	£
Cost:	
At 1 January 2006	—
Additions (note 23)	7
As at 31 December 2006	**7**
Amortisation:	
At 1 January 2006	—
Charged in the year	(7)
As at 31 December 2006	**(7)**
Net book amount:	
As at 31 December 2006	**—**
As at 31 December 2005	—

notes to the consolidated financial statements continued

14. Other intangible assets

	Micro CHP Intellectual property £	Micro CHP R&D Asset £	Micro CHP Total £	Compressed air battery R&D Asset £	Total £
At 1 January 2005					
Cost	—	—	—	—	—
Additions	—	—	—	310,110	310,110
Amortisation value	—	—	—	—	—
Closing net book value	—	—	—	310,110	310,110
At 31 December 2005					
Cost	—	—	—	310,110	310,110
Additions	5,787,007	272,513	6,059,520	292,160	6,351,680
Accumulated amortisation	(204,957)	—	(204,957)	—	(204,957)
Closing net book value	5,582,050	272,513	5,854,563	602,270	6,456,833

Additions may be analysed as follows:

	£
Non-cash items	5,787,007
R&D capitalised during the year	564,673
	6,351,680

Intangibles include internally generated capitalised product development costs in accordance with IAS 38.

The Group currently has internally generated intangible assets from development of its mCHP module and compressed air battery. All other development work has been written off as incurred as the criteria for recognition as an asset are not met.

On 16 April 2004, the Group disposed of its 60 per cent. investment in Energetix Micropower Limited to a third party for an initial consideration of £1,031,400 on completion of the transaction, deferred consideration of £4,200,000 and contingent consideration of £600,000 (based upon the sale of 60,000 units by the acquirer). The deferred consideration was discounted at 6.75 per cent. from the date of disposal to the anticipated settlement date. Initially the discount was recorded as financing costs of £846,000.

On 16 April 2006, the third party indicated that they would not be paying the Group the deferred consideration for Energetix Micropower Limited that was originally sold in April 2004. The terms of the original Sale and Purchase Agreement contained clauses that anticipated this eventuality and accordingly resulted in the return of the intellectual property into a new subsidiary of the Group (Energyboost Limited (now Energetix Genlec Limited)) formed for the purpose.

The agreement also made provision for the original partner to Energetix Micropower Limited to participate in the new subsidiary with their original 40% equity holding.

The Group agreed that its original partner in this venture received a £3,000,000 preference debt in the new subsidiary in lieu of any entitlement to equity. The preference debt has been discounted at 6.75 per cent. from the date of assuming until anticipated settlement date. This preference debt will be paid out of the future earnings of the new subsidiary.

In accordance with IAS 38 the intellectual property has been capitalised at the discounted value of the deferred consideration forgone plus the value of debt assumed by the Company.

	£
Current receivable forgone	900,000
Discounted value of deferred consideration forgone	2,378,433
Discounted value of preference debt given for 40% of the equity	2,508,574
Value of intellectual property to be included in Balance Sheet	5,787,007

15. Property, plant and equipment

	Plant & machinery £	Furniture, fittings & equipment £	Total £
Year ended 31 December 2005			
Opening net book value	—	1,336	1,336
Additions	6,445	2,038	8,483
Depreciation charge	(427)	(1,603)	(2,030)
Closing net book value	6,018	1,771	7,789
Year ended 31 December 2006			
Opening net book value	6,018	1,771	7,789
Additions	53,484	24,612	78,096
Depreciation charge	(6,336)	(3,043)	(9,379)
Closing net book value	53,166	23,340	76,506
At 31 December 2006			
Cost or valuation	59,929	35,467	95,396
Accumulated depreciation	(6,763)	(12,127)	(18,890)
Net book value	**53,166**	**23,340**	**76,506**

16. Trade and other receivables

	2006 £	2005 £
Trade receivables	**—**	3,293,726
Prepayments	**49,424**	5,938
Loans to employees	**500**	1,500
Other debtors	**78,811**	4,921
Corporation tax recoverable	**6,403**	6,478
	135,138	3,312,563
Less non-current portion	**—**	(2,378,433)
Current portion	**135,138**	934,130

At 31 December 2006 the gross book value of non-current trade receivables was £Nil (2005: £3,900,000). The non-current trade receivables held at 31 December 2005 were discounted at 6.75% to reflect the time value of money.

17. Cash and cash equivalents

	2006 £	2005 £
Cash at bank and in hand	**4,444,731**	219,109

notes to the consolidated financial statements

18. Financial liabilities — Borrowings

	2006 £	2005 £
Current		
Debentures and other loans	**200,000**	500,000
	200,000	500,000
Non-current		
Debentures and other loans	**2,558,574**	360,000

The prior year debentures and other loans are due to a related party Axiomlab Group plc. The loans were granted to Energetix (Europe) Limited between 2001 and 2003 to assist the development of the business. Whilst the original loans were interest bearing, following a restructuring of Energetix (Europe) Limited in 2003, it was agreed that Axiomlab plc would waive all accrued interest and rights to interest in the future.

The maturity of non-current borrowings is as follows:

	2006 £	2005 £
Within one year	**—**	—
Between 1 and 2 years	**100,000**	—
Between 2 and 5 years	**2,458,574**	360,000
More than 5 years	**—**	—
	2,558,574	360,000

The Group agreed with Axiomlab Group plc, the holder of the loan notes, that £610,000 of the amount due to them was converted to £499,852 of equity on the flotation of the Group on the AIM Market of the London Stock Exchange. Conversion was at the flotation price.

The remaining £250,000 of the loan notes due to Axionlab Group plc was deferred for repayment within two to five years.

In July 2006 Energetix (Europe) Limited and Energetix Genlec Limited entered into an arrangement with Battelle Memorial Institute (Battelle) under which Battelle agreed to waive all rights to subscribe for 40% of the share capital of Energetix Genlec Limited in exchange for a £3,000,000 preference debt in Energetix Genlec Limited. The preference debt has been discounted at 6.75% from the date of assuming until anticipated settlement date giving rise to a non-current liability of £2,308,574 and a current liability of £200,000. The terms are that it is not interest bearing, that £300,000 will be repaid over the two years ending August 2008 and that the balance will be repaid by (i) an amount equal to 10% of any licence fees paid to Energetix Genlec Limited by any third party and (ii) 2% of amounts received by Energetix Genlec Limited in respect of all sales of the product.

19. Trade and other payables

	2006 £	2005 £
Trade payables	**192,270**	25,942
Social security & other taxes	**62,376**	19,651
Accrued expenses	**92,699**	82,604
	347,345	128,197

20. Share capital and reserves

20.1 Share capital

	31 Dec 2006		31 Dec 2005 as restated	
	Number of shares No.	**Share capital £**	Number of shares No.	Share capital £
Authorised				
Ordinary shares of 5p each	**60,000,000**	**3,000,000**		
Issued and fully paid				
Balance bfwd	29,998,580	1,499,929	29,998,460	1,499,923
Shares issued 6 April 2006	1,220	61	120	6
8 August 2006 Loan note conversion (Note 18)	200	10	—	—
Proceeds from EIS Placing — 15 August 2006	2,500,000	125,000	—	—
Proceeds from General Placing — 16 August 2006	12,500,000	625,000	—	—
As at 31 December 2006	**45,000,000**	**2,250,000**	**29,998,580**	**1,499,929**

The pre-combination share capital is deemed to be the ordinary shares issued in the reverse acquisition.

Issue of shares

The Company was incorporated on 17 May 2006 as Futurebay Limited with an authorised share capital of 1,000 ordinary shares of £1 each.

On 7 August 2006, the Company increased its authorised share capital to £3,000,000 denominated in ordinary shares of 5 pence each, with each issued and unissued ordinary share of £1 being subdivided into 20 ordinary shares of 5 pence each.

On 8 August 2006, the Company issued 29,999,980 ordinary shares of 5 pence each credited as fully paid in consideration for the acquisition of the entire issued share capital of Energetix (Europe) Limited and re-registered as a public limited company changing its name to Energetix Group plc.

On 15 August 2006, the Company issued a further 2,500,000 ordinary shares at 40 pence each under an EIS Placing.

On 16 August 2006, the Company issued a further 12,500,000 ordinary shares at 40 pence each under a General Placing.

20.2 Warrants

As part of the agreed placing costs of the Company with its nominated adviser and broker on 15 August 2006, the Company granted 1,350,000 warrants with an exercise price of 40 pence to its broker and nominated adviser. The warrants outstanding at 31 December 2006 are:

Date granted	Number of warrants	Exercise price (pence)	Exercise period
15 August 2006	1,350,000	40	3 years

These warrants are exercisable during a three year period from the date of grant. On exercise, each warrant entitles the holder to one £0.05 ordinary share in the Company.

As at 31 December 2006 1,350,000 warrants were capable of being exercised (2005: Nil). The options outstanding at 31 December 2006 had a weighted average exercise price of 40 pence (2005: Nil pence), and a weighted average remaining contractual life of two years eight months. No warrants were exercised during the year.

The Group uses the Black-Scholes model to fair value the Group's warrants which resulted in a fair value charge of £256,500; this has been charged against share premium and credited to warrant reserve.

Assumptions

The following assumptions are used to determine the fair value of warrants at the respective date of grant:

Date of grant	Exercise price (p)	Ordinary shares under warrant	Share price at date of grant (p)	Expected volatility	Interest rate	Life of warrants (years)	Expected dividends
15 August 2006	40	1,350,000	46	45.7%	5%	3	Nil

The share price at date of grant is the closing price on that day.

Expected volatility is derived from observation of the volatility of quoted shares in similar sectors to the Group.

The expected life used in the model has been adjusted based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural conditions.

notes to the consolidated financial statements

21. Cash consumed by operations

	2006 £	2005 £
Loss before income tax	**(1,021,408)**	(301,723)
Adjustments for:		
— Depreciation	**9,379**	2,030
— Amortisation	**204,957**	—
— Other income	**(67,678)**	(249,169)
— Other gains — net	**(110,148)**	—
— Share option compensation charge	**43,890**	—
— Provision against minority interests	**26,088**	—
Changes in working capital:		
— Trade and other receivables	**(101,009)**	309,870
— Trade and other payables	**218,953**	33,978
Cash consumed by operations	**(796,976)**	(205,014)

22. Operating lease commitments — minimum lease payments

The Group leases various offices and light industrial units under cancellable operating lease agreements. The leases have varying terms and durations; however, all have the option to be determined on either six or twelve months' notice from either the Company or the landlord.

The future aggregate minimum lease payments are:

	2006 £		2005 £	
	Buildings	**Fixtures, Fittings & Equipment**	Buildings	Fixtures, Fittings & Equipment
Within one year	**10,524**	**—**	—	2,793
More than one year and less than five years	**58,000**	**—**	16,989	—
Over five years	**—**	**—**	—	—
	68,524	**—**	16,989	2,793

23. Acquisitions

On 8 August 2006, Energetix Group plc acquired the whole of the issued share capital of Energetix (Europe) Limited in exchange for the issue of ordinary shares. This was a reverse acquisition as defined in Note 2. The net assets of Energetix Group plc were as follows:

	Energetix Group plc £
Debtors	1
Goodwill	7
Fair value of the consideration	8
Satisfied by	
Issue of share capital at nominal value	8

Goodwill arose amounting to £7 in the difference between the cost of the business combination over the net fair value of Energetix Group plc's identifiable assets and liabilities at the reverse acquisition date.

In accordance with IFRS 3 "Business Combination", the fair value of consideration represents the closing share price of Energetix Group plc on 15 August 2006.

The goodwill has been written off in the period ended 31 December 2006 because Energetix Group plc, the legal parent, had no continuing business and the goodwill had no intrinsic value.

24. Related party transactions

At 31 December 2006 the amount owed to Axiomlab Group plc in relation to Loan Notes issued was £250,000 (2005: £860,000).

Within the year the Company paid management fees to Axiomlab plc of £5,000 (2005: £15,000). The amount outstanding at 31 December 2006 was £14,688 (2005: £8,812) which is included in trade payables.

report of the independent auditors to the members of Energetix Group plc

We have audited the parent company Financial Statements of Energetix Group plc for the year ended 31 December 2006 which comprise the Balance Sheet and Notes 25 to 39. These parent company Financial Statements have been prepared under the accounting policies set out therein.

We have reported separately on the Consolidated Financial Statements of Energetix Group plc for the year ended 31 December 2006.

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 auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and Auditors

The Directors' responsibilities for preparing the Annual Report and the parent company Financial Statements in accordance with United Kingdom law and Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the parent company 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 parent company Financial Statements give a true and fair view and whether the parent company financial statements have been properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the Financial Statements. The information given in the Directors' Report includes that specific information presented in the Chairman's and Chief Executive's Review that is cross-referred from the Business Review section of the Directors' Report.

In addition we 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 other transactions is not disclosed.

We read other information contained in the Annual Report and consider whether it is consistent with the audited parent company Financial Statements. The other information comprises only the Directors' Report and the Chairman's and Chief Executive's Review. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the parent company 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 parent company Financial Statements. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the parent company 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 parent company 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 parent company Financial Statements.

Opinion

In our opinion:

- the parent company Financial Statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Company's affairs as at 31 December 2006;
- the parent company Financial Statements to be audited 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.

Grant Thornton UK LLP
Registered Auditors
Chartered Accountants
Manchester
2 April 2007

company balance sheet

at 31 December 2006

	Note	2006 £	£
Fixed assets			
Tangible assets	28		14,881
Investments	29		1,500,002
			1,514,883
Current assets			
Debtors	30	3,652,625	
Cash at bank and in hand		4,426,243	
		8,078,868	
Creditors: amounts falling due within one year	31	(3,963,649)	
Net current assets			4,115,219
Total assets less current liabilities			5,630,102
Net assets			5,630,102
Capital and reserves			
Called up share capital	33		2,250,000
Share premium account	34		4,590,925
Warrant reserve	35		256,500
Other reserves	36		43,890
Profit and loss account	37		(1,511,213)
Shareholders' funds			5,630,102

These Financial Statements were approved by the Board of Directors on 2 April 2007 and were signed on its behalf by:

A C Hutchings
Chief Executive Officer

R H Smith
Chief Financial Officer

notes to the company balance sheet

25. Principal accounting policies — UK GAAP

Basis of preparation

The Financial Statements have been prepared under the historical cost convention and in accordance with the Companies Act 1985 and applicable UK accounting standards (United Kingdom Generally Accepted Accounting Practice).

Tangible fixed assets and depreciation

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

Depreciation is calculated to write down the cost less estimated residual value of all tangible fixed assets by equal annual instalments over their estimated useful economic lives as follows:

Plant and Machinery	— 3 years

Cash and cash equivalents

Cash and cash equivalents comprise cash in hand and demand deposits together with other short-term highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value.

Operating lease agreements

Leases where substantially all of the risks and rewards of ownership are not transferred to the Company are treated as operating leases. Rentals under operating leases are charged against profits on a straight-line basis over the period of the lease.

Operating lease incentives are recognised, on a straight-line basis, as a reduction of the rental expense over the shorter of the lease term and the period to the first rent review where market rentals will be payable.

Investments

Investments are stated at cost, less amounts provided for permanent diminution in value.

Deferred taxation

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the Balance Sheet date where transactions or events have occurred at that date that will result in an obligation to pay more or a right to pay less or to receive more tax, with the following exception: deferred tax assets are recognised only to the extent that the Directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the Balance Sheet date.

Equity-settled share-based payment

All share-based payment arrangements granted after 7 November 2002 that have not vested prior to the period end are recognised in the Financial Statements.

All goods and services received in exchange for the grant of any share-based payment are measured at their fair values. Where employees are rewarded using share-based payments, the fair values of employees' services are determined indirectly by reference to the fair value of the instrument granted to the employee. This fair value is appraised at the grant date and excludes the impact of non-market vesting conditions (for example, profitability and sales growth targets).

All equity-settled share-based payments are ultimately recognised as an expense in the profit and loss account with a corresponding credit to "other reserves".

If vesting periods or other non-market vesting conditions apply, the expense is allocated over the vesting period, based on the best available estimate of the number of share options expected to vest. Estimates are revised subsequently if there is any indication that the number of share options expected to vest differs from previous estimates. Any cumulative adjustment prior to vesting is recognised in the current period. No adjustment is made to any expense recognised in prior periods if share options that have vested are not exercised.

Upon exercise of share options, the proceeds received net of attributable transaction costs are credited to share capital, and where appropriate share premium.

notes to the company balance sheet continued

25. Principal accounting policies — UK GAAP continued

Classification as equity or financial liability

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into.

A financial liability exists where there is a contractual obligation to deliver cash or another financial asset to another entity, or to exchange financial assets or financial liabilities under potentially unfavourable conditions. In addition, contracts which result in the entity delivering a variable number of its own equity instruments are financial liabilities. Shares containing such obligations are classified as financial liabilities.

Finance costs and gains or losses relating to financial liabilities are included in the profit and loss account. The carrying amount of the liability is increased by the finance cost and reduced by payments made in respect of that liability. Finance costs are calculated so as to produce a constant rate of charge on the outstanding liability.

An equity instrument is any contract that evidences a residual interest in the assets of the Company after deducting all of its liabilities. Dividends and distributions relating to equity instruments are debited directly to reserves.

Pension costs and other post-retirement benefits

The Company operates a defined contribution pension scheme for employees. The assets of the scheme are held separately from those of the Company. The annual contributions payable are charged to the profit and loss account.

26. Directors' remuneration

	2006 £
Directors' emoluments	
Aggregate emoluments	**299,361**

Highest paid Director

The above includes remuneration of the highest paid Director as follows:

	2006 £
Aggregate emoluments	**120,923**

27. Staff numbers and costs

The average number of persons employed by the Company (including Directors) during the period, analysed by category, was as follows:

	2006 No.
Finance and administration	**2**
Research and development	**8**

The aggregate payroll costs of these persons were as follows:

	2006 £
Wages and salaries	**664,628**
Social security costs	**74,808**
Share options granted to a Director	**43,890**
Pension costs	**1,550**
	784,876

£590,942 of the aggregate payroll costs has been recharged to subsidiaries representing the time at cost of providing staff resources for the subsidiaries.

28. Tangible fixed assets

	Plant and machinery £	Total £
Cost		
At incorporation	—	—
Additions	16,508	16,508
As at 31 December 2006	**16,508**	**16,508**
Depreciation		
At incorporation	—	—
Charge for the period	(1,627)	(1,627)
As at 31 December 2006	**(1,627)**	**(1,627)**
Net Book Value		
As at 31 December 2006	**14,881**	**14,881**

29. Investments

	2006 £
Cost:	
At incorporation	—
Reverse acquisition	1,500,002
Transfers from subsidiary undertakings	313,469
As at 31 December 2006	**1,813,471**
Provisions:	
At incorporation	—
Impairment provision during the year	(313,469)
As at 31 December 2006	**(313,469)**
Net book amount:	
As at 31 December 2006	**1,500,002**

The investment comprises shares at cost in the following companies:

	Percentage held	Nominal Value	Ordinary Shares	Preferred Ordinary	A Ordinary
Thermetica Limited*	100%	10 pence each	7,670	2,330	—
Energetix (PNU) Power Limited*	100%	£1 each	1	—	—
Energetix Laser Technologies Limited	60%	10 pence each	—	—	601
Energetix Voltage Control Limited*	100%	£1 each	1	—	—
Energetix (Europe) Limited*	100%	1 pence each	16,619	—	—
Energetix Genlec Limited*	100%	£1 each	5	1	—

* Directly owned subsidiaries

On 7 August 2006, the Company acquired the entire share capital of Energetix (Europe) Limited, which was satisfied by the issue of 29,999,980 ordinary shares of 5 pence each.

The Company is entitled to the merger relief offered by section 131 of the Companies Act 1985 and therefore these shares have been recorded at their nominal value.

On 9 August 2006, as part of a further Group reconstruction, Energetix (Europe) Limited, a wholly owned subsidiary of the Company, transferred four of its investments in subsidiaries to the Company at net book value.

notes to the company balance sheet continued

29. Investments continued

The companies are all registered in England and Wales and at the Balance Sheet date had the following shares in issue:

	Nominal Value	Ordinary Shares	Preferred Ordinary	A Ordinary	B Ordinary	C Ordinary
Thermetica Limited	10 pence each	7,670	2,330	—	—	—
Energetix (PNU) Power Limited	£1 each	1	—	—	—	—
Energetix Laser Technologies Limited	10 pence each	—	—	601	249	150
Energetix Voltage Control Limited	£1 each	1	—	—	—	—
Energetix (Europe) Limited	1 pence each	16,619	—	—	—	—
Energetix Genlec Limited	£1 each	1	—	—	—	—

At 31 December 2006 the companies had the following capital and reserves:

	2006		2005	
	Capital & reserves	**Profit/ (loss)**	Capital & reserves	Profit/ (loss)
Thermetica Limited	**(301,388)**	**(676,551)**	(300,856)	(676,018)
Energetix (PNU) Power Limited	**(755,093)**	**(755,094)**	(433,345)	(433,346)
Energetix Laser Technologies Limited	**(65,220)**	**(105,295)**	(64,390)	(104,465)
Energetix Voltage Control Limited	**(56,135)**	**(56,136)**	(30,074)	(30,075)
Energetix Genlec Limited	**(554,193)**	**(554,194)**	—	—
Energetix (Europe) Limited	**3,208,377**	**2,529,262**	2,873,936	2,694,718

30. Debtors

	2006 £
Amounts owed by subsidiary undertakings	**3,594,959**
Other debtors	**27,258**
Prepayments and accrued income	**30,408**
	3,652,625

Amounts owed by subsidiary undertakings have been provided against as irrecoverable in the short term where there is an amount due to the Company in excess of the subsidiaries' net assets.

31. Creditors: Amounts falling due within one year

	2006 £
Amounts owed to subsidiary undertakings	**3,778,630**
Accruals	**29,425**
Trade creditors	**93,218**
Social security and other taxes	**62,376**
Other creditors	**—**
	3,963,649

32. Deferred taxation

The unprovided deferred taxation asset calculated at a tax rate of 30% is set out below:

	2006 £
Share option and warrants	**10,000**
Trade losses	**(66,000)**
	56,000

Unrelieved tax losses of £220,000 remain available to offset against future taxable trading profits. No deferred tax asset has been recognised in respect of the losses as recoverability is uncertain.

33. Share Capital

	2006 No	2006 £
Authorised		
Ordinary Shares of £1 each	1,000	1,000
Redenomination to 5p each	19,000	—
	20,000	1,000
Increase in authorised share capital on 7 August 2006	59,980,000	2,999,000
Ordinary shares of 5p each	60,000,000	3,000,000

	2006 No	2006 £
Issued and fully paid		
Ordinary Shares of £1 each on incorporation	1	1
Redenomination to 5p each	19	—
	20	1
On acquisition of Energetix (Europe) Limited	29,999,980	1,499,999
	30,000,000	1,500,000
EIS placing in August 2006	2,500,000	125,000
General placing in August 2006	12,500,000	625,000
	45,000,000	2,250,000

The Company was incorporated on 17 May 2006 as Futurebay Limited with an authorised share capital of 1,000 ordinary shares of £1 each.

On 7 August 2006, the Company increased its authorised share capital to £3,000,000 denominated in ordinary shares of 5 pence each, with each issued and unissued ordinary share of £1 being subdivided into 20 ordinary shares of 5 pence each.

On 8 August 2006, the Company issued 29,999,980 ordinary shares of 5 pence each credited as fully paid in consideration for the acquisition of the entire issued share capital of Energetix (Europe) Limited and re-registered as a public limited company changing its name to Energetix Group plc.

On 15 August 2006, the Company issued a further 2,500,000 ordinary shares at 40 pence each under an EIS placing.

On 16 August 2006, the Company issued a further 12,500,000 ordinary shares at 40 pence each under a general placing.

34. Share premium

	2006 £
At incorporation	—
Shares issued during the period	5,250,000
Share issue expenses	(659,075)
	4,590,925

35. Warrant reserve

	2006 £
At incorporation	—
Provided for in period	256,500
Balance 31 December 2006	256,500

As part of the agreed flotation costs of the Company with its nominated adviser and broker on 15 August 2006, the Company granted 1,350,000 warrants with an exercise price of 40 pence to its broker and nominated adviser.

Warrants are valued at the date of grant using the Black-Scholes option pricing model and are charged to share premium over the vesting period of the award with a corresponding credit to “warrant reserve”.

notes to the company balance sheet

36. Other reserves

	2006 £
At incorporation	—
Employee share options provided for in the period	43,890
Balance 31 December 2006	**43,890**

37. Profit and loss account

The Company has taken advantage of section 230 of the Companies Act 1985 and has not included its own profit and loss account in these Financial Statements. The parent company's loss for the year was £1,511,213.

	2006 £
At incorporation	—
Loss for the period	(1,511,213)
Balance 31 December 2006	**(1,511,213)**

38. Leasing commitments

Annual commitments under non-cancellable operating leases are as follows:

	2006 £ Buildings
Within one year	10,524
More than one year and less than five years	58,000
	68,524

39. Related party transactions

The Company has taken advantage of the exemption in Financial Reporting Standard No. 8 "Related Party Disclosures" and has not disclosed transactions with Group undertakings.

directors, secretary and advisers to the group

Company registration number
5819555

Registered office
Steam Packet House
76 Cross Street
Manchester
M2 4JU

Directors
A J Aubrey (Non-Executive Chairman)
A C Hutchings (Chief Executive Officer)
R H Smith (Chief Financial Officer)
A C Elsborg (Non-Executive Director)
B M Gray (Non-Executive Director)

Company Secretary
P M Barry
Steam Packet House
76 Cross Street
Manchester
M2 4JU

Nomad/Brokers
Zeus Capital Limited
3 Ralli Courts
West Riverside
Manchester
M3 5FT

Joint Brokers
Bank Ora
Martin House
26–30 Old Church Street
London
SW3 5BY

Bankers
HSBC Bank plc
Chester & Deeside Commerical Centre
Vista
St David's Park
Ewloe
Flintshire
CH5 3RX

Solicitors
Atticus Legal LLP
Steam Packet House
76 Cross Street
Manchester
M2 4JU

Independent Auditors
Grant Thornton UK LLP
Registered Auditors
Chartered Accountants
Heron House
Albert Square
Manchester
M60 8GT

Public Relations Advisers
Buchanan Communications Limited
45 Moorfields
London
EC2Y 9AE

Registrars
Neville Registrars Limited
Neville House
18 Laurel Lane
Halesowen
West Midlands
B6 3DA

notice of annual general meeting

Notice is hereby given that the Annual General Meeting of Energetix Group plc ("the Company") will be held at 10.00 a.m. on Wednesday 16 May 2007 at Steam Packet House, 76 Cross Street, Manchester, M2 4JU for the following purpose:

Ordinary business

1. To receive and adopt the audited financial statements of the Company for the financial year ended 31 December 2006, the Directors' Report and the Auditors' Report on those financial statements.
2. To elect as a director A J Aubrey who vacates his office of Director as he was appointed in the period prior to this meeting and whose biographical details are set out on page 6 of the Annual Report.
3. To elect as a director A C Hutchings who vacates his office of Director as he was appointed in the period prior to this meeting and whose biographical details are set out on page 6 of the Annual Report.
4. To elect as a director R H Smith who vacates his office of Director as he was appointed in the period prior to this meeting and whose biographical details are set out on page 6 of the Annual Report.
5. To elect as a director A C Elsborg who vacates his office of Director as he was appointed in the period prior to this meeting and whose biographical details are set out on page 7 of the Annual Report.
6. To elect as a director B M Gray who vacates his office of Director as he was appointed in the period prior to this meeting and whose biographical details are set out on page 7 of the Annual Report.
7. To re-appoint Grant Thornton as the Auditors of the Company to hold office from the conclusion of the meeting until the conclusion of the next meeting at which accounts are laid before the Company; and
8. To authorise the Directors to determine the remuneration of the auditors of the Company.

BY ORDER OF THE BOARD
P M Barry
Secretary

Registered office:
Steam Packet House
76 Cross Street
Manchester
M2 4JU

Notes

A member entitled to attend and vote at the meeting is entitled to appoint one or more proxies (who need not be members of the Company) to attend and, on a poll, to vote instead of him. A form of proxy is enclosed. To be effective, it must be deposited at the office of the Company's registrars Neville Registrars Limited, Neville House, 18 Laurel Lane, Halesowen, West Midlands, B6 3DA so as to be received not later than 48 hours before the time appointed for holding the Annual General Meeting. Completion of the proxy does not preclude a member from subsequently attending and voting at the meeting in person if he or she so wishes.

Any corporation which is a member of the Company may authorise a person (who need not be a member of the Company) to act as its representative to attend, speak and vote (on a show of hands or a poll) on its behalf.

Directors (items 2 to 6 on the Notice): A J Aubrey, A C Hutchings, R H Smith, A C Elsborg and B M Gray each having been appointed in the period prior to the meeting is recommended for re-election in accordance with the Articles of Association of the Company.

Documents for Inspection — The following documents are available for inspection at Steam Packet House, 76 Cross Street, Manchester, M2 4JU during business hours on any weekday (excluding Saturdays) from the date of this notice until the close of the meeting:

a register of interests of Directors and their families in the shares of the Company;

copies of all Directors' service or consultancy agreements; and

Articles of Association of the Company.

In accordance with Regulation 41 of the Uncertificated Securities Regulations 2001, only those members entered on the Company's register of members not later than 10.00 a.m. on 14 May 2007, or, if the meeting is adjourned, shareholders entered on the Company's register of members not later than 48 hours before the time fixed for the adjourned meeting shall be entitled to attend and vote at the meeting.

form of proxy

For use at the Annual General Meeting of the Company to be held at 10.00 a.m. on Wednesday 16 May 2007.

I/We (name in full) . . . .
of . . . . .being (a) member(s) of Energetix Group plc

hereby appoint the Chairman of the meeting or (Note (a)) . . . .
to act as my/our proxy and to vote for me/us and on my/our behalf at the Annual General Meeting to be held on Wednesday 16 May 2007 and at any adjournment thereof.

I/We direct and require that my/our proxy votes as follows in relation to the Resolutions set out in the notice of meeting.

Ordinary Resolutions	FOR	AGAINST	ABSTAIN
1. To adopt the Accounts for the period ended 31 December 2006			
2. To elect A J Aubrey as a Director			
3. To elect A C Hutchings as a Director			
4. To elect R H Smith as a Director			
5. To elect A C Elsborg as a Director			
6. To elect B M Gray as a Director			
7. To re-appoint Grant Thornton as Auditors			
8. To authorise the Directors to determine the remuneration of the Auditors			

Please indicate by inserting an "X" in the appropriate space above, the manner in which the proxy is to vote on the resolutions set out in the notice of the meeting. If neither "For" nor "Against" is indicated, the proxy will exercise his/her discretion both as to how he/she votes and as to whether or not he/she abstains from voting. Your proxy will also be entitled to vote as he/she wishes on any other business which may properly come before the meeting.

Signatures (Notes (b) and (c)) . . . . Date . . . .

Notes:

(a) A member may appoint a proxy of his/her own choice. If such an appointment is made, delete the words "the Chairman of the meeting or" and insert the name of the person appointed proxy in the space provided.

(b) In the case of joint holders, the vote of the senior holder who tenders a vote in person or by proxy will be accepted to the exclusion of the votes of the other joint holders. For this purpose, seniority will be determined by the order in which the names stand in the register of members. Subject to this, the signature of any one of the joint holders will suffice, but if a holder other than the first-named signs, it will help if the name of the first-named holder is also given.

(c) In the case of an individual this form of proxy must be signed by the individual or on his behalf by his attorney. In the case of a corporation the Form of Proxy must be executed under its common seal or under the hand of an agent or officer duly authorised.

(d) Any alterations to the proxy must be initialled.

(e) A proxy need not be a member of the Company.

(f) Completion and return of this Form of Proxy does not preclude a member from attending and voting at the meeting.

(g) To be valid, this Form of Proxy, duly completed, must be deposited with Neville Registrars Limited, Neville House, 18 Laurel Lane, Halesowen, West Midlands, B63 3DA, not less than 48 hours before the time appointed for the meeting, together if appropriate with power of attorney or other authority under which it is signed or a certified copy thereof.

Second fold

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Neville Registrars Limited
Neville House
18 Laurel Lane
Halesowen
West Midlands
B6 3DA

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First fold

shareholder notes

shareholder notes

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