

Cambridge Mechatronics Limited

Financial statements

Year ended 31 December 2011

together with directors' and auditor's reports

Registered number 3071231

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Company information

Directors and officers

S Calder
Dr A Hooley
Dr M P Knight
S Newton
A Osmant

Secretary

A Osmant

Registered office

The Westbrook Centre
Cambridge
CB4 1YG

Auditor

Deloitte LLP
Chartered Accountants and Statutory Auditor
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 2011

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

During 2011, Cambridge Mechatronics Limited ("CML") successfully managed to increase the profile and credibility of its Shape Memory Alloy (SMA)-based miniature lens actuator technology. As well as engaging with the world's leading smart phone suppliers and their respective camera supply chains, CML signed Actuator Solutions GmbH as the company's second actuator manufacturing licensee. The heightened interest in CML's technology was due to the growing maturity of its auto-focus offering and CML's highly differentiated solutions for Optical Image Stabilisation (OIS). The company predicts significant design wins with major smart phone vendors during 2012, which should prove to be seminal in its quest to make SMA the dominant lens actuator technology in smart phone cameras. The Audio side of the business was affected in 2011 by the Japanese Tsunami and its effects on the Japanese economy. Further technical development work in the Audio business has led to collaboration with companies in the computer gaming market, which may lead to new revenue opportunities in 2012.

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 2011 are set out on pages 6 to 16. The retained loss for the year was £1,354,025 (2010 - loss £1,207,364). The directors are unable to recommend the payment of a dividend (2010 - £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 during the year were

S Calder (Chief Executive)

D A Gillett (resigned 28 September 2011)

Dr A Hooley

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

S Newton (appointed 29 September 2011)

A Osmant

Auditor

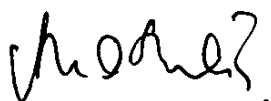
Each of the persons who is a director at the date of approval of this annual report confirms that

- 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

15 February 2012

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 2011, 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. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

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 2011 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



Stuart Henderson (Senior Statutory Auditor)
For and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
Cambridge, United Kingdom

16 February 2012

Profit and loss account
For the year ended 31 December 2011

	Notes	2011 £	2010 £
Turnover	2	740,181	956,626
Gross profit		740,181	956,626
Expenditure			
Distribution costs		(434,252)	(356,681)
Research and development expenditure		(1,826,307)	(2,033,361)
Administrative expenses		(245,803)	(171,719)
Operating loss	3	(1,766,181)	(1,605,135)
Finance income	6	6,458	12,415
Loss on ordinary activities before taxation		(1,759,723)	(1,592,720)
Tax on loss on ordinary activities	7	405,698	385,356
Loss on ordinary activities after taxation, being retained loss for the year	13	(1,354,025)	(1,207,364)

All of the company's activities are classified as continuing

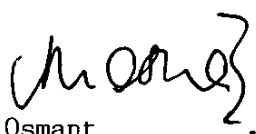
There are no recognised gains or losses in either year other than the loss for that year

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

Balance sheet
31 December 2011

	Notes	2011 £	2010 £
Fixed assets			
Tangible assets	8	27,995	21,351
Current assets			
Debtors	9	569,757	685,950
Cash at bank and in hand		596,804	1,682,037
		1,166,561	2,367,987
Creditors: amounts falling due within one year	10	(620,307)	(961,064)
Net current assets		546,254	1,406,923
Total assets less current liabilities		574,249	1,428,274
Creditors amounts falling due after more than one year	11	(500,000)	-
Net assets		74,249	1,428,274
Capital and reserves			
Called up share capital	12	16,710	16,710
Share premium account	13	20,192,208	20,192,208
Profit and loss account	13	(20,134,669)	(18,780,644)
Shareholders' funds	14	74,249	1,428,274

The financial statements of Cambridge Mechatronics Limited, registered number 3071231, were approved by the Board of Directors and authorised for issue on 15 February 2012.



A Osmani
Director

The accompanying notes are an integral part of this balance sheet

Notes to the financial statements

For the year ended 31 December 2011

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 2012 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 2011

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 2011

2 Turnover

	2011	2010
	£	£
Class of business		
Digital Sound Projector revenue	559,250	876,106
Other revenue	180,931	80,520
	<u>740,181</u>	<u>956,626</u>
Geographical analysis		
Far East	450,515	648,299
Europe	180,931	250,180
USA	108,735	58,147
	<u>740,181</u>	<u>956,626</u>

3 Operating loss

The operating loss is stated after charging (crediting)

	2011	2010
	£	£
Depreciation of tangible fixed assets	14,348	12,639
Operating lease rentals		
- other operating leases	46,564	65,635
Auditor's remuneration		
- audit services	9,000	9,000
Foreign exchange (profit) loss	<u>(35,219)</u>	<u>36,827</u>

All research and development expenditure relates to administration expenses

Notes to the financial statements
For the year ended 31 December 2011

4 Staff costs

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

	2011 Number	2010 Number
Research and development	14	14
Sales and marketing	2	1
Administration	3	3
	<u>19</u>	<u>18</u>

	2011 £	2010 £
Their aggregate remuneration comprised		
Wages and salaries	1,250,636	1,076,558
Social security costs	157,978	130,684
Other pension costs	6,111	4,893
	<u>1,414,725</u>	<u>1,212,135</u>

5 Directors' remuneration

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

	2011 £	2010 £
Emoluments	278,407	252,100
Company contributions to money purchase pension schemes	-	-
	<u>278,407</u>	<u>252,100</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

	2011 £	2010 £
Emoluments	<u>132,000</u>	<u>126,000</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 (2010 - £25,000). The balance due to Merrycroft Limited in respect of these services at 31 December 2011 was £6,250 (2010 - £6,250).

Notes to the financial statements
For the year ended 31 December 2011

6 Finance income

	2011	2010
	£	£
Bank interest receivable	<u>6,458</u>	<u>12,415</u>

7 Tax on loss on ordinary activities

	2011	2010
	£	£
Research and development tax credit	(410,069)	(385,356)
Adjustment in respect of prior year	(144)	-
Withholding tax	4,515	-
	<u>(405,698)</u>	<u>(385,356)</u>

The standard rate of tax for the year, based on the UK standard rate of corporation tax is 26.5% (2010: 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:

	2011	2010
	£	£
Loss on ordinary activities before tax	<u>(1,759,723)</u>	<u>(1,592,720)</u>
Tax on loss on ordinary activities at standard rate	(466,327)	(445,962)
Factors affecting charge for the year		
Expenses not deductible for tax purposes	1,309	2,514
Capital allowances in (excess) deficit of depreciation	(2,704)	(4,165)
Research and development enhanced deduction	(407,906)	(773,000)
Research and development tax credit	(410,069)	(386,500)
Expenses surrendered for tax credit	-	441,714
Higher tax rates on overseas earnings	223	-
Tax losses carried forward (utilised)	872,491	778,898
Prior period adjustments	(144)	-
Movement in short term timing differences	2,914	-
Withholding tax paid	<u>4,515</u>	<u>1,145</u>
Current tax credit for year	<u>(405,698)</u>	<u>(385,356)</u>

Deferred tax

A deferred tax asset of £1,924,419 (2010: £2,049,378) 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.

Notes to the financial statements
For the year ended 31 December 2011

7 Tax on loss on ordinary activities (continued)

In March 2011, the UK Government announced a reduction in the standard rate of UK corporation tax to 26% effective 1 April 2011 and to 25% effective 1 April 2012. These rate reductions became substantively enacted in March 2011 and July 2011, respectively.

The UK Government also proposed changes to further reduce the standard rate of the UK corporation tax by 1% per annum to 23% by 1 April 2014, but these changes have not yet been substantively enacted.

The effect of these tax rate reductions on the deferred tax balance will be accounted for in the period in which the tax rate reductions are substantively enacted.

8 Tangible fixed assets

	Plant and machinery £	Office equipment £	Computers and software £	Total £
Cost				
At 1 January 2011	273,057	34,026	172,342	479,425
Additions	2,997	-	17,995	20,992
At 31 December 2011	276,054	34,026	190,337	500,417
Depreciation				
At 1 January 2011	268,461	32,909	156,704	458,074
Charge for the year	3,110	461	10,777	14,348
At 31 December 2011	271,571	33,370	167,481	472,422
Net book value				
At 31 December 2011	4,483	656	22,856	27,995
At 31 December 2010	4,596	1,117	15,638	21,351

9 Debtors: Amounts falling due within one year

	2011	2010
	£	£
Trade debtors	130,826	278,104
Taxation recoverable	410,213	386,500
Prepayments	28,718	21,346
	<u>569,757</u>	<u>685,950</u>

Notes to the financial statements
For the year ended 31 December 2011

10 Creditors Amounts falling due within one year

	2011	2010
	£	£
Trade creditors	48,358	141,780
Other taxation and social security	43,509	60,959
Other creditors	528,440	758,325
	<u>620,307</u>	<u>961,064</u>

11 Creditors Amounts falling due after more than one year

	2011	2010
	£	£
Non convertible loan notes	<u>500,000</u>	<u>-</u>

The non convertible loan notes are secured against the assets of the company related to its Sound Projector business

The total value of the loan notes issued is £2,000,000 of which the first tranche was received in December 2011. The remaining tranches will be drawn down in equal instalments of £500k on 20 March 2012, 20 June 2012 and 20 September 2012 respectively. The loan can be redeemed at the earlier of the sale of the sound projector business, a listing, a default on the terms, or 31 December 2016. The loan notes have been issued to Sussex Research Limited, a company of which S Newton is also a director.

12 Called up share capital

	2011	2010
	£	£
<i>Allotted, called up and fully paid</i>		
6,487,966 ordinary shares of 0.25p each	16,220	16,220
195,946 A ordinary shares of 0.25p each	490	490
	<u>16,710</u>	<u>16,710</u>

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 2011

13 Reserves

	Share premium account £	Profit and loss account £	Total £
At 1 January 2011	20,192,208	(18,780,644)	1,411,564
Retained loss for the year	-	(1,354,025)	(1,354,025)
At 31 December 2011	<u>20,192,208</u>	<u>(20,134,669)</u>	<u>57,539</u>

14 Reconciliation of movements in shareholders' funds

	2011 £	2010 £
Loss for the financial year	(1,354,025)	(1,207,364)
New shares issued	-	1,043,970
Net reduction to shareholders' funds	(1,354,025)	(163,394)
Opening shareholders' funds	<u>1,428,274</u>	<u>1,591,668</u>
Closing shareholders' funds	<u>74,249</u>	<u>1,428,274</u>

15 Financial commitments

Annual commitments under non-cancellable operating leases are as follows

	2011 Land and buildings £	2010 Land and buildings £
Expiry date		
Within one year	<u>52,620</u>	<u>32,188</u>

Notes to the financial statements
For the year ended 31 December 2011

16 Share options

At 31 December 2011 employees held options for 773,696 unissued ordinary shares (2010 - 777,795) as follows

Issue date	At 1 January 2011	Issued	Lapsed	At 31 December 2011	Option price per share £	Exercise period
10/11/2010	62,500	-	-	62,500	1 20	5 years
03/10/2008	677,104	-	-	677,104	1 20	5 years
02/2/2007	23,871	-	-	23,871	10 00	5 years
01/3/2003	10,476	-	(255)	10,221	19 60	10 years
22/5/2001	3,844	-	(3,844)	-	32 00	10 years

The options outstanding at 31 December 2011 had a weighted average exercise price of £1 71 and a weighted average remaining contractual life of 1 7 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

	2011	2010
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 £nil (2010 - £14,813) relating to equity-settled share based payments issued in the year to December 2011.

17 Controlling party

S Newton is the ultimate controlling party.