

Cambridge Mechatronics Limited

Financial statements

Year ended 31 December 2009

together with directors' and auditors' 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

Auditors

Deloitte LLP
Chartered Accountants
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 auditors' report for the year ended 31 December 2009

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

The Company's Digital Sound Projector technology was incorporated in multiple new Flat Panel Televisions and Soundbars in 2009, contributing to record licence fee income.

During the year, the Company continued its development of proprietary miniature autofocus cameras for mobile phone handsets and received its first royalties from sales of this technology. Further commercialisation of this technology is expected in 2010.

Principal activities

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

Results and dividends

The audited financial statements for the year ended 31 December 2009 are set out on pages 6 to 16. The retained profit for the year was £1,222,321 (2008 loss – £2,524,697). The directors are unable to recommend the payment of a dividend (2008 - £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 Osment

S Calder (Chief Executive)

Auditors

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 auditors are 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 auditors are 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 auditors and a resolution to reappoint them will be proposed at the forthcoming Annual General Meeting.

By order of the Board



A Osment

Director

12 April 2010

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

Independent auditors' report

To the members of Cambridge Mechatronics Limited

We have audited the financial statements of Cambridge Mechatronics Limited for the year ended 31 December 2009, which comprise the profit and loss account, the balance sheet and the related notes 1 to 17. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with 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 auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

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 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 (APB'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 2009 and of its profit 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.

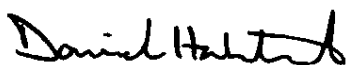
Independent auditors' report

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 Auditors

Cambridge, United Kingdom

14 April 2010

Profit and loss account
For the year ended 31 December 2009

	Notes	2009 £	2008 £
Turnover	2	3,199,836	711,272
Cost of sales		(10,405)	(27,900)
Gross profit		<u>3,189,431</u>	<u>683,372</u>
Expenditure			
Distribution costs		(307,523)	(771,337)
Research and development expenditure		(1,758,507)	(2,310,101)
Administrative expenses		<u>(157,240)</u>	<u>(383,436)</u>
Operating profit/(loss)	3	966,161	(2,781,502)
Finance income	6	2,997	33,458
Finance cost		-	(106,967)
Profit/(loss) on ordinary activities before taxation		<u>969,158</u>	<u>(2,855,011)</u>
Tax on profit/(loss) on ordinary activities	7	<u>253,163</u>	<u>330,314</u>
Profit/(loss) on ordinary activities after taxation, being retained profit/(loss) for the year	13	<u><u>1,222,321</u></u>	<u><u>(2,524,697)</u></u>

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 2009

	Notes	2009 £	2008 £
Fixed assets			
Tangible assets	8	<u>10,930</u>	<u>23,838</u>
Current assets			
Debtors	9	2,878,538	522,343
Cash at bank and in hand		<u>128,657</u>	<u>1,272,503</u>
		3,007,195	1,794,846
Creditors' amounts falling due within one year	10	<u>(382,487)</u>	<u>(405,857)</u>
Net current assets		<u>2,624,708</u>	<u>1,388,989</u>
Total assets less current liabilities		<u>2,635,638</u>	<u>1,412,827</u>
Creditors' amounts falling due after more than one year	11	<u>(1,043,970)</u>	<u>(1,043,970)</u>
Net assets (liabilities)		<u>1,591,668</u>	<u>368,857</u>
Capital and reserves			
Called up share capital	12	14,535	14,045
Share premium account	13	19,150,413	19,150,413
Profit and loss account	13	<u>(17,573,280)</u>	<u>(18,795,601)</u>
Shareholders' funds	14	<u>1,591,668</u>	<u>368,857</u>

The financial statements of Cambridge Mechatronics Limited, registered number 3071231, were approved by the Board of Directors and authorised for issue on 12 April 2010



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 2009

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

During the year the company signed an important contract, generating significant cash resources at the year end. Taking into account of this and the recurring revenue expected in 2010, the directors have prepared 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 2009

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 2009

2 Turnover

	2009	2008
	£	£
Class of business		
Digital Sound Projector revenue	3,127,787	644,644
Other revenue	72,049	66,628
	<u>3,199,836</u>	<u>711,272</u>
Geographical analysis		
Far East	3,037,009	574,272
Europe	125,631	55,800
USA	37,196	81,200
	<u>3,199,836</u>	<u>711,272</u>

3 Operating profit/(loss)

The operating profit/(loss) is stated after charging

	2009	2008
	£	£
Depreciation of tangible fixed assets	21,852	30,726
Operating lease rentals		
- plant and machinery	1,653	5,338
- other operating leases	65,138	198,795
Auditors' remuneration		
- audit services	<u>9,000</u>	<u>9,000</u>

All research and development expenditure relates to administration expenses

Notes to the financial statements
For the year ended 31 December 2009

4 Staff costs

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

	2009 Number	2008 Number
Research and development	14	21
Sales and marketing	1	3
Administration	3	4
	<u>18</u>	<u>28</u>

	2009 £	2008 £
Their aggregate remuneration comprised		
Wages and salaries	973,533	1,107,746
Social security costs	112,458	164,791
Other pension costs	-	7,056
Redundancy costs	-	226,988
	<u>1,085,991</u>	<u>1,506,581</u>

5 Directors' remuneration

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

	2009 £	2008 £
Emoluments	237,525	269,016
Company contributions to money purchase pension schemes	-	-
	<u>237,525</u>	<u>269,016</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 £	2008 £
Emoluments	<u>120,000</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 (2008 - £25,000). The balance due to Merrycroft Limited in respect of these services at 31 December 2009 was £6,250 (2008 - £6,250).

Notes to the financial statements
For the year ended 31 December 2009

6 Finance income

	2009	2008
	£	£
Bank interest receivable	<u>2,997</u>	<u>33,458</u>

7 Tax on profit (loss) on ordinary activities

	2009	2008
	£	£
Research and development tax credit - prior period	(253,163)	2,217
- current year	<u>-</u>	<u>(332,531)</u>
	<u>(253,163)</u>	<u>(330,314)</u>

The standard rate of tax for the year, based on the UK standard rate of corporation tax is 28% (2008 28.5%). 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

	2009	2008
	£	£
Profit (loss) on ordinary activities before tax	<u>969,158</u>	<u>(2,855,011)</u>
Tax on profit (loss) on ordinary activities at standard rate	271,364	(813,678)
Factors affecting charge for the year		
Expenses not deductible for tax purposes	3,189	57,448
Capital allowances in excess of depreciation	1,599	2,156
Research and development enhanced deduction	(622,929)	(217,163)
Research and development tax credit	-	(332,531)
Expenses surrendered for tax credit	355,956	592,322
Tax losses (utilised) carried forward	(9,179)	378,915
Prior period adjustments	<u>(253,163)</u>	<u>2,217</u>
Current tax credit for year	<u>(253,163)</u>	<u>(330,314)</u>

Deferred tax

A deferred tax asset of £2,170,193 (2008 - £2,179,372) 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 2009

8 Tangible fixed assets

	Plant and machinery £	Office equipment £	Computers and software £	Total £
Cost				
At 1 January 2009	644,714	32,642	149,561	826,917
Additions	2,439	-	6,505	8,944
Disposals	(379,496)	-	-	(379,496)
At 31 December 2009	<u>267,657</u>	<u>32,642</u>	<u>156,066</u>	<u>456,365</u>
Depreciation				
At 1 January 2009	636,454	31,808	134,817	803,079
Charge for the year	9,065	495	12,292	21,852
Disposals	(379,496)	-	-	(379,496)
At 31 December 2009	<u>266,023</u>	<u>32,303</u>	<u>147,109</u>	<u>445,435</u>
Net book value				
At 31 December 2009	<u>1,634</u>	<u>339</u>	<u>8,957</u>	<u>10,930</u>
At 31 December 2008	<u>8,260</u>	<u>834</u>	<u>14,744</u>	<u>23,838</u>

9 Debtors Amounts falling due within one year

	2009	2008
	£	£
Trade debtors	2,682,824	166,116
Taxation recoverable	162,486	335,031
Prepayments	33,228	21,196
	<u>2,878,538</u>	<u>522,343</u>

Notes to the financial statements
For the year ended 31 December 2009

10 Creditors: Amounts falling due within one year

	2009 £	2008 £
Trade creditors	96,801	67,511
Other taxation and social security	30,477	44,250
Other creditors	255,209	294,096
	<u>382,487</u>	<u>405,857</u>

11 Creditors: Amounts falling due after more than one year

	2009 £	2008 £
Shareholder loans	<u>1,043,970</u>	<u>1,043,970</u>

The loan notes are subject to interest at 5% and are secured over the assets of the company. The loan notes are due to be repaid by 31 March 2011. The loan notes may also be converted into ordinary shares at a price of £1.20 per share.

12 Called up share capital

	2009 £	2008 £
<i>Authorised</i>		
8,000,000 ordinary shares of 0.25p each	20,000	20,000
200,000 (2008 - nil) A ordinary shares of 0.25p each	500	-
	<u>20,500</u>	<u>20,000</u>
<i>Allotted, called up and fully paid</i>		
5,617,993 ordinary shares of 0.25p each	14,045	14,045
195,946 (2008 - nil) A ordinary shares of 0.25p each	490	-
	<u>14,535</u>	<u>14,045</u>

During the year the company increased the authorised share capital by 200,000 A ordinary shares of 0.25p each.

On 30 September 2009 the company issued 195,946 A ordinary shares at 0.25p per share.

Notes to the financial statements
For the year ended 31 December 2009

13 Reserves

	Share premium account £	Profit and loss account £	Total £
At 1 January 2009	19,150,413	(18,795,601)	354,812
Retained profit for the year	-	1,222,321	1,222,321
At 31 December 2009	<u>19,150,413</u>	<u>(17,573,280)</u>	<u>1,577,133</u>

14 Reconciliation of movements in shareholders' funds

	2009 £	2008 £
Profit/(loss) for the financial year	1,222,321	(2,524,697)
New shares issued	490	4,869,995
Share based payment	-	170,254
Net addition to shareholders' funds	<u>1,222,811</u>	<u>2,515,552</u>
Opening shareholders' funds (deficit)	<u>368,857</u>	<u>(2,146,695)</u>
Closing shareholders' funds	<u>1,591,668</u>	<u>368,857</u>

15 Financial commitments

Annual commitments under non-cancellable operating leases are as follows

	2009 Land and buildings £	2008 Land and buildings £
Expiry date		
Within one year	<u>47,610</u>	<u>-</u>

Notes to the financial statements
For the year ended 31 December 2009

16 Share options

At 31 December 2009 employees held options for 726,899 unissued ordinary shares (2008 - 786,255) as follows

Issue date	At 1 January 2009	Issued	Lapsed	At 31 December 2009	Option price per share £	Exercise period
03/10/2008	717,500	-	(38,896)	678,604	1 20	5 years
01/05/2000	11,520	-	(11,520)	-	-	9 years
02/2/2007	23,871	-	-	23,871	10 00	5 years
01/3/2003	27,520	-	(6,940)	20,580	19 60	10 years
22/5/2001	3,844	-	-	3,844	32 00	10 years
02/5/2004	2,000	-	(2,000)	-	-	5 years

The options outstanding at 31 December 2009 had a weighted average exercise price of £2 17 and a weighted average remaining contractual life of 3 6 years. In 2008, options were granted on 717,500 shares

The inputs into the Black-Scholes model are as follows

	2009	2008
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 (2008 - £170,254) relating to equity-settled share based payments in the year to December 2009.

17 Controlling party

S Newton is the ultimate controlling party