Surface Transforms Plc

Registered number 03769702

Annual Report and Financial Statements

for the year ended 31 May 2015

Contents

Highlights

- Revenues decreased by £0.2m to £1.1 million (2014: £1.3 million)
- Sales to retrofit and near OEM customers increased by 51% to £418k (2014: £276k)
- Gross margin percentage decreased to 51.1% (2014: 56.2%) reflecting the absence of non-recurring license income in 2015
- EBITDA (including tax credits and excluding share based payments) loss of £584k (2014: loss of £509k)
- Loss before taxation of £982k (2014: loss of £842k)
- Loss per share unchanged at 1.65p (2014: loss per share of 1.65p)
- Successful equity placings raising £1.3m to further progress the Company's objectives towards 'game changing' new business
- Cash used in operating activities increased by 25.6% to £559k (2014: £445k)
- Cash position as at 31 May 2015 of £829k (2014: £151k). The Company anticipates receiving an R&D tax credit in excess of £200k (2014 actual: £217k) in the near future
- Significant progress with Tier One Original Equipment Manufacturers (OEMs) on winning 'game changer' contracts, including the award of a £1.3m per annum aerospace pre-production contract
- Subsequent to year end awarded quality certification for both automotive (TS 16949) and aerospace (AS 9100) industries. Both certificates are prerequisite standards to supply our products into their respective industries
- Several new senior appointments made in the year which strengthen the management team
- Continuing progress on supply chain security, reducing lead time and costs albeit slowed down by discussions on local authority grants which are taking longer than planned

Chairman's Statement

Whilst the results for the financial year were below expectations, the period has been one of real strategic progress on the crucially important game changing contracts and the shorter term road car markets.

2015 revenues were impacted by a temporary breakdown of a furnace in May 2015 which has been investigated, understood and temporarily rectified. A permanent long term solution has been agreed with a furnace manufacturer to resolve an underlying unreliability issue in this furnace at a cost of £160k. This work will take place in January 2016. In the meantime the aerospace and road car sales previous shortfall has already been recovered and race car sales will be back on track over the next few months. As part of this recovery the Company has adopted a new factory shift pattern that has improved our capital equipment utilisation.

Gross profit fell in the year to £545k (2014: £716k) as a result of two unrelated issues:

- the shortfall in sales referred to above; and
- the absence of non-recurring license income.

There were no significant changes in gross margin percentages at the customer level.

The reduction in gross margin was partially offset by increases in grant income to £114k (2014: £66k). The combination of this gross margin reduction, grant income increase and a small £31k increase in administrative expenses to £1,599k in 2015 (2014: £1,568k) combined to increase the EBITDA loss (including tax credits and excluding share based payments) to £584k (2014: £509k).

However at this stage of the Company's development, the crucial issue is revenue growth. In this regard, the Company is pursuing two parallel, complementary but in practice, different revenue strategies:

- in the short term, retrofit and "near OEM's" are important to both demonstrating real road mileage experience and achieving break even. The Company fits retrofit products to road cars already in service replacing both iron discs and competitor discs. "Near OEMs" are defined as car assemblers who take existing models, pre-registration and customise them for higher performance and/or luxury, as well as companies who build very specialist vehicles. Individual "near OEM" sales volumes are typically between 10 and 200 cars per year; and
- the longer term game changing OEM contracts on cars generally costing more than £50,000 where the model volumes (on which contracts are based) are typically between 500 and 5,000 cars per year. These potential customers are typically well known international brands.

In respect of product sales to our retrofit and near OEM customers it is particularly pleasing to note that sales have grown in the year by 51% to £418k (£276k 2014) Despite the shortfall from the May furnace problem, the Company has achieved sales due to three factors:

- in mid-2013 the Company switched channel policy from three worldwide master distributors to a more direct sales approach (including opening its own German sales office) combined with the appointment of additional distributors who are closer to the track day community. This has opened up a whole set of new customer relationships, particularly with German "near OEM's", a proportion of which have been converted to sales;
- sales have grown within the existing customer base, notably to BAC Mono and Koenigsegg; and
- the Company's superior product reputation for better track performance (against the existing competitor) is becoming increasingly known within the track car community and is therefore assisting retrofit sales. Self-evidently, the Company also uses the favourable retrofit product comments, and virtually zero defect field issues in its sales campaigns with the game changing OEM customers.

Chairman's Statement

Turning to the crucially important game changing OEM contracts:

- the Company announced on 25 September 2014 the award of a pre-production contract with an international aerospace supplier. A recent review with the customer has confirmed that the sales forecasts and timings as previously announced are still on target – a positive impact in the current financial year and mature volumes of £1.3m per year from the 2017/18 financial year onwards;
- additionally on 20 July 2015 the Company announced that the same aerospace customer has included the Company's product on a US Department of Defence technology demonstrator for the replacement of a mainstream helicopter. This customer continues to test our products on civilian light aircraft;
- on 27 August 2015 the Company provided an update to shareholders on progress with automotive game changing contracts as follows:
  - a review meeting between a British vehicle OEM, a major tier one international brake manufacturer, and Surface Transforms has concluded that the product testing has been successful in achieving the vehicle manufacturer's requirements. All three parties agreed to progress to on-car validation which is underway;
  - in parallel, the Company has progressed through a very detailed audit process with a premium German car manufacturer which is a crucial part of their new product introduction for new suppliers. Our customer has now entered the product validation phase of the programme; and
  - further work also continues on three other automotive game changing programmes; whilst the programmes are taking longer to complete there are currently no technical impediments.

In terms of adoption schedules, it is always difficult to predict when they will happen as the timing is not within the Company's control; however the Board is confident that they will be able to make positive announcements regarding this during the remainder of 2015 and early 2016.

The testing is taking longer than envisaged but there have been no unresolved setbacks, the products performing as expected, demonstrating superiority over competitor products on heat dissipation and robustness. The Company still has five serious customer test programmes and remains confident of the eventual outcome.

In the automotive market, supply chain security, product cost and lead time reductions are critical differentiators. In particular, success in the automotive industry is nearly always a function of cost. We are therefore successfully implementing our programme to halve manufacturing costs and lead times in the next 2 to 3 years, thereby also improving supply chain security. As explained in our recent fundraisings, the new factory with its associated capital equipment investment is a crucial element in these cost reduction plans. The Company has completed negotiations with furnace manufacturers and is in a position to issue purchase orders, however the grant negotiations with local authorities are taking longer than expected. Finalising the grant funding is the only impediment to being able to announce the location of the new factory, whose capacity and processes will supplement the existing Ellesmere Port facility. Whilst discussions are ongoing, the Company is optimistic that suitable grant funding will be obtained.

Finally the Company has made a number of senior management appointments over the past 18 months, all reporting to the CEO – in Finance, Sales, Operations and Quality. The Board is delighted with the appointments and has already seen the impact in the day to day running of the Company.

David Bundred
Chairman

29 September 2015

Strategic Report

Operational review and principal activity

Surface Transforms is a UK based developer and manufacturer of carbon ceramic products for the brakes market. In these industries our products are lightweight, extremely durable and highly refined. They offer better heat dissipation and material strength; resulting in superior wear life, improved brake pad wear life and weight reduction compared to our competitor's carbon ceramic products in the automotive industry and for the aerospace industry they offer weight reduction, improved brake performance and superior wear life.

Our strategy is to firstly establish well engineered products which to sell into the automotive retrofit market. Although this retrofit market is relatively small it allows the Company to generate revenues with the goal of reaching 'cash breakeven' and more importantly reduces the product and supplier risks for the main part of our strategy, which is to work closely with major Tier 1 suppliers and OEMs and introduce our products into these large volume markets.

The key features of our business model are as follows:

- we engineer, develop and manufacture carbon ceramic brake products, which deliver high technical performance for the brakes market opportunities, which we estimate to be, ultimately, a £1 billion per annum market.
- our product technology offers highly desirable technical advantages over our competitors and our process technology offers a highly competitive low cost manufacturing route making our products price competitive with good margins.
- to sell a new disruptive product technology the risks need to be managed. These risks are addressed in partnership with Tier 1 system suppliers and OEMs and through adoption of our products in the retrofit and niche vehicle car manufacturers.
- we have a growing body of technical data which has been validated by our strategic partners/customers to support product adoption in the key 'game changing' volume markets.
- we have developed our manufacturing capability in terms of operating systems and supply chain management achieving both automotive and aerospace quality standards (TS16949 and AS9100); and
- we have a manufacturing capacity improvement plan which will be implemented over the next 2 years.

Delivering our objectives:

Product engineering and sales have expanded in the retrofit and niche vehicle markets. We continue to offer retrofit products for Porsches, Ferraris and Nissan GTR's and vehicle manufacturers/tuners with growing demand and brand recognition in the market place.

In addition our tactical objectives relating to the key automotive market differentiators are progressing:

- **Product** – the major challenge of wet endurance has been overcome, ensuring we can achieve to our customer's requirements. This improvement now allows work to begin on specifying the service life diagnostic tool for use by OEMs during service intervals for vehicles;
- **Quality** – in August we announced that the Company had completed its automotive quality certification (T16949) achieving another major milestone for the business. The cost of quality certification has been identified as an area for cost savings. These cost savings are independent of the cost reduction programme, which when eliminated will substantially improve the Company's financial performance. Reducing the cost of quality is progressing with savings expected to be made during the next financial year;
- **Supply chain security** – our plans to increase capacity and improve the robustness of our supply chain are progressing as mentioned in the chairman's statement albeit delayed by the need for grant support; and
- **Cost** – our cost reduction programme has seen the completion of a series of projects focussing on operational efficiency, seeing our standard manufacturing cost reduced by 10% during the year. The cost reduction would have been greater however cost increases in the supply chain have occurred. These cost increases reinforce the need to complete our supply chain robustness programme. There remains significant cost savings still to be achieved, however 70% of these cost reduction programme are linked to the current capital investment plan.

Strategic Report

In terms of the development of aircraft brakes we continue our targeted strategy of working with an international aircraft brake system supplier on an exclusive basis. Having progressed with the technical development on the US Military programme, our work is focused on completing the required pre-production milestones as part of the agreed schedule to start commercial supply in 2017. Achieving the aerospace quality standard of AS9100 is a major part of this and we were pleased to announce the award of this certification in June 2015.

In terms of the larger market of light commercial aircraft, as previously mentioned, the current situation is as follows:

- the technical requirements in this market are less demanding than the US Military programme and feasibility testing has been successfully completed;
- our customer is keen to close out the US military programme before starting the adoption of our products in this market; and
- there are many light aircraft platforms and validation testing and product sign off is required for each platform. The lead-time for validation and product sign off is significantly faster than the US military programme.

Our activities continue to expand beyond the initial US military programme and light commercial aircraft into the helicopter market. Our customer has identified carbon ceramic brakes for use in future generations of helicopters. The first order has been received for demonstrator parts to be presented and evaluated by the aircraft manufacturer and US Department of Defence. This programme further strengthens the Company's future sales pipeline, albeit new programmes on future generation military contracts take a long time to mature.

As this report highlights, we have seen a significant increase in engineering work relating to the 'game changing' opportunities. To support the 'game changer' opportunities we have increased our engineering resources significantly. We are pleased with the progress and results that have been generated by the expanded team and expect to see further progress going forward. The increase in engineering resource has however pushed back the objective of reaching 'cash breakeven'. The Company believes that with the anticipated sales growth in the retrofit and niche vehicle markets alongside the 'game changer' programmes we will achieve cash breakeven in 2017.

Alongside these core business activities the Company has also:

- completed two equity fundraisings in the year from both institutional and private investors totalling £1.3m to further progress the Company's objectives towards 'game changing' new business; and
- continued to supply automotive race products to a global major brake manufacturer. We anticipate the level of sales from these activities to continue during the next financial year, but start to decrease during 2016.

Financial review

In the year ended 31 May 2015, revenues were £1.1m (2014: £1.3 million) which was slightly below our expectations due to operational issued occurring in May 2015. Gross margin weakened during the year to 51.1% (2014: 56.2%) due to the sale of more products at a lower gross margin compared to prior year.

Losses after taxation increased by 13.5% to £765k (2014: £674k) due to the decrease in overall gross margin, additional costs due to continued investment in operational and engineering staff, while being offset by increases in grant income and income tax credit.

At 31 May 2015, inventory was £317k (2014: £271k). This increase was due in part due to an increase of work in progress, due to the operational issue in May 2015.

Net cash used in operating activities increased by 25.6% to £559k from £445k in the prior year, mainly due to increased losses after tax, offset by R&D tax credit received of £217k.

The Company had a cash balance of £829k at 31 May 2015 (2014: £151k).

Loss per share was 1.65 pence (2014: loss 1.65 pence).

Strategic Report

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. A set of business milestones is also updated monitored and reviewed as part of the monthly board meeting.

The Company produces an annual business plan and full monthly forecasts detailing sales, profitability and cash flow to help monitor analysis performed above business performance going forward. These are detailed in the Financial Review above.

Management meetings are held on a weekly basis, all senior managers attend and discuss production, engineering, financial and quality issues.

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 carbon ceramic product technology. Indications are that there is a strong desire from our strategic aerospace partner and from a number of volume automotive OEMs to incorporate the Company's product in their respective platforms. This risk is constantly assessed by regular customer review meetings.

In terms of uncertainties product sales continues to grow in the retrofit and niche vehicle markets with an increasing number of distributors and niche vehicles. This uncertainty is constantly assessed by regular customer meeting and monitoring the level of enquiries and orders for both the company's products and industry wide.

In addition, the Company faces the continuing uncertainty created by the current economic climate, particularly within the automotive sector.

In summary, the Company has seen significant progress in its automotive and aircraft 'game changing' projects and is increasing its sales in the retrofit and niche vehicle markets. The furnace breakdown has been addressed and we are in the process of recovering lost sales from the furnace breakdown. Further progress on automotive 'game changers' is expected during 2015 and 2016.

Directors 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 progressing well its 'game changing' opportunities. The Board expects continuing sales growth and is confident of making further announcements during the year.

David Bundred
Chairman

Kevin Johnson
Chief Executive

29 September 2015

Directors' Report

The Directors present their annual report and the audited financial statements for the year ended 31 May 2015.

Directors and Directors' interests

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

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

*denotes non-executive Director.

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	1.55%	826,203	826,203
R D Gledhill	16.55%	8,801,977	8,801,977
Dr K Johnson	0.23%	124,000	124,000
D Bundred	1.05%	560,747	483,824

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 11 and 12.

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 29 May 2015:

Registered holding	Number of ordinary shares	% of issued share capital
Hargreave Hale	8,220,769	15.46%
J M Finn & Co	2,180,342	4.10%
WH Ireland	2,139,350	4.02%
Maunby Investment Manager	2,043,751	3.84%
Barclays Wealth	1,996,389	3.75%
Dr Richard Emslie	1,828,931	3.44%

Directors' Report

Corporate governance

The Directors recognise the importance of sound corporate governance and confirm that although compliance with the UK Corporate Governance Code is not compulsory for AIM companies, the Company is following the guidelines of the QCA Corporate Governance Code (as devised by the QCA in consultation with a number of significant institutional small company investors) to the extent appropriate and practical for a Company of its nature and size.

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 the same three non-executive Directors. Details of the Remuneration Committee are disclosed in the report on Directors' remuneration on pages 11 and 12.

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 £765k 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. The detailed cash flow assumptions are based on the Company's annual budget, prepared and approved by the Board, which reflects a number of key assumptions including; revenue growth, underpinned by current pipeline; customer compliance with payment terms; other receipts of a value and timing consistent with previous years. Revenues are expected to continue in the forthcoming year.

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 and 4 and the Strategic report on pages 5 to 7. In addition, note 19 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.

Principal activity

The principal activity of the Company is to design, manufacture and sell carbon fibre components. 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.

Result for the year and proposed dividend

The loss for the year after taxation amounted to £765k (2014: £674k). The Directors do not recommend the payment of a dividend (2014: £nil).

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 is aware of that information.

Directors' Report

Strategic report

The information required by schedule 7 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 has been included in the separate Strategic Report in accordance with section 414C(11) of the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013.

Auditor

KPMG LLP resigned as auditor on 28 May 2015 and Baker Tilly UK Audit LLP was appointed. Baker Tilly UK Audit LLP has indicated its willingness to continue in office. Ordinary resolutions to re-appoint Baker Tilly UK Audit LLP, whose name will change on 26 October 2015 to RSM UK Audit LLP, as auditor and to authorise the directors to agree their audit fee, will be proposed at the forthcoming annual general meeting.

By order of the board

D Bundred
Chairman

29 September 2015

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). 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:

	Salary £	Fees £	2015 £	Salary £	Fees £	2014 £
Executive directors						
Dr K Johnson	94,220	–	**94,220**	90,329	–	90,329
	94,220	–	**94,220**	90,329	–	90,329
Non-executive directors						
K D'Silva	16,550	–	**16,550**	16,550	–	16,550
R D Gledhill	–	18,000	**18,000**	–	18,000	18,000
D Bundred	–	27,000	**27,000**	–	27,000	27,000
	16,550	45,000	**61,550**	16,550	45,000	61,550
	110,770	45,000	**155,770**	106,879	45,000	151,879

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 (2014: £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 17.

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 2014	Granted during the year	Number of Share options expired, waived or lapsed	Holding on 31 May 2015	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	15/02/15-15/03/22	15/02/2022
KA D'Silva	18/04/2007	50,000	–	–	50,000	£0.21	18/04/10-18/04/17	17/04/2017
D Bundred	17/10/2011	100,000	–	–	100,000	£0.09	17/10/14-17/10/21	17/10/2021
D Bundred	17/10/2011	100,000	–	–	100,000	£0.09	17/10/14-17/10/21	17/10/2021
D Bundred	17/10/2011	100,000	–	–	100,000	£0.09	17/10/14-17/10/21	17/10/2021
		1,894,707	–	–	1,894,707			

The market price of the shares at 31 May 2015 was 12.5 pence and during the year varied from 18.50 pence to 7.25 pence.

By order of the board

D Bundred
Chairman

29 September 2015

Unit 4
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Statement of Directors' Responsibilities

The directors are responsible for preparing the Strategic Report and the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements of the company in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union ("EU").

The financial statements are required by law and IFRS as adopted by the EU to present fairly the financial position and performance of the company. The Companies Act 2006 provides in relation to such financial statements that references in the relevant part of that Act to financial statements giving a true and fair view are references to their achieving a fair presentation.

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 the financial statements, the directors are required to:

(a) select suitable accounting policies and then apply them consistently;

(b) make judgements and accounting estimates that are reasonable and prudent;

(c) state whether they have been prepared in accordance with IFRS as adopted by the EU;

(d) 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 are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Surface Transforms Plc website. Legislation in the United Kingdom 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 on pages 15 to 36. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

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

Respective responsibilities of Directors and auditor

As more fully explained in the Directors' Responsibilities Statement on page 13, 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 (APB'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 website at http://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 2015 and of its loss for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the provisions of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Strategic Report and 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.

Baker Tilly UK Audit LLP

Graham Bond FCA (Senior Statutory Auditor)
for and on behalf of Baker Tilly UK Audit LLP, Statutory Auditor
3 Hardman Street
Manchester M3 3HF

29 September 2015

Statement of Total Comprehensive Income

for the year ended 31 May 2015

	Note	2015 £'000	2014 £'000
Revenue	2	**1,066**	1,273
Cost of sales		**(521)**	(557)
Gross profit		**545**	716
Administrative expenses:			
Before research costs		**(666)**	(613)
Research costs		**(933)**	(955)
Total administrative expenses	3	**(1,599)**	(1,568)
Other operating income	3	**114**	66
Operating loss		**(940)**	(786)
Financial expenses	6	**(42)**	(56)
Loss before tax		**(982)**	(842)
Taxation	7	**217**	168
Loss for the year after tax	15	**(765)**	(674)
Other comprehensive income		**–**	–
Total comprehensive loss for the year attributable to members		**(765)**	(674)
Loss per ordinary share			
Basic and diluted	18	**(1.65p)**	(1.65p)

All amounts relate to continuing activities.

The notes on pages 19 to 36 form part of these financial statements.

Statement of Financial Position

at 31 May 2015

	Note	2015 £'000	2015 £'000	2014 £'000	2014 £'000
Non-current assets					
Property, plant and equipment	8		**483**		586
Current assets					
Inventories	9	**317**		271	
Trade and other receivables	10	**367**		454	
Cash and cash equivalents		**829**		151	
			1,513		876
Total assets			**1,996**		1,462
Current liabilities					
Other interest bearing loans and borrowings	11	**(9)**		(9)	
Trade and other payables	12	**(379)**		(395)	
		(388)		(404)	
Non Current liabilities					
Other interest bearing loans and borrowings	11	**(409)**		(418)	
Total liabilities			**(797)**		(822)
Net assets			**1,199**		640
Equity					
Share capital	14		**532**		423
Share premium	15		**9,186**		7,995
Capital reserve	15		**464**		464
Retained loss			**(8,983)**		(8,242)
Total equity attributable to equity shareholders of the Company			**1,199**		640

These financial statements were approved by the board of Directors on 29 September 2015 and were signed on its behalf by:

D Bundred
Chairman

Dr K Johnson
Director

Company Registered Number 03769702

The notes on pages 19 to 36 form part of these financial statements.

Statement of Changes in Equity

for the year ended 31 May 2015

For the year to 31 May 2014

	Share capital £'000	Share premium account £'000	Capital reserve £'000	Retained loss £'000	Total £'000
Balance at 31 May 2013	384	7,707	464	(7,586)	969
Comprehensive income for the year					
Loss for the year	–	–	–	(674)	(674)
Total comprehensive income for the year	–	–	–	(674)	(674)
Transactions with owners, recorded directly to equity					
Shares issued in the year	39	301	–	–	340
Cost of issue written off to share premium	–	(13)	–	–	(13)
Equity settled share based payment transactions	–	–	–	18	18
Total contributions by and distributions to the owners	39	288	–	18	345
Balance at 31 May 2014	**423**	**7,995**	**464**	**(8,242)**	**640**

For the year to 31 May 2015

	Share capital £'000	Share premium account £'000	Capital reserve £'000	Retained loss £'000	Total £'000
Balance at 31 May 2014	423	7,995	464	(8,242)	640
Comprehensive income for the year					
Loss for the year	–	–	–	(765)	(765)
Total comprehensive income for the year	–	–	–	(765)	(765)
Transactions with owners, recorded directly to equity					
Shares issued in the year	109	1,308	–	–	1,417
Cost of issue written off to share premium	–	(117)	–	–	(117)
Equity settled share based payments	–	–	–	24	24
Total contributions by and distributions to the owners	109	1,191	–	24	1,324
Balance at 31 May 2015	**532**	**9,186**	**464**	**(8,983)**	**1,199**

The notes on pages 19 to 36 form part of these financial statements.

Statement of Cash Flows

for the year ended 31 May 2015

	Note	2015 £'000	2014 £'000
Cash flows from operating activities			
Loss before tax for the year		**(765)**	(674)
Adjusted for:			
Depreciation charge		**115**	91
Loss on disposal of property, plant and equipment		**–**	10
Equity settled share-based payment expenses		**24**	18
Financial expense		**42**	56
Taxation		**(217)**	(168)
		(801)	(667)
Changes in working capital			
(Increase)/decrease in inventories		**(46)**	86
Decrease/(increase) in trade and other receivables		**87**	(128)
(Decrease)/increase in trade and other payables		**(16)**	96
		(776)	(613)
Taxation received	7	**217**	168
Net cash used in operating activities		**(559)**	(445)
Cash flows from investing activities			
Acquisition of property, plant and equipment	8	**(12)**	(63)
Proceeds from disposal of property, plant and equipment		**–**	41
Net cash used in investing activities		**(12)**	(22)
Cash flows from financing activities			
Proceeds from issue of share capital, net of expenses		**1,300**	327
Proceeds from new loan		**–**	400
Payment of finance lease liabilities		**(9)**	(6)
Repayment of borrowings		**–**	(504)
Interest paid	6	**(42)**	(56)
Net cash generated from financing activities		**1,249**	161
Net increase/(decrease) in cash and cash equivalents		**678**	(306)
Cash and cash equivalents at the beginning of the period		**151**	457
Cash and cash equivalents at the end of the period		**829**	151

The notes on pages 19 to 36 form part of these financial statements.

Notes to the Financial Statements

for the year ended 31 May 2015

1 Accounting policies

Surface Transforms Plc (the Company) is a Company incorporated and domiciled in the UK, functional currency being sterling. The financial statements have been presented in sterling and rounded to the nearest £'000. The registered office of business is Unit 4, Olympic Park, Ellesmere Port, Cheshire CH66 1ST.

Surface Transforms is a UK based developer and manufacturer of carbon ceramic products for the brakes market. Surface Transforms Plc has four dormant subsidiary companies that are excluded from these financial statements on the basis of materiality and that they do not currently trade. These are; ST Aerospace Ltd., ST Automotive Ceramic Ltd.ST Defence Ltd and ST Racing Ltd.

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 29 September 2015.

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 £765k 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. The detailed cash flow assumptions are based on the company's annual budget, prepared and approved by the Board, which reflects a number of key assumptions including; revenue growth, underpinned by current pipeline; customer compliance with payment terms; other receipts of a value and timing consistent with previous years. Revenues are expected to continue in the forthcoming year.

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 and 4 and the Strategic report on pages 5 to 7. In addition, note 19 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 and Directors 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 are expected to vest except where forfeiture is only due to share prices not achieving the threshold for vesting.

Notes to the Financial Statements

1 Accounting policies continued

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 statement of total comprehensive income on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. 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 and useful lives are reviewed at each balance sheet date.

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.

1 **Accounting policies** continued

Research and development expenditure

Expenditure on research activities is recognised in the statement of total comprehensive income as an expense as incurred. Expenditure arising from the Company's development is recognised only if all of the following conditions are met an asset is created that can be identified:

- it is probable that the asset created will generate future economic benefits;
- the development cost of the asset can be measured reliably;
- the Company has the intention to complete the asset and the ability and intention to use or sell it;
- the product or process is technically and commercially feasible; and
- sufficient resources are available to complete the development and to either sell or use the asset.

Expenditure is only capitalised if there is a probability by the customer for the programme to proceed to full scale commercial sales. This would normally be reflected in a firm purchase order and/or production contract, and a decision by their Board that the underlying car programme will go into production.

Where these criteria have not been achieved, development expenditure is recognised in the statement of total comprehensive income in the period in which it is incurred.

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, which are typically received in the Autumn, 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.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, demand deposits held on call with banks, and other short term highly liquid investments with original maturities of three months or less that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

Revenue

Revenue comprises income derived from the supply of carbon fibre materials 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.

Notes to the Financial Statements

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 annually for impairment if events or changes in circumstances, such as changes in technology, 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 statement of financial position.

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 statement of total comprehensive income 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.

Deferred tax

Management judgement is required to determine the amount of tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with an assessment of the effect of future tax planning strategies. Further information regarding the level of unrecognised deferred tax is included in note 13.

Going concern

Management judgement is applied at each reporting date in assessing the ongoing applicability of the going concern assumption and the current year's assessment of which has been included within the going concern section above.

Segmental reporting

The Board has reviewed the requirements of IFRS 8 "Operating Segments", including consideration of what results and information the Chief Executive (the Chief Operating Decision Maker) reviews regularly to assess performance and allocate resources, and concluded that 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.

Notes to the Financial Statements

1 Accounting policies continued

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.

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. Cash flow forecasting is undertaken on a monthly basis approved and board level and managed on a daily basis by the finance function.

New standards, amendments and interpretations adopted during the year ended 31 May 2015

The IASB and IFRIC have issued the following standards and interpretations which have been adopted during the year. The adoption of these standards and interpretations has not had a material impact on the Company.

Standards and key requirements

IFRS 10 – Consolidated Financial Statements:
The standard's objective is to establish principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. It builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the financial statements. The standard provides additional guidance to assist in the determination of control where this is difficult to assess.

IFRS 11 – Joint Arrangements:
IFRS 11 is a more realistic reflection of joint arrangements by focusing on the rights and obligations of the arrangement rather than its legal form. There are two types of joint arrangement: joint operations and joint ventures. Proportional consolidation of joint ventures is no longer allowed.

IFRS 12 – Disclosures of interests in Other Entities:
IFRS 12 includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles.

IAS 27 (revised 2011) – Separate Financial Statements:
IAS 27 (revised 2011) includes the provisions on separate financial statements that are left after the control provisions of IAS 27 have been included in the new IFRS 10.

IAS 28 (revised 2011) – Associates and Joint Ventures:
IAS 28 (revised 2011) includes the requirements for joint ventures, as well as associates, to be equity accounted following the issue of IFRS 11.

IAS 32 – Offsetting Financial Assets and Financial Liabilities:
The amendments clarify existing application issues relating to the offsetting requirements.

Notes to the Financial Statements

1 Accounting policies continued

New standards, amendments and interpretations issued but not effective for the financial year beginning 1 June 2014 and not early adopted

The IASB and IFRIC have issued the following standards and interpretations with effective dates as noted below:

Standard	Key requirements	Effective date (for annual periods beginning on or after)
IFRS 9, Financial Instruments	The standard is the first standard issued as part of a wider project to replace IAS 39. It replaces the parts of IAS 39 that relate to the classification and measurement of financial instruments. IFRS 9 requires financial assets to be classified into two measurement categories: those measured as at fair value and those measured at amortised cost. The classification depends on the entity's business model and the contractual cash flow characteristics of the instrument. The guidance in IAS 39 on impairment of financial assets and hedge accounting continues to apply.	1 January 2018
IFRS 15, Revenue from Contracts with Customers	The standard specifies how and when a company will recognise revenue as well as requiring such entities to provider users of financial statements with more informative, relevant disclosures. The standard provides a single, principles based five-step model to be applied to all contracts with customers.	1 January 2018

There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Company.

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 as 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.

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:

	2015 £'000	2014 £'000
United Kingdom	**164**	129
Rest of Europe	**838**	657
United States of America	**51**	465
Rest of World	**13**	22
	1,066	1,273

Turnover in the current year comprises £1,066k of product sales (2014: £1,273k) and no sales in relation to the sale of technology (2014: £260k).

Notes to the Financial Statements

3 Expenses and auditors remuneration

	2015 £'000	2014 £'000
Operating loss is stated		
after charging		
Depreciation of property, plant and equipment	**115**	91
Research costs expensed as incurred	**933**	955
Rents payable under operating leases – land and buildings	**55**	55
Exchange losses	**12**	2
Loss on disposal of property, plant and equipment	**–**	10
Inventory write down	**–**	51
Impairment loss on receivables	**–**	12
after crediting		
Exchange gains	**–**	12
Government grants	**114**	66

Auditor's remuneration

Amounts receivable by auditors and their associates in respect of:

	2015 £'000	2014 £'000
Audit of these financial statements	**18**	21
All other services	**12**	1

Grants received comprise revenue grants from the Technology Strategy Board.

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 aggregate amount of emoluments paid to Directors in respect of qualifying services during the year was £155,770 (2014: £151,879).

Pension contributions of £21,000 (2014: £21,000) were made to a money purchase scheme on behalf of one director, no other pension contributions were accruing by any other Director during either the current or prior year.

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 2015	2014
Directors	**4**	4
Other employees	**20**	17
	24	21

The aggregate payroll costs of these persons were as follows:

	2015 £'000	2014 £'000
Wages and salaries	**831**	625
Social security costs	**78**	66
Other pension costs (see note 16)	**27**	44
Share based compensation	**24**	18
	960	753

6 Financial expenses

	2015 £'000	2014 £'000
Total interest expense on financial liabilities measured at amortised cost	**42**	56

7 Taxation

	2015 £'000	2014 £'000
Analysis of credit in year		
UK corporation tax		
Adjustment in respect of prior years – R&D tax allowances	**(217)**	(168)
Total income tax credit	**(217)**	(168)

Details of the unrecognised deferred tax asset are included in note 13.

Factors affecting the tax credit for the current period

The current tax credit for the year is higher (2014: lower) than the standard rate of corporation tax in the UK of 20.83% (2014: 22.67%). The differences are explained below:

	2015 £'000	2014 £'000
Reconciliation of effective tax rate		
Loss for the year	**(765)**	(674)
Total income tax credit	**(217)**	(168)
Loss excluding income tax	**(982)**	(842)
Current tax at average rate of 20.83% (2014: 22.67%)	**(205)**	(191)
Effects of:		
Non-deductible expenses	**6**	7
Change in unrecognised timing differences	**11**	20
Current year losses for which no deferred tax recognised	**188**	164
Adjustment in respect of prior years – R&D tax allowances	**(217)**	(168)
Income tax credit (see above)	**(217)**	(168)

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.

Reductions in the UK corporation tax rate from 21% to 20% (effective from 1 April 2015) were substantively enacted on 2 July 2014. This will reduce the company's future current tax credit accordingly and reduce the deferred tax asset at 31 May 2015 which has been calculated based on the rate of 20% substantively enacted at the balance sheet date.

Notes to the Financial Statements

8 Property, plant and equipment

	Leasehold improvements £'000	Plant and machinery £'000	Fixtures and fittings £'000	Total £'000
Cost				
At 31 May 2013	75	963	64	1,102
Additions	–	62	1	63
Disposals	–	(179)	–	(179)
At 31 May 2014	75	846	65	986
Additions	–	12	–	12
At 31 May 2015	**75**	**858**	**65**	**998**
Depreciation				
At 31 May 2013	44	345	48	437
Charge for year	8	76	7	91
Disposals	–	(128)	–	(128)
At 31 May 2014	52	293	55	400
Charge for year	7	101	7	115
At 31 May 2015	**59**	**394**	**62**	**515**
Net book value				
At 31 May 2013	31	618	16	665
At 31 May 2014	23	553	10	586
At 31 May 2015	**16**	**464**	**3**	**483**

At 31 May 2015 the net carrying amount of leased plant and machinery was £20,972 (2014: £33,556).

9 Inventories

	2015 £'000	2014 £'000
Raw materials and consumables	**18**	35
Work in progress	**260**	166
Finished goods	**39**	70
	317	271

Raw materials, consumables and changes in finished goods and work in progress recognised as cost of sales in the year amounted to £521,296 (2014: £556,568).

10 Trade and other receivables

	2015 £'000	2014 £'000
Trade receivables	**157**	357
Other receivables	**143**	46
Prepayments and accrued income	**67**	51
	367	454

All receivables fall due within one year.

Notes to the Financial Statements

11 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 19.

	2015 £'000	2014 £'000
Current liabilities		
Finance lease liabilities	**9**	9
Non-current liabilities		
Loans	**400**	400
Finance lease liabilities	**9**	18
	409	418

On the 28 March 2014 the company took out a loan facility for £400,000 from Group 14 Limited, a related party (see note 17). Fees of £5,000 were incurred. The loan incurs interest at a rate of 9.5% above base rate, payable monthly in arrears. Repayments commence at a rate of £8,500 per month on 28 March 2017. No covenants are attached to the facility.

Loan liabilities are payable as follows:

	Future minimum loan payments 2015 £'000	Interest 2015 £'000	Present value of minimum loan payments 2015 £'000	Future minimum loan payments 2014 £'000	Interest 2014 £'000	Present value of minimum loan payments 2014 £'000
Less than one year	**40**	**40**	**–**	40	40	–
Between one and five years	**430**	**30**	**400**	470	70	400
	470	**70**	**400**	510	110	400

Finance lease liabilities are payable as follows:

	Future minimum lease payments 2015 £'000	Interest 2015 £'000	Present value of minimum lease payments 2015 £'000	Future minimum lease payments 2014 £'000	Interest 2014 £'000	Present value of minimum lease payments 2014 £'000
Less than one year	**11**	**2**	**9**	11	2	9
Between one and five years	**11**	**2**	**9**	20	2	18
	22	**4**	**18**	31	4	27

The finance lease is in relation to a motor vehicle being used as part of the research & development programme and is secured on the asset in question. The interest rate is at an annual rate of 8.5% payable over a period of 36 months.

Notes to the Financial Statements

12 Trade and other payables: amounts falling due within one year

	2015 £'000	2014 £'000
Trade payables	**247**	260
Taxation and social security	**22**	21
Accruals and deferred income	**110**	114
	379	395

13 Deferred tax

	2015 £'000	2014 £'000
Difference between accumulated depreciation and amortisation and capital allowances	**(3)**	(5)
Tax losses	**(846)**	(658)
Unrecognised deferred tax asset	**(849)**	(663)

The elements of the deferred taxation are as follows:

The Company has an unrecognised deferred tax asset at 31 May 2015 of £849,000 (2014: £663,000) relating principally to tax losses which the Company can offset against future taxable profits from the same trade.

14 Called up share capital

	2015 £'000	2014 £'000
Allotted, called up and fully paid		
53,181,081 shares of £0.01 each (2014: 42,278,636 shares of £0.01 each)	**532**	423

In December 2014 the Company issued 8,210,136 ordinary shares at £0.01 each at a price of 13p per share and in April 2015 the Company issued 2,692,309 ordinary shares at £0.01 each at a price of 13p per share. Total issue costs incurred were £117k.

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 11 and 12. In addition to the Directors' share options, certain employees and former directors have been granted the following options:

Date of grant	Number of unexpired share options at year end	Exercise price	Exercise period
17/04/2007	180,000	£0.20	18/04/10-18/04/17
30/06/2008	180,200	£0.18	30/06/11-30/06/18
22/09/2008	353,766	£0.19	22/09/11-22/09/18
01/02/2010	145,000	£0.09	01/03/13-01/03/20
15/02/2012	106,696	£0.12	15/03/15-15/03/22
25/09/2014	440,753	£0.105	25/09/16-25/09/24
	1,406,415		

There are a total of 664,355 unexpired options held by employees, 742,060 unexpired options held by former directors and a total of 1,894,707 unexpired options held by Directors.

15 Share premium and reserves

	Share premium account £'000	Capital reserve £'000	Retained loss £'000
At 31 May 2013	7,707	464	(7,586)
Retained loss for the year	–	–	(674)
Share issue (net of expenses)	288	–	–
Equity settled share based payment transactions	–	–	18
At 31 May 2014	7,995	464	(8,242)
Retained loss for the year	–	–	(765)
Share issue (net of expenses)	1,191	–	–
Equity settled share based payment transactions	–	–	24
At 31 May 2015	**9,186**	**464**	**(8,983)**

16 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 £26,849 (2014: £43,497). 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 £17,076 of the pension contributions (2014: £17,576).

There were outstanding contributions of £6,959 (2014:£1,366) at the end of the financial year.

17 Related party disclosures

Transactions with key management personnel

Directors of the Company and their immediate relatives control 19.38% (2014; 24.23%) per cent of the voting shares of the Company. At present employees and Directors would hold 25.60% (2014; 28.71%) of the share capital, following the exercise of all outstanding share options.

The company considers key management personnel as defined in IAS 24 "Related party disclosures" to be the Directors of the company and key senior manager personnel and their remuneration is as follows:

	2015 £000	2014 £000
Wages and salaries	**264**	233
Social security costs	**32**	28
Pension costs	**27**	29
Share based payments	**17**	13
	340	303

Notes to the Financial Statements

17 Related party disclosures continued

Other related party transactions

On 28 March 2014, a loan facility of £400,000 was provided by Group 14 Limited. Fees of £5,000 were incurred. Due to the presence of a common Board Director, Group 14 is a related party of Surface Transforms Plc.

The loan incurs interest at a rate of 9.5% above base rate, payable monthly in arrears. Repayments commence at a rate of £8,500 per month 3 years after the first draw down. No covenants are attached to the facility. Details of transactions in the years to 31 May 2015 and to 31 May 2014 and year end balances at 31 May 2015 and 31 May 2014 are disclosed below.

	2015 £000	**2014 £000**
Transactions in the year:		
Group 14		
Interest paid	**40**	7
Fees paid	**18**	23
	58	30
Balance payable:		
Group 14 loan payable	**400**	400

18 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	**2015**	**2014**
Loss after tax (£)	**(765,586)**	(674,016)
Weighted average number of shares (No. of shares)	**46,449,946**	40,730,707
Loss per share (pence)	**(1.65p)**	(1.65p)

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 anti-dilutive under the terms of IAS33.

Notes to the Financial Statements

19 Financial instruments

The Company's policies with regard to financial instruments are set out within note 1. 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 2015			31 May 2014		
	US Dollar £'000	Euro £'000	Sterling £'000	US Dollar £'000	Euro £'000	Sterling £'000
Cash and cash equivalents	**22**	**28**	**779**	13	20	118
Trade receivables	**3**	**100**	**54**	43	–	314
Trade payables	**(42)**	**(8)**	**(197)**	(29)	(1)	(230)
Finance lease liabilities	**–**	**–**	**(18)**	–	–	(27)
Net exposure	**(17)**	**120**	**618**	27	19	175

	Average Rate		Reporting Date Spot Rate	
	2015	2014	2015	2014
US Dollar	**1.538**	1.684	**1.528**	1.675
Euro	**1.404**	1.231	**1.390**	1.229

Sensitivity Analysis

A ten percent strengthening of the pound against the US Dollar and the Euro at 31 May 2015 would have decreased 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 2014.

	US Dollar £'000	Euro £'000
31 May 2015	**1**	**(11)**
31 May 2014	(2)	(2)

A ten percent weakening of the pound against the US Dollar and the Euro at 31 May 2015 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.

Notes to the Financial Statements

19 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 2015 Gross £'000	31 May 2015 Impairment £'000	31 May 2015 Net £'000	31 May 2014 Gross £'000	31 May 2014 Impairment £'000	31 May 2014 Net £'000
Not past due	**126**	**–**	**126**	201	–	201
Past due 0 to 30 days	**2**	**–**	**2**	121	–	121
Past due 31 to 90 days	**29**	**–**	**29**	46	(11)	35
	157	**–**	**157**	368	(11)	357

There was an amount of £nil (2014: £10,618) 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 and loan liabilities can be found in note 11.

Interest Rate Risk

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

	2015 £'000	2014 £'000
Fixed rate instruments:		
Finance lease liabilities	**18**	27
Floating rate instruments:		
Loan	**400**	400

Fair values of the Company's financial assets and liabilities

The table below analyses the Company's financial instruments:

	2015 £'000	2014 £'000
Financial assets:		
Cash and cash equivalents	**829**	151
Trade and other receivables	**300**	403
Total financial assets	**1,129**	554
Financial liabilities:		
Trade and other payables	**247**	260
Loans	**400**	400
Finance leases	**18**	27
Total financial liabilities	**665**	687

19 ## Financial instruments continued

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.

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.

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.

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.

20 ## Commitments

Non-cancellable operating lease rentals are payable as follows:

	Land and buildings 2015 £'000	**Land and buildings 2014 £'000**
Within one year	**55**	55
In the second to fifth years inclusive	**96**	151
	151	206

Capital commitments as at 31 May 2015 were £nil (2014: £nil).

Notes to the Financial Statements

21 Ultimate controlling party

The Directors do not consider there to be an ultimate controlling party due to no individual party owning a majority share in the Company.

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 2014	Granted	Surrendered	Lapsed	At 31 May 2015	Exercise price	Date from which exercisable	Expiry date
(a)	280,000	–	–	–	280,000	£0.21	18/04/2010	18/04/2017
(b)	50,000	–	–	–	50,000	£0.21	18/04/2010	18/04/2017
(a)	468,200	–	–	–	468,200	£0.18	30/06/2011	30/06/2018
(a)	610,035	–	–	–	610,035	£0.18	22/09/2014	22/09/2018
(b)	225,438	–	–	–	225,438	£0.19	22/09/2011	22/09/2018
(a)	145,000	–	–	–	145,000	£0.09	01/03/2014	01/03/2020
(b)	345,000	–	–	–	345,000	£0.09	01/03/2014	01/03/2020
(b)	100,000	–	–	–	100,000	£0.09	17/10/2015	17/10/2021
(b)	100,000	–	–	–	100,000	£0.09	17/10/2015	17/10/2021
(b)	100,000	–	–	–	100,000	£0.09	17/10/2015	17/10/2021
(a)	106,696	–	–	–	106,696	£0.12	15/02/2015	15/03/2022
(b)	330,000	–	–	–	330,000	£0.12	15/02/2015	15/03/2022
(a)	200,000	–	200,000	–	–	£0.10	02//08/2016	02/08/2023
(a)	–	440,753	–	–	440,753	£0.105	25//09/2017	25/09/2024
Total	3,060,369	440,753	200,000	–	3,301,122			

(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.

22 Share based payments continued

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 2013	1,681,931	0.18	1,250,438	0.12
Granted	200,000	0.10	–	–
Forfeited & surrendered	(72,000)	–	–	–
Outstanding at 31 May 2014	1,809,931	0.17	1,250,438	0.12
Granted	440,753	0.105	–	–
Forfeited & surrendered	(200,000)	–	–	–
Outstanding at 31 May 2015	2,050,684	0.135	1,250,438	0.12
Range of exercise prices	9p to 21p		9p to 21p	

Weighted average remaining contractual life for the EMI Scheme is 7 years 9 months (2014: 4 years 11 months).

Weighted average remaining contractual life for the unapproved Scheme is 7 years 9 months (2014: 7 years 4 months).

There were no share options exercised during the year (2014 nil).

A charge of £23,786 (2014: £17,821) 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.

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	2015	2014
Fair value per share option	**6.6p**	11.4p
Share price on date of grant	**10.5p**	10.0p
Exercise price	**10.5p**	10.0p
Share options granted in the year – EMI scheme	**440,753**	200,000
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.

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	**David C Allen**
Address	Unit 4 Olympic Park Poole Hall Road Ellesmere Port Cheshire CH66 1ST Tel: 0151 356 2141
Nominated adviser and Broker	**Cantor Fitzgerald Europe** One Churchill Place Canary Wharf London E14 5RB
Auditors	**Baker Tilly UK Audit LLP** 3 Hardman Street Manchester M3 3HF
Solicitors to the Company	**Gateley LLP** Ship Canal House, 98 King Street, Manchester M2 4WU
Bankers	**NatWest** Chester Branch 33 Eastgate Street Chester CH1 1LG **Barclays Bank Ltd** 125 Main Street Frodsham Cheshire WA6 7AD
Registrars	**Capita Asset Services** The Registry 34 Beckenham Road Kent BR3 4TU

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the annual general meeting of Surface Transforms Plc will be held at Royal-Overseas League, Over-Seas House, London, SW1A 1LR on Tuesday 24 November 2015 at 11.00am for the following purposes:

Ordinary Business

1. To receive the annual accounts of the Company for the financial year ended 31 May 2015 together with the last Directors' report, the last Directors' remuneration report and the auditors' report on those accounts.
2. To re-elect Richard Douglas Gledhill, 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. To re-appoint RSM UK Audit LLP (formerly Baker Tilly UK Audit LLP) as auditors for the Company to hold office from the conclusion of this meeting until the conclusion of the next annual general meeting of the Company and to authorise the Directors to fix their remuneration.

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**"):

   - 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 £168,296 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
   - to allot equity securities (as defined in section 560 of the Act) up to an aggregate nominal value of £168,296 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."

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 4 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 4 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 £50,488, 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

David C Allen
Company Secretary

Date: 29 September 2015

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 notes to the proxy form. To appoint a proxy, a member may complete, sign and date the enclosed proxy form and deposit it at the Company's Registrars, Capita Asset Services at PXS, 34 Beckenham Road, Beckenham, BR3 4TU by 11.00am on 22 November 2015. 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 Company's Registrars, Capita Asset Services at PXS, 34 Beckenham Road, Beckenham, BR3 4TU by 11.00am on 22 November 2015.
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) of that meeting, 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 Agent, Capita Asset Services at PXS, 34 Beckenham Road, Beckenham, BR3 4TU (CREST Participant ID:RA10) by no later than 48 hours before the time of the meeting. 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 one or more persons (who need not be a member of the Company) to attend, speak and vote at the meeting as the representative of that corporation.
6. The right to vote at the meeting shall be determined by reference to the register of members of the company. Only those persons whose names are entered on the register of members of the Company at 6.00pm on 22 November 2015 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.

Explanatory Notes:

Resolution 4 – Directors' power to allot relevant securities

Under section 551 of the Act, relevant securities may only be issued with the consent of the shareholders, unless the shareholders pass a resolution generally authorising the directors to issue shares without further reference to the shareholders. This resolution authorises the general issue of shares up to an aggregate nominal value of £168,296, which is equal to 33.33% of the nominal value of the current ordinary share capital of the Company and a further issue of shares up to an aggregate nominal value of £168,296, which is equal to a further 33.33% of the nominal value of the current share capital of the Company for the purposes of fully pre-emptive rights issues. Such authorities will expire at the conclusion of the next annual general meeting of the Company or the date which is 6 months after the next accounting reference date of the Company (whichever is the earlier).

Resolution 5 – Disapplication of pre-emption rights on equity issues for cash

Section 561 of the Act requires that a company issuing shares for cash must first offer them to existing shareholders following a statutory procedure which, in the case of a rights issue, may prove to be both costly and cumbersome. This resolution excludes that statutory procedure as far as rights issues are concerned. It also enables the directors to allot shares up to an aggregate nominal value of £50,488, which is equal to 10% of the nominal value of the current ordinary share capital of the Company, subject to resolution 5(b) being passed. The directors believe that the limited powers provided by this resolution will maintain a desirable degree of flexibility. Unless previously revoked or varied, the disapplication will expire on the conclusion of the next annual general meeting of the Company or on the date which is 15 months after the resolution being passed (whichever is the earlier).

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