Surface Transforms plc

Registered number 3769702

Annual Report and Financial Statements

for the year ended 31 May 2007

Contents

Highlights

- Turnover of £266,789 (2006: £155,177)
- Losses after taxation £646,422 (2006: £870,599 restated on adoption of FRS20 “Share Based Payments”)
- Cash position of £878,971 (2006: £1,743,389)
- Order bank of £126,097 (31 May 2007)
- Koenigsegg being supplied at a rate of two car sets per month
- Mov’ it distribution agreement signed, €31,000 sales in the last three months, with an anticipated value of €150,000 over next two years
- Production orders from StopTech Inc, a US brake system supplier with £29,390 having been sold in the year ended 31 May 2007
- Continued development with three of the major aircraft brake system suppliers
- Awarded Grant towards a £1.34 million Collaborative R&D Project by the UK Department of Trade and Industry of which £28,000 was received in the year ended 31 May 2007

Chairman's statement

In the 12 months to 31 May 2007, two principal challenges were addressed by the Company's management and I am pleased to report that significant financial and operational progress has been made in meeting them. The challenges were:

- to gain at least one other significant automotive brake contract to operate alongside the supply contract with Koenigsegg Automotive of Sweden; and
- to improve the production efficiency of ceramic brake discs and lower their unit cost.

The Company starts the 2007/8 financial year with a greater degree of financial security; a record order bank and three automotive clients who are purchasing ceramic brake discs on a regular basis. In summary the key achievements in the period under review were:

- two new aftermarket automotive clients: StopTech Inc and Mov' it Gmbh now purchase discs regularly alongside Koenigsegg Automotive;
- the factory relocation was completed in April 2007 and as a result operating efficiency has improved;
- ceramic brake disc costs are now 25% below the levels of 2006/7 and further reductions will arise when the proprietary carbon densification process, CVIST, comes on stream, which is expected to be in the third quarter of 2007;
- the award by the DTI of a three year £1.34 million Collaborative R&D Project. The award represents a contribution to overheads and an improved cash flow of £140,000 per annum over three years;
- a paid development agreement with a European aircraft brake system supplier; and
- paid development work from two new rocket component clients (Rolls-Royce PLC and MBDA).

FINANCIAL REVIEW

In the 12 months to 31 May 2007, turnover was £266,789 (2006: £155,177).

This represents a 72% increase on the same period in 2006. Increased automotive brake disc revenues account for the largest proportion of the increase and now represent over 50% of the Company's revenues.

At 31 May 2007, the outstanding order bank was £126,097.

Losses after taxation for the 12 month period were £646,422 (2006: £870,599 restated following adoption of FRS 20 "Share Based Payments").

Shareholder funds at 31 May 2007 were £1,413,058 (2006: £1,997,105) which included cash deposits of £878,971 (2006: £1,743,389). At 31 May 2007 cash represented 6.26 pence per share.

Capital expenditure in the year was £193,382.

The Company has no borrowings.

Chairman's statement

continued

PRODUCTION & NEW TECHNOLGY PROCESSES

Relocation was completed during April 2007 which has enabled all of the Company's operations to be in one location. Production efficiencies have begun to be implemented and further improvements are expected to be forthcoming in the first six months of the current financial year.

The development of CVIST, the carbon vapour infiltration process plant, is nearing completion. The new plant has been installed and the management team are beginning a three month commissioning phase with completion scheduled during the third quarter of this calendar year.

Improved purchasing of materials has already reduced the direct cost of an automotive ceramic brake disc by 25% compared to 2006/7 and the completion of CVIST is expected to reduce costs further and we are targeting an overall 50% reduction compared with 2006/7.

Capital and project expenditures on CVIST will be in the order of £225,000. Approximately £200,000 of revenue grants will be received from the Northwest Development Agency ("NWDA") in relation to this project, reducing the cash commitment of the Company to £25,000.

AUTOMOTIVE BRAKE SYSTEMS

The success of the supply contract with Koenigsegg Automotive ("Koenigsegg") has increased interest from a number of automotive companies. Although the Company has not yet been awarded a supply contract from an established luxury car manufacturer, there has been progress in this area.

The target market for SystemST ceramic brakes are cars which are typically priced in excess of €90,000 (£60,000) and there are approximately 250,000 cars sold within Europe annually within this market category. The key product features sought by purchasers of ceramic brake discs are:

- extended product life and improved lifetime cost;
- improved handling and comfort;
- improved brake performance;
- corrosion resistant;
- image; and
- lower CO_2 emissions.

Recent environmental studies on SystemST ceramic brake discs with Koenigsegg have shown lower carbon emissions per kilometre and a material improvement of the carbon footprint in the production and use phases of the lifetime cycle over iron brake discs.

Chairman's statement

continued

SystemST is now represented on more than 20 car platforms including:

Koenigsegg (www.koenigsegg.sw)
SystemST systems have been supplied for over 20 cars and the expectation is that annual supplies of ceramic discs levels will continue at this level.

StopTech Inc (www.stoptech.com)
This brake system company is the US's leader in balanced brake upgrades for production cars and production based racecars. Production orders have been placed and both Surface Transforms and StopTech expect that initially ceramic brake sets for between 50-100 cars will be required in the aftermarket on an annual basis.

Mov' it Gmbh (www.movit.de)
After an eight month evaluation period, Mov' it Gmbh and the Company have signed a four year supply and distribution agreement. Mov' it operates throughout Europe and in 2006 installed high performance iron disc based brake systems on over 2,000 cars in the automotive aftermarket. The Company expects that revenues from the Mov' it agreement will be approximately €150,000 (£100,000) in the first two years of the contract term.

Ascari Cars (www.ascari.co.uk)
SystemST ventilated ceramic discs have been chosen as standard for the new Ascari A10. This Ascari model has a five litre, 625 bhp, V8 engine and a maximum speed of 215 mph. Its commercialisation has not yet been finalised by Ascari cars of Banbury UK.

Weber Sports cars (www.weber.sw)
Weber launched their new super-car at Top Marques show in Monte Carlo earlier this year sporting SystemST ceramic discs. Their plan is to build approximately 10 cars per annum.

Tramontana (www.tramontana.es)
Tramontana, another super-car, built in Spain also carries SystemST brake rotors. Tramontana plans limited production driven by its order book.

A number of other automotive OEMs are currently evaluating SystemST and the Company will update investors as news becomes available.

AIRCRAFT BRAKE SYSTEMS

Revenues from the aircraft brake systems market sector are principally from paid development contracts. In September 2006, a third brake system supplier commenced development work with the Company and this work is focused on designing a new aircraft brake disc with lower wear characteristics. Lower disc wear reduces the brake service costs associated with aircraft operation. Important work with Dunlop Aircraft Braking Systems also continues, now supported financially by a DTI project award.

ROCKET COMPONENTS

The Company's principal client in this sector has been Roxel who purchased ceramic rocket propulsion components for use in testing trials for a new nozzle design. In addition, a one year testing programme for a commercial rocket has just completed and the results have been encouraging. Our ceramic components are required to extend the operating life time and to reduce the mass compared with both current carbon-carbon composites and tungsten alloy materials.

In recent months further paid development work has been awarded by new clients: Rolls-Royce PLC and MBDA Missile Systems (MBDA UK Limited). Rolls-Royce is interested in using affordable ceramic material for unmanned aerial vehicle engines and the Company's material is currently being tested within these engines. MBDA is a Europe-wide group owned by BAe Systems, EADS and Finmeccanica and is the largest missile manufacturer in Europe. Work with MBDA is expected to increase over the next three years as activity is linked to the development of a new control system applicable to a range of European missiles. The work will be supported jointly by the UK and French Ministries of Defence as part of the Innovation and Technology Partnership (ITP) on Materials and Components for Missiles. We are pleased that Surface Transforms has been identified as a provider of enabling technology which uses a thermo-structural material which is also produced at lower cost to existing material. The work will seek to characterise material design properties, identify different manufacturing routes and culminate in the production of test component demonstrators.

NEW FUNDING

Earlier today, the Company announced that John East & Partners Limited, joint broker to the Company, had placed 5,000,000 new ordinary shares at 20 pence per share to provide additional funding. The new funds will be combined with existing cash resources and will be used (i) to accelerate the adoption of SystemST carbon ceramic discs in the wider automotive brake market; (ii) to reduce the direct cost to manufacture carbon ceramic discs; and (iii) for general working capital.

Your board has decided that a placing with institutions rather than an open offer to all shareholders was in the best interests of the Company because it substantially reduced the costs of the fundraising (currently estimated at £105,000).

Chairman's statement

continued

PEOPLE

This has been a busy year for both management and staff at Surface Transforms and the commercial and technical progress made by the Company has placed demands on individuals especially as progress has had to be executed within the constraints of a factory relocation.

Julio Faria, the founder of the Company decided to step down from an executive role in December 2007 but we are happy that he will continue as a non-executive director on the board. Ken Baker joined us in September 2006 as a non-executive director and his counsel and experience has already been invaluable.

We have continued to incentivise our management and staff with share options, as we wish to align their rewards with those of shareholders.

I would like to thank all my colleagues for their dedication over the past year.

OUTLOOK

We see further progress in the coming year in both aircraft and automotive brake markets. The board believes that Surface Transforms has become recognised as an industry operator with a world class technology which is being used in commercial applications and from which the Company is generating revenue, albeit on a small scale at present. This is particularly evident in the automotive market.

As a result of the progress achieved to date and the further work planned for this financial year, we anticipate developing long term commercial agreements with global industry operators with a view to commercialising the technology on a greater scale.

We would remind shareholders that our strategy is for the Company to develop new applications for its technology and, where appropriate, undertake low volume manufacture. For high volume manufacture, the technology will be licensed to third parties. This means that the Company will avoid the costs and time involved in becoming a profitable high volume manufacturer. Against this background and the current level of overheads, the sales level required to achieve breakeven are relatively modest.

Kevin D'Silva
Chairman

31 July, 2007

Directors' report

The directors present their annual report and the audited financial statements for the year ended 31 May 2007.

Principal activity

The principal activity of the Company during the year was the development and manufacture of carbon fibre reinforced ceramic products (CFRC) for aircraft brake, automotive brake and rocket component applications.

Business review

A review of the Company's activities during the year is dealt with in the Chairman's statement.

Key Risks and Uncertainties

The principal risk faced by the Company relates to the speed of which our customers and potential customers adopt the new ceramic disc technology. Current indications in the automotive area are that the technology is well received and will be widely adopted over an increasing number of vehicles. This risk is constantly assessed by monitoring the level of enquiries and orders for both the Company and industry wide.

Key performance Indicators

The Directors monitor the business internally with a number of performance indicators: order intake, sales output, productivity, profitability and manufacturing cost of automotive discs. The Company produces an annual business plan and full monthly forecasts detailing sales, profitability and cash flow to help monitor business performance going forward.

Future developments

The Board aims to continue with its corporate strategy which is to exploit its technologies in carbon fibre reinforced ceramics by:

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

Research and development

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

Proposed dividend and transfer to reserves

The loss for the year after taxation amounted to £646,422 (2006: £870,599 restated on adoption of FRS20 "Share Based Payment"). The directors do not recommend the payment of a dividend.

Directors' report

continued

Policy and practice on payment of creditors

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

At the year end, there were 74 days (2006: 37 days) purchases in trade creditors.

Political and charitable donations

The Company made no political or charitable donations during the year (2006: £nil).

Directors and directors' interests

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

K D'Silva* (Chairman)
Dr K Johnson (Managing Director)
JJ Faria
Professor DT Clark*
Dr G Gould
KM Baker* (appointed 5 September 2006)

* denotes non-executive Director.

Ken Baker, who was appointed a director since the last annual general meeting, retires in accordance with the articles of association and, being eligible, offers himself for re-election.

The directors retiring by rotation are Professor DT Clark and Dr G Gould who, being eligible, offer themselves for re-election.

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

		Number of £0.01 ordinary shares	
	% of issued share capital	**Interest at end of year**	**Interest at start of year**
JJ Faria	13.17	1,848,089	2,357,845
Professor DT Clark	6.98	979,661	979,661
K D'Silva	1.12	156,986	156,986
Dr K Johnson	0.57	79,750	57,250
KM Baker	0.29	40,000	–
Dr G Gould	0.03	4,350	4,350

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 12 and 13.

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

Directors' report

continued

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 of 11 July 2007:

Registered holding	Number of ordinary shares	% of issued share capital
JM Finn Nominees Limited	1,541,157	10.98
Bank of New York GIL Client Account (Nominees) Limited	1,157,000	8.37
HSBC Global Custody (Nominee) Ltd	807,143	5.75
Nortrust Nominees Limited	595,000	4.24
Barclayshare Nominees Limited	512,300	3.65

Corporate governance

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

The Board has appointed an Audit Committee whose primary role is to review the Company's interim and annual financial statements before submission to the Board for approval. The Board has also appointed a Remuneration Committee, which is responsible for reviewing executive remuneration and performance. The Remuneration and Audit Committees are made up of three non-executive directors, David Clark, Kevin D'Silva and Ken Baker. Details of the Remuneration Committee are disclosed in the report on directors' remuneration on pages 12 and 13.

Disclosure of information to auditors

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 auditors 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 auditors are aware of that information.

Auditors

In accordance with Section 384 of the Companies Act 1985, a resolution for the re-appointment of KPMG Audit Plc as auditors of the Company is proposed at the forthcoming Annual General Meeting.

Annual General Meeting

The notice convening the Annual General Meeting to be held at 11.30 a.m. on 27 September 2007 at Halliwells LLP, St James's Court, Brown Street, Manchester M2 2JF is set out on pages 37 to 39.

Directors' report

continued

Special business at the Annual General Meeting

Under resolution 7, it is proposed in accordance with section 80 of the Companies Act 1985, to renew the directors' authority to allot shares in the company up to a nominal amount of £63,436, representing approximately 33% of the issued share capital of the Company immediately following completion of the placing referred to in the Chairman's statement (the "Placing").

Resolution 8 seeks to renew, in accordance with section 89 of the Companies Act 1985, the directors' authority to allot further shares for cash without first offering them to existing shareholders under the statutory pre-emption procedure. This authority is limited to the issue of equity securities in connection with rights issues and otherwise up to a nominal amount of £19,031, representing approximately 10% of the Company's issued share capital immediately following completion of the Placing.

The authorities contained in resolutions 7 and 8 will both expire at the conclusion of the annual general meeting of the company to be held in 2008 or 15 months after the passing of such resolutions (whichever is the earlier).

The directors consider that it is appropriate for these authorities to be granted. It is not the directors' present intention to allot any ordinary shares except to satisfy options that may be exercised under the Company's share option schemes.

By order of the board

K D'Silva
Chairman

31 July, 2007

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

Report on directors' remuneration

Policy on executive directors' remuneration

The Remuneration Committee comprises of Kevin D'Silva, David Clark and Ken Baker.

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

Fees for non-executive directors

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

Directors' remuneration – audited

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

	2007 £	2006 £
Executive directors		
Dr K Johnson	74,886	71,683
JJ Faria	57,966	57,966
Dr G Gould	52,890	52,890
	185,742	182,539
Non-executive directors		
K D'Silva	18,000	19,900
Professor DT Clark	20,854	19,544
PJ Holland	–	11,687
KM Baker	13,500	–
	52,354	51,131
	238,096	233,670

With the exception of Kevin Johnson, none of the directors received pension contributions in respect of their office. In addition to the emoluments received, as stated above, Kevin Johnson received £3,600 (2006: £3,847) in respect of pension contributions.

Directors' interests

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

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

Report on directors' remuneration

continued

Share options – audited

The Company operates a share incentive scheme. All options are granted at the discretion of the Board. The options granted, date of grant, exercise price and exercise periods under the scheme are set out below. During the year options to the directors and selected employees to purchase ordinary shares were granted at an exercise price of £0.21.

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

Enterprise Management Incentive Scheme

Director	Date of Grant	Number of Share options granted	Number of Share options expired	Exercise Price	Exercise Period	Expiry Date
JJ Faria	19/12/02	64,286	–	£0.70	19/12/05-19/12/12	19/12/12
Dr G Gould	19/12/02	64,286	–	£0.70	19/12/05-19/12/12	19/12/12
Dr G Gould	08/12/03	34,091	–	£0.88	08/12/06-08/12/13	08/12/13
Dr G Gould	08/03/04	20,000	–	£0.665	08/03/07-08/03/14	08/03/14
Dr G Gould	14/09/05	29,000	–	£0.40	14/09/08-14/09/15	14/09/15
Dr G Gould	18/04/07	50,000	–	£0.21	18/04/10-18/04/17	18/04/17
Dr K Johnson	04/04/05	50,000	–	£0.50	04/04/08-04/04/15	04/04/15
Dr K Johnson	14/09/05	180,000	–	£0.40	14/09/08-14/09/15	14/09/15
Dr K Johnson	18/04/07	100,000	–	£0.21	18/04/10-18/04/17	18/04/17
Prof. DT Clark	18/04/07	15,000	–	£0.21	18/04/10-18/04/17	18/04/17
KA D'Silva	18/04/07	50,000	–	£0.21	18/04/10-18/04/17	18/04/17
KM Baker	18/04/07	15,000	–	£0.21	18/04/10-18/04/17	18/04/17
		671,663				

The market price of the shares at 31 May 2007 was £0.18 and during the year varied from £0.285 to £0.115. The market price of the shares from the date share options were granted for the year ended 31 May 2007 has varied from £0.205 to £0.17.

By order of the board

K D'Silva
Chairman

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

Statement of directors' responsibilities

in respect of the directors' report and the financial statements

The directors are responsible for preparing 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 they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice).

The financial statements are required by law to give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that its financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

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

Independent auditors' report

to the members of Surface Transforms plc

We have audited the financial statements of Surface Transforms plc for the year ended 31 May 2007 which comprise the Profit and loss account, the Balance sheet, the Cash flow statement, the Statement of total recognised gains and losses, the Reconciliation of movements in shareholders' funds and the related notes. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the statement of directors' responsibilities on page 14.
Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

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

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

We read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Independent auditors' report

continued

Basis of audit opinion

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

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

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 May 2007 and of its loss for the year then ended; and
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' report is consistent with the financial statements.

KPMG Audit Plc
Chartered Accountants
Registered Auditor
Manchester

31 July 2007

Profit and loss account

for the year ended 31 May 2007

	Note	2007 £	Restated 2006 £
Turnover	2	266,789	155,177
Cost of sales		(138,955)	(101,706)
Gross profit		127,834	53,471
Distribution costs		–	(1,613)
Administrative expenses:			
Before development costs		(586,643)	(543,266)
Development costs		(560,005)	(610,585)
Total administrative expenses		(1,146,648)	(1,153,851)
Other operating income	3	176,530	27,155
Operating loss		(842,284)	(1,074,838)
Interest receivable	6	59,845	92,662
Loss on ordinary activities before taxation		(782,439)	(982,176)
Tax on loss on ordinary activities	7	136,017	111,577
Loss on ordinary activities after taxation and retained for the financial year	15	(646,422)	(870,599)
Loss per ordinary share			
Basic and diluted	20	(4.61p)	(6.20p)

All amounts relate to continuing activities.

Comparative figures restated on the adoption of FRS20 “Share Based Payments”.

Balance sheet

at 31 May 2007

	Note	2007 £	2007 £	2006 £	2006 £
Fixed assets					
Intangible assets	8		1,886		4,104
Tangible assets	9		289,455		170,156
			291,341		174,260
Current assets					
Stocks	10	212,181		124,335	
Debtors	11	289,576		84,135	
Cash at bank and in hand		878,971		1,743,389	
		1,380,728		1,951,859	
Creditors: amounts falling due within one year	12	(259,011)		(129,014)	
Net current assets			1,121,717		1,822,845
Net assets			1,413,058		1,997,105
Capital and reserves					
Called up share capital	14		140,308		140,308
Share premium account	15		4,902,715		4,902,715
Other reserves	15		463,885		463,885
Profit and loss account	15		(4,093,850)		(3,509,803)
Shareholders' funds			1,413,058		1,997,105

These financial statements were approved by the board of directors on 31 July 2007 and were signed on its behalf by:

K D'Silva
Director

Dr K Johnson
Director

Cash flow statement

for the year ended 31 May 2007

	Note	2007 £	Restated 2006 £
Reconciliation of operating loss to net cash flow from operating activities			
Operating loss		(842,284)	(1,074,838)
Depreciation charge		74,083	33,411
Amortisation charge		2,218	2,218
Increase in stocks		(87,846)	(56,813)
Increase in debtors		(205,441)	(14,471)
Increase/(decrease) in creditors		129,997	(18,775)
Charge in relation to share based payments		62,375	58,729
Net cash outflow from operating activities		(866,898)	(1,070,539)

Cash flow statement

	Note	2007 £	Restated 2006 £
Cash flow from operating activities		(866,898)	(1,070,539)
Return on investments and servicing of finance	17	59,845	103,989
Taxation		136,017	111,577
Capital expenditure	17	(193,382)	(129,690)
Cash outflow before management of liquid resources and financing		(864,418)	(984,663)
Management of liquid resources	17	894,500	987,500
Increase in cash in the year		30,082	2,837

	Note	2007 £	2006 £
Reconciliation of net cash flow to movement in net funds			
Increase in cash in the year		30,082	2,837
Cash outflow from liquid resources		(894,500)	(987,500)
Movement in net funds in the year		(864,418)	(984,663)
Net funds at the start of the year	18	1,743,389	2,728,052
Net funds at the end of the year	18	878,971	1,743,389

Statement of total recognised gains and losses

for the year ended 31 May 2007

	2007 £	Restated 2006 £
Loss for the financial year	(646,422)	(870,599)
Total recognised gains and losses relating to the financial year	(646,422)	(870,599)
Prior year adjustments (as explained in note 1)	(58,729)	
Total gains and losses recognised since last annual report	(705,151)	

Reconciliation of movements in shareholders' funds

for the year ended 31 May 2007

	2007 £	Restated 2006 £
Loss for the financial year	(646,422)	(870,599)
Charge in relation to share based payments	62,375	58,729
Net reduction in shareholders' funds	(584,047)	(811,870)
Opening shareholders' funds	1,997,105	2,808,975
Closing shareholders' funds	1,413,058	1,997,105

Notes to the financial statements

for the year ended 31 May 2007

1 Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the financial statements, except as noted below.

In these financial statements the following new standards have been adopted for the first time:

- FRS 20 'Share-based payments';

The accounting policies under this new standard are set out below together with an indication of the effects of their adoption.

The corresponding amounts in these financial statements are restated in accordance with these new policies.

Basis of preparation

The financial statements have been prepared in accordance with applicable accounting standards and under the historical cost accounting rules. Accounting policies remain unchanged from the previous year except as disclosed in note 1.

Share based payments

The share option programme allows employees to acquire shares of the Company. The fair value of options granted after 7 November 2002 and those not yet vested as at the effective date of 1 June 2006 is recognised as an employee expense with a corresponding increase in equity. The fair value is measured at grant date and spread over the period during which the employees become unconditionally entitled to the options. The fair value of the options granted is measured using an option pricing model, taking into account the terms and conditions upon which the options were granted. The amount recognised as an expense is adjusted to reflect the actual number of share options that vest except where forfeiture is only due to share prices not achieving the threshold for vesting.

The corresponding amounts in these financial statements are restated in accordance with the new accounting policy.

The effect of the adoption of FRS20 is set out below:

	Year ended 31 May 2006 £
Retained loss as previously reported	(811,870)
Prior year adjustment in respect of FRS20	(58,729)
Retained loss as restated	(870,599)

The change in accounting policy has resulted in a pre-tax charge of £62,375 for the year ended 31 May 2007.

Notes to the financial statements

continued

1 Accounting policies (continued)

Intangible fixed assets and amortisation

Expenditure on patents is capitalised and amortised to nil by equal annual instalments over the useful economic life of seven and a half years.

Tangible fixed assets and depreciation

Depreciation is provided to write off the cost less the estimated residual value of tangible fixed assets by equal instalments over their estimated useful economic lives as follows:

Plant and machinery	–	12.5%-20% per annum
Fixtures and fittings	–	25% per annum
Motor vehicles	–	25% per annum
Leasehold improvements	–	Over life of lease.

Foreign currencies

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated using the contracted rate or the rate of exchange ruling at the balance sheet date and the gains or losses on translation are included in the profit and loss account.

Leases

Operating lease rentals are charged to the profit and loss account on a straight line basis over the period of the lease.

Government grants

Revenue grants are credited to the profit and loss account, and included within other operating income, so as to match them with expenditure to which they relate.

Post retirement benefits

The Company 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 during the accounting year.

Research and development expenditure

Expenditure on research and development is written off to the profit and loss account in the year in which it is incurred.

Stocks

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

1 Accounting policies (continued)

Taxation

The charge for taxation is based on the loss for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes.

Deferred tax liabilities are recognised without discounting in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by Financial Reporting Standard 19.

Deferred tax assets are only recognised when it is possible to assess whether there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted. Any potential tax reclaim in relation to Research and Development tax credits are recognised when it is probable that such amounts will be received.

Cash

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

Liquid resources

Liquid resources are current asset investments which are disposable without curtailing or disrupting the business and are either readily convertible into known amounts of cash at or close to their carrying values or traded in an active market. Liquid resources comprise solely of 30 day term deposits.

Turnover

Turnover comprises income derived from research and development agreements and other related services and the supply of carbon fibre structures and carbon fibre reinforced ceramic products. Turnover excludes value added taxes.

Derivatives and other financial instruments

The Company's financial instruments comprise cash and liquid resources, and various items, such as trade debtors and trade creditors, that arise directly from its operations. The main purpose of these financial instruments is to raise finance for the Company's operations.

The main risks arising from the Company's financial instruments are interest rate risk and liquidity risk. The board reviews and agrees policies for managing each of these risks and they are summarised below. These policies have remained unchanged.

Interest rate risk

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

Liquidity risk

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

Notes to the financial statements

continued

2 Analysis of turnover and loss on ordinary activities before taxation

Turnover and loss on ordinary activities before taxation is wholly attributable to the principal activity of the Company.

Turnover by destination is analysed as follows:

	2007 £	2006 £
By geographical market:		
United Kingdom	93,270	88,288
Rest of Europe	129,522	16,281
United States of America	42,897	44,229
Rest of World	1,100	6,379
	266,789	155,177

Turnover by origin, net assets and profit before interest and tax all relate to the UK.

3 Loss on ordinary activities before taxation

	2007 £	Restated 2006 £
Loss on ordinary activities before taxation is stated after charging		
Depreciation of owned tangible fixed assets	74,083	33,411
Research and development expenditure	560,005	583,986
Amortisation of patents and licences	2,218	2,218
Rentals payable under operating leases – land and buildings	36,463	41,354
Exchange losses	412	700
after crediting		
Exchange gains	988	553
Government grants	176,530	27,155

	2007 £	2006 £
Audit of these financial accounts		
Amounts receivable by auditors and their associates in respect of:		
Audit of financial statements pursuant to legislation	18,725	14,750
Other services relating to taxation	7,875	14,875

Notes to the financial statements

continued

4 Remuneration of directors

Full disclosure of directors' emoluments, share options and directors' pension entitlements which form part of the package as well as remuneration, interests and transactions is given in the Report on directors' remuneration on pages 12 and 13.

5 Staff numbers and costs

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

	Number of employees	
	2007	**2006**
Directors	6	5
Other employees	11	10
	17	15

The aggregate payroll costs of these persons were as follows:

	2007	2006
	£	£
Wages and salaries	492,217	433,263
Social security costs	52,334	46,968
Other pension costs (see note 16)	12,568	11,341
	557,119	491,572

6 Interest receivable

	2007	2006
	£	£
Bank interest receivable	59,845	92,662

7 Taxation

Analysis of credit in year

	2007 £	2006 £
UK corporation tax		
Current tax on income for the year	–	–
Research and development tax repayment	(136,017)	(111,577)
Tax on loss on ordinary activities	(136,017)	(111,577)

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

Factors affecting the tax credit for the current period

The current tax credit for the year is lower (2006: lower) than the standard rate of corporation tax in the UK of 30%. The differences are explained below:

	2007 £	Restated 2006 £
Current tax reconciliation		
Loss on ordinary activities before tax	(782,439)	(982,176)
Current tax at standard rate of 30%	(234,732)	(294,653)
Effects of:		
Expenses not deductible for tax purposes	3,118	18,334
Depreciation for period (less than)/ in excess of capital allowances	(39,653)	10,461
Short-term timing differences	(1,649)	2,905
Tax losses incurred in the period	272,916	262,953
Research and development tax repayment	(136,017)	(111,577)
Total current tax credit (see above)	(136,017)	(111,577)

Factors that may affect future tax charges

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

Notes to the financial statements

continued

8 Intangible fixed assets

	Patents and licences £
Cost	
At beginning and end of year	16,637
Amortisation	
At beginning of year	12,533
Charge for year	2,218
At end of year	14,751
Net book value	
At 31 May 2007	1,886
At 31 May 2006	4,104

9 Tangible fixed assets

	Assets in the course of construction £	Leasehold improvements £	Plant and Machinery £	Fixtures and fittings £	Motor vehicles £	Total £
Cost						
At beginning of year	44,216	–	320,966	10,470	28,660	404,312
Additions	–	47,315	127,092	18,975	–	193,382
At end of year	44,216	47,315	448,058	29,445	28,660	597,694
Depreciation						
At beginning of year	–	–	215,386	9,452	9,318	234,156
Charge for year	44,216	1,454	18,198	3,050	7,165	74,083
At end of year	44,216	1,454	233,584	12,502	16,483	308,239
Net book value						
At 31 May 2007	–	45,861	214,474	16,943	12,177	289,455
At 31 May 2006	44,216	–	105,580	1,018	19,342	170,156

10 Stocks

	2007 £	2006 £
Raw materials and consumables	96,838	68,572
Work in progress	115,343	55,763
	212,181	124,335

11 Debtors

	2007 £	2006 £
Trade debtors	114,706	17,982
Other debtors	129,786	50,028
Prepayments	45,084	16,125
	289,576	84,135

All debtors fall due within one year.

12 Creditors: amounts falling due within one year

	2007 £	2006 £
Trade creditors	200,495	66,347
Taxation and social security	17,575	15,916
Accruals and deferred income	40,941	46,751
	259,011	129,014

13 Provisions for liabilities and charges

The elements of deferred taxation are as follows:

	2007 £	2006 £
Difference between accumulated depreciation and amortisation and capital allowances	585	(31,972)
Other short term timing differences	(1,296)	(2,946)
Tax losses	(812,292)	(713,152)
Unrecognised deferred tax asset	(813,003)	(748,070)

The Company has an unrecognised deferred tax asset at 31 May 2007 of £813,003 (2006: £748,070) relating principally to tax losses which the company can offset against future taxable profits from the same trade. An element of historical losses brought forward at 1 June 2006 has been surrendered for tax credit relief to allow the submission of a research and development tax claim. The claim has resulted in the surrender of some historical losses carried forward and a £136,017 reduction in the unrecognised deferred tax asset at 31 May 2006.

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

14 Called up share capital

	2007 £	2006 £
Authorised		
20,000,000 ordinary shares of £0.01 each	200,000	200,000
Allotted, called up and fully paid		
14,030,748 shares of £0.01 each	140,308	140,308

Enterprise Management Incentive Scheme

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

The options granted to directors, date of grant and exercise price and exercise periods under the scheme are set out in the report on directors' remuneration on pages 12 and 13. In addition to the directors' share options, certain employees have been granted the following options:

Date of grant	Number of share options granted	Number of share options expired	Exercise price	Exercise period
19/12/02	149,233	(106,789)	£0.70	19/12/05-19/12/12
08/12/03	34,091	(34,091)	£0.88	08/12/06-08/12/13
08/03/04	120,000	(60,000)	£0.665	08/03/07-08/03/14
04/04/05	35,000	–	£0.50	04/04/08-04/04/15
14/09/05	275,000	(40,000)	£0.40	14/09/08-14/09/15
18/04/07	215,000	–	£0.21	18/04/10-18/04/17

There are a total of 587,444 unexpired options held by employees and a total of 671,663 unexpired options held by directors.

15 Share premium and reserves

	Share premium account £	Capital reserve £	Profit and loss account £
At beginning of year	4,902,715	463,885	(3,509,803)
Retained loss for the year	–	–	(646,422)
Reversal of charge in relation to share based payments	–	–	62,375
At end of year	4,902,715	463,885	(4,093,850)

Notes to the financial statements

continued

16 Pension scheme

The Company contributes to specific employees personal pension schemes. The pension cost charge for the year represents contributions payable by the Company to the scheme and amounted to £12,568 (2006: £11,341).

There were outstanding contributions of £nil (2006:£1,818) at the end of the financial year.

17 Analysis of cash flows

	2007 £	2006 £
Returns on investments and servicing of finance		
Interest received	59,845	103,989
	59,845	103,989
Capital expenditure and financial investment		
Purchase of tangible fixed assets	(193,382)	(129,690)
Management of liquid resources		
Cash transferred from treasury deposit	894,500	987,500

18 Analysis of net funds

	At beginning of year £	Cash flow £	At end of year £
Cash at bank and in hand	98,889	30,082	128,971
Liquid resources	1,644,500	(894,500)	750,000
	1,743,389	(864,418)	878,971

19 Related party disclosures

The results of the Company include the following transactions with related parties:

Company/entity	Relationship	Purchase	2007 £	2006 £
April Training Executive Ltd	JJ Faria is a director and has a controlling interest	Administrative services	1,174	3,660
April Property Partnership	JJ Faria is a director and has a controlling interest	Rent	–	2,000

All purchases from related parties are conducted on an arms length basis under normal commercial trading terms.

At the year end £nil was owing to April Training Executive Limited (2006: £nil) and £nil to April Property Partnership (2006: £nil)

20 Loss on ordinary shares

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:

	2007 £	Restated 2006 £
Basic		
Loss after tax	(646,422)	(870,599)
Weighted average number of shares	14,030,748	14,030,748
Loss per share	(4.61p)	(6.20p)

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 and is therefore not dilutive under the terms of Financial Reporting Standard 22.

Comparative figures restated on the adoption of FRS20 “Share Based Payments”.

Notes to the financial statements

continued

21 Derivatives and other financial instruments

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

Price Risk

The Company aims to minimise it's 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.

Liquidity Risk

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

Interest Rate Risk

The Company has cash deposits of £750,000 (2006: £1,644,500) which are part of the financing arrangements of the Group. These cash deposits are placed on the money market at rates for 30 days. At the year end, the weighted average interest rate for the floating rate cash deposits was the Barclays base rate of 4.90% (2006: 4.44%).

The Company has no borrowings at 31 May 2007 (2006: £nil). The Company does not undertake hedging of interest rates.

Financial assets

The Company has £878,971 (2006: £1,743,389) held in cash and deposits as financial assets as well as short term debtors. These cash deposits are placed on the money market at breaks of 30 days.

Financial liabilities

The Company has no financial liabilities except for short term creditors.

Fair values of the Company's financial assets and liabilities

There is no material difference between the fair value and the book value of the Company's financial assets and liabilities.

22 Commitments

Annual commitments under non-cancellable operating leases are as follows:

	Land and buildings 2007 £	2006 £
Operating leases which expire:		
Within one year	–	8,500
In the second to fifth years inclusive	50,048	–
	50,048	8,500

23 Share based payments

The Company has implemented the requirements of FRS 20, Share based payments, for the first time this year.

This change in accounting policy has resulted in a pre-tax charge of £62,375 for the year ended 31 May 2007 (2006: £58,729).

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 2006	Granted	Exercised	Lapsed	At 31 May 2007	Exercise Price	Date from which Exercisable	Expiry Date
(a)	171,016	–	–	–	171,016	70p	19/12/2005	19/12/2012
(a)	34,091	–	–	–	34,091	88p	08/12/2006	08/12/2013
(a)	120,000	–	–	(40,000)	80,000	66.5p	08/03/2007	08/03/2014
(a)	85,000	–	–	–	85,000	50p	04/04/2008	04/04/2015
(a)	484,000	–	–	(40,000)	444,000	40p	14/09/2008	14/09/2015
(a)	–	334,125	–	–	334,125	21p	18/04/2010	18/04/2017
(b)	–	110,875	–	–	110,875	21p	18/04/2010	18/04/2017
	894,107	445,000	–	(80,000)	1,259,107			

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

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

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

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

23 Share based payments (continued)

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

	EMI Scheme		Unapproved Scheme	
	Number of awards	Weighted average exercise price £	Number of awards	Weighted average exercise price £
Outstanding at 1 June 2005	445,965	0.66	–	–
Granted	504,000	0.40	–	–
Forfeited	(55,858)	0.58	–	–
Outstanding at 31 May 2006	894,107	0.52	–	–
Exercisable at 31 May 2006	205,107	0.73	–	–
Granted	334,125	0.21	110,875	0.21
Forfeited	(80,000)	0.53	–	–
Outstanding at 31 May 2007	1,148,232	0.43	110,875	0.21
Exercisable at 31 May 2007	285,107	0.71	–	–
Range of exercise prices		0.21 to 0.88		0.21
Weighted average remaining contractual life	8 years 2 months		9 years 11 months	

Included within the EMI share options balance are options over 205,107 (2006: 205,107) shares that have not been recognised in accordance with FRS20 either they were granted on or before 7 November 2002 or that they had vested prior to the effective date on 1 June 2006. These options have not been subsequently modified and therefore do not need to be accounted for in accordance with FRS 20.

There were no share options exercised during the year (2006 nil).

A charge of £62,375 (2006: £58,729) has been made in the profit and loss account to spread the fair value of the options over the 3 year service obligations of those incentives.

23 Share based payments (continued)

Assumptions used in the valuation of share based options

In calculating the fair value of the share based payment arrangements the Company has used the Black Scholes method. The fair value of the share options granted in 2007 and 2006 and the assumptions used of their fair value on the date of grant were as follows:

Weighted Average Assumptions	2007	2006
Fair Value per share option	15.9p	20.97p
Share price on date of grant	20p	27.5p
Exercise Price	21p	40p
Share options granted in the year EMI	334,125	504,000
Share options granted in the year Unapproved	110,875	–
Expected Volatility	100%	100%
Exercise Pattern (years)	3-10 years uniformly	3-10 years uniformly
Expected dividend yields	0%	0%
Risk free rate of return	4.50%	4.50%

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 the Company operates in.

Company information and advisers

Websites	www.surface-transforms.com and www.systemsST.com
Registered Number	03769702
Directors	Kevin D'Silva *(Non-executive Chairman)* Dr Kevin Johnson *(Managing Director)* Julio Joseph Faria *(Technical Director)* Geoffrey Gould *(Sales and Marketing Director)* Professor David Thomas Clark *(Non-executive Director)* Kenneth Michael Baker *(Non-executive Director)*
Address	Unit 4, Olympic Park, Poole Hall Road Ellesmere Port, Cheshire CH66 1ST Tel: 0151 356 2141
Nominated adviser	John East & Partners Limited Crystal Gate, 28-30 Worship Street, London EC2A 2AH
Brokers	Teather & Greenwood Limited Beaufort House, 15 St Botolph Street, London EC3A 7QR Redmayne Bentley 1 Skipton Road, Ilkley LS29 9EH John East & Partners Limited Crystal Gate, 28-30 Worship Street, London EC2A 2AH
Auditors	KPMG Audit Plc St James' Square, Manchester M2 6DS
Solicitors to the Company	Halliwells LLP St James's Court, Brown Street, Manchester M2 2JF
Bankers	Barclays Bank plc 125 Main Street, Frodsham, Cheshire WA6 7AD
Registrars	Capita Registrars Northern House, Woodsome Park, Fenay Bridge, Huddersfield HD8 0LA Tel: 0870 162 3131 www.capitaregistrars.com

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the annual general meeting of the Company will be held at Halliwells LLP, St James's Court, Brown Street, Manchester M2 2JF at 11.30 a.m. on 27 September 2007. The business of the meeting will be:

ORDINARY BUSINESS

1 To receive, consider and adopt the audited accounts for the year ended 31 May 2007 and the reports of the directors and auditors thereon.

2 To re-elect Professor David Clark, who is retiring by rotation in accordance with article 113, as a director of the Company.

3 To re-elect Dr Geoffrey Gould, who is retiring by rotation in accordance with article 113, as a director of the Company.

4 To elect Kenneth Baker, who has been appointed as a director since the last annual general meeting, as a director of the Company.

5 To re-appoint KPMG Audit Plc as auditors of the Company and to authorise the directors to fix their remuneration.

6 To approve the Directors' Remuneration report.

SPECIAL BUSINESS

To consider and, if though fit, to pass the following resolutions which will be proposed as to resolution 7 as an ordinary resolution and as to resolution 8 as a special resolution:

7 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 80 of the Companies Act 1985 (the "Act") to exercise all or any of the powers of the Company to allot relevant securities (within the meaning of section 80(2) of the Act) up to a maximum nominal amount of £63,436 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) provided that this authority and power shall, unless previously renewed, varied or revoked by the Company in general meeting, expire at the conclusion of the next annual general meeting or 15 months after the passing of this resolution (if earlier) and provided further 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 to be allotted after the expiry of such period and the Directors of the Company may allot relevant securities in pursuance of such offer or agreement as if the authority conferred hereby had not expired.

Notice of Annual General Meeting

continued

8 THAT, subject to and conditional upon the passing of resolution 7 and in substitution for all existing and unexercised authorities and powers, the Directors of the Company be and are hereby empowered pursuant to section 95 of the Act to allot equity securities (as defined in section 94 of the Act) pursuant to the authority conferred upon them by resolution 6 as if section 89(1) 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) to the allotment (otherwise than pursuant to sub-paragraph (a) above) of equity securities up to an aggregate nominal amount of £19,031 representing approximately 10% of the anticipated issued share capital of the Company at the date of this annual general meeting,

and shall expire on the date of the next annual general meeting of the Company or (if earlier) 15 months from the date of the passing of this resolution 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 of the Company 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

G V Hall
Company Secretary

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

Dated: 31 July 2007

Notice of Annual General Meeting

continued

Notes:

1 A person entitled to attend and vote at this meeting is entitled to appoint one or more proxies to attend and, on a poll, vote in his/her stead. A proxy need not be a member of the Company. Appointment of proxies does not preclude members from attending and voting at the meeting should they wish to do so.

2 To be valid, the instrument appointing a proxy must be deposited at the office of the Company's registrars, Capita Registrars, Proxy Department, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU not less than 48 hours before the time of the meeting.

3 Copies of the Directors' contracts of service with the Company will be available for inspection during normal business hours on any week day at the registered office of the Company from the date of this notice until the annual general meeting and on the day of the annual general meeting at the place of the meeting from 15 minutes prior to its commencement until its conclusion.

4 As permitted by Regulation 41 of the Uncertificated Securities Regulations 2001, the Company specifies that only those shareholders of the Company on the register at close of business on 17 October 2006 shall be entitled to attend or vote at the meeting in respect of the number of shares registered in their name at the time. Changes to the register of members after 17 October 2006 shall be disregarded in determining the rights of any person to attend or vote at the meeting.

5 CREST members who wish to appoint a proxy or proxies by utilising the CREST electronic proxy appointment service may do so by utilising the procedures described in the CREST Manual. CREST Personal Members or other CREST sponsored members, and those CREST members who have appointed a voting service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.

6 In order for a proxy appointment made by means of CREST to be valid, the appropriate CREST message must be transmitted so as to be received by the Company's agent, Capita Registrars (whose CREST ID is RA10) by the specified latest time(s) for receipt of proxy appointments. 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.

7 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.

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