Surface Transforms Plc

Registered number 03769702

Annual Report and Financial Statements

for the year ended 31 May 2019

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Highlights

Financial highlights

- Revenues decreased £361k to £1,002k (*2018: £1,363k*)
- Gross margin percentage reduced to 61.6% (*2018: 67.4%*)
- LBITDA (including tax credit and excluding share-based payments and non-recurring staff costs) increased to £1,564k (*2018: £1,382k*)
- Research costs increased to £2,074k (*2018: £2,002k*) which has been partially offset by increased R&D tax credit of £921k (2018: £465k)
- Other administrative expenses increased by £431k to £1514k (*2018: £1,083k*) of which £150k were non-cash items, primarily share based payments
- Loss after taxation of £2,059k (*2018: £1,834k*)
- Loss per share of 1.64p (*2018: 1.66p*)
- Cash used in operating activities increased by £28k to £2,196k (*2018: £2,168k*)
- Cash at 31 May 2019 was £1,925k (*2018: £923k*)
- Capital expenditure in the year was £175k (*2018: £2,024k*)
- Raised £3.3m, net of expenses, of equity finance in two successful equity placings during the year
- Following a history of successful claims, the company has accrued research and development tax credit relating to the year resulting in a near doubling of this figure and reducing the loss by an additional £400k
- Announced change of financial year end reporting date from May 31 to December 31 with effect from December 2019

Customer and Operational highlights

- Post year end awarded an €11.8m contract over seven years from major German automotive OEM 5 with SOP of October 2021
- Post year end awarded a £6m contract over three years to be fitted onto British specialist automotive company cars for OEM 6 with SOP end of calendar 2021
- Won a £300k p.a. contract from Koenigsegg as customer replaced its lower volume existing model
- Continuing progress on development activity with OEM 3
- All the furnaces for OEM production cell one now on site in Knowsley. Expected to be in production by December 2019
- On target to achieve 50% reduction in direct production cost
- Awarded environmental certification ISO 14001

Chairman's Statement

The past 15 months, and more particularly the three-month period of contract awards since 31 May 2019, have been transformational in the development of Surface Transforms. The Company now has multi-year, multi million revenue contracts that we expect to support break even EBITDA (including tax credit) during 2020, positive EBITDA (including tax credit) in 2021 and profit before tax in 2022.

I summarise the progress made during the last 15 months by each of our key customers and potential customers below:

Progress on customers

German OEM 5: This customer is one of the three major German automotive companies. Winning a contract with one of these key reference OEM customers has been a prime commercial objective for Surface Transforms since its original formation. The contract awarded to Surface Transforms is to be the sole supplier of the carbon ceramic disc option on the front axle of one of the volume cars in their stable; the lifetime revenue from the contract is estimated to be €11.8m over the expected 6 to 7 years of the cars production run with start of production (SOP) in October 2021.

Of equal, arguably greater, importance is the commercial understanding and opportunity with OEM 5 to be selected for further multiple vehicle platforms in the customer's portfolio over time. These potential awards could generate revenues many times the value of this first contract. The Company's carbon ceramic disc is now part of German OEM 5's approved component list and whilst there will always be testing on new models these tests are now more about sizing and system integration than product evaluation. Furthermore, pricing has been agreed with the customer providing a link between increasing volumes and reduced product pricing.

British OEM 6: This customer is one of Britain's premier high-performance car brands. The relationship with the customer is through a tier one system integrator. It is an existing relationship as the Company was nominated for a £2m contract on a specialist one off car in 2018, as described in last year's report. Post year-end, the customer, through the tier one system integrator, awarded the Company a second £6m contract (plus spares) to be spread over 3 years with SOP towards the end of calendar 2021.

The SOP on the first contract was originally scheduled for March 2019 but will now commence at the end of 2019. This delay had cash implications for the Company and thus the Company sought recognition of the problem from our customer for this issue. As previously reported in June 2019, we are pleased the situation has been resolved amicably.

German OEM 3: This customer is the performance car division of Germany's largest automotive Company. The German parent has given OEM 3 the lead responsibility to approve the Company's products for wider use within the Group as two other major subsidiaries (OEM 2 and OEM 4) also currently use carbon ceramic discs. As previously reported all testing has been completed apart from a destruction rig test in very specific environmental conditions, with the successful criteria being the number of cycles achieved before destruction. This test, unique to this customer, has proven to be extremely difficult to pass and work has now been going on for a number of years.

However, it is pleasing to report that considerable progress has been made in the past six months. The investment in a new type of furnace in Knowsley has facilitated a different approach to resolving this problem and has led to a significant improvement in test results. OEM 3 has frequent model selections each year and the development and testing continues, with the customer sharing the objective with the Company of achieving the test requirement for the next model selection.

Near OEMs: We use this nomenclature to describe smaller automotive car manufactures, re-builders or tuners typically producing less than a few hundred cars per year, sometimes only one or two cars a month. This segment has been growing for the Company but in the year, three near OEM customers suffered either delayed SOP and/or production problems. This led to a reduction in revenue in the financial year. Nonetheless the business was not lost, and revenue growth is expected to return in the next twelve months.

It was particularly pleasing to win both the Koenigsegg and British OEM 6 orders as they are existing customers and this repeat business is a testimony to their experience of our technology, quality and supply chain capability.

Retrofit and Aftermarket: Whilst financially a small market the fitting of the Company's products to existing cars is particularly valuable in securing real world track and road experience of the Company's discs. This experience of real customers driving real cars on both road and track is not lost on our potential OEM customers. It is effectively additional product testing and reduces their risk of fitting our technology to production cars.

This retrofit market is mostly served by distributors and therefore has the characteristic of relatively large orders at infrequent, and difficult to forecast, periods. This distributor volatility resulted in a reduction in sales in the financial year ended 31 May 2019, as expected orders were pushed beyond our year-end. This issue of aftermarket order volatility was part of the reasoning behind the decision to change the Company's financial year-end from 31 May to 31 December. We cannot change the volatility of the Company's aftermarket sales, but we can at least ensure that the Company's financial year-end is not in the middle of the automotive racing season and that our financial year is aligned with our OEM customers.

Progress on Operations:

Knowsley site: The relatively new Knowsley facility is a 5,000 square metre factory. It is ultimately planned to have five OEM production cells plus the existing small volume production cell (SVP). The combination of these six cells will have the capacity for generating revenue in excess of £50m p.a. The SVP cell exists, OEM production cell one is fully financed and under construction and the subsequent four cells would need financing and construction as new orders are won. Naturally any financing requirement for the subsequent cells would include internal cash generation and debt as the Company will be profitable long before OEM Cell One reaches capacity limits.

SVP Cell: This cell is the original manufacturing capability transferred from the old Ellesmere Port site with revenue capacity of approximately £4.5m p.a. dependent on product mix. The cell has performed well in the year achieving most of its key measures of performance. Moreover, the team have improved capacity of the cell through process optimisation and with minimal capital expenditure. The sales from lower volume OEM customers (namely OEM 6), together with retrofit and near OEM customers will be manufactured in this cell and therefore the cell will be close to capacity in the next 18 months.

OEM Cell One: This cell is planned to have the capacity to generate revenues of circa £12m p.a., beginning with German customer OEM 5 (SOP October 2021) and then any further large OEM contracts. Clearly with this cell, but not future cells, the need was to demonstrate capacity well in advance of potential need, to re-assure the larger OEM customers that we have the capability to supply them. It takes about 18 months to order, deliver and commission a new cell and generally nomination of new cars is two years ahead of SOP. Commissioning would therefore be broadly in support of known or highly likely orders. A new cell costs about £10m and has a payback – when in production – of approximately 18 months.

Excellent progress on bringing this cell into production was made in the year. All the furnaces are now on site and given their lower production costs and increased capability some are already being used in production of parts for the SVP cell. The other furnaces are in the final stages of commissioning. The team expect to be able to release the complete cell for production in December 2019 with initial capacity of £6m reaching the target capacity limit of £12m progressively during 2020.

Capital Markets Day: The Company intends to hold a Capital Markets Day in Knowsley, in October 2019 to give shareholders the opportunity to see the new production facilities in their virtually finished state. Further details, with instructions on how to register interest, will be provided in the near future.

Cost reduction: Over five years ago the Company set itself the task of more than halving the production cost of its discs. It is pleasing to report that this task is on schedule and is expected to be achieved upon completion of OEM Cell One, expected in December 2019.

The Company is now confident of its competitiveness, evidenced by the recent contract awards. However, like all disruptive technologies there is a price elasticity curve for carbon ceramic discs, indeed we believe that price elasticity for carbon ceramic discs is currently high. The current high-performance car market for the Company's products is potentially £2bn, however if the Company (and indeed its competitor) wishes to further increase the size of the market, beyond high performance cars, continuing cost reduction is essential. Therefore, having achieved our initial cost reduction goal, planning has now commenced on the second phase of the on-going reduction in direct production costs.

Chairman's Statement

Environment: The Company is acutely conscious of its environmental responsibilities. We are determined to be a good neighbour and to ensure that the unarguable environmental benefits of using carbon ceramic discs (weight, fuel consumption, brake pad dust and longer life) are not lost in the manufacturing process.

Accordingly the Company secured approval of its environmental process controls through the award of ISO 14001 certification.

The Company is still finalising approval of all its environmental permits. As described previously, as a result of increased scale and the introduction of new technologies the Company is now operating in a different regulatory environment. There are no fundamental issues in securing these permits, but the process has taken longer than originally expected. The permits are expected in time for the new OEM Cell One to be handed over to production in December 2019.

David Bundred
Chairman

8 September 2019

Strategic Report

Operational review and principal activity

Surface Transforms is a UK based developer and manufacturer of carbon ceramic products for the brakes market for the automotive and aerospace markets. 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 both our main competitor's carbon ceramic products and other competitors iron discs. 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 One 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
- Achieve selection and supply to OEM customers with product for multiple models in multiyear supply agreements
- 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 are able to pass all customer audits, as evidenced by recent contract wins
- 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 can deliver to our customers' requirements on product, price, quality and security of supply
- Build manufacturing capacity capable of providing sales of circa £17 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:

Automotive OEMs

Significant progress has been made post 31 May 2019 with contract wins as a tier two supplier to OEM 6 and tier one supplier to OEM 5.

The OEM 6 contract win is an illustration of how the customer's demand is divided over several models with the life of these models spread over many years which overlap. Once a product is approved for use on the first model, with good supplier performance the product has the opportunity to then be adopted on multiple model platforms which run simultaneously over many years and therefore provide long term revenue visibility and strong growth.

Like OEM 6 this key event of approval for use on the first model has now been achieved for OEM 5 with an understanding with the customer that further demand can be secured as new models are launched.

OEM 3 (with OEM 2 and OEM 4 as part of the group) are supporting the Company to achieve the same objective of first contract win. The Company believes the one outstanding requirement can be achieved with a combination of product refinements and process improvements.

Strategic Report

As part of being a good supplier we are also focused on achieving certain key operational objectives:

- **Quality** – The Company continues to have excellent in-service quality. But improving quality is a never-ending process, particularly in the automotive industry. Our measure of improving quality is therefore primarily focussed on reducing the internal cost of quality; for example, reducing internal re-work, which of course also reduces cost; good progress is being made but there is always more to do. Additionally, the award of the IATF 16949 quality approval, reported in the last annual report is another measure of success in this area. This quality approval process requires annual re-certification audits. It is therefore pleasing to report that in the year the Company successfully completed its first annual recertification of both IATF16949 and ISO 9001, with only minor issues arising during the re-audit. Additionally, the Company was approved as a supplier by all of its customers following several appraisals in the year. These customer audits included German OEM 5 who, naturally, uses the German VDA 6.3 approval process.
- **Environmental** – The Company is now ISO14001 certified and has the objective of being responsible for the environment and improving it. The Company has now embarked on a campaign to reduce its carbon footprint. The plan described some years ago, to install a CHP plant on the site was never completed due to the failure of the supplier; however, the Company learnt much from the experience and is now restarting the project and searching for a more reliable supplier.
- **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 Company operates a versatile SVP Cell to support OEM development, Near OEMs and retrofit products. The objective of improving the capacity of the SVP Cell has been achieved with the cell now capable of delivering approximately £4.5m revenue per annum. There are additional opportunities to improve this further and the capacity requirements are continuously assessed. The new OEM Cell One will be in production before the end of this calendar year with all the key equipment (principally furnaces) now on site. The capacity will have a phased introduction with the first £6m of potential revenue available by the end of 2019, with the remaining £6m of revenue capacity planned for 2020. With the introduction of OEM Cell One, the cost reduction objectives set a number of years ago will be complete. OEM Cell One is more efficient than the SVP Cell due to versatility requirement for the SVP; however, cost reductions have been deployed from the OEM Cell One to the SVP Cell. The cost reduction plans implemented across both the SVP Cell and OEM Cell One will have a material effect on both the potential market and Company margins and as such plans for further cost reduction are being developed.

Near OEMs and Retrofit

These customers make up a relatively small addressable market of up to £2m per annum. Supplying these customers is delivering on the objectives of product validation for large OEM customers as well as establishing the Company's brand and reputation as a high-quality manufacturer with a world-leading product. The secondary objective (as the market is small) to generate growing revenues is only partially being achieved. The risks associated with forecasting Near OEM sales, relating to SOP and production delays, have been demonstrated in revenue timing issues this year. To mitigate these risks and grow revenues the Company expects to both expand the stable of Near OEM manufacturers using its products during the next 12 months, as well as winning both additional models and replacement models with existing customers. New orders with Koenigsegg for the Jesko, their new 300mph supercar launched at the Geneva Motor Show with annual revenues expected to be circa £300k with SOP 2020 and BAC launching their new Mono R model with the Company's ceramic brake as standard are encouraging examples of succeeding with the latter objective.

We continue to sell retrofit kits for Porsche, Nissan GTR, Aston Martin, Ferrari and McLaren. We did not see the expected growth during the year due to order volatility from the characteristic of a small number of large orders from distributors. During the year we introduced retrofit products for all the current McLaren range and will have the benefit of full year sales from these products going forward. We therefore expect modest revenue growth going forward.

Aircraft brakes

The Company has previously completed the product, quality, environmental, and supply chain requirements for the customer (a tier 1 supplier). Realising the objective of turning this engineering achievement into recurring revenues remains uncertain as it is linked to programme timing decision between our customer (tier 1 supplier) and the airframe manufacturer. Regular discussions with the customer to secure financial commitments which are linked to programme milestones are ongoing.

Summary

There has been significant investment in engineering work during the year which has culminated in the successful contract wins with OEM 6 and OEM 5. The Company continues investing in engineering with OEM 3 and continues to expect growth in near OEM customers both existing and new. Our work on quality, environment, supply chain, capacity and cost reduction continue to achieve our goals with further success expected in the future.

Financial Review

In the year to 31 May 2019 revenues fell to £1,002k, this was in large part due to the delay in SOP of the OEM 6 hyper car, volatility of demand from aftermarket distributors and delayed SOP and production problems at three of the Company's near OEM customers.

Gross margin deteriorated during the year to 61.6% (*2018: 67.4%)*; driven by lower volumes of development parts and near-OEM sales mix during the year. Significant work has been carried out on cost reduction programs, linked to OEM Cell One and these are expected to start coming on stream in the new financial year and will deliver improved margin within our existing retrofit and near OEM markets. These developments, together with return to more normal sales mix are expected to result in return to more historic gross margin percentages going forward.

Research and development costs remained flat at £2.1m (*2018: £2.0m*) primarily driven by testing for OEM 5 and on-going testing for OEM 3.

Other administrative expenses increased by £431k to £1,514k (*2018: £1,083k*) of which approx. £150k were non cash increases in depreciation and share based payment charges, and approx. £200k due to increased payroll costs as the management team and mix of staff was strengthened in the year, with the remainder being increased insurance and facility costs.

Losses after taxation increased by 12.2% to £2.1m (*2018: £1.8m*) driven by the reduced sales, decreased margin and a return to a normal level of share-based payment charge.

The result for 2019 includes the research and development tax credit claims made for 2018 and expected to be made for 2019 reflecting the Company's history of successfully making R&D tax credit claims to HMRC. This has the effect of reducing loss after tax in FY19 by the £400k accrued receivable. This item is non-cash in year and will not recur in future years.

At 31 May 2019, inventory was £1.2m (*2018: £0.9m*). This increase has been driven by the change of supplier of a raw material as well as the processing of materials to achieve communicated delivery schedules for OEM 6. As previously communicated the OEM 6 schedule has now been delayed but post year end an agreement was reached with our tier one supplier to financially support the stock position.

Net cash used in operating activities remained flat at £2.2m, with the increased stock being offset by an improved debtors' position and increased R&D tax credit.

The Company had cash and cash equivalents of £1.9m at 31 May 2019 (*2018: £0.9m*). In addition to this sum is an expected R&D tax credit of over £400k (expected to be received November 2019).

Loss per share was 1.64 pence (*2018: loss 1.66 pence*).

Change of year end date

The Company has announced that it intends to change its year-end reporting date from 31 May to 31 December. This brings the Company into line with its major OEM customers who all have calendar year financial years, whilst also avoiding having a year-end in the middle of the automotive racing season.

The issue of this report will be the last to cover a twelve-month trading period ending on 31 May. The Company will then report:

- Unaudited interim results for the six months ending 30 November 2019 by 28 February 2020
- Audited results for the seven months ending 31 December 2019 by 30 June 2020
- Unaudited interim results for the six months ending 30 June 2020 by 30 September 2020
- Audited results for the twelve months ending 31 December 2020 by 30 June 2021

Key performance indicators

The Directors continue to monitor the business internally with several 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. The post year end contract awards indicate the 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 but is now clearly much reduced.

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 partially mitigated through natural hedging activities.

In terms of uncertainties, product sales are still expected to grow with future OEM projections now supported by contracts. Sales growth is expected to be modest in the retrofit market with an increasing number of distributors and the Board expects 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, particularly Brexit. The Company has assessed the risks surrounding this issue and, whilst the outcome is still unknown, the Company believes that the timing of the proposed exit from the EU, when considered alongside supply timescales required by our German OEM 5 customer, mean that any initial disruption should be avoided. The Company has identified methods of coping with a changed customs environment and will continue to monitor the situation and will react as necessary.

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.

Strategic Report

Directors and Staff

During the year the Company appointed Steve Harvey as Senior Operations Manager, Steve joins the Company from the OEM tier 1 environment and the Board believes that his knowledge and experience will drive excellence in our production processes as we begin supplying to volume contracts.

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

Outlook

The Board now has a high degree of confidence in accelerating sales growth, the timing of which now being underpinned by contract awards.

The underlying sales for the new "rump" reporting period of seven months to December 2019 will be in line with previous guidance – roughly half of the previously expected sales for the twelve months to May 2020.

For the following twelve months to December 2020 this year will now capture the bulk of the sales of the first contract from OEM 6, and, slightly higher than previously foreseen, development revenues from OEM 5. These combined revenues, together with return to modest growth in Near OEM and retrofit sales, approximate to the point at which the Company expects to achieve positive EBITDA (including tax credit) during the course of the year.

These OEM contracts and Near OEM and retrofit sales continue into the year December 2021, a year that will now include the SOP (in the last quarter) of OEM 5, the second contract from OEM 6 and the higher volumes as the Koenigsegg Jesko replaces the Regera. The effect is that revenues are then expected to get to the point where the Company is generating modest levels of cash from operations.

The full combined effect of the contract wins on OEM 5 and OEM 6 are seen in the first full year of production being 2022, whereat the Company is expected to be profitable.

On behalf of the board

David Bundred
Chairman

Kevin Johnson
Chief Executive

8 September 2019

Directors' Report

The Directors present their annual report and the audited financial statements for the year ended 31 May 2019.

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**
	Interest at start of year	**Interest at end of year**	**share capital at end of year**
K D'Silva	1,129,295	1,129,295	0.83%
RD Gledhill	13,431,755	13,431,755	9.88%
Dr K Johnson	124,000	799,000	0.59%
D Bundred	894,641	894,641	0.66%

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 14 and 15.

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**	**%**
Cannacord Gennuity Group	19,086,622	14.03%
Unicorn Asset Management	15,287,000	11.2%
Richard Sneller	11,100,000	8.16%
Hargreaves Lansdown Asset Management	6,005,027	4.42%

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 Company's governance statement can be found at https://surfacetransforms.com/corporate-governance.

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 14 and 15.

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 £2,059k 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.

Directors' Report

Result for the year and proposed dividend

The loss for the year after taxation amounted to £2,059k (*2018: £1,834k*). The Directors do not recommend the payment of a dividend (*2018: £nil*).

Disclosure of information to auditor

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

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

8 September 2019

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 £	2019 £	Salary £	Fees £	2018 £
Executive directors						
Dr K Johnson	169,110	–	**169,110**	144,902	–	144,902
M Cunningham	100,532	–	**100,532**	–	–	–
	269,642	–	**269,642**	144,902	–	144,902
Non-executive directors						
K D'Silva	18,000	–	**18,000**	18,000	–	18,000
RD Gledhill	18,000	–	**18,000**	18,000	–	18,000
D Bundred	6,750	20,250	**27,000**	6,750	21,938	28,688
	42,750	20,250	**63,000**	42,750	21,938	64,688

With the exception of Dr K Johnson and Mr M Cunningham, 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 £8,249 (*2018: £7,324*) in respect of pension contribution and Mr M Cunningham received £5,400 (*2018: £nil*).

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.

Dr K Johnson exercised 675,000 options during the year resulting in a gain of £27,150. Directors' options outstanding and the options which were exercised, granted, surrendered and expired during the year are as follows:

Director	Date of Grant	Holding on 1 June 2018	Number of options granted	Number of options cancelled	Number of options lapsed	Number of options exercised	Holding on 31 May 2019	Exercise price	Exercise period
Dr K Johnson	30/06/08	288,000	–	–	(288,000)	–	**–**	£0.18	30/06/11-30/06/18
Dr K Johnson	22/09/08	481,707	–	–	(481,707)	–	**–**	£0.19	22/09/11-22/09/18
Dr K Johnson	01/03/10	345,000	–	–	–	(345,000)	**–**	£0.09	01/03/13-01/03/20
D Bundred	17/10/11	100,000	–	–	–	–	**100,000**	£0.09	17/10/14-17/10/21
D Bundred	17/10/11	100,000	–	–	–	–	**100,000**	£0.09	17/10/14-17/10/21
D Bundred	17/10/11	100,000	–	–	–	–	**100,000**	£0.09	17/10/14-17/10/21
Dr K Johnson	15/02/12	330,000	–	–	–	(330,000)	**–**	£0.12	15/02/15-15/02/22
Dr K Johnson	30/09/16	600,000	–	(600,000)	–	–	**–**	£0.15	30/09/18-30/09/25
D Bundred	02/10/16	250,000	–	–	–	–	**250,000**	£0.16	02/10/18-02/10/25
Dr K Johnson	19/09/17	990,000	–	(990,000)	–	–	**–**	£0.16	19/09/17-19/09/28
D Bundred	04/01/18	450,000	–	–	–	–	**450,000**	£0.15	04/01/18-04/01/28
M Cunningham	04/01/18	990,000	–	–	–	–	**990,000**	£0.15	04/01/18-04/01/28
Dr K Johnson	04/07/18	–	1,590,000	–	–	–	**1,590,000**	£0.21	19/09/17-19/09/28
Dr K Johnson	05/12/18	–	1,910,000	–	–	–	**1,910,000**	£0.13	05/12/18-05/12/28
		5,024,707	3,500,000	(1,590,000)	(769,707)	(675,000)	**5,490,000**		

The market price of the shares at 31 May 2019 was 12.25 pence and during the year varied from 10 pence to 21 pence.

On behalf of the board

D Bundred
Chairman

8 September 2019

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;

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 Transform Plc

Opinion

We have audited the financial statements of Surface Transforms Plc (the 'company') for the year ended 31 May 2019 which comprise the statement of total comprehensive income, statement of financial position, statement of changes in equity, statement of cash flows 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 2019 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 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 24 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.

Our response

We obtained and reviewed forecasts prepared by management which covered the period to 30 September 2020.

We identified the key assumptions supporting the forecasts which included revenue, estimated staff costs, inventory levels and capital expenditure requirements. The rationale of the assumptions in terms of revenue growth were challenged and compared to current pipeline and agreed contracts. We also reviewed the costs incurred in the prior year and compared to forecasts to determine whether any recurring costs had been excluded. The rationale for the assumptions supporting the forecasts was challenged and considered in light of other evidence obtained during the course of the audit.

We discussed with management their medium-term objectives and their strategy for achieving them. We challenged management as to the actions they would take if those strategies did not come to fruition in the estimated time frames.

We performed sensitivity analysis on the key figures and assessed the impact of any potential downturn in the forecasted results.

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. When evaluating whether the effects of misstatements, both individually and on the financial statements as a whole, could reasonably influence the economic decisions of the users we take into account the qualitative nature and the size of the misstatements. During planning materiality for the financial statements as a whole was calculated as £148,000, which was not significantly 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 £7,500, as well as differences below that threshold 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 Transform 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 16, 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.

RSM UK Audit LLP

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

8 September 2019

Statement of Total Comprehensive Income
for the year ended 31 May 2019

	Note	2019 £'000	2018 £'000
Revenue	3	**1,002**	1,363
Cost of Sales		**(385)**	(445)
Gross Profit		**617**	918
Administrative Expenses:			
Excluding research and development costs		**(1,514)**	(1,083)
Research and development costs		**(2,074)**	(2,002)
Total administrative expenses		**(3,588)**	(3,085)
Other operating income		**–**	–
Operating loss before non-recurring items	4	**(2,971)**	(2,167)
Non-recurring items	20	**–**	(133)
Financial Income	7	**2**	1
Financial Expenses	8	**(11)**	–
Loss before tax		**(2,980)**	(2,299)
Taxation	9	**921**	465
Loss for the year after tax		**(2,059)**	(1,834)
Other comprehensive income		**–**	–
Total comprehensive loss for the year attributable to members		**(2,059)**	(1,834)
Loss per ordinary share			
Basic and diluted	25	**(1.64p)**	(1.66p)

The notes on pages 24 to 40 form part of these financial statements

Statement of Financial Position
at 31 May 2019

	Note	2019 £'000	2019 £'000	2018 £'000	2018 £'000
Non-current Assets					
Property, plant and equipment	10	**3,921**		4,096	
Intangibles	11	**202**		192	
			4,123		4,288
Current assets					
Inventories	12	**1,162**		855	
Trade and other receivables	13	**895**		776	
Cash and cash equivalents		**1,925**		923	
			3,982		2,554
Total assets			**8,105**		6,842
Current liabilities					
Other interest-bearing loans and borrowings	14	**(88)**		(29)	
Trade and other payables	15	**(584)**		(790)	
		(672)		(819)	
Non-current liabilities					
Government Grants		**(200)**		(200)	
Other interest-bearing loans and borrowings	14	**(270)**		(275)	
Total liabilities			**(1,142)**		(1,294)
Net assets			**6,963**		5,548
Equity					
Share capital	17		**1,360**		1,140
Share premium			**20,704**		17,596
Capital reserve			**464**		464
Retained loss			**(15,565)**		(13,652)
Total equity attributable to equity shareholders of the company			**6,963**		5,548

These financial statements were approved by the board of Directors on 8 September 2019 and were signed on its behalf by:

D Bundred
Chairman

Dr K Johnson
Director

Company Registered Number 03769702

The notes on pages 24 to 40 form part of these financial statements

Statement of Changes in Equity

for the year to 31 May 2019

For the year to 31 May 2018	Share capital £'000	Share premium account £'000	Capital reserve £'000	Retained loss £'000	Total £'000
Balance as 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	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**

For the year to 31 May 2019	Share capital £'000	Share premium account £'000	Capital reserve £'000	Retained loss £'000	Total £'000
Balance as at 31 May 2018	1,140	17,596	464	(13,652)	5,548
Comprehensive income for the year					
Loss for the year	–	–	–	(2,059)	(2,059)
Total comprehensive income for the year	–	–	–	(2,059)	(2,059)
Transactions with owners, recorded directly to equity					
Shares issued in the year	213	3,228	–	–	3,441
Share options exercised	7	63	–	–	70
Cost of issue off to share premium	–	(183)	–	–	(183)
Equity settled share-based payment transactions	–	–	–	146	146
Total contributions by and distributions to the owners	220	3,108	–	146	3,474
Balance at 31 May 2019	**1,360**	**20,704**	**464**	**(15,565)**	**6,963**

The notes on pages 24 to 40 form part of these financial statements

Statement of Cash Flows

for the year ended 31 May 2019

	2019 £'000	2018 £'000
Cash flow from operating activities		
Loss after tax for the year	**(2,059)**	(1,834)
Adjusted for:		
Depreciation and amortisation charge	**340**	287
Equity settled share-based payment expenses	**146**	33
Financial expense	**11**	–
Financial income	**(2)**	(1)
Taxation	**(921)**	(465)
	(2,485)	(1,980)
Changes in working capital		
Increase in inventories	**(307)**	(348)
Decrease in trade and other receivables	**281**	(411)
(Decrease)/increase in trade and other payables	**(206)**	106
	(2,717)	(2,633)
Taxation received	**521**	465
Net cash used in operating activities	**(2,196)**	(2,168)
Cash flows from investing activities		
Acquisition of tangible and intangible assets	**(107)**	(2,024)
Net cash used in investing activities	**(107)**	(2,024)
Cash flows from financing activities		
Proceeds from issue of share capital, net of expenses	**3,328**	3,443
Payment of finance lease liabilities	**(14)**	(8)
Proceeds from long term loans	**–**	148
Interest received	**2**	–
Interest paid	**(11)**	–
Net cash generated from financing activities	**3,305**	3,583
Net increase/(decrease) in cash and cash equivalents	**1,002**	(609)
Cash and cash equivalents at the beginning of the period	**923**	1,532
Cash and cash equivalents at the end of the period	**1,925**	923

The notes on pages 24 to 40 form part of these financial statements

Notes to the Financial Statements

for the year ended 31 May 2019

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 6 September 2019.

Basis of preparation

The financial statements have been prepared in accordance with applicable accounting standards and under the historical cost convention. The financial statements are prepared in sterling, which is the functional currency of the company. Monetary amounts in these financial statements are rounded to the nearest £.

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 £2,059k 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 10. 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. Cancelled or settled options are accounted for as an acceleration of vesting and the amount that would have been recognised over the remaining vesting period is recognised immediately.

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 in brought into use by the business.

Intangibles

Cost comprises the aggregate amount paid 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 5 years on a straight-line basis.

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.

Revenue Recognition

Revenue from the sale of goods is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer (usually on dispatch of the goods), the amount of revenue can be measured reliably, it is probable that the economic benefits associated with the transaction will flow to the entity and the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Leases

Operating lease payments

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

Finance lease payments

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

Government grants

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.

1 ## Accounting policies continued

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.

Taxation

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

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

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

Tax credits received in relation to research and development expenditure accrued during the year that the expense is incurred. The Board considers that there is sufficient probability of future receipts given the Company's history of receiving tax credits from HMRC.

1 Accounting policies continued

Non-derivative financial instruments:

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

Trade and other receivables

Trade and other receivables are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses. The Company has adopted the new IFRS 9 standard on 1 June 2018. The adoption of IFRS 9 has had no impact on the financial statements and the prior year has not been restated. The standard looks at how an entity should classify and measure financial assets, financial liabilities, and contracts to buy or sell non-financial items.

The Company has reviewed its classification and measurement of financial assets and liabilities as from the implementation of IFRS 9 and considered the effects of transitioning to the new standard. The classification of financial assets and liabilities has changed however, they are still carried at amortised cost and there has been no impact on the result for the current or prior year. Trade and other receivables represent financial assets and are considered for impairment on an expected credit loss model, The Company continues to trade with the similar customers in the same market sectors and therefore the future expected credit losses have been considered in line with the past performance of the customers in the recovery of their receivables. The implementation of IFRS 9 has therefore not resulted in a change to the impairment provision in the current or prior year.

Trade and other payables

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

Interest-bearing borrowings

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

Interest rate risk

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

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.

Notes to the Financial Statements

1 Accounting policies continued

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.

New standards, amendments and interpretations issued but not effective for the financial year beginning 1 June 2018 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 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 23, Uncertainty over income tax treatments	Requires an entity to use its judgement as to whether tax should be determined individually or collectively.	1 January 2019
Amendments to IAS 40, Transfers of investment property	Clarification on Paragraph 57 on transfers of investment property from inventory.	1 July 2018

The Directors have completed assessments on the impact of the implementation of IFRS 16 which will require the reporting of the leases held by the company as an asset with a corresponding liability.

During the year the company adopted IFRS 15 Revenue Recognition and IFRS 9 Financial Instruments. Neither standard impacted the accounts as presented.

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 is analysed as follows:

	2019 £'000	**2018 £'000**
United Kingdom	**220**	504
Rest of Europe	**492**	294
United States of America	**269**	529
Rest of World	**21**	36
	1,002	1,363

4 Operating result and auditor's remuneration

	2019 £'000	**2018 £'000**
Operating loss is stated *after charging*		
Depreciation of property plant and equipment	**314**	283
Amortisation of Intangible assets	**26**	4
Research costs expensed as incurred	**2,074**	2,002
Rents payable under operating leases – land and buildings	**165**	139

Auditor's remuneration	**2019 £'000**	**2018 £'000**
Fees payable to the company auditor for the audit of the financial statements	**36**	30
Audit related assurance services	**1**	1
Tax compliance services	**3**	3
Tax advisory services	**12**	11
	52	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 £332,642(*2018: £209,590*).

The amounts set out above include remuneration in respect of the highest paid director of £169,110 (*2018: £144,902*).

Pension contributions of £8,249 (*2018: £7,324*) were made to a money purchase scheme on behalf of one director, £7,575 (*2018: £Nil*) pension contributions were accruing for another 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	
	2019	**2018**
Directors	**5**	4
Other employees	**42**	41
	47	45

The aggregate payroll costs of these persons were as follows:

	2019 £'000	2018 £'000
Wages and salaries	**1,467**	1,332
Social security costs	**152**	173
Other pension costs	**113**	21
Share based compensation	**146**	33
	1,878	1,559

7 Financial income

	2019 £'000	2018 £'000
Total bank interest	**2**	1

8 Financial expenses

	2019 £'000	2018 £'000
Total interest expense on financial liabilities measured at amortised cost	**11**	–

9 Taxation

	2019 £'000	2018 £'000
Analysis of credit in year		
UK corporation tax		
Adjustment in respect of prior years – R&D tax allowances	**521**	465
R&D tax allowances for current year	**400**	–
Total income tax credit	**921**	465

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% (*2018: 19.00%*). The differences are explained below:

Factors that may affect future tax charges

	2019 £'000	2018 £'000
Reconciliation of effective tax rate		
Loss for year	**(2,059)**	(1,834)
Total income tax credit	**(921)**	(465)
Loss excluding income tax	**(2,980)**	(2,299)
Current tax at average rate of 19% (2017: 19.83%)	**(566)**	(437)
Effects of:		
Non-deductible expenses	**1**	1
Change in unrecognised timing differences	**–**	8
Current year losses for which no deferred tax recognised	**565**	428
R&D tax allowance for current year	**(400)**	–
Adjustment in respect of prior years – R&D tax allowances	**(521)**	(465)
Income tax credit	**(921)**	(465)

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 2017	209	1,445	348	1,145	3,147
Additions	9	296	78	1,581	1,964
At 31 May 2018	218	1,741	426	2,726	5,111
Additions	–	73	15	51	139
At 31 May 2019	**218**	**1,814**	**441**	**2,777**	**5,250**
Depreciation					
At 31 May 2017	75	568	89	–	732
Charge for year	14	163	106	–	283
At 31 May 2018	89	731	195	–	1,015
Charge for year	14	184	116	–	314
At 31 May 2019	**103**	**915**	**311**	**–**	**1,329**
Net book value					
At 31 May 2017	134	877	259	1,145	2,415
At 31 May 2018	129	1,010	231	2,726	4,096
At 31 May 2019	**115**	**899**	**130**	**2,777**	**3,921**

11 Intangibles

	Software £'000	Total £'000
Cost		
At 31 May 2017	142	142
Additions	60	60
At 31 May 2018	202	202
Additions	36	36
At 31 May 2019	**238**	**238**
Depreciation		
At 31 May 2017	6	6
Charge for year	4	4
At 31 May 2018	10	10
Charge for year	26	26
At 31 May 2019	**36**	**36**
Net book value		
At 31 May 2017	136	136
At 31 May 2018	192	192
At 31 May 2019	**202**	**202**

12 Inventories

	2019 £'000	2018 £'000
Raw materials and consumables	**616**	141
Work in progress	**394**	664
Finished goods	**152**	50
	1,162	855

Raw materials, consumables and changes in finished goods and work in progress recognised as cost of sales in the year amounted to £335,320 (*2018: £444,920*). There was no impairment during the year (*2017: £nil*).

13 Trade and other receivables

	2019 £'000	2018 £'000
Trade receivables	**258**	572
Other receivables	**59**	103
Accrued tax credit	**400**	–
Prepayments and accrued income	**178**	101
	895	776

All receivables fall due within one year.

No debt was written off in the year (*2018: £Nil*), no provision for impairment is made because probability of expected credit loss in zero.

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 23.

	2019 £'000	2018 £'000
Current liabilities		
Finance lease liabilities	**13**	4
Other borrowings	**75**	25
	88	29
Non-current liabilities		
Other borrowings	**225**	275
Non-current element of finance leases	**45**	–
	270	275

14 Other interest-bearing loans and borrowings continued

	Future minimum lease payments 2019 £'000	Interest 2019 £'000	Present value of minimum lease payments 2019 £'000	Future minimum lease payments 2018 £'000	Interest 2018 £'000	Present value of minimum lease payments 2018 £'000
Less than one year	**18**	**(5)**	**13**	4	–	4
More than one year	**58**	**(13)**	**45**	–	–	–
	76	**(18)**	**58**	4	–	4

2019	Due in 1 year £'000	Due 2-5 years £'000	Total £'000
Other borrowings	**75**	**225**	**300**
2018	**£'000**	**£'000**	**£'000**
Other borrowings	25	275	300

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

	2019 £'000	2018 £'000
Trade payables	**308**	508
Taxation and social security	**104**	95
Accruals and deferred income	**172**	187
	584	790

16 Deferred tax

	2019 £'000	2018 £'000
Difference between accumulated depreciation and amortisation and capital allowances	**(91)**	(71)
Tax losses	**(984)**	(1,020)
Unrecognised deferred tax asset	**(1,075)**	(1,091)

The Company has an unrecognised deferred tax asset at 31 May 2019 of £1,075k (*2018: £1,091k*) 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 2017	90,309,935	903
Issue of shares	23,725,481	237
At 1 June 2018	114,035,416	1,140
Issue of shares	21,978,600	220
At 31 May 2019	136,014,016	1,360

During the year 21,978,600 shares were issued through 2 placings and an exercise of options.

The fund raise delivered £3,328k (*2018: £3,443k*) 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.

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 14 and 15. 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
01/03/2010	85,000	£0.090	01/03/13-01/03/20
15/02/2012	27,842	£0.120	15/03/15-15/03/22
25/09/2014	400,000	£0.105	25/09/17-25/09/24
30/09/2015	125,000	£0.145	30/09/18-30/09/25
04/01/2018	1,105,000	£0.153	04/07/18-04/01/28
04/07/2018	305,753	£0.205	04/07/18-04/07/28
05/12/2018	605,000	£0.130	05/12/18-05/12/28
28/03/2019	210,000	£0.153	28/03/19-28/03/29
	2,863,595		

There is a total of 2,373,595 unexpired options held by employees, 20,000 unexpired options held by former directors, 470,000 unexpired options held by former employees and a total of 5,490,000 unexpired options held by Directors. The options issued to directors and senior managers on 19/09/2017, 04/01/2018, 05/12/2018 and 28/03/2019 vest on the achievement of specific performance criteria relating to contract awards, cost targets 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 £63,928 (*2018: £45,328*). 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 £30,950 of the pension contributions (*2018: £26,588*).

There were outstanding contributions of £17,013 (*2018: £9,572*) 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 11.93% (*2018; 13.66%*) per cent of the voting shares of the Company. At present employees and Directors would hold 15.97% (*2018; 21.04%*) of the share capital, following the exercise of all outstanding share options.

	2019 £'000	2018 £'000
Wages and salaries	**430**	464
Social security costs	**45**	44
Pension costs	**39**	21
Share based payments	**101**	23
	615	552

Transactions in the year:	2019 £'000	2018 £'000
Group 14 Limited		
Fees paid	**–**	–
Recharged recruitment costs	**–**	21
	–	21

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 £Nil prior years non-recurring were salary related. (*2018 £133k*).

21 Net debt

	1 June 2018 £'000	Cash Flow £'000	Other non-cash movements £'000	31 May 2019 £'000
Cash and cash equivalents	923	1,002	–	**1,925**
Finance Leases	(4)	14	(68)	**(58)**
Other borrowings	(300)	–	–	**(300)**
	619	1,016	(68)	**1,567**

Other non-cash movements relate to new finance leases.

22 Financial instruments

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

Currency Risk

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

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

22 Financial instruments continued

Sensitivity Analysis

A ten per cent strengthening of the pound against the US Dollar and the Euro at 31 May 2019 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 2018.

	US Dollar £'000	Euro £'000
31 May 2019	**(13)**	**(11)**
31 May 2018	(19)	(10)

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	13	11
31 May 2017	23	13

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 £115k (*2018: £175k*).

The ageing of trade receivables at the reporting date was:

Credit Risk	31 May 2019			31 May 2018		
	Gross £'000	Impairment £'000	Net £'000	Gross £'000	Impairment £'000	Net £'000
Not past due	**138**	**–**	**138**	472	–	472
Past due 0 to 30 days	**–**	**–**	**–**	44	–	44
Past due 31 to 90 days	**127**	**(7)**	**120**	56	–	56
	265	**(7)**	**258**	572	–	572

There was an amount of £7k (*2018: nil*) in the allowance for impairment in respect of trade receivables.

The average debtor days are 97 days (*2018: 153 days*), the average creditor days are 61 days (*2018: 57 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:

	2019 £'000	2018 £'000
Fixed rate instruments:		
Finance lease liabilities		
Less than one year	**13**	4
More than one year	**45**	–
	58	4

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 2019 £'000	Land and buildings 2018 £'000
Within one year	**135**	135
In the second to fifth years inclusive	**610**	575
	745	710

Capital commitments as at 31 May 2019 were £144k (*2018: £119k*).

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	2019	2018
Loss after tax (£)	**(2,059,000)**	(1,834,000)
Weighted average number of shares (No. of shares)	**125,184,218**	110,280,735
Loss per share (pence)	**(1.64p)**	(1.66p)

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.

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 2018	Granted	Leaver	Exercised	Cancelled	Lapsed	At 31 May 2019	Exercise price	Date from which exercisable	Expiry date
(a)	456,200	–	–	–	–	(456,200)	–	£0.1800	30/06/11	30/06/18
(a)	622,035	–	–	–	–	(622,035)	–	£0.1800	22/09/11	22/09/18
(b)	225,438	–	–	–	–	(225,438)	–	£0.1900	22/09/11	22/09/18
(a)	85,000	–	–	–	–	–	85,000	£0.0900	01/03/16	01/03/20
(b)	345,000	–	–	(345,000)	–	–	–	£0.0900	01/03/16	01/03/20
(b)	100,000	–	–	–	–	–	100,000	£0.0900	01/03/16	17/10/21
(b)	100,000	–	–	–	–	–	100,000	£0.0900	01/03/16	17/10/21
(b)	100,000	–	–	–	–	–	100,000	£0.0900	01/03/16	17/10/21
(a)	27,842	–	–	–	–	–	27,842	£0.1200	01/03/16	15/03/22
(b)	330,000	–	–	(330,000)	–	–	–	£0.1200	01/03/16	15/03/22
(a)	340,753	–	–	–	(40,753)	–	300,000	£0.1050	25/09/17	25/09/24
(b)	100,000	–	–	–	–	–	100,000	£0.1050	25/09/17	25/09/24
(a)	1,250,000	–	–	–	(1,125,000)	–	125,000	£0.1450	30/09/18	30/09/25
(b)	250,000	–	–	–	–	–	250,000	£0.1550	02/10/18	02/10/25
(c)	990,000	–	–	–	(990,000)	–	–	£0.1588	19/09/17	19/09/27
(c)	2,375,000	–	(530,000)	–	–	–	1,845,000	£0.1525	04/01/18	04/01/28
(d)	700,000	–	–	–	–	–	700,000	£0.1525	04/01/18	04/01/28
(a)	–	2,155,753	(260,000)	–	–	–	1,895,753	£0.2050	04/07/18	19/09/27
(a)	–	675,000	(70,000)	–	–	–	605,000	£0.1300	05/12/19	05/12/29
(b)	–	1,910,000	–	–	–	–	1,910,000	£0.1300	05/12/19	05/12/29
(e)	–	210,000	–	–	–	–	210,000	£0.1525	28/03/19	28/03/29
Total	**8,397,268**	**4,950,753**	**(860,000)**	**(675,000)**	**(2,155,753)**	**(1,303,673)**	**8,353,595**			

(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.

(e) These options have been granted under the approved scheme. 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 performance criteria relating cost and production targets.

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 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
Lapsed	(1,303,673)	0.182	–	–
Leaver	(860,000)	0.167	–	–
Cancelled	(2,155,753)	0.151	–	–
Granted	4,950,753	0.164	–	–
Exercised	(675,000)	0.105	–	–
Outstanding at 31 May 2019	6,453,157	0.152	1,900,438	0.132
Range of exercise prices	9p to 20.5p		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	2019	2018
Fair Value per share option	**10.9p**	10.9p
Share price on date of grant	**15.4p**	15.4p
Exercise price	**15.4p**	15.4p
Share options granted in the year EMI scheme	**–**	–
Expected volatility	**77%**	80%
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.

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 12 November 2019 at 3.30pm 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 2019 together with the last Directors' report, the last Directors' remuneration report and the auditors' report on those accounts.
2. To re-elect Kevin D'Silva, who retires by rotation pursuant to article 113 of the articles of association of the Company and who, being eligible, offers himself for re-election as a Director.
3. To re-elect Richard Gledhill, who retires by rotation pursuant to article 113 of the articles of association of the Company and who, being eligible, offers himself for re-election as a Director.
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 £453,335 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 £453,335 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 5 in the notice convening the meeting at which this resolution was proposed and in substitution for all existing and unexercised authorities and powers, the Directors of the Company be and are hereby empowered pursuant to section 570 of the Act to allot equity securities (as defined in section 560 of the Act) pursuant to the authority conferred upon them by resolution 5 as if section 561 of the Act did not apply to any such allotment provided that this authority and power shall be limited to:

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

    b) the allotment (otherwise than pursuant to sub-paragraph (a) above) of equity securities up to an aggregate nominal amount of £136,014, 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: 8 September 2019

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 3.30pm on 8 November 2019. 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 3.30pm on 8 November 2019.
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 11 November 2019 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 £453,335, 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 £453,335, 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 £136,014which 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).

Pnnted by Michael Searle & Son Limited

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