Surface Transforms Plc

Registered number 3769702

Annual Report and Financial Statements

for the year ended 31 May 2013

Contents

Highlights

- Revenues increased by 6% to £ 1.1 million (2012: £1.0 million).
- Improved gross margin during the year of 74% (2012: 63%) including income from sale of certain technology rights.
- Loss before taxation and exceptional items of £640k (2012: £638k).
- Cash used in operating activities increased by 65% to £392k (2012: £237k).
- Cash position as at 31 May 2013 of £457k (2012: £547k).
- Equity fundraising completed during the year raising £504k before related expenses.
- Signing of a $1 million technology contract over 12 months with a major clutch and transmission manufacturer.
- Launching the company's STCC brand, website and retail products for automotive carbon ceramic brakes.
- Significant technical progress on the Company's aircraft braking development programme.
- New CVI furnace installed increasing production capacity threefold.

Chairman's Statement

It is pleasing to report significant strategic commercial progress at Surface Transforms, albeit progress which is not easily seen in the financial results of the past year.

The results are consistent with the announcement we made on 6 March 2013, profit (including R&D tax credit) and cash in line with expectations but with turnover being lower than anticipated a year ago. Nonetheless the Company is still targeting cash break even in the current financial year ending 31 May 2014.

From a trading perspective, the year was one of significant highs and lows. We were particularly pleased by the $1m technology transfer agreement signed with a major US clutch and transmission manufacturer but this good news was partially offset by both our German distribution partner, Mov'It going into administration, and a significant supply disruption elsewhere in the European supply chain of our main preform discs customer. The net result was that turnover from "product" customers actually fell in the year by £ 242k.

Nonetheless these two particular trading problems are behind us, Mov'It is now trading again as a wholly owned subsidiary of Schüler GmbH and orders from the European brake manufacture who buys the company's preform discs are now back at FY11/12 levels. Moreover good progress is being made with both new and on-going "game changer" customers who should lead to volume production in due course.

The strategy of Surface Transforms is unchanged:

- The Company will realise shareholder value both through product sales, and sales and licensing of its technology.
- The Company's resources are focussed in mainstream automotive, specialised vehicles and aerospace markets. However, whilst there is no on-going resource allocation, we will react to funded opportunities in other markets as they arise. Clutch manufacture and our small sales into the rocket engine market fall into this category.
- In automotive our "go to market" strategy is a continuum of retrofit → super cars (near OEM- Original Equipment Manufacturer) → limited editions → option list → mainstream adoption.
- In our chosen markets, product cost and lead time are critical differentiators. In particular, success in the automotive market is nearly always a function of cost. We are therefore targeting to halve our manufacturing costs and lead times over the next two years.
- Distributor partners are a key element of our work on retrofit and "near OEM" markets but the company will not delegate the responsibility of sales and marketing solely to distributors, instead being either involved inside the partners company or taking direct responsibility.

Against these core strategic objectives we can specifically report:

- Testing continues on the potential aerospace contract. A key technical objective has been reached but a minor – previously resolved – problem has reappeared. The Company is confident it can successfully resolve this particular issue and is particularly encouraged by the active participation of the customer in the project. The potential customer wants this project to succeed! The sales from this project will not materially contribute to target break even in FY13/14 but are expected to make a significant contribution in FY14/15.
- A major UK vehicle manufacturer continues to test the Company's products.
- A new (for the Company) brake manufacturer is now testing the Company's product. This is a significant potential new customer for the Company.
- A recent revision to the US DOD (Department of Defence) project priorities appears to have resuscitated a military project previously believed to be dead. The Company is in discussion with the OEM to understand the reality of this potentially significant new development.
- The Company is in new discussions with a number of German "near OEM" car manufacturers.
- The Company continues to make good progress on the target of halving production costs and lead times in the next two years.

Chairman's Statement

The Board is aware that shareholders would like to see more frequent announcements of progress but, apart from the commercial and competitive sensitivity of much of our work, the reality is that testing new products, notably endurance testing, is characterised by "no news being good news".

Nonetheless we are pleased to advise:

- we have more "game changer" customers testing our products than this time last year;
- that all the strategic projects (both old and new) are progressing – not without setbacks on the way – but continuously getting nearer to the goal of approval;
- that whilst these strategic contracts are essential for ultimate shareholder value they are not needed to achieve cash break even in FY13/14;
- we have widened our retrofit and aftermarket product range in the last year;
- the customer spread within the sales forecast for FY13/14 is more broadly based than was the case at the start of this financial year; and
- the sales forecast to achieve EBITDA and cash break-even is unchanged at approximately £1.9 million .

Consequently your Board still believes that FY13/14 break-even is a realistic target and that the company can achieve one or more of its target OEM strategic contacts in the next twelve months.

Financial review

In the year ended 31 May 2013, revenues were £1.1 million (2012: £1.0 million) which was in line with our expectations. Gross margin also improved during the year to 74% (2012: 63%) due to the successful implementation of our cost reduction programme and the income received from the sale of intellectual property services, although these achievements were in part offset by the sale of more products of a lower gross margin compared to prior year.

Losses after taxation increased by 22% to £580k (2012: £477k) after an exceptional charge of £72k – mainly due to increased contribution of £152k from sales, reduced payroll costs of £51k offset by increased net research costs expensed of £88k and lower other operating income of £60k and income tax credit of £29k and, together with a higher financial expense (net) of £43k. The increase in research costs was a consequence of our decision to concentrate R&D efforts on the continued development of our technologies and products in our core markets.

Looking ahead, our R&D tax credit advisers, Baker Tilly, have advised us we should continue to receive tax credits of between £150k to £160k per annum based on the continued current levels of research activity.

At 31 May 2013, inventory was £357k (2012: £404k). This decrease was as a result of increased trading activity and utilisation of stock during the last month to support our projected increase in sales to the motor racing market during FY 2013/14.

The Board has continued to address the Company's production constraints and has completed the purchase of a new CVI furnace during the year increasing production capacity threefold.

Net cash used in operating activities increased by a significant 65% to £392k from £237k last year, mainly due to increased losses after tax (as above), offset by R&D tax credit received and lower working capital levels at FY 2013 year end.

The Company had a cash balance of £457k at 31 May 2013 (2012: £547k).

Loss per share was 1.71 pence (2012: loss 1.50 pence).

Chairman's Statement

Chief Executive's Report

The Company has maintained its focus this year on its strategic medium term "game changing" projects' and has made progress both in the automotive and aircraft brakes market.

In terms of the automotive market, we have continued to develop the Company's business capabilities in the form of:

- Enhanced brake system knowledge and expertise through working closely with a number of OEMs and tier 1 system suppliers. The Company sees these relationships becoming stronger;
- Enhancing our manufacturing capacity in the form of the new Chemical Vapour Infiltration (CVI) furnace. This new furnace increases our manufacturing capacity three fold and is now contributing to output;
- Continuing our manufacturing cost reduction programme to enable the Company to now offer a competitively priced brake disc to the main OEM market. The Company is on track to deliver a 50% reduction in manufacturing cost with the completion of the current programme in two years time;
- Developing the Company's plan to reduce manufacturing lead-time through the development of new processing capabilities. Suitable process technology has been identified and trials have been completed with satisfactory results. To continue this development the Company is in discussions regarding expansion plans with local enterprise authorities relating to facilities, incentives and grants with detailed planning underway. However the construction and new equipment contracts will only be signed in parallel with both the sales contract win and raising the second stage finance required to complete a new factory.

In terms of the aircraft brakes market, we have taken a further significant technological step closer to commercialising the Company's proprietary carbon ceramic technology with the resolution of a major outstanding technical requirement. There is still technical work to be completed relating to a recurring minor technical issue, which we are confident can be addressed successfully.

In parallel to these important activities the Company has faced a sometimes rewarding but in the main challenging trading environment throughout the year:

- Continuing to accumulate significant on car service miles; allowing the Company to identify, trouble shoot and resolve a technical issue relating to the carbon ceramic brake system beyond just technical development of the carbon ceramic disc.
- As noted in the Chairman's statement, managing a situation which saw Mov'It GmbH enter into administration at the start of January 2013 and emerge under new ownership in May 2013. This resulted in a significant drop in sales for the financial year. With Mov'It GmbH now under new ownership and having undergone restructuring we expect trading and sales returning to previous levels in the key European automotive market of Germany. To mitigate such risks in the future, we intend to position a salesman in Germany which will also enable us to work more closely with both the wider automotive market and Mov'It;
- Temporary gap in sales for carbon fibres preforms emerged in the first half of the financial year. Our main European customer suffered a major supply chain problem which prevented it from servicing the market. This issue was rectified in the first quarter of 2013 and sales have returned to previous levels with a strong order book in place as we enter the financial year 2013-14.
- Signing of a $1 million contract with a major US clutch and transmission manufacturer. The agreement relates to the transfer of one of Surface Transforms' in-house developed process technologies, a technology which is only one stage of ST's multi-stage production process for carbon-ceramic brake disc components, and includes the sale of specialist equipment and an option to purchase further process technology and equipment worth approximately $1.5 million. A five year licence is included in the agreement, commencing 2018, should they choose to manufacture and sell carbon ceramic components using Surface Transforms' process technology. The global manufacturer will not manufacture or sell carbon ceramic products using the Company's process technology prior to 2018.

Chairman's Statement

We have expanded the automotive retrofit product range beyond the Nissan GTR, to Porsche and Ferrari. Sales opportunities for these product extensions will be seen in the current financial year 2013-14.

- Sales for the supply of carbon ceramic discs which are then integrated into our brake system supplier distributors own upgrade kits have continued. The three key distributors continue to be important to the Company's commercial objectives of achieving cash break even and building market reputation and pedigree. Additionally however, Surface Transforms Engineering has designed and launched its own retail products for Nissan, Porsche and Ferrari and launched the STCC new brand and website. Sales growth for these products is expected in the financial year 2013-14.
- To strengthen our commercial position with the development of STCC retail disc assembly kits we have begun to expand our distributor network to include independent Nissan, Porsche and Ferrari tuners in the UK. During 2013 we plan to continue adding new distributors across the rest of the world.

Alongside these activities the Company has:

- Completed a placing and open offer in February 2013 for £504k before expenses from both institutional and private investors to further progress the Company's objectives towards 'game changing' new business;
- Appointed a Sales Director with Automotive experience – Greg Harris joined the management team in October 2012. With a career spanning GKN, Prodrive and Aston Martin Motorsport he is focused on capturing some of the game changing projects ;and
- Commenced the establishment of a world class manufacturing facility to TS16949 standards through total quality management and continuous improvement. Craig Cartmell has been appointed as the Continuous Improvement Manager and has over 20 years experience.

In summary the Company has seen its automotive and carbon fibre preform sales slower than expected but has offset this in terms of profits with new licence income. These sales issues are now resolved and the Company's current contracts and sales order bank provide a realistic base to reach its target of cash breakeven (on approximately £1.9 million of sales) this year and allows it to continue to focus on a number of exciting growth opportunities across both automotive and aircraft brake markets.

Director's and staff

We would like to thank all our colleagues, management and staff alike, for their hard work and dedication over the past year.

Outlook

Surface Transforms continues to develop and is clearly progressing the commercialisation of its technology. The Board expects continuing sales growth and has the objective of becoming cash break even in the current financial year ending 31 May 2014.

David Bundred
Chairman

Kevin Johnson
Chief Executive

1 August 2013

Directors' Report

The Directors present their annual report and the audited financial statements for the year ended 31 May 2013.

Principal activity

The principal activities of the Company during the year were the development and manufacture of carbon fibre reinforced ceramic product (CFRC) for automotive disc brake and aircraft and rocket component applications and the exploitation of company carbon/carbon technologies.

Business review

A review of the Company's activities during the year is provided within the financial review section of the Chairman's statement (page 4).

Key risks and uncertainties

As in previous years the principal risk faced by the Company is considered to be the speed at which our customers and potential customers adopt the new ceramic disc technology. Indications in the automotive market are that the technology continues to be well received and is being adopted over an increasing number of vehicles. This risk is constantly assessed by monitoring the level of enquiries and orders for both the Company and industry wide. In addition the Company faces the continuing uncertainty created by the current economic climate, particularly within the automotive sector.

Key performance indicators

The Directors continue to monitor the business internally with a number of performance indicators: order intake, sales output, profitability and manufacturing cost of automotive discs. The Company has met its revised performance targets in each of these areas – please see Chairman's statement for more details:

- Turnover £1.1 million (2012: £1.0 million)
- Losses after taxation and exceptional items £580k (2012: £477k)

The Company produces an annual business plan and full monthly forecasts detailing sales, profitability and cash flow to help monitor business performance going forward.

Future developments

In the short term, the Company aims to continue with its corporate strategy which is to exploit its technologies in carbon fibre reinforced ceramics by:

- establishing contract development opportunities and collaborations with national and multi-national customers in the aerospace and automotive industries; and
- expanding commercial sales of CFRC products.

Research and development

The majority of the Company's staff are employed in research activities which are concentrated on the ongoing identification of new products and applications for carbon fibre reinforced ceramic friction and non-friction materials.

Proposed dividend and transfer to reserves

The loss for the year after taxation and exceptional item amounted to £580k (2012: £477k). The Directors do not recommend the payment of a dividend.

Directors' Report

Policy and practice on payment of payables

It is the Company's policy that payments to suppliers are made in accordance with the terms and conditions agreed between the Company and its suppliers, providing that all trading terms and conditions have been complied with. The Company does not follow any code or standard on payment practice.

At the year end, there were 54 days (2012: 55 days) purchases in trade payables.

Political and charitable donations

The Company made no political or charitable donations during the year (2012: £nil).

Directors and Directors' interests

The Directors who held office during the year were as follows:

D Bundred* (Chairman)
K D'Silva*
Dr K Johnson(Chief Executive)
RD Gledhill*

*denotes non-executive Director.

The Director retiring by rotation is K D 'Silva.

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

	% of issued share capital at end of year	Number of £0.01 ordinary shares Interest at end of year	Interest at start of year
K D'Silva	2.17%	833,870	386,486
RD Gledhill	21.07%	8,098,153	7,664,723
Dr K Johnson	0.32%	124,000	124,000
D Bundred	0.72%	275,000	150,000

According to the register of Directors' interests, no rights to subscribe for shares in or debentures of the Company were granted to any of the Directors or their immediate families, or exercised by them during the financial year, except as disclosed in the report on Directors' remuneration on pages 10 and 11.

The Directors benefited from qualifying third party indemnity provisions in place during the financial year and at the date of this report.

Substantial shareholders

In addition to the Directors' interests noted above, the Directors are aware of the following who were interested in 3% or more of the Company's equity as at 28 June 2013:

Registered holding	Number of ordinary shares	% of issued share capital
J M Finn Nominees Limited	14,915,403	38.81%
Brooks MacDonald Nominees Limited	2,355,000	6.13%
Ferlim Nominees Limited	1,914,450	4.98%
Octopus Investments Nominees	1,639,532	4.27%
TD Direct Investing Nominees Limited	1,499,063	3.90%
Fitel Nominees Limited	1,250,000	3.25%

Directors' Report

Corporate governance

Surface Transforms Plc is committed to maintaining high standards of corporate governance. The Company complies with the Combined Code as modified by the recommendations of the Quoted Companies Alliance to the extent the Directors consider appropriate, given the size of the Company, its current stage of development and the constitution of the Board.

The Board has appointed an Audit Committee whose primary role is to review the Company's interim and annual financial statements before submission to the Board for approval. The Board has also appointed a Remuneration Committee, which is responsible for reviewing executive remuneration and performance. The Remuneration Committee is made up of three non-executive Directors, David Bundred, Kevin D'Silva and Richard Gledhill. The Audit Committee is made up of three non-executive Directors, David Bundred, Kevin D'Silva and Richard Gledhill. Details of the Remuneration Committee are disclosed in the report on Directors' remuneration on pages 10 and 11.

Going concern

The financial statements have been prepared on a going concern basis which the Directors believe to be appropriate. The Company incurred a net loss of £580k during the year however the Directors are satisfied, based on detailed cash flow projections and after the consideration of reasonable sensitivities, that sufficient cash is available to meet the Company's needs as they fall due for at least 12 months from the date of signing the accounts. Revenues are expected to continue to increase in the coming years resulting in the Company becoming profitable in due course.

The Directors believe that the Company is well placed to manage its business risks successfully despite the current uncertain economic outlook. After making enquiries, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and accounts.

Disclosure of information to auditor

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

Auditors

Our Auditor, KPMG Audit plc has instigated an orderly wind down of business. The Board has decided to put KPMG LLP forward to be appointed as auditor and a resolution concerning their appointment will be put to the forthcoming AGM of the Company.

By order of the board

D Bundred
Chairman

1 August 2013

Unit 4
Olympic Park
Poole Hall Road
Ellesmere Port
Cheshire CH66 1ST

Report on Directors' Remuneration

Policy on executive Directors' remuneration

The Remuneration Committee comprises of David Bundred, Kevin D'Silva and Richard Gledhill.

The Remuneration Committee is responsible for reviewing and determining the Company's policy on executive remuneration (including the grant of options under the Share Option Scheme) and ensuring compliance with and implementation by the Company, as far as reasonably practicable, of the recommendations and guidelines of the Combined Code. Executive remuneration packages are designed to ensure the Company's executive Directors and senior executives are fairly rewarded for their individual contributions to the Company.

Fees for non-executive Directors

The fees for non-executive Directors are determined by the Board. The non-executive Directors are not involved in the decisions about their own remuneration.

Directors' remuneration

Set out below is a summary of the fees and emoluments received by all Directors for the year or, where applicable, period of office:

	2013 £	2012 £
Executive directors		
Dr K Johnson	104,092	82,712
Dr G Gould (Resigned 14 October 2011)	–	10,642
	104,092	93,354
Non-executive directors		
K D'Silva	16,550	19,982
KM Baker O.B.E. (Resigned 31 January 2012)	–	5,250
RD Gledhill	18,000	17,023
D Bundred	27,000	23,625
	61,550	65,880
	165,642	159,234

With the exception of Dr K Johnson, none of the Directors received pension contributions in respect of their office. In addition to the emoluments received, as stated above, Dr K Johnson received £21,000 (2012: £21,000) in respect of pension contributions.

Directors' interests

Details of any contracts in which a Director has a material interest are disclosed in note 18.

None of the Directors received any remuneration or benefits under long term incentive schemes.

Report on Directors' Remuneration

Share options

The Company operates a share incentive scheme. All options are granted at the discretion of the Board. The number of options granted, date of grant, exercise price and exercise periods under the scheme are set out below.

None of the Directors exercised options during the year. Directors' options outstanding and the options which were granted, surrendered and expired during the year are as follows:

Director	Date of Grant	Holding on 1 June 2012	Granted during the year	Number of Share options expired, waived or lapsed	Holding on 31 May 2013	Exercise Price	Exercise Period	Expiry Date
Dr K Johnson	18/04/2007	100,000	–	–	100,000	£0.21	18/04/10-18/04/17	18/04/2017
Dr K Johnson	30/06/2008	288,000	–	–	288,000	£0.18	30/06/11-30/06/18	30/06/2018
Dr K Johnson	22/09/2008	481,707	–	–	481,707	£0.19	22/09/11-22/09/18	22/09/2018
Dr K Johnson	01/03/2011	345,000	–	–	345,000	£0.09	01/03/13-01/03/20	01/03/2020
Dr K Johnson	15/03/2012	330,000	–	–	330,000	£0.12	15/03/15-15/03/22	15/03/2022
KA D'Silva	18/04/2007	50,000	–	–	50,000	£0.21	18/04/10-18/04/17	18/04/2017
D Bundred	17/10/2011	100,000	–	–	100,000	£0.09	17/10/11-18/10/21	18/10/2021
D Bundred	17/10/2011	100,000	–	–	100,000	£0.09	17/10/12-18/10/21	18/10/2021
D Bundred	17/10/2011	100,000	–	–	100,000	£0.09	17/10/13-18/10/21	18/10/2021
		1,894,707	–	–	1,894,707			

The market price of the shares at 31 May 2013 was 7.5 pence and during the year varied from 13.5 pence to 6.5 pence.

By order of the board

D Bundred
Chairman

1 August 2013

Unit 4
Olympic Park
Poole Hall Road
Ellesmere Port
Cheshire CH66 1ST

Statement of Directors' Responsibilities

The Directors are responsible for preparing the Annual Report and the Financial Statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with IFRSs as adopted by the EU and applicable law.

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these 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 they have been prepared in accordance with IFRSs as adopted by the EU; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Independent Auditor's Report

to the members of Surface Transforms Plc

We have audited the financial statements of Surface Transforms Plc for the year ended 31 May 2013 set out on pages 14 to 34. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' 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 auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 12, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's web-site at www.frc.org.uk/auditscopeukprivate.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 May 2013 and of its loss for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the EU; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

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

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Mick Davies

Mick Davies (Senior Statutory Auditor)
for and on behalf of KPMG Audit Plc, Statutory Auditor
Chartered Accountants
St James' Square
Manchester M2 6DS
United Kingdom

1 August 2013

Statement of Total Comprehensive Income

for the year ended 31 May 2013

	Note	2013 £'000	2012 £'000
Revenue	2	1,059	1,001
Cost of sales		(275)	(369)
Gross profit		784	632
Administrative expenses:			
Before research costs		(601)	(638)
Research costs		(895)	(807)
Total administrative expenses	3	(1,496)	(1,445)
Other operating income	3	138	198
Operating loss		(574)	(615)
Financial income	6	2	4
Financial expenses	6	(68)	(27)
Loss before tax and exceptional item		(640)	(638)
Exceptional item	7	(72)	–
Loss before tax		(712)	(638)
Taxation	8	132	161
Loss for the year after tax	16	(580)	(477)
Other comprehensive income		–	–
Total comprehensive loss for the year		(580)	(477)
Loss per ordinary share			
Basic and diluted	19	(1.71p)	(1.50p)

All amounts relate to continuing activities.

Statement of Changes in Equity

for the year ended 31 May 2013

For the year to 31 May 2013	Share capital £'000	Share premium account £'000	Capital reserve £'000	Retained earnings £'000	Total £'000
Balance at 31 May 2012	319	7,305	464	(7,034)	1,054
Comprehensive income for the year					
Loss for the year	–	–	–	(580)	(580)
Total comprehensive income for the year	–	–	–	(580)	(580)
Transactions with owners, recorded directly to equity					
Shares issued in the year	65	465	–	–	530
Costs of issue written off to share premium	–	(63)	–	–	(63)
Equity settled share based payment transactions	–	–	–	28	28
Total contributions by and distributions to the owners	65	402	–	28	495
Balance at 31 May 2013	384	7,707	464	(7,586)	969

For the year to 31 May 2012	Share capital £'000	Share premium account £'000	Capital reserve £'000	Retained earnings £'000	Total £'000
Balance at 31 May 2011	319	7,305	464	(6,598)	1,490
Comprehensive income for the year					
Loss for the year	–	–	–	(477)	(477)
Total comprehensive income for the year	–	–	–	(477)	(477)
Transactions with owners, recorded directly to equity					
Equity settled share based payment transactions	–	–	–	41	41
Total contributions by and distributions to the owners	–	–	–	41	41
Balance at 31 May 2012	319	7,305	464	(7,034)	1,054

Balance Sheet

at 31 May 2013

	Note	2013 £'000	2013 £'000	2012 £'000	2012 £'000
Non-current assets					
Property, plant and equipment	9		665		288
Current assets					
Inventories	10	357		404	
Trade and other receivables	11	326		357	
Cash and cash equivalents		457		547	
			1,140		1,308
Total assets			1,805		1,596
Current liabilities					
Other interest bearing loans and borrowings	12	(198)		(89)	
Trade and other payables	13	(299)		(298)	
		(497)		(387)	
Non Current liabilities					
Other interest bearing loans and borrowings	12	(339)		(155)	
Total liabilities			(836)		(542)
Net assets			969		1,054
Equity					
Share capital	15		384		319
Share premium	16		7,707		7,305
Capital reserve	16		464		464
Retained loss	16		(7,586)		(7,034)
Total equity attributable to equity shareholders of the Company			969		1,054

These financial statements were approved by the board of Directors on 1 August 2013 and were signed on its behalf by:

D Bundred
Director

Dr K Johnson
Director

Company Registered Number 3769702

Cash Flow Statement

for the year ended 31 May 2013

	Note	2013 £'000	2012 £'000
Cash flows from operating activities			
Loss for the year		(580)	(477)
Adjusted for:			
Depreciation charge		83	67
Loss on sale of property, plant and equipment		–	1
Equity settled share-based payment expenses		28	41
Financial income		(2)	(4)
Financial expense		68	27
Taxation		(132)	(161)
		(535)	(506)
Changes in working capital			
Increase in inventories		46	(99)
Decrease in trade and other receivables		31	247
Decrease in trade and other payables		–	(17)
		(458)	(375)
Interest received	6	2	4
Interest paid	6	(68)	(27)
Taxation received	8	132	161
Net cash used in operating activities		(392)	(237)
Cash flows from investing activities			
Acquisition of property, plant and equipment	9	(460)	(65)
Net cash used in investing activities		(460)	(65)
Cash flows from financing activities			
Proceeds from issue of share capital		468	–
Proceeds from new loan		437	285
Payment of finance lease		(4)	–
Repayment of borrowings		(139)	(51)
Net cash from financing activities		762	234
Net decrease in cash and cash equivalents		(90)	(68)
Cash and cash equivalents at the beginning of the period		547	615
Cash and cash equivalents at the end of the period		457	547

Notes to the Financial Statements

for the year ended 31 May 2013

1 Accounting policies

Surface Transforms Plc (the Company) is a Company incorporated and domiciled in the UK.

Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the EU.

The financial statements were approved by the board on 1 August 2013.

Basis of preparation

The financial statements have been prepared in accordance with applicable accounting standards and under the historical cost convention.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements.

Going concern

The financial statements have been prepared on a going concern basis which the Directors believe to be appropriate. The Company incurred a net loss of £580k during the year however the Directors are satisfied, based on detailed cash flow projections and after the consideration of reasonable sensitivities, that sufficient cash is available to meet the Company's needs as they fall due for the foreseeable future and at least 12 months from the date of signing the accounts. Revenues are expected to continue to increase in the coming years resulting in the Company becoming profitable in due course.

Further information regarding the Company's business activities, together with the factors likely to affect future development, performance and position are set out in the Chairman's statement on pages 3 to 6 and the Director's report on pages 7 to 9. In addition, note 20 to the financial statements includes the Company's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and its exposures to credit risk and liquidity risk.

The Directors believe that the Company is well placed to manage its business risks successfully despite the current uncertain economic outlook. After making enquiries, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and accounts.

Share based payments

The share option programme allows employees to acquire shares of the Company. The fair value is measured at grant date and spread over the period during which the employees become unconditionally entitled to the options. The fair value of the options granted is measured using an option pricing model, taking into account the terms and conditions upon which the options were granted. The amount recognised as an expense is adjusted to reflect the actual number of share options that vest except where forfeiture is only due to share prices not achieving the threshold for vesting.

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

Leases in which the Company assumes substantially all the risks and rewards of ownership of the leased asset are classified as finance leases. Leased assets acquired by way of finance lease are stated at an amount equal to the lower of their fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation and less accumulated impairment losses. Lease payments are accounted for as described below.

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Land is not depreciated. The estimated useful lives are as follows:

- Plant and machinery — 12.5%-20% per annum
- Fixtures and fittings — 15% per annum
- Leasehold improvements — Over life of lease

Depreciation methods, useful lives and residual values are reviewed at each balance sheet date.

Notes to the Financial Statements

1 **Accounting policies** continued

Foreign currencies

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated to the functional currency at the foreign exchange rate ruling at the balance sheet date and the gains or losses on translation are included in the income statement.

Leases

Operating lease payments

Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease. Lease incentives received are recognised in the income statement as an integral part of the total lease expense.

Finance lease payments

Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Government grants

Revenue grants are credited to the statement of total comprehensive income, and included within other operating income, so as to match them with expenditure to which they relate.

Post retirement benefits

The Company does not operate a pension scheme, but does contribute to specific employees' personal pension schemes. The amount charged to the profit and loss account represents the contributions payable to employees personal pension schemes during the accounting year.

Research and development expenditure

Expenditure on research activities is recognised in the income statement as an expense as incurred.

Expenditure on development activities is capitalised if the product or process is technically and commercially feasible and the Company intends and has the technical ability and sufficient resources to complete development, future economic benefits are probable and if the Company can measure reliably the expenditure attributable to the intangible asset during its development. No development costs met the criteria for capitalisation in the current or preceding years.

Inventories

Inventories are stated at the lower of cost and net realisable value. In determining the cost of raw materials and consumables the purchase price is used. For work in progress, cost is taken as production cost, which includes an appropriate proportion of attributable overheads.

Taxation

The charge for taxation is based on the loss for the year and takes into account taxation deferred or accelerated arising from temporary differences between the carrying amounts of certain items for taxation and for accounting purposes.

Deferred taxation is provided for in full at the tax rate which is expected to apply to the period when the deferred taxation is expected to be realised, including on tax losses carried forward.

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

Research and development tax credits are recognised on a cash received basis as a reduction in the current tax payable as this is when the tax credit is considered recoverable as the associated uncertainties have been eliminated.

Notes to the Financial Statements

1 Accounting policies continued

Cash and cash equivalents

Cash and cash equivalents, for the purpose of the cash flow statement, comprises cash in hand and deposits repayable on demand.

Revenue

Revenue comprises income derived from the supply of carbon fibre materials and from the sale of technology rights during the course of the year. Revenue is recognised on transfer to the customer of significant risks and rewards of ownership, generally this will be when goods are despatched to the customer. Turnover excludes value added taxes.

Contractual arrangements exist with specific customers which set selling prices and target volumes for future periods. The revenue derived from specific purchase orders raised against these contracts is recognised in a consistent manner to that described above.

Non-derivative financial instruments

Non-derivative financial instruments comprise trade and other receivables, cash and cash equivalents and trade and other payables.

Trade and other receivables

Trade and other receivables are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses.

Trade and other payables

Trade and other payables are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method.

Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest method less any impairment losses.

Capital management

The Company manages its capital to ensure that it will be able to continue as a going concern and satisfy its debt as it falls due whilst also maximising opportunities to progress the development of the business. The capital structure of the Company consists of cash and cash equivalents and equity attributable to shareholders comprising issued capital .The key indicator of capital management performance used by management is the level of cash and cash equivalents available to the Company. Cash balances are monitored on a daily basis to ensure that the actual position is in line with cash flow forecasts.

Interest rate risk

The Company finances its operations through cash. Cash resources are invested to attract the highest rates for periods that do not limit access to these resources.

Liquidity risk

With regard to liquidity, the Company's policy has throughout the year been to ensure that the Company is able at all times to meet its financial liabilities as and when they fall due.

1 **Accounting policies** continued

Critical accounting estimates and judgements

The preparation of financial statements in conformity with adopted IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not already apparent from other sources. Actual results may differ from these estimates. The estimates and assumptions which have a significant risk of causing a material adjustment to carrying amount of assets and liabilities within the next financial year are discussed below:

Impairment of property, plant and equipment

Property, plant and equipment are reviewed for impairment if events or changes in circumstances indicate that the carrying amount of an asset is not recoverable.

Provision to write inventories down to net realisable value

The Company makes provisions for obsolescence based on historical experiences and management estimates of future events. Actual outcome could vary significantly from these estimates.

Research and development expenditure

The Board considers the definitions of research and development costs as outlined in IAS 38: Intangible assets when determining the correct treatment of costs incurred. Where such expenditure is technically and commercially feasible, the Company intends and has the technical ability and sufficient resources to complete development, future economic benefits are probable and if the Company can measure reliably the expenditure attributable to the intangible asset it is treated as development expenditure and capitalised on the balance sheet.

In considering whether an item of expenditure meets these criteria, the Board applies judgement. During the year all such expenditure has been expensed to the income statement on the grounds that it relates to feasibility studies to identify new applications for the technology or methods of improving the production process. As the technical feasibility of this work is unknown at the time the costs are incurred, none meet the criteria for capitalisation during the current or previous year.

Segmental reporting

The Board has reviewed the requirements of IFRS 8 "Operating Segments", including consideration of what results and information the Chief Executive reviews regularly to assess performance and allocate resources, and concluded that, as under IAS 14, all revenue falls under a single business segment.

The Directors consider the business does not have separate divisional segments as defined under IFRS 8. The Chief Executive assesses the commercial performance of the business based upon a single set of revenues, margins, operating costs and assets.

New standards and interpretations that have been endorsed, but which are not yet effective and not early adopted

There are no new endorsed standards, amendments to standards and interpretations which are not yet effective for the year ended 31 May 2013 and which will have a significant impact on the information reported by the company in future periods.

Notes to the Financial Statements

2 Segment reporting

Due to the start up nature of the business the Company is currently focussed on building revenue streams from a variety of different markets. As there is only one manufacturing facility and this has capacity above and beyond the current levels of trade there is no requirement to allocate resources to or discriminate between specific markets or products. As a result the Company's chief operating decision maker, the Chief Executive, reviews performance information for the Company as a whole and does not allocate resources based on products or markets. In addition, all products manufactured by the Company are produced using similar processes.

Having considered this information in conjunction with the requirements of IFRS 8, as at the reporting date the board of Directors have concluded that the Company has only one reportable segment, that being the manufacture and sale of carbon fibre materials and the development of technologies associated with this.

	2013 Total £'000	**2012 Total £'000**
Segment results		
Segment revenues	1,059	1,001
Operating expenses	(1,633)	(1,616)
Results from operating activities	(574)	(615)
Net finance costs	(66)	(23)
Loss before tax and exceptional item	(640)	(638)
Segment assets/liabilities		
Segment assets	1,805	1,596
Segment liabilities	(836)	(542)

The Company considers it offers product technology namely carbon fibre re-enforced ceramic material, which is machined into differing shapes depending on the intended purpose of the end user.

Revenue by geographical destination is analysed as follows:

	2013 £'000	**2012 £'000**
United Kingdom	291	229
Rest of Europe	392	749
United States of America	376	23
	1,059	1,001

Turnover comprises £759k of product sales (2012: £1,001k) and £300k in relation to the sale of technology (2012: £nil).

Notes to the Financial Statements

3 Expenses and auditors remuneration

	2013 £'000	2012 £'000
Operating loss before taxation is stated		
after charging		
Depreciation of owned tangible fixed assets	83	67
Research costs expensed as incurred	895	807
Rents payable under operating leases – land and buildings	55	55
Rents payable under operating leases – other	6	18
Exchange losses	6	12
Inventory write down	42	30
Impairment loss on receivable	18	–
after crediting		
Exchange gains	2	2
Government grants	138	198

Auditor's remuneration

Amounts receivable by auditors and their associates in respect of:

	2013 £'000	2012 £'000
Audit of these financial statements	18	18
All other services	2	2

Government grants

Grants received comprise revenue grants from the Technology Strategy Board (formerly DTI).

These are subject to making expenditure as stipulated in the grant applications and to audit of the claims. There are no unfulfilled conditions or contingencies associated with government assistance received.

4 Remuneration of Directors

The Company considers key management personnel as defined in IAS 24 "Related party disclosures" to be the Directors of the Company. The aggregate amount of emoluments paid to Directors in respect of qualifying services during the year was £165,642 (2012: £159,234). Of this £104,092, (2012: £82,712) was made to the highest paid Director and Company pension contributions of £21,000 (2012: £21,000) were made to a money purchase scheme on his behalf.

Pension contributions were not received by any other Director during either the current or prior year.

Notes to the Financial Statements

5 Staff numbers and costs

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

	Number of employees	
	2013	**2012**
Directors	4	5
Other employees	18	19
	22	24

The aggregate payroll costs of these persons were as follows:

	2013 £'000	**2012 £'000**
Wages and salaries	607	628
Social security costs	64	63
Other pension costs (see note 17)	50	82
	721	773

6 Financial income and expenses

	2013 £'000	**2012 £'000**
Finance income		
Bank interest receivable	2	4
Finance expenses		
Total interest expense on financial liabilities measured at amortised cost	68	27

7 Exceptional item

Exceptional item comprises:

	2013 £'000	**2012 £'000**
Restructure of sales department and costs incurred	72	–

Notes to the Financial Statements

8 Taxation

	2013 £'000	2012 £'000
Analysis of credit in year		
UK corporation tax		
Research and development tax repayment	(132)	(161)
Total income tax credit	(132)	(161)

Details of the unrecognised deferred tax asset are included in note 14.

Factors affecting the tax credit for the current period

The current tax credit for the year is lower (2012: lower) than the standard rate of corporation tax in the UK of 23.83% (2012: 25.67%). The differences are explained below:

	2013 £'000	2012 £'000
Reconciliation of effective tax rate		
Loss for the year	(580)	(477)
Total income tax credit	(132)	(161)
Loss excluding income tax	(712)	(638)
Current tax at average rate of 23.83% (2012: 25.67%)	(170)	(164)
Effects of:		
Non-deductible expenses	7	13
Change in unrecognised timing differences	(33)	(6)
Current year losses for which no deferred tax recognised	196	157
Tax incentives	(132)	(161)
Income tax credit (see above)	(132)	(161)

Factors that may affect future tax charges

The effective tax rate in future years is expected to be below the standard rate of corporation tax in the UK due principally to historical losses which have been carried forward

Notes to the Financial Statements

9 **Property, plant and equipment**

	Leasehold improvements £'000	Plant and machinery £'000	Fixtures and fittings £'000	Total £'000
Cost				
At 31 May 2011	75	459	47	581
Additions	–	57	8	65
Disposals	–	(4)	–	(4)
At 31 May 2012	75	512	55	642
Additions	–	451	9	460
Disposals	–	–	–	–
At 31 May 2013	75	963	64	1,102
Depreciation				
At 31 May 2011	29	223	37	289
Charge for year	7	55	5	67
Charge on disposal	–	(2)	–	(2)
At 31 May 2012	36	276	42	354
Charge for year	8	69	6	83
Charge on Disposal	–	–	–	–
At 31 May 2013	44	345	48	437
Net book value				
At 31 May 2011	46	236	10	292
At 31 May 2012	39	236	13	288
At 31 May 2013	31	618	16	665

At 31 May 2013 the net carrying amount of leased plant and machinery was £36,833 (2012: £Nil).

10 **Inventories**

	2013 £'000	2012 £'000
Raw materials and consumables	63	65
Work in progress	294	339
	357	404

Raw materials, consumables and changes in finished goods and work in progress recognised as cost of sales in the year amounted to £274,906 (2012: £368,534).

11 **Trade and other receivables**

	2013 £'000	2012 £'000
Trade receivables	230	219
Other receivables	51	94
Prepayments and accrued income	45	44
	326	357

All receivables fall due within one year.

12 **Other interest-bearing loans and borrowings**

This note provides information about the contractual terms of the Company's interest-bearing loans and borrowings, which are measured at amortised cost. For more information about the Company's exposure to interest rate and foreign currency risk, see note 20.

	2013 £'000	2012 £'000
Current liabilities		
Loans	191	89
Finance lease liabilities	7	–
Non-current liabilities		
Loans	313	155
Finance lease liabilities	26	–

In the prior year, on 18 October 2011 the company took out a loan for £285,000 in order to fund the acquisition of a new CVIST furnace. This loan is repayable in equal instalments over a 3 year period and attracting interest of 10%. In the current year, on 27 September 2012 the company also took out a further loan of £400,000 in order to further fund the CVIST furnace and the resulting working capital requirements. This loan is repayable in equal instalments over a 4 year period and attracting interest of 11.25%. On 8 August 2012 the company took out a finance lease for £51,000 to fund the acquisition of a road car vehicle for use in brake testing of the company's products at a monthly interest rate of 0.85%.

Finance lease liabilities are payable as follows:

	Future minimum lease payments 2013 £'000	Interest 2013 £'000	Present value of minimum lease payments 2013 £'000	Future minimum lease payments 2012 £'000	Interest 2012 £'000	Present value of minimum lease payments 2012 £'000
Less than one year	10	3	7	–	–	–
Between one and five years	30	4	26	–	–	–
	40	7	33	–	–	–

13 **Trade and other payables: amounts falling due within one year**

	2013 £'000	2012 £'000
Trade payables	196	198
Taxation and social security	15	30
Accruals and deferred income	88	70
	299	298

14 Deferred tax

	2013 £'000	2012 £'000
Difference between accumulated depreciation and amortisation and capital allowances	46	34
Other short term timing differences	(1)	(1)
Tax losses	(819)	(794)
Unrecognised deferred tax asset	(774)	(761)

The elements of the deferred taxation are as follows:

The Company has an unrecognised deferred tax asset at 31 May 2013 of £774,000 (2012: £761,000) relating principally to tax losses which the Company can offset against future taxable profits from the same trade.

The deferred tax asset has not been recognised in the accounts because it is not possible to assess whether there will be suitable taxable profits from which the future reversal of the underlying temporary differences can be deducted.

15 Called up share capital

	2013 £'000	2012 £'000
Authorised		
60,000,000 ordinary shares of £0.01 each (2012: 40,000,000 shares of £0.01 each)	600	400
Allotted, called up and fully paid		
38,435,138 shares of £0.01 each (2012: 31,885,442 shares of £0.01 each)	384	319

The Company's authorised share capital was increased to 60,000,000 ordinary shares of £0.01 each on 27 February 2013.

The Company operates a share incentive scheme for the benefit of the Directors and certain employees. All options are granted at the discretion of the Board. The scheme grants options to purchase ordinary shares of £0.01 each. No options were exercised in the period.

The options granted to Directors, date of grant and exercise price and exercise periods under the scheme are set out in the report on Directors' remuneration on pages 10 and 11. In addition to the Directors' share options, certain employees have been granted the following options:

Date of grant	Number of unexpired share options at year end	Exercise price	Exercise period
18/04/2007	130,000	£0.21	18/04/10-18/04/17
30/06/2008	106,200	£0.18	30/06/11-30/06/18
22/09/2008	342,547	£0.18	22/09/11-22/09/18
01/03/2010	150,000	£0.09	01/03/13-01/03/20
15/02/2012	131,696	£0.12	15/03/15-15/03/22

There are a total of 860,443 unexpired options held by employees, a total of 1,894,707 unexpired options held by Directors and 177,219 unexpired options held by former directors.

Notes to the Financial Statements

16 Share premium and reserves

	Share premium account £'000	Capital reserve £'000	Retained earnings £'000
At 31 May 2011	7,305	464	(6,598)
Retained loss for the year	–	–	(477)
Share issue	–	–	–
Equity settled share based payment transactions	–	–	41
At 31 May 2012	7,305	464	(7,034)
Retained loss for the year	–	–	(580)
Share issue	465	–	–
Costs of issue written off to share premium	(63)	–	–
Equity settled share based payment transactions	–	–	28
At 31 May 2013	7,707	464	(7,586)

17 Pension scheme

The Company contributes to specific employees' personal pension schemes. The pension charge for the year represents contributions payable by the Company to the schemes and amounted to £50,572 (2012: £82,160). During the year one director and several senior managers opted to enter into salary exchange arrangements whereby they sacrificed salary for increased pension contributions. These arrangements accounted for £25,965 of the pension contributions (2012: £49,670).

There were outstanding contributions of £1,498 (2012:£nil) at the end of the financial year.

18 Related party disclosures

The Company purchased £nil goods from related parties (2012: £nil).

19 Loss per ordinary share

The calculation of basic loss per ordinary share is based on the loss for the financial year divided by the weighted average number of shares in issue during the year.

Losses and number of shares used in the calculations of loss per ordinary share are set out below:

Basic	2013 £'000	2012 £'000
Loss after tax	(580)	(477)
Weighted average number of shares (No. of shares)	33,915,972	31,885,442
Loss per share (pence)	(1.71p)	(1.50p)

The calculation of diluted loss per ordinary share is identical to that used for the basic loss per ordinary share. This is because the exercise of options would have the effect of reducing the loss per ordinary share from continuing operations and is therefore not dilutive under the terms of IAS33.

20 Financial instruments

The Company's policies with regard to financial instruments are set out within the accounting policies note. The risks arising from the Company's financial assets and liabilities are set out below with the policies for their respective management.

Currency Risk

The Company transacts business in foreign currencies and therefore incurs some transaction risk.

The Company's exposure to foreign currency risk was as follows, this is based on the carrying amount for monetary financial instruments:

	31 May 2013			31 May 2012		
	US Dollar £'000	Euro £'000	Sterling £'000	US Dollar £'000	Euro £'000	Sterling £'000
Cash and cash equivalents	20	9	428	52	–	495
Trade receivables	–	41	189	–	75	144
Trade payables	(13)	–	(183)	(58)	–	(140)
Finance lease liabilities	–	–	(33)	–	–	–
Net Exposure	7	50	401	(6)	75	499

	Average Rate		Reporting Date Spot Rate	
	2013	2012	2013	2012
US Dollar	1.569	1.590	1.531	1.574
Euro	1.218	1.174	1.179	1.243

Sensitivity Analysis

A ten percent strengthening of the pound against the US Dollar and the Euro at 31 May 2013 would have (decreased)/increased profit by the amounts below. This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2012.

	US Dollar £'000	Euro £'000
31 May 2013	(1)	(5)
31 May 2012	1	(7)

A ten percent weakening of the pound against the US Dollar and the Euro at 31 May 2013 would have an equal and opposite effect to the amounts shown above, on the basis all other variables remain constant.

Price Risk

The Company aims to minimise its exposure to supplier price increases and customer price decreases by offsetting reciprocal supplier and customer arrangements.

The Company also deals in Forward Contracts to minimise the exposure.

20 Financial instruments continued

Credit Risk

The Company operates a closely monitored collection policy.

The ageing of trade receivables at the reporting date was:

	31 May 2013 Gross £'000	31 May 2013 Impairment £'000	31 May 2013 Net £'000	31 May 2012 Gross £'000	31 May 2012 Impairment £'000	31 May 2012 Net £'000
Not past due	127	–	127	137	–	137
Past due 0 to 30 days	51	–	51	44	–	44
Past due 31 to 90 days	70	(18)	52	38	–	38
	248	(18)	230	219	–	219

There was an amount of £18,353 (2012 : £nil) in the allowance for impairment in respect of trade receivables.

Liquidity Risk

The Company's objective is to maintain a balance between continuity and flexibility of funding through the use of short term deposits.

The contractual maturity of all cash and cash equivalents, trade and other receivables at the current and preceding balance sheet date is within one year.

The contractual maturity of trade and other payables at the current and preceding balance sheet date is within three months.

The contractual maturity of finance lease liabilities can be found in note 12.

Interest Rate Risk

At the balance sheet date the interest rate profile of the Company's interest-bearing financial instruments was:

	2013 £'000	2012 £'000
Fixed rate instruments		
Finance lease liabilities	33	–
Loan	504	244

The Company has cash deposits of £310,331 (2012: £422,726) placed on premium rate deposit at rates which tracks bank base rate. These deposits are reviewed at least every 30 days. These funds are available on demand. At the year end, the weighted average interest rate for the floating rate cash deposits was the Barclays base rate of 0.5% (2012: 0.5% Barclays).

Fair values of the Company's financial assets and liabilities

Trade and other receivables

The fair value of trade and other receivables is estimated as the present value of future cash flows, discounted at the market rate of interest at the balance sheet date if the effect is material.

Trade and other payables

The fair value of trade and other payables is estimated as the present value of future cash flows, discounted at the market rate of interest at the balance sheet date if the effect is material.

Cash and cash equivalents

The fair value of cash and cash equivalents is estimated as its carrying amount, all cash and cash equivalents are repayable on demand.

Notes to the Financial Statements

20 Financial instruments continued

Interest-bearing borrowings

Fair value, which after initial recognition is determined for disclosure purposes only, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the balance sheet date if the effect is material.

The fair value of financial assets and liabilities, together with the carrying amounts shown in the balance sheet are as follows:

	2013 Carrying value £'000	2013 Fair value £'000	2012 Carrying value £'000	2012 Fair value £'000
Financial assets:				
Cash and cash equivalents	457	457	547	547
Loans and receivables:				
Trade receivables	230	230	219	219
Total financial assets	687	687	766	766
Financial liabilities at amortised cost:				
Trade payables	(196)	(196)	(198)	(198)
Loans	(504)	(504)	(244)	(244)
Finance lease liabilities	(33)	(33)	–	–
Total financial liabilities	(733)	(733)	(442)	(442)

21 Commitments

Non-cancellable operating lease rentals are payable as follows:

	Land and buildings 2013 £'000	Motor vehicles 2013 £'000	Land and buildings 2012 £'000	Motor vehicles 2012 £'000
Within one year	55	6	55	6
In the second to fifth years inclusive	150	4	205	10
	205	10	260	16

Capital commitments as at 31 May 2013 were £nil (2012: £284,100). Commitments in 2012 relate to a new furnace currently under construction.

Notes to the Financial Statements

22 Share based payments

Share Options

The number of options outstanding under the Company's share option scheme is as follows:

Number of Share Options – Ordinary Shares at 1p

Note	At 31 May 2012	Granted	Surrendered	Lapsed	At 31 May 2013	Exercise price	Date from which exercisable	Expiry date
(a)	230,000	–	–	–	230,000	£0.21	18/04/2009	18/04/2017
(b)	100,000	–	–	–	100,000	£0.21	18/04/2009	18/04/2017
(a)	417,200	–	–	–	417,200	£0.18	30/06/2012	30/06/2018
(b)	63,000	–	–	–	63,000	£0.18	22/09/2012	22/09/2018
(a)	632,035	–	–	–	632,035	£0.19	30/06/2012	30/06/2018
(b)	213,438	–	–	–	213,438	£0.19	22/09/2012	22/09/2018
(a)	215,000	–	(45,000)	–	170,000	£0.09	01/03/2013	01/03/2020
(b)	345,000	–	–	–	345,000	£0.09	01/03/2013	01/03/2020
(b)	100,000	–	–	–	100,000	£0.09	17/10/2011	18/10/2021
(b)	100,000	–	–	–	100,000	£0.09	17/10/2012	18/10/2021
(b)	100,000	–	–	–	100,000	£0.09	17/10/2013	18/10/2021
(a)	176,696	–	(45,000)	–	131,696	£0.12	15/03/2015	15/03/2022
(b)	330,000	–	–	–	330,000	£0.12	15/03/2015	15/03/2022
Total	3,022,369	–	(90,000)	–	2,932,369			

(a) These options have been granted under the EMI approved scheme. There have been no variations to the terms and conditions or performance criteria attached to these share options during the financial year. There are no performance conditions attached to these shares other than continued employment by the Company.

(b) These options have been granted under the unapproved scheme. There have been no variations to the terms and conditions or performance criteria attached to these share options during the financial year. There are no performance conditions attached to these shares other than continued employment by the Company.

There was no cost payable by the employees on the grant of any of the above options.

The option holder may only exercise their options during employment with the Company.

The movements of the EMI and unapproved share options outstanding are shown below:

	EMI Scheme		Unapproved Scheme	
	Number of awards	Weighted average exercise price £	Number of awards	Weighted average exercise price £
Outstanding at 31 May 2011	1,923,370	0.17	732,313	0.14
Granted	176,696	0.12	630,000	0.11
Forfeited & surrendered	(379,135)	–	(60,875)	–
Outstanding at 31 May 2012	1,720,931	0.17	1,301,438	0.13
Granted	–	–	–	–
Forfeited & surrendered	(90,000)	–	–	–
Outstanding at 31 May 2013	1,630,931	0.18	1,301,438	0.13
Range of exercise prices	9p to 21p		9p to 21p	

Weighted average remaining contractual life for the EMI Scheme is 5 years 11 months (2012: 6 years 11 months).

Weighted average remaining contractual life for the unapproved Scheme is 6 years 11 months (2012: 7 years 11 months).

There were no share options exercised during the year (2012: nil).

A charge of £27,687 (2012: £41,366) has been made in the statement of comprehensive income to spread the fair value of the options over the 3 year service obligations of those incentives.

Notes to the Financial Statements

22 Share based payments continued

Assumptions used in the valuation of share based options

In calculating the fair value of the share based payment arrangements the Company has used the Black Scholes method.

Weighted average assumptions	2013	2012
Fair value per share option	10.19p	9.02p
Share price on date of grant	11.5p	11.5p
Exercise price	11.5p	11.5p
Share options granted in the year – EMI scheme	–	176,696
Share options granted in the year – Unapproved scheme	–	630,000
Expected volatility	100%	100%
Exercise pattern (years)	3-10 years uniformly	3-10 years uniformly
Expected dividend yields	0%	0%
Risk free rate of return	2%	2%

The fair value of the share options is applied to the number of options that are expected to vest which takes into account the expected and actual forfeitures over the vesting period as a result of cessation of employment.

Expected volatility was determined by assessing the Company's historic data and the market in which the Company operates.

23 Capital management

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Board of Directors monitors the return on capital, defined as net operating income divided by total shareholders' equity.

At present employees and Directors would hold 28% of the share capital, following the exercise of all outstanding share options.

Company Information and Advisers

Websites	www.surfacetransforms.com
Registered Number	03769702
Directors	**David Bundred** (Non-executive Chairman) **Dr Kevin Johnson** (Chief Executive) **Kevin D'Silva** (Non-executive Director) **Richard Douglas Gledhill** (Non-executive Director)
Company Secretary	**Sarah Steel**
Address	Unit 4 Olympic Park Poole Hall Road Ellesmere Port Cheshire CH66 1ST Tel: 0151 356 2141
Nominated adviser	**Cantor Fitzgerald Europe** 1 America square 17 Crosswall London EC3N 2LS
Brokers	**Cantor Fitzgerald Europe** 1 America square 17 Crosswall London EC3N 2LS
Auditors	**KPMG Audit Plc** St James' Square Manchester M2 6DS
Solicitors to the Company	**Gateley LLP** Ship Canal House, 98 King Street, Manchester M2 4WU
Bankers	**Barclays Bank plc** 125 Main Street Frodsham Cheshire WA6 7AD **NatWest** Chester Branch 33 Eastgate Street Chester CH1 1LG
Registrars	**Capita Registrars** The Registry 34 Beckenham Road Beckenham Kent BR3 4TU

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the annual general meeting of the above named Company will be held at Cantor Fitzgerald, 1 America square, 17 Crosswall, London, EC3N 2LS, on 24 September 2013 at 11.00 am for the following purposes:

Ordinary Business

1. To receive the annual accounts of the Company for the financial year ended 31 May 2013 together with the last Directors' report, the last Directors' remuneration report and the auditors' report on those accounts.
2. To re-elect KA D'Silva, who retires by rotation pursuant to article 113 of the articles of association of the Company and who, being eligible, offers himself for re-election as a Director.
3. KPMG Audit PLC has notified the Company that it is not seeking reappointment. It is proposed that KPMG LLP be and are hereby appointed auditor of the Company and will hold office from the conclusion of this meeting until the conclusion of the next general meeting at which accounts are laid before the Company, and that their remuneration be fixed by the Directors.

Special Business

To consider and, if thought fit, pass the following resolution which will be proposed as an ordinary resolution:

4. "THAT, in substitution for all existing and unexercised authorities and powers, the Directors of the Company be and they are hereby generally and unconditionally authorised for the purpose of section 551 of the Companies Act 2006 (the "Act"):

   (a) to exercise all or any of the powers of the Company to allot shares of the Company or to grant rights to subscribe for, or to convert any security into, shares of the Company (such shares and rights being altogether referred to as "Relevant Securities") up to an aggregate nominal value of £128,117 to such persons at such times and generally on such terms and conditions as the Directors may determine (subject always to the articles of association of the Company); and further

   (b) to allot equity securities (as defined in section 560 of the Act) up to an aggregate nominal value of £128,117 in connection with a rights issue or similar offer in favour of ordinary shareholders where the equity securities respectively attributable to the interests of all ordinary shareholders are proportionate (as nearly as may be) to the respective numbers of ordinary shares held by them subject only to such exclusions or other arrangements as the directors of the Company may consider appropriate to deal with fractional entitlements or legal and practical difficulties under the laws of, or the requirements of any recognised regulatory body in any territory,

   PROVIDED THAT this authority shall, unless previously renewed, varied or revoked by the Company in general meeting, expire at the conclusion of the next annual general meeting or on the date which is 6 months after the next accounting reference date of the Company (if earlier) save that the Directors of the Company may, before the expiry of such period, make an offer or agreement which would or might require relevant securities or equity securities (as the case may be) to be allotted after the expiry of such period and the Directors of the Company may allot relevant securities or equity securities (as the case may be) in pursuance of such offer or agreement as if the authority conferred hereby had not expired."

Notice of Annual General Meeting

5. To consider and, if thought fit, pass the following resolution which will be proposed as a special resolution:

   "THAT, subject to and conditional upon the passing of the resolution numbered 5 in the notice convening the meeting at which this resolution was proposed and in substitution for all existing and unexercised authorities and powers, the Directors of the Company be and are hereby empowered pursuant to section 570 of the Act to allot equity securities (as defined in section 560 of the Act) pursuant to the authority conferred upon them by resolution 5 as if section 561 of the Act did not apply to any such allotment provided that this authority and power shall be limited to:

   (a) the allotment of equity securities in connection with a rights issue or similar offer in favour of ordinary shareholders where the equity securities respectively attributable to the interest of all ordinary shareholders are proportionate (as nearly as may be) to the respective numbers of ordinary shares held by them subject only to such exclusions or other arrangements as the Directors of the Company may consider appropriate to deal with fractional entitlements or legal and practical difficulties under the laws of, or the requirements of any recognised regulatory body in any, territory; and

   (b) the allotment (otherwise than pursuant to sub-paragraph (a) above) of equity securities up to an aggregate nominal amount of £38,435, representing approximately 10% of the current issued share capital of the Company,

   and shall expire at the conclusion of the next annual general meeting or on the date which is 6 months after the next accounting reference date of the Company (if earlier) save that the Company may before such expiry make an offer or agreement which would or might require equity securities to be allotted after such expiry and the Directors may allot equity securities in pursuance of such offer or agreement as if the power conferred hereby had not expired."

BY ORDER OF THE BOARD

Sarah Steel
Company Secretary

Date: 1 August 2013

Registered office:
Unit 4
Olympic Park
Poole Hall Road
Ellesmere Port
Cheshire CH66 1ST

Notice of Annual General Meeting

Notes

1. A member of the Company entitled to attend and vote at the meeting convened by this notice is entitled to appoint one or more proxies to exercise any of his rights to attend, speak and vote at that meeting on his behalf. If a member appoints more than one proxy, each proxy must be entitled to exercise the rights attached to different shares. A proxy need not be a member of the Company.
2. A proxy may only be appointed using the procedures set out in these notes and the enclosed proxy form. To appoint a proxy, a member must complete, sign and date the enclosed proxy form and deposit it at the office of the Company's Registrars, Capita Registrars at PXS, 34 Beckenham Road, Beckenham, Kent BR3 4TU by 11.00 am on 22 September 2013. Any power of attorney or any other authority under which the proxy form is signed (or a duly certified copy of such power or authority) must be enclosed with the proxy form.
3. In order to revoke a proxy appointment, a member must sign and date a notice clearly stating his intention to revoke his proxy appointment and deposit it at the office of the Company's Registrars, Capita Registrars at PXS, 34 Beckenham Road, Beckenham, Kent BR3 4TU by 11.00 am on 22 September 2013.
4. CREST members who wish to appoint a proxy or proxies by utilising the CREST electronic proxy appointment service may do so in relation to the meeting, and any adjournment(s) thereof, by utilising the procedures described in the CREST Manual. In order for a proxy appointment made by means of CREST to be valid, the appropriate CREST message must be transmitted so as to be received by the Company's registrars, Capita Registrars (whose CREST ID is RA10) by the latest time for receipt of proxy appointments specified in note 2 above. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Applications Host) from which the Company's agent is able to retrieve the message by enquiry to CREST in the manner prescribed. The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.
5. Any corporation which is a member of the Company may authorise a person (who need not be a member of the Company) to attend, speak and vote at the meeting as the representative of that corporation. A certified copy of the board resolution of the corporation appointing the relevant person as the representative of that corporation in connection with the meeting must be deposited at the office of the Company's Registrars prior to the commencement of the meeting.
6. Only those persons whose names are entered on the register of members of the Company at 6.00 pm on 22 September 2013 shall be entitled to attend and vote in respect of the number of shares registered in their names at that time. Changes to entries on the register of members after that time shall be disregarded in determining the rights of any person to attend and/or vote at the meeting.
7. The return of a completed proxy form, other such instrument or any CREST proxy instruction (see note 4) does not preclude you from attending the meeting and voting in person. If you have appointed a proxy and attend the meeting in person, your proxy appointment will automatically be terminated.

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