

Report and Accounts

for the year ended 30th April 2008

Company Number: 2765553



COMPOSITE METAL TECHNOLOGY LTD

Prisma Business Park
3 Berrington Way
Wade Road
Basingstoke
Hampshire
RG24 8PL
United Kingdom

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Composite Metal Technology Ltd

Directors' Report and Financial Statements

for the year ended 30th April 2008

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Composite Metal Technology Ltd

Company Information

directors, officers and advisers

Directors:	M D A Bentata MA FRSA N P Collins BSc MSc R S Bushby BSc PhD CEng MIMMM C S Barton FCA D Price BSc MSc CEng CDir FIMechE	Chairman Chief Executive Technical Director Finance Director Commercial Director
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Company Secretary: N P Collins BSc MSc

Registered Number: 2765553 (England and Wales)

**Registered Office
& Trading Address:** Prisma Business Park
3 Berrington Way
Wade Road
Basingstoke
Hampshire
RG24 8PL

Website Address: www.cmt-ltd.com

E-Mail: sales@cmt-ltd.com

Telephone: (01256) 477741

Fax: (01256) 477751

Auditors: HLB Vantis Audit Plc
55 Station Road
Beaconsfield
Buckinghamshire
HP9 1QL

Bankers: Lloyds TSB Bank Plc
130/132 Broadway
Bexleyheath
Kent
DA6 7DP

Solicitors: DMH Stallard
40 High Street
Crawley
RH10 1BW

Composite Metal Technology Ltd

Directors' Report

for the year ended 30th April 2008

The directors present their report and financial statements for the year ended 30th April 2008.

Principal Activities

The principal activity of the Company is the commercial exploitation of the Advanced Liquid Pressure Forming process technology and its application to the manufacture of Aluminium Matrix Composites (AMCs).

Business Review and Future Developments

The Company made a loss on ordinary activities after taxation of £386,055 (2007: £354,999) for the year under review. Despite the lower operating costs this was higher than in the previous year due to the much lower R&D tax credits of £50,717 (2007: £111,569) as a result of last year's successful backdated claim for 2001-02. As previously reported shortly after the start of the year the Company relocated to brand-new industrial premises on the Prisma Business Park in Basingstoke. In consequence a large proportion of the year was spent setting up the new factory, and recommissioning the casting machinery and ancillary equipment following the move. Not surprisingly, this has taken a considerable amount of time, money and effort, and was a major contributory factor to the nominal income generated in the year.

The Company has continued to progress its market exploitation strategy and has advanced its contractual discussions with the industry leaders of the target market sectors. Having successfully convinced these original equipment manufacturers (OEMs) and tier one suppliers of the technical advantages of using continuous fibre-reinforced AMCs in place of conventional engineering materials, the Company has managed to enlist the assistance of its US alumina fibre supplier to help meet their pricing requirements for high volume applications. This represents a major breakthrough as the reinforcing alumina fibres account for the majority of the AMC component cost, which is generally accepted as the one remaining barrier to the full-scale commercialisation of these advanced materials, and the primary reason for the considerable time it has taken for their world wide adoption despite their substantial weight and performance benefits. By working closely with its fibre supplier to satisfy the customers' budgetary constraints, the Company should be successful in winning sales contracts from these companies for the manufacture of AMC prototype parts and production components. The Company has already received several requests for quotations for AMC test samples, which is another important milestone that has been achieved during the period under review.

The raising of additional equity finance to fund the commercialisation of the Company's proprietary technology remained a priority. During the year the Group raised £315,000 from the placing of shares, which together with the R&D tax credit repayments of £50,676 received from H M Revenue & Customs has enabled the Group to meet its short-term working capital requirements. Additionally, the Company reached a satisfactory settlement with its former landlord for the sum of £37,406 as compensation for the losses incurred by CMT prior to its move from Farnborough as a result of utility outages, which was used to offset the outstanding rent arrears of £40,840. To help conserve the Company's cash resources a substantial amount of the directors' remuneration and other emoluments has again been deferred for prudence sake. It is the Group's intention to raise additional finance, and to this end the directors are in discussions with a number of European trade partners, who are interested in possibly acquiring a minority shareholding in the parent company.

In spite of the inevitable disruption caused by the relocation of CMT's operational headquarters, the Company has made significant inroads in advancing its commercialisation activities and patent rights, and we confidently expect further progress in 2008-09.

Composite Metal Technology Ltd

Directors' Report (continued)

for the year ended 30th April 2008

Results and Dividends

The results for the financial period are given in the profit and loss account on page 8. The directors do not recommend the payment of a dividend for the year ended 30th April 2008.

Directors

The directors who served during the year were as follows:

M D A Bentata
N P Collins
R S Bushby
C S Barton
D Price

Financial Risk

The Company's operations expose it to a variety of financial risks including the effects of changes in liquidity risk, interest rates on debt, and credit risk.

The Company does not have material exposures in any of the areas identified above, and consequently does not use derivative instruments to manage these exposures.

The Company's principal financial instruments comprise bank loans and overdrafts, other loans and convertible debt together with trade debtors and trade creditors that arise directly from its operations.

Statement of Directors' Responsibilities

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and of the profit and loss for that period. In preparing those 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 accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

After making enquiries, the directors have a reasonable expectation that the Company has adequate resources to continue its operational existence for the foreseeable future. For this reason, the directors continue to adopt the going concern basis in preparing the financial statements.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the 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.

Composite Metal Technology Ltd

Directors' Report (continued)

for the year ended 30th April 2008

Statement of Disclosure to Auditors

In so far as the directors are aware:

- there is no relevant audit information of which the Company's auditor is unaware; and
- the directors have taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditor is aware of that information.

Auditors

On 1st March 2008 the audit practice of Brewer Clark Associates Limited merged with HLB Vantis Audit Plc. In accordance with Section 385 of the Companies Act 1985, a resolution for the reappointment of HLB Vantis Audit Plc as auditors of the Company, is to be proposed at the forthcoming Annual General Meeting.

By order of the board

Neil Collins
Secretary

27th August 2008



Composite Metal Technology Ltd

Independent Auditors' Report

to the Shareholders of Composite Metal Technology Ltd

We have audited the financial statements of Composite Metal Technology Limited for the year ended 30th April 2008 on pages 8 to 16. These financial statements have been prepared under the historical cost convention and the accounting policies set out on page 10 and 11.

This report is made solely to the company's shareholders, 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 shareholders those matters we are required to state to them in an auditors' 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 shareholders as a body, for our audit work, for this report, or for the opinions we have formed.

Respective Responsibilities of Directors and Auditors

As described in the Statement of Directors' Responsibilities the Company's directors are responsible for the preparation of the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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 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 the information specified by law regarding directors' remuneration and transactions with the company are not disclosed.

We read the Directors' Report and consider the implications for our audit 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 judgements 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.

Composite Metal Technology Ltd

Independent Auditors' Report

to the Shareholders of Composite Metal Technology Ltd

Opinion

In our opinion:

- The financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Company's affairs as at 30th April 2008 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.

Emphasis of Matter - Going Concern

In forming our opinion on the financial statements, which is not qualified, we have considered the adequacy of the disclosures made in note 1 to these financial statements concerning the Company's ability to continue as a going concern. The Company incurred a net loss of £386,055 during the year ended 30th April 2008, and at that date the Company's current liabilities exceeded its total assets by £755,459. These conditions, along with the other matters explained in note 1 to the financial statements, indicate the existence of a material uncertainty which may cast significant doubt about the Company's ability to continue as a going concern. The financial statements do not include adjustments that would result if the Company was unable to continue as a going concern.



HLB Vantis Audit Plc

Chartered Accountants and Registered Auditors
55 Station Road, Beaconsfield, Buckinghamshire.

HLB Vantis Audit Plc

9th September 2008

Composite Metal Technology Ltd

Profit and Loss Account

for the year ended 30th April 2008

	Notes	2008 £	2007 £
Turnover	2	-	900
Cost of sales		-	-
		<hr/>	<hr/>
Gross profit		-	900
Administrative expenses		(442,844)	(468,445)
Other income		5,968	-
		<hr/>	<hr/>
Trading loss		(436,876)	(467,545)
Interest receivable		451	977
Interest payable	6	(347)	-
		<hr/>	<hr/>
Loss on ordinary activities before taxation	3-5	(436,772)	(466,568)
Tax on loss on ordinary activities	7	50,717	111,569
		<hr/>	<hr/>
Loss for the period		(386,055)	(354,999)
Retained loss brought forward		(3,608,077)	(3,253,078)
		<hr/>	<hr/>
Retained loss carried forward		(3,994,132)	(3,608,077)
		<hr/>	<hr/>

The Company has no other recognised gains or losses in the current year or preceding period. The notes to the accounts on pages 10 to 17 form part of these financial statements.

Composite Metal Technology Ltd

Balance Sheet

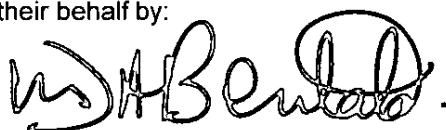
as at 30th April 2008

	Notes	2008 £	2007 £
Fixed assets			
Tangible assets	8	247,797	329,303
		<u>247,797</u>	<u>329,303</u>
Current assets			
Stocks	9	1,175	2,244
Debtors	10	90,102	105,297
Cash at bank and in hand		-	36,368
		<u>91,277</u>	<u>143,909</u>
Creditors: amounts falling due within one year	11	(1,094,533)	(842,616)
Net current assets/(liabilities)		<u>(1,003,256)</u>	<u>(698,707)</u>
Net assets		<u>(755,459)</u>	<u>(369,404)</u>
Capital and reserves			
Called up share capital	13	4,316	4,316
Share premium account	14	3,234,357	3,234,357
Profit and loss account		(3,994,132)	(3,608,077)
Shareholders' funds	15	<u>(755,459)</u>	<u>(369,404)</u>

The notes to the accounts on pages 10 to 17 form part of these financial statements.

These financial statements were approved by the Board of Directors on 27th August 2008, and were signed on their behalf by:

M D A Bentata
Chairman



Composite Metal Technology Ltd

Notes to the Accounts

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.

1.1 Basis of preparation

The financial statements have been prepared under the historical cost convention, in accordance with applicable accounting standards.

The financial statements have been prepared on a going concern basis. The Company is dependent upon the continued support of its parent undertaking and creditors, and forecasts prepared by its directors indicate that additional funds will be required to enable the support to continue. The directors of the parent undertaking are of the opinion that sufficient funds will be obtained as a result of current negotiations for investment from financial institutions and trade partners, and from the issue of additional share capital to private investors to enable the company to continue its support. Therefore, the directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. For this reason, the directors continue to adopt the going concern basis in preparing the financial statements.

1.2 Cash Flow Statement

The Company has taken advantage of the exemption available under FRS1 from the requirement to prepare a cash flow statement on the basis that one is included in the consolidated financial statements prepared by its parent, Composite Metal Technologies Plc.

1.3 Fixed assets and depreciation

Depreciation is provided by the Company to write off the cost of tangible fixed assets over their estimated useful economic lives. The charge for depreciation is allocated in the year of addition and disposal to reflect the period of time for which the asset is held.

Plant and machinery	10% straight line
Fixtures, fittings and office equipment	20% straight line
Motor vehicles	20% straight line

The carrying values of tangible fixed assets are reviewed for impairment in periods when events or changes in circumstances indicate the carrying value may not be recoverable.

1.4 Research and development

Research and development expenditure is written off as incurred, except that development expenditure incurred on an individual project is capitalised when its future recoverability can be foreseen with reasonable assurance. Any expenditure carried forward is amortised during the years following completion of the development in line with the sales from the related projects. The period of write off is a maximum of 5 years.

1.5 Hire purchase

Assets obtained under hire purchase contracts are capitalised in the balance sheet as fixed assets. The interest element of obligations under the contracts is charged to the profit and loss account over the period of the contracts and represents a constant proportion of the balance of capital repayments outstanding.

Composite Metal Technology Ltd

Notes to the Accounts (continued)

forming part of the financial statements

1.6 Contribution to pension funds

The Company contributes to external defined contribution pension schemes. The amount charged to the profit and loss account in respect of pension costs is the contributions payable in the year. Differences between contributions payable in the year and contributions actually paid are shown as either accruals or prepayments in the balance sheet.

1.7 Operating leases

Rentals applicable to operating leases are charged to the profit and loss account on a straight line basis over the term of the lease.

1.8 Stocks

Stocks are valued at the lower of cost and net realisable value.

1.9 Deferred taxation

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or a right to pay less or to receive more tax, with the following exceptions:

- Provision is made for tax on gains arising from the revaluation (and similar fair value adjustments) of fixed assets, and gains on disposal of fixed assets that have been rolled over into replacement assets, only to the extent that, at the balance sheet date, there is a binding agreement to dispose of the assets concerned. However, no provision is made where, on the basis of all available evidence at the balance sheet date, it is more likely than not that the taxable gain will be rolled over into replacement assets and charged to tax only where the replacement assets are sold.
- Deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

1.10 Foreign currency

Assets and liabilities in foreign currencies are translated into sterling at rates of exchange ruling at the balance sheet date. Transactions in foreign currencies are translated into sterling at the rate of exchange ruling at the date of the transaction. Exchange differences are taken into account in arriving at the operating profit.

1.11 Grants and contributions

Grants and contributions received in respect of expenditure charged to the profit and loss account during the year are included in the profit and loss account.

Composite Metal Technology Ltd

Notes to the Accounts (continued)

forming part of the financial statements

1.12 Financial Instruments

Financial instruments are classified and accounted for, according to the substance of the contractual arrangement, as either financial assets, financial liabilities or equity instruments. An equity instrument is any contract that evidences a residual interest in the assets of the company after deducting all of its liabilities.

1.13 Group accounts

The largest and smallest group for which consolidated financial statements are prepared is that headed by Composite Metal Technologies Plc, the Company's immediate and ultimate parent undertaking, a company registered in England and Wales.

2. Turnover

Turnover represents the amounts (excluding value added tax) derived from the cost of work completed in the year together with the profits attributable to contracts during the year. All turnover arose from the EC.

3. Loss on ordinary activities before taxation is stated after charging:

	2008 £	2007 £
Auditors' remuneration: for audit services	5,000	8,700
for non audit work	3,880	5,329
Depreciation of tangible fixed assets	88,059	91,089
Operating lease rentals-premises	31,880	68,732
Other research and development direct costs	34,456	38,981
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4. Staff numbers and costs

The average number of persons employed by the Company (including directors) during the period was 5 (2007: 5). The aggregate payroll costs for employees, including directors, were as follows:

	2008 £	2007 £
Wages and salaries	165,975	174,842
Social security costs	17,793	19,295
Other pension costs	7,439	7,830
	<hr/>	<hr/>
	191,207	201,967
	<hr/>	<hr/>

Composite Metal Technology Ltd

Notes to the Accounts (continued)

forming part of the financial statements

5. Remuneration of directors

	2008 £	2007 £
Directors' emoluments	165,975	161,042
Directors' pension contributions	7,439	7,290
Directors' private medical and permanent health insurance	-	1,715
	<hr/>	<hr/>
	173,414	170,047
	<hr/>	<hr/>

The number of directors to whom retirement benefits were accruing under money purchase schemes were 2 (2007:2).

At the balance sheet date £162,542 (2007: £114,229) in respect of the Directors' emoluments and £4,320 (2007: 5,467) in respect of pension contributions was outstanding.

6. Interest payable and similar charges

	2008 £	2007 £
Bank interest payable	347	-
	<hr/>	<hr/>

7. Tax on loss on ordinary activities

	2008 £	2007 £
Current Tax		
UK corporation tax	-	-
R & D repayable tax credits		
- Current year	50,717	51,120
- Prior years	-	60,449
	<hr/>	<hr/>
Tax credit on ordinary activities	50,717	111,569
	<hr/>	<hr/>

Tax losses, after allowing for the R & D expenditure enhancement, totalling £319,760 (2007: £697,306) have been surrendered in respect of these claims.

Composite Metal Technology Ltd

Notes to the Accounts (continued)

forming part of the financial statements

7. Tax on loss on ordinary activities (continued)

	2008 £	2007 £
Trading losses available for future relief	2,789,157	2,660,183
Reconciliation of the current tax (credit)/charge		
Loss on ordinary activities before tax	(436,772)	(466,568)
Loss on ordinary activities before taxation at the UK standard rate of 30% (2007: 30%)	(131,032)	(139,970)
Effects of:		
Expenses not deductible for tax purposes	10,319	21,008
Depreciation in excess of capital allowances	18,069	15,270
R & D expenditure enhancement	(31,976)	(31,950)
Tax losses surrendered in respect of R & D repayable tax credit claim	95,927	98,850
Tax losses carried forward	38,693	39,792
Total current UK tax (credit) charge	-	-

No provision has been made to reflect the deferred tax asset, which relates to these losses due to the uncertainty of the company being able to recover these losses against future profits. Had provision been made, the values included would be as follows:

	2008 £	2007 £
Deferred tax asset calculated at 20% (2007: 19%) relating to:		
Losses available for relief against future profits	558,000	505,000
Less: Accelerated capital allowances	(33,000)	(42,640)
Add: Short term timing differences	18,000	-
Deferred tax asset not provided	543,000	462,360

Composite Metal Technology Ltd

Notes to the Accounts (continued)

forming part of the financial statements

8. Tangible fixed assets

	Plant and machinery £	Fixture, fittings and equipment £	Motor vehicles £	Total £
Cost				
Brought forward	844,810	49,576	-	894,386
Additions	2,803	-	3,750	6,553
Disposals	-	-	-	-
Carried forward	<u>847,613</u>	<u>49,576</u>	<u>3,750</u>	<u>900,939</u>
Depreciation				
Brought forward	519,202	45,881	-	565,083
Charge for period	84,621	2,875	563	88,059
Disposals	-	-	-	-
Carried forward	<u>603,823</u>	<u>48,756</u>	<u>563</u>	<u>653,142</u>
Net book value 2008	<u>243,790</u>	<u>820</u>	<u>3,187</u>	<u>247,797</u>
Net book value 2007	<u>325,608</u>	<u>3,695</u>	<u>-</u>	<u>329,303</u>

9. Stocks

	2008 £	2007 £
Raw materials and consumables	<u>1,175</u>	<u>2,244</u>

10. Debtors

	2008 £	2007 £
Trade debtors	203	-
Other debtors	25,948	22,373
Prepayments and accrued income	12,790	31,804
R&D tax credit receivable	51,161	51,120
	<u>90,102</u>	<u>105,297</u>

Composite Metal Technology Ltd

Notes to the Accounts (continued)

forming part of the financial statements

11. Creditors: amounts falling due within one year

	2008 £	2007 £
Bank loans and overdrafts	4,349	-
Trade creditors	-	45,081
Amount due to parent undertaking	790,634	592,734
Other taxes and social security costs	13,731	8,838
Other creditors	273,881	180,294
Accruals and deferred income	11,938	15,669
	<u>1,094,533</u>	<u>842,616</u>

12. Obligations under operating lease

The Company has an annual commitment under an operating lease for premises of £31,880 (2007: £5,716). The lease is due to expire in 3 years from the balance sheet date.

13. Called up share capital

	2008 £	2007 £
<i>Authorised</i>		
Ordinary shares of £1 each	5,000	5,000
<i>Allotted, called up and fully paid</i>		
Ordinary shares of £1 each	<u>4,316</u>	<u>4,316</u>

14. Share premium account

	2008 £	2007 £
Share premium account	<u>3,234,357</u>	<u>3,234,357</u>

15. Reconciliation of movements in shareholders' funds

	2008 £	2007 £
Loss for the year	(386,055)	(354,999)
Net reduction in shareholders' funds	<u>(386,055)</u>	<u>(354,999)</u>
Opening shareholders' funds	(369,404)	(14,405)
Closing shareholders' funds	<u>(755,459)</u>	<u>(369,404)</u>

Composite Metal Technology Ltd

Notes to the Accounts (continued)

forming part of the financial statements

16. Related party transactions

The following related parties have undertaken transactions with the Group during the period under review:

- 16.1 MFE Corporate Services Limited (a company controlled by B P Collins and N P Collins) invoiced the Company £36,000 for the services of B P Collins (2007: £36,667). At the balance sheet date £94,667 was outstanding (2007: £58,667).
- 16.2 AJC GB Limited (a company controlled by N P Collins and another) invoiced the Company £12,000 for administration services (2007: £12,000).
- 16.3 Bentata Associates (a business controlled by M D A Bentata) invoiced the Company £17,000 for the services of M D A Bentata (2007: £17,000). At the balance sheet date £42,500 was outstanding (2007: £25,500).

17. Control

The Company is a wholly owned subsidiary of Composite Metal Technologies Plc which, in the opinion of the directors, is also the Company's parent undertaking.