



Surface Transforms Plc

Registered number 03769702

Annual Report and
Financial Statements

for the year ended 31 May 2018



***SURFACE
TRANSFORMS***

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Highlights

Financial highlights

- Revenues increased £661k to £1,363k (2017: £702k)
- Gross margin percentage increased to 67.4% (2017: 61.0%)
- LBITDA (including tax credit and excluding share based payments and non-recurring staff costs) reduced to £1,382k (2017: £1,944k)
- Research costs increased to £2,002k (2017: £1,916k) which has been partially offset by increased R&D tax credit of £465k (2017: £356k)
- Loss after taxation of £1,834k (2017: £2,172k)
- Loss per share of 1.66p (2017: 2.41p)
- Cash used in operating activities increased by £948k to £2,168k (2017: £1,220k)
- Cash at 31 May 2018 was £923k (2017: £1,532k)
- Capital expenditure in the year was £2,024k (2017: £2,075k)

Customer and Operational highlights

- All furnaces ordered for Production Cell One and all but one, in commissioning stage in Knowsley
- Small Volume Production cell (SVP) is in steady state production in Knowsley
- Successful equity placing raised £3,443k net of expenses in the financial year and a further equity placing post the financial year end raised an additional £1,461k after expenses
- Additional demand from Aston Martin (mainly related to dealer spares) has added an additional £1m of revenue to the programme. Start of Production (SOP) of the Company's products remains unchanged at Q1 2019
- Progress continues on testing with other Original Equipment Manufacturers (OEMs)
- The US Department of Defence (DOD) has confirmed the order with the aircraft manufacturer for the target aircraft programme on which the Company has already successfully completed product development. However there is still ambiguity over the precise SOP date for the programme. Commercial discussions are therefore focussed on pre-SOP development income
- Post financial year-end the Company was awarded the quality certification approval IATF 16949, a pre requisite for supply to the European automotive industry as it mirrors the German VDA standard

Chairman's Statement

The last year has seen further tangible progress on our journey from an early stage developer to a mainstream profitable volume automotive components supplier. This progress has been underpinned by two successful fundraisings, one in the financial year, one post year-end, totalling £4.9m, net of expenses, which enabled the Company to finalise the purchase of the capital equipment required to move the capacity of Knowsley to 20,000 discs per year.

Whilst the rationale for moving to Knowsley was primarily about capacity, there was also always an equal objective to improve process structure and efficiency. In respect of which, the award of the quality standard IATF 16949 in July 2018 vindicates the efforts of management and staff. Following this process approval, the operational focus has moved to commissioning the recently purchased equipment in OEM Production Cell One within which the key task is the commissioning of the furnaces.

The large OEM customers have noted this "step change" operational progress and, whilst there is still work to do on "supplier qualification", the only substantive outstanding items remain the need to consistently pass the outstanding tests required to approve the products for adoption. Progress is being made with all the previously notified OEMs.

Operational progress

Knowsley facility: The project of transferring production from Ellesmere Port to Knowsley was successfully completed in the year. This production unit is now known as "Small Volume Production cell" (SVP).

Work on the critical capacity constraints in the SVP cell has moved capacity from previously notified automotive revenue capacity of approximately £2.5m to £4m. As a result management believe that the Aston Martin Valkyrie contract can be produced in this cell providing some flexibility with capacity discussions the Company is having with customers, including OEM 3 and OEM 5.

OEM Production Cell One: This is the first of what will eventually be five "identical" cells ultimately providing capacity equivalent to approximately £50m revenue on the Knowsley site. It should be noted however that production Cells Two to Five are neither currently financed nor (in detail) planned.

The focus of the Board's operational activity is therefore now the procurement and commissioning of the capital equipment for OEM Cell One. The equipment required can be split into machine tools and furnaces. The former, including test equipment, are "off the shelf", largely replicate existing knowledge and are not risk items on the project plan.

Accordingly management focus within this OEM cell has largely been on the furnaces. All of the five furnaces have been ordered, largely paid for, and are at various stages of commission in Knowsley, with two of them now being used for production. At the other end of the readiness spectrum, as a risk mitigation and enhanced training exercise, the supplier and Company personnel have started production at the supplier's premises on one of the ordered furnaces. The subsequent production activity has revealed a "snagging" problem that is being resolved so the furnace will remain at the suppliers until Surface Transforms engineers are completely satisfied with the operational performance and reliability of the furnace before being transferred to Knowsley.

As a result OEM Production Cell One is now expected to be fully available for production, in Knowsley, in mid 2019 calendar year, six months later than previously described. Nonetheless this delay will not affect the significant product cost saving from the use of this furnace, as orders for the year will be fulfilled in just a few months of production at the supplier's premises.

VDA 6.3 and IATF 16949: The German Vehicle manufacturers use their own quality standard described as VDA 6.1 to 6.4 of which VDA 6.3 is the on site review, by the customer, that the supplier is compliant with all the other parts of the standard.

The Board has previously described the importance of passing VDA 6.3 and advised that the customers require this before giving supplier accreditation. The Company also said that this accreditation was likely to happen after product validation. Nonetheless VDA 6.3 readiness remains a key strategic target for the Company.

In parallel, the UK automotive industry has been changing its own quality standards from TS 16949 to International Automotive Task Force (IATF) 16949. The latter closely mirrors the VDA standards. It was therefore particularly pleasing that the Company achieved this new, significantly more demanding, standard in July 2018. In the light of this, the Board is confident that Surface Transforms will be able to pass any VDA audit.

Chairman's Statement

Production cost reductions: Whilst sales mix movements have contributed to the improved gross margin percentage, the benefit of the cost reduction programme is also now being reflected in the financial results. These cost reductions will continue, indeed accelerate, in the current financial year with the key production cost target being achieved as OEM Production Cell One is brought into production. The Board believes that achievement of this cost target establishes Surface Transforms as a competitive supplier to the mainstream OEM marketplace.

Environmental certification: The combination of increased scale and the introduction of new technologies are such that the Company is now in a new regulatory environment. The Company is therefore working, productively and co-operatively, with the UK Environmental Agency to secure the relevant permits. This work will run in parallel with commissioning. Additionally, whilst not required to secure environmental certification, the Company has also started a six-month project to secure ISO 14001, thereby validating the Company's environmental management system.

Progress with potential customers

The Company continues to work with a number of mainstream OEMs in both the USA and Europe. Progress on the major, previously announced, activities is as follows:

Aston Martin (British OEM 6): This programme continues to run to project plan with the Company meeting its performance and timing milestones. In the year the Company was informed of additional demand (mainly related to dealer spares) that has added an additional £1m of revenue to the programme. SOP of the Company's products remains unchanged at Q1 2019, for a vehicle SOP in Q2 2019.

The resultant revenues following SOP are particularly important to us because they are expected to be sufficient for the Company to then immediately generate on-going net cash inflows from operations (assuming continuing revenues and R&D tax credits at current levels).

The Valkyrie programme will complete in the 2021-22 financial year. It is therefore encouraging to report that, in partnership with the tier-one caliper supplier, Alcon, the Company is in on-going discussions with the customer on further vehicles with SOP in this period.

German OEM 5: There is only one test left preventing engineering sign off, the prerequisite to nomination on a future model. The test is a high-performance track test, a test that has been satisfactorily completed several times by the Company with other customers. Parts have been delivered to the customer for this test which we expect to be completed in the next eight weeks.

In parallel, other (non-engineering) departments are working with the Company on the related activities required to become a supplier to OEM 5 such as quality, logistics and finance. A recent meeting at Knowsley with OEM 5 reaffirmed their engagement on this programme.

German OEM 3: As previously notified, the Company has only one remaining rig test preventing engineering sign off. This is a destructive test and our measure of performance is the number of cycles before destruction, which is then repeated for consistency. Surface Transforms has demonstrated it can exceed the requisite number of cycles, and work is now focussed on delivering consistency of result. The Board believes that this test requirement will be achieved by the end of the calendar year.

As previously notified the discussions concerning the limited edition racetrack-only car however, have not progressed. The race season of this car typically runs from March and therefore the Board do not envisage this contract will be finalised until at least 2019 and thus into the 2019-20 financial year.

Aerospace: The US DOD has confirmed the order with the aircraft manufacturer for the target aircraft programme on which the Company has already successfully completed product development. However, notwithstanding previous statements, there is still ambiguity over the precise SOP date for the programme. Commercial discussions are therefore focussed on pre-SOP development income.



Chairman's Statement

Near OEM customers: This category covers such companies as Koenigsegg, Singer Vehicle Design and BAC Mono, typically producing a few cars a month. Given their scale compared with the scale of the mainstream OEMs the focus of the Company's sales activity remains on the "game changing" OEMs. Nonetheless the smaller Near OEMs are of short-term importance both providing immediate cash inflow and road miles experience for product validation. The latter, as has always been the case, being important for the larger OEMs.

It is therefore encouraging to report continuing growth in this sector, with the Company expecting sales in the 2018-19 financial year from 10 of these small customers with aggregate sales approaching £1m, a potential, higher than previously envisaged.

A handwritten signature in black ink, appearing to read 'D. Bundred'.

David Bundred
Chairman

16 September 2018

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. For the automotive industry, they offer better heat dissipation and material strength resulting in superior wear life, improved brake pad wear life and weight reduction compared to our main competitor's carbon ceramic products. For the aerospace industry our products offer weight reduction, improved brake performance and superior wear life.

Our strategy is to be a profitable, series production supplier of carbon ceramic brake discs to the large volume original equipment manufacturer (OEM) automotive market and to niche military and small commercial aircraft brake market. To achieve this, we work closely with Tier 1 suppliers and directly with OEMs to meet their requirements on product, price, quality and security of supply.

In addition, we supply carbon ceramic brake discs to small volume vehicle manufacturing and retrofit high performance kits for performance cars.

The key features of our business model are as follows:

- Engineer and manufacture carbon ceramic brake products, which deliver high technical performance for the luxury and performance brakes markets, which we estimate to be, ultimately, a circa £2 billion per annum market
- Be a 'Quality Company' with a culture that lives and breathes its world-class business processes and management systems. We surpass the automotive and aerospace quality standards (IATF16949); and thus have the confidence that we would be able to pass any German OEM VDA audit
- Protect the environment by minimising the environmental impacts arising from our activities, products and services and be committed to continuous improvement of our environmental performance
- Operate lean manufacturing processes, enabling the Company to produce products that are competitively priced with good margins
- Support and manage our supply chain which is capable of delivering to our customers' requirements on product, price, quality and security of supply
- Build manufacturing capacity capable of providing sales of circa £16 million per annum which is further expandable, with the requisite capital expenditure, to £50 million sales per annum

Succeeding in these activities will generate highly desirable, world leading quality products, which are price competitive and profitable to the business.

Furthermore, our products and processes are protected by a high level of intellectual property through a combination of patents but mainly Company process knowhow.

Delivering our objectives:

Niche vehicle and Retrofit

Niche vehicle (which we describe as "Near OEMs") and retrofit customers make up a relatively small addressable market of up to £2m per annum. Sales in these markets continue and are growing. Existing Near OEM customers have been maintained and grew during the year both from increased demand and benefiting from full year revenues from Singer Vehicle Design. We are also developing a number of additional near OEM customers which we are confident will further expand our customer base and sales during the next financial year.

We continue to sell existing kits for Porsche, Nissan GTR, Aston Martin and Ferrari with demand growing based on market recognition of our product's competitive price, superior performance and longer product life. Whilst we previously indicated that we were not planning to allocate engineering time to generating new kits due to this resource being focused on supporting the automotive game changing programmes, market demand for kits for McLaren models is now significant enough that we will introduce kits to the market during 2018 and therefore expect additional sales from these new customers. The product will be available for the majority of the McLaren models.

In terms of sales during the year, both Near OEMs and retrofit distributors grew, supported by our SVP cell. The SVP is capable of supporting our Near OEM and retrofit customer demands and we are currently implementing a programme to increase the SVP capacity to support further growth.

Strategic Report

Automotive OEMs

In addition to Near OEM customers, we continue to make progress on large automotive OEM objectives:

- **Product** – we continue to support all our target OEM programmes. Product design work for Aston Martin is complete and a plan to increase capacity in the SVP cell has been defined and is in the implementation phase. The schedule is in line with the Valkyrie's SOP in 2019. OEM 5 work has been focused on completing the required testing which is expected to be completed during 2018. The product enhancements made for OEM3's destructive environmental tests have been successful, albeit the length of time to produce the full set of statistical test results is taking some time and will continue during this calendar year.
- **Quality** – the Company has completed its transition to IATF 16949 automotive standard. This successful transition supports our objective of complying with the German automotive standard VDA 6.3. We are now in a position to support customer quality audits as required. This is a key capability to managing series volume supply risks and ensures that the Company is competitive in the market place.
- **Environmental** – an Environmental Management System (EMS) is being implemented with the Company's objective of becoming ISO14000 certified during the coming year.
- **Supply chain security** – as with any manufacturing process we are only as good as our supply chain. Improvements have been made to our supply chain in terms of both improving our existing suppliers and adding new suppliers to our approved supplier list. Further improvements have been identified and are being addressed during the year. We are pleased with progress made and will continue to reduce our supply chain risks.
- **Manufacturing capability, capacity and cost** – the SVP cell capabilities are being continuously assessed and a number of areas for improvements have been made ranging from new process improvements, layout improvements and improved contingency plans. Our capacity expansion plans continue with OEM1 cell, albeit modified by six months due to the risk mitigation strategy and snagging problem identified with one of our furnace manufacturers. Our programme to reduce the cost to manufacture is delivered with the introduction of OEM1 cell. Work to enable a significant part of the OEM1 cell cost reduction is now expected to be achieved for the SVP cell. The work to complete this cost reduction programme for the SVP cell will be completed during FY2019/20.

Aircraft brakes

Despite the uncertainty on timing we are in detailed negotiations with the landing gear supplier and the airframe manufacturer to deliver the mutually agreed goal of supplying Surface Transforms' product to the current US military aircraft programme. Commercial discussions are therefore focussed on pre development income.

Summary

There has been a large investment in engineering work during the year to support the progress made on product refinement, quality, supply chain and capacity improvement. The demand for this work is clear from our OEM programmes and will continue during the coming year.

Financial review

In the year ended 31 May 2018, revenues were £1.4m (2017: £0.7m). The increase in revenue was due to improved performance in the aftersales and near OEM sectors and was boosted by the start of development revenues for the Aston Martin Valkyrie project.

Gross margin improved during the year to 67.4% (2017: 61.0%) due in large part to the higher margin on development parts and the product mix towards retail and aftersales markets. The margin was further improved due to the introduction of some of the planned cost reduction measures during the year and it is anticipated that these will accelerate in the coming year.

Research and development costs increased to £2.0m (2017: £1.9m) primarily driven by the continued testing for Aston Martin and OEM 3.

Losses after taxation reduced by 15.6% to £1.8m (2017: £2.2m) driven by both the increased sales, improved margin and an adjustment to the share based payment charge.

Strategic Report

At 31 May 2018, inventory was £0.9m (2017: £0.5m). This increase was due to timing of raw material deliveries that are batch purchased and an increase in hardware stock to better facilitate production schedules.

Net cash used in operating activities increased by 79.0% to £2.2m from £1.2m in the prior year, due to increased stock levels, debtors and development expenditure.

Debtors in the year increased by 259% to £0.6m (2017: £0.2m) driven by the timing of initial Aston Martin prototype deliveries.

The Company had cash of £0.9m at 31 May 2018 (2017: £1.5m). In addition to this sum is an expected R&D tax credit of over £450k (expected to be received November 2018) and additional equity raised post year-end of £1.46m.

Loss per share was 1.66 pence (2017: loss 2.41 pence).

Key performance indicators

The Directors continue to monitor the business internally with a number of performance indicators: order intake, sales output, profitability, supply chain capacity, health and safety, quality and manufacturing cost of automotive discs. A set of business milestones has been agreed and are discussed 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 business performance going forward.

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 strengthening desire 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.

The risks associated with the factory move are no longer a concern. The risks associated with bringing the newly purchased furnaces into production are being managed by both a project team that has the experience and skills to deliver this type of project as well as pre-delivery testing at the supplier's premises. Regular weekly and monthly reviews are held and the project's progress is communicated across the entire company on a regular basis.

The company has an exposure to exchange risk however this is mitigated through natural hedging activities.

In terms of uncertainties, product sales are still expected to grow, modestly, in the retrofit market with an increasing number of distributors as well as continuing growth with Near OEM customers. This uncertainty is constantly assessed by regular customer meetings and monitoring the level of enquiries and orders for both the Company's products and industry wide.

In addition, the Company faces the continued uncertainty created by the global economic and political climate. This changing landscape is constantly assessed and reviewed by both the operational management team and the board of directors.

In summary, the Company has made satisfactory progress in its automotive projects and is progressing well with its expansion plans. Please refer to note 22 for information on financial risk management and exposure.

Directors and staff

To continue the progress being made by the Company, Michael Cunningham has been appointed to the Board as Financial Director. The Company believes Michael will make a valuable contribution to the Company in terms of both progress with its major OEM programmes and reducing the Company's strategic risks.

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

Strategic Report

Outlook

The Company expects sales to grow further in the financial year 2018-19 as sales begin on the Aston Martin Valkyrie contract and near OEM sales continue to grow. We expect retrofit sales to be maintained at the level seen in financial year 2017-18 although this actually represents underlying growth as the sales in this 2017-18 financial year included some catch up from the factory move problems of the previous 2016-17 financial year.

Depreciation is expected to increase as the capital equipment is brought into production. Development costs will continue at the current level, as will other (non depreciation) administration costs. The overheads for the 2017-18 year reflect a full years cost of occupancy of the Knowsley factory.

The Board remains confident of winning the "game changer" contracts and accelerating sales. Whilst our revenue expectations of these contracts (over the contract lives) is broadly unchanged, the drift on SOP dates will similarly delay the increase in our forecast revenues. The current capacity expansion programme will provide capacity capable of generating sales of approximately £16m. If we won all the opportunities being pursued this would result in the Company exceeding its installed capacity. Given the size of our Knowsley site, with the requisite capital expenditure, capacity could be increased to the equivalent of approximately £50m million of sales per annum.

On behalf of the board

A handwritten signature in black ink, appearing to read 'D. Bundred'.

David Bundred
Chairman

A handwritten signature in black ink, appearing to read 'K. Johnson'.

Kevin Johnson
Chief Executive

16 September 2018

Directors' Report

The Directors present their annual report and the audited financial statements for the year ended 31 May 2018.

Directors and Directors' interests

The Directors who held office during the year and to the date of signature of the financial statements were as follows:

D Bundred* (Chairman)
 Dr K Johnson (Chief Executive)
 K D'Silva*
 RD Gledhill*
 M Cunningham (appointed 10 September 2018)

*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:

	Number of £0.01 ordinary shares		% of issued share capital at end of year
	Interest at start of year	Interest at end of year	
K D'Silva	970,818	1,129,295	0.99%
RD Gledhill	11,818,853	13,431,755	11.78%
Dr K Johnson	124,000	124,000	0.11%
D Bundred	733,341	894,641	0.78%

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 13 and 14.

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 31 May 2018:

Shareholder	Number	%
Hargreave Hale	17,854,734	15.66%
Unicorn Asset Management	15,287,000	13.41%
Hargreaves Lansdown Asset Management	6,139,508	5.38%
Barclays Wealth	4,059,041	3.56%
Rathbone Investment Management	3,518,457	3.09%
Richard Emslie	3,454,218	3.03%

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 listed 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 13 and 14.

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 £1,834k 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 for 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 and the Strategic report. In addition, note 22 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.

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 at board level and managed on a daily basis by the finance function.

Exchange rate risk

As the Company evolves exchange rate fluctuations could have an adverse effect on the Company's profitability or the price competitiveness of its services. There can be no assurance that the Company would be able to compensate or hedge against such adverse effects and therefore negative exchange rate movements could have a material adverse effect on the Company's business, prospects and financial performance.

Principal activity

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

Result for the year and proposed dividend

The loss for the year after taxation amounted to £1,834k (2017: £2,172k). The Directors do not recommend the payment of a dividend (2017: £nil).

Directors' Report

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.

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 Strategic Report in accordance with section 414C(11) of the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013.

Auditor

RSM UK Audit LLP has indicated its willingness to continue in office. An Ordinary resolution to re-appoint 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.

On behalf of the board



D Bundred
Chairman

16 September 2018

Image Business Park
Acornfield Road
Liverpool L33 7UF

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 £	2018 £	Salary £	Fees £	2017 £
Executive directors						
Dr K Johnson	144,902	–	144,902	163,183	–	163,183
	144,902	–	144,902	163,183	–	163,183
Non-executive directors						
K D'Silva	18,000	–	18,000	18,401	–	18,401
RD Gledhill	18,000	–	18,000	14,282	4,500	18,782
D Bundred	6,750	21,938	28,688	7,875	19,125	27,000
	42,750	21,938	64,688	40,558	23,625	64,183

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 £7,324 (2017: £9,424) in respect of pension contributions.

Directors' interests

Details of any contracts in which a Director has a material interest are disclosed in note 19.

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. Vesting criteria are shown in note 26.

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 2017	Number of options granted	Holding on 31 May 2018	Exercise price	Exercise period	Expiry date
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	01/03/2010	345,000	–	345,000	£0.09	01/03/13-01/03/20	01/03/2020
D Bundred	17/10/2011	100,000	–	100,000	£0.08	17/10/14-17/10/21	17/10/2021
D Bundred	17/10/2011	100,000	–	100,000	£0.08	17/10/14-17/10/21	17/10/2021
D Bundred	17/10/2011	100,000	–	100,000	£0.08	17/10/14-17/10/21	17/10/2021
Dr K Johnson	15/02/2012	330,000	–	330,000	£0.12	15/02/15-15/02/22	15/02/2022
Dr K Johnson	30/09/2016	600,000	–	600,000	£0.15	30/09/18-30/09/25	30/09/2025
D Bundred	02/10/2016	250,000	–	250,000	£0.16	02/10/18-02/10/25	02/10/2025
Dr K Johnson	19/09/2017	–	990,000	990,000	£0.16	19/09/17-19/09/28	19/09/2028
D Bundred	04/01/2018	–	450,000	450,000	£0.15	04/01/18-04/01/28	04/01/2028
		2,594,707	1,440,000	4,034,707			

The market price of the shares at 31 May 2018 was 18.25 pence and during the year varied from 19.5 pence to 14.00 pence.

On behalf of the board



D Bundred
Chairman

16 September 2018

Image Business Park
Acornfield Road
Liverpool L33 7UF

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; and
- (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

Opinion

We have audited the financial statements of Surface Transforms Plc (the 'company') for the year ended 31 May 2018 which comprise Statement of Total Comprehensive Income, Statement of Financial Position, Statement of Changes in Equity, Statement of Cashflows and notes to the financial statements, including a summary of significant accounting policies. 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.

In our opinion, the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 May 2018 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 requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to SME listed entities and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) we identified, including those which had the greatest effect on the overall audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Going concern

Refer to page 23 regarding the accounting policy in respect of going concern.

The risk

It is the responsibility of the directors to form an opinion on whether the company is a going concern. The risk is that a material uncertainty may exist that casts doubts on company's ability to continue as a going concern for a period of at least twelve months from the date when the financial statements are authorised for issue and such uncertainties have not been adequately disclosed.

Independent Auditor's Report

to the members of Surface Transforms Plc

Our response

We obtained and reviewed forecasts and sensitivities prepared by management. The forecasts covered a period to 31 May 2023 and their sensitivities which covered a period to 31 May 2019. We discussed with management their medium-term objectives and their strategy for achieving them. We identified the key assumptions supporting the forecasts which included estimated staff costs, inventory levels, capital expenditure requirements and sales. The assumptions in terms of revenue growth were challenged and compared to current pipeline. Costs incurred in the prior year were also compared to forecasts to determine whether any recurring costs had been excluded. The cash position was reviewed to assess the impact should the forecast revenue growth not materialise and we discussed with management the actions they would take in these circumstances. We considered whether the actions they would take were achievable and challenged management accordingly.

In addition, we also considered the appropriateness of the disclosures surrounding going concern in the financial statements.

Our application of materiality

When establishing our overall audit strategy, we set certain thresholds which help us to determine the nature, timing and extent of our audit procedures and to evaluate the effects of misstatements, both individually and on the financial statements as a whole. During planning we determined a magnitude of uncorrected misstatements that we judge would be material for the financial statements as a whole (FSM). During planning FSM was calculated as £102,000, which was not changed during the course of our audit. We agreed with the Audit Committee that we would report to them all unadjusted differences in excess of £2,500, as well as differences below those thresholds that, in our view, warranted reporting on qualitative grounds.

An overview of the scope of our audit

As part of our planning we assessed the risk of material misstatement including those that required significant auditor consideration. Procedures were then performed to address the risks identified and for the most significant assessed risks of material misstatement, the procedures performed are outlined above in the key audit matters section of this report.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

Independent Auditor's Report

to the members of Surface Transforms Plc

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report or the Directors' Report.

We have nothing to report in respect of the following matters in relation to which 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.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 15, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

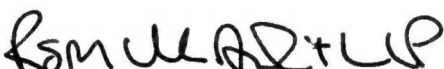
Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: <http://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

Use of our report

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.



Graham Bond FCA (Senior Statutory Auditor)
For and on behalf of RSM UK Audit LLP, Statutory Auditor
Chartered Accountants
RSM UK Audit LLP
20 Chapel Street
Liverpool L3 9AG

16 September 2018

Statement of Total Comprehensive Income

for the year ended 31 May 2018

	Note	2018 £'000	2017 £'000
Revenue	3	1,363	702
Cost of sales		(445)	(274)
Gross profit		918	428
Administrative expenses:			
Before research and development costs		(1,083)	(1,045)
Research and development costs		(2,002)	(1,916)
Total administrative expenses		(3,085)	(2,961)
Other operating income		–	–
Operating loss before non-recurring items	4	(2,167)	(2,533)
Non-recurring items	20	(133)	–
Financial Income	7	1	5
Financial expenses	8	–	–
Loss before tax		(2,299)	(2,528)
Taxation	7	465	356
Loss for the year after tax		(1,834)	(2,172)
Other comprehensive income		–	–
Total comprehensive loss for the year attributable to members		(1,834)	(2,172)
Loss per ordinary share			
Basic and diluted	25	(1.66p)	(2.41p)

The notes on pages 23 to 39 form part of these financial statements.

Statement of Financial Position

at 31 May 2018

	Note	2018 £'000	2018 £'000	2017 £'000	2017 £'000
Non-current assets					
Property, plant and equipment	10	4,096		2,415	
Intangibles	11	192		136	
			4,288		2,551
Current assets					
Inventories	12	855		507	
Trade and other receivables	13	776		365	
Cash and cash equivalents		923		1,532	
			2,554		2,404
Total assets			6,842		4,955
Current liabilities					
Other interest bearing loans and borrowings	14	(29)		(12)	
Trade and other payables	15	(790)		(685)	
		(819)		(697)	
Non-current liabilities					
Government Grants		(200)		(352)	
Other interest bearing loans and borrowings	14	(275)		–	
Total liabilities			(1,294)		(1,049)
Net assets			5,548		3,906
Equity					
Share capital	17		1,140		903
Share premium			17,596		14,390
Capital reserve			464		464
Retained loss			(13,652)		(11,851)
Total equity attributable to equity shareholders of the company			5,548		3,906

These financial statements were approved by the board of Directors on 16 September 2018 and were signed on its behalf by:



D Bundred
Chairman



Dr K Johnson
Director

Company Registered Number 03769702

The notes on pages 23 to 39 form part of these financial statements.

Statement of Changes in Equity

for the year ended 31 May 2018

For the year to 31 May 2017

	Share capital £'000	Share premium account £'000	Capital reserve £'000	Retained loss £'000	Total £'000
Balance at 31 May 2016	901	14,359	464	(9,767)	5,957
Comprehensive income for the year					
Loss for the year	–	–	–	(2,172)	(2,172)
Total comprehensive income for the year	–	–	–	(2,172)	(2,172)
Transactions with owners, recorded directly to equity					
Shares issued in the year	2	31	–	–	33
Equity settled share-based payment transactions	–	–	–	88	88
Total contributions by and distributions to the owners	2	31	–	88	121
Balance at 31 May 2017	903	14,390	464	(11,851)	3,906

For the year to 31 May 2018

	Note	Share capital £'000	Share premium account £'000	Capital reserve £'000	Retained loss £'000	Total £'000
Balance at 31 May 2017		903	14,390	464	(11,851)	3,906
Comprehensive income for the year						
Loss for the year		–	–	–	(1,834)	(1,834)
Total comprehensive income for the year		–	–	–	(1,834)	(1,834)
Transactions with owners, recorded directly to equity						
Shares issued in the year	17	237	3,681	–	–	3,918
Cost of issue off to share premium		–	(475)	–	–	(475)
Equity settled share-based payment transactions		–	–	–	33	33
Total contributions by and distributions to the owners		237	3,206	–	33	3,476
Balance at 31 May 2018		1,140	17,596	464	(13,652)	5,548

The notes on pages 23 to 39 form part of these financial statements.

Statement of Cash Flows

for the year ended 31 May 2018

	2018 £'000	2017 £'000
Cash flow from operating activities		
Loss after tax for the year	(1,834)	(2,172)
Adjusted for:		
Depreciation and amortisation charge	287	145
Equity settled share-based payment expenses	33	88
Financial income	(1)	(5)
Taxation	(465)	(356)
	(1,980)	(2,300)
Changes in working capital		
(Increase)/Decrease in inventories	(348)	63
(Increase)/Decrease in trade and other receivables	(411)	579
Increase in trade and other payables	106	82
	(2,633)	(1,576)
Taxation received	465	356
Net cash used in operating activities	(2,168)	(1,220)
Cash flows from investing activities		
Acquisition of tangible and intangible assets	(2,024)	(2,075)
Proceeds from disposal of property, plant and equipment	–	27
Net cash used in investing activities	(2,024)	(2,048)
Cash flows from financing activities		
Proceeds from issue of share capital, net of expenses	3,443	33
Payment of finance lease liabilities	(8)	(10)
Proceeds from long term loans	148	
Interest paid	–	–
Net cash generated from financing activities	3,583	23
Net decrease in cash and cash equivalents	(609)	(3,245)
Cash and cash equivalents at the beginning of the period	1,532	4,777
Cash and cash equivalents at the end of the period	923	1,532

The notes on pages 23 to 39 form part of these financial statements.

Notes to the Financial Statements

for the year ended 31 May 2018

1 Accounting policies

Surface Transforms Plc (the Company) incorporated and domiciled in the UK, the functional currency being sterling. The financial statements have been presented in sterling and rounded to the nearest thousand. The registered office of business is Image Business Park, Acornfield Road, Liverpool L33 7UF.

Surface Transforms is a UK-based developer and manufacturer of carbon ceramic products for the brakes market. The company is exempt from producing consolidated financial statements in accordance with s402 of the Companies Act 2006 because its four dormant subsidiary companies are not material individually or in aggregate for the purpose of giving a true and fair view. The subsidiaries 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 14 September 2018.

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 £1,834k 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.

Further information regarding the Company's business activities, together with the factors likely to affect future development, performance and position are set out in the Chairman's statement on pages 3 to 5 and the Strategic report on pages 6 to 9. In addition, note 22 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. 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.

No depreciation is charged on assets classified as capital in progress. Depreciation is charged once an asset is brought into use by the business.

Intangibles

Software

Software is recognised initially at cost. After initial recognition, these assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. Cost comprises the aggregate amount paid and the fair value of any other consideration given to acquire the asset and includes costs directly attributable to making the asset capable of operating as intended.

Amortisation is computed by allocating the amortisation amount of an asset on a systematic basis over its useful life and is applied separately to each identifiable component. Amortisation is applied to software over 4 years on a straight-line basis.

The carrying value of software is reviewed for impairment if events or changes in circumstances indicate that the carrying value may not be recoverable, and is written down immediately to their recoverable amount. Useful lives and residual values are reviewed annually and where adjustments are required these are made prospectively.

A software item is derecognised on disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the derecognition of the asset is included in the Income Statement in the year of derecognition.

Foreign currencies

Transactions in foreign currencies are recorded at 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. The gains or losses on retranslation 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.

Notes to the Financial Statements

1 Accounting policies continued

Government grants

Capital grants are initially recognised as deferred income and credited to the statement of total comprehensive income over the life of the asset to which it relates.

Post-retirement benefits

The Company operates a workplace pension scheme, and contributes to specific employees' personal pension schemes. The amount charged to the profit and loss account represents the contributions payable to employees personal pension schemes and workplace pensions during the accounting year.

Reserves

Share capital

Share capital reflects the nominal value of the shares issued by the company.

Share premium

This reserve records the amount above the nominal value received for shares sold, less transaction costs.

Capital reserve

This reserve records the nominal value of shares repurchased by the company.

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 and 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 high 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 as an expense 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.

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. The directors judge that no impairment is required as the Company is still at the pre-commercialisation phase of the technology exploitation.

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 there is insufficient evidence that the company will be able to generate probable economic benefit from these studies. None of the expenses 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 16.

Going concern

Management judgement is applied at each reporting date in assessing the on-going applicability of the going concern assumption and the current year's assessment of which has been included within the going concern section above. The key assumption for going concern is the forecast revenue for the year which is managed on a bottom up basis using management judgement with each customer. Sensitivities are carried out to ensure the company can accommodate revenue being below target.

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 2017 and not early adopted

The IASB and IFRIC have issued the following standards and interpretations that are relevant to the company with effective dates as noted below:

Standard	Key requirements	Effective date
IFRS 9, Financial Instruments	IFRS 9 will replace IAS 39 in its entirety and will apply for the first time in the financial statements for the year ending 31 May 2019. Due to the nature of the financial instruments held by the company and the fact that no hedging transactions have been entered into, the impact of IFRS 9 is expected to be limited. IFRS 9 will introduce an expected credit loss model when assessing financial assets for impairment. Whilst this will impact the way that management will calculate impairment provisions, the impact is still being assessed.	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 provide 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
IFRS 16, Leases	The standard requires lessees to recognise most leases on their balance sheets, regardless of the industry the entity operates within.	1 January 2019
IFRIC 22, Foreign currency transactions and advance consideration	Clarifies the accounting for transactions that include the receipt or payment of advance consideration to the date of initial recognition.	1 January 2018
IFRIC 23, Uncertainty over income tax treatments	This IFRIC addresses the accounting requirements in respect of uncertain tax positions over income tax treatments.	1 January 2019

The Directors have completed assessments on the impact of IFRS 15 by analysing the terms and conditions of contracts to ensure that the standard will have no impact on the revenues attributable to the company in future periods. Additionally there will be an impact from the implementation of IFRS 16 which will require the reporting of the leases held by the company as an asset with a corresponding liability.

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

Notes to the Financial Statements

2 Segment reporting

Due to the 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.

3 Revenue by geographical destination

Revenue by geographical destination is analysed as follows:

	2018 £'000	2017 £'000
United Kingdom	504	322
Rest of Europe	294	189
United States of America	529	191
Rest of World	36	–
	1,363	702

4 Operating result and auditors remuneration

	2018 £'000	2017 £'000
Operating loss is stated after charging		
Profit on disposal of property plant and equipment	–	–
Depreciation of property plant and equipment	283	139
Amortisation of Intangible assets	4	6
Research costs expensed as incurred	2,002	1,916
Rents payable under operating leases – land and buildings	139	139
Exchange losses	–	15
after crediting		
Government grants	–	–
Auditor's remuneration	2018 £'000	2017 £'000
Fees payable to the company auditor for the audit of the financial statements	30	25
Audit related assurance services	1	–
Tax compliance services	3	13
Tax advisory services	11	11
	45	49

Notes to the Financial Statements

5 Remuneration of Directors

The aggregate amount of emoluments paid to Directors in respect of qualifying services during the year was £209,590 (2017: £227,366).

The amounts set out above include remuneration in respect of the highest paid director of £144,902 (2017: £163,183).

Pension contributions of £7,324 (2016: £9,424) 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.

6 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	
	2018	2017
Directors	4	4
Other employees	41	26
	45	30

The aggregate payroll costs of these persons were as follows:

	2018	2017
	£'000	£'000
Wages and salaries	1,332	1,024
Social security costs	173	101
Other pension costs	21	24
Share based compensation	33	88
	1,559	1,237

7 Financial income

	2018	2017
	£'000	£'000
Total bank interest	1	5

8 Financial expenses

	2018	2017
	£'000	£'000
Total interest expense on financial liabilities measured at amortised cost	–	–

Notes to the Financial Statements

9 Taxation

	2018 £'000	2017 £'000
Analysis of credit in year		
UK corporation tax		
Adjustment in respect of prior years – R&D tax allowances	(465)	(356)
Total income tax credit	(465)	(356)

Details of the unrecognised deferred tax asset are included in note 16.

Factors affecting the tax credit for the current period

The current tax credit for the year is higher than the standard rate of corporation tax in the UK of 19.00% (2017: 20.00%). The differences are explained below:

Factors that may affect future tax charges

	2018 £'000	2017 £'000
Reconciliation of effective tax rate		
Loss for year	(1,834)	(2,172)
Total income tax credit	(465)	(356)
Loss excluding income tax	(2,299)	(2,528)
Current tax at average rate of 19% (2017: 19.83%)	(437)	(501)
Effects of:		
Non-deductible expenses	1	19
Change in unrecognised timing differences	8	(3)
Deferred tax not provided on losses	428	485
Adjustment in respect of prior years – R&D tax allowances	(465)	(356)
Income tax credit	(465)	(356)

Notes to the Financial Statements

10 Property, plant and equipment

	Leasehold improvements £'000	Plant and machinery £'000	Fixtures and fittings £'000	Capital in progress £'000	Total £'000
Cost					
At 31 May 2016	85	1,051	89	–	1,225
Additions	124	426	259	1,145	1,954
Disposals	–	(32)	–	–	(32)
At 31 May 2017	209	1,445	348	1,145	3,147
Additions	9	296	78	1,581	1,964
Disposals	–	–	–	–	–
At 31 May 2018	218	1,741	426	2,726	5,111
Depreciation					
At 31 May 2016	66	465	67	–	598
Charge for year	9	108	22	–	139
Disposals	–	(5)	–	–	(5)
At 31 May 2017	75	568	89	–	732
Charge for year	14	163	106	–	283
Disposals	–	–	–	–	–
At 31 May 2018	89	731	195	–	1,015
Net book value					
At 31 May 2016	19	586	22	–	627
At 31 May 2017	134	877	259	1,145	2,415
At 31 May 2018	129	1,010	231	2,726	4,096

Notes to the Financial Statements

11 Intangibles

	Software £'000	Total £'000
Cost		
At 31 May 2016	–	–
Additions	142	142
Disposals	–	–
At 31 May 2017	142	142
Additions	60	60
Disposals	–	–
At 31 May 2018	202	202
Depreciation		
At 31 May 2016	–	–
Charge for year	6	6
Disposals	–	–
At 31 May 2017	6	6
Charge for year	4	4
Disposals	–	–
At 31 May 2018	10	10
Net book value		
At 31 May 2016	–	–
At 31 May 2017	136	136
At 31 May 2018	192	192

12 Inventories

	2018 £'000	2017 £'000
Raw materials and consumables	141	42
Work in progress	664	409
Finished goods	50	56
	855	507

Raw materials, consumables and changes in finished goods and work in progress recognised as cost of sales in the year amounted to £444,920 (2017: £274,804). There was no impairment during the year (2017: £nil).

13 Trade and other receivables

	2018 £'000	2017 £'000
Trade receivables	572	159
Other receivables	103	152
Prepayments and accrued income	101	54
	776	365

All receivables fall due within one year.

No debt was written off in the year (2017: £Nil).

Notes to the Financial Statements

14 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 22.

	2018 £'000	2017 £'000				
Current liabilities						
Finance lease liabilities	4	12				
Other borrowings	25	–				
	29	12				
Non-current liabilities						
Other borrowings	275	–				
	275	–				
	Future minimum lease payments 2018 £'000	Interest 2018 £'000	Present value of minimum lease payments 2018 £'000	Future minimum lease payments 2017 £'000	Interest 2017 £'000	Present value of minimum lease payments 2017 £'000
Less than one year	4	–	4	12	–	12
				Due in 1 year £'000	Due 2-5 years £'000	
Other borrowings				25	275	

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

	2018 £'000	2017 £'000
Trade payables	508	444
Taxation and social security	95	61
Accruals and deferred income	187	180
	790	685

16 Deferred tax

	2018 £'000	2017 £'000
Difference between accumulated depreciation and amortisation and capital allowances	(71)	(17)
Tax losses	(1,020)	(610)
Unrecognised deferred tax asset	(1,091)	(627)

The Company has an unrecognised deferred tax asset at 31 May 2018 of £805k (2017: £627k) relating principally to tax losses which the company can offset against future taxable profits.

Notes to the Financial Statements

17 Called up share capital

	Number	£'000
Allotted called up and fully paid of £0.01 each		
At 1 June 2016	90,091,081	901
Issue of shares	218,854	2
At 1 June 2017	90,309,935	903
Issue of shares	23,725,481	237
At 31 May 2018	114,035,416	1,140

During the year 23,725,481 shares were issued through a placing, subscription and open offer. The fund raise delivered £3,443k (2017: £33k) after expenses.

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 13 and 14. 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	Exercise price	Exercise period
30/06/2008	179,600	£0.180	30/06/11-30/06/18
22/09/2008	353,766	£0.190	22/09/11-22/09/18
01/02/2010	85,000	£0.090	01/03/13-01/03/20
15/02/2012	27,842	£0.120	15/03/15-15/03/22
28/09/2014	440,753	£0.105	28/09/17-28/09/24
30/09/2016	650,600	£0.145	25/09/18-25/09/26
04/01/2018	2,625,000	£0.153	04/07/18-04/01/28
	4,362,561		

There is a total of 4,235,342 unexpired options held by employees, 127,219 unexpired options held by former directors and a total of 4,034,707 unexpired options held by Directors. The options issued to directors and senior managers on 19/09/2017 and 04/01/2018 vest on the achievement of specific performance criteria relating to contract awards and revenue levels.

18 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 £45,328 (2017: £24,496). 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 £26,588 of the pension contributions (2017: £11,576).

There were outstanding contributions of £9,572 (2017: £7,250) at the end of the financial year.

Notes to the Financial Statements

19 Related party disclosures

Transactions with key management personnel

Directors of the Company and their close family control 13.66% (2017: 15.11%) per cent of the voting shares of the Company. At present employees and Directors would hold 21.04% (2017: 19.13%) 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:

	2018 £000	2017 £000
Wages and salaries	464	439
Social security costs	44	45
Pension costs	21	23
Share based payments	23	72
	552	579
Transactions in the year:	2018 £000	2017 £000
Group 14 Limited		
Fees paid	–	5
Recharged costs	21	–
	21	5

Group 14 is a company controlled by Richard Gledhill, at the end of the year there were no outstanding transactions.

20 Non-recurring items

Non-recurring items in the year were £133k (2017: £Nil) relating to staff costs.

21 Analysis of financial liabilities arising from financing activities

	1 June 2016 £000	Financing cash flow £000	Interest charges £000	Other non cash movements £000	31 May 2017 £000
Finance Leases	(20)	10	(2)	–	(12)
Other borrowings	–	–	–	–	–
	(20)	10	(2)	–	(12)
	1 June 2017 £000	Financing cash flow £000	Interest charges £000	Other non cash movements £000	31 May 2018 £000
Finance Leases	(12)	8	–	–	(4)
Other borrowings	–	(148)	–	(152)	(300)
	(12)	(140)	–	(152)	(304)

Other non-cash movements relates to the reclassification of grants received in 2017, as other borrowings.

Notes to the Financial Statements

22 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.

Sensitivity Analysis

A ten per cent strengthening of the pound against the US Dollar and the Euro at 31 May 2018 would have increased losses 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 2017.

	US Dollar £'000	Euro £'000
31 May 2018	(19)	(10)
31 May 2017	(1)	(1)

A ten per cent weakening of the pound against the US Dollar and the Euro at 31 May 2018 would have reduced losses by the amounts below; on the basis all other variables remain constant.

	US Dollar £'000	Euro £'000
31 May 2018	23	13
31 May 2017	1	1

Price Risk

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

Credit Risk

The Company operates a closely monitored collection policy and carries credit insurance for outstanding debtors. The total credit risk is therefore £175k (2017: £362k).

The ageing of trade receivables at the reporting date was:

	31 May 2018			31 May 2017		
	Gross £'000	Impairment £'000	Net £'000	Gross £'000	Impairment £'000	Net £'000
Not past due	472	–	472	70	–	70
Past due 0 to 30 days	44	–	44	18	–	18
Past due 31 to 90 days	56	–	56	71	–	71
	572	–	572	159	–	159

There was an amount of nil (2017: nil) in the allowance for impairment in respect of trade receivables.

The average debtor days are 12 days (2017: 42 days), the average creditor days are 57 days (2017: 210 days).

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 14.

Notes to the Financial Statements

22 Financial instruments continued

Interest Rate Risk

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

	2018 £'000	2017 £'000
Fixed rate instruments:		
Finance lease liabilities	4	12

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.

23 Commitments

Non-cancellable operating lease rentals are payable as follows:

	Land and buildings 2018 £'000	Land and buildings 2017 £'000
Within one year	135	135
In the second to fifth years inclusive	610	575
	745	710

Capital commitments as at 31 May 2018 were £119k (2017: £nil).

This commitment is currently covered by a letter of credit for €120k to the supplier.

24 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.

25 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	2018	2017
Loss after tax (£)	(1,834,000)	(2,172,000)
Weighted average number of shares (No. of shares)	110,280,735	90,145,921
Loss per share (pence)	(1.66p)	(2.41p)

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 IAS 33.

Notes to the Financial Statements

26 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 2017	Leaver	Granted	At 31 May 2018	Exercise price	Date from which exercisable	Expiry date
(a)	456,200	–	–	456,200	£0.1800	30/06/2011	30/06/2018
(a)	622,035	–	–	622,035	£0.1800	22/09/2011	22/09/2018
(b)	225,438	–	–	225,438	£0.1900	22/09/2011	22/09/2018
(a)	100,000	(15,000)	–	85,000	£0.0900	01/03/2016	01/03/2020
(b)	345,000	–	–	345,000	£0.0900	01/03/2016	01/03/2020
(b)	100,000	–	–	100,000	£0.0900	01/03/2016	17/10/2021
(b)	100,000	–	–	100,000	£0.0900	01/03/2016	17/10/2021
(b)	100,000	–	–	100,000	£0.0900	01/03/2016	17/10/2021
(a)	32,842	(5,000)	–	27,842	£0.1200	01/03/2016	15/03/2022
(b)	330,000	–	–	330,000	£0.1200	01/03/2016	15/03/2022
(a)	340,753	–	–	340,753	£0.1050	25/09/2017	25/09/2024
(b)	100,000	–	–	100,000	£0.1050	25/09/2017	25/09/2024
(a)	1,450,000	(200,000)	–	1,250,000	£0.1450	30/09/2018	30/09/2025
(b)	250,000	–	–	250,000	£0.1550	02/10/2018	02/10/2025
(c)	–	–	990,000	990,000	£0.1588	19/09/2017	19/09/2027
(c)	–	–	2,375,000	2,375,000	£0.1525	04/01/2018	04/01/2028
(d)	–	–	700,000	700,000	£0.1525	04/01/2018	04/01/2028
Total	4,552,268	(220,000)	4,065,000	8,397,268			

- (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 the options issued 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 the options issued other than continued employment by the Company.
- (c) 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. For these options there are three performance criteria: The nomination of a track car, a nomination by a mainstream OEM for a production vehicle and/or the delivery of £5m of revenue in a financial year.
- (d) 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. For these options there are three performance criteria: The nomination of a track car, a nomination by a mainstream OEM for a production vehicle and/or the delivery of £5m of revenue in a financial year.

Notes to the Financial Statements

26 Share based payments continued

	EMI Scheme		Unapproved Scheme	
	Number of awards	Weighted average exercise price £	Number of awards	Weighted average exercise price £
Outstanding at 31 May 2016	3,895,684	0.135	1,250,438	0.120
Lapsed	(180,000)	0.210	(50,000)	0.120
Leaver	(145,000)	0.145	–	–
Exercised	(218,854)	0.090	–	–
Outstanding at 31 May 2017	3,351,830	0.133	1,200,438	0.120
Leaver	(220,000)	0.133	–	–
Granted	3,365,000	0.154	700,000	0.153
Outstanding at 31 May 2018	6,496,830	0.144	1,900,438	0.132
Range of exercise prices	9p to 19p		9p to 19p	

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	2018	2017
Fair value per share option	10.9p	–
Share price on date of grant	15.4p	–
Exercise price	15.4p	–
Share options granted in the year EMI scheme	?	–
Expected volatility	80%	100%
Exercise pattern (years)	6.5	6.5
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.

27 Post balance sheet event

The company successfully raised £1.46m (after fees) through an equity placing.



Company Information and Advisers

Website	www.surfacetransforms.com
Registered Number	03769702
Directors	David George Bundred (Non-executive Chairman) Dr Kevin Johnson (Chief Executive) Kevin D'Silva (Non-executive Director) Richard Douglas Gledhill (Non-executive Director) Michael Cunningham (Finance Director)
Company Secretary	Michael Cunningham
Address	Image Business Park Acornfield Road Liverpool L33 7UF Tel: 0151 356 2141
Nominated Adviser and Joint Broker	Cantor Fitzgerald Europe One Churchill Place Canary Wharf London E14 5RB
Joint Broker	finnCap 60 New Broad Street London EC2M 1JJ
Auditors	RSM UK Audit LLP 20 Chapel Street Liverpool L3 9AG
Solicitors to the Company	Gateley LLP Ship Canal House 98 King Street Manchester M3 4WU
Bankers	NatWest Chester Branch 33 Eastgate Street Chester CH1 1LG
Registrars	Link 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 the above named Company will be held at finnCap, 60 New Broad Street, London, EC2M 1JJ on Tuesday 11 December 2018 at 11.00 am to consider and if thought fit pass the following resolutions, of which 1 to 5 (inclusive) will be proposed as ordinary resolutions, and 6 will be proposed as a special resolution:

Ordinary Business

1. To receive the annual accounts of the Company for the financial year ended 31 May 2018 together with the last Directors' report, the last Directors' remuneration report and the auditors' report on those accounts.
2. To re-elect David George Bundred, 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-elect Michael Cunningham, who retires by way of being appointed during the year pursuant to article 118 of the articles of association of the Company and who, being eligible, offers himself for re-election as a Director.
4. To re-appoint RSM 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:

5. "THAT, in substitution for all existing and unexercised authorities and powers, the Directors of the Company be and they are hereby generally and unconditionally authorised for the purpose of section 551 of the Companies Act 2006 (the "Act"):
 - (a) to exercise all or any of the powers of the Company to allot shares of the Company or to grant rights to subscribe for, or to convert any security into, shares of the Company (such shares and rights being altogether referred to as "**Relevant Securities**") up to an aggregate nominal value of £410,118 to such persons at such times and generally on such terms and conditions as the Directors may determine (subject always to the articles of association of the Company); and further
 - (b) to allot equity securities (as defined in section 560 of the Act) up to an aggregate nominal value of £410,118 in connection with a rights issue or similar offer in favour of ordinary shareholders where the equity securities respectively attributable to the interests of all ordinary shareholders are proportionate (as nearly as may be) to the respective numbers of ordinary shares held by them subject only to such exclusions or other arrangements as the directors of the Company may consider appropriate to deal with fractional entitlements or legal and practical difficulties under the laws of, or the requirements of any recognised regulatory body in any territory,

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

Notice of Annual General Meeting

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

6. 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 £123,036, 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



Michael Cunningham
Company Secretary

Date: 16 September 2018

Registered office:
Image Business Park
Acornfield Road
Liverpool L33 7UF

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, Link Asset Services at The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU by 11.00am on 7 December 2018. 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, Link Asset Services at The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU by 11.00am on 7 December 2018.
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, Link Asset Services at PXS, Beckenham, Kent 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 entitlement time and date close of business on 7 December 2018 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 5 – 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 £410,118, 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 £410,118, 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 6 – 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 £123,036 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).



Shareholder Notes



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