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INDITHERM plc

Annual Report
and
Financial Statements
2008

INDITHERM *plc*

Contents

INDITHERM at a glance

Based near Rotherham, South Yorkshire and incorporated in the United Kingdom, 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 and medical (patient warming). In addition, the Company is focused on producing heating solutions for utility water and waste water treatment plants, concrete curing and sports pitch heating.

INDITHERM Target Markets

INDITHERM
Medical

In the Medical market, Inditherm 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 applications. They offer improved clinical performance, combined with significant cost savings over traditional technologies. Products are sold internationally through a network of distributors.

INDITHERM
Industrial

In the Industrial market, Inditherm 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 and beverage, confectionery, pharmaceutical, chemical, oil and gas, and water utility industries. Inditherm uses significantly less energy than traditional electrical trace heating, hot water or steam systems. In addition, the business has developed significant expertise in providing unheated insulation solutions.

INDITHERM
Construction

In the Construction market, Inditherm working in conjunction with Sheffield Hallam University, has developed solutions to accelerate concrete curing, concrete infrastructure heating and frost protection solutions. Initial commercial focus has been in the pre-cast concrete producers where process improvement provides the benefit of improved cycle times, reduction in lost production and significant savings on energy costs.

INDITHERM
Sport

In the Sports market, Inditherm specialises in heating sports pitches. In 2008 Inditherm completed the installation of a pitch heating system at Aston Villa's Training Academy. This is the fifth project undertaken since starting in this market in 2004. Not only is the Inditherm system far more reliable than traditional systems, it uses significantly less energy.

Directors and Advisers

Directors	M S Abrahams (Chairman) N Bettles 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
Independent auditors	PricewaterhouseCoopers LLP, Benson House, Wellington Street, Leeds LS1 4JP
Bankers	HSBC, Montgomery Road, Wath Upon Dearne, Rotherham S63 7QW
Nominated adviser and broker	Collins Stewart Europe Limited, 8th Floor, 88 Wood Street, London EC2V 7QR
Legal advisers	Walker Morris, Kings Court, 12 King Steet, Leeds LS1 2HL
Registrars	Capita Registrars Limited, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU

Chairman's Statement

Overview

Our strategy of targeting higher value-added applications and eliminating unprofitable work resulted in a small net increase in sales but with gross profit 37% higher, year on year. The results for the year have benefited from the sale of launch stocks to Smiths Medical.

Growth of the Medical sector has continued. We have seen end-user sales in the USA, albeit at a slow rate, and this indicates that a market there exists which can be grown.

The redirection and focus in the Industrial sector has delivered the increase in margins sought but with reduced sales as a consequence. Resources have now been put in place to facilitate growth of this sector.

The outcome for the second half was in line with expectations at the Interim stage. The combination of improved margins and contained overheads has resulted in a significantly reduced rate of cash consumed from operating activities compared to 2007 with a year-end cash balance of £3,115k (2007: £3,485k).

Results

Turnover for the year rose by 7% to £1,983k (2007: £1,861k), due to growth in Medical sales including start-up stock for Smiths Medical. This was in line with expectations following the results reported for the first half of the year.

Overheads were kept under control during the year, and were £1,607k (2007: £1,605k before exceptional costs), resulting in a 37% improvement in operating loss before exceptional items at £502k (2007: £799k). With no exceptional costs (2007: £128k) and net interest income of £178k (2007: 213k), the post-tax loss was £283k (2007: £699k).

The year end cash balance was £3,115k (2007: £3,485k), representing a net outflow from operating activities of £263k (2007: £1,044k).

Operations:

Medical orders excluding the USA grew by 47% over the previous year. Smiths have not ordered sufficient quantities to maintain their contractual right to exclusivity and the agreement therefore has become non-exclusive in accordance with existing provisions. Additional channels to market in the USA are being actively progressed and national distribution for our neonatal warming range has been secured during 2008. Our export orders from distributors and overseas partners outside the US grew by over 40% from the previous year, indicating that this area is continuing to develop well. UK orders grew by over 50% with increasing acceptance of our technology in the market. We anticipate that the NICE Guideline on perioperative hypothermia, which was published during the year, will help us to continue this growth.

Sales effort in the Industrial markets in 2008 focused on business rationalisation rather than growth following a reassessment of future potential for profitable growth. The desired increase in margins has been achieved with the potential for further progress in that area. We are continuing to pursue the strategy of focus on market sectors where the value of Inditherm has been established and where we can deliver standard products and gain repeat business. This is showing some early signs of success.

Commercial exploitation of our technology in the pre-cast concrete industry was modest during the year; however we have now managed to develop a number of standard products that are starting to generate growing interest. A clear value proposition for

Chairman's Statement (continued)

customers in the pre-cast concrete market has now been established and should allow us to begin to develop this sector during the year ahead.

The football pitch heating at the new Aston Villa training ground was completed in 2008. The club staff have expressed their satisfaction with the performance, particularly during the protracted cold spell around the turn of the year. The margins realised in this business area have been unsatisfactory and any future projects will only be undertaken if they can be priced to make a sufficient contribution.

Dividends

As stated in previous years, the Board intends to devote the Company's financial resources to business development. This intention, which the Board believes is in the best interest of the shareholders, has continued during 2008 and the Board does not expect to declare a dividend during the Company's continuing development.

Management

We further strengthened our management team with the appointment of a Marketing Manager for the Industrial and Construction businesses at the end of 2008.

Employees

We continue to invest in our workforce to ensure we have the appropriate skills with which to grow the business. On behalf of the Board, I thank our staff most sincerely for their continued support.

Outlook

Growth of the Medical sector, excluding the US, remains encouraging, with increasing order flow. We anticipate the same rate of growth in this sector in the year ahead. In the US we are beginning to see end-user sales and in addition expect to exploit alternative channels to market than Smiths Medical. We continue to believe there is a significant market to develop and exploit but the pace is unlikely to be rapid.

In the Industrial and Construction sectors the change of strategy instigated from the beginning of 2008 has continued to deliver higher margins, albeit on reduced sales. We anticipate that we will now be able to grow sales during the year ahead, with a focus on the sectors where we can offer standardised products and gain repeat business. We have a number of significant Industrial prospects where we hope to see successful conversion over the next six months. This outcome will help shape the direction for the Industrial business.

The world economic situation and global recession is undoubtedly having some impact in slowing the take-up of new projects. This does not affect interest in our technology and solutions, but does inevitably slow down the uptake.

We demonstrated in the first half of 2008 how close the balance is now between profit and loss in the business. In addition, our improved control of margin and cost slowed the rate of cash consumption. This gives us confidence that we can reach break-even with our own resources in the foreseeable future.

MARK ABRAHAMS
Chairman

26 March 2009

Chief Executive's Review

Overview

The Company saw modest sales growth during 2008 at 7%, however operating losses were reduced by over 40% due to the improved margins achieved and containment of overhead costs.

Order intake in the Medical sector outside the USA grew by 47%, but there were negligible orders received from the Smiths Medical due to them using up their start-up stock.

Despite a fall in sales as our Industrial market activities have been realigned, percentage margins from this sector have increased and give us a platform to drive forward in 2009.

Sales and marketing:

In the Medical sector orders for our CosyTherm neonatal warming systems more than doubled the levels achieved in 2007 as the product has become more established outside the UK. A distribution agreement for this range in the USA has been signed and initial stocks were delivered towards the end of 2008. Following promotional activity in the second half of 2008 a significant amount of interest has been generated in the US market, with over 100 requests for clinical evaluation.

The UK market for operating theatre patient warming systems showed over 50% year-on-year order growth, as acceptance of our technology as an alternative to traditional methods continues to spread. The NICE guideline on this subject, issued during 2008, has further stimulated customers to look at this clinical area and there has been an increasing flow of enquiries generated as a result. The NICE report includes recommendations that would require two and a half times the number of NHS patients to be warmed, significantly increasing the cost benefits of switching from traditional disposable products to Inditherm. This looks set to further accelerate uptake in the UK market during 2009.

Smiths Medical's end-user sales in the US market during the year were disappointing, and have been supplied out of their start-up stock. They have not met the contractual targets and therefore the distribution agreement has reverted to a non-exclusive basis. Discussions with partners who can provide parallel or alternative routes to market for our operating room product range are well progressed and should allow the Company to move forward in the US market in the year ahead.

In addition to our change in strategic focus for the Industrial business, the organisation has been rationalised and strengthened during the year, involving significant changes to the sales team. We have recruited an Operations Manager to ensure that maximum efficiency is obtained in manufacturing and improved control of larger customer projects is implemented. A Marketing Manager has been appointed to drive forward sales growth in both the Industrial and Construction sectors and ensure that the strategic objectives are met.

In the Construction sector we have not promoted our technology aggressively in 2008 whilst we have developed robust products, suited to the harsh user environment. We have introduced a number of standard products during the year, which are making it easier to demonstrate the benefits offered by Inditherm technology, particularly in the precast concrete markets. We are in negotiation with a growing number of customers who are looking at implementation of Inditherm heating in their processes and believe that this market will show progress during the coming year. We hope that the recent Sustainability Award received by Inditherm from the British Precast Association will help to highlight the advantages our technology can offer in this application.

Product development

A number of new products have been developed during the year to add to our Medical product range and these will be launched during the first quarter of 2009. These will improve our growth potential, particularly in the neonatal markets.

An advanced neonatal cot for use in Special Care Baby Units has been designed, which integrates with our CosyTherm warming range. This provides additional opportunities for growth with a customer base where we are already becoming well known and respected. This fills a market niche where there are a limited number of competing products.

We have identified a new application for our SpeedHeat heat therapy system to deliver warming during chemotherapy treatment. The product has been adapted to meet the clinical needs for this treatment. The market development is still in its early stages, but indications are that this could generate a valuable revenue stream that will help to underpin our historic medical growth rates.

Two new technological additions have been implemented within our Industrial product ranges that will give us further advantages, particularly in the process industry applications. One delivers advanced monitoring of process conditions using a bus-based system and allows the customer to have precise control that is not possible with other technologies. The second is a novel insulation and cladding method that is attracting particular interest from some of the major food and confectionery businesses. We believe these will be enabling technologies that will add to the benefits customers can derive from using Inditherm products and thus help increase our conversion rates.

Further work has been directed at increasing the number of standard products for the industrial and construction markets. This should help us to deliver our strategic goals of higher margins and repeat business.

Operations

Following the appointment of our new Operations Manager during the first half of the year, we have been focussed on improving efficiency and better project management, to support the drive for higher margins particularly in the industrial area. We continue to be perceived by our customers as delivering high quality products and service.

With the growing demand for medical products we have adapted our manufacturing philosophy and can now typically offer products from stock to ensure optimum turn-round on orders. The improved response time, which flows from production standardisation achieved, has been well received by our distributor network.

Chief Executive's Review (continued)

Outlook

Growth in the Medical markets has continued during 2008, and it is anticipated that this will progress further in the year ahead. Significant focus will be placed on driving forward business in the USA but we will no longer depend on Smiths Medical alone. Profitability in this sector is expected to remain good and we will devote our energy to achieving faster growth wherever possible.

The improved margins we are realising from our Industrial products put us in a much better position to make this area of the business profitable. We believe that some further progress on margins can be achieved in the year ahead. With a stronger team in place we anticipate that we can now start to grow sales again during 2009.

We believe that the business is now in a position to exploit opportunities in the Construction sector, although this is still in the early stages of commercial implementation. Focus will be directed primarily on the pre-cast concrete sector.

NICK BETTLES
Chief Executive

26 March 2009

Financial Review

Trading results

Turnover in the year increased by £122k to £1,983k (2007: £1,861k).

During the year the gross profit percentage increased from 43% to 56%, as a result of a larger proportion of Medical sales and the improvement in margins achieved on the Industrial sales.

Total administration expenses before exceptional costs were up £2k to £1,607k from £1,605k in 2007.

The operating loss before exceptional costs of £502k is a reduction of £297k on last year.

Cash resources generated net interest income for the year of £178k (2007: £213k), giving a pre tax loss of £324k (2007: loss £714k).

Cash resources and Net assets

Net cash outflow from operations before financing and investing activities for the year was £263k (2007: £1,044k) reflecting the operating loss. There was a net increase in working capital during the year of £14k.

Net funds at the year end were £3,115k (2007: £3,485k).

Shareholders' equity amounted to £3,543k (2007: £3,814k).

Taxation

As the Company has continued to incur trading losses no corporation tax liability has yet arisen. Accumulated tax losses to the end of 2008 of £5,688k (2007: £5,573k) 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 of £41k in the year on qualifying expenditure.

Ian D Smith

IAN D SMITH
Finance Director and Company Secretary

26 March 2009

Directors and Board Committees

Directors

*Mark Abrahams (Aged 54, 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.

Nick Bettles (Aged 53, Chief Executive)

Nick joined the Company in April 2004 as Medical Division Director, and was promoted to Chief Executive in November 2007. He is a chartered engineer with BSc and MSc degrees in electrical and electronic engineering from Bristol University. Nick has held executive management positions within the Medical division of Vickers plc, and in the industrial field with the Combustion & Environmental division of Land Instruments International, in addition to his experience at Inditherm.

*John Markham OBE (Aged 62) **

John joined the Company in March 2002. He has an honours degree in Chemical Engineering and is a Fellow of the Institute of Chemical Engineers. 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 52, Finance Director and Company Secretary)

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:

Audit committee	*Remuneration committee*	*Nominations committee*
Mark Abrahams *Chairman*	John Markham *Chairman*	Mark Abrahams *Chairman*
John Markham	Mark Abrahams	John Markham
		Nick Bettles

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 on Corporate Governance issued in June 2006.

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 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.

Due to the size of the Company there are inherent control limitations. 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 maintained in an appropriate manner for the operations.

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 2008	Notice period
N Bettles	–	1 year
I D Smith	–	1 year
M S Abrahams	11 months	Fixed term
J H 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. Non-executive directors do not participate in decisions about their own remuneration. They are not eligible for pension scheme membership or bonus schemes but they do participate in the Company's share option scheme.

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 comprise 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 composition of each director's remuneration based on a maximum payment under the terms of an annual performance related bonus is as follows:

	Non performance related	Performance related
N Bettles	67%	33%
I D 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 or the provision of a fully expensed company car, 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 basic 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	2008 Total £'000	2007 Total £'000
M S Abrahams	35	–	–	35	35
J H Markham	23	–	–	23	23
N Bettles*	110	5	11	126	12
I D Smith	90	5	14	109	105
R Harpum**	–	–	–	–	229
	258	10	25	293	404

Contributions to a defined contribution pension scheme were paid on behalf of two directors (2007: three) during the year. No directors exercised share options during the year.

* N Bettles' emoluments in 2007 were for the period as a director.

** Includes compensation for loss of office of £110k paid in 2007, which was paid in cash.

Interests in share options

Details of options held by directors are set out below:

	Date of Grant	Option Price	2008 Number	2007 Number
M S Abrahams	10/12/01	97p	207,540	207,540
J H Markham	09/04/02	222p	30,000	30,000
N Bettles	21/12/07	10p	400,000	400,000
I D Smith	02/04/04	52.5p	100,000	100,000
I D Smith	21/12/07	10p	200,000	200,000

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 shares at 31 December 2008 was 3.75p: the range of market prices during the year was 8.75p to 3.63p.

Remuneration Report (continued)

Directors' Interests in shares

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

	2008	2007
MS Abrahams	**301,546**	301,546
JH Markham	**29,366**	28,366
N Bettles	**4,444**	4,444
ID Smith	**54,444**	54,444

There have been no post year end changes to these holdings.

All directors' interests are beneficially held.

JOHN H MARKHAM
Chairman, Remuneration Committee
26 March 2009

Statement of Directors' Responsibilities

The directors are responsible for preparing the annual report and financial statements in accordance with applicable laws and regulations. Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the Group and Parent Company financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. The financial statements are required by law to give a true and fair view of the state of affairs of the Company and the Group 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; and
- Prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the Group will continue in business, in which case there should be supporting assumptions or qualifications as necessary.

The directors confirm that they have complied with the above requirements in preparing the financial statements.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and 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 Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the Group web site, www.inditherm.com. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

By order of the Board

IAN D SMITH
Finance Director and Company Secretary

26 March 2009

Report of the Directors

for the Year ended 31 December 2008

The directors present their report together with the Group's audited financial statements for the year ended 31 December 2008.

Results and dividends

The income statement is set out on page 24 and shows the loss for the year.

As stated in previous years, the Board intends to devote the Company's financial resources to business development. This intention, which the Board believes is in the best interest of the shareholders, has continued during 2008 and the Board does not expect to declare a dividend during the Company's continuing development (2007: nil).

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, the Chief Executive's Review on page 6 and the Financial Review on page 9.

Principal risks and uncertainties

The Group has a formal process for indentifying principal risks and has a programme for reviewing these risks as part of its monthly board meeting business. The principal risks faced by the Group are:

- Business growth rates
- Development of the North American medical markets
- Attracting and retaining key staff
- Polymer production and development programme
- Liquidity
- Patents infringement

Key Performance Indicators

The board of directors monitor the following key performance indicators in absolute and relative terms:

	2008	2007
Order growth rate (Year on year)	**(40)%**	+30%
Sales growth rate (Year on year)	**+6.6%**	+19%
Gross profit % (Annual percentage)	**56%**	43%
Cash resources available	**£3,115k**	£3,485k

Directors

The directors of the Company who served during the year are shown on page 10.

Report of the Directors (continued)

Substantial interests

At 23 March 2009 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 Ltd	10,806,000	21.1%
Mr D G Steward	10,300,000	20.2%
Invesco Perpetual AIM VCT plc	5,000,000	9.8%
Allianz Cornhill Insurance plc	4,600,000	9.0%
Aviva plc	4,022,085	7.9%
Phoenix VCT plc	3,400,000	6.7%
Mr P O'Grady	2,349,536	4.6%
AXA Investment Managers Limited	2,112,085	4.1%

Creditor payment policy and practice

It is the Group's and Company'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 the Group and Company trade creditors at the year end was 46 (2007: 54).

Research and development

The Group continues to invest in research and development, in order to increase our product offering and improve the effectiveness of our technology. Internal costs are expensed in the Income Statement.

External costs incurred on specific development projects that are expected to result in commercially and economically viable products are capitalised.

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.

The main risks arising from the Group's financial instruments are liquidity and credit 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 risks and consequently does not hedge against such risk.

Credit limits are set for all customers having referred to payment history and the services of a credit rating support service.

Report of the Directors (continued)

In June 2008 the board reviewed and updated its investment strategy for its cash investments in the light of the issues in the banking sector. This review established that no more than £1m would be place on deposit with any one institution and that all institution should be rated AA or better for long term investments and A1+ for short term investments. The Board keeps this situation under review in the light of new developments.

The Board has established a foreign currency hedging policy that aims to protect gross margins, when viewed in sterling terms, for orders denominated in foreign currencies that have been awarded by customers or placed with suppliers. At this stage of the Company's development the uncertainty of future business levels means that no hedging is undertaken for projected sales not contractually committed. The policy allows the use of spot and forward foreign exchange contracts, but does not allow the use of other derivative instruments. The amount of cash held in foreign curencies is not considered significant enough to require hedging arrangements. The Board keeps these risks under regular review.

Further information on financial instruments is set out in note 14.

Indemnification of directors

The directors' Contracts of Employment and Letters of Appointment do not indemnify directors. The Company provides Directors and Officers Insurance cover for £5,000,000 and is contractually committed to provide cover for the period of service and six years thereafter.

Auditors' information

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.

Re-appointment of auditors

PricewaterhouseCoopers LLP have expressed their willingness to continue in office and a resolution to re-appoint them is proposed will be proposed at the Annual General Meeting.

Special business

- Resolution 4 in the Notice of Annual General Meeting on page 47 renews the authority of the Directors to allot relevant securities. The nominal amount of securities to which the authority relates is £25k, which represents approximately 5% 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 15 months after the date of this Ordinary Resolution. The directors have no present intention of exercising this authority.

Report of the Directors (continued)

- 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 £25k, 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

26 March 2009

Independent Auditors' Report to the Members of Inditherm plc

We have audited the Group and Parent Company financial statements (the "financial statements") of Inditherm plc for the year ended 31 December 2008 which comprise the Consolidated Income Statement, the Consolidated and Parent Company Statements of Changes in Shareholders' Equity, the Consolidated and Parent Company Balance Sheets, the Consolidated and Parent Company Cash Flow Statements and the related notes. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

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

In addition we report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. The other information comprises only Inditherm at a Glance, Inditherm Target Markets, Directors and Advisers, the Chairman's Statement, the Chief Executive's Review, the Financial Review, Directors and Board Committees, the Statement of Corporate Governance, the Remuneration Report, the Statement of Directors' Responsibilities and the Report of the Directors. 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.

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

Basis of audit opinion

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

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

Opinion

In our opinion:

- the Group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the Group's affairs as at 31 December 2008 and of the Group's loss and cash flows for the year then ended;
- the Parent Company financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union as applied in accordance with the provisions of the Companies Act 1985, of the state of the parent company's affairs as at 31 December 2008 and cash flows 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 Report of the Directors is consistent with the financial statements.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants
and Registered Auditor
Leeds

26 March 2009

Consolidated Income Statement

for the Year ended 31 December 2008

	Notes	2008 £'000	2007 £'000
Turnover	2	**1,983**	1,861
Cost of sales		**(878)**	(1,055)
Gross profit		**1,105**	806
Administrative expenses		**(1,607)**	(1,733)
Operating loss before exceptional items		**(502)**	(799)
Exceptional administrative expenses	4	**–**	(128)
Operating loss		**(502)**	(927)
Finance income	5	**179**	215
Finance costs	5	**(1)**	(2)
Loss on ordinary activities before taxation		**(324)**	(714)
Taxation credit from loss on ordinary activities	6	**41**	15
Deficit for the year attributable to equity holders		**(283)**	(699)
Loss per share – basic and diluted	7	**(0.6p)**	(1.4p)

All amounts relate to continuing activities.

Consolidated Statement of Changes in Shareholders' Equity

	Share capital £'000	Share premium account £'000	Share based payment reserve* £'000	Retained earnings £'000	Total £'000
At 1 January 2007	211	7,423	110	(6,037)	1,707
Loss for the year	–	–	–	(699)	(699)
Issue of shares	300	2,700	–	–	3,000
Expenses of share issue	–	(194)	–	–	(194)
At 31 December 2007	511	9,929	110	(6,736)	3,814
Loss for the year	–	–	12	(283)	(271)
At 31 December 2008	**511**	**9,929**	**122**	**(7,019)**	**3,543**

Statement of Changes in Shareholders' Equity – Company

	Share capital £'000	Share premium account £'000	Share based payment reserve* £'000	Retained earnings £'000	Total £'000
At 1 January 2007	211	7,423	110	(5,133)	2,611
Loss for the year	–	–	–	(1,618)	(1,618)
Issue of shares	300	2,700	–	–	3,000
Expenses of share issue	–	(194)	–	–	(194)
At 31 December 2007	511	9,929	110	(6,751)	3,799
Loss for the year	–	–	12	(269)	(257)
At 31 December 2008	**511**	**9,929**	**122**	**(7,020)**	**3,542**

* Upon floatation of the Company on 11 December 2001, 103,770 share options were granted at 48.5p (a discount of 50% to the then market price). The £50k non-cash cost was charged to the share premium account and was credited to an "Other reserve" and is now presented within the Share based payment reserve.

Consolidated Balance Sheet

as at 31 December 2008

	Notes	2008 £'000	2007 £'000
Assets			
Non-current assets			
Property, plant and equipment	8	**115**	162
Intangible assets	9	**92**	15
		207	177
Current assets			
Inventories	11	**175**	192
Trade and other receivables	12	**317**	597
Tax recoverable		**40**	39
Cash and cash equivalents		**3,115**	3,485
		3,647	4,313
Liabilities			
Current liabilities			
Trade and other payables	13	**(311)**	(622)
		(311)	(622)
Net current assets		**3,336**	3,691
Non-current liabilities			
Provisions for liabilities and charges	16	**–**	(54)
Net assets		**3,543**	3,814
Shareholders' equity			
Called up share capital	17	**511**	511
Share premium account		**9,929**	9,929
Share based payment reserve		**122**	110
Retained earnings		**(7,019)**	(6,736)
Total equity		**3,543**	3,814

The financial statements were approved by the Board of Directors on 26 March 2009 and signed on its behalf by:

N BETTLES
Director

I D SMITH
Director

Company Balance Sheet
at 31 December 2008

	Notes	2008 £'000	2007 £'000
Assets			
Non-current assets			
Property, plant and equipment	8	**115**	162
Intangible assets	9	**91**	–
Investments in subsidiaries	10	**–**	–
Amounts due from subsidiary	12	**–**	–
		206	162
Current assets			
Inventories	11	**175**	192
Trade and other receivables	12	**317**	597
Tax receivable		**40**	39
Cash and cash equivalents		**3,115**	3,485
		3,647	4,313
Liabilities			
Current liabilities			
Trade and other payables	13	**(311)**	(622)
		(311)	(622)
Net current assets		**3,336**	3,691
Non-current liabilities			
Provisions for liabilities and charges	16	**–**	(54)
Net assets		**3,542**	3,799
Shareholders' equity			
Called up share capital	17	**511**	511
Share premium account		**9,929**	9,929
Share based payment reserve		**122**	110
Retained earnings		**(7,020)**	(6,751)
Total equity		**3,542**	3,799

The financial statements were approved by the Board of Directors on 26 March 2009 and signed on its behalf by:

N BETTLES
Director

I D SMITH
Director

Cash Flow Statement

for the Year ended 31 December 2008

	Notes	Group and Company 2008 £'000	2007 £'000
Cash flow from operating activities			
Cash used in operations	18	**(481)**	(1,257)
Interest received		**179**	215
Interest paid		**(1)**	(2)
Taxation		**40**	–
Net cash outflow from operating activities		**(263)**	(1,044)
Cash flow from investing activities			
Purchase of property, plant and equipment		**(17)**	(25)
Capitalised development costs		**(91)**	–
Sale of property, plant and equipment		**1**	1
Net cash used in investing activities		**(107)**	(24)
Cash flow from financing activities			
Issue of shares		**–**	3,000
Share issue expenses		**–**	(194)
Net cash generated from financing activities		**–**	2,806
Net (decrease)/increase in cash and cash equivalents		**(370)**	1,738
Cash and cash equivalents at the beginning of the year		**3,485**	1,747
Cash and cash equivalents at the end of the year		**3,115**	3,485

Notes forming part of the financial statements
for the Year ended 31 December 2008

1 Accounting Policies

Basis of preparation

The principal accounting policies adopted in the preparation of these financial statements, which have been applied consistently to all periods presented, are set out below.

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), International Financial Reporting Interpretations Committee (IFRIC) interpretations and with those parts of the Companies Act 1985 applicable to companies reporting under IFRS. The standards used are those published by the International Accounting Standards Board (IASB) and endorsed by the EU at the time of preparing these statements. The financial statements are prepared under the historical cost convention, except for share based payments and derivative financial instruments which are measured at fair value.

Basis of consolidation

The financial statements of the Group consolidate the financial statements of Inditherm plc and its subsidiary undertakings up to 31 December 2008 using acquisition accounting. The results of subsidiary undertakings acquired during a financial period are included from the effective date of acquisition. All intra-group transactions, balances, income and expenses are eliminated on consolidation.

The Company has taken advantage of the exemption under Section 230 of the Companies Act 1985 and has not presented its own income statement. The loss after taxation of for the year dealt with in the accounts of the parent company was £269k (2007: £1,618k loss).

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. Consistent accounting policies are used by all subsidiaries.

Accounting estimates and judgements

The preparation of these financial statements requires management to make estimates and judgements that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue during the reporting period. Actual results could differ from these estimates. Information about such judgements and estimates is contained in individual accounting policies.

Key sources of estimation uncertainty that could cause an adjustment to be required to the carrying amount of asset or liabilities within the next accounting period are:

- Revenue recognition and assessment of long term contract performance;
- Warranty provisions; and
- Allowances against the valuation of inventories.

Notes forming part of the financial statements (continued)

for the Year ended 31 December 2008

1 Accounting Policies (continued)

New accounting standards and IFRIC interpretations

The following new standards and interpretations to existing standards are mandatory for accounting periods beginning on or after 1 January 2008, but are not relevant to the Group's or Company's operations:

- IFRIC 11 'IFRS 2 – Group and treasury share transactions'; and
- IFRIC 12 'Service concession arrangements'.

The following standards and interpretations to existing standards have been published but are not mandatory for the year ended 31 December 2008 and consequently have not been adopted by the Group or Company in the year:

- IAS 1 Revised 'Presentation of financial statements';
- IAS 23 Revised 'Borrowing costs';
- IAS 27 (Amendment) 'Consolidated and separate financial statements';
- IAS 32 (Amendment) 'Financial instruments: Presentation';
- IAS 39 (Amendment) 'Financial instruments: Recognition and measurement';
- IFRS 1 (Amendment) 'First time adoption of IFRS';
- IFRS 2 (Amendment) 'Share based payments';
- IFRS 8 'Operating segments';
- IFRIC 13 'Customer loyalty programmes';
- IFRIC 14 'IAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction'.
- IFRIC 15 'Agreements for the construction of real estates';
- IFRIC 16 'Hedges of a net investment in a foreign operation';
- IFRIC 17 'Distributions of non cash assets to owners'; and
- IFRIC 18 'Transfer of assets from customers'.

The above standards or interpretations are either not relevant to the Group or Company or not expected to have a significant impact on the Group's or Company's financial statements.

No standards have been adopted early by the Group or Company.

Turnover and recognition of income

Turnover comprises the fair value of the consideration received or receivable from the sale of goods and services in the ordinary course of the Group's activities. Turnover is shown net of value added tax, returns, rebates and discounts. Turnover is recognised when title of the goods passes to the customer or when the services have been provided.

Notes forming part of the financial statements (continued)

for the Year ended 31 December 2008

1 Accounting Policies (continued)

Turnover and recognition of income (continued)

Turnover and attributable profit on long term contracts is recognised according to the percentage of estimated total contract value completed, provided that the outcome of the contract can be assessed with reasonable certainty. Percentage of completion is calculated as costs incurred compared to total estimated costs expected to be incurred. Amounts recognised as turnover in respect of work done but not yet billed are included within current assets net of progress payments received and provisions for foreseeable losses. Costs incurred, including an appropriate allocation of overheads, in respect of long term contracts are included in work in progress net of amounts recognised in cost of sales in the income statement, progress payments received and provisions for foreseeable losses. Provision is made in full for any losses as soon as they can be foreseen. Any payments on account or provisions for foreseeable losses in excess of contract balances are included in current liabilities.

Exceptional items

Exceptional items are non-recurring and/or material items which are either outside of the Group's ordinary activities or that due to their size or nature require separate disclosure in order for the financial statements to provide a better indication of the underlying results of the business.

Employee benefits

The Group operates a stakeholder pension scheme and contributions are also paid into employees' personal pension schemes. Contributions are charged to the income statement in the period in which they become payable. The Group has no further payment obligations once the contributions have been paid.

Share-based incentives

The Group issues equity settled share options to certain employees. These are measured at fair value at the date of grant and recognised as an expense in the income statement over the vesting period based upon the Group's estimate of the number and value of options that will eventually vest. The fair value is determined by using the Black-Scholes options pricing model.

Research and development costs

Research expenditure is written off in the year in which it is incurred. Development expenditure is charged to the income statement in the year in which it is incurred unless it meets the criteria for capitalisation in IAS 38 'Intangible assets'. Where the criteria are met, intangible assets are capitalised and amortised over their useful economic lives which is initially considered to be three years from the point the products are launched to market.

Notes forming part of the financial statements (continued)
for the Year ended 31 December 2008

1 Accounting Policies (continued)

Leases

Payments made under operating leases, net of any incentives received from the lessor, are charged to the income statement on a straight line basis over the period of the lease.

Assets acquired under hire purchase contracts are capitalised in the balance sheet and depreciated over the shorter of the lease term or their expected useful lives. The capital element of future lease payments are included in liabilities. The interest element is charged to the income statement over the term of the contract.

Foreign currency transactions and balances

Foreign currency transactions are translated using exchange rates prevailing at the date of the transactions. Assets and liabilities are translated at exchange rates ruling at the end of each financial period, gains and losses on retranslation are recognised in the income statement.

Property, plant and equipment

Property, plant and equipment is stated at cost net of accumulated depreciation and any provision for impairment. Cost comprises purchase cost together with any incidental costs of acquisition. Depreciation is provided to write off the cost less the estimated residual value of the tangible fixed assets by equal instalments over their estimated useful economic lives. The asset's residual values and useful economic lives are reviewed, and adjusted as appropriate, at each balance sheet date. The following rates are applied:

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

Intangible assets

Intangible assets are recognised if it is possible that there will be future economic benefits attributable to the asset, the cost of the asset can be measured reliably, the asset is separately identifiable and there is control over the use of the asset. The cost of assets is amortised over the period over which the Group expects to benefit from these assets. Provision is made for any impairment in value if applicable.

Purchased intellectual property rights are capitalised and amortised over the directors' estimate of their useful economic life of 10 years.

Impairment of non-financial assets

Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

Notes forming part of the financial statements (continued)
for the Year ended 31 December 2008

1 Accounting Policies (continued)

Taxation

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date, together with any adjustment in respect of previous years.

Deferred taxation is recognised, using the full liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amount in the consolidated financial statements. Deferred taxation is determined using tax rates (and laws) that have been enacted, or substantially enacted, by the balance sheet date, and are expected to apply when the related deferred taxation asset is realised or deferred taxation liability is settled.

Deferred taxation assets are recognised only to the extent that it is probable that within a reasonable future taxable profits will be available against which the temporary differences can be utilised.

Inventories

Inventories which include raw materials and work in progress are stated at the lower of cost and net realisable value. Cost comprises direct material and, where applicable, direct labour costs and those overheads that have been incurred in bring inventories to their present location and condition. Raw materials are valued on a first in first out basis.

Net realisable value is based on estimated selling price less additional costs to completion or disposal. Allowance is made for obsolete, defective and slow moving items based on estimated future usage.

Trade and other receivables

Trade and other receivables are stated at cost less provisions for impairment, where appropriate. Provision for impairment of trade receivables is established where there is evidence that the Group will not be able to collect all the amounts due. The amount of the provision is the difference between the asset's carrying amount and the cash flows expected to be received.

Investments

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

Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held on call with banks, other short term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings on the balance sheet.

Notes forming part of the financial statements (continued)

for the Year ended 31 December 2008

1 Accounting Policies (continued)

Derivative financial instruments

Derivative financial instruments are initially recognised at fair value on the date a contract is entered into and are subsequently re-measured at their fair value at each balance sheet date. The resulting gain or loss is recognised directly in the income statement. The Group does not apply hedge accounting in respect of its financial instruments, nor does it trade in any financial instruments.

Trade payables

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

Grants

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

Provisions

Provisions for liabilities are made where the timing or amount of settlement is uncertain. A provision is recognised when: the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount can be reliably estimated. Provisions are not discounted.

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 Wath upon Dearne and in the field. The estimated cost of work to be performed under warranty on items sold by the Group is provided for when the above criteria are met.

Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

Segmental reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

The Group's primary reporting segment is by business segment. The Group's secondary reporting segment is geographical by country of destination.

Notes forming part of the financial statements (continued)
for the Year ended 31 December 2008

2 Segmental analysis

The Group has only one business segment, which is its principal activity, being the manufacture, sale and installation of specialised heating products. The Group's operations are based in the United Kingdom. All revenue, losses and net assets of the Group are wholly attributable to that business segment and that geographical region.

Analysis of turnover by geographical destination:

	2008 £'000	2007 £'000
United Kingdom	**1,116**	1,333
USA	**455**	275
Rest of World	**412**	253
	1,983	1,861

3 Employees

Group and Company Aggregate employee costs are as follows:	2008 £'000	2007 £'000
Wages and salaries	**1,018**	1,046
Social security costs	**106**	125
Pension costs – defined contribution schemes	**20**	21
Compensation for loss of office*	**–**	110
Share based payment	**12**	–
	1,156	1,302

Average number of persons including executive directors employed:

	2008 Number	2007 Number
Management and administration	**4**	4
Sales	**10**	10
Development	**2**	3
Production	**17**	18
	33	35

* Compensation for loss of office includes social security and legal costs.

Notes forming part of the financial statements (continued)

for the Year ended 31 December 2008

3 Employees (continued)

Directors' emoluments

The emoluments of the directors of the Company are:

	2008 £'000	2007 £'000
Aggregate emoluments	283	284
Compensation for loss of office	–	110
Contributions to defined contribution pension scheme	10	10
	293	404

The emoluments of the highest paid director were £126k (2007: £229k, which included compensation for loss of office of £110k). Contributions to pension arrangements for the highest paid director were £5k (2007: £5k).

No directors exercised share options during the year (2007: none).

4 Operating loss

Operating loss has been arrived at after charging/(crediting):

	2008 £'000	2007 £'000
Depreciation of property, plant and equipment – owned assets	64	72
Amortisation of intangible fixed assets	14	14
Profit on disposal of property, plant and equipment	(1)	(1)
Operating lease costs – other operating leases	110	107
Research and development costs	77	66
Exceptional costs – Compensation for loss of office*	–	128
Grant income	(13)	(25)
Auditor's remuneration		
For audit services – statutory	24	23
For audit services – other	3	–
For non-audit services – tax fees	6	3
For non-audit services – accounting	–	10
Total – Auditor's remuneration	33	36

* Compensation for loss of office includes social security and legal costs.

5 Net finance income

	2008 £'000	2007 £'000
Finance income		
Bank interest receivable	179	215
Finance costs		
Bank interest payable	(1)	(2)

Notes forming part of the financial statements (continued)

for the Year ended 31 December 2008

6 Taxation

(a) Analysis of credit in year

Current tax:	2008 £'000	2007 £'000
UK corporation tax credit	**41**	15

(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:

	2008 £'000	2,007 £'000
Loss on ordinary activities before taxation	**(324)**	(714)
Loss on ordinary activities multiplied by expected rate of corporation tax of 20.75% (2007: 19.00%)	**(67)**	(135)
Effects of:		
Expenses not deductible for tax purposes	**7**	20
Depreciation in excess of capital allowances not recognised as deferred tax asset	**(3)**	6
Research and development tax credit	**(41)**	(15)
Trading losses carried forward	**63**	109
	(41)	(15)

(c) Factors that may affect future tax charges

Following the approval of the 2007 Finance Bill, there will be a phased increase in the small companies' corporation tax rate from 19% to 22% by financial year 2009/2010.

The Group has tax losses estimated at £5,688k (2007: £5,573k) available for relief against future trading profits.

(d) Deferred taxation

The Group has the following potential deferred tax assets which have not been recognised:

	2008 £'000	2007 £'000
Accelerated capital allowances and other timing differences	**36**	39
Losses	**1,252**	1,226
	1,288	1,265

7 Loss per share

The calculation of loss per ordinary share is based on losses of £283k (2007: £699k) and on a weighted average of 51,112,581 (2007: 49,821,862) 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 2008

8 Property, plant and equipment

Group and Company

	Fixtures and fittings £'000	Plant, machinery, office equipment £'000	Motor vehicles £'000	Total £'000
Cost				
1 January 2007	235	144	119	498
Additions	7	18	–	25
Disposals	–	–	(36)	(36)
31 December 2007	242	162	83	487
Additions	–	17	–	17
Transfer	(6)	6	–	–
Disposals	–	–	(16)	(16)
31 December 2008	**236**	**185**	**67**	**488**
Accumulated depreciation				
1 January 2007	116	84	89	289
Depreciation charge	26	28	18	72
Disposals	–	–	(36)	(36)
31 December 2007	142	112	71	325
Depreciation charge	23	32	9	64
Disposals	–	–	(16)	(16)
31 December 2008	**165**	**144**	**64**	**373**
Net book amount				
31 December 2008	**71**	**41**	**3**	**115**
31 December 2007	100	50	12	162
1 January 2007	119	60	30	209

Notes forming part of the financial statements (continued)

for the Year ended 31 December 2008

9 Intangible assets

Group	Intellectual property rights £'000	Product development costs £'000	Total £'000
Cost			
1 January 2007 and 31 December 2007	136	–	136
Additions	–	91	91
31 December 2008	**136**	**91**	**227**
Accumulated amortisation and impairment			
1 January 2007	107	–	107
Amortisation charge	14	–	14
31 December 2007	121	–	121
Amortisation charge	14	–	14
31 December 2008	**135**	**–**	**135**
Net book amount			
31 December 2008	**1**	**91**	**92**
31 December 2007	15	–	15
1 January 2007	29	–	29

Only product development costs are held in the Company balance sheet.

Amortisation of intangible assets is included within administrative expenses within the income statement.

Intellectual property rights will be fully amortised in 2009. Product development costs will be fully amortised within four years.

10 Investments in subsidiaries – Company

Investment in subsidiaries at cost:	£
At 1 January 2008 and **31 December 2008**	**104**

Inditherm plc has the following wholly owned subsidiaries registered and operating in England and Wales:

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

Notes forming part of the financial statements (continued)

for the Year ended 31 December 2008

11 Inventories

Group and Company	2008 £'000	2007 £'000
Raw materials	**172**	157
Work in progress	**3**	35
	175	192

Inventories are presented net of provisions for write downs, based on management's estimate of net realisable value. The amount charged to the income statement in respect of write downs of inventories was £32k (2007: £21k). The amount credited to the income statement in respect of reversals of write downs was £9k (2007: £9k). The cost of inventories recognised as an expense and included in cost of sales was £461k (2007: £522k).

12 Trade and other receivables

Group and Company	2008 £'000	2007 £'000
Trade receivables	**242**	519
Amounts recoverable on contracts	**34**	16
Other receivables	**2**	12
Prepayments and accrued income	**39**	50
	317	597

Trade and other receivables are non-interest bearing. There is no material difference between the carrying amount and the fair value of trade and other receivables.

Trade receivables are presented net of provision for doubtful trade receivables of £6k (2007: £5k), all provisions for doubtful debts are against specific customers' accounts.

Movements on the Group and Company provision for impairment of trade receivables are as follows:

Group and Company	2008 £'000	2007 £'000
At 1 January	**5**	25
Provision made for impaired receivables	**6**	2
Unused provision reversed	**(4)**	(22)
Receivables written off during the year as uncollectable	**(1)**	–
At 31 December	6	5

Other receivable balances do not contain impaired assets.

Notes forming part of the financial statements (continued)

for the Year ended 31 December 2008

12 Trade and other receivables (continued)

At 31 December 2008 trade receivables of £6k (2007: £8k) were impaired. The amount of provision was £6k (2007: £1k).

The ageing of these receivables is as follows:

Group and Company	2008 £'000	2007 £'000
Under one year	**5**	–
Over one year	**1**	8
	6	8

At 31 December 2008 trade receivables of £102k (2007: £240k) were past due but not impaired. These receivable balances are not considered impaired because the balances have been acknowledged as payable by the customers and are within credit limits set up for the respective customers.

The ageing of these receivables is as follows:

Group and Company	2008 £'000	2007 £'000
Up to three months	**102**	224
Three to twelve months	**–**	16
	102	240

The carrying value of receivables that would have been past due or impaired, but whose terms have been renegotiated is £nil (2007 £nil).

Receivables that are neither past due or impaired are within credit limits for the respective customer and having made reasonable enquiries the directors are not aware of any reasons that indicate the amounts due are disputed or not collectable.

The maximum exposure to credit risk at the reporting date is the fair value of each class of receivable shown above. The Group does not insure debtors or hold any collateral as security.

The Company's receivable due from subsidiaries of £905k (2007: £919k) is fully impaired.

The carrying amounts of the Group's and Company's receivables are denominated in the following currencies:

Group and Company	2008 £'000	2007 £'000
Pounds sterling	**297**	519
US Dollar	**3**	74
Euro	**17**	4
	317	597

Notes forming part of the financial statements (continued)

for the Year ended 31 December 2008

13 Trade and other payables:

Group and Company	2008 £'000	2007 £'000
Trade payables	**158**	192
Other payables	**10**	4
Other taxes and social security	**39**	90
Accruals	**104**	156
Payments due to Pegasus under contract	**–**	180
	311	622

Trade and other payables are non-interest bearing. There is no material difference between the carrying amount and the fair value of trade and other payables.

The payments due to Pegasus arose from the agreement with Pegasus Limited dated 24 September 2003 whereby Inditherm reacquired the distribution rights for its range of heated medical mattresses in exchange for a 10% Royalty payable in respect of qualifying medical sales for the four year period ending 23 September 2007, with a minimum payment of £250,000. The balance due at the end of the four year period was £180,000, which was settled during 2008.

14 Financial risk management

The Group's financial instruments comprise cash and various items such as trade receivables, trade payables etc. that arise directly from its operations. The main purpose of these financial instruments is to finance the Group's operations. The policies to address the risks associated with the Group's financial instruments are reviewed and approved by the Board, a summary of the risks is set out below.

Liquidity risk

In the normal course of business the Group is exposed to liquidity risk. The Group's objective is to ensure that sufficient resources are available to fund short term working capital and longer term strategic requirements. This is achieved through the use of an appropriate mix of short, medium and long term deposits and investments.

The Group's financial liabilities all fall due within one year.

Credit risk

Credit risk principally arises on cash deposits and trade receivables. The credit risk arising on cash deposits is limited because the counterparties are financial institutions with high credit ratings assigned by international credit rating agencies. The credit risk arising on trade receivables is assessed on each individual customer taking into account independent ratings, its financial position, past experience and other factors.

In June 2008 the board reviewed and updated its investment strategy for its cash investments in the light of the issues in the banking sector. This review established that no more than £1m would be place on deposit with any one institution and that all institution should be rated AA or better for long term investments and A1+ for short term investments. The Board keeps this situation under review in the light of new developments.

Notes forming part of the financial statements (continued)
for the Year ended 31 December 2008

14 Financial risk management (continued)

Interest rate risks

The Group does not believe that its financial stability is threatened because of an exposure to interest rate risk and consequently does not hedge against them. The Board keeps these risks under regular review.

Foreign currency risks

It is recognised that the Company has a growing exposure to the foreign currency risks as export levels rise and it is appropriate to use spot and forward foreign exchange contracts, as part of its strategy for foreign currency risk management, to protect the value of the trading margins and cashflow.

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

15 Capital risk management

The Group establishes credit limits for all financial instruments taking into account independent ratings, past experience and other factors. The Group's investment policy is to invest in fixed rate/low risk investments where the capital element is not at risk to market changes. The capital risk of cash deposits is further reduced by spreading investment across a number of banks

16 Provision for liabilities

Movements in the provision are as follows:

	Warranty provision £'000
At 1 January 2008	54
New provision charged to the income statement	1
Provision utilised during the year	(45)
Provision not required released during the year	(10)
At 31 December 2008	–

17 Share capital

	2008 Number	2008 £'000	2007 Number	2007 £'000
Issued, called up and fully paid				
Ordinary shares of 1p each	**51,112,581**	**511**	51,112,581	511
Authorised share capital				
Ordinary shares of 1p each	**78,000,000**	**780**	78,000,000	780
Preference shares of £1 each	**220,000**	**220**	220,000	220
		1,000		1,000

Notes forming part of the financial statements (continued)

for the Year ended 31 December 2008

18 Reconciliation of operating loss to cash used in operations

	Group		Company	
	2008	2007	**2008**	2007
	£'000	£'000	**£'000**	£'000
Operating loss	**(502)**	(927)	**(502)**	(1,846)
Profit on disposal of property, plant and equipment	**(1)**	(1)	**(1)**	(1)
Depreciation and amortisation	**78**	86	**64**	72
Share based payments	**12**	–	**12**	–
Decrease in amounts due from subsidiary	**–**	–	**14**	933
Decrease/(increase) in inventories	**17**	(71)	**17**	(71)
Decrease/(increase) in trade and other receivables	**280**	(330)	**280**	(330)
(Decrease)/increase in trade and other payables	**(311)**	39	**(311)**	39
Decrease in provisions	**(54)**	(53)	**(54)**	(53)
Cash used in operations	**(481)**	(1,257)	**(481)**	(1,257)

19 Commitments under operating leases

Outstanding commitments for future minimum lease payments under non-cancellable operating leases fall due as follows:

	Land and buildings		Other	
Group and Company	**2008**	2007	**2008**	2007
	£'000	£'000	**£'000**	£'000
Within one year	**71**	71	**40**	35
In the second to fifth years inclusive	**286**	286	**31**	44
After five years	**214**	298	**–**	–
	571	655	**71**	79

20 Contingent liabilities

The Company received revenue and capital grants totalling £133k in 2003 and 2004, of which £7k has been recognised in the current year (2007: £7k). The grant may become repayable, under certain conditions, if various targets are not achieved. The directors do not expect any loss to arise.

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

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

Notes forming part of the financial statements (continued)
for the Year ended 31 December 2008

21 Share based payments

No share options were granted, exercised or forfeited during the year. The number of share options that are in issue at 31 December 2008 is 1,727,297 (2007: 1,727,297), of which 1,127,297 (2007: 1,127,297) are exercisable at 31 December 2008. Share options are exercisable at prices between 10p and 222p, with a weighted average exercise price of 42.4p. The weighted average contractual life of outstanding share options is 5.8 years (2007: 6.8 years).

The expense recognised in the year from equity settled share based payments was £12k (2007: £nil) in respect of 600,000 share options granted on 21 December 2007. There were no cash settled share based payment transactions.

The fair value of the share options granted in 2007 was determined by the Black-Scholes pricing model.

The fair value per option granted during 2007 and the assumptions used in the calculation of the value are as follows:

Grant date	**21 December 2007**
Share price at date of grant	8.75p
Fair value of options granted	£24,085
Exercise price	10p
Number of shares under option	600,000
Vesting period	2 years
Expected volatility	60%
Option life	10 years
Expected dividend yield	0%
Risk free rate	4.0%
Expected life	4 years

Expected volatility has been estimated by reference to historic volatility rates for Inditherm plc shares and benchmarking against other AIM listed companies.

22 Related party transactions

Key management

Key management comprise the Group's executive and non-executive directors. Remuneration of executive and non-executive directors is set out in note 3 and the Remuneration Report on page 13. There were no other transactions with key management.

Company – transactions with subsidiaries

Royalties amounting to £14k (2007: £14k) were payable by Inditherm plc to its subsidiary Inditherm (Medical) Limited in relation to the use of intellectual property.

Amounts due from Inditherm (Medical) Limited at 31 December 2008 of £905k (2007: £919k) have been provided for in full.

Five Year Summary

	IFRS			UK GAAP	
	2008	2007	2006	2005	2004
	£'000	£'000	£'000	£'000	£'000
Income Statement					
Turnover	**1,983**	1,861	1,564	1,035	1,598
Gross profit	**1,105**	806	409	337	518
Overheads	**(1,607)**	(1,605)	(1,648)	(1,789)	(2,082)
Operating loss before exceptional items	**(502)**	(799)	(1,087)	(1,402)	(1,236)
Exceptional costs	**-**	(128)	(152)	(50)	(328)
Loss on ordinary activities after taxation	**(283)**	(699)	(1,132)	(1,279)	(1,366)
Loss per share – basic and diluted	**(0.6p)**	(1.4p)	(5.4p)	(6.1p)	(6.5p)
Balance Sheet					
Net current assets	**3,336**	3,691	1,576	2,794	4,033
Net assets	**3,543**	3,814	1,707	2,839	4,104
Net funds	**3,115**	3,485	1,747	2,358	3,571

The Group adopted IFRS in 2007 and in accordance with the requirements of IFRS the 2006 figures were restated. Restatement of earlier years was not required under IFRS and accordingly the information presented for 2004 and 2005 is as prepared under UK GAAP. No significant adjustments would be required for it to comply with IFRS.

Notice of Annual General Meeting

Notice is given that the 2009 Annual General Meeting of the Company will be held at The Conisborough Suite, Holiday Inn Doncaster A1(M) junction 36, High Road Warmsworth, Doncaster, South Yorkshire DN4 9UX on Thursday 7 May 2009 at 12.00 pm for the following purposes:

ORDINARY BUSINESS

1. To receive and adopt the accounts of the Company for the year ended 31 December 2008 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 PricewaterhouseCoopers LLP 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 John H Markham OBE, retiring by rotation, as director in accordance with the provisions of the Articles of Association.

SPECIAL BUSINESS

To consider, and if thought if 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 £25,000. 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.
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 5 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 £25,000.

By Order of the Board
I D SMITH
Secretary

26 March 2009

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

Notice of Annual General Meeting (continued)

NOTES:

1. Members entitled to attend and vote at the Annual General Meeting are entitled to appoint one or more proxies to attend and, upon a poll, vote in their place. A proxy need not be a member of the Company. To appoint more than one proxy you may photocopy this Proxy Form. Please indicate next to the proxy holder's name, the number of shares in relation to which you authorise them to act as your proxy and complete all voting instructions. Please also indicate by ticking the box provided if the proxy is one of multiple instructions being given. All such Proxy Forms should be returned together in the same envelope.
2. To be valid a proxy form together with any power of attorney or other written authority under which it is signed or a duly certified copy of it (failing previous registration with the Company) must be lodged with the Company's registrar, Capita Registrars, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU by 12.00 pm on 5 May 2009. Completion and return of proxy forms will not preclude shareholders from attending and voting at the Meeting in person should they wish to do so.
3. Only holders of ordinary shares or their proxies are entitled to attend and vote at the Annual General Meeting.
4. In the case of a corporation this form of proxy must be given under its common seal, or signed by two directors or by a director and the secretary, or signed on its behalf by an attorney or a duly authorised officer of the corporation.
5. In the case of joint holders, any one of them may sign but the names of all joint holders should be stated. The vote of the senior who tenders a vote, whether in person or by proxy, will be accepted to the exclusion of the votes of the other joint holders and for this purpose seniority will be determined.
6. Corporate representatives must make themselves known before the start of the Annual General Meeting.
7. The withheld option on the Proxy Form is provided to enable you to abstain on any particular resolution. However, a vote withheld is not a vote in law and will not be counted in the calculation of the proportion of votes "For" and "Against" a resolution.
8. The CREST electronic proxy appointment service is available for this Annual General Meeting. To use this service CREST members should transmit a CREST proxy instruction so as to reach Capita Registrars, CREST participant ID RA10, by not later than 12.00 pm on 5 May 2009 or in the case of any adjournment no later than 48 hours before the time fixed for the adjourned meeting.
9. 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 close of business on 5 May 2009 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** – May
- **Half Year End** – June
- **Interim Announcement** – September
- **Year End** – December

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