

Cambridge Mechatronics Limited

Financial statements

Year ended 31 December 2013

together with directors' and auditor's reports

Registered number: 3071231

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Company information

Directors and officers

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 2013.

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 sold its Sound Projector patents to Yamaha Corporation in 2013 and is now concentrating its engineering efforts on its Shape Memory Alloy (SMA)-based miniature lens actuator technology. During 2013, an exclusive licence agreement was reached, allowing for the manufacture of the company's Optical Image Stabilisation (OIS) technology. The licensee is a global high volume manufacturer of precision micro electrical and mechanical components and assemblies and has subsequently developed the manufacturing process and started to put in place manufacturing capacity to build the company's OIS actuator product. The company has developed its relationships with the world's leading smart phone suppliers and their respective camera supply chains. A world leading camera manufacturer has built cameras incorporating the company's OIS actuators and these have passed a suite of reliability tests. Since the end of 2013, this camera manufacturer has been promoting a camera including the company's OIS technology to some of the largest Chinese Smart Phone companies.

Principal activities

The principal activity of the company is that of research and development of electronic actuators for mobile phone cameras.

Results and dividends

The audited financial statements for the year ended 31 December 2013 are set out on pages 6 to 16. The retained loss for the year was £1,017,721 (2012 - loss £1,420,998). The directors are unable to recommend the payment of a dividend (2012 - £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. See note 1 for more information.

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:

Dr M P Knight (Chairman)

Dr A Hooley

S Newton

A Osmant

Auditor

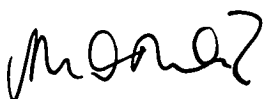
Each of the persons who is a director at the date of approval of this annual report confirms that:

- 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

12 February 2014

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 2013, which comprise the profit and loss account, the balance sheet and the related notes 1 to 18. The financial reporting framework that has been applied in their preparation is applicable law and the Financial Reporting Standard for Smaller Entities (effective April 2008) (United Kingdom Generally Accepted Accounting Practice applicable to Smaller Entities).

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 and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. 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 2013 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.

Emphasis of matter - Going concern

Without qualifying our opinion, we draw attention to the disclosures made in note 1b of the financial statements concerning the company's ability to continue as a going concern. During the year ended 31 December 2013, the company incurred a net loss of £1,017,721 (2012 - £1,420,998) and at the balance sheet date the company has net liabilities of £2,364,470 (2012 - net liabilities of £1,346,749). The company's plans involve a requirement for significant additional cash to realise its objectives and at present there are no agreements in place to address the shortfall in cash requirements. There remains a material uncertainty which may cast significant doubt about the company's ability to continue as a going concern. The financial statements do not describe the adjustments that would result if the company were unable to continue as a going concern as it is not practical to determine or quantify them.

Independent auditor's report (continued)

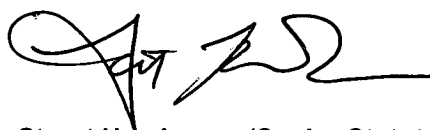
Opinion on other matter prescribed by the Companies Act 2006

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.

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 prepare the financial statements in accordance with the small companies regime or 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

14 February 2014

Profit and loss account
For the year ended 31 December 2013

	Notes	2013 £	2012 £
Turnover	2	1,476,038	909,646
Gross profit		1,476,038	909,646
Expenditure			
Distribution costs		(474,594)	(477,522)
Research and development expenditure		(2,035,827)	(1,867,553)
Administrative expenses		(339,639)	(282,105)
Operating loss	3	(1,374,022)	(1,717,534)
Finance (expenditure)/income	5	(43,699)	(104,630)
Loss on ordinary activities before taxation		(1,417,721)	(1,822,164)
Tax on loss on ordinary activities	6	400,000	401,166
Loss on ordinary activities after taxation, being retained loss for the year	13	(1,017,721)	(1,420,998)

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

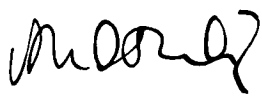
The accompanying notes are an integral part of this profit and loss account.

Balance sheet
31 December 2013

	Notes	2013 £	2012 £
Fixed assets			
Tangible assets	7	36,298	40,293
Current assets			
Stock	8	40,000	-
Debtors	9	490,895	534,105
Cash at bank and in hand		388,800	413,664
		919,695	947,769
Creditors: amounts falling due within one year	10	(170,463)	(229,277)
Net current assets		749,232	718,492
Total assets less current liabilities		785,530	758,785
Represented by:			
Creditors: amounts falling due after more than one year	11	3,150,000	2,105,534
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	(22,573,388)	(21,555,667)
Shareholders' deficit	14	(2,364,470)	(1,346,749)
		785,530	758,785

These financial statements have been prepared in accordance with the provisions applicable to companies subject to the small companies regime and with the Financial Reporting Standard for Smaller Entities (effective April 2008).

The financial statements of Cambridge Mechatronics Limited, registered number 3071231, were approved by the Board of Directors and authorised for issue on 12 February 2014.



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 2013

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 are prepared in accordance with the provisions applicable to companies subject to the small companies regime and with the applicable Financial Reporting Standard for Smaller Entities (effective April 2008) under the historical cost convention.

b) Going concern

During the period under review, the company has met its working capital requirements by utilising cash from recurring revenue streams and drawing down on loan notes.

The company will continue to invest in its Shape Memory Alloy Optical Image Stabilisation business during 2014. The main shareholder has indicated his continued support for the foreseeable future and was willing to underwrite a £1.5m funding round in early 2014. The forecasts demonstrate the company will require further funding in the second half of 2014, but the directors are confident that this funding will be available from current and new shareholders given the exciting business prospects for the company's Optical Image Stabilisation technology. It is this funding requirement and uncertainty of future revenues, which creates a material uncertainty. However, the directors have considered these uncertainties and consider it appropriate to 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 2013

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 and intangible fixed assets

Research and development expenditure is not capitalised on the company's balance sheet but 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 the Financial Reporting Standard for Smaller Entities (effective April 2008)..

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.

m) Stocks

Stocks are stated at the lower of cost and net realisable value and relate to raw materials.

Notes to the financial statements
For the year ended 31 December 2013

2 Turnover

	2013	2012
	£	£
Class of business		
Digital Sound Projector revenue	1,436,596	414,253
Other revenue	39,442	495,393
	<u>1,476,038</u>	<u>909,646</u>
Geographical analysis		
Far East	1,431,515	332,118
Europe	4,000	137,321
USA	40,523	440,207
	<u>1,476,038</u>	<u>909,646</u>

3 Operating loss

The operating loss is stated after charging (crediting):

	2013	2012
	£	£
Depreciation of tangible fixed assets	23,961	21,919
Operating lease rentals		
- other operating leases	65,823	32,388
Auditor's remuneration:		
- audit services	9,500	9,000
Foreign exchange profit	<u>(139)</u>	<u>(12,427)</u>

All research and development expenditure relates to administration expenses.

Notes to the financial statements
For the year ended 31 December 2013

4 Directors' remuneration

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

	2013	2012
	£	£
Emoluments	151,050	278,500
Company contributions to money purchase pension schemes	-	-
	<u>151,050</u>	<u>278,500</u>

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

	No	No
Money purchase schemes	-	-

Merrycroft Limited, a company of which M Knight is also a director, invoiced £75,000 for consultancy services provided by M Knight during the year (2012 - £25,000). The balance due to Merrycroft Limited in respect of these services at 31 December 2013 was £6,250 (2012 - £6,250).

5 Finance (expenditure)/income

	2013	2012
	£	£
Bank interest receivable	767	904
Other loan interest payable	(44,466)	(105,534)
	<u>(43,699)</u>	<u>(104,630)</u>

6 Tax on loss on ordinary activities

	2013	2012
	£	£
Research and development tax credit	(400,000)	(401,310)
Adjustment in respect of prior year	-	144
	<u>(400,000)</u>	<u>(401,166)</u>

Deferred tax

A deferred tax asset of £ 1,561,405 (2012 - £1,795,202) 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 2013

6 Tax on loss on ordinary activities (continued)

The Finance Act 2013, which provides for a reductions in the main rate of corporation tax from 23% to 21% effective from 1 April 2014 and to 20% effective from 1 April 2015, was substantively enacted on 2 July 2013. These rate reductions have been reflected in the calculation of deferred tax at the balance sheet date.

7 Tangible fixed assets

	Plant and machinery £	Office equipment £	Computers and software £	Total £
Cost				
At 1 January 2013	281,828	34,026	218,780	534,634
Additions	10,353	-	9,613	19,966
At 31 December 2013	292,181	34,026	228,393	554,600
Depreciation				
At 1 January 2013	275,544	33,831	184,966	494,341
Charge for the year	4,611	195	19,155	23,961
At 31 December 2013	280,155	34,026	204,121	518,302
Net book value				
At 31 December 2013	12,026	-	24,272	36,298
At 31 December 2012	6,284	195	33,814	40,293

8 Stocks

	2013	2012
	£	£
Raw materials	40,000	-

9 Debtors: Amounts falling due within one year

	2013	2012
	£	£
Trade debtors	-	88,187
Taxation recoverable	400,000	401,310
Prepayments	90,895	44,608
	490,895	534,105

Notes to the financial statements
For the year ended 31 December 2013

10 Creditors: Amounts falling due within one year

	2013	2012
	£	£
Trade creditors	54,723	91,017
Other taxation and social security	39,638	44,709
Other creditors	76,102	93,551
	<u>170,463</u>	<u>229,277</u>

11 Creditors: Amounts falling due after more than one year

	2013	2012
	£	£
Convertible loan notes	2,150,000	-
Non convertible loan notes	1,000,000	2,105,534
Total loan notes	<u>3,150,000</u>	<u>2,105,534</u>

The loan notes are secured against the assets of the company.

The sale of the sound projector business in the year triggered the redemption of the brought forward 8% non-convertible loan note. The loan and accrued interest was settled by the issue of an interest free convertible loan note of £2,150,000 to Sussex Research Limited, a company of which S Newton is also a director.

During the year an additional £1,000,000 loan note was issued to Sussex Research Limited. This loan note was transferred to S Newton after the year end and has subsequently become convertible. As at the year end date, there was no contractual obligation for this loan to be classified as convertible.

12 Called up share capital

	2013	2012
	£	£
<i>Allotted, called up and fully paid</i>		
6,487,966 ordinary shares of 0.25p each	16,220	16,220
157,050 A ordinary shares of 0.25p each	393	393
38,896 Deferred shares of 0.25p each	97	97
	<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.

Deferred shares have no rights to vote, do not participate in any dividends and have no rights to capital.

Notes to the financial statements
For the year ended 31 December 2013

13 Reserves

	Share premium account £	Profit and loss account £	Total £
At 1 January 2013	20,192,208	(21,555,667)	(1,363,459)
Retained loss for the year	-	(1,017,721)	(1,017,721)
At 31 December 2013	<u>20,192,208</u>	<u>(22,573,388)</u>	<u>(2,381,180)</u>

14 Reconciliation of movements in shareholders' deficit

	2013 £	2012 £
Loss for the financial year	(1,017,721)	(1,420,998)
Net increase to shareholders' deficit	(1,017,721)	(1,420,998)
Opening shareholders' (deficit) / funds	(1,346,749)	74,249
Closing shareholders' deficit	<u>(2,364,470)</u>	<u>(1,346,749)</u>

15 Financial commitments

Annual commitments under non-cancellable operating leases are as follows:

	2013 Land and buildings £	2012 Land and buildings £
Expiry date: Between 2 and 5 years	<u>93,918</u>	<u>51,500</u>

Notes to the financial statements
For the year ended 31 December 2013

16 Share options

At 31 December 2013 employees held options for 1,040,858 unissued ordinary shares (2012 - 424,979) as follows:

Issue date	At 1 January 2013	Issued	Lapsed	At 31 December 2013	Option price per share £	Exercise period
10/11/2010	52,500	-	52,500	-	1.20	5 years
03/10/2008	365,000	-	365,000	-	1.20	5 years
01/03/2003	7,479	-	7,479	-	1.20	10 years
31/03/2013	-	763,858	-	763,858	1.20	5 years
05/08/2013	-	277,000	-	277,000	1.20	5 years

The options outstanding at 31 December 2013 had a weighted average exercise price of £1.20 and a weighted average remaining contractual life of 52 months. The share options typically vest over a period of between zero and two years from the date of grant.

The inputs into the Black-Scholes model are as follows:

	2013	2012
Weighted Average Share Price	0.025	0.57
Weighted Average Exercise Price	1.20	1.20
Expected Volatility	65%	65%
Expected Life	5 years	5 years
Risk free rate	0.5%	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 (2012 - £nil) relating to equity-settled share based payments issued in the year to December 2013.

17 Subsequent events

In December 2013 the company proposed to shareholders a funding round of £1,500,000 through the issue of 1,000,000 Ordinary 0.25p shares. The funding round was oversubscribed and the board has determined that it is in the interests of the shareholders to satisfy shareholder demand.

18 Controlling party

S Newton is the ultimate controlling party.