

# **Cambridge Mechatronics Limited**

**Annual report and financial statements**

**Year ended 31 December 2018**

**Registered number: 3071231**



# **Cambridge Mechatronics Limited**

## **Contents**

	<b>Page</b>
<b>Officers and professional advisers</b>	<b>1</b>
<b>Chairman's statement</b>	<b>2</b>
<b>Managing Director's report</b>	<b>3</b>
<b>Directors' report</b>	<b>5</b>
<b>Independent auditor's report to the members of Cambridge Mechatronics Limited</b>	<b>7</b>
<b>Profit and loss account</b>	<b>9</b>
<b>Balance sheet</b>	<b>10</b>
<b>Statement of changes in equity</b>	<b>11</b>
<b>Notes to the financial statements</b>	<b>12</b>

# **Cambridge Mechatronics Limited**

**Annual report and financial statements**  
**For the year ended 31 December 2018**

## **Officers and professional advisers**

### **Directors**

H Baker Smith  
G M Harbour  
Dr M P Knight (Chairman)  
G McFarland  
S Newton  
A Osmant

### **Company secretary**

C Whitton

### **Registered office**

Building 6  
Westbrook Centre  
Cambridge  
CB4 1YG

### **Auditor**

Deloitte LLP  
Statutory Auditor  
Cambridge  
United Kingdom

## Cambridge Mechatronics Limited

### Chairman's statement

2018 was a most encouraging year for Cambridge Mechatronics Limited (CML). Despite the difficult geopolitical backdrop, 2018 was the year when CML emerged from being an early stage 'tech' company to one which has a credible and sustainable business future in a fiercely competitive market.

Highlight of the year was a key design win for CML's optical image stabilisation (OIS) actuator from a tier one smartphone handset vendor. The second half of the year was dominated by work with our Chinese licensees, camera module makers and this smartphone vendor to bring CML's OIS actuator to mass manufacture and its integration into the chosen flagship handset. We look forward to the launch of this handset in Spring 2019.

Of equally pleasing significance was the positive recognition, amongst a broad range of smartphone market participants, of the benefits of our actuator technology: precision control, small size, lightweight and non-magnetic structures and power. The trends in the smartphone camera market – whether through multiple cameras, bigger lenses, foldable smartphones – all play to the strengths of CML's technology and its application to camera actuators.

So, in 2018 CML established a firm base to exploit the potential of its platform SMA technology. This will take place not only by developing the suite of camera related products – slim Autofocus (AF) actuators, OIS actuators and actuators that combine both AF and OIS. It will also see CML bring forward intellectual property covering areas such as haptics, and facial recognition improvements and augmented reality products all of which, CML believes, represent exciting market opportunities for CML in smartphone and other products.

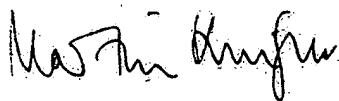
The funding round to raise £10.0m of new money and convert £3.1m of existing loan stock has closed. First closing took place in September 2018 and the final close took place on 20 February 2019. With this capital raising completed, CML is now well funded.

The demands on our staff have led to an expansion of our resource base. At the beginning of 2018 we had 65 staff, by the end of the year this number had increased to 84. And we expect to continue to recruit engineering and development resource in 2019. We are lucky to be based in Cambridge in the UK, home to so many talented, creative and highly educated engineers. Moreover, we have opened an office in Shanghai, meaning that CML now has four offices in the Greater China region. These offices provide local support to our licensees and the wider supply chain.

A major challenge for CML in 2019 will be to complete the transition from early stage 'tech' company to a business functioning amongst global giants in a fast moving, highly competitive marketplace. Professionalisation of management is not a luxury; it is recognised as a 'must have' to ensure the company fulfils its potential – particularly at a time when there are a number of complicated international trade disputes affecting our recruitment of staff and our customer base.

CML could not have met its targets in 2018 and be looking forward to a successful 2019 without a dedicated, inventive and hardworking staff. I am grateful to my colleagues in the UK and China for their efforts, which on many occasions have gone well beyond what could have been expected of them.

Lastly I would like to thank my Board colleagues and members of CML's Advisory Board for sharing the exciting burden of helping steer CML to a successful future.



**Dr M P Knight**  
Chairman

Date: 12 March 2019

# **Cambridge Mechatronics Limited**

## **Managing Director's report**

### **Principal activities**

The company specialises in designing miniature motors (actuators) which utilise smart materials – specifically shape memory alloy (SMA). The company's patented, platform technology enables it to design actuators that are the size of a human hair and can be controlled to the accuracy of the wavelength of light. These actuators are particularly suited to applications that require high levels of precision and force, in a compact and lightweight design.

The principal activities of the company are that of: research and development of actuators and their associated electronics and control software; and the licencing of intellectual property created by such work to international manufacturers. The company generates its revenues from a combination of licence fees, customer support fees, engineering fees and royalty income from units sold by its manufacturing licensees.

### **Business review**

During the course of the financial year under review, the company has made significant progress in gaining adoption of its SMA actuators in the market – indeed the market now recognises SMA actuators for use in smartphone cameras as a mainstream technology. The company's unique SMA actuator technology has featured in a range of applications, with products incorporating the company's licenced designs shipping in smartphones, wearable devices and drones in 2018.

The company has successfully grown its portfolio of manufacturing licensees in 2018, particularly in the Greater China region where licences were concluded with two of the leading Chinese camera actuator manufacturers – Shanghai B.L. Electronics Co. Limited and New Shicoh Motor Co. Limited.

The company has been rewarded with a design win with a leading smartphone handset vendor and has worked collaboratively with actuator makers, camera makers, silicon chip suppliers and the handset vendor in preparation for mass production. The company's work across the supply chain is a reflection of the fact that its SMA solution encompasses the entire camera system, rather than simply a standalone camera component. This is increasingly understood to be of great value to the company's customer base.

Interest in the company's haptics technologies, which provide customisable local tactile feedback, has continued to intensify during the year. The Board believe that the company's local haptic feedback technologies are superior to products currently available for use in small buttons in consumer electronic devices and commercialisation of the technology will commence in 2019.

Although in its infancy, 3D sensing remains an interesting and potentially high growth market for the company. The company believes that its solutions will significantly enhance accuracy of 3D sensing modules used in facial recognition. The company is also developing 3D sensing products for augmented reality applications and it believes that its technology could bring about a material increase in the range at which these systems can operate.

The company protects its intellectual property rights through its extensive portfolio of patents, trade secrets and know-how. Over the course of the year the company has had 9 patents granted and has filed 68 new applications, giving a portfolio at 31 December 2018 of 72 granted SMA patents and 112 pending SMA patents.

The company has raised £10.0m of new equity investment and converted £3.1m of existing loan stock to equity. The investment completed in two tranches, the first tranche on 10 August 2018 and the second on 20 February 2019. The funds raised have been, and will continue to be, used to: recruit high quality engineers at the company's Cambridge headquarters, fund the company's expanding overseas offices to increase the level of local support that can be offered to licensees and further develop new product offerings.

The company's loss for the year includes a number of one off expenses. Specifically the company has recognised: a £0.4m charge in the profit and loss in relation a contribution towards marketing costs incurred on the company's behalf by a licensee that may become payable in 2019 (see note 9 for further details); a £0.3m interest charge on loan notes that were either converted or redeemed during the year (see note 3 for further details); and £0.1m of expenses incurred in relation to financing activity.

### **Staff**

The company's engineering team contains experts across a variety of engineering disciplines including mechanical, electronics, material science, software and physics. To respond to demand from the market for its SMA actuator technologies, the company has continued to recruit across its multidisciplinary team – the number of employees has increased from 65 at the start of the year to 84 at the end of 2018.

## Cambridge Mechatronics Limited

### Managing Director's report (continued)

#### Staff (continued)

In September 2018 the company opened an office in Shanghai. Shanghai is a key region for the manufacture of compact camera components – the company's licensees Shanghai B.L. Electronics Co. Limited and New Shicoh Motor Co. Limited are based in the Shanghai area, as are camera module integrators Sunny Optical and Q Technology. The office in Shanghai means that – alongside existing offices in Shenzhen, Hong Kong and Taipei – the company has four offices in the Greater China region. In addition to the opening of the Shanghai office, the company has increased the level of local support it offers to licensees by growing its Greater China based engineering resource.

#### Future developments

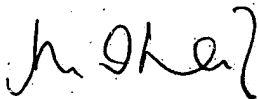
In December 2018, the company's manufacturing licensees began production of the company's SMA optical image stabilisation (OIS) actuator for use in one of the world's leading smartphone handset vendors flagship handset. The handset is expected to be a multi-million unit device with production of the actuator due to ramp in Q1 2019, which provides the company with the prospect of meaningful royalty income in 2019.

The company expects more smartphone design wins in 2019 as its SMA solutions gain market traction and its supply partners increase their productive capacity. Indeed the company is in advanced negotiations with one of the world's leading smartphone vendors over a licence that will allow the vendor to use its preferred supply chains to manufacture the company's combined autofocus and optical image stabilisation actuator.

The company believes that its SMA actuator technology is better suited to the emerging smartphone camera trends than the competing voice coil motor (VCM) actuator technology. Industry analysts are predicting that smartphone manufacturers will shift away from VCM OIS actuators to SMA OIS actuators in 2019 in response to the adoption of larger lenses – the company's SMA actuators generate a greater force than competing VCM actuators and are therefore better equipped to shift larger, heavier lenses. Furthermore, other trends in the smartphone camera market – such as foldable smartphones and the continued adoption of multiple camera modules – support the strengths of the company's SMA actuator technology.

As highlighted in the Business Review section of this report, the company has continued to invest in new product areas, particularly with regards to its haptic and 3D sensing technologies. The company believes that these new markets offer it significant growth opportunities.

To address the anticipated increase in activity it is expected that additional engineering resource will be recruited, both at the company's Cambridge headquarters and in the Greater China region. The company expects to increase its presence in Greater China to ensure that it maintains its ability to provide optimum support to its licensees.



**A Osmant**  
Managing Director

Date: 12 March 2019

# **Cambridge Mechatronics Limited**

## **Directors' report**

The directors present their annual report together with the financial statements of the company and independent auditor's report for the year ended 31 December 2018. The directors' report has been prepared in accordance with the special provisions relating to small companies under Section 415A of the Companies Act 2006. Accordingly a strategic report has not been prepared.

### **Directors**

The directors who served throughout the year and to the date of this report, unless otherwise stated, were:

H Baker Smith  
Dr M P Knight (Chairman)  
S Newton  
A Osmant  
G McFarland (appointed 14 March 2018)  
G M Harbour (appointed 1 December 2018)

### **Directors' responsibilities statement**

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), including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland". 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.

### **Going concern**

During the year under review, the company has met its working capital requirements by utilising cash from revenue receipts, proceeds from shareholder equity funding and through the receipt of the research and development tax credit available to small and medium sized enterprises.

The directors have considered the financing requirements of the company for a period of at least 12 months from the date of approval of these financial statements. Cash flow projections prepared by the directors indicate that the company has sufficient cash to enable it to continue trading under normal circumstances for at least that period. Based on ongoing discussions with prospective licensees, existing and expected handset design wins and wider market interest in the company's platform SMA technology, the directors are confident that future potential revenues included in the cash flow projections will be realised. Therefore, the directors consider it appropriate to continue to adopt the going concern basis in preparing the financial statements.

### **Dividends**

The directors are unable to recommend the payment of a dividend (2017 - £nil).

### **Directors' indemnities**

The company has made qualifying third party indemnity provisions for the benefit of its directors which were made during the year and remain in force at the date of this report.

## Cambridge Mechatronics Limited

### Directors' report (continued)

#### 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.

#### Auditor

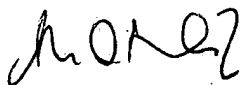
Each of the persons who is a director at the date of approval of this annual report confirms that:

- 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.

Approved by the Board and signed on its behalf by:



**A Osmant**  
Director

Date: 12 March 2019



## **Independent auditor's report**

### **To the members of Cambridge Mechatronics Limited**

#### **Report on the audit of the financial statements**

##### **Opinion**

In our opinion the financial statements of Cambridge Mechatronics Limited (the 'company'):

- give a true and fair view of the state of the company's affairs as at 31 December 2018 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the profit and loss account;
- the balance sheet
- the statement of changes in equity; and
- the related notes 1 to 12.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice):

##### **Basis for opinion**

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

##### **Conclusions relating to going concern**

We are required by ISAs (UK) to report in respect of the following matters where:

- the directors' use of the going concern basis of accounting in preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

We have nothing to report in respect of these matters.

##### **Other information**

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in respect of these matters.

##### **Responsibilities of directors**

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, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

## Independent auditor's report

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

#### Responsibilities of directors (continued)

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

#### Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

#### Report on other legal and regulatory requirements

##### Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the directors' report has been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified any material misstatements in the directors' report.

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

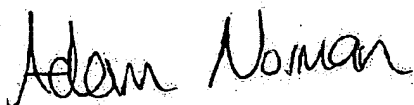
Under the Companies Act 2006 we are required to report in respect of the following matters if, in our opinion:

- 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 and take advantage of the small companies' exemptions in preparing the directors' report and from the requirement to prepare the strategic report.

We have nothing to report in respect of these matters.

##### Use of our report

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.



**Adam Norman (Senior Statutory Auditor)**  
For and on behalf of Deloitte LLP  
Statutory Auditor  
Cambridge, United Kingdom

Date: 13 March 2019

## Cambridge Mechatronics Limited

### Profit and loss account For the year ended 31 December 2018

	Note	2018 £	2017 £
<b>Turnover before rebates</b>		3,005,552	3,077,824
Rebates	9	(391,359)	-
<b>Turnover</b>		<u>2,614,193</u>	<u>3,077,824</u>
<b>Gross profit</b>		2,614,193	3,077,824
Distribution costs		(1,729,299)	(1,030,614)
Research and development expenditure		(4,678,061)	(3,314,909)
Administrative expenses		(962,279)	(852,317)
<b>Operating loss</b>		(4,755,446)	(2,120,016)
Bank interest receivable		6,255	229
Convertible loan notes interest charge	3	(286,268)	(197,103)
<b>Loss before taxation</b>	4	(5,035,459)	(2,316,890)
Tax on loss		1,207,172	802,938
<b>Loss for the financial year</b>		<u>(3,828,287)</u>	<u>(1,513,952)</u>

There are no comprehensive income or expenses other than the loss for the financial year and the preceding financial year. Accordingly, no statement of comprehensive income is given.

# Cambridge Mechatronics Limited

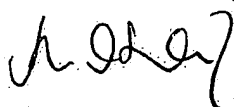
## Balance sheet At 31 December 2018

	Note	2018 £	2017 £
<b>Fixed assets</b>			
Tangible assets	5	297,096	199,816
<b>Current assets</b>			
Debtors	6	6,290,627	1,705,225
Cash at bank and in hand		4,174,169	1,815,677
		10,464,796	3,520,902
<b>Creditors: amounts falling due within one year</b>	7	(867,919)	(355,947)
<b>Net current assets</b>		9,596,877	3,164,955
<b>Total assets less current liabilities</b>		9,893,973	3,364,771
Compound financial instruments	8	-	(3,099,786)
Provisions for liabilities	9	(394,005)	-
<b>Net assets</b>		9,499,968	264,985
<b>Capital and reserves</b>			
Called up share capital		38,679	32,172
Called up and unpaid share capital		6,239	5,414
Share premium account		45,444,003	32,031,435
Profit and loss account		(35,988,953)	(31,804,036)
<b>Shareholders' funds</b>		9,499,968	264,985

These financial statements have been prepared in accordance with the provisions applicable to companies subject to the small companies regime. The financial statements have been prepared in accordance with the provisions of Section 1A of FRS 102.

The financial statements of Cambridge Mechatronics Limited, registered number 3071231, were approved by the Board of Directors and authorised for issue on 12 March 2019.

Signed on behalf of the Board of Directors by:



**A Osmant**  
Director

# Cambridge Mechatronics Limited

## Statement of changes in equity At 31 December 2018

	Called up share capital £	Called up and unpaid share capital £	Share premium account £	Profit and loss account £	Total £
At 1 January 2017	32,172	5,414	32,031,435	(30,290,084)	1,778,937
Loss for the year	-	-	-	(1,513,952)	(1,513,952)
At 31 December 2017	32,172	5,414	32,031,435	(31,804,036)	264,985
Issue of share capital	4,873	825	9,599,802	-	9,605,500
Conversion of compound financial instruments	1,634	-	3,812,766	(356,630)	3,457,770
Loss for the year	-	-	-	(3,828,287)	(3,828,287)
At 31 December 2018	38,679	6,239	45,444,003	(35,988,953)	9,499,968

# **Cambridge Mechatronics Limited**

## **Notes to the financial statements For the year ended 31 December 2018**

### **1. Accounting policies**

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

#### ***General information and basis of accounting***

Cambridge Mechatronics Limited is a company incorporated in the United Kingdom under the Companies Act.

The company is a private company limited by shares and is registered in England and Wales. The address of the registered office is given on page 1. The nature of the company's operations and its principal activities are set out in the Managing Director's report on page 3.

The average monthly number of employees (including executive directors) was 64 (2017 - 48).

The functional currency of Cambridge Mechatronics Limited is considered to be pounds sterling because that is the currency of the primary economic environment in which the company operates.

The financial statements have been prepared under the historical cost convention and in accordance with Section 1A of Financial Reporting Standard 102 (FRS 102), "The Financial Reporting Standard applicable in the UK and Republic of Ireland" issued by the Financial Reporting Council.

#### ***Going concern***

During the year under review, the company has met its working capital requirements by utilising cash from revenue receipts, proceeds from shareholder equity funding and through the receipt of the research and development tax credit available to small and medium sized enterprises.

The directors have considered the financing requirements of the company for a period of at least 12 months from the date of approval of these financial statements. Cash flow projections prepared by the directors indicate that the company has sufficient cash to enable it to continue trading under normal circumstances for at least that period. Based on ongoing discussions with prospective licensees, existing and expected handset design wins and wider market interest in the company's platform SMA technology, the directors are confident that future potential revenues included in the cash flow projections will be realised. Therefore, the directors consider it appropriate to continue to adopt the going concern basis in preparing the financial statements.

#### ***Turnover***

Turnover is derived from contractual agreements with licensees which can comprise a number of separately identifiable components. Where a contract has multiple distinctly identifiable components, revenue for each component is recognised separately in accordance with the policies set out below. Turnover is stated net of VAT, rebates and trade discounts and is recognised when the significant risks and rewards are considered to have been transferred to the buyer.

Non-refundable licence fees in respect of perpetual licences are recognised when all obligations relating to the grant of the licence is met. In contrast, where a licence is granted for a specified period of time, the licence fee received is recognised on a straight-line basis over the stated term.

Royalty revenue is recognised on an accruals basis in accordance with the terms of the relevant agreement.

Fees received for engineering services and customer support are recognised as the services are rendered based on the stage of completion.

#### ***Foreign currencies***

Transactions in foreign currencies are recorded at the rate of exchange at the date of transaction. 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.

#### ***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. Benefits received and receivable as an incentive to sign an operating lease are similarly spread on a straight-line basis over the lease term.

# Cambridge Mechatronics Limited

## Notes to the financial statements For the year ended 31 December 2018

### 1. Accounting policies (continued)

#### **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
Leasehold improvements	-	the unexpired lease term

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

#### **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.

#### **Taxation**

Current tax, including UK corporation tax and foreign 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. The company claims the research and development tax credit available to small and medium sized enterprises.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the company's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements.

Deferred tax is measured using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date that are expected to apply to the reversal of the timing difference. Unrelieved tax losses and other deferred tax assets are recognised to the extent that it is regarded as more likely than not that there will be suitable future taxable profits to recover these assets against.

#### **Pensions**

For defined contribution schemes the amount charged to the profit and loss account in respect of pension costs and other retirement benefits is the contributions payable in the year. Differences between contributions payable in the year and contributions actually paid are shown as either accruals or prepayments in the balance sheet.

#### **Provisions for liabilities**

Provisions are recognised when the company has a present obligation as a result of a past event, it is probable that the company will be required to settle that obligation and a reliable estimate can be made of the amount of the obligation. The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the balance sheet date, taking into account the uncertainties surrounding the obligation (as identified in note 2).

#### **Share-based payments**

The company has issued share options to certain employees with non-market based vesting conditions. Equity settled share-based payments are measured at the fair value (excluding the effect of non-market based vesting conditions) 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 and adjusted for the effect on non-market vesting conditions. 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.

# Cambridge Mechatronics Limited

## Notes to the financial statements For the year ended 31 December 2018

### 1. Accounting policies (continued)

#### **Financial instruments**

Financial instruments are classified and accounted for according to the substance of the contractual arrangement as either financial assets, financial liabilities or equity instruments.

An equity instrument is any contract that evidences a residual interest in the net assets of the company. Equity instruments issued by the company are recorded at the fair value of cash or other resources received or receivable, less any direct issue costs.

Short term debtors are measured at the transaction price, less any impairment. Short term trade creditors are measured at the transaction price.

Compound financial instruments issued by the company are classified as either financial liabilities, equity or a combination of the two in accordance with the substance of the contractual arrangement. The compound financial instruments issued by the company have two separate elements, a non-convertible host debt component and a conversion option. The conversion option does not meet the fixed-for-fixed criteria required to be classified as equity and consequently the compound financial instruments are classified as a financial liability in their entirety. Compound financial instruments that meet the conditions stated in FRS 102.11.9 are classified as 'basic' financial instruments. 'Basic' financial instruments are initially measured at transaction price, including transaction costs, and are subsequently measured at amortised cost using the effective interest method.

The company does not deal in complex financial instruments.

### 2. Critical accounting judgements and key sources of estimation uncertainty

In the application of the company's accounting policies, which are described in note 1, the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The critical accounting judgements and key sources of estimation uncertainty that have a significant risk of causing material adjustment to the carrying amounts of assets and liabilities within the next financial year are detailed below.

#### **Research and development expenditure**

The company undertakes research and development activity and therefore the assessment of research and development expenditure is critical in order to determine whether or not it is appropriate to capitalise it onto the balance sheet in accordance with FRS 102 Section 18 "Intangible Assets other than Goodwill". The directors consider the capitalisation criteria laid out under FRS 102 Section 18 has not been met and consequently all research and development expenditure is recorded in the profit and loss account.

#### **Provisions for liabilities**

In determining whether to recognise a rebate provision for marketing contributions payable to licensees, the directors are required to make judgements regarding the likelihood of licensees selling product that incorporate Cambridge Mechatronics Limited's SMA technology in the market by a specified date.

### 3. Convertible loan notes interest charge

On 10 August 2018 the loan notes were either converted to equity or redeemed as cash. Consequently the interest charge on the convertible loan notes ceased on 10 August 2018. Further details regarding the convertible loan notes are given in note 8.

The convertible loan notes were measured at amortised cost using the effective interest method. The interest charge was calculated by applying a weighted average effective interest rate of 15.37% (2017 - 15.19%) to the carrying value of the liability.



## Cambridge Mechatronics Limited

### Notes to the financial statements For the year ended 31 December 2018

#### 4. Loss before taxation

	2018 £	2017 £
Loss before taxation is stated after charging (crediting):		
Depreciation of tangible fixed assets (note 5)	95,375	47,461
Research and development	4,678,061	3,314,909
Land and buildings operating lease rentals	215,420	155,822
Auditor's remuneration:		
Auditing of the financial statements	25,000	20,000
Taxation compliance services	6,808	5,900
Other taxation advisory services	4,000	7,200
Corporate finance services	27,500	150,000
Foreign exchange (gain)/loss	(585)	52,405

#### 5. Tangible fixed assets

	Leasehold improvements £	Plant and machinery £	Office equipment £	Computers and software £	Total £
<b>Cost</b>					
At 1 January 2018	99,661	65,150	24,222	204,940	393,973
Additions	1,611	78,018	597	112,429	192,655
At 31 December 2018	101,272	143,168	24,819	317,369	586,628
<b>Depreciation</b>					
At 1 January 2018	6,354	42,168	9,125	136,510	194,157
Charge for the year	20,919	22,128	6,048	46,280	95,375
At 31 December 2018	27,273	64,296	15,173	182,790	289,532
<b>Net book value</b>					
At 31 December 2018	73,999	78,872	9,646	134,579	297,096
At 31 December 2017	93,307	22,982	15,097	68,430	199,816

#### 6. Debtors: Amounts falling due within one year

	2018 £	2017 £
Trade debtors	2,225,494	368,139
Corporation tax recoverable	1,498,119	982,984
Called up and unpaid share capital	2,071,214	5,414
Other debtors	290,609	270,862
Prepayments and accrued income	205,191	77,826
	<u>6,290,627</u>	<u>1,705,225</u>

# Cambridge Mechatronics Limited

## Notes to the financial statements For the year ended 31 December 2018

### 7. Creditors: Amounts falling due within one year

	2018 £	2017 £
Trade creditors	262,865	56,971
Other taxation and social security	359,759	114,922
Accruals and deferred income	245,295	184,054
	<u>867,919</u>	<u>355,947</u>

### 8. Compound financial instruments

	2018 £	2017 £
Convertible loan notes	-	<u>3,099,786</u>

On 18 April 2017 the company issued convertible loan notes of £3,000,000. The proceeds from the issue of convertible loan notes are being drawn down in tranches. The first tranche of £2,050,000 was drawn down in April 2017 and a second tranche of £852,683 was drawn down in December 2017. The third and final tranche of £97,317 was drawn down in February 2018.

The terms of the convertible loan notes provided for mandatory conversion or redemption on occurrence of a conversion event, being either a change of control or the company raising equity finance. An equity funding round, completed on 10 August 2018, constituted a conversion event. Noteholders holding £2,980,000 of the principal amount of the convertible loan notes elected to convert their note holding to Preferred Ordinary shares. The total amount paid to noteholders that elected to redeem their note holding as cash was £25,600.

The loan notes converted to equity using a conversion ratio based on the share price at the time of the conversion event. Consequently, the conversion option did not meet the fixed-for-fixed criteria required to be classified as equity. As a result the convertible loan notes were classified as a financial liability in their entirety, prior to the conversion event.

### 9. Provisions for liabilities

	Rebates £
At 1 January 2018	-
Charged to profit and loss account	391,359
Foreign exchange loss	<u>2,646</u>
At 31 December 2018	<u>394,005</u>

The rebates provision relates to a contribution payable to a licensee to cover expenditure that the licensee has incurred on the company's behalf when marketing the company's SMA technology. The contribution to the licensee's marketing expenditure becomes payable if the licensee has product incorporating Cambridge Mechatronics Limited's SMA technology in market by 31 December 2019.

## Cambridge Mechatronics Limited

### Notes to the financial statements For the year ended 31 December 2018

#### 10. Financial commitments

Total future minimum lease payments under non-cancellable operating leases are as follows:

	2018 Land and buildings £	2017 Land and buildings £
Within 1 year	226,721	226,721
Between 1 and 5 years	580,026	806,747
	<u>806,747</u>	<u>1,033,468</u>

#### 11. Subsequent events

The company has received £2,065,800 from shareholders relating to the called up and unpaid share capital debtor shown in note 6.

On 20 February 2019 the company issued 214,844 Preferred Ordinary shares to raise £1,344,923, which represents the completion of a £10,000,000 funding round.

#### 12. Related party transactions

##### *Directors' remuneration*

Merrycroft Limited, a company of which M Knight is also a director, invoiced £87,000 for consultancy services provided by M Knight during the year (2017 - £87,000). The balance due to Merrycroft Limited in respect of these services at 31 December 2018 was £7,250 (2017 - £7,250).

West End Tech Ltd., a company of which G McFarland is also a director, invoiced £19,792 for consultancy services provided by G McFarland during the year (2017 - £nil). The balance due to West End Tech Ltd. in respect of these services at 31 December 2018 was £19,792 (2017 - £nil).

Including the fees invoiced by Merrycroft Limited and West End Tech Ltd., the company paid £320,078 (2017 - £292,979) as key management personnel compensation to the directors during the year.

##### *Directors' transactions*

S Newton subscribed for convertible loan notes with a nominal value of £32,439 during the year (2017 - £784,871). S Newton converted loan note principal and accrued interest with a value of £2,586,310 during the year (2017 - £nil).

The Stewart Newton Family Settlement Trust subscribed for convertible loan notes with a nominal value of £nil during the year (2017 - £1,693,670).

M Knight subscribed for convertible loan notes with a nominal value of £nil during the year (2017 - £87,805). M Knight converted loan note principal and accrued interest with a value of £90,439 during the year (2017 - £nil).

Merrycroft Limited subscribed for convertible loan notes with a nominal value of £nil during the year (2017 - £81,951). Merrycroft Limited converted loan note principal and accrued interest with a value of £84,410 during the year (2017 - £nil).