

Advanced Composites Limited

**Directors' report and financial
statements**

Registered number 01623042

31 March 2007



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Directors' report

The directors present their report and the audited financial statements for the year to 31 March 2007

Principal activities

The company provides administrative and technical support including research and development to the other group companies, for which it receives a management fee. Advanced Composites Limited is a wholly owned subsidiary of Umeco plc, and the detailed business review can be found on page 22 of Umeco plc's annual report.

Results and dividends

The loss for the financial year was £575,000 (2006 £401,000), the results for the year are shown in the profit and loss account on page 6.

The directors do not recommend the payment of a dividend (2006 £nil).

Research and development

The directors consider that the future of the company and fellow group companies lies in the technical superiority of its products and service and is committed to maintaining and enhancing this superiority by continuing programmes of research and development.

During the year £879,788 (2006 £815,487) was expended on research and development programmes by the company.

Patents, trademarks and other intellectual property

The company has made substantial investments throughout its history in developing its own intellectual property and where possible, protecting it by patents.

All the costs have been written off in the period in which the expenditure was incurred. The directors are of the opinion that the patents, trademarks and other intellectual property rights the company owns have a considerable value which is not reflected in the accounts, and is not readily quantifiable.

Directors

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

AB Moore
M Malitskie
JP Mabbitt
HA Potts
RJK Beaumont
AB Moss
CJ Snowden

The interests of CJ Snowden and RJK Beaumont in the shares of the ultimate holding company, Umeco plc, are disclosed in the directors' report of that company. No director had any disclosable interest in the shares of the company.

Directors' report *(continued)*

The directors who held office at the end of the financial year had the following interests in the ordinary shares of the parent company, as recorded in the register of directors' share and debenture interests

	Beneficial interest in shares	Conditional rights to shares	Performance related share options	SAYE Scheme options
AB Moore				
At start and end of year	19,500	-	-	3,588
AB Moss				
At start of year	18,200	15,435	102,388	2,524
Granted in year	-	18,518	-	-
Exercised in year	37,356	(3,488)	(33,868)	-
Lapsed in year	-	-	(26,215)	-
Sold in year	(29,551)	-	-	-
Acquired in year	2,368	-	-	-
At end of year	28,373	30,465	42,305	2,524
JP Mabbitt				
At start and end of year	-	-	-	3,588
M Malitskie				
At start and end of year	3,972	-	-	3,588

Directors' report (*continued*)

Employees

Employee participation and involvement in matters which affect their interests continues to be developed. The company gives equal consideration to applications for employment from disabled people, having regard to their particular aptitudes and abilities.

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 385 of the Companies Act 1985, a resolution for the re-appointment of KPMG Audit Plc as auditors of the company is to be proposed at the forthcoming Annual General Meeting.

By order of the board



SJ Bowers
Company Secretary

Concorde House
24 Warwick New Road
Leamington Spa
Warwickshire
CV32 5JG

5 June 2007

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.



KPMG Audit Plc
2 Cornwall Street
Birmingham
B3 2DL

Independent auditors' report to the members of Advanced Composites Limited

We have audited the financial statements of Advanced Composites Limited for the year ended 31 March 2007 which comprise the Profit and Loss Account, Balance Sheet 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 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 4.

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.

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 Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

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.

Independent auditors' report to the members of Advanced Composites Limited
(continued)

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 March 2007 and of its loss for the year then ended,
- 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

KPMG Audit Plc
Chartered Accountants
Registered Auditor

5 June 2007

Profit and loss account
for the year to 31 March 2007

	<i>Note</i>	2007 £000	2006 £000
Administrative expenses		(4,547)	(4,155)
Other operating income	2	3,750	3,585
		<hr/>	<hr/>
Loss on ordinary activities before taxation	3	(797)	(570)
Tax credit on loss on ordinary activities	6	222	169
		<hr/>	<hr/>
Loss for the financial year	13	(575)	(401)
		<hr/> <hr/>	<hr/> <hr/>

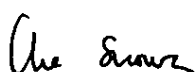
In both the current year and preceding period all results are derived from continuing operations

There were no recognised gains or losses in either the current year or preceding period other than those disclosed in the profit and loss account

Balance sheet
as at 31 March 2007

	<i>Note</i>	£000	2007 £000	£000	2006 £000
Fixed assets					
Tangible assets	7		3,341		398
Current assets					
Stocks	8	3,455		2,739	
Debtors	9	1,035		516	
		<u>4,490</u>		<u>3,255</u>	
Creditors amounts falling due within one year	10	<u>(8,784)</u>		<u>(4,074)</u>	
Net current liabilities			<u>(4,294)</u>		<u>(819)</u>
Total assets less current liabilities			<u>(953)</u>		<u>(421)</u>
Provisions for liabilities and charges	11		<u>(64)</u>		<u>(21)</u>
Net liabilities			<u><u>(1,017)</u></u>		<u><u>(442)</u></u>
Capital and reserves					
Called up share capital	12		-		-
Profit and loss account	13		<u>(1,017)</u>		<u>(442)</u>
Equity shareholders' deficit	14		<u><u>(1,017)</u></u>		<u><u>(442)</u></u>

These financial statements were approved by the board of directors on 5 June 2007 and were signed on its behalf by



CJ Snowdon
Director

Notes

(forming part of the financial statements)

1 Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the company's financial statements

Basis of preparation

The financial statements have been prepared under the historical cost convention and in accordance with applicable accounting standards. As permitted under s228 of the Companies Act 1985 the company has not prepared group accounts. Accordingly, these accounts present information for the company only.

Going Concern

The company has net liabilities of £1,017,000. Umeco plc, the company's immediate parent undertaking, has indicated that it will provide or procure such funds as are necessary to enable the company to settle all external liabilities as they fall due.

Cash flow statement

Under FRS 1 (revised) the company is exempt from the requirement to prepare a cash flow statement on the grounds that a parent undertaking includes the company in its own consolidated financial statements.

Related party transactions

As the company is a wholly owned subsidiary of Umeco plc, it has taken advantage of the exemption contained in FRS 8 and has therefore not disclosed transactions or balances with entities which form part of the group.

Other operating income

Other operating income represents the recharge of costs to other companies in the Advanced Composites Group Holdings Limited group.

Fixed assets and depreciation

Fixed assets, other than freehold land, are depreciated over their estimated anticipated useful lives at the following annual rates:

Improvements to leasehold property	Over the period of the lease
Portable buildings	10%
Plant and machinery	6.6% to 15%
Fixtures and fittings and office equipment	10% to 20%
Motor vehicles	25%
Computer equipment	20% to 33%

Freehold land is not depreciated.

Stocks and work in progress

Stocks and work in progress are valued at the lower of cost and net realisable value. Cost includes attributable overheads where appropriate. Net realisable value is based on estimated selling price, less further costs expected to be incurred to completion and disposal.

Provision is made for obsolete, slow-moving or defective items as appropriate.

Included within work in progress are certain grant funded projects. To the extent that costs on these projects are recoverable from the grant providers, the costs are included within work in progress. Where progress payments exceed the cost of the related work included in work in progress, the balance is recorded in creditors as payments on account.

Notes

(forming part of the financial statements)

1 Accounting policies (continued)

Deferred taxation

Deferred tax is 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 FRS 19

Research and development

Expenditure on research and development is written off against profits as incurred, except to the extent that it is recoverable from grant funding. Where the research and development is grant funded, the grant and the related expenditure is accounted for as described above.

Leases and hire purchase contracts

Rentals paid under operating leases are charged to profit and loss account on a straight line basis.

Pension scheme

The company is a member of the Umeco plc defined benefit pension scheme. The assets of the scheme are held separately from those of the company in an independently administered fund. Since the company is unable to identify its share of the scheme assets and liabilities on a consistent and reasonable basis, the scheme is accounted for by the company as if it were a defined contribution scheme. An actuarial valuation of the Umeco plc pension scheme was carried out at 1 April 2005. Further details of this valuation, together with the updated valuation on an FRS 17 basis, are disclosed in the financial statements of Umeco plc.

The group also operates a defined contribution scheme. Pension cost charges in the financial statements represent contributions payable in the accounting period.

Notes (continued)

2 Other operating income

	2007	2006
	£000	£000
Costs recharged to group companies	3,750	3,585

3 Loss on ordinary activities before taxation

Loss on ordinary activities before taxation is stated after charging

	2007	2006
	£000	£000
Depreciation	208	181
Auditors' remuneration		
- Fees payable to the company's auditors for the audit of the annual accounts	8	8
- other work	3	3
Operating leases rentals		
- plant and machinery	24	27
- other	36	36
Research and development	880	815

Notes *(continued)*

4 Remuneration of directors

	2007	2006
	£000	£000
Directors' emoluments	Nil	Nil
	<hr/>	<hr/>
	2007	2006
	Number	Number
<i>Retirement benefits are accruing to the following number of directors under</i>		
Defined benefit schemes	Nil	Nil
	<hr/>	<hr/>

5 Staff numbers and costs

The average number of persons, including directors, employed by the company during the year was as follows

	2007	2006
	Number	Number
Technical, administration and sales	52	53
	<hr/>	<hr/>
	£000	£000
<i>The aggregate payroll costs of these persons were</i>		
Wages and salaries	1,799	1,849
Social security costs	168	176
Pension costs	251	267
	<hr/>	<hr/>
	2,218	2,292
	<hr/>	<hr/>

Notes (continued)

6 Tax on loss on ordinary activities

	2007 £000	2006 £000
UK taxation charge at 30% (2006 30%) - current year	(265)	(136)
Total current tax credit	(265)	(136)
Deferred taxation - current year	43	(33)
Total tax credit	(222)	(169)

Factors affecting the tax credit for the current period

	2007 £000	2006 £000
<i>Current tax reconciliation</i>		
Loss on ordinary activities before tax	(797)	(570)
Current tax credit at 30% (2006 30%)	(239)	(171)
<i>Effects of</i>		
Expenses not deductible for tax purposes	17	1
Income and expenditure timing differences	(8)	8
Capital allowances for the year in excess of depreciation	(35)	26
Total current tax credit	(265)	(136)

Notes (continued)

7 Tangible fixed assets

	Freehold land £000	Leasehold building improvements £000	Motor vehicles, plant and machinery £000	Fixtures, fittings, office and computer equipment £000	Total £000
<i>Cost</i>					
At beginning of year	6	210	476	901	1,593
Group transfers	1,339	(207)	82	28	1,242
Additions	1,380	-	297	232	1,909
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At end of year	2,725	3	855	1,161	4,744
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
<i>Accumulated depreciation</i>					
At beginning of year	-	75	338	782	1,195
Group transfers	73	(73)	-	-	-
Charge for year	39	1	65	103	208
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At end of year	112	3	403	885	1,403
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
<i>Net book value</i>					
At 31 March 2007	2,613	-	452	276	3,341
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 31 March 2006	6	135	138	119	398
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>

The cost of freehold land and buildings includes an amount of £6,000 (2006 £6,000) which relates to non-depreciable land

8 Stocks

	2007 £000	2006 £000
Raw materials	3,455	2,739
	<hr/>	<hr/>

9 Debtors

	2007 £000	2006 £000
<i>Amounts due within one year</i>		
Amounts owed by group undertakings	191	185
Prepayments	170	111
Tax recoverable	349	220
	<hr/>	<hr/>
	710	-
<i>Amounts due after one year</i>		
Amounts owed by group undertakings	298	-
Pension	27	-
	<hr/>	<hr/>
	1,035	516
	<hr/>	<hr/>

Notes (continued)

10 Creditors: amounts falling due within one year

	2007 £000	2006 £000
Amounts owed to group undertakings	7,853	3,060
Payments on account	370	396
Other creditors including tax and social security	245	227
Accruals	316	391
	<u>8,784</u>	<u>4,074</u>

11 Provisions for liabilities and charges

Deferred taxation

	2007 £000	2006 £000
At beginning of year	21	54
Charge for the year	43	(33)
	<u>64</u>	<u>21</u>
At end of period	<u>64</u>	<u>21</u>

The deferred tax provision, being the full potential liability, comprises

	2007 £000	2006 £000
Accelerated capital allowances	65	21
Other short term timing differences	(1)	-
	<u>64</u>	<u>21</u>

12 Called up share capital

	2007 £	2006 £
<i>Authorised</i>		
Ordinary shares of £1 each	<u>100</u>	<u>100</u>
<i>Allotted, called up and fully paid</i>		
Ordinary shares of £1 each	<u>2</u>	<u>2</u>

Notes (continued)

13 Profit and loss account

	£000
At beginning of year	(442)
Retained loss for the year	(575)
At end of period	(1,017)

14 Reconciliation of movements in equity shareholders' deficit

	2007 £000	2006 £000
Loss for the period	(575)	(401)
Opening equity shareholders' deficit	(442)	(41)
Closing equity shareholders' deficit	(1,017)	(442)

15 Contingent liabilities

There is a cross guarantee between all group companies in relation to the bank borrowings of each company. At 31 March 2007, the outstanding liability under this guarantee was £58,184,722 (2006 £35,374,438). The company had other contingent liabilities of £10,000 (2006 £nil).

16 Leasing commitments

The minimum annual lease payments to which the company was committed, all of which are non-cancellable operating leases, are analysed to expire as follows:

	2007		2006	
	Land and buildings £000	Other £000	Land and Buildings £000	Other £000
Within one year	-	9	-	16
Between two and five years	-	7	-	11
Over five years	36	-	36	-
	<u>36</u>	<u>16</u>	<u>36</u>	<u>27</u>

Notes (continued)

17 Pension scheme

The company contributes to the Advanced Composites Group Pension Scheme ('the Plan'), which provides defined benefits. The Plan is for the benefit of all relevant employees of Advanced Composites Group Limited and Advanced Composites Limited. Details of the latest actuarial valuation of the Plan are given in the Umeco plc consolidated financial statements. Note 18 gives details of how to obtain a copy of the financial statements of Umeco plc.

As the Plan is run for the Advanced Composites Group of companies as a whole, the company is unable to identify its share of the scheme assets and liabilities on a consistent and reasonable basis. Hence, as permitted by FRS17 Retirement benefits, the scheme is accounted for by the company as if the scheme was a defined contribution scheme.

At 31 March 2007 the defined benefit scheme had deficits on an FRS17 basis of £758,000 (2006 £1,323,000).

The contributions relating to the defined benefit scheme made by the company represent the cost of providing the benefits without any recognition of fund surpluses or deficits which are dealt with by Umeco plc. The pension cost for the year was £251,290 (2006 £267,000). Contributions outstanding at 31 March 2007 were £nil (2006 £20,584).

The company also participates in a defined contribution scheme. The pension cost charge for the period represents contributions payable by the company to the scheme. The pension charge relating to the defined contribution scheme was £nil (2006 £51,000). Contributions outstanding to the scheme at 31 March 2007 were £nil (2006 £4,941).

18 Ultimate parent undertaking

The ultimate parent undertaking into which the results of this company are consolidated is Umeco plc, which is incorporated in England and Wales.

Copies of the financial statements of the ultimate parent undertaking can be obtained from the address on page 3.

19 Post balance sheet events

It has been announced that the corporation tax rate applicable to the company is expected to change from 30% to 28% from 1 April 2008. The deferred tax asset has been calculated at 30% in accordance with FRS19. Any timing differences which reverse before 1 April 2008 will be charged at 30%, any timing differences which exist at 1 April 2008 will reverse at 28% and, because of the uncertainty of when the deferred tax asset will reverse it is not possible to calculate the full financial impact of this change.