

Cambridge Mechatronics Limited

Financial statements

Year ended 31 December 2017

together with directors' and auditor's reports

Registered number: 3071231

FRIDAY



L7FERB29

L12

28/09/2018

#217

COMPANIES HOUSE

Cambridge Mechatronics Limited

Contents

	Page
Officers and professional advisers	1
Strategic report	2
Directors' report	4
Independent auditor's report to the members of Cambridge Mechatronics Limited	6
Profit and loss account	8
Balance sheet	9
Statement of changes in equity	10
Notes to the financial statements	11

Cambridge Mechatronics Limited

Annual report and financial statements
For the year ended 31 December 2017

Officers and professional advisers

Directors

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

Company secretary

C Whitton

Registered office

Suite 17 Second Floor
Building 6
Westbrook Centre
Cambridge
CB4 1YG

Auditor

Deloitte LLP
Statutory Auditor
Cambridge
United Kingdom

Cambridge Mechatronics Limited

Strategic report

Principal activities

The principal activities of the company are that of: research and development of mechanical motors and their associated electronics and control software; and the licencing of intellectual property created by such work to international manufactures. The company generates its revenues from a combination of engineering development fees, licence fees and royalty income from its licensing activity.

The company has developed a platform technology which allows it to design shape memory alloy (SMA) actuators that can be controlled to sub-micron accuracy.

Business review

Over the financial year under review, the company has experienced significant growth and has continued to focus, for the most part, on the smartphone camera market. This focus has been deliberate because of the sustained and substantial growth in the smartphone camera market, which is estimated to have totalled 3.4bn units in 2017 and is forecast to grow to 4.6bn units in 2021.

Progress in obtaining the adoption of SMA actuators in the market has been positive.

In June 2017 the company's SMA optical image stabilisation (OIS) technology passed qualification tests conducted by a major smartphone handset maker. Following on from this qualification, licences for the company's SMA autofocus (AF) and SMA OIS technology have been concluded with Shanghai Billu Electronics Co Limited and SAE Magnetics (HK) Limited, two of the leading Chinese camera actuator manufacturers.

Products incorporating CML licenced designs also entered mass production in 2017. The high end DJI Mavic Pro drone incorporates SMA AF, whilst SMA OIS has been used in the FrontRow wearable camera produced by Ubiquiti.

Further applications of the SMA platform technology are in haptics, 3D sensing and medical devices. Haptic devices provide a tactile sensation when activated by the user and the company has entered into a haptic button development agreement with one of the leading global smartphone handset makers. In the field of medical devices, the company has been awarded two grants with leading UK Universities to develop an improved cystoscope and medical robots. In 3D sensing, there has been a significant growth in market interest following the introduction of facial recognition devices in smartphones and the anticipated use of such devices in smartphones for augmented reality. This has opened up another potentially fruitful application for the company's technology.

Staff

To enable the growth experienced in the year, and to provide capacity to take advantage of future opportunities, there has been a focus on recruitment during 2017. The company has increased its headcount from 42 in January 2017 to 64 in December 2017. This has contributed to a 54% increase in engineering resource. In addition to increasing engineering resource, the company has also added to its administrative infrastructure, to manage the challenges brought about by growth in size.

Much of the company's customer base is within Greater China and so during 2017 three offices were established in Greater China. These offices in Shenzhen, Hong Kong and Taipei provide a local commercial presence to customers, as well as engineering support to licensees.

A consequence of the increase in employee numbers was a need for more space which led to a Cambridge headquarters move in 2017. The new headquarters office has resulted in a doubling of floor space, providing capacity to facilitate our planned expansion.

Future developments

2018 is expected to be a busy year of sustained and substantial growth. The company is engaged in a number of detailed negotiations and discussions which it is confident will lead to further licence agreements being signed in the first half of the year. The company expects that the growing number of its licensees will lead to design wins from smartphone vendors, as the benefits of the company's technology – small, lightweight, precise and powerful – become more widely appreciated and understood.

Cambridge Mechatronics Limited

Strategic report (continued)

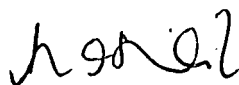
Future developments (continued)

To address the anticipated increase in activity, and to enable the company to develop its platform technology for applications beyond smartphone cameras, it is anticipated that additional engineering resource will be recruited. Moreover, further increases in our presence in Greater China are planned for 2018, with the company seeking to establish offices and increase headcount in Beijing and Shanghai, to ensure its ability to provide optimum support to our licensees.

The company is confident that it will continue to generate sufficient financial resource from engineering development fees, licence fees and, increasingly, royalty payments to enable it to meet its commitments and to fulfil its ambitious growth plans.

The Board is grateful to the staff of the company, who have exhibited in 2017 a tireless energy in pursuit of the company's objectives. This energy, combined with an extraordinary inventive and creative capability, is why the Board holds a very positive attitude to the company's ability to overcome challenges and take advantage of the opportunities ahead.

Approved by the Board and signed on its behalf by:



A Osmant
Director

Date: 5 February 2018

Cambridge Mechatronics Limited

Directors' report

The directors present their annual report together with the financial statements and independent auditor's report for the year ended 31 December 2017.

Principal risks and uncertainties, future developments and dividends are discussed within the strategic report.

Directors

The directors who served during the year and to the date of this report were:

H Baker Smith
Dr M P Knight (Chairman)
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 incurred a net loss before tax of £2,316,890 and has met its working capital requirements by utilising cash from revenue receipts, drawing down on convertible loan notes and through the receipt of the research and development tax credit available to small and medium sized enterprises.

In the second half of 2017 the company began to build a portfolio of licensees and throughout 2018 the company intends to capitalise on the active market interest in its SMA technology to further add to this portfolio. As a result of this the directors anticipate that the majority of revenue for the 2018 financial year will be derived from licence fees.

The nature of licence fees creates uncertainty over the timing and quantum of future revenue receipts. Despite the cash generative forecasts produced by the directors, the uncertainty over revenue may cast doubt on the company's ability to continue as a going concern and therefore, it may be unable to realise its assets and discharge its liabilities in the normal course of business. Notwithstanding this, the directors are confident that future potential revenues will be realised based on ongoing discussions with prospective licensees and market interest in our SMA technology. Therefore, the directors have considered these uncertainties and 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 (2016 - £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 Osment
Director

Date: 5 February 2018

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:

- give a true and fair view of the state of the company's affairs as at 31 December 2017 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 of Cambridge Mechatronics Limited (the 'company') which comprise:

- the profit and loss account;
- the balance sheet
- the statement of changes in equity; and
- the related notes 1 to 11.

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 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.

Material uncertainty related to going concern

We draw attention to note 1 in the financial statements, which indicates that the company's ability to continue its current activities depends on the realisation of future revenue receipts, the timing and quantum of which remains uncertain at the date of the approval of the financial statements. As stated in note 1, these events or conditions, along with the other matters as set forth in note 1 to the financial statements, indicate that a material uncertainty exists that may cast significant doubt on the company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

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 Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

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.

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 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; or
- the directors were not entitled to prepare the financial statements in accordance with the small companies regime.

We have nothing to report in respect of these matters.



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

6 February 2018

Cambridge Mechatronics Limited

Profit and loss account

For the year ended 31 December 2017

To the members of Cambridge Mechatronics Limited (continued)

	Note	2017 £	2016 £
Turnover		<u>3,077,824</u>	<u>1,525,508</u>
Gross profit		<u>3,077,824</u>	<u>1,525,508</u>
Distribution costs		(1,030,614)	(738,278)
Research and development expenditure		(3,314,909)	(2,687,836)
Administrative expenses		<u>(852,317)</u>	<u>(510,286)</u>
Operating loss		<u>(2,120,016)</u>	<u>(2,410,892)</u>
Net finance (costs)/income	4	<u>(196,874)</u>	<u>4,229</u>
Loss on ordinary activities before taxation	3	<u>(2,316,890)</u>	<u>(2,406,663)</u>
Tax on loss on ordinary activities		<u>802,938</u>	<u>745,573</u>
Loss for the financial year		<u>(1,513,952)</u>	<u>(1,661,090)</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

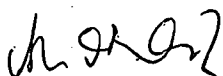
Balance sheet
At 31 December 2017

	Note	2017 £	2016 £
Fixed assets			
Tangible assets	5	199,816	45,862
Current assets			
Debtors	6	1,705,225	1,162,960
Cash at bank and in hand		1,815,677	841,041
		3,520,902	2,004,001
Creditors: amounts falling due within one year	7	(355,947)	(270,926)
Net current assets		3,164,955	1,733,075
Total assets less current liabilities		3,364,771	1,778,937
Compound financial instruments	8	(3,099,786)	-
Net assets		264,985	1,778,937
Capital and reserves			
Called up share capital		32,172	32,172
Called up and unpaid share capital		5,414	5,414
Share premium account		32,031,435	32,031,435
Profit and loss account		(31,804,036)	(30,290,084)
Shareholders' funds		264,985	1,778,937

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 5 February 2018

Signed on behalf of the Board of Directors by:



A Osment
Director

Cambridge Mechatronics Limited

Statement of changes in equity At 31 December 2017

	Called up and unpaid share capital £	Called up share capital £	Share premium account £	Profit and loss account £	Total £
At 1 January 2016	2,955	31,064	30,039,388	(28,628,994)	1,444,413
Loss for the year	-	-	-	(1,661,090)	(1,661,090)
Shares issued during the year	2,459	1,108	1,992,047	-	1,995,614
At 31 December 2016	5,414	32,172	32,031,435	(30,290,084)	1,778,937
Loss for the year	-	-	-	(1,513,952)	(1,646,936)
At 31 December 2017	5,414	32,172	32,031,435	(31,804,036)	264,985

Cambridge Mechatronics Limited

Notes to the financial statements For the year ended 31 December 2017

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 strategic report on page 2.

The average monthly number of employees (including executive directors) was 48 (2016 - 44).

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 incurred a net loss before tax of £2,316,890 and has met its working capital requirements by utilising cash from revenue receipts, drawing down on convertible loan notes and through the receipt of the research and development tax credit available to small and medium sized enterprises.

In the second half of 2017 the company began to build a portfolio of licensees and throughout 2018 the company intends to capitalise on the active market interest in its SMA technology to further add to this portfolio. As a result of this the directors anticipate that the majority of revenue for the 2018 financial year will be derived from licence fees.

The nature of licence fees creates uncertainty over the timing and quantum of future revenue receipts. Despite the cash generative forecasts produced by the directors, the uncertainty over revenue may cast doubt on the company's ability to continue as a going concern and therefore, it may be unable to realise its assets and discharge its liabilities in the normal course of business. Notwithstanding this, the directors are confident that future potential revenues will be realised based on ongoing discussions with prospective licensees and market interest in our SMA technology. Therefore, the directors have considered these uncertainties and 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.

Non-refundable up-front 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 up-front 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 development services and technical support are recognised as the services are rendered based on the stage of completion.

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 2017

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.

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.

Foreign currencies

Transactions in foreign currencies are recorded at the rate of exchange at the date of transaction, or, if hedged, at the forward contract rate. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are reported at the rates of exchange prevailing at that date. All exchange differences are included in the profit and loss account.

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.

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.

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 2017

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.

Under FRS 102 an embedded derivative, such as a conversion option, should not be separated from the host debt contract. The compound financial instruments meet the conditions stated in FRS 102.11.9 and as a result are classified as a 'basic' financial instrument. 'Basic' financial instruments are initially measured at transaction price, including transaction costs, and are subsequently measured at amortised cost using the effective interest method.

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.

Convertible loan notes

The directors are required to make judgements regarding the classification of the convertible loan notes as either financial liabilities, equity or a combination of the two. The directors consider the convertible loan notes to be a liability in their entirety. The measurement of the convertible loan notes under amortised cost requires management to estimate the timeframe to conversion or redemption in order to determine an appropriate discount factor to apply to future outflows of cash.

Cambridge Mechatronics Limited

Notes to the financial statements For the year ended 31 December 2017

3. Loss before taxation

	2017 £	2016 £
Loss before taxation is stated after charging (crediting):		
Depreciation of tangible fixed assets (note 5)	47,461	40,404
Research and development	3,314,909	2,687,836
Land and buildings operating lease rentals	155,822	105,554
Auditor's remuneration:		
Audit related assurance services	20,000	16,000
Taxation compliance services	5,900	6,200
Other taxation advisory services	7,200	-
Corporate finance services	150,000	-
Foreign exchange loss/(gain)	52,405	(21,930)

4. Net finance (costs)/income

	2017 £	2016 £
Bank interest receivable	229	4,229
Convertible loan notes interest charge	(197,103)	-
	<u>(196,874)</u>	<u>4,229</u>

The convertible loan notes are measured at amortised cost using the effective interest method. The interest charge for the year is calculated by applying a weighted average effective interest rate of 15.19% to the carrying value of the liability. Further details regarding the convertible loan notes are shown in note 8.

5. Tangible fixed assets

	Leasehold improvements £	Plant and machinery £	Office equipment £	Computers and software £	Total £
Cost					
At 1 January 2017	-	40,209	8,279	144,070	192,558
Additions	99,661	24,941	15,943	60,870	201,415
At 31 December 2017	<u>99,661</u>	<u>65,150</u>	<u>24,222</u>	<u>204,940</u>	<u>393,973</u>
Depreciation					
At 1 January 2017	-	36,482	4,929	105,285	146,696
Charge for the year	6,354	5,686	4,196	31,225	47,461
At 31 December 2017	<u>6,354</u>	<u>42,168</u>	<u>9,125</u>	<u>136,510</u>	<u>194,157</u>
Net book value					
At 31 December 2017	<u>93,307</u>	<u>22,982</u>	<u>15,097</u>	<u>68,430</u>	<u>199,816</u>
At 31 December 2016	<u>-</u>	<u>3,727</u>	<u>3,350</u>	<u>38,785</u>	<u>45,862</u>

Cambridge Mechatronics Limited

Notes to the financial statements For the year ended 31 December 2017

6. Debtors: Amounts falling due within one year

	2017 £	2016 £
Trade debtors	368,139	261,000
Corporation tax recoverable	982,984	800,189
Other debtors	276,276	65,934
Prepayments and accrued income	77,826	35,837
	<u>1,705,225</u>	<u>1,162,960</u>

7. Creditors: Amounts falling due within one year

	2017 £	2016 £
Trade creditors	56,971	93,238
Other taxation and social security	114,922	71,741
Accruals and deferred income	184,054	105,947
	<u>355,947</u>	<u>270,926</u>

8. Compound financial instruments

	2017 £	2016 £
Convertible loan notes	<u>3,099,786</u>	<u>-</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 whilst a second tranche of £852,683 was drawn down in December 2017.

The convertible loan notes undergo either mandatory conversion or redemption on the occurrence of a conversion event. A conversion event occurs either on a change of control or on the company raising equity finance in excess of £10,000,000 on aggregate within five years of issuing the convertible loan notes. On occurrence of a conversion event the noteholder can elect to redeem all, and not part, of their note holding.

The company can elect to redeem the convertible loan notes at any time.

The loan notes convert using a conversion ratio based on the share price when a conversion event occurs. If the loan notes are redeemed a premium on the outstanding principal applies. If redemption occurs on or before 30 June 2018 the premium is calculated at 20% of the principal, after 30 June 2018 the premium increases to 25%.

Interest at a non-compounding rate of 6% per annum accrues on the convertible loan notes from 1 January 2018, prior to this date no interest was charged. Interest becomes payable on redemption. If the loan notes are converted the accrued interest will convert using the same ratio applied to the loan note principal.

The conversion option does not meet the fixed-for-fixed criteria required to be classified as equity and consequently the convertible loan notes are classified as a financial liability in their entirety.

Cambridge Mechatronics Limited

Notes to the financial statements For the year ended 31 December 2017

9. Financial commitments

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

	2017 Land and buildings £	2016 Land and buildings £
Within 1 year	226,721	110,875
Between 1 and 5 years	806,747	332,625
	<u>1,033,468</u>	<u>443,500</u>

10. 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 (2016 - £75,000). The balance due to Merrycroft Limited in respect of these services at 31 December 2017 was £7,250 (2016 - £12,500).

Including the fees invoiced by Merrycroft Limited, the company paid £292,979 (2016 - £270,302) 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 £584,871 during the year (2016 - £nil).

The Stewart Newton Family Settlement Trust subscribed for convertible loan notes with a nominal value of £1,893,670 during the year (2016 - £nil).

M Knight subscribed for convertible loan notes with a nominal value of £87,805 during the year (2016 - £nil).

Merrycroft Limited subscribed for convertible loan notes with a nominal value of £81,951 during the year (2016 - £nil).

11. Subsequent events

On 31 January 2018 the drawdown of the final tranche of the convertible loan notes was completed. The company received additional subscription monies of £97,317.