

Wafer Technology Limited
Report and financial statements
for the year ended 31 December 2022



Wafer Technology Limited
Report and financial statements
for the year ended 31 December 2022

Registered number: 01829722

Contents

Directors and advisers for the year ended 31 December 2022	1
Strategic' report for the year ended 31 December 2022.....	2
Directors' report for the year ended 31 December 2022	4
Profit and loss account for the year ended 31 December 2022	7
Balance sheet as at 31 December 2022.....	8
Statement of changes in equity for the year ended 31 December 2022.....	9
Notes to the financial statements for the year ended 31 December 2022.....	10

Directors and advisers for the year ended 31 December 2022

Directors

Dr M J Furlong (resigned 9 February 2023)

Mr T Pullen (resigned 7 June 2023)

Dr A W Nelson (resigned 10 January 2022)

Mr A Lemos (appointed 10 January 2022)

Mr N J Rummings (appointed 7 June 2023)

Secretary

I A Dale

Registered Office

Pascal Close

St Mellons

Cardiff

CF3 0LW

Bankers

HSBC Bank plc

97 Bute Street

Cardiff

CF10 5NA

Strategic report for the year ended 31 December 2022

The directors present their report and the financial statements of the Company for the year ended 31 December 2022.

Business review

The Company's principal activities continue to focus on the research, development, manufacture and sale of a comprehensive range of semi-conductor compounds and ultra-high purity materials. The company is a *global leader in the supply of InSb and GaSb wafers for advanced Infrared technology.*

The Company continues to invest in research and development to develop cutting edge high quality Infrared materials for both commercial and defence and security applications which is critical to ensure the Company retains its competitive advantage.

Financial Review

The Company reported revenue of £11,036,000 (2021: £8,096,000) and made a profit for the financial year of £3,493,000 (2021: £747,000) as the demand for Infrared materials continues to remain strong.

The increase in revenues reflects the re-phasing of certain aerospace and security orders from 2021 into 2022 and a foreign exchange tailwind. The increase in gross profit to £4,183,000 (2021: £1,830,000) reflects an increase in sales volume and an increase in gross margin to 37.9% (2021: 22.6%) during the year. Gross margin increase reflects high operational gearing of the Company with better utilisation of the installed asset base. Administrative expenses have been controlled carefully during the current year with the increase in cost to £1,151,000 (2021: £1,059,000) principally reflecting inflationary cost pressure. The increase in gross profit, combined with control of administrative expenses has resulted in a significant increase in operating profit to £3,074,000 (2021: £771,000) in the year.

Interest receivable of £434,000 (2021: £357,000) relates to interest receivable on loans to fellow group companies whilst the low tax charge of £1,000 (2021: £367,000) reflects the impact of group relief claimed for no payment from fellow IQE group companies.

The increase in profit for the financial year to £3,493,000 (2021: £1,114,000) primarily reflects a combination of an increase in sales and gross profit margin, partially offset by low levels of controlled increases in administrative expenses.

The directors are satisfied with the performance of the business during the year, the position at year end and are confident in the future prospects of the Company.

Key performance indicators

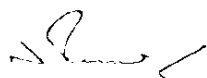
Given the nature of the business, the Company's directors are of the opinion that analysis using key performance indicators beyond the financial metrics given above is not necessary for an understanding of the development, performance or position of the business.

**Strategic report for the year ended 31 December 2022
(continued)**

Principal risks and uncertainties

From the perspective of the Company, the principal risks and uncertainties are integrated with the principal risks of the Group and are not managed separately. Accordingly, the principal risks and uncertainties facing the Company are reflected in the principal risks and uncertainties reported in the Strategic Report of the ultimate parent company, IQE plc, which does not form part of this report.

By order of the Board



Mr N J Rummings
Director
30 June 2023

Directors' report for the year ended 31 December 2022

The directors present their annual report and the financial statements of the Company for the year ended 31 December 2022.

Principal activities

The Company's principal activities during the year continued to be the research, development, manufacture and sale of a comprehensive range of semi-conductor compounds and ultra-high purity materials primarily for infrared applications.

The Company develops and manufactures advanced substrate materials which are primarily used for a range of optoelectronic applications including infra-red detectors and thermal imaging devices.

Business review

The business review is set out in the strategic report on page 2.

Results and dividends

The profit for the financial year amounted to £3,493,000 (2021: £747,000).

The directors do not recommend the payment of a final dividend (2021: £nil). An interim dividend in specie of £9,263,000 (2021: £nil) was declared and paid to the immediate parent company, Wafer Technology International Limited during the year.

Directors

The directors of the Company, who were in office during the year and up to the date of signing the financial statements unless otherwise stated, are set out on page 1.

Research and development

The Company incurred costs in respect of research and development during the year of £579,000 (2021: £400,000). All research and development expenditure is charged to the profit and loss account in the period in which it is incurred.

Political and charitable donations

There were no political donations during the year (2021: £nil). Charitable donations made to local charities during the year totalled £3,000 (2021: £1,000).

Going concern

The directors, after making enquiries, have considered the future prospects of the company and have a reasonable expectation that it will have adequate resources to continue operating for the foreseeable future and therefore the going concern basis has been adopted in preparing these financial statements.

Directors' report for the year ended 31 December 2022 (continued)

Financial risk management

The Company's activities expose it to a number of financial risks including foreign exchange risk, credit risk and interest rate risk.

Treasury

The IQE plc Group operates a central treasury function which acts in accordance with specific board policies. Speculative transactions are not permitted.

Interest rate risk

The Group is financed with Group wide facilities therefore interest rate risk is managed on a Group wide basis. The risks associated with changes in interest rates is regularly reviewed by the Group and its exposure to interest rate risk, in particular the mix between fixed and floating rate facilities. The Board does not speculate on future changes in interest rates.

Credit risk

Many of the Company's customers are part of large, multinational, high-tech organisations and the credit risk is therefore generally considered to be relatively low. Where the Company does perceive a credit risk, this is dealt with either by up-front payment prior to the shipment of goods or by other credit risk mitigation measures. As a result, the Company has historically had and continues to have a low level of payment default.

Currency risk – Cash flow risk

The Company's functional currency is sterling.

The company has transactional exposure to US dollars and Yen. The Company's cash flows are affected by fluctuations in the rate of exchange between Sterling, US dollar and the Yen, and to a much lesser extent, the Company also has exposures to other currencies including Euros.

The Group actively seeks to manage this where possible by establishing natural currency hedges, matching the currency of material purchases to the sales made in foreign currency on a group wide basis.

Where this is not possible the Company management team work in conjunction with the Group Treasury team to forecast the foreign currency exposures and monitor foreign currency rates as part of its ongoing evaluation of the cost versus benefit of using forward contracts to manage any residual foreign currency exposure. Any forward cover obtained would be purely for hedging purposes as speculative transactions are not permitted. The Company did not enter into any forward contracts during 2022.

Directors' report for the year ended 31 December 2022 (continued)

Statement of directors' responsibilities

The directors are responsible for preparing the Strategic report, Directors' report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law, the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting standards, comprising Financial Reporting Standard 102 'The Financial Reporting Standard Applicable in the UK and Republic of Ireland' (FRS 102), and applicable law).

Under company law, the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

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

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and 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 2006. 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.

Qualifying third party indemnity provisions

The company has granted to the Directors of the company a deed of indemnity which constitutes a third-party indemnity provision for the purposes of the Companies Act 2006. In addition, the company has in place appropriate Directors and Officers liability insurance cover which has been in place for the entire year and at the date of approval of the financial statements.

Audit Exemption

Wafer Technology Limited is exempt from the requirements to file audited accounts by virtue of section 479A of the Companies Act 2006. A statutory guarantee has been provided to Wafer Technology Limited by IQE plc, the ultimate controlling party.

Small company provisions

This report has been prepared in accordance with the special provisions relating to small companies within Part 15 of the Companies Act 2006.

By order of the Board



Mr N J Rummings
Director
30 June 2023

Profit and loss account for the year ended 31 December 2022

	Note	2022 £'000	2021 £'000
Turnover	3	11,036	8,096
Cost of sales		(6,853)	(6,266)
Gross profit		4,183	1,830
Administration expenses		(1,151)	(1,059)
Other income		42	-
Operating profit	4	3,074	771
Interest receivable and similar income	8	434	357
Interest payable and similar charges	8	(14)	(14)
Profit on ordinary activities before taxation		3,494	1,114
Tax on profit on ordinary activities	9	(1)	(367)
Profit for the financial year	18	3,493	747
Total comprehensive income for the year		3,493	747

All the results above arise from continuing activities.

Wafer Technology Limited

Registered number: 01829722

Balance sheet as at 31 December 2022

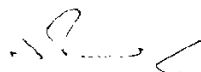
	Note	2022 £'000	2021 £'000
Fixed assets			
Tangible assets	10	3,830	3,788
		3,830	3,788
Current assets			
Stocks	11	3,154	2,842
Debtors	12	3,811	9,619
Cash at bank and in hand		409	595
		7,374	13,056
Creditors: amounts falling due within one year	13	(1,862)	(1,740)
Net current assets		5,512	11,316
Total assets less current liabilities		9,342	15,104
Creditors: amounts due greater than one year	14	(15)	(22)
Net assets		9,327	15,082
Capital and reserves			
Called-up share capital	17	2,058	2,058
Other reserve		110	110
Profit and loss account	18	7,159	12,914
Total shareholders' funds		9,327	15,082

Subsidiary Audit Exemption

For the financial year in question the company was entitled to exemption under section 479a of the Companies Act 2006. No members have required the company to obtain an audit of its accounts for the year in question in accordance with section 476 of the Companies Act 2006.

The directors acknowledge their responsibility for complying with the requirements of the Act with respect to accounting records and for the preparation of accounts.

The financial statements on pages 6 to 25 were approved by the board of directors on 30 June 2023 and were signed on its behalf by:



Mr N J Rummings
Director
30 June 2023

Statement of changes in equity for the year ended 31 December 2022

	Called up share capital £'000	Other reserves £'000	Profit and loss account £'000	Total £'000
At 1 January 2022	2,058	110	12,914	15,082
Comprehensive income for the financial year				
Profit for the year	-	-	3,493	3,493
Credit relating to equity settled share-based payments	-	-	15	15
Total comprehensive income for the financial year	-	-	3,508	3,508
Contributions by and distributions to owners				
Dividends declared and paid	-	-	(9,263)	(9,263)
Total transactions with owners	-	-	(9,263)	(9,263)
At 31 December 2022	2,058	110	7,159	9,327

	Called up share capital £'000	Other reserves £'000	Profit and loss account £'000	Total £'000
At 1 January 2021	2,058	110	12,142	14,310
Comprehensive income for the financial year				
Profit for the year	-	-	747	747
Credit relating to equity settled share-based payments	-	-	25	25
Total comprehensive income for the financial year	-	-	772	772
At 31 December 2021	2,058	110	12,914	15,082

**Notes to the financial statements for the year ended
31 December 2022 (continued)**

**Notes to the financial statements for the year ended 31 December
2022**

1 Accounting policies

General information

Wafer Technology Limited researches and develops specialist infrared semiconductor materials. The company manufactures in the UK and primarily sells its materials to customers in the US and Asia.

The company is a private company limited by shares and is incorporated and domiciled in England. The address of the registered office is Pascal Close, St Mellons, Cardiff, CF3 0LW.

Statement of compliance

The individual financial statements of Wafer Technology Limited have been prepared in compliance with United Kingdom Accounting Standards, including Financial Reporting Standard 102, "The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland" ("FRS 102") and the Companies Act 2006.

Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless stated otherwise.

Basis of preparation

These financial statements are prepared on a going concern basis, under the historical cost convention as modified by the revaluation of certain financial assets and liabilities measured at fair value through profit and loss and in accordance with FRS 102 and the Companies Act 2006.

The preparation of financial statements in conformity with FRS 102 requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 2.

Going concern

The company meets its working capital requirements through a combination of cash generated from operations and funding from its ultimate parent company, IQE plc.

IQE plc meets its day-to-day working capital and other cash requirements through its bank facilities and available cash. The Group's severe but plausible downside cash flow forecasts and projections show that the Group has adequate cash resources to continue operating for the foreseeable future following the refinancing of the Group's £28,688,000 (\$35,000,000) multi-currency revolving credit facility provided by HSBC Bank plc on 16 May 2023 and the successful £31,099,000 equity fund raise completed on 18 May 2023.

The directors have assessed the Group's funding requirements and after making enquiries, including consideration of the future prospects of the Company have a reasonable expectation that the Company will have adequate resources to continue operating for the foreseeable future with the continued support of the ultimate parent company, IQE plc. The directors have received confirmation that IQE plc intends to support the Company for at least 12 months after these financial statements are approved and therefore the going concern basis has been adopted in preparing these financial statements.

**Notes to the financial statements for the year ended
31 December 2022 (continued)**

1 Accounting policies (continued)

Exemptions for qualifying entities under FRS 102

FRS 102 allows certain disclosure exemptions for qualifying entities. The company has taken advantage of the available exemptions stated below as the information is contained in the consolidated financial statements of IQE plc as at 31 December 2022 which can be obtained from the Company Secretary at Pascal Close, Cardiff, CF3 0LW.

Cash Flows

The Company has taken advantage of the exemption, under FRS 102 paragraph 1.12(b), from preparing a statement of cash flows on the basis that it is a qualifying entity and its ultimate parent company, IQE plc includes the company's cash flows in its own consolidated financial statements.

Financial Instruments

An exemption for certain financial instrument disclosures has been taken under FRS 102 paragraph 1.12(c) on the basis that it is a qualifying entity and its ultimate parent company, IQE plc includes the financial instrument disclosures in its own consolidated financial statements.

Share Based Payments

The Company has taken advantage of the exemption, under paragraph 1.12(d), from certain share-based payment disclosures on the basis that it is a subsidiary of IQE plc and the share-based payments concern equity instruments of the group entity.

Key Management Compensation

An exemption has been taken for the non-disclosure of key management personnel compensation under FRS 102 paragraph 1.12(e) on the basis that the Company's ultimate parent company IQE plc includes this in its own consolidated financial statements.

Related Party Transactions

The Company has taken advantage of the exemption, under FRS 102 paragraph 33.1a from disclosing transactions with members of the same group that are wholly owned.

**Notes to the financial statements for the year ended
31 December 2022 (continued)**

1 Accounting policies (continued)

Turnover

Revenue is measured at the fair value of the consideration received or receivable and represents the amount receivable for goods supplied or services rendered, net of returns, discounts and rebates allowed by the company and value added taxes.

The company recognises revenue when (a) the significant risks and rewards of ownership have been transferred to the buyer; (b) the company retains no continuing involvement or control over the goods; (c) the amount of revenue can be measured reliably; (d) it is probable that future economic benefits will flow to the entity and (e) when the specific criteria relating to each of company's sales channels have been met.

Revenue is recognised when goods are delivered and have been accepted by customers. For contracts that permit the customer to return an item, revenue is recognised to the extent that it is highly probable that a significant reversal in the amount of revenue recognised will not occur.

The amount of revenue recognised is adjusted for expected returns, which are estimated based on historical data for each specific type of product, with a refund liability recognised as part of provisions. The Company reviews its estimate of expected returns at each reporting date and updates the amounts of any liability accordingly.

Research and development

Research and development expenditure is charged to the profit and loss account in the period in which it is incurred.

Employee benefits

The Company provides a range of benefits to employees, including annual bonus arrangements, paid holiday arrangements, defined contribution pension plans and share based payments.

- (i) Short term benefits - Short term benefits, including holiday pay and other similar non-monetary benefits, are recognised as an expense in the period in which the service is received.
- (ii) Defined contribution pension plans - The Company operates a defined contribution pension scheme. A defined contribution plan is a pension plan under which the company pays fixed contributions into a separate entity. Contributions are charged to the profit and loss account as they become payable in accordance with the rules of the scheme.
- (iii) Share based payments - Under the IQE plc Share Option Scheme, the scheme participants are eligible for the grant of share options in the Ultimate Parent Company. These have vesting periods of 3 years and can be exercised within 10 years from the date of grant, subject to performance criteria relating to a combination of earnings per share, total shareholder return and the achievement of group wide strategic and personal objectives. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted which is calculated using the Black-Scholes option pricing model or a Monte-Carlo pricing model.
- (iv) Termination benefits - Termination benefits are recognised when the company is demonstrably committed either to terminate the employment of an employee or group of employees before the normal retirement date, or to provide termination benefits as a result of an offer made in order to encourage voluntary redundancy. Termination benefits are recognised at the best estimate of the expenditure that would be required to settle the obligation at the reporting date

**Notes to the financial statements for the year ended
31 December 2022 (continued)****1 Accounting policies (continued)****Finance Leases**

Leases are classified as finance leases when the terms of the lease transfer substantially all the risks and rewards of ownership of the leased asset to the Company. All other leases are classified as operating leases. Assets held under finance leases are recognised initially at the fair value of the leased asset or, if lower, the present value of minimum lease payments at the inception of the lease. The corresponding liability is included in the balance sheet as 'obligations under finance leases' within creditors. Lease payments are apportioned between finance charges and reduction of the lease liability using the effective interest method so as to achieve a constant rate of interest on the remaining balance of the liability. Assets held under finance leases are included in tangible fixed assets and are depreciated and assessed for impairment losses in the same way as owned assets.

Operating Leases

Leases that do not transfer all the risks and rewards of ownership are classified as operating leases. Costs in respect of operating leases are charged in arriving at operating profit on a straight-line basis over the lease term.

Taxation

Income tax on the profit or loss for the year comprises current and deferred tax.

Current tax is the expected tax payable on the taxable income for the year using rates substantially enacted at the balance sheet date, and any adjustments to tax payable in respect of prior years.

Amounts receivable from tax authorities in relation to research and development tax relief under the RDEC scheme are recognised within operating profit in the period in which the research and development costs are treated as an expense. Where amounts are outstanding at the year end and have not been formally agreed, an appropriate estimate of the amount is included within other receivables.

Deferred taxation is provided in full on timing differences that result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and law. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in the financial statements.

Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

Foreign currency translation

- (i) Functional and presentation currency – The Company's functional and presentational currency is GBP.
- (ii) Transactions and balances - Transactions in foreign currencies during the period are recorded in sterling at the rates of exchange ruling at the date of the transaction. Monetary assets and liabilities in foreign currencies are translated into sterling at the rates ruling at the balance sheet date. All exchange differences are taken to the profit and loss account.

**Notes to the financial statements for the year ended
31 December 2022 (continued)****1 Accounting policies (continued)****Tangible fixed assets**

Tangible fixed assets under the cost model are stated at historical cost less accumulated depreciation and provision for impairment. Cost includes the original purchase cost of the asset and the costs attributable to bringing the asset to its working condition for its intended use. Repairs and maintenance costs are expensed as incurred.

Depreciation has been calculated so as to write down the cost of assets to their residual values over the estimated useful economic lives, as follows:

Plant and machinery	-	5 – 20 years
Fixtures and fittings	-	5 – 10 years
Computer equipment	-	5 years
Short leasehold buildings	-	over period of lease

No depreciation is provided on assets in the course of construction. Assets residual values and useful lives are reviewed, and adjusted, if appropriate, at the end of each reporting period. The effect of any change is accounted for prospectively.

Tangible assets are derecognised on disposal or when no future economic benefits are expected. Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in administrative expenses in the profit and loss account.

Impairment of non-financial assets

At each balance sheet date non-financial assets not carried at fair value are assessed to determine whether there is an indication that the asset may be impaired. If there is such an indication, the recoverable amount of the asset is compared to the carrying amount of the asset.

The recoverable amount of the asset is the higher of the fair value less costs to sell and value in use. Value in use is defined as the present value of the future cash flows before interest and tax obtainable as a result of the asset's continued use. These cash flows are discounted using a pre-tax discount rate that represents the current market risk-free rate and the risks inherent in the asset.

If the recoverable amount of the asset is estimated to be lower than the carrying amount, the carrying amount is reduced to its recoverable amount. An impairment loss is recognised in the profit and loss account, unless the asset has been revalued when the amount is recognised in other comprehensive income to the extent of any previously recognised revaluation. Thereafter any excess is recognised in profit or loss.

If an impairment loss is subsequently reversed, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but only to the extent that the revised carrying amount does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised in prior periods. A reversal of an impairment loss is recognised in the profit and loss account.

**Notes to the financial statements for the year ended
31 December 2022 (continued)**

1 Accounting policies (continued)

Stocks

Stocks are stated at the lower of cost and net realisable value. Cost includes all costs incurred in bringing each item to its present location and condition including:

- the purchase cost of direct materials on a first-in and first-out basis;
- the cost of direct labour (for work in progress and finished goods); and
- the cost of attributable overheads based on a normal level of activities.

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

Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities.

Provisions

Provisions are recognised when the company has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount of the obligation can be estimated reliably. Provisions are not made for future operating losses.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as a finance cost.

Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new ordinary shares or options are shown in equity as a deduction, net of tax, from the proceeds.

**Notes to the financial statements for the year ended
31 December 2022 (continued)**

1 Accounting policies (continued)

Financial instruments

Financial assets

Basic financial assets, including trade and other receivables, amounts owed by group undertakings and cash and bank balances are initially recognised at transaction price, unless the arrangement constitutes a financing transaction, where the transaction is measured at the present value of the future receipts discounted at a market rate of interest.

Such assets are subsequently carried at amortised cost using the effective interest method.

At the end of each reporting period financial assets measured at amortised cost are assessed for objective evidence of impairment. If an asset is impaired the impairment loss is the difference between the carrying amount and the present value of the estimated cash flows discounted at the asset's original effective interest rate. The impairment loss is recognised in profit or loss.

If there is a decrease in the impairment loss arising from an event occurring after the impairment was recognised, the impairment is reversed. The reversal is such that the current carrying amount does not exceed what the carrying amount would have been had the impairment not previously been recognised. The impairment reversal is recognised in profit or loss.

Financial assets are derecognised when (a) the contractual rights to the cash flows from the asset expire or are settled, or (b) substantially all the risks and rewards of the ownership of the asset are transferred to another party or (c) control of the asset has been transferred to another party who has the practical ability to unilaterally sell the asset to an unrelated third party without imposing additional restrictions.

Financial liabilities

Basic financial liabilities, including trade and other payables and loans from fellow group companies are initially recognised at transaction price, unless the arrangement constitutes a financing transaction, where the debt instrument is measured at the present value of the future receipts discounted at a market rate of interest.

Debt instruments are subsequently carried at amortised cost, using the effective interest rate method.

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities. Trade payables are recognised initially at transaction price and subsequently measured at amortised cost using the effective interest method.

Financial liabilities are derecognised when the liability is extinguished, that is when the contractual obligation is discharged, cancelled or expires.

**Notes to the financial statements for the year ended
31 December 2022 (continued)**

2 Critical accounting judgements and estimation uncertainty

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Critical judgements in applying the entity's accounting policies

Shared based payments

The company's employees have been granted share options by the ultimate parent company, IQE plc. The company makes use of the exemption in Section 26 of FRS 102 to account for the expense based on a reasonable allocation of the parent's total expense. The company has calculated its allocation of the parent company's total expense based on the participating employees in the company.

Critical accounting estimates and assumptions

The company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

Inventory Provisioning

The company researches and develops advanced semiconductor materials and is subject to changing demands in new technology. As a result, it is necessary to consider the recoverability of the cost of inventory and the associated provisioning required. When calculating the inventory provision, management considered the nature and the condition of the inventory, as well as applying assumptions around anticipated saleability of finished goods and future usage of raw materials. See note 10 for the net carrying amount of the inventory and associated provision.

Wafer Technology Limited

Registered number: 01829722

Notes to the financial statements for the year ended 31 December 2022 (continued)

3 Turnover

An analysis of the Company's turnover by geographical destination is given below:

	2022 £'000	2021 £'000
UK	215	201
Europe	2,373	1,832
North America	4,527	2,790
Far East	3,904	3,268
Other	17	5
	11,036	8,096

4 Operating profit

	2022 £'000	2021 £'000
Operating profit stated is after charging/(crediting):		
Depreciation of tangible fixed assets	363	358
Inventory recognised as an expense	3,866	3,444
Operating lease rentals		
- Land and buildings	245	214
- Plant and equipment	9	11
Exchange (gain)/loss	(49)	11
Research and development tax credit	(42)	(65)

5 Directors emoluments

The directors of the company hold their employment contracts with other group companies. No recharge is made for their emoluments as it is not possible to apportion emoluments across the various group companies.

**Notes to the financial statements for the year ended
31 December 2022 (continued)**
6 Staff costs

	2022	2021
	£'000	£'000
Staff costs		
Wages and salaries	1,651	1,507
Social security costs	181	150
Share option costs	15	25
Other pension costs	220	198
Total	2,067	1,880

	Number	Number
Average number of employees, including directors, during the year	45	45

7 Dividends

	2022	2021
	£'000	£'000
Equity Ordinary - paid		
Interim paid £4.50 (2021: £nil) per £1 share	9,263	-

The interim dividend in specie of £4.50 per £1 ordinary share was satisfied by the transfer of an intercompany receivable of £9,262,503 to Wafer Technology International Limited.

8 Interest income and expense

Finance Income	2022	2021
	£'000	£'000
Loan interest – group companies	434	357
	434	357
Finance Expenses	2022	2021
	£'000	£'000
Bank interest	13	12
Finance lease interest	1	2
	14	14

**Notes to the financial statements for the year ended
31 December 2022 (continued)**

9 Tax on profit on ordinary activities

	2022	2021
	£'000	£'000
Current tax expense	-	-
Deferred tax expense	1	367
	1	367

The tax assessed for the year is lower (2021: higher) than the standard rate of corporation tax in the UK 19.00% (2021: 19.00%). The differences are explained below.

	2022	2021
	£'000	£'000
Profit on ordinary activities before tax	3,494	1,114
Tax on profit on ordinary activities before tax at 19.00% (2021: 19.00%)	664	212
Factors affecting charge for the year:		
Expenses not deductible for tax purposes	10	5
Share option schemes	(1)	-
Group relief claimed not paid	(563)	(42)
Adjustments in respect of prior years	(117)	29
Impact on deferred tax as a result of changes in tax rates	29	163
Other permanent differences	(21)	-
Total tax charge for year	1	367

**Notes to the financial statements for the year ended
31 December 2022 (continued)**

9 Tax on profit on ordinary activities (continued)

Deferred tax liability	2022	2021
	£'000	£'000
At 1 January	(679)	(312)
Income statement charge recognised in the year	(1)	(367)
At 31 December	(680)	(679)

Finance Act 2021, which was substantively enacted on 24 May 2021, included legislation to increase the rate of corporation tax to 25% from 1 April 2023. In the Autumn Statement in November 2022, the UK government confirmed that the increase in corporation tax rate to 25% from 1 April 2023 will go ahead. Accordingly, any closing deferred tax balances in the financial statements have been recognised in accordance with the rate enacted as part of the Finance Act 2021 with any timing differences expected to reverse on or after 1 April 2023 recognised at a corporation tax rate of 25%.

**Notes to the financial statements for the year ended
31 December 2022 (continued)**

10 Tangible fixed assets

	Short leasehold buildings £'000	Fixtures and fittings £'000	Computer equipment £'000	Plant and machinery £'000	Total £'000
Cost					
At 1 January 2022	1,731	1,162	192	10,036	13,121
Additions	-	16	3	386	405
At 31 December 2022	1,731	1,178	195	10,422	13,526
Accumulated Depreciation					
At 1 January 2022	1,725	644	164	6,800	9,333
Charge for year	1	50	8	304	363
At 31 December 2022	1,726	694	172	7,104	9,696
Net book value					
At 31 December 2022	5	484	23	3,318	3,830
At 31 December 2021	6	518	28	3,236	3,788

11 Stocks

	2022 £'000	2021 £'000
Raw materials and consumables	1,644	1,261
Work-in-progress	1,291	1,363
Finished goods	219	218
	3,154	2,842

Inventories are stated after provisions for impairment of £740,000 (2021: £950,000).

**Notes to the financial statements for the year ended
31 December 2022 (continued)****12 Debtors**

	2022	2021
	£'000	£'000
Trade debtors	1,030	518
Amounts owed by group undertakings	482	358
Loan to ultimate parent company	1,936	8,319
Corporation Tax	90	99
Other debtors	154	146
Prepayments	119	179
	3,811	9,619

Amounts owed by group undertakings are due within one year, unsecured and interest free.

The loan to the parent company does not fall due for repayment within one year and has no specified repayment date beyond this point. This loan is unsecured and bears interest at 5%.

Trade debtors are stated after provisions for impairment of £nil (2021: £nil).

13 Creditors: amounts falling due within one year

	2022	2021
	£'000	£'000
Trade creditors	725	468
Amounts owed to group undertakings	253	379
Finance lease (see note 15)	7	7
Taxation and social security	46	38
Deferred tax (note 9)	680	679
Accruals and deferred income	151	169
	1,862	1,740

Amounts owed to group undertakings are unsecured, interest free and repayable on demand.

**Notes to the financial statements for the year ended
31 December 2022 (continued)**

14 Creditors: amounts falling due after more than one year

	2022	2021
	£'000	£'000
Finance lease (see note 15)	15	22
	15	22

15 Obligations under finance lease

	2022	2021
	£'000	£'000
Amounts payable:		
Within one year	7	7
Between one and five years	15	22
	22	29

The finance lease agreement is secured on the assets to which it relates and is repayable in monthly instalments and bears interest at 12.5%.

16 Financial instruments

	2022	2021
	£'000	£'000
Financial assets:		
Financial assets measured at amortised cost	4,011	9,936
Financial liabilities:		
Financial liabilities measured at amortised cost	1,151	876

Financial assets measured at amortised cost comprise trade debtors, amounts owed by group undertakings, loan to parent company, other debtors and cash at bank and in hand.

Financial liabilities measured at amortised cost comprise trade creditors, amounts owed to group undertakings, finance leases and accruals and deferred income.

**Notes to the financial statements for the year ended
31 December 2022 (continued)**

17 Called-up share capital

	2022 Number of shares	2022 £'000	2021 Number of shares	2021 £'000
Authorised				
Ordinary shares of £1 each	2,058,334	2,058	2,058,334	2,058
Deferred shares of £5 each	2,058,334	10,292	2,058,334	10,292
	4,116,668	12,350	4,116,668	12,350
Allotted, called up and fully paid				
Ordinary shares of £1 each	2,058,334	2,058	2,058,334	2,058

18 Profit and loss account

	2022 £'000	2021 £'000
At 1 January	12,914	12,142
Profit for the year	3,493	747
Interim dividend	(9,263)	-
Share based payment costs	15	25
At 31 December	7,159	12,914

**Notes to the financial statements for the year ended
31 December 2022 (continued)****19 Operating lease commitments**

The Company has the following future minimum lease payments under non-cancellable operating leases for each of the following periods:

	2022		2021	
	Land and buildings £'000	Other £'000	Land and buildings £'000	Other £'000
Payments due:				
Within one year	231	9	231	8
Between two and five years	346	2	577	11
More than five years	-	-	-	-
	577	11	808	19

20 Related party transactions

Advantage has been taken of the exemption conferred by FRS102 para 33.1a from disclosing transactions undertaken between this Company and other members of the IQE plc Group as the Company is a 100% owned subsidiary.

21 Pension commitments

The Company operates a defined contribution pension scheme covering all of its employees. Contributions of £220,000 (2021: £198,000) were charged to the profit and loss account in the year in which they were payable. The balance owed to the pension providers at 31 December 2022 is £19,000 (2021: £17,000). All commitments under the pension scheme in respect of the employer's contributions have been met during the year.

22 Contingencies

The company is a party to a cross guarantee with other group companies to guarantee the group indebtedness to the Group's primary bankers. This guarantee is supported by a fixed and floating charge over the assets and undertakings of the company.

23 Parent company and controlling party

The Company's immediate parent Company is Wafer Technology International Limited, a Company registered in England and Wales. The Company's ultimate parent Company and controlling Company is IQE plc, whose financial statements are available from the Company Secretary, Pascal Close, St Mellons, Cardiff, CF3 0LW. IQE Plc is incorporated in England and Wales. This is the smallest and largest group in which the results of the Company are included.