

## **Cambridge Mechatronics Limited**

Financial statements

Year ended 31 December 2010

together with directors' and auditor's reports

Registered number 3071231



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## Company information

### **Directors and officers**

S Calder  
D A Gillett  
Dr A Hooley  
Dr M P Knight  
A Osmant

### **Secretary**

A Osmant

### **Registered office**

The Westbrook Centre  
Cambridge  
CB4 1YG

### **Auditor**

Deloitte LLP  
Chartered Accountants and Statutory Auditors  
Cambridge

### **Bankers**

National Westminster Bank Plc  
10 Bene't Street  
Cambridge  
CB2 3PU

## Directors' report

The directors present their annual report together with the financial statements and independent auditor's report for the year ended 31 December 2010

The directors' report has been prepared in accordance with the provisions applicable to companies entitled to the small companies exemption

### Directors' Responsibilities

The directors are responsible for preparing the Annual 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 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, 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.

### Business review

CML licensees achieved record unit shipments and revenues for surround systems based on CML's patented Digital Sound Projector™ technology during 2010. 2010 revenues from its Shape Memory Alloy (SMA)-based auto-focus actuator technology increased, as the first of the company's licensees entered mass production in Japan. The company has continued to invest in the development of new ASICs to further improve its competitiveness in the miniature camera lens actuator market and has increased its headcount to accelerate the development of its industry changing Optical Image Stabilisation (OIS) solutions for smart-phone cameras. CML sees continued growth for both its audio and auto-focus module businesses in 2011, however it is the rapidly growing interest in the company's OIS solutions that is giving most cause for optimism as Smart Phone cameras have evolved past auto-focus and now need OIS to take them ever closer to the performance levels of Digital Stills Cameras. CML's SMA actuator technology uniquely allows licensees to build smart-phone cameras with OIS and auto-focus functionality in the same form-factor as today's standard miniature auto-focus only offerings.

### Principal activities

The principal activity of the company is that of research and development of electronic actuator for mobile phone cameras and digital loud speaker intellectual property.

### Results and dividends

The audited financial statements for the year ended 31 December 2010 are set out on pages 6 to 16. The retained loss for the year was £1,207,364 (2009 profit – £1,222,321). The directors are unable to recommend the payment of a dividend (2009 - £nil).

## Directors' report (continued)

### Going concern

After making enquiries, the directors have formed a judgement, at the time of approving the financial statements, that there is reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. For this reason, the directors continue to adopt the going concern basis in preparing the financial statements.

### Directors' remuneration

The non-executive directors measure the performance of the executive directors and key members of senior management as a prelude to recommending their annual remuneration, bonus awards and awards of share options to the Board for final determination.

### Directors

The directors who served throughout the year were

D A Gillett (non-executive)

Dr A Hooley

Dr M P Knight (non-executive) (Chairman)

A Osmant

S Calder (Chief Executive)

### Auditor

Each of the persons who is a director at the date of approval of this annual report confirms that

- so far as the director is aware, there is no relevant audit information of which the company's auditor is unaware, and
- the director has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

Deloitte LLP have expressed their willingness to continue in office as auditor and a resolution to reappoint them will be proposed at the forthcoming Annual General Meeting.

By order of the Board



A Osmant

Director

18 February 2011

Suite 15 First Floor,  
Building 6  
Westbrook Centre  
Cambridge  
CB4 1YG

## Independent auditor's report

### To the members of Cambridge Mechatronics Limited

We have audited the financial statements of Cambridge Mechatronics Limited for the year ended 31 December 2010, which comprise the profit and loss account, the balance sheet and the related notes 1 to 17. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. 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 auditor

As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

#### Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements.

#### Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 31 December 2010 and of its loss for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

#### Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

## Independent auditor's report

### To the members of Cambridge Mechatronics Limited (continued)

#### Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us, or
- the financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit, or
- the directors were not entitled to take advantage of the small companies exemption in preparing the directors' report



David Halstead FCA (Senior Statutory Auditor)  
For and on behalf of Deloitte LLP  
Chartered Accountants and Statutory Auditor  
Cambridge, United Kingdom

21 February 2011

Profit and loss account  
For the year ended 31 December 2010

	Notes	2010 £	2009 £
<b>Turnover</b>	2	956,626	3,199,836
Cost of sales		-	(10,405)
<b>Gross profit</b>		956,626	3,189,431
<b>Expenditure</b>			
Distribution costs		(356,681)	(307,523)
Research and development expenditure		(2,033,361)	(1,758,507)
Administrative expenses		(171,719)	(157,240)
<b>Operating (loss)/profit</b>	3	(1,605,135)	966,161
Finance income	6	12,415	2,997
<b>(Loss)/profit on ordinary activities before taxation</b>		(1,592,720)	969,158
Tax on (loss)/profit on ordinary activities	7	385,356	253,163
<b>(Loss)/profit on ordinary activities after taxation, being retained</b>			
<b>(loss)/profit for the year</b>	13	(1,207,364)	1,222,321

All of the company's activities are classified as continuing

There are no recognised gains or losses in either year other than the (loss)/profit for that year

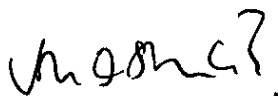
The accompanying notes are an integral part of this profit and loss account



Balance sheet  
31 December 2010

	Notes	2010 £	2009 £
<b>Fixed assets</b>			
Tangible assets	8	21,351	10,930
<b>Current assets</b>			
Debtors	9	685,950	2,878,538
Cash at bank and in hand		1,682,037	128,657
		2,367,987	3,007,195
<b>Creditors: amounts falling due within one year</b>	10	(961,064)	(382,487)
<b>Net current assets</b>		1,406,923	2,624,708
<b>Total assets less current liabilities</b>		1,428,274	2,635,638
<b>Creditors: amounts falling due after more than one year</b>	11	-	(1,043,970)
<b>Net assets</b>		1,428,274	1,591,668
<b>Capital and reserves</b>			
Called up share capital	12	16,710	14,535
Share premium account	13	20,192,208	19,150,413
Profit and loss account	13	(18,780,644)	(17,573,280)
<b>Shareholders' funds</b>	14	1,428,274	1,591,668

The financial statements of Cambridge Mechatronics Limited, registered number 3071231, were approved by the Board of Directors and authorised for issue on 18 February 2011.



A Osmant  
Director

The accompanying notes are an integral part of this balance sheet

## Notes to the financial statements

### For the year ended 31 December 2010

#### 1 Accounting policies

The principal accounting policies are summarised below. They have all been applied consistently throughout the year and the preceding year.

##### a) Basis of accounting

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

##### b) Going concern

Taking into account the recurring revenue expected in 2011 and new revenues anticipated from its Shape Memory Alloy Optical Image Stabilisation business, the directors have prepared a range of forecasts demonstrating adequate resources to continue in operational existence for the foreseeable future. For this reason, the directors continue to adopt the going concern basis in preparing the financial statements.

##### c) Cash flow statement

The financial statements do not include a cash flow statement because the company, as a small reporting entity, is exempt from the requirement to prepare such a statement under Financial Reporting Standard 1 (Revised).

##### d) Tangible fixed assets

Tangible fixed assets are stated at cost, net of depreciation and any provision for impairment. Depreciation is provided on all tangible fixed assets at rates calculated to write off the cost, less estimated residual value, of each asset on a straight-line basis over its expected useful life as follows:

Plant and machinery	- 33% per annum
Office equipment	- 33% per annum
Computers and software	- 33% per annum

Residual value is calculated on prices prevailing at the date of acquisition.

##### e) Turnover

Licence fees - turnover in respect of non-refundable licence fees is recognised when all obligations relating to the grant of the licence have been met.

Research and development services and support fees - turnover is recognised as the services are rendered.

##### f) Leases

Rentals under operating leases are charged on a straight-line basis over the lease term, even if the payments are not made on such a basis.

Notes to the financial statements  
For the year ended 31 December 2010

**1 Accounting policies (continued)**

*g) Taxation*

UK corporation tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date

Deferred tax is provided in full on timing differences, which 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 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.

*h) Foreign currencies*

Transactions in foreign currencies are recorded at the rate of exchange at the date of transaction, or, if hedged, at the forward contract rate. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are reported at the rates of exchange prevailing at that date. All exchange differences are included in the profit and loss account.

*i) Research and development*

Research and development expenditure is written off in the year in which it is incurred. Plant and equipment acquired for research and development activities is written off on a straight line basis at the rate of 33% per annum.

*j) Government grants*

Government grants in respect of revenue expenditure are credited in the profit and loss account.

*k) Pensions*

The company contributes to the personal pension plans of some employees and the pension charge represents the amounts payable by the company to those plans in the year.

*l) Share-based payments*

The company has applied the requirements of FRS20 Share-Based Payments. In accordance with the transitional provision, FRS20 has been applied to all grants of equity instruments after 9 November 2002 that were unvested as of 1 October 2006.

The company issues equity-settled share-based payments to certain employees, including share options with non-market based vesting conditions. Equity settled share-based payments are measured at the fair value at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the company's estimate of shares that will eventually vest.

Fair value is measured by use of the Black-Scholes model. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

Notes to the financial statements  
For the year ended 31 December 2010

**2 Turnover**

	2010	2009
	£	£
<b>Class of business</b>		
Digital Sound Projector revenue	876,106	3,127,787
Other revenue	80,520	72,049
	<u>956,626</u>	<u>3,199,836</u>
<b>Geographical analysis</b>		
Far East	648,299	3,037,009
Europe	250,180	125,631
USA	58,147	37,196
	<u>956,626</u>	<u>3,199,836</u>

**3 Operating (loss)/profit**

The operating (loss)/profit is stated after charging (crediting)

	2010	2009
	£	£
Depreciation of tangible fixed assets	12,639	21,852
Operating lease rentals		
- plant and machinery	-	1,653
- other operating leases	65,635	65,138
Auditor's remuneration		
- audit services	9,000	9,000
Foreign exchange loss (profit)	<u>36,827</u>	<u>(2,364)</u>

All research and development expenditure relates to administration expenses

Notes to the financial statements  
For the year ended 31 December 2010

**4 Staff costs**

The average monthly number of employees (including executive directors) was

	2010 Number	2009 Number
Research and development	14	14
Sales and marketing	1	1
Administration	3	3
	<u>18</u>	<u>18</u>

	2010 £	2009 £
Their aggregate remuneration comprised		
Wages and salaries	1,076,558	973,533
Social security costs	130,684	112,458
Other pension costs	4,893	-
	<u>1,212,135</u>	<u>1,085,991</u>

**5 Directors' remuneration**

The executive directors' remuneration is set by the non-executive directors. The remuneration of the directors was as follows

	2010 £	2009 £
Emoluments	252,100	237,525
Company contributions to money purchase pension schemes	-	-
	<u>252,100</u>	<u>237,525</u>

The number of directors who were members of pension schemes was as follows

	No	No
Money purchase schemes	-	-

*Highest-paid director*

The above amounts for remuneration include the following in respect of the highest paid director

	2009 £	2009 £
Emoluments	<u>126,000</u>	<u>120,000</u>

Merrycroft Limited, a company of which M Knight is also a director, invoiced £25,000 for consultancy services provided by M Knight during the year (2009 - £25,000). The balance due to Merrycroft Limited in respect of these services at 31 December 2010 was £6,250 (2009 - £6,250).

Notes to the financial statements  
For the year ended 31 December 2010

**6 Finance income**

	2010	2009
	£	£
Bank interest receivable	<u>12,415</u>	<u>2,997</u>

**7 Tax on (loss) profit on ordinary activities**

	2010	2009
	£	£
Research and development tax credit - 2008	-	(253,163)
- current year	<u>(385,356)</u>	<u>-</u>
	<u>(385,356)</u>	<u>(253,163)</u>

The standard rate of tax for the year, based on the UK standard rate of corporation tax is 28% (2009 28%) The actual tax credit for the current year and previous period is lower than the standard rate for the reasons set out in the following reconciliation

	2010	2009
	£	£
(Loss) profit on ordinary activities before tax	<u>(1,592,720)</u>	<u>969,158</u>
Tax on profit (loss) on ordinary activities at standard rate	(445,962)	271,364
Factors affecting charge for the year		
Expenses not deductible for tax purposes	2,514	3,189
Capital allowances in (excess) deficit of depreciation	(4,165)	1,599
Research and development enhanced deduction	(773,000)	(622,929)
Research and development tax credit	(386,500)	-
Expenses surrendered for tax credit	441,714	355,956
Tax losses carried forward (utilised)	778,898	(9,179)
Prior period adjustments	-	(253,163)
Withholding tax paid	<u>1,145</u>	<u>-</u>
Current tax credit for year	<u>(385,356)</u>	<u>(253,163)</u>

**Deferred tax**

A deferred tax asset of £2,049,378 (2009 - £2,170,193) has not been recognised in respect of timing differences relating to trading losses as there is insufficient evidence that the asset will be recovered The asset would be recovered if sufficient future profits of the same trade are made

In June 2010 the UK Government announced that it would introduce legislation that would reduce the corporation tax rate to 27% with effect from April 2011 This legislation was substantively enacted on 27 July 2010 The effective tax rate for the period to 31 December 2011 is expected to reduce accordingly

Notes to the financial statements  
For the year ended 31 December 2010

**8 Tangible fixed assets**

	Plant and machinery £	Office equipment £	Computers and software £	Total £
<b>Cost</b>				
At 1 January 2010	267,657	32,642	156,066	456,365
Additions	5,400	1,384	16,276	23,060
At 31 December 2010	273,057	34,026	172,342	479,425
<b>Depreciation</b>				
At 1 January 2010	266,023	32,303	147,109	445,435
Charge for the year	2,438	606	9,595	12,639
At 31 December 2010	268,461	32,909	156,704	458,074
<b>Net book value</b>				
At 31 December 2010	4,596	1,117	15,638	21,351
At 31 December 2009	1,634	339	8,957	10,930

**9 Debtors** Amounts falling due within one year

	2010	2009
	£	£
Trade debtors	278,104	2,682,824
Taxation recoverable	386,500	162,486
Prepayments	21,346	33,228
	<u>685,950</u>	<u>2,878,538</u>

Notes to the financial statements  
For the year ended 31 December 2010

**10 Creditors:** Amounts falling due within one year

	2010	2009
	£	£
Trade creditors	141,780	96,801
Other taxation and social security	60,959	30,477
Other creditors	758,325	255,209
	<u>961,064</u>	<u>382,487</u>

**11 Creditors:** Amounts falling due after more than one year

	2010	2009
	£	£
Shareholder loans	<u>-</u>	<u>1,043,970</u>

**12 Called up share capital**

	2010	2009
	£	£
<i>Allotted, called up and fully paid</i>		
6,487,966 (2009 - 5,617,993) ordinary shares of 0.25p each	16,220	14,045
195,946 (2009 - 195,946) A ordinary shares of 0.25p each	490	490
	<u>16,710</u>	<u>14,535</u>

In November 2010 the company issued 869,973 ordinary shares at 0.25p per share following conversion of loan notes

On disposal, the A Ordinary share holders will only benefit from an increase in value over a set threshold. A Ordinary shares cannot be transferred, other than on the sale of the company's assets or sale of the business as a whole.

In all other respects the shares rank *pari passu*



Notes to the financial statements  
For the year ended 31 December 2010

**13 Reserves**

	Share premium account £	Profit and loss account £	Total £
At 1 January 2010	19,150,413	(17,573,280)	1,577,133
Issue of shares	1,041,795	-	1,041,795
Retained loss for the year	-	(1,207,364)	(1,207,364)
At 31 December 2010	<u>20,192,208</u>	<u>(18,780,644)</u>	<u>1,411,564</u>

**14 Reconciliation of movements in shareholders' funds**

	2010 £	2009 £
(Loss)/profit for the financial year	(1,207,364)	1,222,321
New shares issued	<u>1,043,970</u>	<u>490</u>
Net (reduction)/addition to shareholders' funds	(163,394)	1,222,811
Opening shareholders' funds	<u>1,591,668</u>	<u>368,857</u>
Closing shareholders' funds	<u>1,428,274</u>	<u>1,591,668</u>

**15 Financial commitments**

Annual commitments under non-cancellable operating leases are as follows

	2010 Land and buildings £	2009 Land and buildings £
Expiry date		
Within one year	<u>32,188</u>	<u>47,610</u>

Notes to the financial statements  
For the year ended 31 December 2010

**16 Share options**

At 31 December 2010 employees held options for 777,795 unissued ordinary shares (2009 - 726,899) as follows

Issue date	At 1 January 2010	Issued	Lapsed	At 31 December 2010	Option price per share £	Exercise period
10/11/2010	-	62,500	-	62,500	1 20	5 years
03/10/2008	678,604	-	(1,500)	677,104	1 20	5 years
02/2/2007	23,871	-	-	23,871	10 00	5 years
01/3/2003	20,580	-	(10,104)	10,476	19 60	10 years
22/5/2001	3,844	-	-	3,844	32 00	10 years

The options outstanding at 31 December 2010 had a weighted average exercise price of £1 87 and a weighted average remaining contractual life of 2 5 years. The share options typically vest over three to four years from the date of grant.

The inputs into the Black-Scholes model are as follows

	2010	2009
Weighted Average Share Price	0 57	0 57
Weighted Average Exercise Price	1 20	1 20
Expected Volatility	65%	65%
Expected Life	5 years	5 years
Risk free rate	5%	5%

Expected volatility was determined by reference to businesses that are in a similar industry sector to the Company. The expected life used in the model was estimated using management's knowledge of probable exercise events and behavioural considerations.

The company calculated a total expense of £14,813 (2009 - £nil) relating to equity-settled share based payments issued in the year to December 2010. This amount was not processed during the year due to its immaterial nature.

**17 Controlling party**

S Newton is the ultimate controlling party.