



Surface Transforms plc

Interim results and trading
update for the six months
ended 30 November 2006

8 February 2007



08 February 2007

Interim results for the six months ended 30 November 2006

Surface Transforms plc, manufacturers of carbon fibre reinforced ceramic (CFRC) materials, announces its interim results for the six months ended 30 November 2006.

Financial and business highlights:

- Koenigsegg Automotive are currently ordering ceramic brakes at the rate of two car sets per month; Surface Transforms is now an authorised supplier to Koenigsegg;
- Initial orders from StopTech Inc, a US brake system supplier;
- System ST brakes specified on the Ascari A10 supercar;
- Ken Baker OBE, joins as non executive director;
- Turnover £116,439 (2005: £68,302);
- Outstanding Order Book currently stands at £146,636;
- Losses after tax £292,098 (30 November 2005: £384,511 restated on adoption of FRS20 “Share Based Payment); and
- Cash at 30 November 2006 was £1,473,062 equivalent to approximately 10.5 pence per share

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For further Company details visit www.surface-transforms.com, click on Armshare

CHAIRMAN'S STATEMENT

In my previous statement to shareholders, dated 17 August 2006, I highlighted that the Company had to address two main challenges in the coming year and these were:

- To gain at least one other significant automotive brake contract to operate alongside the supply to Koenigsegg Automotive; and
- the completion of the ST Tech 2 production process so that it can deliver brake discs more efficiently and at a lower unit cost.

I am pleased to inform shareholders that significant financial and operational progress has been made by the Company over the six month period and details of the progress we have made towards addressing these two challenges are included below.

FINANCIAL REVIEW

In the six months to 30 November 2006, turnover was £116,439 (2005: £68,302). This represents a 70 per cent. increase on the same period in 2005 and principally reflects increased revenues from the supply of automotive brake discs. Revenues in the period also include development project fees from two aircraft brake system suppliers.

As at 30 November 2006, the outstanding order book (representing purchase orders received by the Company for delivery within the current financial year) amounted to £71,506. Since the year end the order book has grown significantly and in mid January 2007 was £146,636. These orders represent brake discs for aircraft and automotive clients, brake disc packs and preform carbon disc components for the aircraft brake sector.

Losses after tax for the six month period were significantly reduced to £292,098 (2005:- £384,511 Restated on adoption of FRS20 "Share Based Payment").

Shareholder's Funds at 30 November 2006 were £1,728,495 (30 November 2005: £2,441,964) which included cash deposits of £1,473,062 (30 November 2005: £2,102,064. 31 May 2006: £1,743,389). At 30 November 2006 cash represented approximately 10.5 pence per share.

PRODUCTION & NEW TECHNOLOGY PROCESSES

Satisfactory progress is being made on the development and installation of the proprietary carbon densification process, CVIST. Completion is scheduled for early in the third quarter of 2007 and we expect to benefit from the lower process times and manufacturing costs during the financial year beginning 1 June 2007.

Work is expected to start on improving the Company's silicon melt infiltration process once the Company has completed the relocation of both its offices and operations, which is expected to be in March 2007.

AUTOMOTIVE BRAKE SYSTEMS

There has been an increase in business activity in the past six months, which has resulted in the achievement of some important milestones and new orders. The success of the brake disc supply contract to Koenigsegg Automotive has brought increased interest in the SystemST product from a number of high performance car manufacturers in Europe as well as the USA.

Koenigsegg (www.koenigsegg.se)

Ceramic brake systems for 12 Koenigsegg CCX super cars have been delivered and the supply rate is now approximately two car sets per month. Customer feedback has been positive and has led Surface Transforms to become a 2007 Official Supplier to this Swedish car manufacturer.

StopTech Inc (www.stoptech.com)

StopTech is a California based leader in Balanced Brake Upgrades for production cars and production-based racecars. StopTech's product line comprises mainly OEM brake systems and Balanced Brake Upgrades for approximately 277 car applications. StopTech is the performance engineering and manufacturing division of Centric Parts. Centric is a California based company focused on brake solutions for the traditional automotive aftermarket. Surface Transforms and StopTech are working in partnership in the US automotive market to promote the adoption of carbon ceramic brakes on high performance cars. An annual supply contract has not yet been signed yet both companies forecast that in the aftermarket between 50 to 100 car sets will be required in the next twelve

months. Initial evaluations have been successful and are ongoing; StopTech has now placed the first production order and will soon be offering the SystemST ceramic brake disc on selected vehicle offerings.

Ascari Cars Ltd (www.ascari.co.uk)

Ascari is a supercar manufacturer based in Banbury, Oxfordshire. It has selected SystemST's ventilated ceramic brake discs for the new Ascari A10 which retails for £350,000. It has a five litre, 625 bhp, V8 engine with a maximum speed of 215 mph.

A number of other automotive OEMs are currently purchasing brake discs in small quantities and are evaluating performance with their cars. It is never easy to predict customer uptake on new technology but there is undoubted interest.

AIRCRAFT BRAKE SYSTEMS

Revenues from the aircraft brake systems market sector are principally from paid development contracts. The Company is engaged with three of the six global suppliers of aircraft brake systems and development work from these contracts has shown encouraging data on reduced wear and improved friction.

NEW PREMISES

During February 2007, the Company will be relocating to new premises at:
Unit 4 Olympic Park, Poole Hall Road, Ellesmere Port, Cheshire CH66 1ST.
(Tel: 0151 356 2141.)

The new premises are larger than the Company's current premises and the move allows the preform manufacturing, melt infiltration and CVIST production processes to be housed together, thus improving manufacturing efficiencies.

OUTLOOK

We welcome Ken Baker to the board. Mr. Baker's substantial and successful experience in the management and development of listed engineering companies will be important to the board as Surface Transforms executes its business plan under the leadership of its Chief Executive, Dr. Kevin Johnson.

The Company is investigating a number of interesting opportunities, especially in the automotive brake market and the board will report on these as they arise.

Kevin D'Silva
Chairman
8 February 2007

SURFACE TRANSFORMS PLC
PROFIT AND LOSS ACCOUNT
FOR THE SIX MONTHS ENDED 30 NOVEMBER 2006

		(Unaudited) Restated	(Unaudited) Restated	(Audited) Restated
	Note	Six months ended 30-Nov 2006 £	Six months ended 30-Nov 2005 £	Year ended 31-May 2006 £
Turnover		116,439	68,302	155,177
Cost of sales		<u>(58,233)</u>	<u>(33,120)</u>	<u>(101,706)</u>
Gross profit		58,206	35,182	53,471
Distribution costs		(490)	(463)	(1,613)
Administrative expenses:				
Before development costs		(281,141)	(307,303)	(533,006)
Development costs		<u>(290,862)</u>	<u>(280,683)</u>	<u>(603,104)</u>
Total administrative expenses		<u>(572,003)</u>	<u>(587,986)</u>	<u>(1,136,110)</u>
Other operating income		<u>52,869</u>	<u>5,621</u>	<u>27,155</u>
Operating loss		(461,418)	(547,646)	(1,057,097)
Interest receivable		33,303	51,558	92,662
Interest payable		<u>-</u>	<u>-</u>	<u>-</u>
Loss on ordinary activities before taxation		(428,115)	(496,088)	(964,435)
Taxation on loss on ordinary activities	2	<u>136,017</u>	<u>111,577</u>	<u>111,577</u>
Loss on ordinary activities after taxation and retained for the financial period/year		<u>(292,098)</u>	<u>(384,511)</u>	<u>(852,858)</u>
Loss per ordinary share				
Basic and diluted	3	<u>(2.08p)</u>	<u>(2.74p)</u>	<u>(6.08p)</u>

Comparative figures restated on the adoption of FRS20 "Share Based Payments"

SURFACE TRANSFORMS PLC
BALANCE SHEET
AS AT 30 NOVEMBER 2006

	(Unaudited)	(Unaudited) Restated	(Audited) Restated
	As at 30-Nov 2006 £	As at 30-Nov 2005 £	As at 31-May 2006 £
Fixed assets			
Intangible assets	2,995	5,213	4,104
Tangible assets	164,812	173,629	170,156
	<u>167,807</u>	<u>178,842</u>	<u>174,260</u>
Current assets			
Stocks	120,638	143,100	124,335
Debtors	104,390	129,275	84,135
Cash at bank and in hand	1,473,062	2,102,064	1,743,389
	<u>1,698,090</u>	<u>2,374,439</u>	<u>1,951,859</u>
Creditors:			
Amounts falling due within one year	(137,402)	(111,317)	(129,014)
	<u>1,560,688</u>	<u>2,263,122</u>	<u>1,822,845</u>
Net assets	<u>1,728,495</u>	<u>2,441,964</u>	<u>1,997,105</u>
Capital and reserves			
Called up share capital	140,308	140,308	140,308
Share premium account	4,902,715	4,902,715	4,902,715
Other reserves	463,885	463,885	463,885
Profit and loss account	(3,778,413)	(3,064,944)	(3,509,803)
	<u>1,728,495</u>	<u>2,441,964</u>	<u>1,997,105</u>
Shareholders' funds	<u>1,728,495</u>	<u>2,441,964</u>	<u>1,997,105</u>

Comparative figures restated on the adoption of FRS20 "Share Based Payments"

**STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
FOR THE SIX MONTHS ENDED 30 NOVEMBER 2006**

	(Unaudited) Six months ended	(Unaudited) Restated Six months ended	(Audited) Restated Year Ended
	30-Nov 2006 £	30-Nov 2005 £	31-May 2006 £
Loss for the financial period/year	(292,098)	(384,511)	(852,858)
Total recognised gains and losses relating to the financial period/year	<u>(292,098)</u>	<u>(384,511)</u>	<u>(852,858)</u>
Prior Year Adjustment (see note 1)	(62,584)		
Total recognised gains and losses recognised since the last annual report	<u>(354,682)</u>		

The Prior Year Adjustment relates to the adoption of FRS20 "Share Based Payments" (see note 1)

**Reconciliation of movements in shareholders' funds
for the six months ended 30 November 2006**

	(Unaudited) Six months ended	(Unaudited) Restated Six months ended	(Audited) Restated Year ended
	30-Nov 2006 £	30-Nov 2005 £	31-May 2006 £
Loss for the period/year	(292,098)	(384,511)	(852,858)
Charge in relation to Share Based Payments	23,488	17,500	40,988
Net reduction in shareholders' funds	<u>(268,610)</u>	<u>(367,011)</u>	<u>(811,870)</u>
Opening shareholders' funds	1,997,105	2,808,975	2,808,975
Closing shareholders' funds	<u>1,728,495</u>	<u>2,441,964</u>	<u>1,997,105</u>

SURFACE TRANSFORMS PLC
CASH FLOW STATEMENT
FOR THE SIX MONTHS ENDED 30 NOVEMBER 2006

		(Unaudited) Six months ended 30-Nov 2006 £	(Unaudited) Six months ended 30-Nov 2005 £	(Audited) Year ended 31-May 2006 £
	Note			
Cash outflow from operating activities	4	(431,100)	(681,688)	(1,070,539)
Returns on investments and servicing of finance				
Interest received and similar income		33,303	62,885	103,989
Total returns on investments and servicing of finance		33,303	62,885	103,989
Taxation received		136,017	111,577	111,577
Capital expenditure				
Purchase of tangible fixed assets		(8,547)	(118,762)	(129,690)
Total capital expenditure		(8,547)	(118,762)	(129,690)
Cash outflow before financing and management of liquid resources		(270,327)	(625,988)	(984,663)
Management of liquid resources				
Total management of liquid resources		344,500	614,839	987,500
Increase)/(decrease) in cash in the period/year	5	74,173	(11,149)	2,837

NOTES

1 Basis of preparation

The interim financial statements have been prepared on the basis of the accounting policies set out in the Company's last Annual Report and Accounts except as noted below.

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

FRS20 'Share-based payments'

The accounting policy under this new standard is set out below together with an indication of the effects of its adoption.

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:

	(Unaudited) Six months ended 30-Nov 2005 £	(Audited) Year ended 31-May 2006 £
Retained loss as previously reported	(367,011)	(811,870)
Prior year adjustment in respect of FRS20	(17,500)	(40,988)
Retained loss as restated	<u>(384,511)</u>	<u>(852,858)</u>

The comparative figures for the financial year ended 31 May 2006 are extracted from the company's statutory accounts for that financial year. Those accounts have been reported on by the company's auditors and delivered to the registrar of companies. The report of the auditors was unqualified and did not contain a statement under section 237 (2) or (3) of the Companies Act 1985.

The interim report for the six months ended 30 November 2006, was approved by the Board on 8 February 2007.

2 Taxation

Analysis of credit in the period/year

	(Unaudited) Six months ended 30 November 2006 £	(Unaudited) Six months ended 30 November 2005 £	(Audited) Year ended 31 May 2006 £
UK Corporation tax			
Current tax on income for the period	-	-	-
Research and development tax repayment	<u>136,017</u>	<u>111,577</u>	<u>111,577</u>

136,017

111,577

111,577

The effective rate of tax for the period/year is lower than the standard rate of corporation tax in the UK of 30% principally due to losses incurred by the Company.

SURFACE TRANSFORMS PLC
NOTES (continued)

3 Loss per share

	(Unaudited) Six months ended 30 November 2006 Pence	(Unaudited) Six months ended 30 November 2005 Pence	(Audited) Year ended 31 May 2006 Pence
Loss per ordinary share:			
Basic	(2.08)	(2.74)	(6.08)
Diluted	(2.08)	(2.74)	(6.08)

Loss per ordinary share is based on the Company's loss for the financial period of £292,098 (30 November 2005: £384,511; 31 May 2006: £852,858).

The weighted average number of shares used in the basic calculation is 14,030,748 (30 November 2005: 14,030,748; 31 May 2006: 14,030,748).

The calculation of diluted loss per ordinary share is identical to that used for the basic loss per ordinary share.

4 Reconciliation of operating loss to net cash outflow from operating activities

	(Unaudited)) Six months ended 30-Nov 2006 £	(Unaudited) Restated Six months ended 30-Nov 2005 £	(Audited) Restated Year ended 31-May 2006 £
Total operating loss	(461,418)	(547,646)	(1,057,097)
Depreciation and amortisation charges	15,001	20,119	35,629
Decrease/(increase) in stock	3,697	(75,578)	(56,813)
(Increase)/decrease in debtors	(20,255)	(59,611)	(14,471)
Increase)/(decrease) in creditors	8,388	(36,472)	(18,775)
Charge in relation to share based payments	23,487	17,500	40,988
Net cash outflow from operating activities	(431,100)	(681,688)	(1,070,539)

5 Reconciliation of net cash flow to movement in net funds

	(Unaudited) Six months ended 30-Nov 2006 £	(Unaudited) Six months ended 30-Nov 2005 £	(Audited) Year ended 31-May 2006 £
Increase/(decrease) in cash in the period/year	74,173	(11,149)	2,837

(Decrease)/increase in liquid resources	<u>(344,500)</u>	<u>(614,839)</u>	<u>(987,500)</u>
Movement in net funds in the period/year	(270,327)	(625,988)	(984,663)
Net funds at the start of the period/year	<u>1,743,389</u>	<u>2,728,052</u>	<u>2,728,052</u>
Net funds at the end of the period/year	<u><u>1,473,062</u></u>	<u><u>2,102,064</u></u>	<u><u>1,743,389</u></u>

SURFACE TRANSFORMS PLC
NOTES (continued)

6 Dividends

The directors are not proposing the payment of a dividend in respect of the six months ended 30 November 2006.

- 7** Copies of interim results will be sent to shareholders shortly and will also be available at the Company's registered office, Cheshire Innovation Park, Unit 306, Pool Lane, Ince, Cheshire CH2 4NU.