

## Regulatory Announcement

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FOR IMMEDIATE RELEASE

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ReEnergy Group plc

PRELIMINARY RESULTS

For the Year ended 31 December 2006

ReEnergy, the waste management, sustainable energy and water treatment company, today announces preliminary results for the 12 months ended 31 December 2006.

### Financial summary

For the year ended 31 December	2006	2005
Revenue	Nil	Nil
Administrative expenses - which include:	(11,354)	(2,795)
Impairment of goodwill	(2,466)	-
Impairment of licenses	(177)	-
Impairment of tangible assets	(125)	-
Impairment of investments	(3)	-
Acquisitions in the year	-	(327)
Operating loss	(11,354)	(2,795)
Loss per ordinary share - pence	(16.4)	(17.9)

### Operational Highlights

- Formal agreement with AMEC to collaborate on waste management opportunities
- In conjunction with AMEC we have submitted a revised proposal to

Hereford and Worcester Councils to establish a new dialogue

- Agreement, subject to shareholder approval, to acquire the minority 49% shareholding in Estech Europe Ltd. ("Estech Europe"), the Fibrecycle™ autoclave company.
- Developing a number of opportunities for merchant autoclave plants
- ReEnergy Desalination Inc. ("RDI") signed agreements with two major contracting/technology partners to collaborate on seawater desalination projects
- RDI achieved preferred bidder status on a project in Mexico and secured a small contract to operate a desalination plant in California
- Andy Biffen has joined the Board as Chief Operating Officer of the Group's waste management business
- Dr. Grant Jones has joined the Board as Chief Operating Officer of ReEnergy USA Inc. and as Chief Executive Officer of the Group's water desalination business

Roger Hewitt, ReEnergy's Executive Chairman said: "We have completed a strategic review of the business and the changes that we have implemented have reduced expenditure and accelerated project development. With our focus firmly on the autoclave technology within Estech Europe Ltd. we have taken the opportunity to acquire, subject to shareholder approval, the remaining 49% of the shareholding so that we have full control of the company. As part of our collaboration with AMEC we have submitted a new proposal to Hereford and Worcester that we believe will meet their previous concerns and we intend to pursue further projects in collaboration with AMEC. We also intend to establish merchant plants to take advantage of this developing market and are now making considerable progress in taking our business forward."

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Notes to editors

ReEnergy offers a number of solutions to meet the rapidly growing demand in these sectors for technologies that are considered sustainable and resource-efficient. These include:

- Fibrecycle™ technology that separates, recycles and sanitises municipal solid waste (MSW), producing a multi-use fibre product (Europe and UK excluding Scotland)
- Pirelli's advanced environmental technologies to produce a highly calorific refuse derived fuel (RDF) for use as an alternative to coal in thermoelectric power plants and cement kilns (UK only)
- Niche desalination plants (worldwide)

Chairman's Introduction

Since Admission in December 2005, the Group has encountered a number of setbacks. In my last Annual Report I explained the issues leading up to the re-financing in April 2006. Although the additional round of fund raising was successful, it was a major distraction for senior management and impacted on our ability to deliver our business goals as outlined at the time of our IPO. Following the decision by the Councils of Hereford and Worcester to halt negotiations over the waste supply contract, the Board conducted a strategic

review of the business and has implemented changes that will reduce expenditure and accelerate project development.

## Refinancing

In April it became necessary to go back to our shareholders and raise further funds. This successful re-financing took place between 11 April 2006 and 24 April 2006, during which time trading in the Company's shares was suspended. The re-financing raised £12,750,000 at 30 pence per share. I was very pleased and encouraged by the support that we received from our existing institutional shareholders as well as from Consensus Business Group. Our shares were re-admitted to trading on 25 April 2006.

We gave existing shareholders the opportunity to subscribe for shares on the same terms as above where we were permitted to do so by the relevant security regulations. In response to this a further 386,560 ordinary shares in total were issued to 13 shareholders at 30 pence per share raising a total of £115,968.

## Board Changes

Brian Harcourt, a significant shareholder in Boston Equities International, resigned as Executive Deputy Chairman of the Company on 21 April 2006 and left the board of Directors.

During the period under review, the Group recruited Robert Smyth as Finance Director and Tony Morgan and Wayne Keast joined the board as Non-Executive Directors in September 2006.

Paul Craven, Chief Operating Officer of the Group, resigned from the Board on 30 April 2007 to pursue other interests.

As announced on 1 May, Andrew Paul Biffen and Dr. Grant Harvey Jones were elected to the Board with effect from 30 April 2007.

Andrew Biffen, previously the Group's Director of Engineering, has assumed the role of Chief Operating Officer of the Group's waste management activities including responsibility for the relationship with Pirelli Ambiente and Estech Europe Ltd. Previously Andrew worked for the Central Electricity Generating Board, National Power and International Power plc where he worked on major energy projects (including waste to energy) as well as in business development. Andrew was a Director of International Power Italia Srl.

Dr. Grant Jones is currently Chief Operating Officer of ReEnergy's activities in the United States and Chief Executive Officer of ReEnergy Desalination Inc. and will continue to fulfil both roles. Previously Grant worked for National Power and International Power in business development and communications.

Howard Flight, our Senior Independent Non-Executive Director has advised that he will not stand for re-election to the Board at the Annual General Meeting and will therefore retire from that date. The Board is grateful to Howard for his advice, help and support.

Tony Morgan will assume the role of Senior Independent Non-Executive Director and will be chairman of the Audit and Remuneration Committees. Wayne Keast will also be a member of those Committees.

Steve Mueller will continue as a Non-Executive Director of the Group and as a member of the Audit and Remuneration Committees.

#### Hereford and Worcester

During the course of the year under review, significant efforts were concentrated on seeking to reach financial close on the Hereford and Worcester project. The goal of this project is to use the Estech Europe Ltd. ("Estech Europe") Fibrecycle™ autoclave technology to divert up to 80% of the local Municipal Solid Waste ("MSW") stream away from landfill. Considerable work was carried out in developing an engineering procurement and construction ("EPC") contract for the project. In addition competitive proposals were negotiated for the funding of the required debt and equity financing structures for the project. Planning permission has been granted for two sites which would have a handling capacity of 200,000 tonnes of waste per annum and one of these sites has also secured a waste management licence that is essential for processing to take place.

However, and as announced in ReEnergy's trading update of 13 December 2006, Hereford and Worcester Councils notified us that they were halting the negotiations on this project with Estech Europe.

Since the year end, as explained later, the Group has re-established contact with the Councils.

#### Strategic Review

Following the trading update of 13 December 2006, the Board conducted a strategic review of all Group activities, both in the United Kingdom and overseas. The review confirmed the Group's belief in the outstanding market opportunities for both our waste management and seawater desalination technologies. Accordingly, the Board resolved to focus its activities on two core business units: Estech Europe, and ReEnergy Desalination Inc. ("RDI"), the Group's wholly-owned seawater desalination business located in the United States.

The review determined that strategic alliances were the way forward for both business segments. Based upon the relationship forged during the work done in developing the EPC contract for the Hereford and Worcester project, ReEnergy Group and Estech Europe, have entered into a Memorandum of Understanding with AMEC Investments Limited, a wholly-owned subsidiary of AMEC plc ("AMEC") to work together to bid for and develop projects utilising the Estech Europe Fibrecycle™ process.

In order to provide a full desalination project development service, RDI has signed key strategic alliances with two leading suppliers of equipment and

operational expertise: (a) Doosan Hydro Technology Inc, a Florida based subsidiary of Doosan Heavy Industries & Construction Co. Ltd., one of the world's largest suppliers of desalination systems and specialists in the design and construction of reverse osmosis water treatment plants; and (b) Desalination Marketing Services Ltd., a fully owned subsidiary of Water Services Corporation, the public water utility of Malta which is one of the world's most experienced operators of desalination equipment.

#### Acquisition of minority shareholders interest in Estech Europe

Post year end, in June 2007, with the focus of our business firmly on the autoclave technology within Estech Europe, we have taken the opportunity to acquire the interests of the minority shareholders of that company in order to have complete control of the business. We originally acquired 51% in December 2005. The consideration to be paid to complete the purchase of 100% of the shareholding is:

- the issue of a further 14,000,000 ordinary shares in ReEnergy (in addition to the 6,253,333 shares to which the minority shareholders of Estech Europe are entitled under the existing sale and purchase agreement);
- capital payments on projects which reach financial close by the end of 2012; and
- an earn-out equivalent to 1% of the gate fees received from the operation of these projects over their first five years of operation.

This is being affected by way of an offer to the minority shareholders which is being recommended by the majority of the minority shareholders. We have already received irrevocable undertakings to accept the offer in respect of approximately 96% of the minority shareholding. Under the terms of the offer, the minority shareholders will receive a combination of shares in ReEnergy and promissory notes pursuant to which payments will be made on the closure of projects by Estech Europe. The terms of the offer will be put to the ReEnergy shareholders at the forthcoming annual general meeting and we have received irrevocable undertakings or letters of intent to vote in favour of the offer from approximately 53% of the ReEnergy shareholders.

Until this offer receives the approval of the ReEnergy shareholders at the AGM it remains conditional.

#### Financial Overview

The Group's expenditure for the period under review was consistent with budgets, with the highest level of expenditure being incurred in connection with project and business development across the Group's activities.

Following the strategic review a programme of major cost reductions has been implemented that is consistent with that strategy. This review also led to the following impairment charges:

Goodwill	£2,466,000
Licences	£117,000
Tangible assets	£125,000
Investments	£3,000

After making these charges for impairment the underlying loss from continuing operations in the year to 31 December 2006 was £8,643,000.

The Board is confident that, as a result of these cost reductions, the Group has sufficient cash reserves to allow it to fulfil its strategy for at least the next 12 months.

## Operational Review

### Estech Europe

England and Wales produce c. 30 million tonnes per annum of MSW. This volume is growing at c. 3% per annum and at current rates production will increase significantly by 2020. Circa 69% of MSW in England and Wales is still landfilled. Landfill is regarded by the European Union as an unacceptable method of disposal and the 1999 Landfill Directive requires that by 2010 the volume of MSW sent to landfill must be reduced to 75% of 1995 levels, by 2013 to 50% and by 2020 to 35%.

Estech Europe provides an environmentally friendly process solution to the above targets that has been identified as a Best Practicable Environmental Option for dealing with MSW. The process involves the sanitisation of MSW through a steam autoclaving process that allows for the recovery and recycling of metals, plastics and aggregates, leaving a small amount of residue (typically less than 20%) for final disposal to landfill.

Estech Europe has built a 1-tonne per hour fully operational pilot plant that has so far carried out over 350 processing cycles. The standard Estech Europe Fibrecycle™ 100,000 tonnes per annum MSW processing plant is based upon two autoclaves each of 20 tonnes capacity. This design has now been developed as the detailed standard generic Fibrecycle™ plant.

Contract negotiations between Estech Europe and the councils of Hereford and Worcester for the provision of two Fibrecycle™ plants were halted in December 2006.

As part of collaboration with AMEC we have submitted an alternative proposal based on Estech Europe's market leading autoclave technology that we believe overcomes the Councils' earlier concerns and we intend to pursue a new dialogue with Hereford and Worcester.

As previously reported Estech Europe has pre-qualified with VT Group plc for a

waste management project in Wakefield and Estech Europe is continuing to support this bid.

Several merchant plant opportunities have been identified which the Board believes will create the opportunity to accelerate revenue streams and these are being actively developed. This is an area that we will be concentrating on in the year ahead. As of October 2007, landfill diversion requirements will apply to commercial and industrial waste as well as to MSW and this will make available significant additional volumes of waste as complementary loading to merchant plants.

#### Pirelli

Activity during the year under review has been primarily focused on efforts to promote Refuse Derived Fuel ("RDF") as a product and therefore usable and commercially viable as a fuel. The categorisation as a fuel would remove the obligation for any process burning the RDF to comply with the Waste Incineration Directive. Pirelli already has the benefit of an exemption in Italy to utilise the RDF in combustion processes outside of the Waste Incineration Directive. The process to secure this categorisation by the European Commission has met with some difficulty. ReEnergy continues to believe that the future for RDF must be by application within Waste Incineration Directive compliant processes but that the potential for such RDF applications remains considerable albeit in the longer term. The Group does not expect this licence to generate revenue for the Group in the immediate future.

#### Thermal Recovery Unit ("TRU")

The considerable delays by the developer of the TRU process in producing a unit for installation within the Group's European market has been the source of considerable disappointment. Accordingly, following the strategic review, the Board determined that activities with this process should cease for the foreseeable future.

#### ReEnergy Desalination Inc.

RDI is an international project developer that provides cost effective solutions for the delivery of high quality, reliable and sustainable water to industrial/institutional facilities, resort/residential complexes and municipalities. RDI employs a design, build, own and operate model designed to generate profits from the sale of desalinated water to customers under long-term water sales contracts, from project development fees and from operation and maintenance agreements.

In the short term, the company will focus its efforts in four broad markets, namely (i) Mexico, (ii) the Bahamas and the Caribbean, (iii) Peru and Chile and (iv) the Mediterranean rim, in particular Turkey, Greece, Cyprus and certain countries in North Africa. In addition, RDI has a presence in Australia, where water shortages are acute and the distances between major towns are large, supporting a distributed desalination approach.

RDI is currently progressing a number of project opportunities with its alliance partners. Two front running projects are: the Trump Ocean Resort in Tijuana, Mexico, a hotel-serviced luxury resort comprising a proposed development of 585 condominiums and leisure facilities requiring a phased desalination capacity of up to 660 m3 per day and where we have already agreed a development contract; and the Shougang Hierro mine project in Peru, which requires a desalination capacity of 16,000 m3 per day for its ore refining process. In addition we have concluded a small but important contract to operate a desalination plant on a private estate in Pebble Beach, California.

## Outlook

The year under review has been difficult and not without significant disappointments and I am immensely grateful to our shareholders for their continued patience and support. However, it is important that we do not lose sight of the fact that the markets in which the Group operates continue to present considerable opportunity for our technologies. The alliances that we have formed during the year have strengthened our position to exploit the market in the future in providing strong contracting capability with the skill and track record to deliver successful projects. The markets within which Estech Europe and RDI operate are still relatively immature, but both ones where considerable potential will irrefutably unfold. Our businesses will remain focused on securing valuable and deliverable projects with revenue streams to sustain the forward development of the Group. This window of opportunity underpins considerable future benefit for ReEnergy and its shareholders.

	Notes	2006 £000	2005 £000
Administrative expenses - which include:		(11,354)	(2,795)
-----	-----	-----	-----
Impairment of goodwill		(2,466)	-
Impairment of licenses		(117)	-
Impairment of tangible assets		(125)	-
Impairment of investments		(3)	-
Acquisitions in the year		-	(327)
-----	-----	-----	-----
Operating Loss		(11,354)	(2,795)
Interest receivable		308	28
Interest payable		(402)	(596)
		-----	-----
Loss on ordinary activities before taxation		(11,448)	(3,363)
Taxation	4	168	-
		-----	-----
Loss on ordinary activities after tax		(11,280)	(3,363)

Minority interest		236	30
		-----	-----
Loss retained on ordinary activities after tax and minority interest		(11,044)	(3,333)
		-----	-----
Loss per ordinary share - basic and diluted	2	(16.4)p	(17.9)p

The Operating Loss for the year arises from the Group's continuing operations.

### Consolidated Statement of Total Recognised Gains and Losses

for the year to 31 December 2006

		2006	2005
		£000	£000
Loss for the period		(11,044)	(3,333)
		-----	-----
Foreign exchange differences on retranslation of subsidiary undertakings		(32)	(26)
		-----	-----
Total recognised gains and losses relating to the year		(11,076)	(3,359)
		=====	=====

		2006	As restated 2005
		£000	£000
Fixed assets	Notes		
Intangible assets	5	22,965	28,570
Tangible assets		76	359
Investments		-	3
		-----	-----
		23,041	28,932
Current assets			
Debtors due within one year		405	5,926
Cash at bank and in hand		6,551	2,083
		-----	-----
		6,956	8,009
Creditors: amounts falling due within one year		(3,691)	(9,134)
		-----	-----
Net current assets		3,265	(1,125)
		-----	-----
Total assets less current liabilities		26,306	27,807

Creditors: amounts falling due after more than one year		(16,852)	(18,587)
		-----	-----
Net assets		9,454	9,220
		=====	=====
Capital and reserves:			
Called up share capital	6	4,078	1,867
Share premium account		20,521	10,051
Share option reserve		235	304
Merger reserve		209	209
Profit and loss account		(15,589)	(4,513)
		-----	-----
Shareholders' funds	7	9,454	7,918
Minority interest		-	1,302
		-----	-----
Total capital employed		9,454	9,220
		=====	=====

Approved by the Board on 15 June 2007

	Notes	2006 £000	As restated 2005 £000
Net cash outflow from operating activities	8	(9,110)	(1,646)
Returns on investments and servicing of finance			
Interest received		290	28
Interest paid		(9)	-
Interest element of finance lease rental payments		(3)	(437)
		-----	-----
Net cash inflow/(outflow) from returns on investments and servicing of finance		278	(409)
Taxation		117	-
Capital expenditure and financial investment			
Payments to acquire tangible fixed assets		(8)	(39)
Payments to acquire intangible fixed assets		(2,000)	(147)
Loan made		-	(1,000)
		-----	-----
Net cash outflow from capital expenditure and financial investment		(2,008)	(1,186)

## Acquisitions &amp; disposals

Purchase of subsidiary undertakings	-	(899)
Net cash acquired with subsidiaries	-	119
	-----	-----
Net cash outflow from acquisitions	-	(780)
	-----	-----
Cash outflow before financing	(10,723)	(4,021)
Financing		
Net proceeds from issue of shares	17,668	2,354
Issue of convertible loan notes	-	3,926
Repayment of finance leases	(83)	-
Loans repaid	(2,394)	(389)
	-----	-----
Net cash inflow from financing	15,191	5,891
	-----	-----
Increase in cash	4,468	1,870
	-----	-----

## Reconciliation of net cash flow to movement in net debt:

Increase in cash in year	4,468	1,870
Cash outflow / (inflow) from increase in debt and lease financing	2,477	(3,537)
	-----	-----
Change in net debt resulting from cash flows	6,945	(1,667)
Loans and finance leases acquired with subsidiaries	-	(8,036)
Loans converted into shares	-	3,926
Transfer of finance leases	55	-
Loan interest added to capital	(393)	-
Translation difference	-	(39)
	-----	-----
Movement in funds in year	6,607	(5,816)
Opening net debt	(5,953)	(137)
	-----	-----
Closing net funds/ (debt)	654	(5,953)
	-----	-----

## 1. Accounting policies

The principal accounting policies, which have been consistently applied in the Group's financial information throughout the period under review, are as follows:

## Basis of preparation

The preliminary results for the year ended 31 December 2006 have been extracted from audited accounts which have not yet been delivered to the Registrar of Companies. They have been prepared on the basis of the accounting policies set out in the Group's 2005 Financial Statements, all of which have been applied consistently throughout the year and preceding year, except for the amendment required by the adoption of FRS 25 (see below). The statutory accounts of the

Company for the year ended 31 December 2005, on which the auditors have given an unqualified opinion, have been filed with the Registrar of Companies. The financial information set out in this Preliminary Announcement does not constitute statutory accounts for the year ended 31 December 2006 or 31 December 2005 within the meaning of section 240 of the Companies Act 1985. The financial information for the year ended 31 December 2006 is derived from the statutory accounts for that year. The report of the auditors on the statutory accounts for the year ended 31 December 2006 was unqualified and did not contain a statement under Section 237 of the Companies Act 1985.

#### Going Concern

On 25 April 2006 the Company raised £12,750,000 from Institutional Investors and at 31 December 2006 had a cash balance of £6,551,000. The Directors have reviewed the company's cash flow forecast up to December 2009, taking into account all known risks and uncertainties. The necessary funds to meet the capital costs of a project such as Hereford & Worcester will be raised independently in their entirety at financial close.

Following their review, the Directors believe that cash flow can be managed to enable the Group to continue in operational existence for the foreseeable future. They have introduced a cost reduction programme which should significantly reduce the rate of cash outflow. Accordingly, the Going Concern basis has been adopted for the preparation of these accounts.

Prior year adjustment - adoption of new accounting policies

The Group has adopted FRS 25 - Financial Instruments and FRS 26 - Financial Instruments - Recognition and Measurement during the year ended 31 December 2006 and has amended prior year comparisons accordingly. As a result, the 31 December 2005 balance sheet has been restated to disclose the amount of £17,927,000 previously categorised as part of equity in respect of shares to be issued as creditors falling due after more than one year.

Financial instruments are recognised based on the substance of the transactions.

Deferred and contingent consideration payable in relation to acquisitions is assessed at each period end and the Directors' estimate of the fair value of the amount payable is adjusted accordingly through goodwill.

#### Basis of consolidation

Under the share purchase agreement dated 13 December 2004 and 17 March 2005 the Company acquired the entire issued share capital of ReEnergy USA (formerly Renergy Pacific Corp.) by means of a share for share exchange. As this represented a group reconstruction, merger accounting has been used to consolidate these companies and the consolidated financial statements merge the financial statements of these undertakings as if they had always so been owned. Accordingly, in those years when mergers take place, the whole of the results, assets,

liabilities and shareholders' funds of the merged companies are consolidated, regardless of the actual merger date, and corresponding figures for previous years are re-stated.

All other subsidiaries are consolidated using the acquisition method and their results are incorporated from the date that control passes. The difference between the cost of acquisition of shares in subsidiaries and the fair value of the separate net assets acquired is capitalised as goodwill.

The consolidated results for the comparative period ended 31 December 2005 reflect those of the Company and Renergy Pacific Corporation for the whole period. The results of ReEnergy Desalination Inc. (formerly Oases Global Systems Inc.) had been included from 25 August 2005 with Oases U.K. Ltd and ReEnergy U.K. Ltd. being included from 26 August 2005. No results had been included for Estech Europe Ltd., Estech Operations Ltd., Tass Environmental Technology Ltd. and The Fibrecycle Company Ltd as these companies were only acquired on 30 December 2005. Balance sheets only had been consolidated in the Group accounts as at the 31 December 2005 for these three companies.

All financial statements are made up to 31 December 2006.

### Goodwill

Goodwill is stated at cost less accumulated amortisation and any impairment in value. Cost is the difference between the fair value of the consideration paid on acquisition and the fair value of the net assets acquired. Amortisation is calculated to write off the goodwill on a straight line basis over its estimated useful life. This is currently 20 years. Goodwill is reviewed for impairment at the end of the first full year following acquisition and in other periods if events or changes in circumstances indicate that the carrying value may not be recoverable.

### Impairment Review

Goodwill of £2,466,000 in relation to Oases U.K. was fully impaired in the year, as was a licence of £117,000 in ReEnergy USA.

A review of the remaining goodwill and intangibles has been carried out and considered by the Directors. This review was conducted on licences with a written down value of £1,781,000 and goodwill with a written down value of £21,184,000.

Goodwill arises from the Group's 51% investment in Estech Europe Limited and primarily represents its technology and know-how.

In considering the carrying values the Directors reviewed the strengthening of the emerging market and the discounted value of the current pipeline of projects, taking into account both their long term nature and the length of time it will take before they are commissioned. Taking all of these factors into account the Directors are of the opinion that goodwill is not impaired at 31 December 2006.

## 2. Earnings per Ordinary Share

Basic earnings per share is calculated by dividing the loss for the financial

year of £11,044,000 (2005: £3,333,000) attributable to ordinary shareholders by the weighted average number of ordinary shares in issue of 67,502,136 (2005: 18,659,949). There is no dilutive effect of shares to be issued due to the loss arising in the year.

### 3. Segmental analysis

All of the Group's operating activities relate to the development of its business as a waste management, renewable energy and water desalination technology provider. Since all of the Group's projects are at a developmental phase with a similar risk and reward profile the Directors do not believe it is meaningful to define reportable segments by nature of the renewable resource under development. Accordingly, in this development phase, the Directors consider there is only one reportable business unit. The operating losses and net liabilities in relation to the Group's activities have been incurred primarily in Europe and the US as presented below:

#### Operating Loss

	2006 £000	2005 £000
Europe	(10,132)	(2,245)
US	(1,222)	(550)
	-----	-----
Total	(11,354)	(2,795)
	=====	=====

#### Net Assets/(Liabilities)

	2006 £000	As restated 2005 £000
Europe	9,420	9,083
US	34	137
	-----	-----
Total	9,454	9,220
	=====	=====

### 4. Taxation

The tax credit arises in relation to the Research & Development expenditure incurred by Estech Europe Ltd.

### 5. Intangible Fixed Assets - Group

	Licences £000	Goodwill £000	Total £000
Brought forward at 1 January 2006	2,550	26,094	28,644
Fair value adjustment	-	(1,152)	(1,152)
Disposals	(7)	-	(7)

Movement arising from retranslation of assets in overseas companies	(22)	-	(22)
At 31 December 2006	2,521	24,942	27,463
Amortisation and impairment			
Brought forward at 1 January 2006	28	46	74
Charge in year	606	1,246	1,852
Impairment in year	117	2,466	2,583
Movement arising from retranslation of assets in overseas companies	(11)	-	(11)
At 31 December 2006	740	3,758	4,498
Net book value at 31 December 2006	1,781	21,184	22,965
Net book value at 31 December 2005	2,522	26,048	28,570

Licences represent the rights, for a specified period of time, to exploit certain technologies.

The Pirelli licence, which cost £2,321,000 last year, has been amortised over four years to a value of £1,740,000 at 31 December 2006. Acceptance of the use of high grade Refuse Derived Fuel ("RDF") in, for example, coal fired power stations, as an alternative to fossil fuels is, the Directors believe, unlikely to be dependent on its reclassification as a product. However, reclassification may be probable in the medium term to enable the widespread use of RDF as a fuel. Accordingly, the Directors do not consider the carrying value of the licence to be impaired.

The fair value adjustment to goodwill of £1,066,000 arising during the year represents a change in the estimate of the fair value of consideration payable in respect of the acquisition of Oases U.K. Ltd. The consideration payable was partially contingent upon certain performance milestones being met. The remaining £86,000 is a refund of legal costs relating to the acquisition of Estech Europe.

The exceptional impairment of goodwill amounting to £2,466,000 (2005: £nil) is the impairment in full of goodwill that arose on the acquisition of the Oases U.K. Limited assets. The Directors consider this to be impaired because the projects on which it was based have now lapsed.

## 6. Share Capital

	31 December 2006	31 December 2005
--	---------------------	---------------------

	£000	£000
Authorised		
200,000,000 Ordinary 5p Shares (2005: 108,000,000)	10,000	5,400
	-----	-----
Issued and fully paid:		
81,553,460 Ordinary 5p Shares (2005: 37,342,651)	4,078	1,867
	-----	-----

## Share Issues:

On 23 March 2006 272,791 new ordinary shares of 5p were issued to Strand Partners Limited in consideration for financial advisory services, valued at the time at £204,593 and 218,125 to Cenkos Limited in consideration for broking services valued at the time at £163,593.

On 26 April 2006 the Company raised £12,750,000 and issued 42,500,000 ordinary 5p shares as fully paid to a number of institutional investors.

On 17 May 2006 the Company issued 833,333 ordinary 5p shares in the Company to Strand Partners Limited in consideration for corporate advisory services to the company valued at the time at £250,000.

On 27 July 2006 at its Annual General Meeting the Company increased its authorised share capital from £5,400,000 to £10,000,000 by the creation of an additional 92,000,000 ordinary shares of 5p each.

On 17 August the company allotted 386,560 shares to existing shareholders who had made applications to subscribe for shares on substantially the same terms as offered in the refinancing on 25 April 2006 for a total consideration of £115,968.

## 7. Reconciliation of Shareholders Funds

Group	2006	2005
Reconciliation of movements in shareholders' funds:	£000	£000
Loss for the financial year	(11,044)	(3,333)
Other gains and losses relating to the period	(32)	(26)
Issue of share capital	12,681	11,192
Cost of share options	(69)	304
	-----	-----
Movement in the period	1,536	8,137
Opening shareholders' funds (originally £25,845,000 before deducting prior year adjustment of £17,927,000 as explained in note 1)	7,918	(219)
	-----	-----
Closing shareholders' funds	9,454	7,918
	=====	=====

## 8. Reconciliation of Operating Loss to Net Cash (Outflow) from Operating Activities

	2006 £000	2005 £000
Operating loss	(11,354)	(2,795)
Depreciation of tangible assets	110	14
Impairment of tangible assets	125	-
Amortisation of goodwill	1,246	46
Impairment of goodwill	2,466	-
Amortisation of other intangible assets	606	20
Impairment of intangible assets	117	-
Impairment of investments	3	-
Share based payments / (credit)	(69)	304
Decrease / (Increase) in debtors	241	(330)
(Decrease) / Increase in creditors	(2,601)	1,095
	-----	-----
Net cash (outflow) from operating activities	(9,110)	(1,646)
	=====	=====

### Analysis of change of net debt in year:

	At 1 January 2005 £000	Cashflow £000	Acquisition £000	Other non Cash changes £000	Exchange Movement £000	As restated at 31 December 2005 £000
Cash in hand and at bank	252	1,870	-	-	(39)	2,083
Debt due within one year	(389)	(3,537)	(2,350)	3,926	-	(2,350)
Debt due after one year	-	-	(5,407)	-	-	(5,407)
Finance leases	-	-	(279)	-	-	(279)
	-----	-----	-----	-----	-----	-----
	(137)	(1,667)	(8,036)	3,926	(39)	(5,953)
	=====	=====	=====	=====	=====	=====

	At 1 January 2006 £000	Cashflow £000	Acquisition £000	Other non Cash changes £000	Exchange Movement £000	At 31 December 2006 £000
Cash in hand and at bank	2,083	4,468	-	-	-	6,551
Debt due within one year	(2,350)	2,350	-	(2,367)	-	(2,367)
Debt due	(5,407)	44	-	1,974	-	(3,389)

after one  
year

Finance leases	(279)	83	-	55	-	(141)
	-----	-----	-----	-----	-----	-----
	(5,953)	6,945	-	(338)	-	654
	=====	=====	=====	=====	=====	=====

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