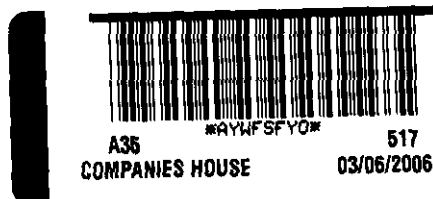


INDITHERM *plc*

**Annual Report
and
Financial Statements
2005**



INDITHERM *plc*

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INDITHERM at a glance

Based near Rotherham, South Yorkshire, Inditherm plc designs, manufactures and installs heating solutions using the Company's innovative, patented, low voltage, carbon-based conductive polymer technology (CPT). This provides a flexible heating material that can be fitted over a wide variety of shapes, as well as laid out flat to heat large areas from above or below. Running from a low voltage (6V to 50V) dc or ac power supply, it can reach temperatures of up to 120°C.

Applications for the technology are numerous but the Company is focusing on selected applications and market areas where there are perceived to be significant growth opportunities. Inditherm already has an established track record in industrial process industries, such as confectionery, food and chemicals, where CPT is ideal for heating pipes, tanks, valves and pumps. In addition, the Company is focused on producing heating solutions for utility water and waste water treatment plants, medical (patient warming), concrete curing and Sports pitch heating.

Our Vision

To be perceived as the best in the world in our chosen markets.

Our Values

We believe in...

- having total integrity in all we do
- delighting our customers
- treating others with dignity and respect
- teamwork
- working professionally and delivering exceptional quality.

INDITHERM Business Segments



The Industrial Segment specialises in providing heating solutions for critical temperature management and frost protection for pipelines, portable storage containers, tanks, valves and pumps. Inditherm supplies many well-known multi-national companies in the food & beverage, confectionery, pharmaceutical, chemical, oil & gas, and water utility industries. Inditherm uses significantly less energy than traditional electrical trace heating, hot water or steam systems. In addition, we have significant expertise in providing unheated insulation solutions.



The Medical Segment specialises in warming solutions to prevent hypothermia and heat therapy systems for the treatment of injuries and wounds. Patient warming products are primarily used in operating theatres, recovery and intensive care, accident & emergency, and neo-natal units. They offer improved performance, combined with significant cost savings over traditional technologies. Products are sold internationally through a network of distributors.



The Construction Segment, working in conjunction with Sheffield Hallam University, has developed solutions to accelerate concrete curing, along with concrete infrastructure heating and frost protection solutions. Products are sold into construction industry applications, mainly associated with concrete structures.



The Sport Segment, which was created in 2005, specialises in sports pitch and golf course heating for both grass and synthetic surfaces. Examples are three pitches at Chelsea Football Club's Training Academy in England. Not only is the Inditherm system far more reliable than traditional systems, it uses a fraction of the energy. The Company also produces heated stadium seating.

INDITHERM *p/c* _____

Directors and Advisers

Directors M S Abrahams (Chairman)
 R Harpum
 J H Markham
 I D Smith

**Secretary and
registered
office** I D Smith, Inditherm House, Houndhill Park, Bolton Road,
 Wath-upon-Deerne, Rotherham, S63 7LG

**Company
number** 3587944

**Accountants and
business advisers** Tenon Limited, Charnwood House, Gregory Boulevard,
 Nottingham, NG7 6NX

Auditors Tenon Audit Limited, Charnwood House, Gregory Boulevard,
 Nottingham, NG7 6NX

Bankers HSBC, Montgomery Road, Wath Upon Dearne, Rotherham, S63 7QW

**Nominated
adviser and
broker** Collins Stewart Limited, 8th Floor, 88 Wood Street, London, EC2V 7QR

Legal advisers Freeth Cartwright LLP, Cumberland Court, 80 Mount Street,
 Nottingham, NG1 6HH

Registrars Capita IRG Plc, Bourne House, 34 Beckenham Road,
 Beckenham, Kent, BR3 4TU

Chairman's Statement

Introduction

During 2005 our efforts were focused on developing strong market positions within the four business segments of Industrial, Medical, Construction and Sport. Whilst the first three segments grew, the lack of any pitch heating orders resulted in Sales being lower than 2004.

During the year substantial efforts were put into professionalising our business processes. As a consequence, there has been an improvement in our operational quality and response to customers. It has also enabled us to undertake larger or more complex projects.

An external survey was undertaken during the second half by an independent market research firm. The research showed that the Company and its products are well regarded by our customers but that potential customers tend to be conservative when switching away from traditional heating technologies. However, once converted to Inditherm, there is a high degree of satisfaction and confidence in both the Company and its products. We believe that this explains the relatively slow take-up of the technology.

On 9 December 2005, Inditherm announced that an approach had been made to the Company which may or may not lead to an offer being made.

Since that time we have conducted meaningful talks with the party that made the initial approach. As a result of our discussions, they have informed us that their conclusion is that opportunities exist for deals to exploit Inditherm technology. These include license and royalty agreements, technical collaboration and joint venturing. However, the other party has also indicated it prefers exploring these alternative structures to an outright purchase of the business.

Accordingly, offer talks have now terminated. Meanwhile discussions continue on the other opportunities.

Results for the Year

Turnover for the year fell to £1,035k (2004: £1,598k), due to the lack of sports pitch heating orders, which accounted for sales of £888k in 2004 and £30k in 2005. The remaining businesses therefore grew by 42%.

The Industrial business showed continued growth of 30% in both small and larger orders for industrial process heating solutions. Although our expectations for growth in water utilities were not met, due to the slow start-up of the UK Asset Management Programme (AMP4), we are now seeing demand pick up, as the Programme gathers momentum.

The Medical business saw growth of 54%, with a steady flow of orders from overseas distributors. After a slow first half in purchases from the NHS, these picked up in the second half. At the end of the year we launched the new CosyTherm neo-natal warming system, which has received a positive market response.

The Construction business got off the ground in the year with a large order for concrete curing blankets at London Heathrow's new Terminal 5.

The cost base was maintained with headcount being tightly controlled during the year. Overheads before exceptional costs were £1,739k (2004: £1,694k) resulting in an operating loss before exceptional costs of £1,402k (£1,176k). After restructuring and exceptional costs of £50k (2004: £328k) and net interest income of £138k (2004: £182k), the post-tax loss was £1,279k (2004: £1,306k).

Chairman's Statement (continued)

The year end cash balance was £2,363k (2004: £3,590k). We believe that the Company has sufficient funds to meet our current and medium term needs.

Dividends

As stated in previous years, it is the Board's intention to devote the Company's financial resources to business development. This intention, which the Board believes is in the shareholders' best interests, has been pursued during 2005 and will continue for the foreseeable future. The Board therefore does not expect to declare a dividend during the Company's continuing formative period.

Management

Since the appointment last year of Richard Harpum as Chief Executive, there have been a number of management changes. Colin Tarry, Technical and Business Development Director, left the Company in June to pursue other interests. A new Technical Manager was recruited in May and a new Sales & Marketing Director has recently started to lead the selling efforts in Industrial and Construction.

Employees

We continue to invest in our workforce to ensure that we have the appropriate skills with which to grow the business. The workforce is extremely flexible, which enables us to respond quickly to customers' needs and quickly develop new solutions to complex heating problems.

On behalf of the Board, I thank all our staff most sincerely for their continued support.

Outlook

Order intake for the first three months of 2006 shows a continuation of recent trends, with a steady pickup in Industrial volumes.

Our water utilities solutions are now gaining market acceptance and formal supplier agreements with water utilities and AMP4 partners are in the process of being signed.

The launch of the new *CosyTherm* neo-natal heating mattress is expected to enhance the growth prospects of the Medical segment.

Although the Construction business is in its infancy, it will be helped by work arising from the European FP6 CRAFT grant with orders from consortium partners.

Whilst we are pursuing several major pitch heating projects, we are not anticipating carrying out any installations during 2006.

Our growth continues but at a slower rate than originally envisaged. Accordingly, we are reviewing strategic options for realising the value of our technology more quickly.


MARK ABRAHAMS
Chairman

28 March 2006

Chief Executive's Review

Introduction

During 2005 we have concentrated on implementing the new business strategy described in last year's Report. This involved focusing on four business segments, growing these businesses, developing new applications and standard product for these sectors, improving our internal processes and continuing to train and develop our people.

There has been steady growth in the Industrial and Medical businesses and good initial development of the Construction segment. Because we did not secure any pitch heating orders, which accounted for £888k of sales last year, the total sales were lower than 2004.

Industrial

Sales in this segment increased by 30% over 2004, mainly due to growth in process heating orders.

We made a decision to pursue larger orders, such as storage tanks, whilst not neglecting the need to keep a strong flow of smaller orders; these have traditionally acted as the seedbed from which larger orders have grown, as customers gain confidence in our products and solutions. Whilst we saw substantial growth in smaller orders, we saw less impact from larger projects, which generally have much longer lead times. Although we successfully completed several larger projects, notably for storage vessels and pipework heating in the food and chemicals sectors, several of the larger opportunities have only recently been realised.

To take advantage of the increasing emphasis on energy savings, fuelled by rising energy costs, we are promoting the energy saving benefits of Inditherm to all our customers. This work is already starting to bear fruit, as customers become increasingly energy conscious.

There was a major effort to develop more standard products, which has also resulted in some new innovations, such as the prefabricated heated pipework system that is now being installed at two leading confectionery manufacturing operations in the UK.

We have strengthened the industrial sales organisation with the recruitment of a Sales and Marketing Director and improved our selling processes and documentation.

The anticipated growth in water utility sales was not realised, as the time taken by the utilities to establish the infrastructure required for the AMP4 Asset Management Programme, which started in April, took much longer than expected. However, we concentrated on building relationships with the new AMP4 partners, as well as becoming registered as an approved supplier. I am pleased to report that we have now started to receive orders.

A trial with Severn Trent Water to heat sewerage sludge lines, to stop them becoming blocked, proved to be a total success. We are now in the process of capitalising on this throughout the water utility industry.

Chief Executive's Review (continued)

Medical

Medical orders increased by 54%. There was strong growth in export sales through the increasing network of distributors, which was increased to eleven by the appointment of six new distributors. A further four have already been appointed in 2006.

Sales to the NHS were very slow in the first half year but picked up in the second half. Nevertheless, NHS investment remains lower than we would like. To overcome some of the barriers to entry, we developed a new leasing scheme, which has already resulted in an order.

Towards the end of the year we launched *CosyTherm*, a new neo-natal heating system for use with premature or low birth-weight babies, or as a step-down from incubator nursing, freeing up more expensive resources. There has been a very positive market response, especially as our product fits well with modern clinical trends in nursing new-born infants.

Construction

After two years of joint research with the Centre for Infrastructure Management at Sheffield Hallam University, the Construction business was set up at the beginning of the year and was quickly rewarded with a substantial order for concrete curing blankets for London Heathrow's new Terminal 5. Although curing blankets are seen as a good application for Inditherm, we are seeing much more market interest in heating pre-cast concrete moulds.

In conjunction with Sheffield Hallam University, we were awarded a grant from the European FP6 CRAFT programme. The grant supports R&D to develop thermal curing systems for pre-cast concrete manufacturing, based on Inditherm technology as the heat source. The trans-European consortium of 13 development partners, called LOVACS, is already well established and orders are being received.

Other opportunities in infrastructure heating are also being pursued, albeit as a lower priority, so as not to lose focus on concrete curing applications.

Sport

Following the installation of under-pitch heating systems at Falkirk Community Stadium and Chelsea Football Club's new Training Academy during 2004, we spent 2005 marketing the benefits of our system and have received significant levels of interest from a number of clubs in the UK and Europe. However, because of the very long lead times on most pitch heating projects, no further orders were obtained.

The pitch heating business tends to be driven by new projects or a combination of available financing and the replacement of existing, inefficient systems. Because the Inditherm solution involves installing heating pads 300mm below the pitch surface, projects are normally carried out in conjunction with major pitch refurbishment. Nevertheless, Inditherm has now been specified on at least one major stadium project and although we expect to receive at least one order during 2006, it is unlikely that any projects will be undertaken during the year.

Chief Executive's Review (continued)

Operations

Substantial progress was made during the year to improve our operational effectiveness, our internal processes and business systems. Where appropriate, some automation was applied, not only to reduce costs but also to reduce variation and improve quality.

There was also a concerted effort to keep overhead expenses under tight control, without sacrificing our promotional and marketing efforts.

The new web site has been well-received and has started to generate a higher level of enquiries from around the world.

Independent market research conducted during the year showed that our customers view our people as highly responsive and professional.

Product Development

Product development work was carried out in all main sectors during the year. Substantial improvements were made to our Industrial products, notably the development of more standard products, along with a new prefabricated pipework heating system and innovative removable tank heating jackets. There were ongoing improvements made to our Medical products, and *CosyTherm* was developed and launched during the year. Development of Construction products remains mainly in partnership with Sheffield Hallam University and the LOVACS Project partners. Sport applications development has focused mainly on research into the effects of heating on grass growth, plus the use of improved materials and innovative control systems.

Outlook

Industrial applications will remain the mainstay of the business for the coming year, with growth anticipated in process heating, especially for large pipework and tank heating systems. More widespread deployment of standard products will enable growth in international sales through newly-appointed European distributors and sales agents.

We will also capitalise on the successful sewerage sludge line heating trials at Severn Trent Water and other strong product offerings in the water utilities sector. Where possible, we will take advantage of the opportunities arising from the AMP4 investment programme, which now appears to have started, a year later than anticipated.

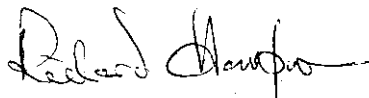
Medical continues to be a key part of our business and whilst we will continue to see growth in overseas markets, the UK tends to be more conservative due to capital spending constraints.

The Construction sector is expected to see growth in 2006, particularly for pre-cast concrete curing applications. We intend to capitalise on the added benefits of EU funding for these applications and an established base of development partners will help to accelerate both technical and market development. The sector lends itself to the deployment of standard heating pads that can be applied in a variety of applications.

Chief Executive's Review (continued)

Although we are targeting at least one pitch heating order during in 2006, this will not be installed until the stadium is completed in 2007. In the meantime, we are concentrating on getting Inditherm specified in other projects and are also seeking to capitalise on any of the few short term opportunities that arise from time to time.

The challenges facing Inditherm in 2006 remain considerable but so are the opportunities. At the year end there was a substantial value of quotes outstanding and based upon our historical lead times and conversion rates, 2006 should be a much better year than 2005. The encouraging factor is that customers are clearly gaining confidence in Inditherm's polymer technology and in our ability to deliver value-added solutions that perform better than the alternatives.



RICHARD HARPUM

Chief Executive

28 March 2006

Financial Review

Trading results

Sales in the year fell by £563k to £1,035k as a result of the absence of any Sports pitch heating (£888k in 2004). Industrial sales continued to make steady progress with a 30% year on year improvement, and Medical Sales improved 43%.

Total administration expenses before exceptional costs increased from £1,694k to £1,739k which resulted from the planned investment in additional sales resources for the Industrial and Medical business. Exceptional costs of £50k arose as a result of payments for loss of office.

The operating loss of £1,452k is a reduction of £52k on the same period last year.

Cash resources generated net interest income for the year of £138k (2004: net income £182k), giving a pre tax loss of £1,314k (2004: loss £1,322k).

Cash resources and Net assets

Net cash outflow from operations for the year was £1,340k (2004: £1,554k), reflecting the operating loss. Working capital, excluding cash, remained relatively flat in the year.

Capital expenditure during the year was £60k (2004: £68k).

Net funds at the year end after deduction of hire purchase and factoring liabilities were £2,358k (2004: £3,571k).

The £250k investment currently used as security for our current premises lease has increased in value during the year and its market value of £286,937 is now greater than cost. The market value adjustment that would previously have been applied if the bond had been liquidated has been cancelled.

Shareholder funds amounted to £2,839k (2004: £4,104k), reflecting the retained loss and the issue of 42,601 shares to employees under the employee savings based share option scheme.

Taxation

As the Company has continued to incur trading losses no corporation tax liability has yet arisen. Accumulated tax losses to the end of 2005 of £4,044k (2004: £2,965k) are available which should be recoverable against future trading profits. The Company's continuing investment in research and development has given rise to a tax credit provision of £35,000 in the year on qualifying expenditure.



IAN D SMITH

Finance Director and Company Secretary

28 March 2006

Directors and Board Committees

Directors

*Mark Abrahams (Aged 51, Chairman) **

Mark is currently the Chief Executive of Fenner Plc and was formerly non-executive chairman of the Darby Group Plc. At Fenner he led a strategy of converting the group from a power transmissions manufacturer to a world leader in reinforced polymers. He is a Chartered Accountant and a Companion of the Institute of Management.

Richard Harpum (Aged 54, Chief Executive)

Richard joined the Company in September 2004. After an early Military career with the Royal Engineers, during which he obtained a Masters Degree in Mechanical Sciences from Cambridge University, Richard joined GEC Ltd and has held a number of managing director and CEO roles in GEC Ltd, and FKI Babcock plc. He also worked as a business consultant in the USA. He was most recently Group President of ABB's global metering businesses.

*John Markham OBE (Aged 59) **

John joined the Company in March 2002. He has an honours degree in Chemical Engineering and is a Fellow of the Institution. He is a Chartered Engineer and Chartered Scientist. He was awarded the OBE in 1995 for services to British industry. He has a wealth of experience in industries related to the Company's products and applications having spent 20 years with I.C.I. and more recently holding the position of Chief Executive of Hickson International PLC.

Ian Smith (Aged 49, Finance Director)

Ian joined the Company in January 2004. He is a Chartered Accountant and qualified Corporate Treasurer and has over 25 years' international industrial experience gained at both group and operating company level. Prior to joining Inditherm, Ian was Finance Director for Portakabin Ltd and Holset Engineering Co Ltd the turbocharging division of Cummins Engine Co Inc.

*** Non-executive**

Board Committees

The principal standing committees appointed by the Board are as follows:

<i>Audit committee</i>	<i>Remuneration committee</i>	<i>Nominations committee</i>
Mark Abrahams <i>Chairman</i> John Markham	John Markham <i>Chairman</i> Mark Abrahams	Mark Abrahams <i>Chairman</i> John Markham Richard Harpum

Statement of Corporate Governance

The Board is committed to the highest standards of corporate governance in relation to its size and sets out below details of how it has applied the provisions of the Combined Code considered appropriate.

Board Composition

The Board has two executive directors and two independent non-executive directors. Details of the Board members are on page 11.

The Board meets regularly throughout the year and has a formal schedule of matters specifically reserved for its decision.

The non-executive directors are considered by the Board to be independent of management and free from any relationship which could materially interfere with the exercise of their independent judgement. They receive a fixed fee for their services.

If required, the directors are entitled to take independent legal advice and if the Board is informed in advance, the cost of the advice will be reimbursed by the Company. The Company Secretary's services are available to all members of the Board.

Due to the current size of the Company the roles of Finance Director and Company Secretary are carried out by one person.

Board Committees

The Board has three standing committees, the membership of which is set out on page 11.

Audit Committee

The Audit Committee meets as required, but at least twice a year. In addition to reviewing the annual report and financial statements and the interim statement prior to their submission to the Board for approval, it keeps the scope, cost effectiveness, independence and objectivity of the external auditors under review. This includes monitoring the level of non-audit fees.

The committee routinely meets for private discussion with the external auditors, who attend its meetings, as required.

Remuneration Committee

The report of the Remuneration Committee is set out on page 14.

Nominations Committee

The Nominations Committee considers succession planning, reviews the structure, size and composition of the Board and nominates candidates to fill Board vacancies.

Board Appointments

Any decision to appoint further directors to the Board is taken by the entire Board in a formal meeting. Where it is deemed necessary, new members of the Board are provided with appropriate training in respect of their roles and duties as a public company director.

Statement of Corporate Governance (continued)

Relations with Shareholders

The Company places a great deal of importance on communication with its shareholders.

John Markham has been identified as the Company's Senior Independent Director. He is available to shareholders who wish to raise any concerns that they have been unable to resolve through other channels and to attend meetings between management and major investors.

The notice of the AGM will be sent to shareholders at least 21 clear days before the Meeting. At the forthcoming AGM, the Company will indicate the level of proxy voting and members of the Board committees will be available to answer questions.

Internal Control

The directors acknowledge their responsibility for the Group's systems of internal control.

The Group maintains systems of internal control to provide reasonable but not absolute assurance against material misstatement or loss.

The system of internal control is structured around an assessment of prioritisation of the various risks to the business. The control environment is designed to address particularly those risks that the Board considers to be material to the business, in safeguarding the assets against unauthorised use or disposition and maintaining proper accounting records which produce reliable financial information.

The Board has reviewed the effectiveness of the system of internal control for the accounting period and the period to the date of approval of the financial statements.

The key features of the Group's systems of internal control are as follows:

- An ongoing process of risk assessment to identify, evaluate and manage business risks.
- Management structure with clearly defined responsibilities and authority limits.
- A comprehensive system of reporting financial results to the Board.
- Quality control systems certified under ISO 9001.
- Appraisal and authorisation of capital expenditure.

The Company does not currently operate an internal audit function. At the Audit Committee meetings the Finance Director presents a formal report on internal controls and a programme of work to ensure systems and processes are continuously improved.

Going Concern

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

Remuneration Report

Responsibilities

The Committee is responsible for the determination of the remuneration policy of the Group's executive directors and senior executives.

Composition

The members of the Remuneration Committee ("The Committee") during the year were John Markham (Chairman of the Committee) and Mark Abrahams.

Directors' service contracts

The executive directors have rolling 12 month contracts requiring 12 months written notice to be given by either party. There are no provisions for compensation if there is a change of control. The service contracts do not contain any provision for compensation on early termination other than the notice period. The Committee will seek to mitigate cost to the Company whilst dealing fairly with each individual case.

The Chairman and non-executive director are usually appointed for a fixed two year term.

The details of the service contracts in relation to the executive directors and letters of appointment in relation to the Chairman and non-executive director are:

	Unexpired term At 31 December 2005	Notice period
Richard Harpum	–	1 year
Ian Smith	–	1 year
Mark Abrahams	23 months	Fixed term
John Markham	2 months	Fixed term

On the 24 February 2006 John Markham's letter of appointment was extended for a further two year period and will expire on 12 March 2008.

Remuneration of Non Executive Directors.

The remuneration for the non-executive directors is determined by the Board as a whole and consists of fees for their services in connection with Board and Board Committee meetings and, where relevant, for additional services such as chairing a Board Committee. They are not eligible for pension scheme membership and do not participate in any bonus scheme.

Non-executive directors do not participate in decisions about their own remuneration.

Executive Remuneration Policy

The Committee endeavours to offer competitive remuneration packages which are designed to attract, retain and incentivise executive directors and senior executives with the experience and necessary skills to operate and develop the Company's business to their maximum potential, thereby delivering the highest level of return for the shareholders.

Remuneration Report (continued)

Consistent with this policy, benefits packages awarded to executives are intended to be competitive and comprising a mix of non-performance related and performance related remuneration designed to incentivise them, but not to detract from the goals of corporate governance.

The targeted composition of each director's remuneration is as follows:

	Non Performance related	Performance related
Richard Harpum	67%	33%
Ian Smith	67%	33%

Remuneration components for executive directors

Remuneration packages are reviewed each year to ensure that they are in line with the Group's business objectives. No director participates in decisions about their own remuneration package.

The main components in determining pay are as follows:

- *Basic salary/fees and benefits*

The basic annual salary is subject to an annual review which takes into account the performance of the Company and the individual. Benefits comprise the provision of a vehicle allowance, private healthcare insurance and a death in service insurance scheme.

- *Annual performance related bonus*

Demanding annual performance targets, which are consistent with both the short and long term objectives for the business, are set for executive directors which must be achieved before the bonus is payable. The target bonus for achievement of the annual budget for these measures is 35% and the maximum potential payment for the annual bonus is 50% of basic annual salary, excluding benefits in kind and pension contributions.

- *Pensions*

Executive directors receive pension contributions of 5% of salary to a stakeholder or money purchase scheme.

- *Executive share options schemes*

Share options are granted to executive directors to encourage them to deliver sustained, long term growth. Except in exceptional circumstances, the value of options granted in any year will not exceed one times basic salary and the total value of options outstanding will not exceed five times salary.

Remuneration Report (continued)

Directors' detailed emoluments

The emoluments of the directors of the Company were as follows:

	Salary £'000	Pension contribution £'000	Benefits in kind £'000	2005 Total £'000	2004 Total £'000
M S Abrahams	35	–	–	35	35
R Harpum	100	5	13	118	36
J H Markham	23	–	–	23	21
I D Smith	78	4	13	95	88
C R Tarry	20	1	3	24	104
P J O'Grady	–	–	–	–	50
	<u>256</u>	<u>10</u>	<u>29</u>	<u>295</u>	<u>334</u>

Contributions to a defined contribution pension scheme were paid on behalf of three directors (2004: four) during the year.

C R Tarry resigned as a director of the Company on 23 March 2005.

C R Tarry left the Company on 31 May 2005 for which he received compensation for loss of office of £48,750. At that date he held 206,863 share options, of which 103,092 share options granted under the terms of the Inditherm plc Enterprise Management Incentive Scheme lapsed. Mr Tarry retained 103,770 share options issued under a Share Option Agreement dated 10 December 2001. These options can be exercised at any time up to seven days prior to the 10th anniversary of their issue.

Interests in share options

Details of options held by directors are set out below:

An analysis of the share options held by each director is set out below:

	Date of Grant	Option Price	2005 Number	2004 Number
M S Abrahams	10/12/01	97p	207,540	207,540
R Harpum	29/09/04	97p	500,000	500,000
J H Markham	09/04/02	97p	30,000	30,000
I D Smith	02/04/04	52.5p	100,000	100,000

After an initial two year qualification period options are exercisable at any time up to the tenth anniversary of the date of grant.

The market price of the Company's share at 31 December 2005 was 34p: the range of market prices during the year was 75p to 24p.

Employee Share Incentive Plan

During the year I D Smith, participated in the Partnership share arrangement under the terms of Inditherm plc's Employee Share Incentive Plan. Under the terms of this arrangement I D Smith invested the maximum permitted (£125 per calendar month) for a period of 12 months ending 28 November 2005 at which time Mr Smith exercised his rights to acquire 4,444 shares at the mid-market price prevailing at that date (33.75p).

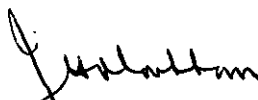
Remuneration Report (continued)

Directors' Interests in shares

The directors of the Company at the end of the year, and their interests in the 1p ordinary shares of the Company were:

	2005	2004
M S Abrahams	151,546	151,546
R Harpum	57,945	7,945
J H Markham	14,366	14,366
I D Smith	4,444	–

All directors' interests are beneficially held. There have been no changes in the interests set out above between 31 December 2005 and 28 March 2006.


JOHN H MARKHAM
Chairman, Remuneration Committee
28 March 2006

Statement of Directors' Responsibilities

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

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

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

INDITHERM plc _____

Report of the Directors

for the Year ended 31 December 2005

The directors present their report together with the Group's audited financial statements for the year ended 31 December 2005.

Results and Dividends

The profit and loss account is set out on page 22 and shows the loss for the year.

The directors do not recommend the payment of an ordinary dividend.

Principal Activity and Business Review

The principal activity of the Group is the manufacture, sale, installation and licensing of specialised heating materials. A review of the Group's development during the year and its prospects are given in the Chairman's Statement on page 4.

Research and Development

The Group continues to invest in research and development, the costs of which have been expensed to the profit and loss account.

Substantial Interests

At 28 February 2006 the Company had been notified of the following interests (excluding the interests of the directors), which amounted to 3% or more of the issued capital of the Company.

Shareholder	Number of shares	Percentage holding
Cazenove Fund Management Limited	4,021,000	19.0%
AXA Investment Managers Limited	2,522,085	12.7%
Aviva plc	2,022,085	9.6%
Patrick O'Grady	2,009,536	9.5%
Allianz Cornhill Insurance plc	1,155,000	5.5%
Brymarc Limited	1,014,000	4.8%

Charitable and Political Donations

During the year the Group made no charitable or political donations.

Creditor Payment Policy and Practice

It is normally the Group's policy to settle all trade creditors within the normal commercial terms of trade agreed with each supplier. The number of days' purchases represented by trade creditors at the year end was 54 (2004: 60).

Financial instruments

The Group's financial instruments comprise cash and various items such as trade debtors, trade creditors etc. that arise directly from its operations. The main purpose of these financial instruments is to finance the Group's operations. As permitted by FRS 13 short term debtors and creditors have been excluded from interest rate and liquidity disclosures. The amount of foreign currency held is not considered to be material and the Group does not consider the use of derivatives as appropriate.

Report of the Directors (continued)

The main risk arising from the Group's financial instruments is liquidity risk. The Group ensures that it has sufficient cash resources available to meet all short term cash requirements and to meet its capital expenditure programme for the foreseeable future.

At present the directors do not believe that the Group has significant interest rate or foreign currency risk and consequently does not hedge against such risk. The Board keeps these risks under regular review.

In the opinion of the Directors the fair values of the financial assets and liabilities are not materially different from their book values.

Re-appointment of Auditors

Tenon Audit Limited have expressed their willingness to continue in office and a resolution to reappoint them will be proposed at the annual general meeting.

Special Business

- Resolution 4 in the Notice of Annual General Meeting on page 38 renews the authority of the directors to allot relevant securities. The nominal amount of securities to which the authority relates is £15k, which represents approximately 7% of the Company's current issued share capital. Such authority will expire at the conclusion of the Annual General Meeting next following the passing of this Resolution or if earlier fifteen months after the date of this Ordinary Resolution. The directors have no present intention of exercising this authority.
- Resolution 5 waives the statutory pre-emption rights under s.89 of the Companies Act 1985 in respect of the allotment of equity securities for cash. The nominal amount of equity securities which may be issued without being offered to existing shareholders is £15,000, as noted above for Resolution 4. There is no present intention to make any such allotment of equity securities, but the directors consider it desirable to maintain the flexibility afforded by this power.
- The directors believe that both of the above Resolutions are in the best interests of the Company and shareholders and they therefore recommend shareholders to vote in favour of the Resolution.

By order of the Board



IAN D SMITH
Secretary

28 March 2006

Independent Auditors' Report to the Members of Inditherm plc

We have audited the financial statements of Inditherm plc for the year ended 31 December 2005 which comprise the consolidated Profit and Loss Account, consolidated Balance Sheet, company Balance Sheet, consolidated Cash Flow Statement and the related notes. These financial statements have been prepared under the historical cost convention and the accounting policies set out therein.

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

Respective Responsibilities of Directors and Auditors

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

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

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

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

Basis of Audit Opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group's circumstances, consistently applied and adequately disclosed.

Independent Auditors' Report to the Shareholders of Inditherm plc (continued)

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

Opinion

In our opinion:

- the financial statements give a true and fair view in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the affairs of the company and the group as at 31 December 2005 and of the loss of the group for the year then ended, and
- the financial statements have been properly prepared in accordance with the Companies Act 1985.

Tenon Audit Limited

TENON AUDIT LIMITED

*Chartered Accountants
and Registered Auditor
Nottingham*

28 March 2006

INDITHERM *p/c* _____

Consolidated Profit and Loss Account

for the Year ended 31 December 2005

	Note	2005 £'000	2004 £'000
Turnover	2	1,035	1,598
Cost of sales		(698)	(1,080)
Gross profit		337	518
Administrative expenses		(1,789)	(2,022)
Operating loss before exceptional costs		(1,402)	(1,176)
Exceptional costs	4	(50)	(328)
Operating loss	4	(1,452)	(1,504)
Interest receivable		139	186
Interest payable	5	(1)	(4)
Loss on ordinary activities before taxation		(1,314)	(1,322)
Taxation credit from loss on ordinary activities	6	35	16
Sustained deficit for the year	18	(1,279)	(1,306)
Loss per share – basic and diluted	7	(6.1)p	(6.2)p

All amounts relate to continuing activities.

All recognised gains and losses are included within the profit and loss account.


Consolidated Balance Sheet

at 31 December 2005

	Note	2005		2004	
		£'000	£'000	£'000	£'000
Fixed assets					
Intangible assets	8		43		56
Tangible assets	9		270		294
			<u>313</u>		<u>350</u>
Current assets					
Stocks	11	200		224	
Debtors: amounts falling due within one year	12	292		468	
Debtors: amounts falling due after one year	12	–		39	
Investment	13	250		250	
Cash at bank and in hand		<u>2,363</u>		<u>3,590</u>	
		<u>3,105</u>		<u>4,571</u>	
Creditors: amounts falling due within one year	14	<u>(311)</u>		<u>(538)</u>	
Net current assets			<u>2,794</u>		<u>4,033</u>
Total assets less current liabilities			<u>3,107</u>		<u>4,383</u>
Creditors: amounts falling due after more than one year	15		–		(7)
Provision for liabilities	16		<u>(268)</u>		<u>(272)</u>
Net assets			<u>2,839</u>		<u>4,104</u>
Capital and reserves – equity					
Called up share capital	17		211		211
Share premium	18		7,423		7,409
Other reserve	18		50		50
Profit and loss account	18		<u>(4,845)</u>		<u>(3,566)</u>
Shareholders' funds	19		<u>2,839</u>		<u>4,104</u>

Approved by the Board on 28 March 2006 and signed on its behalf by:


R HARPUM
 Director


I D SMITH
 Director

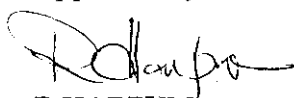
INDITHERM plc

Company Balance Sheet

at 31 December 2005

	Note	2005		2004	
		£'000	£'000	£'000	£'000
Fixed assets					
Tangible assets	9		270		294
Investments in subsidiaries	10		—		—
			<u>270</u>		<u>294</u>
Current assets					
Stocks	11	200		224	
Debtors: amounts falling due within one year	12	292		468	
Debtors: amounts falling due after one year	12	947		999	
Investment	13	250		250	
Cash at bank and in hand		2,363		3,590	
		<u>4,052</u>		<u>5,531</u>	
Creditors: amounts falling due within one year	14	(311)		(538)	
Net current assets			<u>3,741</u>		<u>4,993</u>
Total assets less current liabilities			<u>4,011</u>		<u>5,287</u>
Creditors: amounts falling due after more than one year	15		—		(7)
Provision for liabilities	16		(268)		(272)
Net assets			<u>3,743</u>		<u>5,008</u>
Capital and reserves – equity					
Called up share capital	17		211		211
Share premium	18		7,423		7,409
Other reserve	18		50		50
Profit and loss account	18		(3,941)		(2662)
Shareholders' funds	19		<u>3,743</u>		<u>5,008</u>

Approved by the Board on 28 March 2006 and signed on its behalf by:


R HARPUM
 Director


I D SMITH
 Director

Consolidated Cash Flow Statement

for the Year ended 31 December 2005

	Note	2005 £'000	2004 £'000
Net cash outflow from operating activities	20	(1,340)	(1,554)
Returns on investments and servicing of finance			
Interest received		139	186
Interest element of hire purchase payments		(1)	(4)
Net cash inflow from returns on investments and servicing of finance		138	182
Taxation		35	16
Capital expenditure and financial investment			
Purchase of tangible fixed assets		(60)	(92)
Sale of tangible fixed assets		—	24
Net cash outflow from capital expenditure and financial investment		(60)	(68)
Net cash outflow before management of liquid resources and financing		(1,227)	(1,424)
Management of liquid resources			
Decrease in cash on short-term deposit	21	1,208	1,034
Financing			
Issue of shares		14	—
Capital element of hire purchase payments	21	(14)	(33)
Net cash outflow from financing		0	(33)
Decrease in cash	21	(19)	(423)

Notes Forming Part of the Financial Statements

for the Year ended 31 December 2005

1 Accounting Policies

The financial statements have been prepared under the historical cost convention and are in accordance with applicable accounting standards. The following principal accounting policies have been applied:

Basis of consolidation

The financial statements of the Group consolidate the financial statements of Inditherm plc and its subsidiary undertakings up to 31 December 2005 using acquisition accounting. The results of subsidiary undertakings acquired during a financial period are included from the effective date of acquisition.

The Company has taken advantage of the exemption under Section 230 of the Companies Act 1985 and has not presented its own profit and loss account.

Turnover

Turnover represents sales to outside customers at the value of work done excluding value added tax and trade discounts. Where appropriate, the recognition of income is deferred according to the specific circumstances of material transactions.

Long term contracts are included in turnover on the basis of the sales value of the work performed during the period by reference to the total sales value and stage of completion of these contracts.

Intangible fixed assets

Purchased intellectual property rights are capitalised and amortised over the directors' estimate of their useful economic life of 10 years. In addition, provision is made for any impairment in value.

Research and development costs

Research expenditure is written off in the year in which it is incurred.

Investments

Investments held as fixed and current assets are stated at cost less provision for any impairment in value.

Tangible fixed assets

The cost of tangible fixed assets is the purchase price together with any incidental costs of acquisition.

Depreciation is provided to write off the cost, less estimated residual values, of all fixed assets evenly over their expected useful lives. It is calculated at the following straight line rates:

Plant, machinery and office equipment	– 20% – 33% per annum
Fixtures and fittings	– 10% – 15% per annum
Motor vehicles	– 25% per annum

Notes Forming Part of the Financial Statements (continued)

for the Year ended 31 December 2005

1 Accounting Policies (continued)

Stocks

Stocks are valued at the lower of cost and net realisable value. Cost is based on the cost of purchase on a first in, first out basis. Net realisable value is based on estimated selling price less additional costs to completion and disposal.

Leasing and hire purchase commitments

Assets acquired under hire purchase contracts are capitalised in the balance sheet and depreciated over their expected useful lives. The interest element is charged to the profit and loss account over the term of the contract. Rentals in respect of operating leases are charged to the profit and loss account on a straight line basis over the term of the agreement.

Deferred taxation

The payment of taxation is deferred or accelerated because of timing differences between the treatment of certain items for accounting and taxation purposes. Full provision for deferred taxation is made under the liability method, without discounting, on all timing differences that have arisen, but not reversed by the balance sheet date, unless such provision is not permitted by FRS 19.

Financial instruments

In adopting Financial Reporting Standard 13: Derivatives and other financial instruments, the group has not treated short term debtors and creditors as financial assets and liabilities.

Pension costs

Contributions to the Group's stakeholder pension scheme and to employees' personal pension schemes are charged to the profit and loss account in the year in which they become payable.

Grants receivable

Revenue based grants are credited to the profit and loss account against related expenditure whilst grants of a capital nature are treated as deferred income and are transferred to the profit and loss account over the expected useful lives of the relevant assets.

Warranty provision

The performance of products is warranted against clearly defined performance specifications established by reference to the technical and development testing carried out at the manufacturing facility in Rotherham and in the field.

A provision is made for future warranty costs based on the specific circumstances pertaining to each contract.

INDITHERM plc

Notes Forming Part of the Financial Statements (continued)

for the Year ended 31 December 2005

2 Turnover

All turnover, losses and net assets are wholly attributable to the principal activity of the group being the manufacture, sale and installation of specialised heating products and arose mainly within the United Kingdom.

3 Employees

	2005 £'000	2004 £'000
Staff costs consist of:		
Wages and salaries	988	840
Social security costs	104	89
Pension costs	24	18
	<u>1,116</u>	<u>947</u>

Average number of persons including Executive Directors employed:

	2005 Number	2004 Number
Management and administration	6	6
Sales	7	6
Development	2	2
Production	15	13
	<u>30</u>	<u>27</u>

4 Operating loss

	2005 £'000	2004 £'000
This is arrived at after charging/(crediting):		
Depreciation of owned assets	59	56
Depreciation of assets held under hire purchase contracts	20	23
Amortisation of intangible fixed assets	13	13
Loss on disposal of fixed assets	5	4
Operating lease costs – plant and machinery	2	7
– other operating leases	71	55
Auditors' remuneration	14	15
Research and development	164	68
Exceptional costs		
– Termination of Pegasus contract	–	241
– Bad debt	–	87
– Compensation for loss of office	50	–
Grant income	(7)	(40)

Notes Forming Part of the Financial Statements (continued)

for the Year ended 31 December 2005

5 Interest payable

	2005 £'000	2004 £'000
Hire purchase	<u>1</u>	<u>4</u>

6 Taxation credit from loss on ordinary activities

(a) Analysis of credit in year

	2005 £'000	2004 £'000
<i>Current tax:</i>		
UK corporation tax credit	<u>35</u>	<u>16</u>

(b) Factors affecting tax charge for year

The tax assessed for the year is different from the expected rate of corporation tax.
The differences are explained below:

	2005 £'000	2004 £'000
Loss on ordinary activities before taxation	<u>(1,314)</u>	<u>(1,322)</u>
Loss on ordinary activities multiplied by expected rate of corporation tax of 19% (2004: 19%)	(250)	(251)
Effects of:		
Depreciation in excess of capital allowances	16	7
Research and development tax credit	(35)	(16)
Trading losses carried forward	234	244
	<u>(35)</u>	<u>(16)</u>

(c) Factors that may affect future tax charges

This group has tax losses estimated at £4,044,000 (2004: £2,965,000) available for relief against future trading profits.

7 Loss per share

The calculation of loss per ordinary share is based on losses of £1,279,000 (2004: £1,306,000) and on a weighted average of 21,073,948 (2004: 21,069,980) ordinary shares in issue during the year. The share options are anti-dilutive due to the loss in the year.

INDITHERM plc

Notes Forming Part of the Financial Statements (continued) for the Year ended 31 December 2005

8 Intangible assets

Group	Intellectual property rights £'000
Cost	
At 1 January 2005 and 31 December 2005	136
Amortisation	
At 1 January 2005	80
Provided for the year	13
At 31 December 2005	93
Net book value	
At 31 December 2005	43
At 31 December 2004	56

9 Tangible assets

Group and Company	Fixtures and fittings £'000	Plant, machinery, office equipment £'000	Motor vehicles £'000	Total £'000
Cost				
At 1 January 2005	225	121	94	440
Additions	6	29	25	60
Disposals	–	(21)	–	(21)
At 31 December 2005	231	129	119	479
Depreciation				
At 1 January 2005	66	41	39	146
Provided for the year	25	27	27	79
Disposals	–	(16)	–	(16)
At 31 December 2005	91	52	66	209
Net book value				
At 31 December 2005	140	77	53	270
At 31 December 2004	159	80	55	294

The net book value of tangible fixed assets includes an amount of £12,000 (2004: £32,000) in respect of assets held under hire purchase contracts.

Notes Forming Part of the Financial Statements (continued)

for the Year ended 31 December 2005

10 Fixed asset investments – Company

Investments in subsidiaries at cost:

	£
At 1 January 2005 and 31 December 2005	104

Inditherm plc has the following wholly owned subsidiaries registered and operating in Great Britain:

Name	Nature of business	Class of share
Inditherm (Medical) Limited	Holding company for intellectual property rights	Ordinary
Inditherm (UK) Limited	Dormant	Ordinary
Inditherm Construction Limited	Dormant	Ordinary

11 Stocks

	Group and Company	
	2005	2004
	£'000	£'000
Raw materials	197	209
Work in progress	3	15
	<u>200</u>	<u>224</u>

12 Debtors

	Group		Company	
	2005	2004	2005	2004
	£'000	£'000	£'000	£'000
Trade debtors	217	231	217	231
Amounts recoverable on contracts	–	84	–	84
Amount owed by subsidiary undertaking	–	–	947	960
Other debtors	41	123	41	123
Prepayments	34	69	34	69
	<u>292</u>	<u>507</u>	<u>1,239</u>	<u>1,467</u>

All amounts shown under debtors fall due for payment within one year, with the exception of the amount owed by subsidiary undertaking £947,000 (2004: £960,000) and a payment of £nil (2004: £39,000).

Notes Forming Part of the Financial Statements (continued)

for the Year ended 31 December 2005

13 Current asset investment

Unlisted investment – Group and Company	£'000
At 31 December 2005 and 2004	250

The investment was made on 26 February 2002 and represents the cost of an unitised International with Profits Bond with Axa Isle of Man Limited. The bond also include life insurance on the lives of Mr P O'Grady and Mr C R Tarry, and would become repayable on the death of the last life.

The current market value of the bonds as at 3 March 2006 are £286,937.

Under the terms of the bond early redemption would result in a surrender charge in the first five years (currently 2%). Redemption on the 3 March 2006 would have resulted in total charges of £5,724, leaving a net realisable value of £281,212. The investment is carried on the balance sheet at cost.

On the 26 February 2002 the bond was pledged as security to HSBC plc for a guarantee issued to Highbridge (Houndhill) Industries Ltd for £142,920, being a rolling two years rent on the manufacturing facility at Rotherham.

14 Creditors: amounts falling due within one year

	Group and Company	
	2005 £'000	2004 £'000
Trade creditors	161	297
Other creditors	41	100
Taxation and social security	30	33
Obligations under hire purchase contracts	5	12
Accruals and deferred income	74	96
	<u>311</u>	<u>538</u>

Notes Forming Part of the Financial Statements (continued)

for the Year ended 31 December 2005

15 Creditors: amounts falling due after more than one year

	Group and Company	
	2005	2004
	£'000	£'000
Obligations under hire purchase contracts	-	7
Obligations under hire purchase contracts are due as follows:		
	2005	2004
	£'000	£'000
Within one year	5	12
Between one and two years	-	7
Between two and five years	-	-
	5	19

Financial instruments

The Group's financial instruments comprise cash and various items such as trade debtors, trade creditors etc. that arise directly from its operations. The main purpose of these financial instruments is to finance the Group's operations. As permitted by FRS 13 short term debtors and creditors have been excluded from interest rate and liquidity disclosures. The amount of foreign currency held is not considered to be material and the Group does not consider the use of derivatives as appropriate.

The main risk arising from the Group's financial instruments is liquidity risk. The Group ensures that it has sufficient cash resources available to meet all short term cash requirements and to meet its capital expenditure programme for the foreseeable future.

At present the directors do not believe that the Group has significant interest rate or foreign currency risk and consequently does not hedge against such risk. The Board keeps these risks under regular review.

In the opinion of the Directors the fair values of the financial assets and liabilities are not materially different from their book values.

16 Provision for liabilities

	Warranty provision	Royalty provision	Total provision
	£'000	£'000	£'000
Balance at 1 January 2005	30	242	272
Paid during the year	-	(13)	(13)
Charge for the year	9	-	9
Balance at 31 December 2005	39	229	268

The royalty provision arises from the agreement with Pegasus Ltd dated 24 September 2003 whereby a 10% Royalty is payable in respect of qualifying medical sales. In the event that qualifying medical sales fail to reach £2.5m in aggregate for the four year period ending 23 September 2007 the remaining balance becomes payable.

INDITHERM plc

Notes Forming Part of the Financial Statements (continued) for the Year ended 31 December 2005

17 Share capital

Issued, called up and fully paid

	Number	Ordinary shares of 1p each £'000	Share premium (net of issue costs) £'000
As at 1 January 2005	21,069,980	211	7,409
Issued during the period	42,601	-	14
As at 31 December 2005	21,112,581	211	7,423
Authorised share capital at 31 December 2005 and 2004		£'000	
Ordinary shares of 1p only	78,000,000	780	
Preference shares of £1	220,000	220	
		1,000	

18 Reserves

	Share premium account £'000	Group Other reserve £'000	Profit and loss account £'000
At 1 January 2005	7,409	50	(3,566)
Loss for the year	-	-	(1,279)
Premium on shares issued	14	-	-
At 31 December 2005	7,423	50	(4,845)
	Share premium account £'000	Company Other reserve £'000	Profit and loss account £'000
At 1 January 2005	7,409	50	(2,662)
Loss for the year	-	-	(1,279)
Premium on shares issued	14	-	-
At 31 December 2005	7,423	50	(3,941)

Notes Forming Part of the Financial Statements (continued)

for the Year ended 31 December 2005

19 Reconciliation of movements in shareholders' funds

	Group		Company	
	2005 £'000	2004 £'000	2005 £'000	2004 £'000
Loss for the year	(1,279)	(1,306)	(1,279)	(1,306)
Issue of share capital (including premium)	14	–	14	–
Net movement in shareholders' funds	(1,265)	(1,306)	(1,265)	(1,306)
Opening shareholders' funds	4,104	5,410	5,008	6,314
Closing shareholders' funds	2,839	4,104	3,743	5,008

20 Reconciliation of operating loss to net cash outflow from operating activities

	2005 £'000	2004 £'000
Operating loss	(1,452)	(1,504)
Depreciation and amortisation	92	92
Loss on disposal of fixed assets	5	4
Decrease/(Increase) in stocks	24	(155)
Decrease/(increase) in debtors	215	65
(Decrease)/increase in creditors	(220)	(70)
(Decrease)/Increase in provisions	(4)	14
Net cash outflow from operating activities	(1,340)	(1,554)

21 Analysis of changes in net funds

	1 January 2005 £'000	Cash flow £'000	31 December 2005 £'000
Cash at bank and in hand	3,590	(1,227)	2,363
Less: deposits treated as liquid resources	(3,572)	1,208	(2,364)
	18	(19)	(1)
Obligations under hire purchase contracts	(19)	14	(5)
Term deposits	3,572	(1,208)	2,364
	3,571	(1,213)	2,358

INDITHERM *p/lc* _____

Notes Forming Part of the Financial Statements (continued)

for the Year ended 31 December 2005

22 Reconciliation of net cash flow to movement in net funds

	2005 £'000	2004 £'000
Decrease in cash in year	(19)	(423)
Cash outflow from decrease in debt	14	33
Cash inflow from decrease in liquid resources	(1,208)	(1,034)
Decrease in net funds from cash flows	(1,213)	(1,424)
Net funds at the beginning of the year	3,571	4,995
Net funds at the end of the year	2,358	3,571

23 Commitments under operating leases

As at 31 December 2005 annual commitments under non cancellable operating leases as follows:

	Group and Company			
	2005		2004	
	Land and Buildings £'000	Other £'000	Land and Buildings £'000	Other £'000
Operating leases which expire:				
Within two to five years	–	2	–	2
After five years	71	–	71	–

24 Contingent liability

The Company has received revenue and capital grants totalling £133,000, of which £6,663 has been recognised in the current year. Under certain conditions the grant may become repayable if various targets are not achieved.

During the normal course of business the business offers warranties against clearly defined performance specifications.

Five Year Summary

Profit and Loss

	2005 £'000	2004 £'000	2003 £'000	2002 £'000	2001 £'000
Continuing income from product sales	1,035	1,598	616	483	277
Non recurring income	–	–	–	200	200
Turnover	1,035	1,598	616	683	477
Gross profit	337	518	267	353	84
Overheads	(1,739)	(1,694)	(951)	(1,134)	(519)
Operating loss before exceptionals	(1,402)	(1,176)	(684)	(981)	(435)
Exceptional (costs)/income	(50)	(328)	(134)	200	200
Loss on ordinary activities after taxation	(1,279)	(1,306)	(786)	(717)	(212)
Loss per share – basic and diluted	(6.1p)	(6.2p)	(7.2p)	(6.08p)	(3.0p)

Balance Sheet

Net current assets	2,794	4,033	5,311	1,057	1,966
Net assets	2,839	4,104	5,410	1,481	2,082
Net funds	2,358	3,571	4,995	738	2,103

Notice of Annual General Meeting

Notice is given that the 2006 Annual General Meeting of the Company will be held at Wentbridge House Hotel, Wentbridge, Pontefract, West Yorkshire, WF8 3JJ on Friday 28 April 2006 at 2.00 pm for the following purposes:

ORDINARY BUSINESS

1. To receive and adopt the accounts of the Company for the year ended 31 December 2005 together with the Directors' Report and the Auditors' Report and to consider the recommendation of the directors that no dividend be declared in respect of the year.
2. To reappoint Tenon Audit Limited as auditors of the Company until the conclusion of the next general meeting of the Company at which accounts are laid before the members and to authorise the directors to determine their remuneration.
3. To re-appoint Mr Ian Douglas Smith, retiring by rotation, as director in accordance with the provisions of the Articles of Association.

SPECIAL BUSINESS

To consider, and if thought fit, pass the following resolutions, of which Resolution 4 will be proposed as an ordinary resolution and Resolution 5 will be proposed as a special resolution.

4. Generally and unconditionally to authorise the directors (subject to the passing of Resolution 5 below and in substitution for all existing authorities) to exercise all the powers of the Company to allot relevant securities, within the meaning of Section 80 of the Companies Act 1985 ("the Act") up to an aggregate nominal amount of £15,000. Such authority will expire at the conclusion of the Annual General Meeting next following the passing of this Resolution or, if earlier, 15 months after the date of this Ordinary Resolution. Nevertheless the Company may, before the expiry of the authority conferred hereby, make an offer or agreement which would or might require relevant securities to be allotted after the expiry of the authority conferred hereby and the directors may allot the relevant securities, in pursuance of such offer or agreement, as if the authority conferred hereby had not expired.

Notice of Annual General Meeting (continued)

5. To empower the directors (subject to the passing of Resolution 4 above) pursuant to Section 95 of the Act to allot equity securities (as defined in Section 94 of the Act) pursuant to the authority conferred by Resolution 4 as if sub-section (1) of Section 89 of the Act did not apply to the allotment of equity securities for cash up to an aggregate nominal amount of £15,000.

By Order of the Board
I D SMITH
Secretary



28 March 2006

Registered Office:
Inditherm House
Houndhill Park
Bolton Road
Wath-upon-Deerne
S63 7LG

Notes:

1. A member of the Company who is entitled to attend and vote at the meeting convened by this notice is entitled to appoint one or more proxies to attend and, on a poll, to vote in his/her place. A proxy need not be a member of the Company.
2. A form of proxy is enclosed. To be valid an instrument appointing a proxy and any power of attorney under which it is signed/or a duly certified copy of it (failing previous registration with the Company), must be deposited at the office of the Company's registrar, Capita Registrars, the Registry, 34 Beckenham Road, Beckenham, Kent, BR3 4TU by 2.00 pm on 26 April 2006. Completion of the proxy does not preclude a member from subsequently attending and voting at the meeting in person if he or she so wishes.
3. The register of interests of the directors and their families in the share capital of the Company and copies of contracts of service of directors with the Company or with any of its subsidiary undertakings will be available for inspection at the registered office of the Company during normal business hours (Saturdays and public holidays excepted) from the date of this notice until the conclusion of the AGM.
4. In accordance with regulation 41 of the Uncertificated Securities Regulations 2001, only those members entered on the Company's register of members not later than 2.00 pm on 26 April 2006 or, if the meeting is adjourned, shareholders entered on the Company's register of members not later than 48 hours before the time fixed for the adjourned meeting shall be entitled to attend and vote at the meeting.

Financial Calendar

- **Preliminary Announcement – March**
- **Annual General Meeting – April**
- **Half Year End – June**
- **Interim Announcement – September**
- **Year End – December**

Headquarters and Registered Office:

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