

CMR Fuel Cells plc

Annual Report

For the year ended to 31 December 2007

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Chairman's Statement

Highlights:

2007 Highlights

- Entered into a Joint Development Agreement ('JDA') with Samsung SDI
- Active commercial programmes in Japan, Korea, Taiwan & China
- Development of stand-alone demonstration systems tailored for specific market opportunities
- Entered into Collaborative DTI funded development partnership with Johnson Matthey Plc and Accelrys Inc
- Continued to operate well within budget, with strong cash reserves

2007 has been a year of consolidation of commercial successes and continued technical progress for CMR. The Company remains clearly focussed on providing fuel cell based power solutions to the portable electronics industry, with active, cooperative, commercial programmes in Korea, Japan and more recently Taiwan and China.

Chairman's Statement

Technical progress

Over 2007, CMR has successfully developed a number of different stand-alone Direct Methanol Fuel Cell (DMFC) demonstration systems with power outputs suitable for products ranging from portable media players and PDAs, through hand-held industrial devices and stand-alone re-chargers, right up to laptop computers. These graphically show how CMR's fuel cell stacks can be integrated into independent power supplies which themselves have no mains power cord and can be 'instantly recharged' without stopping simply by adding a fresh fuel cartridge. Demonstration of these systems as well as CMR's ability to successfully develop mixed reactant and conventional stacks further emphasises CMR's position as a credible and capable partner for major OEMs around the world.

CMR has demonstrators using mixed-reactant stacks covering power ranges of 2W – 5W (as typically required by media players, cameras and phone backup chargers) and others with conventional stacks providing power ranges of 10W – 25W (as typically required for laptop, stand-alone re-chargers and industrial computers). These have been driven by the Company's own analysis of specific market needs and feedback from customers and partners and are key tools in driving engagement with potential customers.

Market opportunity

Interest in small, cost-effective and efficient portable fuel cell systems continues to grow, driven by ever increasing power needs that batteries cannot supply as well increasing concern over the safety of batteries.

It is clear that the major consumer electronic OEMs and ODMs recognise the benefits of using portable fuel cells for forthcoming products, but they need comfort that all aspects of deploying fuel cells are known and feasible – not just headline technical parameters. To drive better engagement with these companies, CMR is actively promoting and developing its in-depth knowledge of all aspects of fuel cells as an integral part of its commercial offering alongside conventional and mixed reactant DMFC stacks and demonstration systems.

Market roll-out

The Company continues to believe that many OEMs plan to field-trial fuel cell systems into Asian markets in 2008/9 ahead of mass-market launches from 2010 onwards. CMR anticipates that 2008 will see early deployment of its stacks based on 'acid' chemistry in trial systems, building towards mass markets emerging from 2010 onwards. The Company's alkaline chemistry development is progressing satisfactorily, and the Company is confident that it will be showing good results from this as this date approaches.

Feedback from customers indicates that first generation products used for reliability trials and user acceptance testing will be based on 'acid' chemistry and that 'alkali' chemistry will be required to meet the price points needed for mass market deployment at a later date. In either case, CMR believes that it is well placed to provide the solutions that the market needs.

Commercial progress

This year CMR further strengthened its commercial activities, with many relationships progressing positively – the most notable of which was the successful signing of a JDA with potential customer Samsung SDI.

Most portable electronics companies are cautious of making commitments in public for product release time-frames given their experience of not following through with past announcements. CMR's commercial team in Tokyo continues to be highly active in taking CMR's technology and capabilities directly to the major Japanese OEMs currently pursuing opportunities and product development in fuel cells, particularly DMFC for laptop applications. Additional focus on emerging Asian markets saw new commercial programs in Taiwan and China in addition to commercial activities in Japan and Korea being established in the Period.

The Board recognises the value of developing a strong brand position and CMR is the only UK company that exhibits portable fuel cells at all the major fuel cell exhibitions around the world - its stack demonstrators are consistently major attractions, generating strong interest from portable electronics OEMs. Over 2007, CMR also accepted invitations to showcase the Company and its technology at the premier conferences, as well as presenting to Intel's Extended Battery Life Working Group to fellow members which included Toshiba, Hewlett Packard and Motorola.

Finance & reserves

The Company continues to be tightly managed and operated well within its budget. The Board currently expects that the Company's cash reserves to be sufficient for planned operations until early 2010. At 31 December 2007, assets totalled £9.4m (2006: 11.3m), of which £8.4m was held in cash and short term deposits (2006: £10.6m).

In accordance with the dividend policy disclosed at the time of the IPO, the Board is not recommending payment of a dividend.

CMR continues to invest funds and resources, as planned, to develop new and improved technologies for future products – the Company's technical team is wholly focussed on developing its first generation products, but having a credible road-map of improved products is an essential part of being regarded as a long-term partner by customers. To this end the Company has continued to work with Solvay SA and XAAR plc on novel low-cost, high throughput MEA production, as well as entering into collaboration with Johnson Matthey plc and Accelerlys Inc. to facilitate the discovery of better catalysts. These are not planned to feed into the first generation products, but show CMR's commitment to maintaining the market leadership position which it aims to build.

Intellectual property

A number of new, high-level patent applications have been added to CMR's existing core patents which cover fuel cells using mixed reactants, flow-through and selective electrodes. These new applications cover a wide variety of practical and relevant areas which will help the Company to maintain value as it progresses. These patents cover areas such as new catalysts and new MEA

construction techniques as well as improvements to stacks and systems. Patents have already been granted in Australia and China, and in 2007 have continued to progress through the US and European systems, as well as in a number of other key jurisdictions globally, including Japan and Canada. An opportunity to extend CMR's claims in the US over the mixed-reactant architecture, including liquid electrolyte and membrane-less fuel cells has also been taken.

Outlook

The Company's objectives for 2008 remain as per those outlined in the 2007 interim report, with continued focus on:

- Developing and announcing more commercial agreements with OEMs
- Building valuable and committed relationships with suppliers
- Remaining responsive and market driven – providing solutions for our customers
- Continuing to address key technical targets – including efficiency and cost, by flexible use of our world-class technical capability
- Securing granted patents in key territories

The Company has a world-class, motivated and dynamic team with clear technical and commercial goals and it continues to believe that the portable electronics market will embrace fuel cell technology as the next generation of long running power supply.

Gordon Crawford
Chairman

Board

Gordon Crawford, Non-Executive Chairman since December 2005, will step down from the Board following the public listing and two years subsequent service. This will take effect on 31 March 2008. Tim Curtis, currently a Non-Executive Director, will become Non-Executive Chairman from 1 April 2008.

The Board believes that Mr. Curtis's experience of high growth technology companies where he has managed the transition from research to product development and production will be of great value to CMR as it moves towards its goal of providing cost effective, compact fuel cell stacks for the portable electronics industry.

The Board would also like to thank Mr. Crawford for his contribution, advice and guidance during our early days as a public company.

Finally the Board would like to thank all CMR's staff for their commitment, innovation and hard work that has produced the sustained progress that is central to the success of the business and we look forward to reporting on their continued success throughout the rest of the year.

Financial Review

Transition to International Financial Reporting Standards

The results are presented for the year ended 31 December 2007, the second full year of trading since the Company floated on AIM in December 2005.

These are the Group's first annual financial statements prepared under the recognition and measurement requirements of applicable International Financial Reporting Standards (IFRS). The transition date to IFRS is 1 January 2006 and details of the first adoption of IFRS by the Group are given in Accounting Policies on page 26.

There are no material or significant retrospective restatements of the financial statements required as a consequence of the adoption of IFRS. Significantly, the Group had previously already applied IFRS 2 'Share-based Payments' in the audited financial statements for the year ended 31 December 2006 and has taken the optional business combination exemption from IFRS, which allows that IFRS 3 not be applied to business combinations that took place prior to 1 January 2006, the date of transition to IFRS. Prior to 1 January 2006, CMR Fuel Cells plc had become the parent company of the Group by virtue of a share for share exchange with CMR Fuel Cells (UK) Limited.

Interest

Interest of £524,000 (2006: £523,000) was earned in the year on average cash balances of £9.5m (2006: £11.4m).

Cash

The Company utilised cash resources of £2.2m during the year ended 31 December 2007, (2006: £2.1m), and had total funds at the 31 December 2007 of £8.4m (2006: £ 10.6m). Personnel expenses excluding share options in the year totalled £1.4m (2006: £1.0m) and capital expenditure totalled £239,000 (2006: £576,000).

Tax

Tax losses of £695,000 have been carried forward at the end of the year (2006: £323,000). A tax credit of £210,000 in respect of Research and Development tax credits has been recognised in the income statement during the year (2006: £nil). Otherwise there is no charge to Corporation tax in the year. No deferred tax asset has been recognised in the Balance Sheet however due to the uncertainty of future profits at this stage of the Company's development.

Dividends

As anticipated in the Admission Document issued in December 2005, the Company is not currently proposing to pay a dividend.

Board of Directors

Gordon Crawford

Non-executive Chairman (age 52)

Gordon Crawford was chairman of banking software company London Bridge Software Holdings plc from 1987, through its flotation in 1997, up to its sale to Fair Isaac, a major US corporation in May 2004. Mr Crawford was also a non-executive director of The Innovation Group plc and a non-executive director of Intec Telecom Systems plc, with activities internationally in insurance and telecommunications. Mr Crawford is now a non-executive director of Revera Asset Management with a focus on companies at the early stage of their development cycle and non-executive chairman of Honiton Energy Holdings plc, a company developing wind farms in Inner Mongolia.

On 9 January 2008, Mr Crawford announced his intention to retire from the Board effective from 31 March 2008.

Prof. Gordon Edge

Non-executive director (age 70)

Professor Edge is one of the leading business and technology figures in Britain. Gordon is a Chartered Engineer (CEng), a Member of the Institution of Electrical Engineers (MIEE), and a Fellow of the Royal Swedish Academy of Engineering Sciences (IVA). He is a member of the Advisory Board of Cambridge University, Department of Materials Science, The Cambridge University - MIT Institute and The Cambridge University Technology Transfer Group.

Tim Curtis

Non-executive director (age 65)

Tim Curtis was Chief Executive, from 1992-2004, of Telemetrix plc, an LSE-quoted manufacturer of analogue semiconductors and portable telecommunications test equipment. Previously, Tim worked for and was a Main Board Director of Unitech plc, a broadly-based manufacturer and distributor of electronic equipment and components. Tim is currently Chairman of AIM quoted IBS OPENSsystems plc, a leading supplier of software systems to UK local government and housing associations, Chairman of RaceCourse Technical Services Ltd and a Non-Executive Director of Herald Investment Trust plc.

Tim has a BA from Cambridge University in Economics and has a MBA with distinction from Harvard University, Graduate School of Business Administration. Tim was appointed to the Board on 13 December 2006.

On 9 January 2008, it was announced that Mr Curtis would become the Non-executive chairman of the Board upon the retirement of Gordon Crawford.

John Halfpenny

Chief Executive Officer (age 46)

John Halfpenny is an experienced entrepreneur and chartered engineer (CEng) with a successful track record and significant experience in the consumer electronics sector. He founded and subsequently sold: Micrologic Solutions to ARM plc, Telephone Solutions Ltd, HII Ltd, and Enterprise Network Sciences Ltd to various trade buyers. He was director of embedded software at ARM plc and CEO of Splashpower Ltd. He started his career with Texas Instruments in 1982.

John has a Masters degree from Cambridge University in Engineering Science and is a Fellow of The Institution of Engineering and Technology (FIET).

Company Information

Directors	G Crawford G M Edge J W Halfpenny T M Curtis
Secretary	J Stafford
Trading Office	Harston Mill Royston Road Harston Cambridge CB22 7GG Tel : + 44 (0)1223 875295 Fax: +44 (0)1223 875255
Registered office	CPC 1 Capital Park Fulbourn Cambridge CB21 5XE
Registered number	05560820
Auditors	Grant Thornton LLP Chartered Accountants Byron House Cambridge Business Park Cowley Road Cambridge CB4 0WZ
Bankers	Barclays Bank plc Chesterton Road Cambridge CB4 3AZ
Website:	www.cmrfuelcells.com
Nominated Advisors:	Investec Bank plc 2 Gresham Street London EC2V 7QP

Report of the Directors

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

Business review and principal activities

The principal activity of the Group during the year continued to be the development of fuel cell technology. As anticipated, the product being developed has not yet reached the revenue generation phase.

A review of the results for the year and of future developments in the business is given in the Chairman's statement and in the Financial Review, which form part of this Annual Report.

Restructuring and basis of preparation

In order to facilitate the successful flotation of the Company's shares on the AIM market in 2005, the Group performed a group reorganisation. The Company was incorporated on 12 September 2005 under the name of Law 2435 Limited. The Company changed its name to CMR Fuel Cells Limited on 17 October 2005 and to CMR Fuel Cells plc on 14 December 2005. On 30 September 2005 the Company acquired the entire share capital of CMR Fuel Cells Limited by means of a share for share exchange.

As disclosed previously in the 2006 financial statements and as explained in the Group's accounting policies in note 1 to the financial statements, the Group has taken the business combination exemption which allows that IFRS 3 not be applied to business combinations that occurred prior to 1 January 2006, and have consequently prepared the financial statements for the year ended 31 December 2006 on a proforma basis in accordance with merger accounting principles, that is, as if the Group had been in existence in its current form throughout the current and previous year.

Key performance indicators

The directors consider that at this stage of the Group's development, the key performance indicators as identified in last year's financial statements continue to be the achievement of significant development milestones and the amount of cash resources utilised in that process. Both of these indicators are discussed in detail in the Chairman's Statement on page 3.

Principal risks and uncertainties facing the Group

At the time of the IPO in December 2005, the directors identified a number of risk factors which it was thought might affect the Group's ability to deliver its strategic goals. The directors are of the opinion that, in general, the risk factors identified at that time and which were outlined again in last year's financial statements, continue to be relevant to the business. A list of these risks is given below. This list does not purport to be an exhaustive summary of the risks affecting the Group, is given in no particular order of priority and contains risks considered to be outside the control of the directors.

Short business history and net operating losses

With the Group's short trading history and accumulated operating losses to date, there can be no absolute assurance that the Group will generate significant revenue or move into profitability at any stage nor that the operating losses can be offset against future profits for income tax purposes.

Early stage development company

Although the Group has, in the opinion of the directors, made significant strides since the IPO to meet its corporate objectives, the Group's business is still in a relatively early stage of development and has not yet started generating significant revenues. Despite significant progress in the last twelve months, the likelihood of the Group's ultimate business success should be weighed against the risks inherent in any business at this stage of its development. The Board believes that the composition of the current board and senior management, and anticipated additions to that structure, is such that the management has considerable collective experience of similar stage businesses to bring to bear and proven management capability in guiding such companies through this phase.

Report of the Directors (continued)

Technology

With any new technology, there are risks associated with the individual development and performance of the technology. However the Group continues to test its technology rigorously under laboratory conditions and to adapt development procedures accordingly.

Competing technologies

There can be no guarantee that the market for the Group's technology will not ultimately be dominated by technologies other than the Group's or that the Group will be able to adapt to changes in or create "leading-edge" technology. However, the Group is active in the market place and makes it a priority to make itself aware of current developments in technology elsewhere.

Manufacturing

If the Group succeeds in developing a commercially viable product, there is no absolute assurance at this stage that the product can be manufactured in sufficient commercial and cost effective quantities. The Group's designated 'Technical Group' was created in order to test for manufacturing ability and is an integral part of the development process.

Market acceptance and Customers

Whilst the directors believe a viable market for the Group's products will develop in the future, there can be no assurance that fuel cell technology will succeed as an alternative to conventional or other new products or that potential customers will, when the product is fully developed, select the Group's fuel cell technology for integration into their commercial products. To reduce the risk of this happening, the Group, through its Chief Commercial Officer, Stephen Barlow, remains very focussed on its marketing message.

Intellectual property

The Group's methods of and procedures for protecting the concepts, idea, proprietary know-how and documentation of its proprietary technology may not ultimately afford the Group complete protection and there can be no absolute assurance that others will not obtain access to the Group's know-how or concepts, ideas and documentation.

Commercial Relationships

The success of the Group is dependent on its ability to initiate, develop and maintain beneficial commercial relationships with other parties including OEMs, suppliers of materials, materials improvement technologies, production technologies, sub-contract manufacturers, fuel cell systems integrators and system manufacturers. The Group endeavours where possible to cultivate commercial relationships based on mutual respect and equitable economic returns for all parties involved.

Additional financing

The Group anticipates that at some point in the future it will require additional funding to develop its technology. The risk is always that such funding might not be available at the required time or at an economic price. The Group continues to manage its cash resources and review them against its anticipated technological milestones such that any future funding requirements can be managed effectively and in a timely fashion.

Regulatory approvals

Failure to implement or delay any regulatory changes as and when they arise may have a material adverse affect on the financial performance of the Group.

Dependence on and hiring of key personnel

The directors acknowledge that the Group's continued success is largely dependent on the performance of its key management and technical personnel. There can be assurance that the Group will continue to be able to retain or hire the necessary personnel. However, remuneration packages are set with the intention that they are sufficiently innovative, motivating and rewarding to attract and retain quality staff and succession plans are regularly considered at Board level.

Report of the Directors (continued)

Financial instruments

There is a risk that a fall in the interest rate earned on cash deposits will negatively impact on cash flows. The directors continue to monitor the Group's financial assets which comprise in the main, cash held on current account and short term deposits and short term debtors, to ensure that the best returns are generated whilst having regard to the Group's on-going working capital requirements.

The directors do not consider currency exposure to be a risk to the Group due to the fact that the vast majority of Group transactions are denominated in Sterling.

The Group's current policy to engage with customers on the basis that each party pays its own costs means that the Group has little risk associated with the recovery of debts. The Group's policy towards suppliers is to assess all suppliers as to the likelihood of continuity and quality of supply.

Environment

The directors consider that the nature of the Group's business during the current development stage is not inherently detrimental to the environment and that when the Group's activity eventually reaches the anticipated production phase, there will be significant net benefits to the environment as a whole.

Employees

The Group places considerable value on the involvement of its employees and they are regularly briefed on the Group's activities through company meetings and seminars. The Board acknowledges that the Group's employees are a key asset in the future success of the Group and their retention and motivation is a high priority. The Group closely monitors staff attrition rates which it seeks to maintain at current low levels and aims to structure staff compensation packages at competitive rates in order to attract and retain high-calibre personnel. All employees are afforded an equal opportunity to progress and develop their careers as the Group grows.

Disabled employees

Applications for employment by disabled persons are always fully considered, bearing in mind the specific aptitudes of the applicant concerned. It is the policy of the Group that the training, career development and promotion of disabled persons, as far as possible, be identical with that of other employees.

Research and development

The Group continues to invest heavily in Research and Development. All such expenditure has been expensed as incurred.

Dividends

The directors do not propose to pay a final dividend for the year ending 31 December 2007 (2006: nil).

Directors

The present directors of the Company are set out on page 8. MA Priestnall resigned on 21 August 2007. The directors' interests in the share capital and share options of the Company are set out in note 4.

Report of the Directors (continued)

Substantial shareholdings

To the best of the Company's knowledge, as at 18 February 2008, interests amounting to 3% or more of the share capital of the Company, were as follows:

Shareholder	Number of ordinary shares	Percentage holding of issued share capital
Conduit Ventures Fund	3,401,090	16.8
Carbon Trust Investments Limited	3,401,090	16.8
Sagentia Limited	1,692,040	8.3
(i) Michael Priestnall	1,257,410	6.2
Herald G.P.Limited	1,084,930	5.3
(ii) Michael Joseph Evans	934,780	4.6
(iii) CF Group Holding Limited	852,273	4.2

(i) Michael Priestnall is a co-founder of the Company and was a director of the Company until 21 August 2007.

(ii) Michael Evans is a co-founder of the Company and is an employee of the Group.

(iii) Gordon Crawford, a non-executive director of the Company, is the sole shareholder of CF Group Holding Limited.

As at 31 December 2007, the quoted mid-market share price of the Company was 42p. The highest and lowest quoted mid-market price during the year to 31 December was 164.5p and 38p respectively.

Creditor payment policy

The Group's policy is to use its best endeavours to settle with suppliers in accordance with agreed payment terms. The average number of days credit taken from trade creditors at 31 December 2007 was 23 days (2006: 26 days).

Stakeholder pension

The Group has designated a stakeholder pension scheme to which its employees can contribute. During the year, the Group contributed £22,000 to the stakeholder scheme.

Charitable and Political Donations

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

Statement of directors' responsibilities for the financial statements

The directors are responsible for preparing the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law, the directors have elected to prepare the consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and the parent company financial statements in accordance with United Kingdom Accepted Accounting Practice (United Kingdom Accounting Standards and Applicable Law). 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 those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent; and
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements.

Report of the Directors (continued)

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

Disclosure of information to auditors

At the date of making this report each of the Company's directors, as set out on page 8 confirm the following:

- so far as each director is aware, there is no relevant information needed by the Company's auditors in connection with preparing their report 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 in order to make himself aware of any relevant information needed by the Company's auditors in connection with preparing their report and to establish that the Company's auditors are aware of that information.

Going concern

After due consideration has been given to the accounts, the budgeted costs and cash flow projections, the directors believe that the Company has sufficient resources to continue in operation for the foreseeable future. Accordingly, these financial statements have been prepared on a going concern basis.

Auditors

RSM Robson Rhodes LLP ("Robson Rhodes") merged its audit practice with that of Grant Thornton UK LLP ("Grant Thornton") with effect from 2 July 2007, with the successor firm being Grant Thornton. Robson Rhodes resigned as auditors on 24 July 2007, creating a casual vacancy which the directors have filled by appointing Grant Thornton. A resolution to reappoint Grant Thornton as auditors of the group will be proposed at the forthcoming Annual General Meeting.

Annual General Meeting

The Annual General Meeting of the Company will be held at Harston Mill, Royston Road, Harston, Cambridge on May 1 2008. The Notice of Meeting has been despatched to shareholders separately.

By order of the Board

Julian Stafford
Company Secretary

February 2008

Corporate Governance

Compliance

The directors recognise the value of the Principles of the Combined Code on Corporate Governance (“the Combined Code”). Although, as an AIM company, compliance with the Combined Code is not required the Group seeks to apply the Combined Code when practicable and appropriate for a company of its size.

The following statement describes how the Group as at 31 December 2007 sought to address the principles underlying the Combined Code.

Board composition and responsibility

For the majority of the period, the Board consisted of two executive and two non-executive directors and a non-executive chairman. Michael Priestnall resigned as an executive director on 21 August 2007 and left the Company. The Board is seeking to replace him and will do so when the appropriate candidate becomes available.

All directors are equally accountable for the proper stewardship of the Group’s affairs.

In broad terms, the on-going remit of the Board is as follows:-

- Approval of the Company’s annual budgets and forecasts and ongoing review of Company strategy and performance
- Approval of the annual report and any statements made therein
- Approval of any significant changes in accounting policies and practices
- Appointment or removal of directors or the Company Secretary
- Approval of appointment of senior staff and setting of their remuneration
- Approval of any material expenditure or capital commitments
- Ensure maintenance of robust systems of internal control – including all operating and financial systems through annual review and assessment
- Review of the Board’s own effectiveness
- Ensure continued compliance with any regulatory requirements

The non-executive directors have a particular responsibility to scrutinize and assess the strategy proposed by the executive management, to evaluate performance, business risk and the integrity of financial information and controls, and to ensure appropriate remuneration and succession arrangements are put in place for the executive directors.

After careful review, giving particular consideration to the provision of the Combined code in respect of the independence of a Chairman, the Board has concluded that all of the non executive directors are independent in character, judgement and opinion. There is no senior non-executive director.

Chairman’s commitments

The commitments of the Chairman outside those relating to the Company are given in detail in the Board of Directors on page 7. The Chairman’s commitments have not materially changed during the period.

Policy on election

Directors are required to offer themselves for election every 3 years and at least one third of the Board must offer itself for re-election each year.

At the forthcoming Annual General Meeting on May 1 2008, Gordon Edge will be offering himself for re-election. Brief biographical details for Mr Edge are given on page 7.

Board meetings

Seven board meetings were held during the period. The directors’ attendance record is as follows:-

John Halfpenny – executive	7
Michael Priestnall - executive	4
Gordon Edge – non-executive	7
Gordon Crawford - non-executive	4
Tim Curtis - non-executive	7

Corporate Governance (continued)

Audit Committee

The audit committee is chaired by Gordon Edge and comprises Gordon Crawford and Gordon Edge. The audit committee determines the terms of engagement of the Group's and Company's auditors and determines, in consultation with the Group's and Company's auditors, the scope of audits. It receives and reviews reports from management and the Group's auditors relating to the interim and annual accounts and the accounting and internal control systems in use by the Group. The Board has adopted a policy for the periodic review of the auditors' objectivity and independence.

The Audit Committee sat twice during the period and was attended by all the non-executive directors.

The Board considers that given the relative size of the Group and the relative costs and benefits that would ensue, there is no necessity for the Group to operate an internal audit function.

Remuneration Committee

The remuneration committee is chaired by Gordon Crawford and comprises Gordon Crawford, Gordon Edge and Tim Curtis. The remuneration committee reviews the scale and structure of both the Executive Directors' and other key employees' future remuneration and the terms of their service agreements with due regard to the interests of shareholders.

The Remuneration Committee sat twice during the year and was attended by all the non executive directors.

Nomination Committee

There is no nomination committee as the appointment of directors is considered to be the responsibility of the Board as a whole.

Internal control and risk

The directors are responsible for establishing and maintaining the Group's system of internal control and reviewing its effectiveness. By its nature, such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable but not absolute assurance against material misstatement or loss.

The Group conducted a Strategic Review in 2006 in which a full review and evaluation was made of all risks and an assessment made of the Group's internal controls and procedures. Corrective actions to mitigate risks identified were implemented, including the introduction of a Risk Register. Internal controls and risks are subject to continuous review by senior management and remedial action taken wherever thought necessary.

Board effectiveness

For the time being, the Board itself considers its effectiveness, and that of its committees and directors, on an on-going basis. It considers this appropriate to a company of this size.

Shareholder communication

The Board encourages regular dialogue with the Group's shareholders and has a policy of making itself available to shareholders at the Annual General Meeting to which all shareholders are invited to attend. Non-executive directors are regularly briefed by executive management on developments within the Group in order to facilitate their continued understanding of the Group's products and processes.

Corporate Governance (continued)

Corporate Social Responsibility

The Board recognises that it has a duty to be a good corporate citizen and is conscious that its business processes minimise harm to the environment, contributes as far as is practicable to the local community, and takes a responsible and positive approach to employment practices and employees.

Remuneration Report

The directors present the Directors' Remuneration Report for the year ended 31 December 2007. This report has not been prepared in accordance with the Directors' Report Regulations because as an AIM company, CMR Fuel Cells Plc does not fall within the scope of the regulations.

Remuneration policy

Remuneration levels are set by the Remuneration committee in order to attract and retain high calibre directors and staff.

Details of directors' remuneration are given in note 4 to the financial statements.

Basis salary and benefits

Basic salaries and benefits are generally reviewed annually, however no review has taken place since 2005. The review process is taken after having regard for the development of the Group and contributions that the individual director makes.

Executive Directors' service contracts

John Halfpenny entered into a service agreement with the Group on 1 September 2004. This agreement confirms his appointment as Chief Executive Officer. The agreement can be terminated upon six months' notice in writing by either party and includes restrictive covenants relating to the 12 month period after termination of employment. These covenants include, inter alia, non-solicitation of and non-dealing with the Group's clients, non-solicitation of suppliers and non-solicitation of employees and a restricted covenant for a six month period covering non-competition. Mr Halfpenny's basic remuneration is £125,000 per annum.

Michael Priestnall, who resigned as a director on 21 August 2007, had previously entered into a service agreement with the Group on 8 January 2004. The agreement could be terminated upon six months' notice in writing by either party and included restrictive covenants relating to the 12 month period after termination of employment. These covenants include non-solicitation of and non-dealing with the Group's clients, non-solicitations of its suppliers and non-solicitation of its employees and a restricted covenant for a six month period covering non-competition. Mr Priestnall's basic remuneration was £110,000 per annum.

Save in respect of contractual notice, holiday pay and any compensation or payments relating to statutory rights, no executive director is entitled under the service agreements to any enhanced benefits or compensation on termination of employment.

Bonuses and share options

Any bonuses paid are non-contractual. The Company operates an Enterprise Management Incentive and an Unapproved share option scheme through which it grants options pursuant to a policy designed to motivate and incentivise employees and directors. Details of options granted to directors and the performance conditions attaching to them are detailed in note 4.

Non-executive directors

Non-executive directors receive a fixed fee for their services and are reimbursed all out of pocket expenses incurred in the pursuance of their duties as non-executives. The remuneration of the non-executive directors is determined by the board as a whole.

Messrs Crawford and Edge became non-executive directors of the Company on 15 December 2005 and Mr Curtis became a non-executive director on 13 December 2006. Their appointments can be terminated on six months' notice in writing by themselves or the Company. The non-executive directors are entitled to a fee for their services.

Remuneration Report (continued)

Approval

The Remuneration Report was approved by the board and signed on its behalf by:

Gordon Crawford
Chairman

February 2008

Report of the Independent Auditors to the members of CMR Fuel Cells plc

We have audited the group and parent company financial statements (the "financial statements") of CMR Fuel Cells plc for the year ended 31 December 2007 which comprise the principal accounting policies, the group income statement, the group and parent company balance sheets, the group cash flow statement, the group statement of changes in shareholders' equity and notes 1 to 19. These group 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 group financial statements in accordance with United Kingdom law and International Financial Reporting Standards (IFRSs) as adopted by the European Union, and for preparing the parent company financial statements in accordance with United Kingdom law and Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

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 whether the financial statements have been 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 other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. The other information comprises only the Report of the Directors, the Remuneration Report, the Chairman's Statement, the Financial Review and the Corporate Governance Statement. 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.

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 group's and 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 group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the group's affairs as at 31 December 2007 and of its loss for the year then ended
- the group financial statements have been properly prepared in accordance with the Companies Act 1985
- the parent company financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the parent company's affairs as at 31 December 2007
- the parent company financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Report of the Directors is consistent with the financial statements.

Grant Thornton UK LLP
Chartered Accountants and Registered Auditors
Cambridge, England

February 2008

Consolidated Income Statement

For the year ended 31 December 2007

	Note	Year ended 31 December 2007 £'000	Year ended 31 December 2006 £'000
Revenue		-	-
Share based payments		(950)	(726)
Other administrative expenses		(2,747)	(1,825)
Total administrative expenses		(3,697)	(2,551)
Other operating income		125	-
		<hr/>	<hr/>
Results from operating activities		(3,572)	(2,551)
Finance income	5	524	523
		<hr/>	<hr/>
Loss on ordinary activities before income tax		(3,048)	(2,028)
Tax credit on loss on ordinary activities		210	-
		<hr/>	<hr/>
Loss for the financial year		(2,838)	(2,028)
		<hr/> <hr/>	<hr/> <hr/>
Loss per share – basic and diluted	7	(13.97p)	(9.99p)
		<hr/> <hr/>	<hr/> <hr/>

Consolidated Balance Sheet

at 31 December 2007

	Note	31 December 2007 £'000	31 December 2006 £'000
Non current assets			
Intangible assets – patent applications	8	19	41
Property, plant and equipment	9	563	539
		<hr/>	<hr/>
		582	580
		<hr/>	<hr/>
Current assets			
Trade and other receivables	11	425	167
Cash and cash equivalents	12	8,437	10,587
		<hr/>	<hr/>
		8,862	10,754
		<hr/>	<hr/>
Total assets		9,444	11,334
		<hr/> <hr/>	<hr/> <hr/>
Current liabilities			
Trade and other payables	13	161	163
		<hr/>	<hr/>
		161	163
		<hr/>	<hr/>
Shareholders' equity			
Called up share capital	15	2,030	2,030
Share premium account		9,776	9,776
Other reserve		1,335	1,335
Profit and loss account		(3,858)	(1,970)
		<hr/>	<hr/>
Total equity attributable to shareholders		9,283	11,171
		<hr/>	<hr/>
Total shareholders' equity and liabilities		9,444	11,334
		<hr/> <hr/>	<hr/> <hr/>

The financial statements were approved by the Board and signed on its behalf by:

John Halfpenny
Director

February 2008

Company Balance Sheet

at 31 December 2007

	Note	31 December 2007 £'000	31 December 2006 £'000
Fixed assets			
Investments in group undertakings	10	3,423	2,473
		<hr/>	<hr/>
		3,423	2,473
		<hr/>	<hr/>
Current assets			
Debtors	11	10,256	10,352
		<hr/>	<hr/>
		10,256	10,352
		<hr/>	<hr/>
Net assets		13,679	12,825
		<hr/> <hr/>	<hr/> <hr/>
Capital and reserves			
Called up share capital	15	2,030	2,030
Shares to be issued	19	2,063	1,113
Share premium account	19	9,776	9,776
Profit and loss account	19	(190)	(94)
		<hr/>	<hr/>
		13,679	12,825
		<hr/> <hr/>	<hr/> <hr/>

The financial statements were approved by the Board and signed on its behalf by:

John Halfpenny
Director

February 2008

Statement of Changes in Shareholders' Equity

As at 31 December 2007

Group	Share capital £ '000	Share Premium Account £ '000	Other Reserve £ '000	Profit and loss account £ '000	Total Equity £ '000
As at 1 January 2006	2,030	9,776	1,335	(668)	12,473
Loss for the year	-	-	-	(2,028)	(2,028)
Share based payment credit	-	-	-	726	726
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
As at 31 December 2006	2,030	9,776	1,335	(1,970)	11,171
Loss for the year	-	-	-	(2,838)	(2,838)
Share based payment credit	-	-	-	950	950
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
As at 31 December 2007	<u>2,030</u>	<u>9,776</u>	<u>1,335</u>	<u>(3,858)</u>	<u>9,283</u>

The 'other reserve' relates to a reserve which arose on the merger of the businesses of CMR Fuel Cells (UK) Limited and CMR Fuel Cells plc in a share for share exchange in December 2005.

Consolidated Cash Flow Statement

For the year ended 31 December 2007

	Note	Year ended 31 December 2007 £'000	Year ended 31 December 2006 £'000
Cash flows from operating activities			
Loss after tax for the year		(2,838)	(2,028)
Depreciation of property, plant and equipment		215	84
Amortisation of intangible fixed assets		22	22
Increases in receivables		(48)	(74)
Decreases in payables		(2)	(207)
Finance income		(524)	(523)
Income tax credit		(210)	-
Share-based payment charge		950	726
		<hr/>	<hr/>
Net cash used in operating activities		(2,435)	(2,000)
		<hr/>	<hr/>
Investing activities			
Interest received		524	523
Purchases of property, plant and equipment		(239)	(576)
		<hr/>	<hr/>
Net cash from/(used in) investing activities		285	(53)
		<hr/>	<hr/>
Net decrease in cash and cash equivalents		(2,150)	(2,053)
Cash and cash equivalents at beginning of year		10,587	12,640
		<hr/>	<hr/>
Cash and cash equivalents at end of year	12	8,437	10,587
		<hr/> <hr/>	<hr/> <hr/>

Notes to the Financial Statements

31 December 2007

1. Accounting Policies

Basis of Accounting

The consolidated financial statements have been prepared under the historical cost convention in accordance with the AIM Rules for Companies. The Company has prepared the financial statements under the historical cost convention in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU for the financial year ending 31 December 2007 and on a basis consistent with the accounting policies set out below.

These are the Group's first annual financial statements prepared under IFRSs and therefore IFRS 1 'First-time Adoption of International Financial Reporting Standards' has been applied. An explanation of the transition to IFRS is provided below under 'First-time adoption of IFRS'.

The financial statements of the Company have been prepared in accordance with UK GAAP. In addition, in accordance with the Companies Act (1985) s.230(4), the Company has elected not to include an Income Statement in respect of the Company.

Use of estimates and judgements in the preparation of the consolidated financial statements

The preparation of financial statements which comply with IFRS requires the use of estimates and assumptions, and for management to exercise its judgement in the process of applying the Group's accounting policies. Critical judgements and key estimates and assumptions are disclosed below.

These judgements and estimates are based on management's best knowledge of the relevant facts and circumstances, having regard to prior experience, but actual results may differ from the amounts included in the financial statements. Information about such judgements and estimates is contained in the accounting policies and/or the notes to the financial report and the key areas are summarised below:

- a) Recognition of the carrying value or write off of research and development expenditure
- b) Review of useful economic life of patents
- c) Recognition of deferred tax asset on losses

Research and Development

In the opinion of the directors, the Group's expenditure on fuel cell development falls into the category of 'development of new products'. The elements of uncertainty inherent in considering whether development expenditure should be deferred and matched against future revenue are considerable. In the opinion of the directors, whilst recognising that the majority of the criteria (as detailed below in note 2 accounting policies) have been met, it would be imprudent at this stage of the Group's development to form the opinion that commercial viability has yet been established and that expenditure on development should hence be carried forward.

Useful economic life of patents

In 2004, the Group made a particular purchase of intellectual property from Sagentia Limited in respect of certain patent applications. The total consideration for the purchase was £111,000 which was recorded as an intangible asset. The Group estimated at the time of purchase, that the useful economic life of the patents acquired would be two years post production, which implied a total economic life of five years. This asset was recorded at cost. In the opinion of the directors, as at the balance sheet date, the estimated useful economic life of the intellectual property acquired was not materially different from that originally estimated at the time of purchase.

Deferred tax assets

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial report and the corresponding tax bases used in the computation of taxable profit. The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is estimated that sufficient taxable profits will be available to allow all or part of the asset to be recovered. Given that the Group is in its development phase and due to uncertainty surrounding future profits, the directors consider it currently inappropriate to recognise deferred tax assets in respect of the trading losses.

Notes to the Financial Statements

31 December 2007

1. Accounting Policies (continued)

First time adoption of IFRS

These are the Group's first financial statements prepared in accordance with the recognition and measurement requirements of those IFRSs applicable. Accordingly, IFRS 1 'First Time Adoption of International Financial Reporting Standards' has been applied. The Group's transition date to IFRS is 1 January 2006, and the Group prepared its opening balance sheet at that date in accordance with IFRS effective at 31 December 2007 except as specified below. In preparing these financial statements, the Group applied mandatory exceptions and certain of the optional exemptions available in IFRS 1 from the full retrospective application

As a result of the transition to IFRS, there has been no restatement of prior year statements prepared under UK GAAP.

Standards and Interpretations to Standards not yet effective

The following Standards and Interpretations have been issued, but are not yet effective and have not been early adopted by the Group:

IAS 1 Presentation of Financial Statements (revised 2007) (effective 1 January 2009)
IAS 23 Borrowing Costs (revised 2007) (effective 1 January 2009)
IAS 27 Consolidated and Separate Financial Statements (Revised 2008) (effective 1 July 2009)
Amendment to IFRS 2 Share-based Payment - Vesting Conditions and Cancellations (effective 1 January 2009)
IFRS 3 Business Combinations (Revised 2008) (effective 1 July 2009)
IFRS 8 Operating Segments (effective 1 January 2009)
IFRIC 11 IFRS 2 - Group and Treasury Share Transactions (effective 1 March 2007)
IFRIC 12 Service Concession Arrangements (effective 1 January 2008)
IFRIC 13 Customer Loyalty Programmes (effective 1 July 2008)
IFRIC 14 IAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (effective 1 January 2008)

It is not considered that the adoption of these Standards and Interpretations will make a material difference to the preparation of the financial statements of the Group in future periods.

Basis of Consolidation

These consolidated financial statements incorporate the financial results, assets, liabilities and cash flows of the Company and its subsidiary for the year ended 31 December 2007.

Subsidiaries are entities which are controlled by the Group. Control is deemed to exist when the Group has the power, directly or indirectly to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The results of subsidiaries acquired during the period are included in the consolidated income statement from the effective date of acquisition. Where necessary, adjustments are made to the financial results of subsidiaries to bring the accounting policies used into line with those used by the Group. All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Foreign currencies

Transactions in currencies other than the functional currency (the currency of the primary economic environment in which a business entity is operating) are recorded at the rates of exchange prevailing on the dates of transactions. Monetary assets and liabilities denominated in such other currencies are retranslated at the rates prevailing on the balance sheet date. Profits and losses arising from exchange are included in the income statement for the period.

Notes to the Financial Statements

31 December 2007

1. Accounting Policies (continued)

Research and Development

Expenditure on research (or the research phase of an internal project) is recognised as an expense in the period in which it is incurred.

Development costs incurred on specific projects are capitalised when all the following conditions are satisfied:

- completion of the intangible asset is technically feasible so that it will be available for use or sale
- the Group intends to complete the intangible asset and use or sell it
- the Group has the ability to use or sell the intangible asset
- the intangible asset will generate probable future economic benefits. Among other things, this requires that there is a market for the output from the intangible asset or for the intangible asset itself, or, if it is to be used internally, the asset will be used in generating such benefits
- there are adequate technical, financial and other resources to complete the development and to use or sell the intangible asset, and
- the expenditure attributable to the intangible asset during its development can be measured reliably.

Development costs not meeting the criteria for capitalisation are expensed as incurred. Careful judgement by the directors is applied when deciding whether the recognition requirements for development costs have been met. This is necessary as the economic success of any product development is uncertain and may be subject to future technical problems at the time of recognition. Judgements are based on the information available at each balance sheet date. In addition, all internal activities related to the research and development of new products are continuously monitored by the Board.

Taxation

The taxation expense is the tax currently payable and represents the sum of current tax and deferred tax. Tax balances are not discounted.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other periods and it further excludes items that are never taxable or deductible. The liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date in the country in which operations are based.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit. The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised based on tax rates and laws enacted or substantially enacted at the balance sheet date. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity. The tax base of an item takes into account its intended method of recovery by either sale or use.

Notes to the Financial Statements

31 December 2007

1. Accounting Policies (continued)

Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation and any recognised impairment loss.

Depreciation on plant and machinery is charged so as to write off the cost less residual values of assets over the estimated lives of the asset using the straight-line method over a period of three to four years.

Depreciation on office furniture, fixtures and fittings is charged so as to write off the cost less residual values of assets over the estimated lives of the asset using the straight-line method over a period of four years.

Depreciation on leasehold improvements is charged so as to write off the cost less residual values of assets over the estimated lives of the asset using the straight-line method over a period of three years.

In all cases, the gain or loss arising on the disposal of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in income.

Methods of depreciation, residual values and useful lives are reviewed and adjusted, if appropriate, at each balance sheet date.

Intangible assets

An intangible asset is considered identifiable only if it is separable or if it arises from contractual or other legal rights, regardless of whether those rights are transferable or separable from the entity or from other rights and obligations. Acquired intangible assets are stated at cost less any accumulated amortisation less any impairment loss. Amortisation on intangible assets is charged so as to write off the cost less residual values of assets over the estimated lives of the asset using the straight-line method over a period of five years.

Impairment of property, plant and equipment and intangible assets

At each balance sheet date, the Group reviews the carrying amounts of its property, plant and equipment and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

The recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior periods. A reversal of an impairment loss is recognised as income immediately.

Notes to the Financial Statements

31 December 2007

1. Accounting Policies (continued)

Financial instruments

Financial assets and financial liabilities are recognised on the balance sheet when the Group becomes a party to the contractual provisions of the instrument.

Finance income

Finance income comprises interest receivable on cash or cash equivalents and is recognised in the Income Statement as it becomes due using the effective interest rate method.

Financial liabilities and equity

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

Equity instruments

Equity instruments issued by the Group are recorded at the proceeds received, net of direct issue costs.

Receivables

Receivables are initially recorded at their fair value and thereafter, if appropriate, recorded at amortised cost. As they are non-interest bearing this approximates to their invoiced amount.

Payables

Payables are initially recorded at their fair value and thereafter, if appropriate, recorded at amortised cost. In most cases this approximates to their invoiced amount.

Cash and Cash Equivalents

Cash and cash equivalents comprise cash balances and short term deposits that are accessible at up to three months notice. Any bank overdrafts utilised that are repayable on demand are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

IFRS 2 'Share-based payments'

Where share options are granted to employees as part of their remuneration, the fair value of options granted is recognised as an employee expense in the income statement with a corresponding increase in equity. The fair value of options is measured at the grant date, using a Black-Scholes option valuation model, and expensed through the income statement over the period during which the employees become unconditionally entitled to the options. The amount recognised in the income statement is adjusted each year for the expected and actual number of options vesting.

The proceeds received, net of any directly attributable transaction costs, are credited to share capital and share premium when the options are exercised.

Leases

Rentals applicable to operating leases where substantially all of the benefits and risks of ownership remain with the lessor are charged against profits on a straight line basis over the period of the lease.

Government and other grants

Government and other grants are credited to the profit and loss account when the related expenditure is incurred and relevant performance criteria have been achieved. Grant income is shown as other operating income.

Notes to the Financial Statements

31 December 2007

1. Accounting Policies (continued)

UK GAAP accounting policies specific to the Company only

Investment in subsidiary

Investments in unquoted subsidiaries which do not have a reliable market value are stated at cost less provision for any impairment in value.

Taxation

Deferred taxation 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. The principal exception to this is that deferred tax assets are recognised only to the extent that the directors consider that 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.

Liquid resources

Amounts held on short term deposit are included as liquid resources for the purpose of the cash flow statement.

UITF 44

'IFRS 2 - Group and Treasury Share Transactions' was early adopted in the 2006 financial year. Where the parent company grants rights to its equity instruments to employees of a subsidiary, the parent recognises the share based payment transaction in its separate financial statements as an increase in equity and in the cost of its investment in that subsidiary.

Cash Flow Statement

The Company has taken the exemption afforded by FRS 1 not to disclose a cash flow statement.

Notes to the Financial Statements

31 December 2007

2. Operating loss

Operating loss is arrived at after charging:

Group	2007 £'000	2006 £'000
Amortisation of intangible assets	22	22
Depreciation of property, plant and equipment	215	84
Personnel expenses	2,355	1,720
Research and development costs	295	154
Auditors' remuneration		
Fees payable to the Company's auditors for the audit of the financial statements	11	7
Fees payable to the Company's auditors and its associates for other services	-	-
Audit of the financial statements of the Company's subsidiary companies pursuant to legislation	6	5
Other services relating to taxation	-	-
Operating leases		
land and buildings	72	45
plant and machinery	-	-
	=====	=====

3. Segmental analysis

In the opinion of the directors, the business activities of the Group and the geographical area in which it operates, that is, solely the development of fuel cell technology from a base in the UK, are such that there no further business segment analysis would be required.

Notes to the Financial Statements

31 December 2007

4. Personnel expenses

Average monthly number of employees, including directors:

Group	2007 No	2006 No
Management and administration	7	5
Commercial	1	-
Technical	20	15
	<hr/>	<hr/>
	28	20
	<hr/> <hr/>	<hr/> <hr/>

Staff costs, including directors:	2007 £'000	2006 £'000
Wages, salaries and fees	1,243	901
Company contribution to stakeholder pension scheme	22	-
Compulsory social security contributions	140	93
Cost of employee share schemes	950	726
	<hr/>	<hr/>
	2,355	1,720
	<hr/> <hr/>	<hr/> <hr/>

The Company had no employees other than its directors. The directors were not remunerated for their services to the Company.

Directors' remuneration

The total of fees, bonuses and expenses of the directors for the year ended 31 December 2007 was as follows:

	Fees and expenses £'000	Bonus £'000	Compensation for loss of office £'000	2007 £'000	2006 £'000
JW Halfpenny	125	-	-	125	155
MA Priestnall – resigned 21 August 2007	73	-	30	103	125
GM Edge	20	-	-	20	20
G Crawford	-	-	-	-	-
TM Curtis	20	-	-	20	-
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
	238	-	30	268	300
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

The highest paid director earned £125,000 during the year (2006: £155,000).

Notes to the Financial Statements

31 December 2007

4. Personnel expenses (continued)

Directors' shareholdings

The present directors of the Company are set out on page 8. The directors had the following interests in the share capital of the Company as at 31 December 2007 as follows:

	31 December 2007 Ordinary 10p Shares Number	31 December 2006 or date of appointment Ordinary 10p Shares Number
G Crawford (1)	852,273	852,273
G M Edge	-	-
J W Halfpenny (2)	82,110	82,110
T M Curtis	-	-

(1) CF Group Holding Ltd is the holder of these shares. Gordon Crawford is the sole shareholder of CF Group Holding Ltd.

(2) John Halfpenny's shares are registered in the name of his wife, Sharen Mary Halfpenny.

Directors' interests in share options

The directors of the Company who served in the period had share options in the ordinary share capital of the Company at 31 December 2007 as follows:

EMI approved share option scheme

	Description	At 1 January 2007 Number	Granted in current year Number	Lapsed/ Exercised in year Number	At 31 December 2007 Number	Exercise price per share pence	Exercise periods
J W Halfpenny	Ordinary 10p shares	82,110	-	-	82,110	6.26p	1/9/05 – 30/8/14 (i)
J W Halfpenny	Ordinary 10p shares	205,800	-	-	205,800	46.09p	21/7/06 – 20/7/15 (ii)
M A Priestnall	Ordinary 10p shares	216,930	-	(72,310)	144,620	46.09p	(iii)

Unapproved share option scheme

	Description	At 1 January 2007 Number	Granted in current year Number	Lapsed/ Exercised In year Number	At 31 December 2007 Number	Exercise price per share pence	Exercise Periods
J W Halfpenny	Ordinary 10p shares	789,250	-	-	789,250	46.09p	21/7/06 – 20/7/15 (ii)
M A Priestnall	Ordinary 10p shares	114,660	-	(38,220)	76,440	46.09p	(iii)

No other directors have been granted share options in the Company or other Group entities.

Notes to the Financial Statements

31 December 2007

4. Personnel expenses (continued)

- (i) Options vested on 1 September 2005 and have not yet been exercised.
- (ii) Options vest one third per annum over three years, the first tranche vesting on 1 July 2006, dependent upon continued employment with the Company and agreed performance criteria.
- (iii) Upon Mr Priestnall's resignation from the Company on 21 August 2007, 221,060 of his outstanding share options vested and the remainder lapsed. The vested options are exercisable at any time up until 21 August 2009.

The performance criteria upon which these share options are deemed to vest involve the achievement of targets specifically tailored for each individual director. The performance criteria include factors such as the delivery of business and technology plan objectives, satisfactory execution of corporate strategy and objectives, satisfactory motivation of staff and protection and development of the IP portfolio.

As at 31 December 2007, the quoted mid-market share price of the Company was 42p. The highest and lowest quoted mid-market price during the year to 31 December 2007 was 164.5p and 38p respectively.

Key Management

Key management are those persons having the authority and responsibility for planning, directing and controlling the activities of the Company, either directly or indirectly, including all directors (whether executive or otherwise).

	2007 £'000	2006 £'000
Short-term employee benefits	647	559
Equity compensation benefits	751	752
	<u>1,398</u>	<u>1,311</u>

Share option costs

During the period, the Company granted for the benefit of directors and employees, the following options under the option schemes noted:

Notes to the Financial Statements

31 December 2007

4. Personnel Expenses (continued)

EMI option scheme

The EMI scheme is intended to allow options to be granted which benefit from favourable tax treatment under the relevant legislation. As at 31 December 2007, the Company had issued qualifying EMI options over ordinary shares as follows:

At 1st January 2007 Number	Granted Number	Exercised Number	Lapsed Number	At 31 December 2007 Number	Exercise Price per share pence	Fair Value price per share pence	Exercise dates
82,110	-	-	-	82,110	6.26p	125.1p	1/9/05 to 30/8/14
639,660	-	-	(72,310)	567,350	46.09p	126.4p	21/7/06 – 20/7/15(i)
84,000	-	-	-	84,000	46.09p	126.6p	1/8/06 – 31/7/15(i)
10,360	-	-	-	10,360	46.09p	126.6p	1/9/06 – 30/8/15 (i)
6,860	-	-	(6,860)	-	46.09p	126.6p	4/9/06 – 3/9/15 (i)
24,500	-	-	-	24,500	176p	70.9p	9/1/07 – 8/1/16 (i)
6,860	-	-	(6,860)	-	220p	60.1p	1/3/07 – 29/2/16 (i)
6,860	-	-	-	6,860	215p	62.1p	23/5/07 – 22/5/16 (i)
39,000	-	-	(6,000)	33,000	192.5p	68.2p	14/6/07 – 13/6/16 (ii)
6,000	-	-	(3,000)	3,000	176.5p	72.7p	26/6/07 – 25/6/16 (i)
3,000	-	-	-	3,000	160.5p	77.9p	31/7/07 – 30/7/16 (i)
9,860	-	-	(6,860)	3,000	155.5p	80.2p	4/9/07 – 3/9/16 (i)
12,000	-	-	(12,000)	-	155.5p	80.2p	5/9/07 – 4/9/16 (i)
6,860	-	-	-	6,860	167.5p	76.5p	25/9/07 – 24/9/16 (i)
58,650	-	-	-	58,650	170.5p	80.3p	2/10/07 – 1/10/16 (i)
-	90,384	-	(40,384)	50,000	149.5p	40.1p	1/3/08 – 28/2/17 (i)
-	12,000	-	-	12,000	70p	18.4p	28/8/08 – 27/8/17 (i)
<u>996,580</u>	<u>102,384</u>	<u>-</u>	<u>(154,274)</u>	<u>944,690</u>			

Unapproved share option scheme

As at 31 December 2007, the Company had issued unapproved share options over ordinary shares as follows:

At 1 January 2007 Number	Granted Number	Exercised Number	Lapsed Number	At 31 December 2007 Number	Exercise price per share pence	Fair value price per share pence	Exercise Dates
1,018,570	-	-	(38,220)	980,350	46.09p	126.4p	21/7/06 – 20/7/15 (i)
7,350	-	-	-	7,350	170.5p	70.5p	2/10/07 – 1/10/16 (i)
-	9,616	-	(9,616)	-	149.5p	29.0p	28/8/08 – 27/8/10(i)
-	66,000	-	-	66,000	149.5p	6.7p	2/10/08 – 1/10/17(i)
<u>1,025,920</u>	<u>75,616</u>	<u>-</u>	<u>(47,836)</u>	<u>1,053,700</u>			

Notes to the Financial Statements

31 December 2007

4. Personnel Expenses (continued)

i) Options vest one third annually commencing on the first anniversary of the date of grant, dependant upon vesting criteria being met. Vesting criteria include continued employment within the Company and the achievement of personal milestone targets set for each individual option holder upon grant.

ii) Options vest on the same basis as in (i) above save for the fact that they vest one fifth annually.

A charge of £950,000 (2006: £726,000) has been made in the consolidated income statement to spread the fair value of the share options under the EMI and Unapproved schemes according to the vesting period of the award.

The exercise price was the market value of the shares on the date all of the options were granted.

Assumptions used in the valuation of share option costs

In calculating the fair value of the share option costs under the EMI share option and the Unapproved Share Option schemes, the Group has used the Black-Scholes model. The fair value of the share options under the schemes is shown above and the assumptions used in the calculation of their fair value on the date of grant were as follows:

	31 December 2007	31 December 2006
Weighted average value of options	£1.32	£1.19
Exercise price	46.09p– 220.0p	46.09p – 220.0p
Expected life of option	3 – 5 vesting period, 3 – 10 year exercise period	3 – 5 vesting period, 3 – 10 year exercise period
Risk-free interest rate	4.23%	4.73%
Effects of early exercise	10%-20% leavers per annum	10% leavers per annum

Expected volatility was determined using the historic volatility of the Company's share price over the expected life of the option.

At the date of grant, it was assumed that the non-market performance conditions for all awards would be met. Adjustments will be made in future periods, where necessary, to reflect updated assessments of whether the performance conditions will be met. The share option expense also takes into account the expected and actual lapses over the vesting period as a result of cessation of employment.

It was assumed that no dividend income stream would ensue during the vesting period.

Notes to the Financial Statements

31 December 2007

4. Personnel Expenses (continued)

Weighted average options

	Weighted average share price	Number of options	Weighted average Share price	Number of options
	December 2007	December 2007	December 2006	December 2006
Approved options				
Outstanding at 1 January	65.8p	996,580	42.1p	822,990
Granted	140.2p	102,384	178.0p	173,590
Lapsed	102.5p	(154,274)	Nilp	-
	<hr/>	<hr/>	<hr/>	<hr/>
Outstanding at 31 December	67.8p	944,690	65.8p	996,580
	<hr/>	<hr/>	<hr/>	<hr/>
Exercisable at 31 December	50.7p	617,747	36.1p	329,070
Unapproved options				
Outstanding at 1 January	47.0p	1,025,920	46.1p	1,018,570
Granted	149.5p	75,616	170.5p	7,350
Lapsed	66.9p	(47,836)	Nilp	-
	<hr/>	<hr/>	<hr/>	<hr/>
Outstanding at 31 December	53.4p	1,053,700	47.0p	1,025,920
	<hr/>	<hr/>	<hr/>	<hr/>
Exercisable at 31 December	50.2p	705,947	47.0p	341,973

Included in the approved options above, is a total of 82,110 options which were granted and became exercisable prior to the adoption of IFRS2.

5. Finance Income

	2007 £'000	2006 £'000
Bank interest receivable	524	523
	<hr/>	<hr/>

Notes to the Financial Statements

31 December 2007

6. Income tax expense in the income statement

	2007 £'000	2006 £'000
United Kingdom Corporation tax		
Total tax on income for the year	-	-
UK Research and Development tax credits earned	210	-
	<hr/>	<hr/>
	210	-
	<hr/> <hr/>	<hr/> <hr/>
 Total tax reconciliation	 2007 £'000	 2006 £'000
Loss on ordinary activities before taxation	(3,048)	(2,028)
	<hr/>	<hr/>
Theoretical tax credit at UK Corporation tax rate of 20% (2006: 19%)	(609)	(385)
Effects of:		
amounts not deductible for tax purposes	47	19
share option tax credit	190	138
trading losses carried forward	372	228
Research and Development tax credits receivable	210	-
	<hr/>	<hr/>
Actual taxation credit	210	-
	<hr/> <hr/>	<hr/> <hr/>

7. Loss per Share

	2007 Pence	2006 Pence
Basic and diluted loss per share	13.97p	9.99p
	<hr/> <hr/>	<hr/> <hr/>

The basic and diluted loss per share are based on the loss for the financial year of £2,838,000 (2006: £2,028,000) and on ordinary shares of 20,304,846 the weighted average number of shares in issue during the year (2006: 20,304,846).

As dilution cannot decrease the loss per share, options are non-dilutive and hence the basic and diluted loss per share are the same

Notes to the Financial Statements

31 December 2007

8. Intangible assets

	Intellectual Property £'000
Cost	
At 1 January 2006	111
Additions	-
	<hr/>
At 1 January 2007	111
Additions	-
	<hr/>
At 31 December 2007	111
	<hr/>
Amortisation	
At 1 January 2006	48
Charge for year	22
	<hr/>
At 1 January 2007	70
Charge for year	22
	<hr/>
At 31 December 2007	92
	<hr/>
Net book value	
At 31 December 2007	19
	<hr/> <hr/>
At 31 December 2006	41
	<hr/> <hr/>

There was no impairment charge made to the value of the intangible assets during the year.

Notes to the Financial Statements

31 December 2007

9. Property, Plant and Equipment

Group	Furniture, fixtures and fittings £'000	Leasehold Improvements £'000	Plant and Machinery £'000	Total £'000
Cost				
At 1 January 2006	-	-	70	70
Additions	124	79	373	576
At 1 January 2007	124	79	443	646
Additions	11	-	228	239
At 31 December 2007	135	79	671	885
Depreciation				
At 1 January 2006	-	-	23	23
Charge for year	19	13	52	84
At 1 January 2007	19	13	75	107
Charge for year	33	30	152	215
At 31 December 2007	52	43	227	322
Net book value				
At 31 December 2007	83	36	444	563
At 31 December 2006	105	66	368	539

10. Non-current assets: Investments

Company	Ordinary shares issued £'000	Capital contribution £'000	Investments in Group undertakings £'000
Cost and net book value			
On incorporation	-	-	-
Ordinary shares issued 30 September 2005	1,360	-	1,360
Capital contribution	-	1,113	1,113
At 1 January 2007	1,360	1,113	2,473
Capital contribution	-	950	950
At 31 December 2007	1,360	2,063	3,423

The Capital contribution relates to share based remuneration provided to the subsidiary.

Notes to the Financial Statements

31 December 2007

10. Non-current assets: Investments (continued)

The following were subsidiary undertakings at the end of the year and have been included in the consolidated financial statements.

Name	Country of incorporation	Proportion of the voting rights and share capital held by the Group and Company	Nature of business
CMR Fuel Cells (UK) Limited	England and Wales	100%	Fuel cell developer

11. Current assets: Trade and other receivables

	Group 2007 £'000	Group 2006 £'000	Company 2007 £'000	Company 2006 £'000
Prepayments	425	167	-	-
Amounts due from subsidiary company	-	-	10,256	10,352
	<u>425</u>	<u>167</u>	<u>10,256</u>	<u>10,352</u>

12. Cash and cash equivalents

	1 January 2007 £'000	Cash flow £'000	31 December 2007 £'000
Cash at bank and in hand	262	(24)	238
Short term deposits	10,325	(2,126)	8,199
	<u>10,587</u>	<u>(2,150)</u>	<u>8,437</u>

As at 31 December 2007, the Company is exposed to changes in market interest rates on interest earnings from its short term deposits. The Company manages its cash and short term deposits to meet its working capital requirements for periods up to 30 days at a time.

The effective interest rate on short term deposits held by the Company was 5.5% (2006: 4.6%). The deposits outstanding at the balance sheet date have an average maturity of 14 days (2006: 40 days).

Notes to the Financial Statements

31 December 2007

13. Current liabilities: Trade and other payables

	Group 2007 £'000	Group 2006 £'000	Company 2007 £'000	Company 2006 £'000
Trade payables	29	55	-	-
Social security and other taxes	34	36	-	-
Accruals and deferred income	98	72	-	-
	<u>161</u>	<u>163</u>	<u>-</u>	<u>-</u>

14. Deferred Income Taxes

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred tax relates to the same fiscal authority.

The Group and Company have deferred taxation not recognised, which comprises the following (assets) and liabilities:

	Group 2007 £'000	Group 2006 £'000	Company 2007 £'000	Company 2006 £'000
Trading losses	(695)	(323)	-	-
Share option tax credit	(401)	(211)	-	-
	<u>(1,096)</u>	<u>(534)</u>	<u>-</u>	<u>-</u>

Given that the Company is in its development phase and due to uncertainty surrounding future profits, the directors consider it inappropriate to recognise deferred tax assets in respect of the trading losses.

15. Called up Share Capital

	2007 £'000	2006 £'000
Authorised		
34,000,000 ordinary shares of 10p each	3,400	3,400
	<u>3,400</u>	<u>3,400</u>
Allotted issued and fully paid		
20,304,846 ordinary shares of 10p each	2,030	2,030
	<u>2,030</u>	<u>2,030</u>

Details of share options granted over shares in the Company are given in note 4.

Notes to the Financial Statements

31 December 2007

16. Financial Commitments

Operating leases

The payments which the Group is committed to make under operating leases are as follows:

	2007 £'000	2006 £'000
Land and buildings, leases expiring		
Within one year	133	57
Between two and five years	267	97
Over five years	-	-
	<u> </u>	<u> </u>

The Company currently leases a property in Cambridge. There is a break clause in the Company's rental agreement on 1 March 2009 at which time a rent review will take place. In the opinion of the directors, no contingency is required in respect of provision for making good the property should the lease not be renewed.

18. Financial Instruments

Interest Rate and currency of cash balances

Floating rate financial assets (excluding short term current assets and liabilities) comprise:-

Group	As at 31 December 2007 £'000	As at 31 December 2006 £'000
Sterling	8,435	10,585
US Dollar	2	2
	<u> </u>	<u> </u>
	8,437	10,587
	<u> </u>	<u> </u>

The fair value of the floating rate financial assets is not materially different from their book value.

Treasury policy

The Group's operations are primarily financed by the cash originally raised by the Group in the placing of shares in December 2005.

Conscious of the fact that Group is still in its development phase, the Group's policy towards using financial instruments is to manage credit, interest rate and liquidity risk without exposing the Group to undue risk or speculation. The policy is kept under review by the directors according to the Group's treasury policy.

Notes to the Financial Statements

31 December 2007

18. Financial Instruments continued

All financial instruments are held in cash or short term deposits. The Group monitors its exposure to credit risk on an ongoing basis. Cash investments are only allowed in liquid securities with major financial institutions that satisfy specific criteria.

The maximum credit risk exposure at the balance sheet date is represented by the carrying value of financial assets and there are no significant concentrations of credit risk. The Group has minimal trade receivables at any one time.

The weighted average interest rate earned over the year on the financial instruments was 5.5% (2006: 4.5%). By comparison, the average Bank of England Base rate over the same period was 5.5% (2006: 4.6%).

The amount of financial assets of the Group denominated in foreign currency and any consequent risk is negligible.

19. Reserves

Company	Issued share capital	Share premium account	Profit and loss account	Shares to be issued	Total
	£'000	£'000	£'000	£'000	£'000
A 1 January 2007	2,030	9,776	(94)	1,113	12,825
Loss for the year	-	-	(96)	-	(96)
Share option costs	-	-	-	950	950
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2007	2,030	9,776	(190)	2,063	13,679
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>