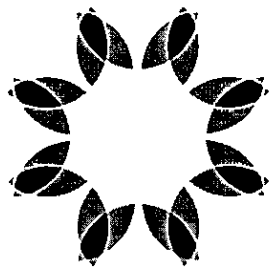


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INDITHERM *plc*

**Annual Report
and
Financial Statements
2006**

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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 normally uses significantly less energy than traditional electrical trace heating, hot water or steam systems. Other benefits include improved hygiene and health and safety. 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. 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. In 2006 Inditherm signed a distribution agreement with Smiths Medical Inc to distribute patient warming products in the USA.



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 pre-cast and in-situ concrete structures.



The Sport Segment 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 are Inditherm systems more reliable than traditional heating systems, they also use less energy.

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-Dearne, 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, 9th 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

2006 was a year of transformation for Inditherm. Following the introduction of our focused strategy to expand in the Industrial, Medical and Construction sectors, emphasising larger projects, the first signs of success started to emerge. The signing of the supply agreement with Smiths Medical, significant orders for industrial process plants and a major pre-cast concreting project, provided further encouragement.

The year culminated with the launch in December of a re-financing and strengthening of the Balance Sheet (which was approved by the shareholders at an Extraordinary General Meeting on 12 January 2007), by way of a Placing of 30,000,000 new Ordinary Shares at a price of 10 pence per Placing Share. Following completion of the Placing, the issued share capital of the Company increased to 51,112,581 Ordinary Shares and the Group's cash resources increased to £4,567k immediately after the Placing.

Results

Turnover for the year rose by 51% to £1,564k (2005 £1,035k), mainly due to growth in both Medical and Industrial sales. Orders received maintained the 71% growth rate reported in the first half year.

The Industrial business showed continued growth in sales of 31%, which was mainly driven by the successful introduction of our new modular pipework system, accompanied by large tank heating installations. During the year we received several larger orders for these systems from well-known confectionery and food manufacturers. The value drivers for these systems are substantial energy reductions, hygiene benefits and more rapid installation. Following a slow start, towards the year end we saw an encouraging increase in work for UK water utilities through the current Asset Management Programme (AMP4).

The Medical business grew by 146%, with 165% orders growth, helped at the year end by a stock order from Smiths Medical. Purchases by the NHS improved and the addition of 8 new overseas distributors contributed to the sustained growth in exports. The new CosyTherm neo-natal warming product, launched towards the end of 2005, has been well received in the market and sales are growing.

The Construction business made steady progress and obtained a large order for precast concrete curing blankets. This demonstrated significant benefits for the customer, including the ability to reduce the cement content of the concrete. The project has acted as a valuable reference for other precast manufacturers.

The cost base was reduced by 10% during the year, with all expenditure being tightly controlled. Overheads before exceptional costs were £1,571k (2005 £1,739k), resulting in an operating loss before exceptional costs of £1,087k (2005 £1,402k). After restructuring and exceptional costs of £152k (2005 £50k) and net interest income of £83k (2005 £138k), the post-tax loss was £1,132k (2005 £1,279k).

The year end cash balance was £1,747k (2005 £2,363k). The cash placing on 15 January 2007 raised a further £2.8 million net of expenses. We believe that the Company has sufficient funds to meet our current and medium term needs.

Chairman's Statement (continued)

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 2006 and will continue for the foreseeable future. The Board therefore does not expect to declare a dividend during the Company's continuing development period.

Employees

Following the recent surge in quotation activity and orders, we have responded by promoting a number of sales and operations people, followed by a recruitment programme designed to maintain our growth momentum.

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

Outlook

During recent months we have seen an encouraging increase in the level of enquiries and orders. The order book at the start of the year has given us a strong start and order intake for the first quarter of 2007 is up more than 40%.

Our industrial solutions are now well proven and have been embraced by several key customers as the way forward for process heating, mainly due to the energy saving and hygiene benefits.

The supply contract with Smiths Medical is expected to drive growth in our Medical business and will supplement the growth anticipated from both domestic and export sales of patient warming and neonatal products.

The Construction business is now well-established and there is growing interest in our concrete curing products. The two year project funded by the European FP6 CRAFT grant, previously reported, is yielding excellent results, as well as orders from consortium partners.

Our initial goal going forward is to reach break-even. Based upon current prospects, I am encouraged that this can be achieved.



MARK ABRAHAMS
Chairman

29 March 2007

Chief Executive's Review

Overview

During 2006 we focused on achieving top line growth, whilst keeping costs and cash outflow under control. We continued to focus on our three main business segments of Industrial, Medical and Construction, adding new products and systems, and gaining credibility as a solutions provider with a number of major international customers.

The supply agreement with Smiths Medical is a major endorsement of our patient warming technology and provides the platform for substantial growth in our Medical business during 2007.

The cash placing has given us the opportunity to invest in additional sales and technical resources and means that we can accelerate the growth opportunities.

Industrial

Sales in the Industrial segment increased by 31% over 2005, and orders by 45%, mainly due to growth in process heating orders for our new modular pipework systems and associated tank heaters.

We received several orders for larger heating installations from well known manufacturers for heating chocolate, sugars and chemicals. One of these was installed in Poland, where we demonstrated our ability to manage such projects by completing ahead of schedule. The key value propositions of these modular systems are the shortened installation time, improved hygiene, energy savings, controllability and improved production output. Energy savings as a result of using Inditherm, now verified by several of our customers, can be as high as 75% on a like-for-like basis. In order to retain our focus on our core competencies, we have chosen to subcontract areas such as pipework and cladding to competent partners, albeit at lower margins.

During the year we signed a framework agreement with Yorkshire Water and carried out successful trials for heating sewerage sludge transfer lines with Severn Trent Water. After a slow start in 2005, we are now receiving regular water utility orders under the AMP4 Asset Management Programme.

During the year we appointed more overseas distributors and since the cash placing, have strengthened the industrial sales organisation with the recruitment of additional sales resources.

Medical

Medical orders increased by 165%, and sales by 146%, helped by the first stock order from Smiths Medical in December. Deliveries to Smiths Medical have now commenced and they have now placed a further order for delivery in the second quarter.

During the year we appointed eight new overseas distributors.

Sales to the NHS have picked up and we are now recognised as providing a highly cost-effective solution. We have recently strengthened our UK Medical sales force.

Sales of the CosyTherm neonatal warming system have grown well and we are also pursuing international distribution opportunities.

Chief Executive's Review (continued)

Construction

The Construction business had an encouraging year, with the successful installation of a major concrete curing system for a large pre-caster. This really highlighted the benefits of our system: more rapid curing, improved hydration and early strength development, significantly reduced energy cost (typically 80% or more), the opportunity to reduce cement content, along with a range of operational benefits.

Other projects included supplying curing blankets for rapid runway repairs at a major UK airport.

Other Activities

Our standard product lines, notably vessel heaters and heating pads for pizza and curry bags, have continued to grow during the year, providing a good base load of work.

Whilst our existing under-pitch heating installations continue to operate well and we continue to pursue those opportunities that arise from time to time, this is no longer a key area of focus, due to the sporadic nature of this market.

Operations

Our efforts to reduce overhead spend continued throughout the year, with substantial reductions being achieved. Despite the additional headcount now in place, our first quarter overheads in 2007 are 13% lower than in 2006 and 9% lower than in 2005.

Our project management capabilities were put to the test on a number of large projects and in each case, we were able to delight our customers by completing the work on or ahead of schedule.

Product Development

Product development work continued in all main business sectors during the year. Further improvements were made to our Industrial products, notably enhancements and options for our modular pipework systems.

There were ongoing improvements made to our Medical products and some new products based upon our proven technology are also in the pipeline.

The concrete curing R&D project under the European FP6 CRAFT programme, previously reported, has gone well, further validating the technology and providing valuable technical data. Cooperation agreements are being negotiated with some members of the trans-European consortium.

During the year we formed a partnership with Grant Rail and Sheffield Hallam University to develop a system for heating railway track, so that it can be welded more easily. This is supported by a Yorkshire Forward grant. Initial field test results have been encouraging.

Chief Executive's Review (continued)

Outlook

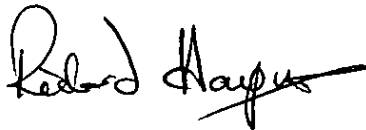
The agreement with Smiths Medical provides an excellent platform for growth. Medical production rates have been increased to meet our commitments.

Based upon enquiries and recent order flow, Industrial sales are expected to exceed the growth rate seen last year, mainly due to the market acceptance of our modular pipework and tank heating technology. It appears that Inditherm is no longer seen as a high risk purchase, and we are now moving from technical to commercial acceptance. The growing interest in energy savings and the greater emphasis on hygiene among food manufacturers are also expected to drive demand. More widespread deployment of standard products will facilitate growth in international sales through our distributor network. Water utility work continues to rise and with more field sales people now in place, we intend to pursue all the major water utilities throughout the UK.

Now that we have some good reference sites, the Construction sector is expected to see significant growth in 2007, particularly for pre-cast concrete curing applications.

Our initial goal is to reach break-even as fast as possible and our entire team is focused on achieving this.

The challenges facing Inditherm in 2007 remain considerable but so are the opportunities. We have started the year with a substantial order backlog which has given us a solid start to the year.



RICHARD HARPUM
Chief Executive

29 March 2007

Financial Review

Trading results

Sales in the year increased by £529k to £1,564k. Industrial sales continued to make steady progress with a 31% year on year improvement, Medical Sales improved by 146% and Construction by 68%.

Total administration expenses before exceptional costs fell to £1,571k from £1,739k in 2005. Overhead expenditure has been directed towards preserving cash and achieving break-even as early as possible.

Exceptional costs of £152k arose during the year. £75k has been provided for the costs of upgrading patient warming systems to include additional safety features to detect damage to the product caused by misuse or storage in a method contrary to operating instructions. £57k arose as a result of the Corporate finance work associated with pursuing strategic options. £20k was incurred as compensation for loss of office.

The operating loss before exceptional costs of £1,087k is a reduction of £315k on the same period last year.

Cash resources generated net interest income for the year of £83k (2005 net income £138k), giving a pre tax loss of £1,132k (2005 loss £1,279k).

Cash resources and Net assets

Net cash outflow from operations for the year was £983k (2005 £1,340k), reflecting the operating loss.

The £250k investment in AXA's International With Profits Bonds was sold during the year at a profit of £34k.

Capital expenditure during the year was £19k (2005 £60k).

Net funds at the year end were £1,747k (2005 £2,358k).

Shareholder funds amounted to £1,707k (2005 £2,839k), reflecting the retained loss for the year.

Taxation

As the Company has continued to incur trading losses no corporation tax liability has yet arisen. Accumulated tax losses and excess capital allowances to the end of 2006 of £5,182k (2005 £4,218k) 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 £24,000 in the year on qualifying expenditure.



IAN D SMITH

Finance Director and Company Secretary

29 March 2007

INDITHERM plc _____

Directors and Board Committees

Directors

*Mark Abrahams (Aged 52, 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 55, 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 60) **

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 twenty years with ICI and more recently holding the position of Chief Executive of Hickson International PLC.

Ian Smith (Aged 50, Finance Director)

Ian joined the Company in January 2004. He is a Chartered Accountant and qualified Corporate Treasurer and has extensive 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 10

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 10

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 13

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 and its 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 directors believe they are appropriate for the size and scale of the business taking into account the costs, however, as a consequence, the controls and governance in place in Inditherm in many respects fall short of those required by the Combined Code.

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 2006	Notice period
Richard Harpum	–	1 year
Ian Smith	–	1 year
Mark Abrahams	11 months	Fixed term
John Markham	14 months	Fixed term

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.

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.

Remuneration Report (continued)

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	2006 Total £'000	2005 Total £'000
M S Abrahams	35	–	–	35	35
R Harpum	105	5	13	123	118
J H Markham	23	–	–	23	23
I D Smith	82	4	13	99	95
C R Tarry	–	–	–	–	24
	<u>245</u>	<u>9</u>	<u>26</u>	<u>280</u>	<u>295</u>

Contributions to a defined contribution pension scheme were paid on behalf of two directors (2005 three) during the year

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	2006 Number	2005 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	222p	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 2006 was 12.5p the range of market prices during the year was 10p to 38p

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

	2006	2005
M S Abrahams	151,546	151,546
R Harpum	57,945	7,945
J H Markham	14,366	14,366
I D Smith	<u>4,444</u>	<u>4,444</u>

All directors' interests are beneficially held

Remuneration Report (continued)

On 15 January 2007 the directors subscribed to the following shares as part of the Cash placing approved by the shareholders on 12 January 2007

M S Abrahams	150,000
R Harpum	100,000
ID Smith	50,000
JH Markham	12,500



JOHN H MARKHAM
Chairman, Remuneration Committee

29 March 2007

Statement of Directors' Responsibilities

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The financial statements are required by law to give a true and fair view of the state of the affairs of the Group and Company and of the profit or loss of the Group for that period. 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.

In so far as the directors, individually, are aware

- there is no relevant audit information of which the Group and the Company's auditor is unaware, and
- the directors have taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditor is aware of that information.

Report of the Directors

for the Year ended 31 December 2006

The directors present their report together with the Group's audited financial statements for the year ended 31 December 2006

Results and Dividends

The profit and loss account is set out on page 21 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 2007 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	13,701,000	26.8%
Invesco	5,000,000	9.8%
Aviva plc	4,022,085	7.9%
First State	4,000,000	7.8%
Allianz Cornhill Insurance plc	3,800,000	7.4%
Phoenix VCT plc	3,400,000	6.7%
AXA Investment Managers Limited	2,627,085	5.1%
Patrick O'Grady	2,009,536	3.9%
Lattice Group Pension Scheme	1,760,000	3.4%
AIM Realisation Fund Limited	1,630,000	3.2%

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 42 (2005: 54)

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

Report of the Directors (continued)

disclosures The amount of foreign currency held is not considered to be material and the Group doesn't 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


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 3% 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 Resolutions

By order of the Board



IAN D SMITH
Secretary

29 March 2007

Independent Auditors' Report to the Members of Inditherm plc

We have audited the financial statements of Inditherm plc for the year ended 31 December 2006 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

As described in the statement of directors' responsibilities on page 16 the company's directors are responsible for the preparation of financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. 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 and the company's circumstances, consistently applied and adequately disclosed.

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

Basis of Audit Opinion (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 2006 and of the loss of the group for the year then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the Directors' Report is consistent with the financial statements



TENON AUDIT LIMITED

*Chartered Accountants
and Registered Auditor
Nottingham*

29 March 2007

Consolidated Profit and Loss Account

for the Year ended 31 December 2006

	Note	2006 £'000	2005 £'000
Turnover	2	1,564	1,035
Cost of sales		(1,155)	(698)
Gross profit		409	337
Administrative expenses		(1,648)	(1,789)
Operating loss before exceptional costs		(1,087)	(1,402)
Exceptional costs	4	(152)	(50)
Operating loss	4	(1,239)	(1,452)
Interest receivable		84	139
Interest payable	5	(1)	(1)
Loss on ordinary activities before taxation		(1,156)	(1,314)
Taxation credit from loss on ordinary activities	6	24	35
Sustained deficit for the year	19	(1,132)	(1,279)
Loss per share – basic and diluted	7	(5.4)p	(6.1)p

All amounts relate to continuing activities

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


INDITHERM plc

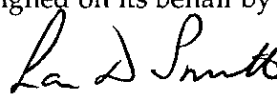
Consolidated Balance Sheet

at 31 December 2006

		2006		2005	
	Note	£'000	£'000	As restated £'000	£'000
Fixed assets					
Intangible assets	8		29		43
Tangible assets	9		209		270
			<u>238</u>		<u>313</u>
Current assets					
Stocks	11	121		200	
Debtors	12	291		292	
Investment	13	–		250	
Cash at bank and in hand		1,747		2,363	
		<u>2,159</u>		<u>3,105</u>	
Creditors: amounts falling due within one year	14	(583)		(311)	
Net current assets			<u>1,576</u>		<u>2,794</u>
Total assets less current liabilities			<u>1,814</u>		<u>3,107</u>
Provision for liabilities	16		(107)		(268)
Net assets			<u>1,707</u>		<u>2,839</u>
Capital and reserves					
Called up share capital	18		211		211
Share premium	19		7,423		7,423
Other reserve	19		50		50
Share based payment reserve	19		60		60
Profit and loss account	19		(6,037)		(4,905)
Shareholders' funds	20		<u>1,707</u>		<u>2,839</u>

Approved by the Board on 29 March 2007 and signed on its behalf by


R HARPUM
Director


I D SMITH
Director

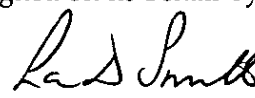
Company Balance Sheet

at 31 December 2006

		2006		2005	
	Note	£'000	£'000	As restated £'000	£'000
Fixed assets					
Tangible assets	9		209		270
Investments in subsidiaries	10		-		-
			<u>209</u>		<u>270</u>
Current assets					
Stocks	11	121		200	
Debtors amounts falling due within one year	12	291		292	
Debtors amounts falling due after one year	12	933		947	
Investment	13	-		250	
Cash at bank and in hand		1,747		2,363	
		<u>3,092</u>		<u>4,052</u>	
Creditors: amounts falling due within one year	14	<u>(583)</u>		<u>(311)</u>	
Net current assets			<u>2,509</u>		<u>3,741</u>
Total assets less current liabilities			2,718		4,011
Provision for liabilities	16		(107)		(268)
Net assets			<u>2,611</u>		<u>3,743</u>
Capital and reserves					
Called up share capital	18		211		211
Share premium	19		7,423		7,423
Other reserve	19		50		50
Share based payment reserve	19		60		60
Profit and loss account	19		(5,133)		(4,001)
Shareholders' funds	20		<u>2,611</u>		<u>3,743</u>

Approved by the Board on 29 March 2007 and signed on its behalf by


R HARPUM
Director


I D SMITH
Director

Consolidated Cash Flow Statement

for the Year ended 31 December 2006

	Note	2006 £'000	2005 £'000
Net cash outflow from operating activities	21	(983)	(1,340)
Returns on investments and servicing of finance			
Interest received		84	139
Interest element of hire purchase payments		(1)	(1)
Net cash inflow from returns on investments and servicing of finance		83	138
Taxation		24	35
Capital expenditure and financial investment			
Purchase of tangible fixed assets		(19)	(60)
Sale of Investment		284	–
Net cash inflow/(outflow) from capital expenditure and financial investment		265	(60)
Net cash outflow before management of liquid resources and financing		(611)	(1,227)
Management of liquid resources			
Decrease in cash on short-term deposit	22	695	1,208
Financing			
Issue of shares		–	14
Capital element of hire purchase payments	22	(5)	(14)
Net cash outflow from financing		(5)	–
Increase/(decrease) in cash	22	79	(19)

Notes forming part of the financial statements

for the Year ended 31 December 2006

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:

Change of accounting policy

The Group is required to adopt FRS20 "Share-based Payment (IFRS2)" in respect of the financial statements for the year ended 31 December 2006. Accordingly, these accounts have been prepared in accordance with this standard. The effect of adopting this standard has been to increase the loss brought forward at 31 December 2004 by £60,000 and create a Share-based payment reserve of the same amount.

Basis of consolidation

The financial statements of the group consolidate the financial statements of Inditherm plc and its subsidiary undertakings up to 31 December 2006 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. The loss after taxation for the year dealt within the accounts of the parent company was £1,132k (2005: £1,279k).

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.

Notes forming part of the financial statements (continued)

for the Year ended 31 December 2006

1 Accounting Policies (continued)

Tangible Fixed Assets and Depreciation

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

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

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.

Share-based incentives

In accordance with FRS 20 the fair value of equity settled share-based payments to employees are determined at the date of grant and expensed on a straight line basis over the vesting period based upon the Group's estimate of options that will eventually vest. The fair value is determined by the Black-Scholes pricing model.

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.

Notes forming part of the financial statements (continued)

for the Year ended 31 December 2006

1 Accounting Policies (continued)

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

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

	2006 £'000	2005 £'000
United Kingdom	1,282	937
Export	282	98
	<u>1,564</u>	<u>1,035</u>

3 Employees and directors' remuneration

	2006 £'000	2005 £'000
Staff costs consist of		
Wages and salaries	1,024	988
Social security costs	112	104
Pension costs	24	24
Compensation for loss of office	20	24
	<u>1,180</u>	<u>1,116</u>

Average number of persons including Executive Directors employed

	2006 Number	2005 Number
Management and administration	4	6
Sales	8	7
Development	2	2
Production	16	15
	<u>30</u>	<u>30</u>

Details of directors' remuneration are set out in the Remuneration Report on page 15

INDITHERM plc

Notes forming part of the financial statements (continued)

for the Year ended 31 December 2006

4 Operating loss

	2006 £'000	2005 £'000
This is arrived at after charging/(crediting)		
Depreciation of owned assets	75	59
Depreciation of assets held under hire purchase contracts	5	20
Amortisation of intangible fixed assets	14	13
Loss on disposal of fixed assets	–	5
Operating lease costs – plant and machinery	2	2
– other operating leases	71	71
Profit on sale of investment	(34)	–
Auditor's remuneration	14	13
Remuneration paid to auditors for non audit services		
– Taxation	3	3
– Other services	6	5
Research and development	101	164
Exceptional costs		
– Provision for costs of upgrading patient warming systems (see note 16)	75	–
– Corporate finance advice	57	–
– Compensation for loss of office	20	50
Grant income and amortisation	(61)	(7)
	<u> </u>	<u> </u>

5 Interest payable

	2006 £'000	2005 £'000
Hire purchase	<u>1</u>	<u>1</u>

6 Taxation credit from loss on ordinary activities

(a) Analysis of credit in year

	2006 £'000	2005 £'000
Current tax		
UK corporation tax credit	<u>24</u>	<u>35</u>

Notes forming part of the financial statements (continued)

for the Year ended 31 December 2006

6 Taxation credit from loss on ordinary activities (continued)

(b) Factors affecting tax credit for year

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

	2006	2005 As restated
	£'000	£'000
Loss on ordinary activities before taxation	(1,156)	(1,314)
Loss on ordinary activities multiplied by expected rate of corporation tax of 19% (2005 19%)	(220)	(250)
Effects of		
Depreciation in excess of capital allowances	17	16
Research and development tax credit	(24)	(35)
Trading losses carried forward	203	234
	(24)	(35)

(c) Factors that may affect future tax charges

This Group has tax losses and excess capital allowances estimated at £5,182,000
(2005 £4,218,000) available for relief against future trading profits

7 Loss per share

The calculation of loss per ordinary share is based on losses of £1,132,000 (2005
£1,279,000) and on a weighted average of 21,112,581 (2005 21,073,948) ordinary shares
in issue during the year. The share options are anti-dilutive due to the loss in the year.

Notes forming part of the financial statements (continued)

for the Year ended 31 December 2006

8 Intangible assets

Group	Intellectual property rights £'000
Cost	
At 1 January 2006 and 31 December 2006	136
Amortisation	
At 1 January 2006	93
Provided for the year	14
At 31 December 2006	107
Net book value	
At 31 December 2006	29
At 31 December 2005	43

9 Tangible assets

Group and Company	Fixtures and fittings £'000	Plant, machinery, office equipment £'000	Motor vehicles £'000	Total £'000
Cost				
At 1 January 2006	231	129	119	479
Additions	4	15	–	19
At 31 December 2006	235	144	119	498
Depreciation				
At 1 January 2006	91	52	66	209
Provided for the year	25	32	23	80
At 31 December 2006	116	84	89	289
Net book value				
At 31 December 2006	119	60	30	209
At 31 December 2005	140	77	53	270

The net book value of tangible fixed assets includes an amount of £nil (2005 £12,000) in respect of assets held under hire purchase contracts

Notes forming part of the financial statements (continued)

for the Year ended 31 December 2006

10 Fixed asset investments – Company

Investments in subsidiaries at cost

	£
At 1 January 2006 and 31 December 2006	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	
	2006	2005
	£'000	£'000
Raw materials	113	197
Work in progress	8	3
	<u>121</u>	<u>200</u>

12 Debtors

	Group		Company	
	2006	2005	2006	2005
	£'000	£'000	£'000	£'000
Trade debtors	233	217	233	217
Amount owed by subsidiary undertaking	–	–	933	947
Other debtors	9	41	9	41
Prepayments	49	34	49	34
	<u>291</u>	<u>292</u>	<u>1,224</u>	<u>1,239</u>

All amounts shown under debtors fall due for payment within one year, with the exception of the amount owed to the Company by a subsidiary undertaking £933,000 (2005 £947,000)

Notes forming part of the financial statements (continued)

for the Year ended 31 December 2006

13 Current asset investment

Unlisted investment – Group and Company	£'000
At 31 December 2005	250
Disposals	(250)
	<hr/>
At 31 December 2006	–
	<hr/>

The investment was made on 26 February 2002 and represents the cost of a unitised International With Profits Bond with Axa Isle of Man Limited. The bond was sold on 11 December 2006 and realised a profit of £34,098.

14 Creditors: amounts falling due within one year

	Group and Company	
	2006	2005
	£'000	£'000
Trade creditors	203	161
Other creditors	87	41
Taxation and social security	33	30
Obligations under hire purchase contracts	–	5
Accruals and deferred income	50	74
Payments due to Pegasus under Contract	210	–
	<hr/>	<hr/>
	583	311
	<hr/>	<hr/>

The payments due to Pegasus arise 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.

15 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 doesn't 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.

Notes forming part of the financial statements (continued)

for the Year ended 31 December 2006

16 Provision for liabilities

	Warranty provision £'000	Royalty provision £'000	Total provision £'000
Balance at 1 January 2006	39	229	268
Paid during the year	(27)	(19)	(46)
Charge for the year	95	–	(95)
Balance transferred to current liabilities	–	(210)	(210)
Balance at 31 December 2006	107	–	107

A provision was made during the year of £75,000 for the cost of upgrading medical mattress's manufactured to an old design that was in use until 31 December 2005. The upgrade contains additional safety features and would detect damage to the product caused by misuse and storing in a method contrary to the operating instructions.

17 Prior period adjustment

There is no impact on taxation as a result of the implementation of FRS 20.

In accordance with FRS 20 the fair value of equity settled share-based payments to employees are determined at the date of grant and have been charged against profit over the period the options have vested. The accounts for the relevant period (2004) have been restated and a share-based payment reserve of £60,000 has been created. The adoption of FRS 20 represents a change in accounting policy the impact of which has been to reduce the profit and loss account reserve at 31 December 2005 and 2006 by £60,000. There was no impact on reported profit in either year.

18 Share capital

Issued, called up and fully paid

	Number	Ordinary shares of 1p each £'000
As at 1 January 2006 and 31 December 2006	21,112,581	211
Authorised share capital		
at 1 January 2006 and 31 December 2006		£'000
Ordinary shares of 1p each	78,000,000	780
Preference shares of £1 each	220,000	220
		1,000

Notes forming part of the financial statements (continued)

for the Year ended 31 December 2006

19 Reserves

	Group			
	Share premium account £'000	Other reserve £'000	Share based payment reserve £'000	Profit and loss account £'000
At 1 January 2006 as previously reported	7,423	50	–	(4,845)
Prior period adjustment	–	–	60	(60)
As restated	7,423	50	60	(4,905)
Loss for the year	–	–	–	(1,132)
At 31 December 2006	7,423	50	60	(6,037)

	Company			
	Share premium account £'000	Other reserve £'000	Share based payment reserve £'000	Profit and loss account £'000
At 1 January 2006 as previously reported	7,423	50	–	(3,941)
Prior period adjustment	–	–	60	(60)
As restated	7,423	50	60	(4,001)
Loss for the year	–	–	–	(1,132)
At 31 December 2006	7,423	50	60	(5,133)

20 Reconciliation of movements in shareholders' funds

	Group		Company	
	2006 As restated £'000	2005 As restated £'000	2006 As restated £'000	2005 As restated £'000
Loss for the year	(1,132)	(1,279)	(1,132)	(1,279)
Issue of share capital (including premium)	–	14	–	14
Net movement in shareholders' funds	(1,132)	(1,265)	(1,132)	(1,265)
Opening shareholders' funds	2,839	4,104	3,743	5,008
Closing shareholders' funds	1,707	2,839	2,611	3,743

Notes forming part of the financial statements (continued)

for the Year ended 31 December 2006

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

	2006 £'000	2005 £'000
Operating loss	(1,239)	(1,452)
Profit on disposal of current asset investment	(34)	–
Depreciation and amortisation	94	92
Loss on disposal of fixed assets	–	5
Decrease in stocks	79	24
Decrease in debtors	1	215
Increase/(decrease) in creditors	277	(220)
Decrease in provisions	(161)	(4)
Net cash outflow from operating activities	(983)	(1,340)

22 Analysis of changes in net funds

	1 January 2006 £'000	Cash flow £'000	31 December 2006 £'000
Cash at bank and in hand	2,363	(616)	1,747
Less Term deposits treated as liquid resources	(2,364)	695	(1,669)
	(1)	79	78
Obligations under hire purchase contracts	(5)	5	–
Term deposits	2,364	(695)	1,669
	2,358	(611)	1,747

Included within cash at bank and in hand is a deposit for £250,000 which is used as collateral for bank facilities provided by HSBC plc. These facilities included a bank guarantee issued to Highbridge (Houndhill) Industries Ltd for £142,920, being a rolling two years rent on the manufacturing facility at Rotherham.

Notes forming part of the financial statements (continued)

for the Year ended 31 December 2006

23 Reconciliation of net cash flow to movement in net funds

	2006 £'000	2005 £'000
Increase/(decrease) in cash in year	79	(19)
Cash outflow from decrease in debt	5	14
Cash inflow from decrease in liquid resources	(695)	(1,208)
Decrease in net funds from cash flows	(611)	(1,213)
Net funds at the beginning of the year	2,358	3,571
Net funds at the end of the year	1,747	2,358

24 Commitments under operating leases

As at 31 December 2006 annual commitments under non cancellable operating leases as follows

	Group and Company			
	2006		2005	
	Land and Buildings £'000	Other £'000	Land and Buildings £'000	Other £'000
Operating leases which expire				
Within two to five years	-	6	-	2
After five years	71	-	71	-

25 Contingent liability

The Company has received revenue and capital grants totalling £133,000 in 2003 and 2004, 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.

26 Post balance sheet events

On 15 January 2007 the Company issued 30,000,000 new ordinary shares of 1p each for a consideration of 10p per share. The Company received £2.8m net of expenses.

Five Year Summary

Profit and Loss (As restated)

	2006 £000's	2005 £000's	2004 £000's	2003 £000's	2002 £000's
Continuing income from product sales	1,564	1,035	1,598	616	483
Non recurring income	–	–	–	–	200
Turnover	1,564	1,035	1,598	616	683
Gross profit	409	337	518	267	353
Overheads	(1,648)	(1,789)	(2,082)	(1,085)	(1,134)
Operating loss before exceptionals	(1,087)	(1,402)	(1,236)	(684)	(981)
Exceptional (costs)/income	(152)	(50)	(328)	(134)	200
Loss on ordinary activities after taxation	(1,132)	(1,279)	(1,366)	(786)	(717)
Loss per share – basic and diluted	(5.4p)	(6 1p)	(6 5p)	(7 2p)	(6 8p)

Balance Sheet

Net current assets/(liabilities)	1,576	2,794	4,033	5,303	1,057
Net assets/(liabilities)	1,707	2,839	4,104	5,410	1,481
Net funds/(debt)	1,747	2,358	3,571	4,995	738

Notice of Annual General Meeting

Notice is given that the 2007 Annual General Meeting of the Company will be held at Wentbridge House Hotel, Wentbridge, Pontefract, West Yorkshire WF8 3JJ on Friday 27 April 2007 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 2006 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 Richard Harpum, 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

29 March 2007

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, Proxy Processing Centre, Telford Road, BICESTER OX26 4LD by 2.00 pm on 25 April 2007. 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 2.00pm on 25 April 2007 or, if the meeting is adjourned, shareholders entered on the Company's register of members not later than 48 hours before the time fixed for the adjourned meeting shall be entitled to attend and vote at the meeting.

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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Bolton Road
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Rotherham, S63 7LG**

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