

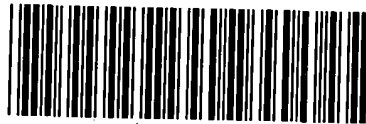
**Cambridge Mechatronics Limited**

**Annual report and financial statements**

**Year ended 31 December 2021**

Registered number: 3071231

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COMPANIES HOUSE

# **Cambridge Mechatronics Limited**

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## **Cambridge Mechatronics Limited**

Annual report and financial statements  
For the year ended 31 December 2021

### **Officers and professional advisers**

#### **Directors**

G M Harbour  
Dr M P Knight (Chairman)  
J Lantto  
N Lerner  
G McFarland  
S Newton  
A Osmant  
Dr R Talluri

#### **Company secretary**

G Morley

#### **Registered office**

The Westbrook Centre  
Milton Road  
Cambridge  
CB4 1YG

#### **Auditor**

Deloitte LLP  
Statutory Auditor  
Cambridge  
United Kingdom

#### **Bankers**

HSBC UK Bank Plc  
63-64 St. Andrews Street  
Cambridge  
CB2 3BZ

National Westminster Bank Plc  
23 Market Street  
Cambridge  
CB2 3PA

#### **Legal advisers**

Mayer Brown International LLP  
201 Bishopsgate  
London  
EC2M 3AF

J A Kemp LLP  
14 South Square  
Gray's Inn  
London  
WC1R 5JJ

Mills & Reeve LLP  
Botanic House  
100 Hills Road  
Cambridge  
CB2 1PH

## Cambridge Mechatronics Limited

### Chairman's statement

The combination of Covid restrictions – crucially the inability to travel to meet actual and prospective customers – and the continued tribulations of our largest customer have meant that 2021 was a tough year. Turnover was the same as for 2020 and the conditions under which our staff worked were uncomfortable. But we go into 2022 with almost the same budgeted revenue figure as we went into 2020, set before the difficulties of Covid and the US/China trade restrictions became apparent. This revenue figure is more than double that of 2021.

This revenue resurgence is due to 5 factors:

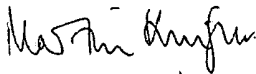
- We have shipped in or are designed into 22 smartphones with our core OIS actuators
- Our combined autofocus (AF) and optical image stabilisation (OIS) actuator is now in mass production with the first product launched in a handset in late 2021
- Our sensor shift OIS actuator will be in market in late Q1 2022
- 16 companies now hold a licence to CML technology
- We have established presences in Tokyo and San Francisco

In addition to these immediate prospects, we have taken significant steps to broaden our revenue and product base:

- For smartphone cameras, we have improved the performance of our lens shift actuator; we have developed further our sensor shift actuator, introducing this technology to the Android smartphone eco-system; we have developed a slim AF actuator, for use in foldable phones in particular; and we have a module tilt design for which we have strong hopes.
- Our 3D sensing module has been demonstrated to some interest, principally on the US West Coast
- We have taken our haptic glove – targeted at the virtual reality market – to customers and will showcase our improved, more user friendly glove later in the spring in Asia and the US
- We have made good progress in the development of our silicon strategy. Recruiting experienced individuals in the field of silicon sales and chip design and development, we have taken concrete steps to ensure that we receive appropriate value for the control system that underpins our actuator performance at a cost to customers that is attractive.
- We have opened up the AR/VR world to CML's technology. There is a significant hardware deficiency in the AR/VR world. The headsets, the handsets, the gloves currently in the market are too bulky, too power consumptive, to provide consumers with a truly immersive experience. The strengths of our SMA based technology – small size, low power usage, precisely controllable – are eminently applicable to meet this hardware deficiency. And so we are in active dialogue with major corporations focused on the AR/VR world.
- To back up this growing interest in our technology, we now have over 500 patents granted or pending – a tribute to the skills and work of our growing engineering and IP teams.
- More than this, a broader industrial interest is being shown in our technology, for medical devices, for fluid control, for haptic applications.

This latter point is important: CML as a business is an actuator company. Its technology is about actuation. And the demand for smart, high force, high precision controlled actuators is strong in many industries not just the smartphone camera market. To develop our interest in these industries, we will need more capital, to ensure that our outstanding engineering team have the resources and the corporate and sales support needed to drive the business of CML forward. The Board is committed to ensuring that the business is adequately capitalized. As a result, a funding round is now in preparation to provide the financial wherewithal to underpin this effort.

I am grateful for the continued support of our Board, whose experience and active involvement in our business is much valued.



**Dr M P Knight**  
Chairman

Date: 4 March 2022

# Cambridge Mechatronics Limited

## Strategic report

This strategic report has been prepared for the group as a whole and therefore gives greater emphasis to those matters which are significant to Cambridge Mechatronics Limited and its subsidiary undertakings when viewed as a whole.

### Principal activities

The group leverages its extensive intellectual property portfolio and the expertise of its multidisciplinary engineering team to develop systems and products which utilise smart materials, specifically shape memory alloy (SMA), for use in electronic devices. The group's patented, platform technology enables it to develop products that are particularly suited to applications that require high levels of precision and force, in a compact and lightweight design.

The principal activities of the group are that of research and development of SMA actuators and their associated electronics and control software; the licencing of intellectual property created by such work to international manufacturers; and the supply of drive chips that incorporate the group's proprietary firmware to control its product designs. The group generates its revenues from a combination of royalty income from units sold by its manufacturing licensees, licence fees, sales of SMA driver chips and engineering support fees.

### Business review

Revenue increased 3% year on year, up from £5.4m in 2020 to £5.5m in 2021. The ongoing US-China trade war was a major factor in holding back anticipated increases in the group's revenue, having caused a significant reduction in the handset volumes of Cambridge Mechatronics Limited's (CML) primary customer. The consequence for CML was a reduction in the number of units shipped by the group's licensees, leading to a fall in royalty revenues from £2.0m in 2020 to £1.4m in 2021. A further consequence of the US-China trade war and its resulting impact on CML's royalty volumes, is that the group's opportunities for revenues in 2021 were largely limited to licence and engineering support fees. When a significant proportion of revenue is derived from licence and support fee income, the timing of completing licences and development agreements has the potential to have a major impact on revenues.

To address this revenue risk, CML has pressed ahead with its two core objectives of obtaining broader adoption of its SMA technology – both in terms increasing shipments of its established smartphone camera actuators and commercialising new technologies – and capturing a larger share of the value generated by its technology platform.

In 2021, CML achieved design wins with four of the major Chinese smartphone vendors and the group's lens shift optical image stabilisation (OIS) product shipped in 11 different handsets over the year. Furthermore, CML's licensees shipped the group's next generation combined autofocus (AF) and OIS actuator and CML's sensor shift OIS technology for the first time in late 2021, increasing the number of smartphone camera technologies available from CML's licensees from two to four.

CML continued to add to its portfolio of manufacturing licensees in 2021. The group has licenced its sensor shift OIS technology and combined AF and OIS actuator technology to leading Chinese domestic actuator makers. The result is an increase in licence and engineering support revenues, up from £3.2m in 2020 to £4.0m in 2021.

To ensure CML captures a larger share of the value proposition of its designs, working with partner companies, CML has developed and has started to supply CML branded driver chips to accompany its SMA actuator products. By selling driver chips as a package with CML firmware, the group has been able to increase the per unit revenue it generates from its technology.

Significant advances were made during 2021 in the development of new products applicable to the fast growing and dynamic Augmented Reality and Virtual Reality industries. These products have caught the attention of global giants in the technology world and commercial discussions are underway which will lead to revenue generation in 2022.

During 2021, CML established presences in Tokyo and San Francisco, adding to CML's existing presences in the UK, Shenzhen, Shanghai, Hong Kong, Taipei and Seoul. CML has also leased further office space at its Cambridge headquarters. The additional office space has enabled a growth in headcount from 107 people at 1 January 2021 to 129 at 31 December 2021. The increase in headcount is the primary reason for the growth in overheads from £11.0m in 2020 to £12.1m in 2021.

# Cambridge Mechatronics Limited

## Strategic report

### Key performance indicators

The directors consider the principal key performance indicators to be: the number of technologies available to the market; the additions made to the group's extensive portfolio of patents; turnover per head; the number of companies holding a licence to CML's technology; and the size of the group's sales and marketing team.

CML employs engineering resource dedicated to the development of new products. During 2021, CML developed three new product areas that use cutting-edge SMA technologies: precise rotary motors; position sensing devices; and haptic gloves for virtual reality applications. This broadening of CML's product range has increased the number of technologies that CML has available to the market, excluding SMA driver chips, from 7 at the start of the year to 10 at 31 December 2021.

The group protects its intellectual property rights through its extensive portfolio of patents, trade secrets and know-how. CML has an ongoing programme to increase the size of its patent portfolio. Over the course of the year, CML has had 16 patents granted and has filed 145 new applications, giving a portfolio at 31 December 2021 of 147 granted SMA patents and 358 pending SMA patents. The increase in patent filing is an indicator of the heightened level of product development undertaken by CML in 2021.

CML has increased the number of companies holding a licence to its technology from 14 at the start of the year to 16 at the end. CML expects the increased market penetration to result in significant opportunities for royalty income. Turnover per head has remained consistent with the prior year, at £47k per head in both 2020 and 2021.

To develop further its broadening set of relationships, CML has recruited, and will continue to recruit, more dedicated and experienced sales personnel into both its Cambridge headquarters and regional sales and customer support teams. The headcount of the group's dedicated sales and marketing resource increased from 7 individuals at 1 January 2021 to 12 individuals at 31 December 2021. Since 31 December 2021, CML has further added to its sales and marketing resource, recruiting a new Global Sales Director and Head of Greater China Business Development. It is expected that the group will continue to add to its sales and marketing resource.

### Principal risks and uncertainties

The directors maintain a risk register that is formally reviewed at meetings of the Audit and Risk Committee. The Audit and Risk Committee regularly reports to the Board of Directors on the principal risks faced by the group. The principal risks faced by the group, and the steps taken to mitigate these are as follows:

#### Commercial risks

There is a risk that the group's SMA technology does not penetrate new markets and is not adopted by new customers. The group 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 and customers. These advantages include a low bill of materials, low power consumption, a smaller, slimmer design and higher force actuation to move heavier payloads.

The ongoing US-China trade war restricted the smartphone shipment volumes of CML's primary customer. In response, the group broadened the spread of applications for its platform technology and as a consequence is targeting a wider range of markets, in terms of both product and geography, to limit the exposure to restrictions arising from the US-China trade war.

#### Intellectual property risk

As a licensor of intellectual property, it is crucial that the group maintains and adds to its robust intellectual property portfolio in order to generate sustainable revenues. The group protects its intellectual property rights through its extensive portfolio of patents, trade secrets and know-how. The group has a team of in-house patent attorneys, supplemented by external advisers, who are dedicated to filing patents and protecting the group's patent portfolio. The group intends to increase the size of its intellectual property team.

#### Exchange rate risk

Although the majority of the group's turnover and expenses are denominated in pounds sterling, the group's activities expose it to the 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. The group does not use currency hedging instruments, given its ability to mitigate the exchange rate risk through natural currency hedges and the limited spread of customers with whom the group engages in foreign currency transaction.

## Cambridge Mechatronics Limited

### Strategic report (continued)

#### Principal risks and uncertainties (continued)

##### **Credit risk**

The group's principal financial assets are bank balances and trade debtors. The group's credit risk is primarily attributable to its trade debtors, which is concentrated to a few customers. CML 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 group has sufficient resources available for ongoing operations and future developments. The group maintains a rolling cash flow forecast which covers a minimum 12 month period. This cash flow forecast is regularly scrutinised at meetings of meetings of the Audit and Risk Committee. The Directors' use this cash flow forecast to identify any cash requirement in advance so that appropriate mitigating action can be taken.

##### **Future developments**

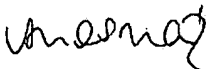
CML believes that the design wins achieved in 2021, including CML's technology shipping with four device manufacturers for the first time, will provide a platform for CML to move from adoption in handsets that ship hundreds of thousands of units to handsets that ship multi-million units. Two factors in achieving this will be: firstly, cost reduction, where CML's combined AF and OIS product – which has been designed as a lower cost solution for the high volume, mid-range market – entered mass production late in 2021. Secondly, CML capitalising on market interest in sensor shift OIS where its designs are attractive on cost and performance grounds.

The development activity undertaken in 2021, and consequent broadening of CML's product range, also provide opportunity for increased revenues in 2022 and beyond. Subsequent to the year end, CML entered into a commercial agreement for the development of Augmented Reality systems and similar agreements are under negotiation with major players in the market.

In 2021, CML has commenced the development of its next generation SMA driver chip designs, which it is intended will further enhance the performance of CML's products. CML expects that these chips will be available to customers in 2023.

CML has started the process of raising new equity in 2022. The funds raised will be used to: (a) recruit additional sales and customer support resource; (b) accelerate new product development and commercialisation; (c) add to CML's engineering team; and (d) to fund the development of the next generation CML chip design.

Approved by the Board and signed on its behalf by:



**A Osmant**  
Managing Director

Date: 4 March 2022

# Cambridge Mechatronics Limited

## Directors' report

The directors present their annual report on the affairs of the group, together with the financial statements and auditor's report, for the year ended 31 December 2021.

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, including financial risk management, and future developments.

### Directors

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

G M Harbour  
Dr M P Knight (Chairman)  
J Lantto  
N Lerner  
G McFarland  
S Newton  
A Osmant  
Dr R Talluri (appointed 21 July 2021)

### 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 the group and of the profit or loss of the group 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 group experienced a net cash outflow from operating activities. The group 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 Group has incurred recurring losses since its inception, including net losses of £5,504,866 and £4,429,430 for the years ended 31 December 2021 and 2020, respectively.

At 31 December 2021, the group had cash of £5,202,891 and net current assets of £6,670,966. Included within net current assets are trade debtors of £1,339,424, all of which are due for receipt by 31 March 2022, and a research and development tax credit of £1,821,731. In response to demand for its technology, the group has put into action its plans to develop next generation SMA driver chips, accelerate new product development and commercialisation and to recruit additional sales, customer support and engineering resource. The realisation of these plans is dependent on the receipt of further funding. The group has started the process of raising new equity. At the date of issuance of these financial statements, the group has received legally binding investment commitments totalling £4,780,000 in a first closing that the group expects to complete on or shortly after 31 March 2022. However, even with the aforementioned funding proceeds, the directors have determined that the group may not have enough cash twelve months from the date of approval of these financial statements without seeking additional funding.



## Cambridge Mechatronics Limited

### Directors' report (continued)

#### Going concern (continued)

The directors anticipate that further funds will be raised through the issue of new equity in a second closing that is expected to complete by no later than 30 June 2022. The group is actively seeking the second close investment from industry partners with whom it has or expects to have strategic relationships. Alternate capital sources will be sought in the event the group cannot raise the required funds from its industry partners. Therefore, the directors consider it appropriate to continue to prepare the financial statements on a going concern basis.

Although the directors continue to actively pursue the plans in relation to the second closing, there is no assurance that the group will be successful in obtaining sufficient funding on terms acceptable to the group to fund continuing operations. The ability to obtain sufficient funding is outside of the directors' control. This creates a material uncertainty that may cast significant doubt upon the group's, and therefore the parent company's, ability to continue as a going concern such that the group may be unable to realise its assets and discharge its liabilities in the normal course of business.

#### Research and development

The group undertakes research and development in respect of systems which utilise shape memory alloy 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.

#### Existence of branches outside the UK

The company has a branch-operation, as defined in section 1046(3) of the Companies Act 2006, based in Taiwan.

#### Events after the balance sheet date

At the date of signing these financial statements, the company had entered legally binding conditional commitments to issue 478,000 Preferred Ordinary shares for total subscription proceeds of £4,780,000 in relation to the first closing of its funding round. The company anticipates completing the first closing, and issue the 478,000 Preferred Ordinary shares, on or shortly after 31 March 2022.

#### Dividends

The directors are unable to recommend the payment of a dividend (2020 - £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

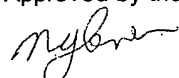
Each of the persons who is a director at the date of approval of this annual report confirms that:

- 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:



**N Lerner**

Director

Date: 4 March 2022

## 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 'parent company') and its subsidiary companies (the 'group'):

- give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2021 and of the group's 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 consolidated profit and loss account;
- the consolidated statement of comprehensive income;
- the consolidated and parent company balance sheets;
- the consolidated and parent company statements of changes in equity;
- the consolidated cash flow statement; and
- the related notes 1 to 23.

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 group and the parent 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.

##### Material uncertainty related to going concern

We draw attention to note 1 in the financial statements, which indicates that although the directors continue to pursue the plans in relation to the second closing, there is no assurance that the group will be successful in obtaining sufficient funding on terms acceptable to the group to fund continuing operations. As stated in note 1, these events or conditions, along with the other matters as set forth in note 1, indicate that a material uncertainty exists that may cast significant doubt on the group's and company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

##### Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report. 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.

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 course of 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 this gives rise to a material misstatement in the financial statements themselves. 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 this regard.

## 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 group's and the parent 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 group or the parent 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.

#### **Extent to which the audit was considered capable of detecting irregularities, including fraud**

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

We considered the nature of the group's industry and its control environment, and reviewed the group's documentation of their policies and procedures relating to fraud and compliance with laws and regulations. We also enquired of management about their own identification and assessment of the risks of irregularities.

We obtained an understanding of the legal and regulatory frameworks that the group operates in, and identified the key laws and regulations that:

- had a direct effect on the determination of material amounts and disclosures in the financial statements. These included UK Companies Act, pensions legislation and tax legislation; and
- do not have a direct effect on the financial statements but compliance with which may be fundamental to the group's ability to operate or to avoid a material penalty.

As a result of performing the above, we have identified the greatest potential for fraud in the following areas, and our specific procedures performed to address them are summarised below:

- Revenue recognition – We identified the recording of revenue for new and amended contracts as a fraud risk. In addressing the risk we obtained copies of the new and amended agreements during the year and agreed these to the revenue recognition policy memos and accounting guidance to ensure that the amounts had been appropriately recorded in the financial statements

We discussed among the audit engagement team regarding the opportunities and incentives that may exist within the organisation for fraud and how and where fraud might occur in the financial statements.

In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override. In addressing the risk of fraud through management override of controls, we tested the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

## Independent auditor's report

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

#### Extent to which the audit was considered capable of detecting irregularities, including fraud (continued)

In addition to the above, our procedures to respond to the risks identified included the following:

- reviewing financial statement disclosures by testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- enquiring of management and external legal counsel concerning actual and potential litigation and claims, and instances of non-compliance with laws and regulations; and
- reading minutes of meetings of those charged with governance.

#### 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 group and of the parent company and their 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 by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company 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.



**Christopher Aylott FCA (Senior Statutory Auditor)**  
**For and on behalf of Deloitte LLP**  
Statutory Auditor  
Cambridge, United Kingdom

Date: 4 March 2022

## Cambridge Mechatronics Limited

### Consolidated profit and loss account For the year ended 31 December 2021

	Note	2021 £	2020 £
<b>Turnover</b>	3	5,542,357	5,357,377
Cost of sales		(114,859)	(97,132)
<b>Gross profit</b>		<u>5,427,498</u>	<u>5,260,245</u>
Distribution costs		(1,557,856)	(1,397,117)
Research and development expenditure		(8,835,733)	(8,188,179)
Administrative expenses		(1,754,032)	(1,429,188)
<b>Operating loss</b>		<u>(6,720,123)</u>	<u>(5,754,239)</u>
Interest receivable		2,538	6,698
<b>Loss before taxation</b>	4	<u>(6,717,585)</u>	<u>(5,747,541)</u>
Tax on loss	7	1,324,450	1,318,111
<b>Loss for the financial year</b>		<u>(5,393,135)</u>	<u>(4,429,430)</u>

All activities derive from continuing operations.

### Consolidated statement of comprehensive expense For the year ended 31 December 2021

	Note	2021 £	2020 £
Loss for the financial year		(5,393,135)	(4,429,430)
Currency translation difference on overseas subsidiaries and branch		(434)	2,724
<b>Total comprehensive expense</b>		<u>(5,393,569)</u>	<u>(4,426,706)</u>

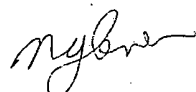
## Cambridge Mechatronics Limited

Consolidated balance sheet  
At 31 December 2021

	Note	2021 £	2020 £
<b>Fixed assets</b>			
Goodwill	9	81,250	-
Tangible assets	10	303,286	172,265
		<u>384,536</u>	<u>172,265</u>
<b>Current assets</b>			
Stocks	12	302,653	-
Debtors	13	4,138,926	2,950,054
Cash at bank and in hand		5,202,891	8,224,891
		<u>9,644,470</u>	<u>11,174,945</u>
<b>Creditors: amounts falling due within one year</b>	14	(2,973,504)	(1,459,435)
<b>Net current assets</b>		<u>6,670,966</u>	<u>9,715,510</u>
<b>Total assets less current liabilities</b>		<u>7,055,502</u>	<u>9,887,775</u>
Provisions for liabilities	15	-	(250,000)
<b>Net assets</b>		<u>7,055,502</u>	<u>9,637,775</u>
<b>Capital and reserves</b>			
Called up share capital	16	49,514	48,565
Share premium account	16	55,132,285	52,773,329
Profit and loss account	16	(48,126,297)	(43,184,119)
<b>Shareholders' funds</b>		<u>7,055,502</u>	<u>9,637,775</u>

The financial statements of Cambridge Mechatronics Limited, registered number 3071231, were approved by the Board of Directors and authorised for issue on 4 March 2022.

Signed on behalf of the Board of Directors by:



**N Lerner**  
Director

# Cambridge Mechatronics Limited

## Company balance sheet At 31 December 2021

	Note	2021 £	2020 £
<b>Fixed assets</b>			
Goodwill	9	81,250	-
Tangible assets	10	302,570	172,265
Investments	11	79,418	79,418
		<u>463,238</u>	<u>251,683</u>
<b>Current assets</b>			
Stocks	12	302,653	-
Debtors	13	4,197,445	2,969,797
Cash at bank and in hand		5,071,881	8,122,910
		<u>9,571,979</u>	<u>11,092,707</u>
<b>Creditors: amounts falling due within one year</b>	14	<u>(3,011,162)</u>	<u>(1,457,648)</u>
<b>Net current assets</b>		<u>6,560,817</u>	<u>9,635,059</u>
<b>Total assets less current liabilities</b>		<u>7,024,055</u>	<u>9,886,742</u>
Provisions for liabilities	15	-	(250,000)
<b>Net assets</b>		<u>7,024,055</u>	<u>9,636,742</u>
<b>Capital and reserves</b>			
Called up share capital	16	49,514	48,565
Share premium account	16	55,132,285	52,773,329
Profit and loss account	16	<u>(48,157,744)</u>	<u>(43,185,152)</u>
<b>Shareholders' funds</b>		<u>7,024,055</u>	<u>9,636,742</u>

As permitted by Section 408 of the Companies Act 2006, no separate profit and loss account or statement of comprehensive income is presented in respect of the parent company. The loss for the financial year dealt with in the financial statements of the parent company was £5,421,001 (2020 - £4,427,332).

The financial statements of Cambridge Mechatronics Limited, registered number 3071231, were approved by the Board of Directors and authorised for issue on 4 March 2022.

Signed on behalf of the Board of Directors by:



**N Lerner**  
Director

## Cambridge Mechatronics Limited

### Consolidated statement of changes in equity At 31 December 2021

	Called up share capital £	Share premium account £	Profit and loss account £	Total £
At 1 January 2020	46,172	47,305,098	(38,953,179)	8,398,091
Issue of share capital (note 16)	2,393	5,468,231	-	5,470,624
Credit to equity for equity settled share based payment	-	-	195,766	195,766
Currency translation difference on overseas subsidiaries and overseas branch	-	-	2,724	2,724
Loss for the year and total comprehensive expenses	-	-	(4,429,430)	(4,429,430)
At 31 December 2020	48,565	52,773,329	(43,184,119)	9,637,775
Issue of share capital (note 16)	949	2,358,956	-	2,359,905
Credit to equity for equity settled share based payment	-	-	451,391	451,391
Currency translation difference on overseas subsidiaries and overseas branch	-	-	(434)	(434)
Loss for the year and total comprehensive expenses	-	-	(5,393,135)	(5,393,135)
At 31 December 2021	49,514	55,132,285	(48,126,297)	7,055,502

### Company statement of changes in equity At 31 December 2021

	Called up share capital £	Share premium account £	Profit and loss account £	Total £
At 1 January 2020	46,172	47,305,098	(38,953,179)	8,398,091
Issue of share capital (note 16)	2,393	5,468,231	-	5,470,624
Credit to equity for equity settled share based payment	-	-	195,766	195,766
Currency translation difference on overseas branch	-	-	(407)	(407)
Loss for the year and total comprehensive expenses	-	-	(4,427,332)	(4,427,332)
At 31 December 2020	48,565	52,773,329	(43,185,152)	9,636,742
Issue of share capital (note 16)	949	2,358,956	-	2,359,905
Credit to equity for equity settled share based payment	-	-	451,391	451,391
Currency translation difference on overseas branch	-	-	(2,982)	(2,982)
Loss for the year and total comprehensive expenses	-	-	(5,421,001)	(5,421,001)
At 31 December 2021	49,514	55,132,285	(48,157,744)	7,024,055



## Cambridge Mechatronics Limited

### Consolidated cash flow statement For the year ended 31 December 2021

	Note	2021 £	2020 £
<b>Net cash flow from operating activities</b>	18	<u>(4,933,235)</u>	<u>(2,406,024)</u>
<b>Cash flow from investing activities</b>			
Purchase of tangible fixed assets		(300,775)	(42,370)
Acquisition of business combination		(100,000)	-
Interest received		2,538	6,698
<b>Net cash flows from investing activities</b>		<u>(398,237)</u>	<u>(35,672)</u>
<b>Cash flows from financing activities</b>			
Net proceeds on issue of shares		2,309,906	5,470,624
<b>Net cash flows from financing activities</b>		<u>2,309,906</u>	<u>5,470,624</u>
Net (decrease)/increase in cash and cash equivalents		(3,021,566)	3,028,928
Effect of foreign exchange rate changes		(434)	2,724
Cash and cash equivalents at beginning of year		8,224,891	5,193,239
Cash and cash equivalents at end of year		<u>5,202,891</u>	<u>8,224,891</u>

# Cambridge Mechatronics Limited

## Notes to the financial statements For the year ended 31 December 2021

### 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 group operates.

Cambridge Mechatronics Limited meets the definition of a qualifying entity under FRS 102 and has therefore taken advantage of the disclosure exemptions available to it in respect of its separate financial statements, which are presented alongside the consolidated financial statements. Exemptions have been taken in relation to share-based payments, financial instruments, presentation of a cash flow statement and remuneration of key management personnel.

#### **Going concern**

During the year under review, the group experienced a net cash outflow from operating activities. The group 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 Group has incurred recurring losses since its inception, including net losses of £5,504,866 and £4,429,430 for the years ended 31 December 2021 and 2020, respectively.

At 31 December 2021, the group had cash of £5,202,891 and net current assets of £6,670,966. Included within net current assets are trade debtors of £1,339,424, all of which are due for receipt by 31 March 2022, and a research and development tax credit of £1,821,731. In response to demand for its technology, the group has put into action its plans to develop next generation SMA driver chips, accelerate new product development and commercialisation and to recruit additional sales, customer support and engineering resource. The realisation of these plans is dependent on the receipt of further funding. The group has started the process of raising new equity. At the date of issuance of these financial statements, the group has received legally binding investment commitments totalling £4,780,000 in a first closing that the group expects to complete on or shortly after 31 March 2022. However, even with the aforementioned funding proceeds, the directors have determined that the group may not have enough cash twelve months from the date of approval of these financial statements without seeking additional funding.

The directors anticipate that further funds will be raised through the issue of new equity in a second closing that is expected to complete by no later than 30 June 2022. The group is actively seeking the second close investment from industry partners with whom it has or expects to have strategic relationships. Alternate capital sources will be sought in the event the group cannot raise the required funds from its industry partners. Therefore, the directors consider it appropriate to continue to prepare the financial statements on a going concern basis.

Although the directors continue to actively pursue the plans in relation to the second closing, there is no assurance that the group will be successful in obtaining sufficient funding on terms acceptable to the group to fund continuing operations. The ability to obtain sufficient funding is outside of the directors' control. This creates a material uncertainty that may cast significant doubt upon the group's, and therefore the parent company's, ability to continue as a going concern such that the group may be unable to realise its assets and discharge its liabilities in the normal course of business.

#### **Goodwill**

Goodwill arising on the acquisition of businesses combinations, representing any excess of the fair value of the consideration given over the fair value of the identifiable assets and liabilities acquired, is capitalised and written off on a straight line basis over its useful economic life, which is 2 years. Provision is made for any impairment.

# Cambridge Mechatronics Limited

## Notes to the financial statements For the year ended 31 December 2021

### 1. Accounting policies (continued)

#### **Basis of consolidation**

The group financial statements consolidate the financial statements of the company and its subsidiary undertakings drawn up to 31 December each year. The results of subsidiaries acquired or sold are consolidated for the periods from or to the date on which control passed.

Business combinations are accounted for under the purchase method. Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by the Group. All intra-group transactions, balances, income and expenses are eliminated on consolidation.

#### **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 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.

#### **Investments**

Investments in subsidiaries held as fixed assets are stated at cost less provision for any impairment in value. In the group financial statements, investments in associates are accounted for using the equity method.

#### **Stocks**

Stocks are stated at the lower of cost and estimated selling price less costs to sell, which is equivalent to the net realisable value. Cost includes materials, direct labour and an attributable proportion of manufacturing overheads based on normal levels of activity. Cost is calculated using the first-in, first-out method. Provision is made for obsolete, slow-moving or defective items where appropriate.

#### **Cash at bank and in hand**

Cash at bank and in hand comprise bank balances, cash on hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less which are readily convertible to known amounts of cash with insignificant risk of change in value.

#### **Provisions for liabilities**

Provisions are recognised when the group has a present obligation as a result of a past event, it is probable that the group 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.

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

The company has issued share options to certain employees with the group 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 group'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 2021

### 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. The group does not deal in complex financial instruments.

#### **Impairment of assets**

Assets, other than those measured at fair value, are assessed for indicators of impairment at each balance sheet date. If there is objective evidence of impairment, an impairment loss is recognised in profit or loss.

#### **Goodwill**

The recoverable amount of goodwill is derived from measurement of the present value of the future cash flows of the cash-generating units of which the goodwill is a part. Any impairment loss in respect of a cash-generating unit is allocated first to the goodwill attached to that unit, and then to other assets within that unit on a pro-rata basis.

Where indicators exist for a decrease in impairment loss previously recognised for assets other than goodwill, the prior impairment loss is tested to determine reversal. An impairment loss is reversed on an individual impaired asset to the extent that the revised recoverable value does not lead to a revised carrying amount higher than the carrying value had no impairment been recognised. Where a reversal of impairment occurs in respect of a cash-generating unit, the reversal is applied first to the assets of that unit, except for goodwill, on a pro-rata basis. Impairment of goodwill is never reversed.

#### **Other assets**

An asset is impaired where there is objective evidence that, as a result of one or more events that occurred after initial recognition, the estimated recoverable value of the asset has been reduced. The recoverable value of an asset is the higher of its fair value less costs to sell and its value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted. Where the asset does not generate cash flows that are independent from other assets, the group estimates the recoverable amount of the cash-generating unit to which the asset belongs. If the recoverable value of an asset, or cash-generating unit, is estimated to be less than its carrying amount, the carrying amount of the asset, or cash-generating unit, is reduced to its recoverable value. An impairment loss is recognised immediately in the profit and loss account.

Where indicators exist for a decrease in impairment loss, and the decrease can be related objectively to an event occurring after the impairment was recognised, the prior impairment loss is tested to determine reversal. An impairment loss is reversed on an individual impaired financial asset to the extent that the revised recoverable value does not lead to a revised carrying amount higher than the carrying value had no impairment been recognised.

#### **Turnover**

Turnover is derived from contractual agreements with licensees which can comprise a number of separately identifiable components. 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. 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 licence fees in respect of perpetual licences are recognised when all obligations relating to the grant of the licence are 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.
- Turnover from the sale of SMA driver chips is recognised when the goods are physically delivered by the group's distributor. Turnover from the sale of all other goods is recognised when the goods are dispatched to customers in accordance with the relevant Incoterms.
- 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.

# Cambridge Mechatronics Limited

## Notes to the financial statements For the year ended 31 December 2021

### 1. Accounting policies (continued)

#### **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.

#### **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 group and the amount of income can be measured reliably. Interest income is recognised on an accruals basis.

#### **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 group 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 group'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.

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

In the application of the group'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 group's accounting policies**

The group 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". Research and development expenditure is not capitalised on the group's balance sheet but is written off to the profit and loss account in the year in which it is incurred.

# Cambridge Mechatronics Limited

## Notes to the financial statements

For the year ended 31 December 2021

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

#### Key source of estimation uncertainty

The fair value of share options granted in respect of the group's share option scheme is calculated using the Black Scholes model, which inherently makes use of significant estimates and assumptions concerning the expected volatility, expected life and the number of employees that will achieve the vesting conditions (see note 17). Expected volatility was determined by reference to businesses that are in a similar industry sector to the group. The expected volatility and the number of employees that will achieve the vesting conditions used in the model was estimated using management's knowledge of probable exercise events and behavioural considerations. If the expected volatility was increased by five percentage points, the charge recorded in the year would increase by 10.2%.

### 3. Turnover

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

	2021 £	2020 £
Licence fees	2,718,191	2,956,248
Royalties	1,357,668	1,972,259
Engineering services	1,248,952	241,942
Sale of goods	193,161	171,342
Other turnover	24,385	15,586
	<u>5,542,357</u>	<u>5,357,377</u>

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

	2021 £	2020 £
Asia	5,361,457	5,161,922
Europe	180,900	194,955
Rest of the world	-	500
	<u>5,542,357</u>	<u>5,357,377</u>

### 4. Loss before taxation

	2021 £	2020 £
Loss before taxation is stated after charging:		
Amortisation of goodwill (see note 9)	68,749	-
Depreciation of tangible fixed assets (see note 10)	169,754	167,053
Research and development	8,835,733	8,188,179
Land and buildings operating lease rentals	337,179	217,261
Fees payable to the company's auditor and its associates for the audit of the company's annual accounts	52,500	50,000
Fees payable to the company's auditor and its associates for other services to the group:		
Taxation compliance services	7,239	6,727
Other taxation advisory services	11,775	-
Foreign exchange loss	<u>31,990</u>	<u>62,275</u>

# Cambridge Mechatronics Limited

## Notes to the financial statements For the year ended 31 December 2021

### 5. Staff numbers and costs

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

	Group		Company	
	2021	2020	2021	2020
	Number	Number	Number	Number
Research and development	98	87	90	87
Sales and marketing	9	5	7	4
Administration	11	10	9	10
	<u>118</u>	<u>102</u>	<u>106</u>	<u>101</u>

	Group		Company	
	2021	2020	2021	2020
	£	£	£	£
The aggregate remuneration comprised:				
Wages and salaries	7,184,135	5,935,373	6,707,968	5,859,540
Social security costs	731,360	623,476	713,462	623,476
Pension costs (note 20)	307,967	229,397	261,460	227,941
	<u>8,223,462</u>	<u>6,788,246</u>	<u>7,682,890</u>	<u>6,710,957</u>

### 6. Directors' remuneration

	2021	2020
	£	£
Emoluments	360,505	330,490
Sums paid to third parties in respect of directors' services	57,970	32,269
Company contributions to money purchase pension schemes	6,100	6,100
	<u>424,575</u>	<u>368,859</u>

	2021	2020
	Number	Number
The number of directors who:		
Are members of a money purchase pension scheme	1	1
Exercised options over shares in the company	-	1
Had awards receivable in the form of shares under a long-term incentive scheme	<u>3</u>	<u>2</u>

#### Remuneration of highest paid director:

	2021	2020
	£	£
Emoluments	165,995	166,015
Company contributions to money purchase pension schemes	6,100	6,100
	<u>172,095</u>	<u>172,115</u>

The highest paid director did not exercise options over Ordinary shares during the current or previous year.

## Cambridge Mechatronics Limited

### Notes to the financial statements For the year ended 31 December 2021

#### 7. Tax on loss

	2021 £	2020 £
<b>Current taxation</b>		
Research and development expenditure tax credit	(1,821,731)	(1,754,125)
Foreign tax	497,281	436,014
<b>Tax on loss</b>	<u>(1,324,450)</u>	<u>(1,318,111)</u>

The standard rate of tax for the year, based on the UK standard rate of corporation tax is 19% (2020 - 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:

	2021 £	2020 £
Loss before tax	<u>(6,717,585)</u>	<u>(5,747,541)</u>
Tax on loss at standard rate UK corporation tax rate of 19% (2020 - 19%)	(1,276,341)	(1,092,033)
Factors affecting charge for the year:		
Expenses not deductible for tax purposes	73,453	60,989
Capital allowances in deficit of depreciation	40,098	31,740
Tax relief on exercise of employee share options	-	(82,795)
Research and development expenditure tax credit	(783,863)	(754,774)
Higher tax rates on overseas earnings	397,668	353,572
Tax losses carried forward	224,535	165,190
<b>Total tax on loss</b>	<u>(1,324,450)</u>	<u>(1,318,111)</u>

The Finance Act 2021, under which the main rate of UK corporation tax remained at 19% from 1 April 2022 but will increase to 25% from 1 April 2023, was substantively enacted on 24 May 2021. At 31 December 2021, the parent company had unutilised tax losses of £17,457,992 (2020 - £16,292,541) for which no deferred tax asset has been recognised.

#### 8. Profit attributable to the company

As permitted by Section 408 of the Companies Act 2006, no separate profit and loss account or statement of comprehensive income is presented in respect of the parent company. The profit attributable to the company is disclosed in the footnote to the company's balance sheet.



## Cambridge Mechatronics Limited

### Notes to the financial statements For the year ended 31 December 2021

#### 9. Goodwill

Group and Company	Goodwill £
<b>Cost</b>	
At 1 January 2021	-
Additions	149,999
At 31 December 2021	149,999
<b>Depreciation</b>	
At 1 January 2021	-
Charge for the year	68,749
At 31 December 2021	68,749
<b>Net book value</b>	
At 31 December 2021	81,250
At 31 December 2020	-

On 1 February 2021, the company acquired certain trade and assets from UNITEQ Corporation Limited, a subcontractor that provided technology support to the company's customers in Greater China, for consideration comprising the issue of 7,987 Ordinary shares of 0.25p each, at a fair value of £6.26, in the company and cash consideration of £100,000. The fair value of the total consideration was £149,999. The book value and fair value of the identifiable assets and liabilities acquired were immaterial and have not been recognised separately from goodwill.

#### 10. Tangible fixed assets

Group	Leasehold improvements £	Plant and machinery £	Office equipment £	Computers and software £	Total £
<b>Cost</b>					
At 1 January 2021	105,156	299,826	24,819	405,700	835,501
Additions	106,972	9,290	71,529	112,984	300,775
Disposals	-	-	(24,819)	-	(24,819)
At 31 December 2021	212,128	309,116	71,529	518,684	1,111,457
<b>Depreciation</b>					
At 1 January 2021	105,156	197,028	24,750	336,302	663,236
Charge for the year	25,849	66,904	12,681	64,320	169,754
Disposals	-	-	(24,819)	-	(24,819)
At 31 December 2021	131,005	263,932	12,612	400,622	808,171
<b>Net book value</b>					
At 31 December 2021	81,123	45,184	58,917	118,062	303,286
At 31 December 2020	-	102,798	69	69,398	172,265

## Cambridge Mechatronics Limited

### Notes to the financial statements For the year ended 31 December 2021

#### 10. Tangible fixed assets (continued)

Company	Leasehold improvements £	Plant and machinery £	Office equipment £	Computers and software £	Total £
<b>Cost</b>					
At 1 January 2021	105,156	299,826	24,819	405,700	835,501
Additions	106,972	9,290	71,529	112,264	300,055
Disposals	-	-	(24,819)	-	(24,819)
At 31 December 2021	212,128	309,116	71,529	517,964	1,110,737
<b>Depreciation</b>					
At 1 January 2021	105,156	197,028	24,750	336,302	663,236
Charge for the year	25,849	66,904	12,681	64,316	169,750
Disposals	-	-	(24,819)	-	(24,819)
At 31 December 2021	131,005	263,932	12,612	400,618	808,167
<b>Net book value</b>					
At 31 December 2021	81,123	45,184	58,917	117,346	302,570
At 31 December 2020	-	102,798	69	69,398	172,265

#### 11. Investments

Company	Subsidiary undertakings £
At 1 January 2021 and 31 December 2021	79,418

The parent company and the group have investments in the following subsidiary undertakings, associates and other significant investments.

Subsidiary undertaking	Principal activity	Country of incorporation	Holding	%
Cambridge Mechatronics (Hong Kong) Co. Limited <sup>1</sup>	Technical support	Hong Kong	Ordinary shares *	100%
Cambridge Mechatronics (Shenzhen) Co., Ltd. <sup>2</sup>	Technical support	People's Republic of China	Ordinary shares	100%

\* Held directly by Cambridge Mechatronics Limited

The registered office of the subsidiary undertakings are as follows:

<sup>1</sup> Suite 2111, 21<sup>st</sup> Floor Prudential Tower, The Gateway, Harbour City, 21 Canton Road, Tsim Sha Tsui, Kowloon Hong Kong

<sup>2</sup> Room 1003.1004B, Excellence Century Center, Fuhua 3rd Road, Jintian Road, Futian Street, Futian District, Shenzhen, Guangdong

## Cambridge Mechatronics Limited

### Notes to the financial statements For the year ended 31 December 2021

#### 12. Stocks

	Group		Company	
	2021	2020	2021	2020
	£	£	£	£
Finished goods and goods for resale	302,653	-	302,653	-

The cost of stocks recognised as an expense during the year was £97,028 (2020 - £54,039).

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

	Group		Company	
	2021	2020	2021	2020
	£	£	£	£
Trade debtors	1,339,424	512,366	1,339,424	512,366
Corporation tax recoverable	1,821,731	1,754,125	1,821,731	1,754,125
Called up and unpaid share capital	5,413	5,413	5,413	5,413
Other debtors	486,091	344,404	494,037	344,404
Amounts owed by group companies	-	-	57,519	20,046
Prepayments	486,267	333,746	479,321	333,443
	<u>4,138,926</u>	<u>2,950,054</u>	<u>4,197,445</u>	<u>2,969,797</u>

The amounts owed by group companies are repayable on demand and no interest is charged on these balances.

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

	Group		Company	
	2021	2020	2021	2020
	£	£	£	£
Trade creditors	288,231	236,070	236,250	235,919
Other taxation and social security	372,200	222,918	362,515	222,327
Accruals	375,121	433,720	370,117	432,675
Amounts owed to group companies	-	-	104,328	-
Deferred income	1,937,952	566,727	1,937,952	566,727
	<u>2,973,504</u>	<u>1,459,435</u>	<u>3,011,162</u>	<u>1,457,648</u>

The amounts owed to group companies are payable 30 days from the date of invoice. No interest is charged on these balances.

## Cambridge Mechatronics Limited

### Notes to the financial statements For the year ended 31 December 2021

#### 15. Provisions for liabilities

Group and company	Dilapidations £
At 1 January 2021	250,000
Released to profit and loss account	(250,000)
At 31 December 2021	-

The provision for dilapidations represented an estimate for works required to restore leased premises to their condition on occupation, as was required under the terms of a previous lease. The requirement to restore leased premises to their condition on occupation was removed on renegotiation of the lease.

#### 16. Called up share capital and reserves

	2021 £	2020 £
<b>Allotted, called up and fully paid</b>		
3,449,286 (2020: 3,080,645) Preferred Ordinary shares of 0.25p each	8,623	7,702
13,995,166 (2020: 13,984,179) Ordinary shares of 0.25p each	34,988	34,960
157,050 A1 Ordinary shares of 0.25p each	393	393
38,896 Deferred shares of 0.25p each	97	97
	<u>44,101</u>	<u>43,152</u>
<b>Allotted, called up and unpaid</b>		
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>5,413</u>
<b>Called up share capital</b>	<u>49,514</u>	<u>48,565</u>

#### Share issues

The aggregate nominal value of shares issued during the year was £949. The total consideration received for shares issued in the year was £2,376,471.

During the year, the company issued 368,641 Preferred Ordinary shares of 0.25p each at a subscription price of £6.26 per share.

During the year, the company issued 7,987 Ordinary shares of 0.25p each at a fair value of £6.26 per share as part of the consideration to acquire certain trade and assets from a subcontractor that provided technology support to the company's customers in Greater China.

During the year, the company issued the 3,000 Ordinary shares of 0.25p each at a subscription price of £6.26 per share in relation to the exercise of employee held share options.

## Cambridge Mechatronics Limited

### Notes to the financial statements For the year ended 31 December 2021

#### 16. Called up share capital and reserves (continued)

##### **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.

##### **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).

## Cambridge Mechatronics Limited

### Notes to the financial statements For the year ended 31 December 2021

#### 17. Share based payments

##### Equity-settled share option schemes

The company has a share option scheme for all employees of the group. Options are forfeited if the employee leaves the group before the options vest.

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

	2021	Weighted average exercise price (£)	2020	Weighted average exercise price (£)
	Number of share options		Number of share options	
Outstanding at beginning of year	684,578	5.525	847,991	5.126
Granted during the year	115,000	6.260	25,000	2.600
Forfeited during the year	(13,000)	6.260	(35,500)	5.615
Exercised during the year	(3,000)	6.260	(127,913)	2.853
Expired during the year	-	-	(25,000)	2.600
Outstanding at the end of the year	783,578	5.618	684,578	5.525
Exercisable at the end of the year	606,912	5.431	479,385	5.210

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 group recognised total expenses of £451,391 in 2021 (2020 - £195,766) relating to equity-settled share-based payment transactions.

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

	2021	2020
Weighted Average Exercise Price	£5.080	£2.600
Expected Volatility	44%	40%
Expected Life	6.7 years	2.0 years
Risk free rate	0.46%	0.21%

Expected volatility was determined by reference to businesses that are in a similar industry sector to the group. The expected life used in the model was estimated using management's knowledge of probable exercise events and behavioural considerations.

## Cambridge Mechatronics Limited

### Notes to the financial statements For the year ended 31 December 2021

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

At 31 December 2021, employees held options for 783,578 unissued Ordinary shares (2020 - 684,578) as follows:

Issue date	At 1 January 2021	Issued	Exercised	Lapsed	At 31 December 2021	Option price per share £	Exercise period
23/03/2016	234,000	-	-	-	234,000	4.500	10 years
16/05/2018	155,078	-	-	(2,500)	152,578	6.260	5 years
18/12/2018	80,500	-	(3,000)	(5,500)	72,000	6.260	5 years
20/12/2019	190,000	-	-	(5,000)	185,000	6.260	5 years
04/03/2020	25,000	-	-	-	25,000	2.600	2 years
16/08/2021	-	115,000	-	-	115,000	6.260	10 years
	<u>684,578</u>	<u>115,000</u>	<u>(3,000)</u>	<u>(13,000)</u>	<u>783,578</u>		

The options outstanding at 31 December 2021 had a weighted average exercise price of £5.618 (2020 - £5.525) and a weighted average remaining contractual life of 47.5 months (2020 - 25.3 months). The share options vest over a period of three years from the date of grant, with the exception of the options issued on 4 March 2020 which vested on the date of grant.

#### 18. Cash flow statement

Reconciliation of operating loss to cash generated by operations

	2021 £	2020 £
Operating loss	(6,720,123)	(5,754,239)
Adjustment for:		
Depreciation and amortisation	238,503	167,053
Share based payment expense	451,391	195,766
Decrease in provisions	(250,000)	(1,494)
Operating cash flows before working capital	(6,280,229)	(5,392,914)
Increase in stocks	(302,653)	-
(Increase)/decrease in debtors	(984,541)	2,224,991
Increase/(decrease) in creditors	1,427,455	(333,926)
Cash utilised in operations	(6,139,968)	(3,501,849)
Net income taxes received	1,206,733	1,095,825
Net cash flow from operating activities	<u>(4,933,235)</u>	<u>(2,406,024)</u>

## Cambridge Mechatronics Limited

### Notes to the financial statements

For the year ended 31 December 2021

#### 19. Financial commitments

The group has partnered with integrated circuit design companies to develop next generation SMA driver chips. The contracts with these partner companies carry a penalty should the group terminate the development contracts early. At 31 December 2021, the total termination penalty was £1,126,025 (2020 - £nil). It is not expected that the group will terminate these contracts.

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

	Group		Company	
	2021	2020	2021	2020
	Land and buildings	Land and buildings	Land and buildings	Land and buildings
	£	£	£	£
Within 1 year	440,337	236,913	348,082	236,158
Between 1 and 5 years	220,495	126,586	216,584	126,586
	<u>660,832</u>	<u>363,499</u>	<u>564,666</u>	<u>362,744</u>

#### 20. Defined contribution schemes

The group operates defined contribution retirement benefit schemes for all qualifying employees. The total expense charged to profit or loss in the year ended 31 December 2021 was £307,967 (2020 - £229,397).

#### 21. Subsequent events

At the date of signing these financial statements, the company had entered legally binding conditional commitments to issue 478,000 Preferred Ordinary shares for total subscription proceeds of £4,780,000 in relation to the first closing of its funding round. The company anticipates completing the first closing, and issue the 478,000 Preferred Ordinary shares, on or shortly after 31 March 2022.

#### 22. Related party transactions

##### *Directors' remuneration*

West End Tech Ltd., a company of which G McFarland is also a director, invoiced £23,403 for consultancy services provided by G McFarland during the year (2020 - £26,019). The balance due to West End Tech Ltd. in respect of these services at 31 December 2021 was £nil (2020 - £7,292).

Bromma Tech Consulting AB, a company of which J Lantto is also a director, invoiced £34,567 for consultancy services provided by J Lantto during the year (2020 - £10,769). The balance due to Bromma Tech Consulting AB in respect of these services at 31 December 2021 was £nil (2020 - £nil).

Including the fees invoiced by West End Tech Ltd. and Bromma Tech Consulting AB, the group paid £424,575 (2020 - £368,859) 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 2021 are not secured on the group's assets (2020 - unsecured).

#### 23. Controlling party

S Newton is the ultimate controlling party.