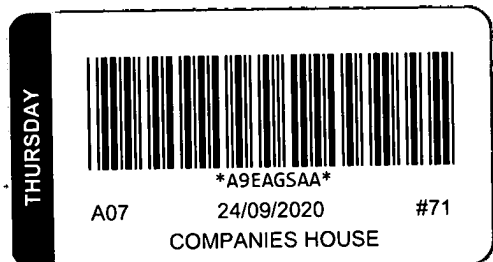


**Cambridge Mechatronics Limited**

**Annual report and financial statements**  
**Year ended 31 December 2019**

Registered number: 3071231



# **Cambridge Mechatronics Limited**

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# **Cambridge Mechatronics Limited**

**Annual report and financial statements  
For the year ended 31 December 2019**

## **Officers and professional advisers**

### **Directors**

G M Harbour  
Dr M P Knight (Chairman)  
N Lerner  
G McFarland  
S Newton  
A Osment

### **Company secretary**

C Whitton

### **Registered office**

Building 6  
Westbrook Centre  
Milton Road  
Cambridge  
CB4 1YG

### **Auditor**

Deloitte LLP  
Statutory Auditor  
Cambridge  
United Kingdom

## Cambridge Mechatronics Limited

### Chairman's statement

2019 has been an impressive year in the development of Cambridge Mechatronics Limited (CML). The company now has nine licensees, from which substantial licence fees have been received; and for the first time saw adoption of its 4-wire OIS actuator in multiple smartphones.

For the future, of significance was the licensing in 2019 of CML's next camera designed product, the 8 wire actuator. We have high hopes that this product will be very attractive in the market, with the prospect of significant volume of sales in 2020 and beyond.

On the product development front, good progress was made with a newly designed autofocus actuator and also with its Haptics and 3D Sensing technologies, all of which we believe are attractive to smartphone vendors. Overall, CML is confident that the trends in the smartphone market are beneficial to the long-term interests of those who adopt CML's technology.

The progress made in 2019 could not have been possible without the commitment, integrity and hard work of CML's staff. Recruitment of experienced programme managers, as well as more highly inventive, skilled engineers, has been an important step forward; as has the integration of CML's Chinese operations into the Cambridge team.

Related to this, and to the growing size of the operating activities, a decision was taken at the end of 2019 to seek bigger offices. As a result, we hope to move into new premises in Cambridge in the spring of 2020, to a building that reflects the ambitions and prospects of CML.

In 2019, CML grew its revenues, earning repeatable - and significantly above budget - royalty income. CML will work to build on this move from being a start-up to a fully-fledged business. In recognition of this, in January 2020, Neil Lerner joined the Board as Chairman of the Audit Committee. Neil's experience as a senior partner at KPMG will, I am sure, assist in the process of CML becoming a maturely managed company.

It is with gratitude that I also note that Hugh Baker-Smith stepped down from the Board in January 2020. His knowledge of the China market has been valuable to CML and we are grateful for his contributions over the last 4 and a half years.

As always, the key to CML's performance has been our staff contribution. Their inventiveness, resilience and hard work have been outstanding. They fully deserve to be part of, and benefit from, a successful CML. The Board and I are proud of them and grateful to them.

2019 was an enjoyable and successful year. I look forward to 2020 being even more so.



Dr M P Knight  
Chairman

Date: 29/1/20

# **Cambridge Mechatronics Limited**

## **Strategic 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**

2019 has been a transformational year for Cambridge Mechatronics Limited (CML), with the market now recognising the company's SMA actuators as a mainstream smartphone camera technology. Indeed, the company's SMA optical image stabilisation (OIS) actuator designs have been incorporated into multiple handsets of a major smartphone vendor, with the cameras in these handsets receiving extremely positive reviews in the market.

A new design win has been achieved in a 2020 flagship handset, which together with the increase in manufacturing capacity by CML's licensees during 2019 augurs well for continued growth in volumes in 2020.

The company has successfully added to its portfolio of manufacturing licensees in 2019, including entering into new licence agreements to its next generation combined autofocus (AF) and OIS actuator.

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 8 patents granted and has filed 92 new applications, giving a portfolio at 31 December 2019 of 80 granted SMA patents and 167 pending SMA patents.

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 84 at the start of the year to 114 at the end of 2019.

Growth of the team based in the Greater China region – which provides local support to CML's licensees – led to a move to larger premises in Shenzhen in 2019.

The company's revenue in 2019 was £6.6m, growing by 154% compared to that in 2018 and it held cash of £5.2m at the end of 2019, an increase of £1.0m during the year. The company closed an equity funding round in February 2019.

### **Key performance indicators**

Over the course of 2019, the company's licensees shipped 24.1m units of CML designed SMA OIS actuators, compared to 0.3m units in 2018.

In addition, the company increased the number of companies holding a licence to its technology from 5 at the start of the year to 9 at the end.

The company has also continued its investment in new product areas, particularly with regards to its autofocus, haptic and 3D sensing technologies. The company believes that these new markets offer it significant growth opportunities.

### **Principal risks and uncertainties**

The directors maintain a risk register that is formally reviewed at each Board meeting. The principal risks faced by the company, and the steps taken to mitigate these are as follows:

#### **Commercial risk**

There is a risk that the company's SMA technology does not penetrate new markets. The company has carefully selected the markets it operates in and has developed a product roadmap which it believes highlights compelling advantages for its SMA technology relative to alternatives available to its target markets.

## Cambridge Mechatronics Limited

### Strategic report (continued)

#### Principal risks and uncertainties (continued)

##### **Cash flow risk**

The company's activities expose it primarily to the financial risks of changes in foreign currency exchange rates. To limit the exchange rate exposure receipts and payments denominated in foreign currencies are matched as far as is possible.

##### **Credit risk**

The company's principal financial assets are bank balances and trade debtors. The company's credit risk is primarily attributable to its trade debtors, which is concentrated to a few customers. The company reviews the financial strength of its customers prior to entering a licence agreement, and continually monitors the outstanding trade debtors.

##### **Liquidity risk**

Liquidity risk is managed through day to day monitoring of the future cash flow requirements to ensure that the company has sufficient resources available for ongoing operations and future developments.

##### **Future developments**

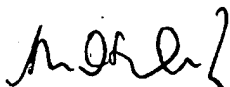
Further to the market's adoption of its SMA products in 2019, the company expects increased interest and further adoption for both its existing smartphone camera products and its new technologies during 2020.

In relation to this, the company has a number of clearly defined objectives it wishes to achieve in 2020. These include expanding the number of smartphones using its first OIS product; the inclusion in smartphones of its second AF+OIS product; and the closure of licence agreements for its new technologies.

Recruitment of new engineering and operational staff is expected to continue in 2020 to meet the requirements of the company's growing customer base and to exploit new opportunities.

The extent of the anticipated expansion of its business in 2020 will influence the company's strategic direction thereafter.

Approved by the Board and signed on its behalf by:



**A Osmant**  
Managing Director

Date: 28 January 2020

# **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 2019.

In preparing the Directors' Report, the directors have complied with s414C(11) of the Companies Act 2006 by including certain disclosures required by s416(4) within the Strategic Report which are a review of business, key performance indicators, principal risks and uncertainties and future developments.

### **Directors**

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

H Baker Smith (resigned 15 January 2020)  
G M Harbour  
Dr M P Knight (Chairman)  
N Lerner (appointed 15 January 2020)  
G McFarland  
S Newton  
A Osmant

### **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 experienced a net cash outflow from operating activities. 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.

### **Research and development**

The company undertakes research and development in respect of actuators and their associated electronics and control software. Research and development expenditure is written off to the profit and loss account in the year in which it is incurred.

## Cambridge Mechatronics Limited

### Directors' report (continued)

#### Dividends

The directors are unable to recommend the payment of a dividend (2018 - £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.

#### 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: 28 January 2020

## **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 2019 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;
- the cash flow statement; and
- the related notes 1 to 19.

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.

## Independent auditor's report

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

#### 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.

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 strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have 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 strategic report or the directors' report.

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

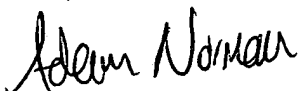
Under the Companies Act 2006 we are required to report in respect of the following matters if, in our opinion:

- 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.

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: 29 January 2020

## Cambridge Mechatronics Limited

### Profit and loss account For the year ended 31 December 2019

	Note	2019 £	2018 £
<b>Turnover</b>	3	6,645,180	2,614,193
<b>Gross profit</b>		6,645,180	2,614,193
Distribution costs		(2,213,117)	(1,729,299)
Research and development expenditure		(7,414,965)	(4,678,061)
Administrative expenses		(1,514,535)	(962,279)
<b>Operating loss</b>		(4,497,437)	(4,755,446)
Bank interest receivable		14,803	6,255
Convertible loan notes interest charge	4	-	(286,268)
<b>Loss before taxation</b>	5	(4,482,634)	(5,035,459)
Tax on loss	8	1,269,730	1,207,172
<b>Loss for the financial year</b>		(3,212,904)	(3,828,287)

All activities derive from continuing operations.

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.

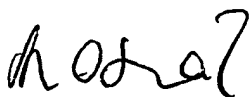
# Cambridge Mechatronics Limited

## Balance sheet At 31 December 2019

	Note	2019 £	2018 £
<b>Fixed assets</b>			
Tangible assets	9	296,948	297,096
<b>Current assets</b>			
Debtors	10	5,032,142	6,290,627
Cash at bank and in hand		5,193,239	4,174,169
		10,225,381	10,464,796
<b>Creditors: amounts falling due within one year</b>	11	(1,872,744)	(867,919)
<b>Net current assets</b>		8,352,637	9,596,877
<b>Total assets less current liabilities</b>		8,649,585	9,893,973
Provisions for liabilities	12	(251,494)	(394,005)
<b>Net assets</b>		8,398,091	9,499,968
<b>Capital and reserves</b>			
Called up share capital	13	46,172	44,918
Share premium account	13	47,305,098	45,444,003
Profit and loss account	13	(38,953,179)	(35,988,953)
<b>Shareholders' funds</b>		8,398,091	9,499,968

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

Signed on behalf of the Board of Directors by: 28<sup>th</sup> January 2020.



A Osmant  
Director

## Cambridge Mechatronics Limited

### Statement of changes in equity At 31 December 2019

	Called up share capital £	Share premium account £	Profit and loss account £	Total £
At 1 January 2018	37,586	32,031,435	(31,804,036)	264,985
Issue of share capital	5,698	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 and total comprehensive expenses	-	-	(3,828,287)	(3,828,287)
At 31 December 2018	44,918	45,444,003	(35,988,953)	9,499,968
Issue of share capital	1,254	1,861,095	-	1,862,349
Credit to equity for equity settled share based payment	-	-	248,678	248,678
Loss for the year and total comprehensive expenses	-	-	(3,212,904)	(3,212,904)
At 31 December 2019	46,172	47,305,098	(38,953,179)	8,398,091

## Cambridge Mechatronics Limited

### Cash flow statement

For the year ended 31 December 2019

		2019 £	2018 £
<b>Net cash flow from operating activities</b>	15	<u>(2,717,380)</u>	<u>(5,066,524)</u>
<b>Cash flow from investing activities</b>			
Purchase of tangible fixed assets		(206,503)	(192,655)
Interest received		14,803	6,255
<b>Net cash flows from investing activities</b>		<u>(191,700)</u>	<u>(186,400)</u>
<b>Cash flows from financing activities</b>			
Proceeds on issue of shares		3,928,150	7,539,699
Proceeds on issue of convertible loan notes		-	97,317
Payment on redemption of convertible loan notes		-	(25,600)
<b>Net cash flows from financing activities</b>		<u>3,928,150</u>	<u>7,611,416</u>
Net increase in cash and cash equivalents		1,019,070	2,358,492
Cash and cash equivalents at beginning of year		<u>4,174,169</u>	<u>1,815,677</u>
Cash and cash equivalents at end of year		<u>5,193,239</u>	<u>4,174,169</u>

# **Cambridge Mechatronics Limited**

## **Notes to the financial statements For the year ended 31 December 2019**

### **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 2006.

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 Strategic report on page 3.

The financial statements have been prepared under the historical cost convention and in accordance with 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.

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.

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

During the year under review, the company experienced a net cash outflow from operating activities. 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.

Other turnover includes fees received for engineering services and customer support, which 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 2019

### 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 minimum 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.

#### **Interest income**

Interest income is recognised when it is probable that the economic benefits will flow to the company and the amount of income can be measured reliably. Interest income is recognised on an accruals basis.

#### **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 2019**

### **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.

#### ***Critical judgement in applying the company's accounting policies***

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.

#### ***Key source of estimation uncertainty***

In determining the amount recognised as a provision for dilapidations, the directors are required to make estimates regarding the cost of works required to restore leased premises to their condition on occupation. At 31 December 2019, the directors estimate the cost of such work to be £251,494. However, due to the uncertainty associated with dilapidations, there is a possibility that the final outcome may differ significantly.

## Cambridge Mechatronics Limited

### Notes to the financial statements

For the year ended 31 December 2019

#### 3. Turnover

An analysis of the company's turnover by class of business is set out below.

	2019 £	2018 £
Licence fees	2,268,240	2,225,871
Royalties	3,808,665	85,142
Other turnover	568,275	303,180
	<u>6,645,180</u>	<u>2,614,193</u>

An analysis of the company's turnover by geographical market is set out below.

	2019 £	2018 £
Asia	5,917,555	2,459,613
Europe	727,125	150,975
Rest of the world	500	3,605
	<u>6,645,180</u>	<u>2,614,193</u>

#### 4. Convertible loan notes interest charge

On 10 August 2018 all outstanding 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.

The convertible loan notes were measured at amortised cost using the effective interest method. To calculate the interest charge a weighted average interest rate of 15.37% was applied in 2018 to the carrying value of the liability.

#### 5. Loss before taxation

	2019 £	2018 £
Loss before taxation is stated after charging (crediting):		
Depreciation of tangible fixed assets (note 9)	150,478	95,375
Impairment of tangible fixed assets (note 9)	56,173	-
Research and development	7,414,965	4,678,061
Land and buildings operating lease rentals	214,266	215,420
Auditor's remuneration:		
Auditing of the financial statements	35,000	25,000
Taxation compliance services	6,250	6,808
Other taxation advisory services	3,090	4,000
Corporate finance services	-	27,500
Foreign exchange loss/(gain)	<u>179,700</u>	<u>(585)</u>

# Cambridge Mechatronics Limited

## Notes to the financial statements For the year ended 31 December 2019

### 6. Staff numbers and costs

	2019 Number	2018 Number
The average monthly number of employees (including executive directors) was:		
Distribution	3	2
Research and development	75	55
Administration	10	7
	<u>88</u>	<u>64</u>

	2019 £	2018 £
The aggregate remuneration comprised:		
Wages and salaries	4,550,202	3,396,631
Social security costs	475,260	375,105
Pension costs (note 17)	172,081	106,206
	<u>5,197,543</u>	<u>3,877,942</u>

### 7. Directors' remuneration

	2019 £	2018 £
Emoluments	217,219	209,710
Sums paid to third parties in respect of directors' services	116,418	106,792
Company contributions to money purchase pension schemes	5,569	3,576
	<u>339,206</u>	<u>320,078</u>

	2019 Number	2018 Number
The number of directors who:		
Are members of a money purchase pension scheme	1	1
Exercised options over shares in the company	<u>2</u>	<u>2</u>

### Remuneration of highest paid director:

	2019 £	2018 £
Emoluments	163,862	158,336
Company contributions to money purchase pension schemes	5,569	3,576
	<u>169,431</u>	<u>161,912</u>

The highest paid director exercised options over 55,646 Ordinary shares during the year (2018 - 178,902 Ordinary shares).

## Cambridge Mechatronics Limited

### Notes to the financial statements For the year ended 31 December 2019

#### 8. Tax on loss

	2019 £	2018 £
<b>Current taxation</b>		
Research and development expenditure tax credit:		
current year	1,667,895	1,498,119
adjustment in respect of previous periods	-	(24,633)
Foreign tax	(398,165)	(266,314)
<b>Tax on loss</b>	<b>1,269,730</b>	<b>1,207,172</b>

The standard rate of tax for the year, based on the UK standard rate of corporation tax is 19% (2018 – 19%). The actual tax charge for the current and the previous year differs from the standard tax rate for the reasons set out in the following reconciliation:

	2019 £	2018 £
Loss before tax	(4,482,634)	(5,035,459)
Tax on loss at standard rate UK corporation tax rate of 19% (2018 – 19%)	(851,700)	(956,737)
Factors affecting charge for the year:		
Expenses not deductible for tax purposes	114,860	62,337
Capital allowances in deficit of depreciation	39,264	18,121
Tax relief on exercise of employee share options	(243,572)	(860,740)
Research and development expenditure relief	(1,235,293)	(1,109,551)
Tax losses surrendered for research and development expenditure tax credit	2,185,518	1,963,052
Research and development expenditure tax credit	(1,667,895)	(1,498,119)
Higher tax rates on overseas earnings	322,514	215,714
Tax losses carried forward	66,574	934,118
Adjustment in respect of previous periods	-	24,633
<b>Total actual amount of current tax</b>	<b>(1,269,730)</b>	<b>(1,207,172)</b>

In recent years the UK Government has steadily reduced the rate of UK corporation tax, with the latest rates substantively enacted by the balance sheet date being 19% with effect from 1 April 2017 and 17% effective from 1 April 2020. The closing deferred tax assets and liabilities have been calculated at 17%, on the basis that this is the rate at which those assets and liabilities are expected to unwind.

# Cambridge Mechatronics Limited

## Notes to the financial statements For the year ended 31 December 2019

### 9. Tangible fixed assets

	Leasehold improvements £	Plant and machinery £	Office equipment £	Computers and software £	Total £
<b>Cost</b>					
At 1 January 2019	101,272	143,168	24,819	317,369	586,628
Additions	3,884	128,960	-	73,659	206,503
At 31 December 2019	105,156	272,128	24,819	391,028	793,131
<b>Depreciation</b>					
At 1 January 2019	27,273	64,296	15,173	182,790	289,532
Charge for the year	21,710	48,788	5,532	74,448	150,478
Impairment losses	56,173	-	-	-	56,173
At 31 December 2019	105,156	113,084	20,705	257,238	496,183
<b>Net book value</b>					
At 31 December 2019	-	159,044	4,114	133,790	296,948
At 31 December 2018	73,999	78,872	9,646	134,579	297,096

An impairment loss of £56,173 (2018 - £nil) has been recognised against leasehold improvements as the company intends to surrender its current leased premises in order to occupy larger premises in response to growth of the company's operations.

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

	2019 £	2018 £
Trade debtors	2,844,360	2,225,494
Corporation tax recoverable	1,667,895	1,498,119
Called up and unpaid share capital	5,413	2,071,213
Other debtors	287,596	290,610
Prepayments	226,878	205,191
	<u>5,032,142</u>	<u>6,290,627</u>

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

	2019 £	2018 £
Trade creditors	208,852	262,865
Other taxation and social security	273,471	359,759
Other creditors	28,261	-
Accruals	451,967	245,295
Deferred income	910,193	-
	<u>1,872,744</u>	<u>867,919</u>

# Cambridge Mechatronics Limited

## Notes to the financial statements For the year ended 31 December 2019

### 12. Provisions for liabilities

	Dilapidations £	Rebates £	Total £
At 1 January 2019	-	394,005	394,005
Charged to profit and loss account	251,494	-	251,494
Foreign exchange gain	-	(12,791)	(12,791)
Utilisation of provision	-	(381,214)	(381,214)
At 31 December 2019	251,494	-	251,494

The provision for dilapidations represents an estimate for works required to restore leased premises to their condition on occupation, as is required under the terms of the lease. It is expected that the provision for dilapidations will be incurred in the next financial year.

The rebates provision related to a contribution payable to a licensee to cover expenditure that the licensee incurred on the company's behalf when marketing the company's SMA technology. The provision was fully utilised during the year.

### 13. Called up share capital and reserves

	2019 £	2018 £
<b>Allotted, called up and fully paid</b>		
2,251,203 (2018: 1,706,359) Preferred Ordinary shares of 0.25p each	5,628	4,266
13,856,266 (2018: 13,568,831) Ordinary shares of 0.25p each	34,641	33,924
157,050 A1 Ordinary shares of 0.25p each	393	393
38,896 Deferred shares of 0.25p each	97	97
	<u>40,759</u>	<u>38,680</u>
<b>Allotted, called up and unpaid</b>		
Nil (2018: 330,000) Preferred Ordinary shares of 0.25p each	-	825
120,349 A2 Ordinary shares of 0.25p each	301	301
826,000 A3 Ordinary shares of 0.25p each	2,065	2,065
1,218,907 Common shares of 0.25p each	3,047	3,047
	<u>5,413</u>	<u>6,238</u>
<b>Called up share capital</b>	<u>46,172</u>	<u>44,918</u>

#### Share issues

During the year the company issued 214,844 Preferred Ordinary shares of 0.25p each at a subscription price of £6.26 per share.

During the year the company issued 287,435 Ordinary shares of 0.25p each at a subscription price of £1.80 per share in relation to the exercise of employee held share options.

During the year the company received proceeds of £2,065,800 in relation to 330,000 Preferred Ordinary shares that were allotted, called up and unpaid as at 31 December 2018.

## **Cambridge Mechatronics Limited**

### **Notes to the financial statements For the year ended 31 December 2019**

#### **13. Called up share capital and reserves (continued)**

##### ***Voting rights***

Each Preferred Ordinary shareholder, Ordinary shareholder and Common shareholder is entitled to one vote for each share of each such class of which they are the holder.

Each A Ordinary shareholder is entitled to one vote for every hundred A Ordinary Shares of which they are the holder. An A Ordinary shareholder has no vote in respect of any balance of A Ordinary Shares held.

Deferred shareholders have no right to vote.

##### ***Dividend rights***

The holders of the Preferred Ordinary shares will be entitled to receive a cumulative preferential dividend payable on a liquidation or other return of capital, a sale or listing unless otherwise declared or paid by the Company. The rate of the dividend is 8 per cent. per annum of the issue price of the Preferred Ordinary Shares. The dividend compounds annually on 31 December.

Dividends declared on the Ordinary shares and A Ordinary shares are at the discretion of the directors. No dividend may be declared or paid by the company on the Ordinary Shares or A Ordinary Shares unless: (a) all accruals of the preference dividend on the Preferred Ordinary shares have been paid; or (b) the holders of a majority of the Preferred Ordinary shares have sanctioned the declaration or payment of that dividend

Common shares and Deferred shares do not participate in any dividends.

##### ***Distribution of capital***

On a liquidation or other return of capital, the assets available for distribution will be applied:

- (a) first, in paying all unpaid arrears of the preferential dividend on the Preferred Ordinary shares;
- (b) secondly, in paying to the holders of the Preferred Ordinary shares the issue price (or deemed issue price) of the Preferred Ordinary Shares;
- (c) thirdly, as to any balance up to £95.6 million (or as increased by the lower of £6.26 and the issue price in respect of each Ordinary share issued after the date of adoption of the articles), in paying to the holders of the A Ordinary Shares, the Ordinary shares, and the Common Shares and Deferred Shares respectively, the "realisation value" of the A Ordinary shares (the A Ordinary shares will only benefit from an increase in value over a set threshold), an aggregate amount of £1 to holders of the Common Shares and Deferred Shares and, as to the remainder, to the holders of the Ordinary Shares; and
- (d) as to any balance in excess of that £95.6 million (or as increased), in paying that balance to the holders of the Preferred Ordinary Shares, the Ordinary Shares and A Ordinary Shares pro rata to their respective holdings. The amount receivable by the holders of Preferred Ordinary shares will be reduced if the returns of the holders of the Preferred Ordinary Shares exceed 15 per cent. by the amount of such excess up to the amount of the preferential dividend paid on the Preferred Ordinary Shares.

##### ***Conversion***

Immediately before a Listing the Preferred Ordinary Shares and A Ordinary Shares shall convert automatically into Ordinary Shares. The rate of conversion shall be such that the total number of Ordinary Shares resulting from the conversion shall have a share value equal to the amount that the Preferred Ordinary shareholders and A Ordinary shareholders would have received if the Pre-Money Valuation of the company had been distributed to all shareholders in the same order of priority as a distribution of capital (as set out above).

##### ***Other reserves***

The company's other reserves are as follows:

The share premium reserve contains the premium arising on issue of equity shares net of issue expenses

The profit and loss reserve represents cumulative profits or losses, net of dividends paid and other adjustments.

# Cambridge Mechatronics Limited

## Notes to the financial statements

For the year ended 31 December 2019

### 14. Share based payments

#### Equity-settled share option schemes

The company has a share option scheme for all employees of the Company. Options are exercisable at a price equal to the estimated fair value of the Company's shares on the date of grant. The vesting period is three years. If the options remain unexercised after a period of five years from the date of grant, the options expire. Options are forfeited if the employee leaves the Company before the options vest.

Details of the share options outstanding during the year are as follows:

	2019	Weighted average exercise price (£)	2018	Weighted average exercise price (£)
	Number of share options		Number of share options	
Outstanding at beginning of year	958,426	3.889	1,700,874	1.959
Granted during the year.	200,000	6.260	288,911	6.260
Forfeited during the year	(23,000)	(5.017)	(42,500)	(5.253)
Exercised during the year	(287,435)	(1.800)	(896,128)	(1.205)
Expired during the year	-	-	(92,731)	(1.200)
Outstanding at the end of the year	847,991	5.126	958,426	3.889
Exercisable at the end of the year	477,050	4.243	606,018	2.760

The fair value of the share options at the grant date was calculated using the Black Scholes model, which is considered to be the most appropriate generally accepted valuation method of measuring fair value.

The Company recognised total expenses of £248,678 in 2019 (2018 - £nil) relating to equity-settled share-based payment transactions.

At 31 December 2019 employees held options for 847,991 unissued Ordinary shares (2018 - 958,426) as follows:

Issue date	At 1 January 2019	Issued	Exercised	Lapsed	At 31 December 2019	Option price per share £	Exercise period
05/08/2014	12,000	-	(12,000)	-	-	1.800	5 years
08/09/2014	25,000	-	(25,000)	-	-	1.800	5 years
24/09/2014	250,435	-	(250,435)	-	-	1.800	5 years
03/03/2015	25,000	-	-	-	25,000	2.600	5 years
06/05/2015	111,580	-	-	(3,000)	108,580	2.600	5 years
13/10/2015	10,000	-	-	-	10,000	2.600	5 years
23/03/2016	258,000	-	-	(10,000)	248,000	4.500	5 years
16/05/2018	183,411	-	-	(10,000)	173,411	6.260	5 years
18/12/2018	83,000	-	-	-	83,000	6.260	5 years
20/12/2019	-	200,000	-	-	200,000	6.260	5 years
	958,426	200,000	(287,435)	(23,000)	847,991		

The options outstanding at 31 December 2019 had a weighted average exercise price of £5.126 (2018 - £3.889) and a weighted average remaining contractual life of 32.0 months (2018 - 27.5 months). The share options vest over a period of three years from the date of grant.

## Cambridge Mechatronics Limited

### Notes to the financial statements For the year ended 31 December 2019

#### 14. Share based payments (continued)

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

	2019	2018
Weighted Average Exercise Price	£6.26	£6.26
Expected Volatility	41%	39%
Expected Life	5 years	5 years
Risk free rate	0.58%	1.10%

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.

#### 15. Cash flow statement

Reconciliation of operating loss to cash generated by operations

	2019 £	2018 £
Operating loss	(4,497,437)	(4,755,446)
Adjustment for:		
Depreciation	150,478	95,375
Impairment losses	56,173	-
Share based payment expense	248,678	-
(Decrease)/increase in provisions	(142,511)	394,005
Operating cash flows before working capital	(4,184,619)	(4,266,066)
Increase in debtors	(637,540)	(2,004,467)
Increase in creditors	1,102,577	320,122
Cash generated from operations	(3,719,582)	(5,950,411)
Net income taxes received	1,002,202	883,887
Net cash flow from operating activities	(2,717,380)	(5,066,524)

#### 16. Financial commitments

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

	2019 Land and buildings £	2018 Land and buildings £
Within 1 year	226,721	226,721
Between 1 and 5 years	353,305	580,026
	<u>580,026</u>	<u>806,747</u>

## **Cambridge Mechatronics Limited**

### **Notes to the financial statements**

**For the year ended 31 December 2019**

#### **17. Defined contribution schemes**

The company operates defined contribution retirement benefit schemes for all qualifying employees. The total expense charged to profit or loss in the year ended 31 December 2019 was £172,081 (2018 - £106,206).

#### **18. Related party transactions**

##### ***Directors' remuneration***

Merrycroft Limited, a company of which M Knight is also a director, invoiced £90,263 for consultancy services provided by M Knight during the year (2018 - £87,000). The balance due to Merrycroft Limited in respect of these services at 31 December 2019 was £7,613 (2018 - £7,250).

West End Tech Ltd., a company of which G McFarland is also a director, invoiced £26,156 for consultancy services provided by G McFarland during the year (2018 - £19,792). The balance due to West End Tech Ltd. in respect of these services at 31 December 2019 was £7,292 (2018 - £19,792).

Including the fees invoiced by Merrycroft Limited and West End Tech Ltd., the company paid £339,206 (2018 - £320,078) as key management personnel compensation to the directors during the year.. There are no key management personnel other than the directors.

All transactions with related parties have been conducted at arm's length value. The balances due to related parties at 31 December 2019 are not secured on the company's assets.

##### ***Directors' transactions***

S Newton subscribed for convertible loan notes with a nominal value of £nil during the year (2018 - £32,439).

S Newton converted loan note principal and accrued interest with a value of £nil during the year (2018 - £2,586,310).

M Knight converted loan note principal and accrued interest with a value of £nil during the year (2018 - £90,439).

Merrycroft Limited converted loan note principal and accrued interest with a value of £nil during the year (2018 - £84,410).

#### **19. Controlling party**

S Newton is the ultimate controlling party.