

Turbotec Products Plc
Annual Report and
Financial Statements
March 31, 2010



 **Turbotec**[®]



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Chairman's Statement

Introduction

It is particularly pleasing in these challenging market conditions to report that, once again, progress has been made in meeting our twin strategic objectives; expanding our customer base and developing our manufacturing facilities, both of which continue to support our solid and profitable performance when compared with our peer group.

Business Summary

Turbotec manufactures high performance, high quality heat exchangers, and heat transfer tubing and fabricated metal components. The Company markets its products primarily in the United States with a small proportion of sales abroad to customers in a variety of industries including space conditioning, refrigeration, marine, swimming pool and spa, food and beverage, appliance and water heating. All manufacturing activities are carried out in the United States.

Results and Earnings

As we reported in our half-year report in November 2009, and third quarter in February 2010, sales for the year ended 31 March 2010 decreased significantly, by 26.5%, to \$19.8 million from \$27 million in the previous year. In previous years, our sales had been uplifted by rising commodity prices, whereas more recently lower raw material prices have been reflected in our selling prices. This, along with the much lower volume demand meant our gross profit decreased by 27.4% to \$5.45 million from \$7.51 million in the previous year. Operating profit fell by 49.5% to \$1.2 million (2009: \$2.4 million) due primarily to one-off administrative costs, including around \$780,000 in legal and related one off administrative costs associated with the dispute with our majority shareholder, Thermodynamics, Inc. (2009: \$250,000). We also capitalised investment costs of around \$160,000 relating to our new manufacturing facilities in Hickory N.C.

Operations

During the course of the year it became obvious to the Board that the difficulties of not only sustaining but growing the business in Connecticut would increase, despite the great efforts by our people to improve our competitive position. The previously notified slowing demand from major customers throughout the year meant taking steps to reduce operating costs at our Windsor plant. Looking to the future, we are pleased to report that our pilot facility in Hickory is now operating successfully.

As we announced on 15 March 2010, the plans for greater capacity are well advanced to consolidate all our operation into one larger facility during the current year. The Board believes the lower cost base, good access to an abundant skills base and strong work ethic demonstrated at our current Hickory facility will also offer further opportunities for cost savings to maximize the benefit from our ambitious sales growth plans in the future.

Legal Disputes

On 10 May 2010, the Company was pleased to announce that the court had ruled in its favour in relation to its legal dispute with Thermodynamics, Inc. ("TDYT") regarding the payment of administration fees, bringing to an end the hugely distracting and costly litigation instituted by the Company's majority shareholder.

The dispute arose in June 2007 when TDYT claimed that it was entitled to certain dividends despite the payment of administration fees to it by the Company under a Relationship Agreement, entered into with the Company at the time of its admission to AIM. The provisions of the agreement stated that in circumstances where the Company paid dividends to TDYT then this reduced the amount of administration fee accordingly, and if dividends were paid over two consecutive years which were equal to or more than the amount of the annual administration fee owed to TDYT for each of those years, then the obligation to pay any further administration fees terminated. As the Company had paid the annual administration fee in monthly instalments in accordance with the Relationship Agreement, once TDYT later became entitled to a dividend for that year the administration fee was recovered by way of set off against the dividend, with only the excess being paid to TDYT.

TDYT contested this interpretation of the agreement and claimed that dividends should be paid in full, payment of a dividend only suspended payment of the administration fee and that the two year test had not been met.

Despite attempts by the Board to negotiate a settlement with TDYT, the Company was unable to avoid action being taken and was forced to defend its position when TDYT brought an action against it in January 2008.

In his judgment, His Honour Judge Dight, sitting as a Judge of the High Court, stated that the annual administration fee had been calculated solely by reference to TDYT's cash needs and bore no relation to the services that TDYT had claimed to provide for the fee, adding that it was clear to him that the provisions of the Relationship Agreement for the payment of the administration fee were not a genuine transaction but a disguised return of capital. The Judge did not accept that the continued funding of TDYT, in order to pay the salaries of Mr. Lerman (President and CEO of TDYT) and Mr. Ferraro (Treasurer and CFO of TDYT), was proper.

He noted that Mr Lerman had refused to accept that the Company was to be an independent company with obligations to members of the public as well as to TDYT, and that, although TDYT had claimed that the services it provided included the oversight by Mr Lerman of the Company's activities, it was inappropriate for him to provide any such role and that following the Company's admission he no longer had the knowledge and skills to be of use to the Company.

The Judge also supported the Company's view on its correct interpretation of the provisions of the Relationship Agreement and its treatment of the administration fee, in that TDYT were entitled to either the administration fee or dividends for a particular year, but not both. In addition he noted that the Company's further offer of a settlement in November 2009, before the case was heard in court, should have been accepted by TDYT in the circumstances, prompting him to award certain of the costs on an indemnity basis against TDYT from that date. A full copy of the court judgment is available in the investor relations section on the Company's website should shareholders wish to read it.

The interim cost award of £350,000 has already been received, and the balance of the total cost award is currently being determined by the court and our legal advisers. The amounts received will be reflected in the group's results for the year ended 31 March 2011. On 28 April TDYT announced that it had sold 26% of its shareholding in the Company in order to pay or reduce its currently outstanding obligations.

The remaining dispute which relates to the lease created in April 2006 by TDYT, and to the overcharging of rent for both the sites occupied by our operations in Windsor will be heard in the Hartford courts later this year.

Dividends

For the year ended March 2008, the Company paid a total dividend of 6.3 cents per share (3.35p per share) and it is our intention, following the determination and payment of the remaining costs award referred to above, to return to and maintain a progressive dividend policy in the future. The Board is mindful of the additional one-off costs that will be incurred during this year with the planned business relocation to Hickory.

People

The current business climate has placed exceptional demands on our employees at all levels and the Board would once again like to sincerely thank all employees for their dedication and support during this difficult year.

Outlook

Given the constant feedback Turbotec receives from our all our customers, we continue to take a cautious view of the general business environment. We have experienced reduced demand for the past five quarters and most indicators show little or slow improvement for the remainder of the calendar year. Order intake from our existing customers remains slightly subdued, but we continue to focus on expansion of our customer base. We believe that given ever-increasing energy prices affecting running costs and the growing awareness of global warming issues, our products continue to be well placed to exploit further opportunities, particularly when the economy improves.

Despite the non-trading related issues that have hampered the Company's progress over the past two years, we have nonetheless continued to strengthen our business in many important ways during the most difficult economic conditions and this, coupled with the substantial opportunity presented by the proximity of our new major manufacturing location in Hickory to our Southern U.S customers, gives the Board every confidence in the future prospects for the Company.

Tom Nairn
Chairman

Chief Executive's Review

Strategic Review

Turbotec Products is the market leader of high efficiency tube in tube heat exchangers having supplied in excess of two million heat exchangers for space conditioning applications. These heat exchangers are used in the highest efficiency heating and cooling devices, such as water source and geothermal heat pumps. Turbotec also provides plastic and titanium heat exchangers for the swimming pool heat pump market. Our heat exchangers are also used in marine air conditioning, ice machines and heat re-claimers. Enhanced surface tubing is used in a variety of heat transfer applications serving many markets, currently at low volumes.

Twisting metal tubes to create a highly enhanced surface is at the heart of our heat exchangers. This process is environmentally friendly as no cutting fluids are used and no material waste is generated. With our ability to twist titanium we now have expanded into markets in Canada, the UK, and Australia as well as to key pool heating product manufacturers in the US. Exports of all products by Turbotec generated turnover of \$1.3 million this year in a globally depressed economy, well below the \$1.9 million in the previous year.

Markets

US housing markets continue to remain depressed which has directly impacted the unit volume and consequently the companies' revenue stream. US factory unit shipments of air-conditioning and heating products declined by approximately 11% for the third consecutive year as reported by Air Conditioning, Heating and Refrigeration Institute.

On February 17, 2009, US President Barak Obama signed into law a bill that provides a significant financial incentive of a 30% tax credit for homeowners who install geothermal heat pump systems in 2009 and later years. For example, a residential geothermal system with an installation cost of \$25,000 would be eligible for a tax credit of \$7,500. By classifying geothermal heat pump technology with solar and wind, congress has finally recognized the crucial role this technology can play in reshaping our energy future. US factory shipments of water source and geothermal heat pumps declined by approximately 14% over the past year after being flat for the previous year. While the residential market did grow, the commercial sector declined leading to the weakness in the overall unit volume.

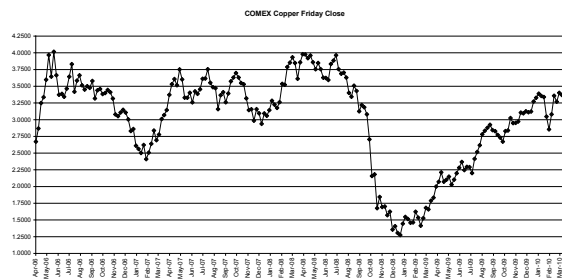
Titanium is the preferred metal for heat exchangers used in swimming pool heat pumps. With our patent pending combination of titanium twisted tubes and coiled plastic shells, Turbotec is the market leader. Florida, traditionally the largest market for swimming pool heat pumps continues to see reduced demand with many pool businesses suffering financial downturns, including bankruptcy due to the continuing housing slump and tight credit markets.

The company supplies vented double wall heat exchangers that are used for making potable hot water from waste heat and that are integral to water source heat pumps manufactured by many of our customers. The company also supplies packages integrating these heat exchangers with pumps and controls which are then field installed. This area of the market has been slow to develop with sales turnover at a relatively small number. Whilst the market realization is slow in developing, we remain optimistic as the continuing energy shortage and global warming trends will eventually lead to market opportunities.

We continue to maintain long term relationships with our key OEM partners as we work to grow our market share with our product offerings. Turbotec's visibility in the HVAC market place has positioned our company in the forefront for continued business growth. As consumer confidence improves and the credit markets open up, we expect the significant incentives for installing geothermal heat pumps to impact positively on our business.

Commodities

The company uses both ferrous and non ferrous metals in the manufacture of its products and as such is impacted by the vagaries of the commodity markets. July 2008 saw copper prices at around \$4/lb before declining to a low of \$1.25/lb in December 2008. Since then copper prices have recovered and have steadily been rising finishing the year in the \$3.50/lb range. Similarly, nickel prices that had peaked in May 2007 at around \$24.50/lb and then settled at around \$8.50/lb in the summer months (calendar year 2008) had declined to \$4/lb by November 2008. Since then the prices have recovered to around \$10.75/lb.



The company has pricing arrangements with its customers where by a rolling average copper and nickel price is used to calculate raw material price adjustments.

Operations

We continue to implement dedicated manufacturing cells and applying the principles of Lean Manufacturing. The company has a Lean Road Map and we regularly measure ourselves as we look towards continuous improvement. This has allowed us to improve manufacturing efficiencies and reduce the labor content in our products. With the current full employment market in Connecticut and the ever increasing employment costs, these improvements have afforded us the ability to improve our gross profit margins. Turbotec continues to make capital investments in its equipment to improve operational efficiencies.

The air conditioning and refrigeration markets have now moved to environmentally friendly refrigerants as required by the Montreal Protocol of 1987 & 1992. An HCFC known as R-22 had been the refrigerant of choice for residential heat pumps and air conditioning systems for over four decades. Releases of R-22 to the atmosphere contribute to ozone depletion. Effective January 1st 2010, R-22 can only be used for servicing existing equipment but not used for manufacturing new equipment. In response, the industry has moved to R-410A, a blend of hydro fluorocarbons (HFCs), which do not contribute to the depletion of the ozone layer.

During the year, engineering efforts accelerated in the development and qualification of heat exchangers applied with R410a refrigerants for all of our product lines. This required design and prototype activity along with lab testing and material qualification as the new refrigerant runs at significantly higher pressures than the ones being replaced. Manufacturing processes continue to be upgraded for the manufacture of such heat exchangers.

Southern Manufacturing Facility

The company started a project in 2007 for the explicit purpose of setting up a manufacturing plant in the southeastern part of the US. As a first step we looked at the location of major customers (both current and anticipated) and tube mills and felt strongly that the facility should be in North Carolina, Tennessee or South Carolina. A project team was created to evaluate the alternatives and in September 2008, we selected Hickory, North Carolina as the location for our new manufacturing plant. An existing 20,000 square foot facility in an industrial park was leased and manufacturing operations began with the first cell coming on line in January 2009. During FY2010, the company had five product applications supplied out of this facility.

The company's current two Windsor, Connecticut properties are leased from Thermodynamics, Inc under a 5-year lease expiring on 31 March 2011 with an option for a 3-year extension at escalating rents. The main building is now over 25 years old and does not provide a good layout for manufacturing cells, preventing the company from maximizing the benefit of applying lean manufacturing principles. While relocating to a different building in Connecticut more suited to our manufacturing needs would be a potential short term solution to this problem, the negative

economic fundamentals for manufacturing companies remain unchanged in this region. This relocation would also provide the company with an opportunity to recruit experienced members to enhance its senior executive team. The company thus began a concerted effort in the later part of the year to start looking for a suitable building in Hickory, NC. The company is pleased to report that it was successful in locating a 10 year old 100, 000 square foot building in excellent condition which was very close to our specifications at a very attractive price.

Plans are now being developed with the goal of consolidating the company's business and manufacturing operations in this new facility within the next 12 months.

People

Despite the economic slowdown, the market for employees in Connecticut remains extremely competitive and expensive. The company took stringent measures at the start of the year in response to the economic slowdown, restructuring and reducing management staff to reduce operating expenses. It is a tribute to our people and their hard work that has produced commendable financial results despite much reduced sales turnover.

Legal Dispute in UK Courts

The company is pleased to have finally put the major distraction of the legal dispute with Thermodynamics, Inc. behind with the court ruling in favor of the company. While the order for the recovery of legal costs has completely vindicated the company, the intangible cost to the company may never be recovered. The inordinate amount of time and effort that was expended in defending the company prevented the Board from devoting its full attention towards further developing the company through further expanding product lines and pursuing acquisitions.

Future

Turbotec plans to service our markets with quality products and strong relationships with our customers and suppliers. Turbotec will do this with honest business practices and friendly service. We will continue to be on the lookout for synergistic opportunities for acquisitions and planned expansion to meet our needs for the market as well as provide profits to our investors.

In closing I would like to thank our customers for their continued confidence in our ability to service their needs (many of whom have been with us over 25 years), our suppliers for supporting us during a time of fluctuating commodity costs and demand shifts, and our employees for their continued dedication and commitment to help us achieve our goals. I would also like to thank our shareholders for their continuing support and in particular the independent directors for their wisdom and guidance to help steer the company through difficult times, whilst providing guidance on establishing our strategic plan for the Hickory expansion. With FY2010 behind us we are confident that Turbotec is poised for long term growth and to be an integral part of energy efficient heating and cooling products which provide mankind with comfortable living and working conditions while continuing to reduce per capita energy usage.

Sunil Raina
Managing Director

Financial Review

Background

Turbotec Products Plc was incorporated in the UK on 14 October 2005 and re-registered as a public company on 11 April 2006 and is the parent company of a wholly owned subsidiary, Turbotec Products, Inc., a US based manufacturer of heat exchangers and heat transfer products and systems. Pursuant to the Company's Placing and Admission to AIM approximately 43.68% of the Company's shares were sold or issued to institutional investors at the price of 85p per ordinary share. The balances of the company's shares were owned by Thermodynamics, Inc., a US based company that formerly was its sole shareholder.

Pursuant to the placing documents, all shares were sold to non United States investors. In addition, a Relationship Agreement was executed with Thermodynamics that contains further provisions regarding the independence of management between the companies, an annual administration fee payable against services to be agreed, restrictions on related party transactions, restrictions on appointments to the Plc's board and mutual confidentiality and reporting undertakings. In April 2010 Thermodynamics sold 3,400,000 shares, reducing its holdings to 3,812,307 shares. Additional information concerning transactions between the companies is contained in notes 22 and 24 to the consolidated financial statements.

During fiscal year 2009 the company entered into an operating lease for 20,000 square feet in Hickory, North Carolina and later that year commenced operations of a production facility to supplement the main plant in Windsor, Connecticut. In April 2010, the company completed the purchase of an approximately 100,000 square foot facility and an adjacent 5.46 acre parcel of undeveloped land in Hickory, North Carolina. The company plans to relocate its manufacturing operations to this facility commencing in late fiscal year 2011. The purchase was financed with a mortgage from the company's existing bank and cash reserves. See note 24 to the consolidated financial statements

On 10 May 2010 the company was notified that it was successful in its defence of the claim brought by Thermodynamics in relation to the payment of administration fees under the Relationship Agreement. The company was awarded substantial costs, including an order of payment on account of 350,000 pounds sterling by Thermodynamics with an additional amount to be determined by the court. The amounts received pursuant to this judgment will be included in the Company's results for fiscal year 2011. See note 24 to the consolidated financial statements.

All financial results are presented in US dollars, the functional currency of the operating company and of the parent company.

Statement of Comprehensive Income

Revenues for the year ended 31 March 2010 decreased significantly from \$26,986,000 in 2009 to \$19,823,000. As reported in the prior year annual report, construction permits for new housing and commercial projects continue to languish as the company moved into fiscal year 2010. This environment continued throughout the year, further impacted by tight credit markets and declining sales in leisure oriented products, such as swimming pool heat pumps and marine based air conditioning units. Unit shipments declined by approximately 22% from the prior year, while sales volume dropped by over 26%. Customer demand has improved slightly as the company moved into fiscal year 2011 as the overall economy has begun to show signs of gradual improvement. Industry experts expect that the recovery in the primary markets served by the company will be a slow gradual process over the next few years.

Gross profit as a percentage of sales dropped slightly from 2009 to 2010, despite the large decrease in sales volume. The company has benefited from continuous improvement in production efficiencies from employing lean manufacturing techniques at the main facility, coupled with the transfer of certain product lines to its lower cost base in Hickory, North Carolina. Further cost efficiencies are expected as the company expands its operations in North Carolina in future years. The company was also able to take advantage of lower copper prices early in the fiscal year by securing a portion of its manufacturing requirements at a more favourable price before the metal exhibited a rapid ramp up in price during the year.

Operating expenses decreased significantly despite the company incurring \$780,000 of one-off

administrative costs related to legal and related expenses (2009: \$250,000) in connection with an action brought by Thermodynamics, Inc related to the payment of administration fees by the company in 2007 and 2008. Certain one off start up costs related to the new Hickory facility were expensed in 2009 (2010: nil). In addition, approximately \$270,000 in expenses related to a discretionary profit sharing plan and company cash matches to the deferred compensation retirement plan made in 2009 were discontinued in 2010. The effective income tax rate was 41% in 2009 and 39% in 2010. The reduction in the rate was due to the difference in state income tax calculations as the company operated in both Connecticut and North Carolina commencing in fiscal 2010.

Balance Sheet

Non current assets increased by approximately \$424,000 over 2009 primarily due to investments in production machinery and equipment made as part of the start up of operations at the new Hickory, North Carolina facility and a cash deposit of \$100,000 pursuant to the purchase of the new Hickory, North Carolina facility in April 2010 . Net current assets aggregated \$5,522,000 at 31 March 2010 compared to \$5,193,000 at 31 March 2009. Accounts receivable decreased from the prior year end due to the reduction in shipments during the year. Inventories increased by \$178,000 over 2009 due to higher commodity cost factors for copper and nickel during 2010. Finished goods inventories also increased over the prior year as customers moved to shorter lead times when placing orders, reacting to current market requirements. Current liabilities decreased from \$1,542,000 at 31 March 2009 to \$1,231,000 at 31 March 2010, as reductions in accrued legal expenses related to the TDYT litigation and income tax liabilities offset the increase in accounts payable fueled by the rise in inventory during the year.

Non current liabilities decreased by \$110,000 over 2009 as there were no new borrowings during the year and company continues to pay down its existing term debt. The increase in net equity of \$863,000 from 2009 to 2010 was a result of the group's net income of \$739,000, plus share based compensation expense recorded during the year.

Foreign Currency Risk

As the group operates principally in the United States and transacts essentially all business in US dollars, there is minimal exposure to foreign currency risk.

Treasury Policy and Interest Rate Risk

All cash surpluses are invested in short term securities under the management of the group's bank. Borrowings consist of an overdraft facility secured by certain of the group's assets with interest charges at a floating rate equal to the bank's prime lending rate. As of 31 March 2010 there were no borrowings against this facility, thus the entire amount of \$3,250,000 was available to the group. Hire purchase borrowings are used to finance machinery and equipment purchases and also bear interest at the bank's prime rate. These borrowings aggregated \$167,000 at 31 March 2010 (2009: \$345,000). The group has a separate line of credit from the bank available for use in purchasing fixed assets.

In April 2010 the company obtained a mortgage in conjunction with the purchase of a facility and undeveloped land in Hickory, North Carolina. The mortgage bears interest at the bank's prime rate.

Financial Reporting

The consolidated accounts have been prepared in accordance with International Financial Reporting Standards. Specific accounting policies employed by the group are more fully described in the notes to the financial statements. The parent company accounts have been prepared in accordance with UK GAAP.

Research and Development Activities

The group devotes a substantial amount of its resources to research and development activities. A highly experienced engineering staff continually evaluates current methodologies to determine suitability with existing and projected product offerings. New applications of applicable technologies are identified and refined in house with the aid of sophisticated equipment in a modern laboratory facility as a key component in the development of new products and application

extensions in existing markets. The group has constructed a large portion of the test and prototyping equipment used in the development of these new products and materials, including the design and construction of a cyclical test bed apparatus that can simulate operating conditions for a wide variety of potential applications.

During the current year, the group was engaged in a number of research and development projects. International regulatory agencies have mandated moving toward alternative refrigerants over the coming years, which will require modifications to production techniques for certain products currently produced by the company. A new line of titanium/plastic swimming pool heat pump coils is currently under development and design patent applications have been filed in the United States and abroad.

Non-Financial Key Performance Indicators

Management uses various non-financial key performance indicators to evaluate and monitor its performance and/or benchmark against competitors or identified companies in other industries. These indicators are continually reviewed and the results shared with employees as part of a continuous improvement program to increase efficiencies and improve performance.

The company is an ISO 9001:2008 registered entity and as part of the ongoing certification process is required to maintain a quality standards manual that includes the identification, measurement criteria, and reported results of key non-financial performance indicators. The following areas are currently measured as part of this process:

On-time delivery to customers– the company has set a minimum standard of 90% for this measure. During the past year the company was within the established criteria; refinements to this measure are currently under development.

Customer Returns- the company has set a standard of less than 2700 parts per million (PPM) for customer returns. During the past year, customer returns averaged below the established standard.

Internal Scrap- the company has set a standard that internal scrap shall not exceed 2% of net sales. During the past year, internal scrap averaged below the established standard.

Customer complaints- the current standard is 2700 PPM. During the past year, customer complaints averaged below the established standard.

Formal measurement periods have been established on a quarterly basis, consistent with the group's financial reporting year. Results for the entire year for each of the above measures was consistent with the results reported for the most recent quarterly period.

Directors' Report

The directors present their annual report together with the audited financial statements for the financial year ended 31 March 2010.

PRINCIPAL ACTIVITIES

The principal activity of the Company is that of a holding company. The Group has one principal activity and operating segment- the manufacture of high performance, high quality heat exchangers, fabricated metal components and plumbing flexible connector products serving the heat transfer and plumbing industries. The Group markets its products primarily in the United States with a minor amount of sales abroad to customers in the space conditioning, refrigeration, appliance, water heating, and other industries. All manufacturing and related activities are conducted in the United States.

BUSINESS REVIEW

The information that is required for the Business Review, including a review of the performance of the Group during the financial year, its financial position and future developments, is given in the Chairman's Statement, the Chief Executive's Review and the Financial Review. Accordingly, the information is included in the Directors' Report by cross-reference.

OPERATING RESULTS AND DIVIDEND PAYMENTS

The profit for the financial year after taxation amounted to \$739,000 (FY2009: \$1,415,000).

No dividends were declared during the fiscal years ended 31 March 2010 and 31 March 2009.

DIRECTORS AND DIRECTORS' INTERESTS

The following have served as directors during the financial year:

T Nairn
S Raina
R Lowe
A Mirabella
R Lieberman

The directors who held office at the end of the financial year had the following interests in the ordinary shares of the Company according to the register of director's interests:

| | 31 March, 2010 Number of Ordinary Shares Held |
|-------------|--|
| T Nairn | 66,500 |
| R Lowe | 66,500 |
| S Raina | 65,000 |
| R Lieberman | 20,000 |
| A Mirabella | 10,000 |

All of the directors' interests are beneficial. The directors' interests in share options are set out in the section entitled Directors' Remuneration.

All of the directors are subject to re-election every three years.

As required to be disclosed under IAS 24, related party transactions are detailed in note 22 to the financial statements.

The Company has made qualifying third party indemnity provisions for the benefit of its directors which were traded during the year and exist at the date of this report. The Company maintains liability insurance covering all directors and officers of the parent company and its subsidiary.

MAJOR SHAREHOLDINGS

The following interests of shareholders holding 3% or more of the ordinary share capital, other than directors, had been notified to the Company:

| | <u>Ordinary Shareholding</u> | <u>%</u> |
|----------------------------------|------------------------------|----------|
| RAB Capital | 500,000 | 3.90 |
| L'Espoire Trust | 820,000 | 6.40 |
| Mr. Joseph DeSena | 1,360,000 | 10.62 |
| Smith and Williamson Investments | 1,378,000 | 10.76 |
| Execuzen Limited | 1,700,000 | 13.27 |
| Thermodynamics, Inc. | 3,812,407 | 29.76 |

The directors are not aware of any other interests that exceed 3% of the ordinary share capital, other than those arising from notices provided by major shareholders and reviewing the share registers provided by the Company's registrar and transfer agent.

EMPLOYEES

The directors recognize the importance of the Group's employees to the success and future development and are committed to providing an environment that will attract, motivate and reward high quality employees. Employees are kept informed of matters affecting them as employees and factors affecting the performance of the Group through meetings and briefings. The Group welcomes employment from all sectors of the community and is striving to promote equality of opportunity in employment regardless of age, gender, sexual orientation, disability or ethnic origin. It is Group's policy that training, career development and promotion opportunities should be available to all employees.

POLICY AND PRACTICE ON PAYMENT OF CREDITORS

The Group's policy, in relation to all of its suppliers, is to settle the terms of payment when agreeing to the terms of the transaction and to abide by those terms provided that at it is satisfied that the supplier has provided the goods or services in accordance with the agreed terms and conditions. The Company is a holding company and thus the number of days' purchases outstanding is not meaningful.

CORPORATE SOCIAL RESPONSIBILITY

The Group's policy on charitable contributions is to support charities that benefit the local area and/or national causes. Charitable contributions aggregated \$900 in 2010 and \$2,000 in 2009. The Group made no political donations in the financial year.

ENVIRONMENT

The Group has a policy of supporting environmentally friendly products and recycles waste products to the extent practicable.

POLICY ON FINANCIAL INSTRUMENTS

The Group's activities are funded by operating cash flow, supplemented by a revolving line of credit with its bank, overdraft facilities, and term debt instruments where appropriate. The Group has not established a firm policy on the use of financial instruments but assess opportunities on an individual case basis as they arise. Further details on the use of financial instruments are contained in note 3 to the consolidated financial statements.

GOING CONCERN

After making inquiries and based on the Group's bank facilities and cash resources, the directors have formed the judgment, at the time of approving the financial statements that there is a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason, the directors continue to adopt the going concern basis in preparing the financial statements.

ANNUAL GENERAL MEETING

The Annual General Meeting of the Company is to be held on 27 September 2010. A separate notice details the various resolutions to be proposed, and if thought fit, adopted by the shareholders.

CORPORATE GOVERNANCE

The directors have considered the provisions and principles of the Combined Code for Corporate Governance (revised June 2008). The Group, whose shares are traded on the Alternative Investment Market, is not formally required to comply with the combined code. However, after considering the Quoted Companies Alliance recommendations in response to the Code's publication, the Board has decided to adopt current best practice. Therefore, so far as is possible for the Group to comply with the Code, The Board has undertaken actions that are appropriate for the size and composition of the Group.

The code establishes four principles of Corporate Governance, which require comment on the following areas:

- The Board and Committee structure
- Directors' Remuneration
- Relations with Shareholders, and
- Accountability and Audit

The Board and Committee Structure

The Group is controlled and managed by the Board of Directors, which comprises two executive and three non-executive directors. The Non-Executive Chairman, Tom Nairn, is responsible for the running of the Board; Sunil Raina, Chief Executive, is responsible for running the Group's business and implementing the Group's strategy as formulated by the Board. The Board is also responsible for other matters including acquisition policy, approval of major capital expenditures and review of financial and operating performance. Each of the non-executive directors is independent of management and contributes to the functioning of the Board, assuring that no one individual or group dominates the Board's decision making process. The Board has a formal schedule of matters specifically reserved to it and normally meets on a bi-monthly basis.

The Board has established the following committees, each of which is formally delegated duties and responsibilities.

Audit Committee

The Audit Committee is comprised of Robert Lowe, Chairman, Anthony Mirabella and Tom Nairn, with Robert Lieberman in attendance as required. The Committee meets not less than twice a year and is responsible for ensuring that the financial performance of the Group, including the effectiveness of internal controls, is properly reported on and monitored. The Audit Committee considers the appointment of, and fees payable to, the external auditors and discusses with them the scope of the annual audit. It also reviews the external auditor's management letter. As part of its duties, the Audit Committee reviews the half-year and annual financial statements for compliance with accounting standards, statutory obligations and the requirements of the AIM rules and Combined Code.

Remuneration Committee

The Remuneration Committee comprises Anthony Mirabella, who acts as Chairman and Robert Lowe and Tom Nairn, with Sunil Raina in attendance as required. The Committee meets at least annually and is responsible for determining and reviewing the Group's policy on executive

remuneration. Executive remuneration packages are designed to ensure that the Group's senior executives are fairly rewarded for their individual contributions to the Group. In addition, the Committee administers the operation of the Share Option Schemes established by the Group. The members of the Committee have no personal interest in the outcome of their decisions and seek to serve the best interests of the shareholders to ensure the continuing success of the Group. The remuneration of the non-executive directors is determined by the full Board, excluding the non-executive director under consideration.

Nominations Committee

The Nominations Committee comprises Tom Nairn, Robert Lowe and Anthony Mirabella. The Committee meets as required and is responsible for proposing prospective new members to the Board.

Directors' Remuneration

The Group's policy is to provide remuneration packages to attract retain and motivate directors and senior management, with the goal of encouraging long-term commitment to the development of the Group and enhanced value for shareholders.

Remuneration packages for executive directors comprise basic salaries, benefits, bonuses, contributions to defined contribution pension schemes and longer-term incentives in the form of share option grants. Non-executive directors' remuneration is comprised of salary plus share options.

The remuneration of the Directors for the financial year was:

| | Salary | Taxable Benefits | Bonus | Defined Contribution Pension Cost | Total 2010 | Total 2009 |
|----------------------|----------------|------------------|----------|-----------------------------------|----------------|----------------|
| Executive | | | | | | |
| Sunil Raina | 207,833 | 20,000 | 0 | 0 | 227,833 | 261,140 |
| Robert Lieberman | 173,522 | 20,000 | 0 | 0 | 193,522 | 217,553 |
| Non-Executive | | | | | | |
| Tom Nairn | 83,087 | - | 0 | - | 83,087 | 83,426 |
| Robert Lowe | 47,497 | - | 0 | - | 47,497 | 48,904 |
| Anthony Mirabella | 31,881 | - | 0 | - | 31,881 | 41,608 |
| Totals | <u>543,820</u> | <u>40,000</u> | <u>0</u> | <u>0</u> | <u>583,820</u> | <u>652,631</u> |

The taxable benefits disclosed above comprise the provision of a company car or allowance, and premiums for supplementary life and disability insurance benefits.

On 30 June 2009 all then existing share options were modified to an exercise price of 18p per share, the fair market value at that date. Accordingly all option holders surrendered their option certificates and were issued new certificates referencing the new exercise price. On 27 January 2010 the company awarded new share options under its unapproved share option scheme aggregating 260,000 shares at an exercise price of 28.5p per share.

| | Balance | Activity During 2010 | | Balance | Exercise Price | Date of Grant |
|----------------------|-------------|----------------------|----------|-------------|----------------|---------------|
| | 31-Mar 2009 | Granted | Modified | 31-Mar 2010 | | |
| <u>Executive</u> | | | | | | |
| Sunil Raina | 180,000 | | 180,000 | - | 71p | 21-Mar-07 |
| | 80,000 | | 80,000 | - | 72p | 2-Sep-08 |
| | | 260,000 | | 260,000 | 18p | 30-Jun-09 |
| | | 100,000 | | 100,000 | 28.5p | 27-Jan-10 |
| Robert Lieberman | 140,000 | - | 140,000 | - | 71p | 21-Mar-07 |
| | | 140,000 | | 140,000 | 18p | 30-Jun-09 |
| | | 50,000 | | 50,000 | 28.5p | 27-Jan-10 |
| <u>Non-Executive</u> | | | | | | |
| Tom Nairn | 50,000 | | 50,000 | - | 71p | 21-Mar-07 |
| | 40,000 | | 40,000 | - | 72p | 2-Sep-08 |
| | | 90,000 | | 90,000 | 18p | 30-Jun-09 |
| | | 50,000 | | 50,000 | 28.5p | 27-Jan-10 |
| Robert Lowe | 35,000 | | 35,000 | - | 71p | 21-Mar-07 |
| | 30,000 | | 30,000 | - | 72p | 2-Sep-08 |
| | | 65,000 | | 65,000 | 18p | 30-Jun-09 |
| | | 35,000 | | 35,000 | 28.5p | 27-Jan-10 |
| Anthony Mirabella | 35,000 | | 35,000 | - | 71p | 21-Mar-07 |
| | 30,000 | | 30,000 | - | 72p | 2-Sep-08 |
| | | 65,000 | | 65,000 | 18p | 30-Jun-09 |
| | | 25,000 | | 25,000 | 28.5p | 27-Jan-10 |

The option holder must hold the option for a minimum of two years before any portion of the option can be exercised. Thereafter the options may be exercised in the following tranches: 33% on or after the second anniversary of the date of grant; 33% on or after the third anniversary of the date of grant; the balance on or after the fourth anniversary of the date of grant. All options expire ten years from date of grant.

Relations with Shareholders

The Group regards communication with its shareholders as important. All shareholders receive a copy of the annual report and interim statement. At the Annual General Meeting shareholders have the opportunity formally question the Board and it is anticipated that the Directors will be available to meet informally with shareholders after the meeting. In addition to the above, corporate information is available on the Group's website www.turbotecproducts.com.

Accountability and Audit

The Directors are responsible for ensuring that the Group establishes and maintains a system of internal operational and financial control. The Board confirms that there is an on-going process for identifying, evaluating and managing significant risks faced by the business. The Board is responsible for the Group's systems of internal control, which are designed to ensure efficient operations while maintaining effective internal control and compliance with laws and regulations. In establishing the system of internal control, the Directors have regard for the materiality of relevant risks, the likelihood of a loss being incurred and the costs of control. Therefore the system of internal control can only give reasonable but not absolute assurance against the risk of material misstatement or loss. Key business risks are identified and controlled by means of such procedures as physical controls, trading and other authorization limits and segregation of duties. Budgeting and forecasting procedures are in place and reports are presented to the Board monthly, providing key performance indicators and financial performance against budget.

Internal Control

The Directors acknowledge that they are responsible for the effectiveness of the Group's system of internal control. Any system of internal control can only provide reasonable and not absolute assurance against material financial misstatement or loss. A review has been carried out during the year by the Directors of the effectiveness of internal control procedures, in accordance with recommendations of the Combined Code on Corporate Governance, 2006. The Directors are satisfied that given the size and current activities of the Group, the internal control procedures adopted and in place adequately meet its needs and requirements. Internal control reviews are performed periodically by the company's management and written procedures that document control techniques are kept up to date.

Directors' Responsibilities

The directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and the company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and company and of the profit or loss of the group for that period. The directors are also required to prepare financial statements in accordance with the rules of the London Stock Exchange for companies trading securities on the Alternative Investment Market.

In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRSs as adopted by the European Union, 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 adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the requirements of the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Website publication

The directors are responsible for ensuring the annual report and the financial statements are made available on a website. Financial statements are published on the company's website in accordance with legislation in the United Kingdom governing the preparation and dissemination of financial statements, which may vary from legislation in other jurisdictions. The maintenance and integrity of the company's website is the responsibility of the directors. The directors' responsibility also extends to the ongoing integrity of the financial statements contained therein.

Disclosure of Information to Auditors

The Directors who held office at the date of approval of this director's report confirm that, so far as they are each aware, there is no relevant audit information of which the company's auditors are unaware; and each Director has taken all of the steps that he ought to have taken as a Director to make himself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

Auditors

In accordance with Section 384 of the Companies Act 2006, a resolution for the re-appointment of BDO LLP as auditor of the Company is to be proposed at the forthcoming Annual General Meeting.

By Order of the Board

Robert Lieberman
Finance Director
25 June 2010

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF TURBOTEC PRODUCTS PLC

We have audited the financial statements of Turbotec Products plc for the year ended 31 March 2010 which comprise the consolidated statement of financial position and company balance sheet, the consolidated statement of comprehensive income, the consolidated statement of cash flow, the consolidated statement of changes in equity and the related notes. The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union. The financial reporting framework that has been applied in preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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

Respective responsibilities of directors and auditors

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

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the group's and the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements.

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the group's and the parent company's affairs as at 31 March 2010 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company's financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the directors' report for the financial year [period] for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

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

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or

- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Ian Beaumont (senior statutory auditor)
For and on behalf of BDO LLP, statutory auditor
Leeds
United Kingdom
Date

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 MARCH 2010**

| | | 2010 | 2009 |
|---|------|----------------|----------------|
| | Note | \$'000 | \$'000 |
| Revenue | | 19,823 | 26,986 |
| Cost of sales | | (14,372) | (19,477) |
| Gross profit | | <u>5,451</u> | <u>7,509</u> |
| Distribution expenses | | (564) | (683) |
| Administrative expenses | | (3,675) | (4,426) |
| Profit from operations | 6 | <u>1,212</u> | <u>2,400</u> |
| Finance expenses | 5 | <u>(5)</u> | <u>(17)</u> |
| Profit before tax | | 1,207 | 2,383 |
| Tax expense | 8 | (468) | (968) |
| Profit for the year and total comprehensive income | | <u>739</u> | <u>1,415</u> |
| Earnings per share – basic | 9 | <u>\$ 0.06</u> | <u>\$ 0.11</u> |
| Earnings per share – diluted | 9 | <u>\$ 0.05</u> | <u>\$ 0.11</u> |

The profit for the year is all attributable to the equity holders of the parent company.

The accompanying notes are an integral part of these consolidated financial statements.

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 MARCH 2010**

| | Share capital | Share Premium | Retained earnings | Merger Reserve | Total Equity |
|---|--------------------------|--------------------------|------------------------------|---------------------------|-------------------------|
| | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 |
| Balance at 31 March 2008 | 228 | 3,441 | 4,534 | (168) | 8,035 |
| Total comprehensive income for the year | - | - | 1,415 | - | 1,415 |
| Share based payment expense | - | - | 140 | - | 140 |
| Balance at 31 March 2009 | 228 | 3,441 | 6,089 | (168) | 9,590 |
| Total comprehensive income for the year | - | - | 739 | - | 739 |
| Share based payment expense | - | - | 124 | - | 124 |
| Balance at 31 March 2010 | 228 | 3,441 | 6,952 | (168) | 10,453 |

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AT 31 MARCH 2010

| | Note | 2010 \$'000 | 2009 \$'000 |
|---|------|------------------------------|------------------------------|
| Assets | | | |
| Non-current assets : | | | |
| Property, plant and equipment | 11 | 5,424 | 5,018 |
| Intangible assets | 12 | 355 | 439 |
| Other | | 109 | 7 |
| | | <u>5,888</u> | <u>5,464</u> |
| Current Assets: | | | |
| Inventories | 10 | 3,750 | 3,572 |
| Trade and other receivables | 14 | 1,539 | 1,654 |
| Cash and cash equivalents | | 1,464 | 1,509 |
| | | <u>6,753</u> | <u>6,735</u> |
| Current Liabilities | | | |
| Current portion of long-term borrowings | 16 | 85 | 178 |
| Trade and other payables | 15 | 1,125 | 1,247 |
| Current tax liabilities | | 21 | 117 |
| | | <u>1,231</u> | <u>1,542</u> |
| Net current assets | | <u>5,522</u> | <u>5,193</u> |
| Non-current liabilities | | | |
| Long-term borrowings | 16 | 82 | 167 |
| Deferred tax liability | 20 | 875 | 900 |
| | | <u>957</u> | <u>1,067</u> |
| Net assets | | <u>10,453</u> | <u>9,590</u> |
| Shareholders' equity: | | | |
| Share capital | 17 | 228 | 228 |
| Share premium account | | 3,441 | 3,441 |
| Merger reserve | | (168) | (168) |
| Retained earnings | | 6,952 | 6,089 |
| Total equity | | <u>10,453</u> | <u>9,590</u> |

The accompanying notes are an integral part of these consolidated financial statements

The financial statements were approved and authorized for issue by the Board on 25 June 2010 and were signed on its behalf by:

RI Lieberman
Director

**CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 MARCH 2010**

| | 2010 | 2009 |
|---|---------------------|---------------------|
| | \$'000 | \$'000 |
| | <hr/> | <hr/> |
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Profit before tax | 1,207 | 2,383 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 426 | 386 |
| Finance expense | 5 | 17 |
| Charge recognized in respect of share based payment | 124 | 121 |
| | <hr/> | <hr/> |
| Cash flows from operating activities before changes in working capital and provisions | 1,762 | 2,907 |
| Decrease in trade and other receivables | 113 | 1,335 |
| (Increase) in inventory | (178) | (435) |
| Decrease in trade and other payables | (201) | (1,338) |
| | <hr/> | <hr/> |
| CASH GENERATED FROM OPERATIONS | 1,496 | 2,469 |
| Taxes paid | (510) | (761) |
| | <hr/> | <hr/> |
| Net cash flows from operating activities | <u>986</u> | <u>1,708</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Development costs paid | - | (10) |
| Purchases of property, plant and equipment | (848) | (866) |
| Net cash used in investing activities | <u>(848)</u> | <u>(876)</u> |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Principal payments on long term debt | (178) | (179) |
| Finance expense | (5) | (17) |
| Net cash used in financing activities | <u>(183)</u> | <u>(196)</u> |
| NET CHANGE IN CASH AND CASH EQUIVALENTS | (45) | 636 |
| CASH AND CASH EQUIVALENTS, beginning of period | <u>1,509</u> | <u>873</u> |
| CASH AND CASH EQUIVALENTS, end of period | <u><u>1,464</u></u> | <u><u>1,509</u></u> |

The accompanying notes are an integral part of these consolidated financial statements

NOTES TO THE FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation:

The financial statements of the group have been prepared in conformity with International Financial Reporting Standards ("IFRS" and IFRIC interpretations) issued by the International Accounting Standards Board as adopted for use in the European Union and with those parts of the Companies Act of 2006 applied to companies preparing their accounts under IFRS. The Company has elected to prepare its parent company financial statements in accordance with UK GAAP; see page 47.

Currency:

The accounts are presented in US dollars which is also the functional currency of the parent and the principal subsidiary undertaking. Share capital raised in sterling has been translated at the rate prevailing on the date of issue.

Transactions entered into by group entities in a currency other than the functional currency are recorded at the prevailing rates when the transactions occur. Foreign currency monetary assets and liabilities are not material.

Basis of consolidation:

The consolidated financial statements incorporate the financial statements of the Company and its subsidiary, Turbotec Products, Inc. ("Turbotec").

A share for share exchange agreement between the Company, Thermodynamics and Turbotec took place on 8 April, 2006, which was a group reorganization. Prior to the exchange agreement, the Company was dormant. As a result of the agreement, the Company became a wholly-owned subsidiary of Thermodynamics and in turn owned 100% of the shares of Turbotec.

The transaction was between entities under common control. These transactions fall outside the scope of IFRS 3, Business Combinations, and therefore an appropriate policy has been devised in accordance with the principles set out in IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors. Having considered the requirements of IAS 8, it is considered appropriate to use a form of accounting which is similar to pooling of interests when dealing with the transaction in which the company acquired its interest in Turbotec Products, Inc. Accordingly, the financial statements of the Company and Turbotec have been consolidated, whereby the results and cash flows of the entities are combined from the beginning of the year in which the exchange occurred and their assets and liabilities combined at the amounts at book value as of the date of the exchange agreement. Thermodynamics, the company's ultimate parent, does not form part of the consolidation.

On May 8, 2006, Thermodynamics completed the sale of a minority interest of the Company, whereby approximately 43.68% of the Company's shares were sold or issued to institutional investors pursuant to a placing on the AIM Market of the London Stock Exchange.

Subsidiaries:

Subsidiaries are entities controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable or exercisable on conversion are taken into account. Intercompany transactions and balances between group companies are eliminated in consolidation.

Cash Equivalents:

Cash and cash equivalents include cash on hand, deposits held with banks, short term highly

liquid investments with original maturities of three months or less and bank overdrafts. Bank overdrafts are shown within loans and borrowings in current liabilities on the balance sheet.

Receivables:

These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise principally from the provision of goods to customers (e.g. trade receivables) but also incorporate other types of contractual monetary asset. They are initially recognized at fair value plus transaction costs that are directly attributable to their acquisition or issue and are subsequently carried at amortized cost using the effective interest rate method, less provision for impairment.

Impairment provisions are recognized when there is objective evidence (such as significant financial difficulties on the part of the counterparty or default or significant delay in payment) that the Group will be unable to collect all of the amounts due under the terms receivable, the amount of such a provision being the difference between the net carrying amount and the present value of the future expected cash flows associated with the impaired receivable. For trade receivables, which are reported net; such provisions are recorded in a separate allowance account with the loss being recognized within administrative expenses in the income statement. On confirmation that the trade receivable will not be collectable, the gross carrying value of the asset is written off against the associated provision.

Inventories:

Inventories are valued at the lower of cost or net realizable value, with cost determined on a standard cost basis which approximates a first-in, first-out basis. Factors that could effect the valuation of inventory include product demand, the timing and success of technological innovations, competitor actions, supplier prices and economic trends. The company reviews the carrying values of its inventory on a regular basis during the year to address the potential impact of these factors on inventory valuation.

Property, plant and equipment and depreciation:

Property, plant and equipment are initially recognized at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. Expenditures for major renewals and betterments that extend the useful lives of tangible fixed assets are capitalized and the related items that are being replaced are derecognized; expenditures for maintenance and repairs are charged to expense as incurred. Leasehold improvements are depreciated over the shorter of the life of the asset or the remainder of the lease.

Estimated useful lives to compute depreciation are:

| | |
|--|--------------|
| Office equipment, furniture and fixtures | 7 years |
| Machinery and equipment | 5 - 20 years |
| Leasehold improvements | 10 years |
| Vehicles | 5 years |

Goodwill:

Goodwill represents the excess of the cost of a business combination over the interest in the fair value of identifiable assets, liabilities and contingent liabilities acquired. Cost comprises the fair values of assets given, liabilities assumed and equity instruments issued, plus any direct costs of acquisition.

Goodwill is capitalized as an intangible asset with any impairment in carrying value being charged to the consolidated income statement. Where the fair value of identifiable assets, liabilities and contingent liabilities exceed the fair value of consideration paid, the excess is credited in full to the consolidated income statement on the acquisition date.

Internally generated intangible assets:

Internally generated intangible assets are pre-production design and development costs related to specific new products and are deferred and amortized over the useful lives of the products.

Expenditures for internally generated intangible assets are capitalized only if it can be demonstrated that:

- It is technically feasible to develop the product for it to be sold
- Adequate resources are available to complete the development
- There is an intention to complete and sell the product
- The group is able to sell the product
- Sale of the product will generate future economic benefits
- Expenditure on the project can be measured reliably

Capitalized development costs are amortized over the expected lives of the related products once sales of these products commence on a commercial level. The amortization expense is included within the administrative expenses line in the consolidated statement of comprehensive income. Development expenditures not satisfying the above criteria and expenditure on the research phase of internal projects are recognized in the income statement as incurred.

Impairment:

Impairment tests on goodwill and other intangible assets with indefinite useful economic lives are undertaken annually on 31 March based on related estimated fair values by comparing estimated future cash flow with the asset's carrying value to determine whether a write-down to market value, based on discounted cash flow is necessary. Other non-financial assets are subject to impairment tests whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. Where the carrying value of an asset exceeds its recoverable amount the asset is written down accordingly.

Impairment charges are included in administrative expenses in the income statement except to the extent that they reverse gains previously recognized in the statement of recognized income and expense.

Revenue Recognition:

Revenues are recognized when title of products and risk of loss are transferred to the customer. Customer returns are limited to warranty related issues and are not material to operating results based on historical experience. Additional conditions for recognition of revenue are that collections of sale proceeds are reasonably assured and the Company has no further performance obligation according to the sales agreement.

Shipping and handling costs:

Shipping and handling costs, including amounts billed to customers, are included in cost of goods sold.

Income Taxes:

The tax expense represents the sum of the tax currently payable and deferred tax. The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible.

Deferred tax assets and liabilities are recognized where the carrying amount of an asset or liability in the balance sheet differs to its tax base, except for differences arising from:

- The initial recognition of goodwill;
- Goodwill for which amortization is not tax deductible;
- The initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction affects neither accounting or taxable profit; and
- Investments in subsidiaries and jointly controlled entities where the group is able to control the timing of the reversal of the difference and it is probable that the difference will not reverse in the foreseeable future.

Recognition of deferred tax assets is restricted to those instances where it is probable that taxable profit will be available against which the difference can be utilized.

The amount of the asset or liability is determined using tax rates that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the deferred tax items are recognized. Deferred tax balances are not discounted.

Deferred tax assets and liabilities are offset when the group has a legally enforceable right to offset current tax assets and liabilities and the deferred tax assets and liabilities relate to taxes levied by the same tax authority on either:

- The same taxable group company, or
- Different group entities which intend either to settle current tax assets and liabilities on a net basis, or to realize the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax assets or liabilities are expected to be settled or recovered.

Share Based Payments:

The financial statements reflect the fair value of providing share options and the corresponding increase in shareholders' equity.

The share option program allows employees, officers and directors to acquire shares of the Company. The fair value of options granted is recognized as an employee expense with a corresponding increase in equity. The fair value is measured at grant date and spread over the period during which the grantee becomes unconditionally entitled to the options. The fair value of the options granted is measured using the binomial lattice model, taking into account the terms and conditions upon which the options were granted. These assumptions include the dividend growth rate, expected volatility and expected life of the options. The amount recognized as an expense is adjusted to reflect the actual number of share options that vest except where variations are due only to share prices not achieving the threshold for vesting.

Leases:

Assets held under finance leases are recognized as assets of the group at their fair value, or if lower, at the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to income over the period of the lease.

Rentals payable under operating leases are charged to income on a straight-line basis over the term of the lease.

Financial liabilities

Financial liabilities include the following items:

- Trade payables and other short term monetary liabilities, which are initially recognized at fair value and are subsequently carried at amortized cost using the effective interest method
- Borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortized cost using the effective interest method, with interest expense recognized on an effective yield basis. 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.

Segment Reporting:

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker has been identified as the management team including the Managing Director and the Finance Director.

Retirement benefit costs:

Payments to defined contribution retirement benefit schemes are charged as an expense when they fall due.

New Accounting Standards:

(a) New standards, amendments to published standards and interpretations to existing standards effective in 2010 adopted by the Group.

-IAS 23, Capitalization of Borrowing Costs (effective from 1 January 2009). The amendments eliminate the option available under the previous version of the standards to recognize all borrowing costs immediately as an expense. To the extent that borrowing costs relate to the acquisition, construction or production of a qualifying asset, the revised standard requires that they be capitalized as part of the cost of the asset.

-IFRS 8 Operating Segments (effective from 1 January 2009). This standard sets out requirements for disclosure of information about an entity's operating segments and also about the entity's products and services, the geographical areas in which it operates and its major customers. It replaces IAS 14, Segmental Reporting.

-Amendment to IFRS 2 Share-based Payment: Vesting Conditions and Cancellations (effective from 1 January 2009). This Amendment clarifies that vesting conditions are service conditions and performance conditions only. Other features of a share-based payment are not vesting conditions. The purpose of making the distinction is so as to be able to address the accounting for non-vesting conditions, which were not previously covered by IFRS 2. The guidance in IFRS 2 covering the accounting for vesting conditions is not affected by the Amendment. The Amendment also specifies that all cancellations, whether by the entity or by other parties, should receive the same accounting treatment

-Amendments to IAS 1 Presentation of Financial Statements: A Revised Presentation. (effective from 1 January 2009). The Amendment to IAS 1 affects the presentation of owner changes in equity and of comprehensive income. An entity will be required to present, in a statement of changes in equity, all owner changes in equity. All non-owner changes in equity (i.e. comprehensive income) are required to be presented in one statement of comprehensive income or in two statements (a separate income statement and a statement of comprehensive income). In addition, the new requirements would require the presentation of an opening comparative balance sheet when there is a change in accounting policy. The standard does not change the recognition, measurement or disclosure of specific transactions and other events required by other IFRSs.

-Improving Disclosures about Financial Instruments (Amendments to IFRS 7) (effective from 1 January 2009). This Amendment requires the analysis of each class of financial asset and financial liability, into a three level fair value measurement hierarchy. It requires additional disclosures in respect of those financial instruments classified as Level Three (namely those that are measured using a valuation technique which uses inputs that are not based on observable market data). It also implements some changes to the definition of and disclosures associated with liquidity risk.

-Improvements to IFRSs (2009). The improvements in this Amendment clarify the requirements of IFRSs and eliminate inconsistencies between Standards. The most significant changes cover the following issues: The classification of assets and liabilities as held for sale where a non-controlling interest is retained; accounting by companies that routinely sells assets previously held for rental to others; accounting for loans given at a nil or below market rate of interest; the reversal of impairments against investments in associates accounted for using the equity method; the timing of expense recognition for costs incurred on advertising and other promotional activity; and, accounting for properties in the course of construction.

-Improvements to IFRSs (2010). The improvements in this Amendment clarify the requirements of IFRSs and eliminate inconsistencies within and between Standards.

The changes include the clarification that: The disclosure requirements of other IFRSs do not generally apply to non-current assets (or disposal groups) classified as held for sale; total assets

for each reportable segment need only be disclosed when such information is regularly provided to the chief operating decision maker; that the terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not effect its classification, and; that only expenditures that result in a recognized asset can be classified as a cash flow from investing activities. It also confirms that the combination of entities or businesses under common control and the contribution of a business on the formation of a joint venture are outside of the scope of IFRS 2 and that IFRIC 9 also does not apply to embedded derivatives in contracts acquired in such transactions.

The Amendment changes IAS 38 to bring the guidance on the treatment of intangible assets acquired as part of a business combination in line with the requirements of IFRS 3(R) and to clarify the description of valuation techniques used in the absence of an active market. It removes the restriction in IFRIC 16 on the entity that can hold a hedging instrument used in the hedge of a net investment in a foreign operation and also introduces changes to IAS 17 that eliminate the inconsistencies between the general lease classification guidance and the guidance applicable to the classification of the land element in long-term leases of land and buildings. The latter changes may lead to an increased number of instances when the land element of a lease of land and buildings is classified as a finance lease.

Finally, Improvements to IFRSs (2010) introduces a number of changes to IAS 39. These changes restrict the scope exemption in IAS 39.2(g) to forward contracts between an acquirer and a selling shareholder to buy or sell an acquiree in a business combination at a future acquisition date (i.e. removing the scope exemption for option contracts whether or not currently exercisable, that on exercise will result in control of an entity). It also clarifies when embedded prepayment options can be considered closely related to a host contract, the timing of reclassification adjustments in designated cash flow hedging relationships and, the use of internal contracts in hedging relationships.

(b) New standards, amendments to published standards and interpretations to existing standards effective in 2010 but which are not relevant to the group:

-Amendments to IAS 32 and IAS 1 Puttable Financial Instruments and Obligations Arising on Liquidation.

-Amendments to IFRS 1 and IAS 27 Cost of an Investment in a subsidiary, jointly-controlled entity or associate.

-Amendment to IAS 39 Financial Instruments: Recognition and Measurement: Eligible Hedged Items.

-IFRIC 15 Agreements for the Construction of Real Estate.

-IFRIC 16 Hedges of a Net Investment in a Foreign Operation.

(c) Standards, amendments and interpretations to published standards not yet effective
Certain new standards, amendments and interpretations to new standards have been published that are mandatory for the group's accounting periods beginning on or after 1 January 2010 or later periods. None of these are expected to be relevant to the group. These are:

-IFRIC 17 Distributions of Non-cash Assets to Owners.

-IFRIC 18 Transfer of Assets from Customers.

-IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments

-Amendment to IFRIC 14 Prepayments of a Minimum Funding Requirement.

-Revised IFRS 3 Business Combinations

-Amendments to IAS 27 Consolidated and Separate Financial Statements

2. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The Group makes certain estimates and assumptions regarding the future. Estimates and judgments are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. In the future, actual experience may differ from these estimates and assumptions. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Goodwill

The group is required to test, on an annual basis, whether goodwill has suffered any impairment. The recoverable amount is determined based on value in use calculations. The use of this method requires the estimation of future cash flows and the choice of a discount rate in order to calculate the present value of the cash flows. Actual outcomes may vary. More information including carrying values is included in the note 12.

Useful lives of intangible assets and property, plant and equipment

Intangible assets and property, plant and equipment are amortized or depreciated over their useful lives. Useful lives are based on the management's estimates of the period that the assets will generate revenue, which are periodically reviewed for continued appropriateness. Changes to estimates can result in significant variations in the carrying value and amounts charged to the consolidated income statement in specific periods. More details including carrying values are included in notes 11 and 12.

Fair value of financial instruments

The Company determines concentrations of credit risk by quarterly monitoring the creditworthiness rating of existing customers and through a monthly review of the trade receivables' ageing analysis. In monitoring the customer's credit risk, customers are grouped according to their credit characteristics. Customers that are graded as "high risk" are placed on a restricted customer list, and future sales are made on a prepayment basis with approval of the senior management. See note 3 for further details on the qualitative disclosures on credit risk and the historic default rate on customer accounts.

Inventory

The company reviews the net realizable value of, and demand for, its inventory on a quarterly basis to provide assurance that recorded inventory is stated at the lower of cost or net realizable value. Factors that could impact estimated demand and selling prices include the timing and success of future technological innovations, competitor actions, supplier prices and economic trends. If total inventory losses differ from management estimates by 1%, the group's consolidated net income in 2010 would have improved/declined by an estimated \$7,000, depending upon whether the actual results were better/worse, respectively, than expected.

Share based payments

The financial statements reflect the fair value of providing share options and the corresponding increase in shareholders' equity.

The share option program allows employees, officers and directors to acquire shares of the Company. The fair value of options granted is recognized as an employee expense with a corresponding increase in equity. The fair value is measured at grant date and spread over the period during which the grantee becomes unconditionally entitled to the options. The fair value of the options granted is measured using the binomial lattice model, taking into account the terms and conditions upon which the options were granted. These assumptions include the dividend growth rate, expected volatility and expected life of the options. The amount recognized as an expense is adjusted to reflect the actual number of share options that vest except where variations are due only to share prices not achieving the threshold for vesting.

Warranty claims

The Company offers a one year warranty from the date of shipment on its products against defects in workmanship. The warranty does not cover fitness of application for a particular purpose, misapplication of the product by a customer or misuse of the product by the customer. The company physically inspects and performance tests each coil before it is shipped to a customer to minimize that chance of a warranty related failure. As there are no moving parts contained in the company's products, it is extremely unlikely that a product will fail in the field after it passes final inspection at the plant. Warranty related claims have historically been very low throughout the company's history (less than one half of one percent of sales), therefore the company does not provide for a warranty reserve.

Legal proceedings

In accordance with IFRS the group recognizes a provision where there is a present obligation from a past event, a transfer of economic benefits is probable and the amount of costs of the transfer can be estimated reliably. In instances where the criteria are not met, a contingent liability may be disclosed in the notes to the financial statements. Obligations arising in respect of contingent liabilities that have been disclosed, or those which are not currently recognized or disclosed in the financial statements could have a material effect on the group's financial position. Application of these accounting principles to legal cases requires the group's management to make determinations about various factual and legal matters beyond its control.

The group reviews outstanding legal cases following developments in the legal proceedings and at each balance sheet date, in order to assess the need for provisions and disclosures in its financial statements. Among the factors considered in making decisions on provisions are the nature of litigation, claim or assessment, the legal process and potential level of damages in the jurisdiction in which the litigation, claim or assessment has been brought, the progress of the case (including the progress after the date of the financial statements but before those statements are issued), the opinions or views of legal advisers, experience on similar cases and any decision of the group's management as to how it will respond to the litigation, claim or assessment. Current outstanding legal proceedings are discussed in more detail in note 24.

Income taxes

The group is subject to income tax in several jurisdictions and significant judgment is required in determining the provision for income taxes. During the ordinary course of business, there are transactions and calculations for which the ultimate tax determination is uncertain. As a result, the company recognizes tax liabilities based on estimates of whether additional taxes and interest will be due. These tax liabilities are recognized when, despite the company's belief that its tax return positions are supportable, the company believes that certain positions are likely to be challenged and may not be fully sustained upon review by tax authorities. The Group is not aware of any such circumstances at the present time.

The Group believes that its accruals for tax liabilities are adequate for all open audit years based on its assessment of many factors including past experience and interpretations of tax law. This assessment relies on estimates and assumptions and may involve a series of complex judgments about future events. To the extent that the final tax outcome of these matters is different than the amounts recorded, such differences will impact income tax expense in the period in which such determination is made.

3. FINANCIAL INSTRUMENTS - RISK MANAGEMENT

The group is exposed through its operations to the following financial risks:

- Credit risk
- Other market price risk
- Fair value or cash flow interest rate risk
- Foreign exchange risk
- Liquidity risk

In common with all other businesses, the group is exposed to risks that arise from its use of financial instruments. This note describes the group's objectives, policies and processes for managing those risks and the methods used to measure them. Further quantitative information in respect of these risks is presented throughout these financial statements.

There have been no substantive changes in the group's exposure to financial instrument risks, its objectives, policies and processes for managing those risks or the methods used to measure them from previous periods unless otherwise stated in this note. Unless stated below, the carrying value is a reasonable approximation of fair value.

Principal financial instruments

The principal financial instruments used by the Group, from which financial instrument risk arises, are as follows:

- trade receivables
- cash at bank
- bank overdrafts
- trade and other payables
- floating-rate bank loans

General objectives, policies and processes

The Board has overall responsibility for the determination of the group's risk management objectives and policies and, whilst retaining ultimate responsibility for them, it has delegated the authority for designing and operating processes that ensure the effective implementation of the objectives and policies to the group's finance function. The Board receives monthly reports from the group Financial Director through which it reviews the effectiveness of the processes put in place and the appropriateness of the objectives and policies it sets. The overall objective of the Board is to set policies that seek to reduce risk as far as possible without unduly affecting the Group's competitiveness and flexibility. Further details regarding these policies are set out below:

Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The group is mainly exposed to credit risk from credit sales. It is group policy, implemented locally, to assess the credit risk of new customers before entering contracts. Such credit ratings are taken into account by local business practices.

The Company has established a credit policy under which each new customer is analyzed individually for creditworthiness before the Group's standard payment and delivery terms and conditions are offered. The Group's review includes external ratings, when available, and in some cases bank references. Purchase limits are established for each customer, which represents the maximum open amount without requiring approval from senior management. These limits are reviewed at least quarterly. Customers that fail to meet the Group's benchmark creditworthiness may transact with the Group on a prepayment basis.

Credit risk also arises from cash and cash equivalents and deposits with banks and financial institutions. For banks and financial institutions, only independently rated parties with minimum rating "A" are accepted. The group does not enter into derivatives to manage credit risk.

Quantitative disclosure of the credit risk exposure in relation to trade and other receivables, which are neither past due nor impaired, are disclosed in the note 14. An analysis of the Group's current, net trade receivable balance by credit rating along with historical default rates is shown in the table below:

| | 2010 | % of | 2009 | % of | Historic |
|---------------------------|--------------|-------------|--------------|-------------|--------------|
| Current trade receivables | (\$000's) | Balance | (\$000's) | Balance | Default Rate |
| A | 1,128 | 81% | 1,223 | 76% | 0% |
| B | 143 | 11% | 118 | 7% | 5% |
| C | 33 | 2% | 74 | 5% | 6% |
| Unrated | 89 | 6% | 199 | 12% | 50% |
| | <u>1,393</u> | <u>100%</u> | <u>1,614</u> | <u>100%</u> | |

The unrated category represents former customers who have ceased operations or collection has otherwise been deemed doubtful. The Company monitors the utilization of the credit limits

regularly and at the reporting date does not expect any losses from non-performance by the counterparties.

The Company determines concentrations of credit risk by quarterly monitoring the creditworthiness rating of existing customers and through a monthly review of the trade receivables' ageing analysis. In monitoring the customer's credit risk, customers are grouped according to their credit characteristics. Customers that are graded as "high risk" are placed on a restricted customer list, and future sales are made on a prepayment basis with approval of the senior management.

Market risk

Market risk arises from the Group's use of interest bearing and foreign exchange financial instruments. It is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in interest rates (interest rate risk) and changes in exchange rates.

Fair value and cash flow interest rate risk

The group is exposed to cash flow interest rate risk from long-term borrowings at variable rate. During 2010 and 2009, the group's borrowings at variable rate were denominated in US dollars. The group analyses the interest rate exposure on a quarterly basis. A sensitivity analysis is performed by applying a simulation technique to the liabilities that represent major interest-bearing positions. Various scenarios are run taking into consideration refinancing, renewal of the existing positions, alternative financing and hedging. Based on the simulations performed, the impact on profit or loss and net assets of a 100 basis-point shift (being the maximum reasonable expectation of changes in interest rates) would be an increase or a decrease of \$2,000 (2009 – \$3,000). The gain or loss potential was then compared to the limits determined by management. Due to the small amount of cash flow interest risk, no further analysis was performed.

Foreign exchange risk

Foreign exchange risk arises because the group's corporate headquarters are located in the UK and certain expenses are incurred which are not in the functional currency. The expenses incurred in the UK are primarily for directors and advisor fees. The Company periodically reviews the exchange rates between US dollars and pounds sterling and will occasionally purchase pounds sterling in advance of the due date if the exchange rate is deemed favorable by the Finance Director. These amounts are not considered significant in relation to the aggregate expenses incurred by the group. Other than these expenses, no foreign exchange risk exists as the group conducts its business with international customers in US dollars.

Liquidity risk

Liquidity risk arises from the group's management of working capital and the finance charges and principal repayments on its debt instruments. It is the risk that the group will encounter difficulty in meeting its financial obligations as they fall due.

The group's policy is to ensure that it will always have sufficient cash to allow it to meet its liabilities when they become due. To achieve this aim, it seeks to maintain cash balances (or agreed facilities) to meet expected requirements for a period of at least 45 days. The group also seeks to reduce liquidity risk, when possible, by fixing interest rates (and hence cash flows) on significant new long-term borrowings.

The Board receives projections of operating results on a monthly basis as well as information regarding cash balances. At the balance sheet date, these projections indicated that the group expected to have sufficient liquid resources to meet its obligations under all reasonably expected circumstances and will not need to draw down on its overdraft facility.

Capital risk

The group's objectives when maintaining capital are:

- to safeguard the entity's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, and
- to provide an adequate return to shareholders by pricing products and services commensurately with the level of risk.

The Group sets the amount of capital it requires in proportion to risk. The Group manages its capital structure and makes adjustments to it in the light of changes in economic conditions and

the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares, or sell assets to reduce debt.

Consistent with others in the industry, the Group monitors capital on the basis of the debt to adjusted capital ratio. This ratio is calculated as net debt adjusted capital. Net debt is calculated as total debt (as shown in the balance sheet) less cash and cash equivalents. Adjusted capital comprises all components of equity (i.e. share capital, share premium, and retained earnings)

During 2010, the Groups strategy, which was unchanged from 2009, was to maintain the debt-to equity ratio below 2:1, in order to secure access to finance at a reasonable cost. The debt-to-equity ratios at 31 March 2010 and at 31 March 2009 were as follows (in both years the ratio was significantly below 1:1):

| | 2010 (\$000's) | 2009 (\$000's) |
|----------------------------|-------------------|-------------------|
| Total debt | 2,346 | 2,609 |
| Less: Cash and equivalents | (1,622) | (1,509) |
| Net debt | <u>724</u> | <u>1,100</u> |
| Total equity | <u>10,453</u> | <u>9,571</u> |
| Debt to equity ratio | <u>0.07 : 1</u> | <u>0.12 : 1</u> |

The improvement in the debt to adjusted capital ratio during 2010 resulted primarily from the increase in cash and equivalents at 31 March 2010 and a reduction in trade debt from 2009, coupled with the increase in retained earnings reflecting the operating profit recording in the current year.

4. SEGMENT REPORTING AND MAJOR CUSTOMER INFORMATION

All business within the group is confined to the design and manufacture of heat exchangers and heat transfer products with internal reporting to the chief operating decision makers made on the basis of that business alone. On this basis the directors consider that the group has one operating segment. Revenues derived outside the United States of America amounted to \$1.3m (2009: \$1.9m). Accordingly no segment information is provided on either an operational or geographical basis.

The Company had two customers that represented 39%, and 13% of sales in 2010 and two customers that represented 31% and 15% of sales in 2009. There are no material differences between the profits reported internally to the chief operating decision maker and those reported in the financial statements

5. FINANCE EXPENSE

| | 2010 (\$000's) | 2009 (\$000's) |
|-----------------|-------------------|-------------------|
| Bank borrowings | <u>5</u> | <u>17</u> |

6. OPERATING PROFIT

Operating profit is stated after charging:

| | 2010 (\$000's) | 2009 (\$000's) |
|--|-------------------|-------------------|
| Fees payable to the Company's auditors for the audit of the company's financial statements | 32 | 56 |
| Fees payable to the Company's auditors and its associates for other services: | | |
| Audit of the company's subsidiaries pursuant to legislation | 55 | 54 |
| Tax services | 12 | 12 |
| Depreciation of owned tangible fixed assets | 336 | 330 |
| Depreciation of leased tangible fixed assets | 6 | 12 |
| Amortization of intangible assets | 84 | 42 |
| Rentals payable under operating leases | | |
| Land and buildings | 603 | 496 |
| Research and development expenses | 387 | 407 |

Operating expenses decreased significantly despite the company incurring \$780,000 of one-off administrative costs related to legal and related expenses (2009: \$250,000) in connection with an action brought by Thermodynamics, Inc related to the payment of administration fees by the company in 2007 and 2008 (see Note 24). Certain one off start up costs of \$250,000 related to the leased Hickory facility were expensed in 2009 (2010: nil). In addition, approximately \$270,000 in expenses related to a discretionary profit sharing plan and company cash matches to the defined contribution pension scheme made in 2009 were discontinued in 2010.

7. STAFF NUMBER AND COSTS

The average number of persons employed by the Group (including Directors) during the year, analyzed by category, was as follows:

| | 2010 <u># Employees</u> | 2009 <u># Employees</u> |
|----------------|----------------------------|----------------------------|
| Sales | 4 | 5 |
| Technical | 65 | 83 |
| Administrative | <u>36</u> | <u>29</u> |
| | <u>105</u> | <u>117</u> |

The aggregate payroll costs of these persons were as follows:

| | 2010 (\$000's) | 2009 (\$000's) |
|-------------------------------------|-------------------|-------------------|
| Wages and salaries | 4,109 | 5,066 |
| Payroll taxes and employee benefits | 532 | 657 |
| Share based payment expense | 124 | 140 |
| Other pension costs | 4 | 112 |
| | <u>4,769</u> | <u>5,975</u> |

Directors and key management personnel remuneration:

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group, represented by the directors of the company listed on page 12.

Directors' remuneration and key management compensation for the directors was as follows:

| | 2010 (\$000's) | 2009 (\$000's) |
|-----------------------------------|-------------------|-------------------|
| Emoluments | 584 | 637 |
| Defined contribution pension cost | - | 16 |
| Directors remuneration | 584 | 653 |
| Share based payment expense | 93 | 45 |
| Key management compensation | 677 | 698 |

Amounts paid to the highest paid director amounted to \$228,000 (2009: \$261,000). There were two executive directors participating in the Group's defined contribution pension scheme (2009: 2).

There were no group contributions to the defined contribution pension scheme for the highest paid director in 2010 (2009: \$8,000).

8. TAXATION

Analysis of charge in period:

| | 2010 (\$000's) | 2009 (\$000's) |
|---|-------------------|-------------------|
| Current Tax Expense | | |
| Income tax computed at US tax rates | 493 | 933 |
| UK corporation tax | - | - |
| Total current tax expense | 493 | 933 |
| Deferred tax expense computed at US tax rates | (25) | 35 |
| Total income tax expense | 468 | 968 |

Tax reconciliation:

The tax for the period is different than the standard rate of corporate tax in the UK (28% in 2010 and 2009). The differences are attributable to the following:

| | 2010 (\$000's) | 2009 (\$000's) |
|---|-------------------|-------------------|
| Profit Before Tax | 1,207 | 2,383 |
| Profit before tax multiplied by rate of corporate tax in the UK of 28% (2009:28%) | 338 | 667 |
| Effect of: | | |
| Higher rate of tax on overseas earnings | 135 | 286 |
| Unrelieved losses carried forward | 134 | 60 |
| Differences between taxable and book income | (52) | (82) |
| Over accrual from prior year | (72) | - |
| Other | (15) | 37 |
| Total taxation | 468 | 968 |

9. BASIC EARNINGS PER SHARE AND DILUTED EARNINGS PER SHARE

The calculations of basic and diluted earnings per ordinary share are based on the profit for the financial year and the weighted average number of equity voting shares in issue and dilutive shares during the year.

| | 2010 | | 2009 | |
|---|-----------------------|-------------------------|-----------------------|-------------------------|
| | Income (Numerator) | Shares (Denominator) | Income (Numerator) | Shares (Denominator) |
| Net income | <u>739</u> | | <u>1,415</u> | |
| Basic EPS | | | | |
| Income available to common shareholders | 739 | 12,806,773 | 1,415 | 12,806,773 |
| Effect of Dilutive Securities | | | | |
| Stock options | | <u>707,781</u> | | <u>-</u> |
| Diluted EPS | | | | |
| Income available to common shareholders including assumed conversions | <u>739</u> | <u>13,514,554</u> | <u>1,415</u> | <u>12,806,773</u> |

Employee options have been excluded from the calculation of diluted earnings per share in 2009 as their exercise price is greater than the weighted average price share during the year. Therefore it was not to be advantageous for the holders to exercise those options. The total number of outstanding options is disclosed in note 18.

10. INVENTORY

The major classes of inventory at 31 March consist of the following (\$000's):

| | <u>2010</u> (\$000's) | <u>2009</u> (\$000's) |
|-----------------|--------------------------|--------------------------|
| Raw materials | 2,021 | 1,961 |
| Work-in-process | 95 | 120 |
| Finished goods | <u>1,634</u> | <u>1,491</u> |
| | <u>3,750</u> | <u>3,572</u> |

11. PROPERTY, PLANT AND EQUIPMENT

| | Leasehold Improvements (\$000's) | Motor Vehicles (\$000's) | Machinery & Equipment (\$000's) | Furniture & Fixtures (\$000's) | Buildings & Impvts (\$000's) | Total (\$000's) |
|------------------------------------|--|--------------------------------|--|---|------------------------------------|--------------------|
| 2010 | | | | | | |
| Cost | | | | | | |
| Balance at 1 April 2009 | 174 | 88 | 8,781 | 1320 | - | 10,363 |
| Additions | - | 15 | 478 | 94 | 161 | 748 |
| Balance at 31 March 2010 | 174 | 103 | 9,259 | 1,414 | 161 | 11,111 |
| Depreciation | | | | | | |
| Balance at 1 April 2009 | 57 | 79 | 4,182 | 1,027 | - | 5,345 |
| Charged this year | 12 | -8 | 284 | 54 | - | 342 |
| Balance at 31 March 2010 | 69 | 71 | 4,466 | 1,081 | - | 5,687 |
| Net Book Value At 31 March 2010 | 105 | 32 | 4,793 | 333 | 161 | 5,424 |
| 2009 | | | | | | |
| Cost | | | | | | |
| Balance at 1 April 2008 | 174 | 88 | 7,969 | 1,268 | - | 9,499 |
| Additions | - | - | 812 | 52 | - | 864 |
| Balance at 31 March 2009 | 174 | 88 | 8,781 | 1,320 | - | 10,363 |
| Depreciation | | | | | | |
| Balance at 1 April 2008 | 45 | 64 | 3,917 | 977 | - | 5,003 |
| Charged this year | 12 | 15 | 265 | 50 | - | 342 |
| Balance at 31 March 2009 | 57 | 79 | 4,182 | 1,027 | - | 5,345 |
| Net Book Value At 31 March 2009 | 117 | 9 | 4,599 | 293 | - | 5,018 |

Machinery and equipment and furniture and fixtures are pledged as collateral for bank borrowings (see note 16). In April 2010 the company completed the acquisition of an approximate 100,000 square foot building and adjacent undeveloped land in Hickory, North Carolina (see Note 24). Approximately \$161,000 of costs incurred in 2010 related to the acquisition and development of the property were deferred and included as a cost of the new facility.

12. INTANGIBLE FIXED ASSETS

| | Goodwill (\$000's) | Deferred Research and Development (\$000's) | Total (\$000's) |
|------------------------------------|-----------------------|---|--------------------|
| 2010 | | | |
| Cost | | | |
| Balance at 1 April 2009 | 94 | 387 | 481 |
| Additions | - | - | - |
| Balance at 31 March 2010 | <u>94</u> | <u>387</u> | <u>481</u> |
| Amortization | | | |
| Balance at 1 April 2009 | - | 42 | 42 |
| Charged this year | - | 84 | 84 |
| Balance at 31 March 2010 | <u>-</u> | <u>126</u> | <u>126</u> |
| Net Book Value At 31 March 2010 | <u>94</u> | <u>261</u> | <u>355</u> |
| 2009 | | | |
| Cost | | | |
| Balance at 1 April 2008 | 94 | 377 | 471 |
| Additions | - | 10 | 10 |
| Balance at 31 March 2009 | <u>94</u> | <u>387</u> | <u>481</u> |
| Amortization | | | |
| Balance at 1 April 2008 | - | - | - |
| Charged this year | - | 42 | 42 |
| Balance at 31 March 2009 | <u>-</u> | <u>42</u> | <u>42</u> |
| Net Book Value At 31 March 2009 | <u>94</u> | <u>345</u> | <u>439</u> |

Goodwill relates to the acquisition of a technology company acquired by the US parent company in 1985. The operations of that company were subsequently integrated into the company's primary manufacturing facility. The technology acquired continues to be used by the group as an integral part of the engineering and manufacturing of its current product line.

The Company operates as a single integrated business and as such has one operating segment, which is used as the reporting unit for the purposes of evaluating goodwill impairment. In accordance with IFRS 3, the Group regularly monitors the carrying value of intangible assets. A review was undertaken at 31 March 2010 to assess whether the carrying value of assets was supported by the net present value of cash flows derived from those assets using detailed future cash flow forecasts for a period of two years followed by projections up to a ten year period. Management has deemed this time frame appropriate to measure this asset given the expected marketability of the underlying products supported by this technology. The discount rates for the review were based on company specific weighted average cost of capital, which approximated 8%. The future cash flows have been modeled to increase in line with historic rates. Further to the review, there have been no impairments to the carrying amount of goodwill in any period.

Other intangible assets are pre-production design and development costs related to specific new products and will be deferred and amortized over the useful lives of the products, once sales commence on a commercial level. The company began to amortize these costs over a five year period commencing October 2008.

13. INVESTMENTS IN SUBSIDIARIES

The following companies are subsidiary undertakings of the Company at 31 March, 2010 and been consolidated into the group's results:

| | Country of Incorporation | Principal Activity | % Owned |
|------------------------|-----------------------------|--|---------|
| Turbotec Products, Inc | United States | Manufacture of heat transfer products | 100 |

14. TRADE AND OTHER RECEIVABLES

A summary of the group's trade and other receivables is as follows:

| | 2010 (\$000's) | 2009 (\$000's) |
|--|-------------------|-------------------|
| Trade receivables | 1,393 | 1,614 |
| Less: Provision for impairment of receivables | (94) | (208) |
| Trade receivables, net | 1,299 | 1,406 |
| Prepayments | 240 | 244 |
| Amount due from parent | - | 4 |
| | <u>1,539</u> | <u>1,654</u> |

All trade and other receivables are due within one operating cycle and therefore are classified as current assets. All trade receivables are invoiced in US dollars to avoid currency translation risks.

Movements on the group's provision for impairment of trade receivables are as follows:

| | 2010 (\$000's) | 2009 (\$000's) |
|--------------------------------------|-------------------|-------------------|
| Balance at beginning of year | 208 | 93 |
| Provision during year | 48 | 115 |
| Amounts written off as uncollectible | (162) | - |
| Balance at end of year | <u>94</u> | <u>208</u> |

The increase in the provision for impaired receivables in 2009 is due to the doubtful recovery against a court ordered judgment for a customer account where insufficient assets exist to satisfy the order. This account was written off in fiscal 2010. Overall the group's experience in collection of accounts receivable has been within management's expectations. See note 3 for further details on credit risk. To the extent trade and other receivables are not carried at fair value in the consolidated balance sheet, book value approximates fair value at 31 March 2010 and 2009. Trade receivables that are past due but considered collectible by the Company are not included in the provision for the impairment of trade receivables. Such receivables aggregated \$122,000 at 31 March 2010 and \$547,000 at 31 March 2009.

15. TRADE AND OTHER PAYABLES

| | 2010 (\$000's) | 2009 (\$000's) |
|------------------|-------------------|-------------------|
| Trade payables | 865 | 701 |
| Accrued expenses | 260 | 546 |
| | <u>1,125</u> | <u>1,247</u> |

To the extent trade and other payables are not carried at fair value in the consolidated balance sheet, book value approximates fair value at 31 March 2010 and 2009.

16. LONG TERM BORROWINGS

| | 2010 (\$000's) | 2009 (\$000's) |
|-----------------------------------|-------------------|-------------------|
| Current financial liabilities | | |
| Bank loans- secured | <u>85</u> | <u>178</u> |
| Non-current financial liabilities | | |
| Bank loans- secured | <u>82</u> | <u>167</u> |

The bank loans are secured by a fixed charge over the assets of the group. In addition, the Group must comply with certain financial and non-financial covenants, noncompliance with which would be considered an event of default and provide the bank with the right to demand repayment prior to the loan's maturity date.

The interest rate on floating rate financial liabilities is linked to the bank's prime rate. The interest rates charged at the balance sheet are as follows:

| | 31 March 2010 | 31 March, 2009 |
|-----------------------------------|---------------|----------------|
| Bank overdrafts and secured loans | 3.25% | 3.25% |

Contractual future cash flows for debt service, including maturities of borrowings and interest payments at current rates, for each of the years succeeding 31 March, 2010 and 2009 are as follows:

| | 2010 (\$000's) | 2009 (\$000's) |
|---------------------|-------------------|-------------------|
| In less than 1 year | 88 | 186 |
| In 1-2 years | 83 | 90 |
| In 2-3 years | - | 82 |
| In 3-4 years | <u>-</u> | <u>-</u> |
| | <u>171</u> | <u>358</u> |

Financial instruments / risk management is addressed in Note 3.

17. CALLED UP SHARE CAPITAL

| | Authorized | | | |
|----------------------------------|----------------------------|----------------|----------------------------|----------------|
| | 2010 | | 2009 | |
| | Number of <u>Shares</u> | <u>\$000's</u> | Number of <u>Shares</u> | <u>\$000's</u> |
| Outstanding shares of 1p each | 20,000,000 | 356 | 20,000,000 | 356 |

| Outstanding shares of 1p each | Issued and Fully Paid | | | |
|----------------------------------|----------------------------|----------------|----------------------------|----------------|
| | 2010 | | 2009 | |
| | Number of <u>Shares</u> | <u>\$000's</u> | Number of <u>Shares</u> | <u>\$000's</u> |
| At beginning of year | 12,806,773 | 228 | 12,806,773 | 228 |
| Changes during year | - | - | - | - |
| At end of year | <u>12,806,773</u> | <u>228</u> | <u>12,806,773</u> | <u>228</u> |

18. SHARE BASED PAYMENTS

Share options totaling 260,000 shares were granted in the period ended 31 March 2010 under the Turbotec Products, Plc Unapproved Share Option Scheme.

Option agreements existing at 31 March 2009 to purchase ordinary shares as follows:

| <u>Date Granted</u> | <u>Options Granted</u> | <u>Exercisable Between</u> | <u>Price</u> |
|---------------------|------------------------|-------------------------------|--------------|
| 30 June 2009 | 900,000 | 30 June 2011 and 30 June 2019 | 18p |
| 30 January 2010 | 260,000 | 30 Jan 2012 and 30 Jan 2020 | 28.5p |

On 30 June 2009 all outstanding share options granted in 2007 and 2008 were modified, with replacement options issued at an exercise price of 18p. These options are exercisable between 30 June 2011 and 30 June 2019.

The number and weighted average exercise prices of share options are as follows:

| | 2010 | | 2009 | |
|------------------------------|------------------------------------|----------------------|------------------------------------|----------------------|
| | Weighted Avg Exercise price (p) | Number of Options | Weighted Avg Exercise price (p) | Number of Options |
| Outstanding at start of year | 71 | 900,000 | 71 | 800,000 |
| Granted during year | 28.5 | 260,000 | 72 | 300,000 |
| | 18 | 900,000 | | |
| Exercised during year | | - | | - |
| Modified during year | | (900,000) | | - |
| Lapsed during year | - | - | | (200,000) |
| Outstanding at end of year | 20 | <u>1,160,000</u> | 71 | <u>900,000</u> |
| Exercisable at the year end | - | - | - | - |

The option holder must hold the option for a minimum of two years before any portion of the option can be exercised. Thereafter the options may be exercised in the following tranches: 33% on or after the second anniversary of the date of grant; 33% on or after the third anniversary of the date of grant; the balance on or after the fourth anniversary of the date of grant. Upon termination of employment, the option holder has a limited time to exercise those options that were exercisable at the time of termination. The ability of an option holder to exercise the option is not restricted by any other constraint, other than them continuing to be an employee of the Group. All options were granted at the market price of a Turbotec Products, Plc ordinary share on the date of grant. All options expire ten years from date of grant.

The following information is relevant in determining the fair value of options granted during the period ended 31 March 2010:

| | |
|--------------------------------|---|
| Equity Settled | |
| Option Pricing Model Used | Binomial lattice |
| Share price at date of grant | \$0.45 (based on conversion rate of \$1.62) |
| Contractual life | 10 years |
| Volatility factor | 43% |
| Expected dividend yield | 3% |
| Risk free interest rate | 3% |
| Expected forfeiture percentage | 20% |

The volatility assumption, was measured as the average of the standard deviation of expected share price, based on a statistical analysis, of daily shares prices over the most recent eight month period prior to year end and the actual variation of the share of the same period.

The Company recorded approximately \$124,000 and \$140,000, respectively for the years ended 31 March 2010 and 2009 as compensation expense for options granted under the scheme as described above.

19. COMMITMENTS AND CONTINGENCIES

The Group had no unprovided capital commitments at the end of the financial year other than the purchase of certain real estate property in Hickory, North Carolina completed in April 2010 (see Note 24). Annual commitments of the Group under non-cancellable operating leases are to a related party and described in Note 21.

In September 2008 the Company entered into an operating lease for a 20,000 square foot manufacturing facility in Hickory, North Carolina. The lease has an initial term of two years with options of two consecutive one year periods after the initial term. Rental charges under the lease for the initial term are \$75,000 annually. During the years ended 31 March 2010 and 2009, rent expense paid by the Company was approximately \$75,000 and \$41,000, respectively.

The total future minimum payment under the non-cancelable portion of this operating lease is as follows:

| | |
|---------------|-----------|
| | (\$000's) |
| Within 1 year | 34 |

20. DEFERRED TAX

Details of the deferred tax liability, amounts charged to the consolidated statement of comprehensive income and amounts charged to reserves are as follows:

| | 2010 | 2009 |
|------------------------------|------------|------------|
| | (\$000's) | (\$000's) |
| Balance at beginning of year | 900 | 812 |
| Provision during year | (25) | 88 |
| Balance at end of year | <u>875</u> | <u>900</u> |

The components of the net deferred tax account at 31 March are:

| | 2010 | 2009 |
|--|------------|------------|
| | (\$000's) | (\$000's) |
| Deferred tax assets: | | |
| Uniform inventory capitalization costs | 82 | 81 |
| Reserves and other | <u>80</u> | <u>54</u> |
| Total deferred assets | <u>162</u> | <u>135</u> |
| Deferred tax liabilities: | | |

| | | |
|--|----------------|----------------|
| Deferred product development costs | (94) | (134) |
| Accelerated depreciation of fixed assets | <u>(943)</u> | <u>(901)</u> |
| Total deferred liabilities | <u>(1,037)</u> | <u>(1,035)</u> |
| Net deferred tax liability | <u>(875)</u> | <u>(900)</u> |

Tax credits consist primarily of research and development credits that may be carried forward fifteen years. Deferred tax liabilities relating to product development costs will be recognized consistent with the corresponding period over which the underlying costs are charged to income. There is an unrecognized deferred tax asset at 31 March 2010 of \$194,000 (2009: \$60,000) relating to unused tax losses in the parent company. This asset has not been recognized as it is not clear when suitable profits will arise in the future.

21. RETIREMENT BENEFITS

The Group operates a defined contribution scheme, which covers all participating employees who are over the age of 21 years and have at least four months of service. The Group may elect to make a matching contribution equal to a percentage of employee contributions, subject to US Internal Revenue Service regulations. During the year ended 31 March, 2009 Group made matching cash contributions to the plan aggregating \$113,000. No matching contribution was made in 2010.

22. RELATED PARTY TRANSACTIONS

The Group and Thermodynamics conduct transactions between themselves throughout the year. There were no significant amounts due from Thermodynamics during 2010. Transactions with Thermodynamics are as follows:

Office and Manufacturing Facility Rental:

The Group pays rent to Thermodynamics under lease agreements for use of a 55,000 square foot office/manufacturing plant located in Windsor, Connecticut and a portion of a 28,700 square foot multi-purpose building adjacent to the plant (see Note 2). The leases commenced April 1 2006 with a five-year term, and one extension option for three years, and a second extension option for two years. Rental charges under the leases are considered to be consistent with market rates for the local area. Rent charges with respect to the 651 Day Hill Road property are equal to seven dollars per square foot in years one and two, escalating annually thereafter through each of the extension terms; monthly fixed rent in year one equals \$31,792, escalating to \$42,010 monthly in year ten, assuming both lease extensions are exercised. Rent charges with respect to the 50 Baker Hollow Road property are equal to \$5.50 per square foot in year one, escalating annually thereafter through each of the extension terms; monthly fixed rent in year one equals \$7,792, escalating to \$10,979 monthly in year ten, assuming both lease extensions are exercised. Rental charges paid under the leases for the years ended 31 March 2010 and 2009 were \$529,000 and \$511,000, respectively.

The total future minimum payments under the non-cancelable portion of these operating leases are as follows:

| | 2010 (\$000's) | 2009 (\$000's) |
|------------------|-------------------|-------------------|
| Within 1 year | 529 | 511 |
| Within 2-5 years | <u>-</u> | <u>529</u> |
| | <u>529</u> | <u>1,040</u> |

23. ULTIMATE PARENT COMPANY

At 31 March 2010 the ultimate parent undertaking was Thermodynamics, Inc, a company incorporated in the United States. Consolidated financial statements are not prepared by Thermodynamics, Inc.

24. SUBSEQUENT EVENTS

In April 2010, the Company completed the purchase of an approximately 100,000 square foot facility and an adjacent 5.46 acre parcel of undeveloped land in Hickory, North Carolina for \$2,768,750. The company plans to relocate its manufacturing operations to this facility commencing in late fiscal year 2011. The purchase was financed in part with a mortgage from the Company's existing bank in the amount of \$2,215,000. The mortgage has a twenty five year amortization schedule with equal monthly payments of principal with a five year term and bears interest at a floating rate linked to the bank's prime rate.

On 10 May 2010 the Company was notified that it was successful in its defence of the claim brought by Thermodynamics, Inc. in relation to the payment of administration fees under the Relationship Agreement entered into at the time of its admission to AIM. The company was awarded substantial costs, including an order of payment on account of 350,000 pounds sterling by Thermodynamics, Inc. with an additional amount to be determined by the court. The initial payment was received by the Company in May 2010 and will be reflected in the fiscal year 2011 accounts.

COMPANY BALANCE SHEET AT 31 MARCH 2010

| | Note | 2010 | 2009 |
|-------------------------------------|------|---------------|---------------|
| | | \$'000 | \$'000 |
| Fixed Assets : | | | |
| Investments | 4 | 407 | 325 |
| | | <u>407</u> | <u>325</u> |
| Current Assets: | | | |
| Debtors | 5 | 3,608 | 4,173 |
| Cash and cash equivalents | | - | 27 |
| | | <u>3,608</u> | <u>4,200</u> |
| Creditors | | | |
| Amounts falling due within one year | 6 | 25 | 142 |
| | | | |
| Net current assets | | 3,583 | 4,058 |
| | | | |
| Net assets | | <u>3,990</u> | <u>4,383</u> |
| Capital and reserves: | | | |
| Called up share capital | 7 | 228 | 228 |
| Share premium account | 7 | 3,440 | 3440 |
| Profit and loss account | 7 | 93 | 568 |
| Other reserve | 7 | 229 | 147 |
| | | | |
| Shareholders' funds - equity | | <u>3,990</u> | <u>4,383</u> |

The financial statements were approved and authorized for issue by the Board on 25 June 2010 and were signed on its behalf by:

RI Lieberman
Director

NOTES TO THE FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

The financial statements have been prepared in conformity with UK Generally Accepted Accounting Principles ("UK GAAP"). The measurement basis used in the preparation of the financial statements is historical cost.

The accounts are expressed in US dollars as all transactions arising are completed in US dollars with the exception of the issue of shares which are translated at the rate ruling on the date of transaction.

The share proceeds are translated from pounds sterling into US dollars at the exchange rate in effect on the date of issue.

Taxation:

Current tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognized in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the Company's taxable profits and its results as stated in the assessments in periods different from those in which they are recognized in the financial statements.

Deferred tax is not recognized when fixed assets are sold and it is more likely than not that the taxable gain will be rolled over, being charged to tax only if and when the replacement assets are sold.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date and is measured on a non-discounted basis.

Share Based Payments:

The share option program allows employees, officers and directors to acquire shares of the Company. The fair value of options granted is recognized as an employee expense with a corresponding increase in equity. The fair value is measured at grant date and spread over the period during which the grantee becomes unconditionally entitled to the options. The fair value of the options granted is measured using an option pricing model, taking into account the terms and conditions upon which the options were granted. The amount recognized as an expense is adjusted to reflect the actual number of share options that vest except where variations are due only to share prices not achieving the threshold for vesting.

Share options granted to employees of the subsidiary company are treated as a contribution and so an increase is recorded to the cost of investment and other reserves.

Fixed Asset Investments:

Fixed asset investments are shown at cost, less impairment.

2. PROFIT ATTRIBUTABLE TO TURBOTEC PRODUCTS, PLC

The loss for the year dealt with the accounts of the parent company was \$520,000 and \$262,000 for the years ended 31 March 2010 and 2009, respectively.

As permitted by section 408 of the Companies Act of 2006, no separate profit and loss account is presented for the parent company.

3. STAFF COSTS

The company had two employees during the year, which consisted of the executive directors. No compensation was paid to these employees by the company as they are compensated pursuant to employment agreements with the subsidiary, Turbotec Products, Inc.

4. FIXED ASSET INVESTMENTS

Investments consist of the company's investment in its wholly owned subsidiary, Turbotec Products, Inc.

| | 2010 (\$000's) | 2009 (\$000's) |
|---------------------------|-------------------|-------------------|
| At 1 April | 325 | 210 |
| Share based payment costs | 82 | 115 |
| At 31 March | <u>407</u> | <u>325</u> |

Details of the subsidiary's undertakings are included in Note 13 to the group financial statements.

5. DEBTORS – AMOUNTS FALLING DUE WITHIN ONE YEAR

| | 2010 (\$000's) | 2009 (\$000's) |
|--|-------------------|-------------------|
| Amounts due from subsidiary undertakings | 3,587 | 4,154 |
| Prepayments | 21 | 19 |
| | <u>3,608</u> | <u>4,173</u> |

6. CREDITORS – AMOUNTS FALLING DUE WITHIN ONE YEAR

| | 2010 (\$000's) | 2009 (\$000's) |
|------------------|-------------------|-------------------|
| Accrued expenses | <u>25</u> | <u>142</u> |

7. CALLED UP SHARE CAPITAL

| | 2010 | | 2009 | |
|-------------------------------|---------------------|---------|---------------------|---------|
| | Number of Shares | \$000's | Number of Shares | \$000's |
| Allotted | | | | |
| Outstanding shares of 1p each | 12,806,773 | 228 | 12,806,773 | 228 |

Movements in capital and reserves during the year were as follows:

| | Share capital | Share Premium | Retained earnings | Other reserve | Total |
|---------------------------------|---------------|---------------|-------------------|---------------|--------------|
| | (\$000's) | (\$000's) | (\$000's) | (\$000's) | (\$000's) |
| Balance at 31 March 2008 | 228 | 3,440 | 805 | 32 | 4,505 |
| Net (loss) for the period | - | - | (262) | - | (262) |
| Share based payment expense | - | - | 25 | 115 | 140 |
| Balance at 31 March 2009 | 228 | 3,440 | 568 | 147 | 4,383 |
| Net (loss) for the period | - | - | (520) | - | (520) |
| Share based payment expense | - | - | 45 | 82 | 127 |
| Balance at 31 March 2010 | 228 | 3,440 | 93 | 229 | 3,990 |

Other reserves comprise the unrealized profit on the increase in investment in subsidiary with respect to share based payments relating to employees of the subsidiary undertaking.

8. SHARE BASED PAYMENTS

Share options totaling 260,000 shares were granted in the period ended 31 March 2010 under the Turbotec Products, Plc Unapproved Share Option Scheme.

Option agreements existing at 31 March 2009 to purchase ordinary shares as follows:

| <u>Date Granted</u> | <u>Options Granted</u> | <u>Exercisable Between</u> | <u>Price</u> |
|---------------------|------------------------|-------------------------------|--------------|
| 30 June 2009 | 900,000 | 30 June 2011 and 30 June 2019 | 18p |
| 30 January 2010 | 260,000 | 30 Jan 2012 and 30 Jan 2020 | 28.5p |

On 30 June 2009 all outstanding share options granted in 2007 and 2008 were modified, with replacement options issued at an exercise price of 18p. These options are exercisable between 30 June 2011 and 30 June 2019.

The number and weighted average exercise prices of share options are as follows:

| | 2010 | | 2009 | |
|------------------------------|------------------------------------|----------------------|------------------------------------|----------------------|
| | Weighted Avg Exercise price (p) | Number of Options | Weighted Avg Exercise price (p) | Number of Options |
| Outstanding at start of year | 71 | 900,000 | 71 | 800,000 |
| Granted during year | 28.5 | 260,000 | 72 | 300,000 |
| | 18 | 900,000 | | |
| Exercised during year | | - | | - |
| Modified during year | | (900,000) | | - |
| Lapsed during year | - | - | | (200,000) |
| Outstanding at end of year | 20 | <u>1,160,000</u> | 71 | <u>900,000</u> |
| Exercisable at the year end | - | - | - | - |

The option holder must hold the option for a minimum of two years before any portion of the option can be exercised. Thereafter the options may be exercised in the following tranches: 33% on or after the second anniversary of the date of grant; 33% on or after the third anniversary of the date of grant; the balance on or after the fourth anniversary of the date of grant. Upon termination of employment, the option holder has a limited time to exercise those options that were exercisable at the time of termination. The ability of an option holder to exercise the option is not restricted by any other constraint, other than them continuing to be an employee of the Group. All options were granted at the market price of a Turbotec Products, Plc ordinary share on the date of grant. All options expire ten years from date of grant.

The following information is relevant in determining the fair value of options granted during the period ended 31 March 2010:

| | |
|--------------------------------|---|
| Equity Settled | |
| Option Pricing Model Used | Binomial lattice |
| Share price at date of grant | \$0.45 (based on conversion rate of \$1.62) |
| Contractual life | 10 years |
| Volatility factor | 43% |
| Expected dividend yield | 3% |
| Risk free interest rate | 3% |
| Expected forfeiture percentage | 20% |

The volatility assumption, was measured as the average of the standard deviation of expected share price, based on a statistical analysis, of daily shares prices over the most recent eight month period prior to year end and the actual variation of the share of the same period.

The Company recorded approximately \$45,000 and \$25,000, respectively for the years ended 31 March 2010 and 2009 as compensation expense for options granted under the scheme as described above.

Directors

| | |
|-------------------|------------------------|
| Tom Nairn | Non-executive Chairman |
| Sunil Raina | Managing Director |
| Robert Lieberman | Finance Director |
| Robert Lowe | Non-executive Director |
| Anthony Mirabella | Non-executive Director |

Company Secretary

Capita Company Secretarial Services
The Registry
34 Beckenham Road
Beckenham
Kent BR3 4TU

Bankers

Citizens Bank
Hartford, Connecticut, USA

Nominated Advisor

Evolution Securities Limited
Kings House
1 King Street
Leeds LS1 2HH

Auditors

BDO Stoy Hayward LLP
Chartered Accountants
1 Bridgewater Place
Leeds LS11 5RU

Legal Advisors

Cobbetts LLP
No 1 Whitehall Riverside
Leeds LS1 48N

Registrar and Transfer Agent

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

Broker

Evolution Securities Limited
100 Wood Street
London EC2V 7AN

Registered Office

The Registry
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Beckenham
Kent BR3 4TU

Country of Incorporation and Domicile
England and Wales



Turbotec Products Plc

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