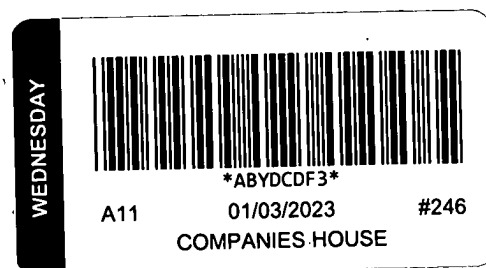


Cambridge Mechatronics Limited

Annual report and financial statements

Year ended 31 December 2022

Registered number: 3071231



Cambridge Mechatronics Limited

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Annual report and financial statements
For the year ended 31 December 2022

Officers and professional advisers

Directors

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

Company secretary

J Cooke

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

I was very pleased to be appointed Chairman on 01 October 2022 and would like to thank my predecessor Martin Knight for his many years of excellent service to CML. Of course, Martin continues to be supportive and remains on the board as a non-executive director.

The macro-economic environment has been extremely challenging in 2022. The fall in the Nasdaq index by 34% in 2022 reflects the challenges faced by technology companies in the year.

With this in mind, it is a significant achievement that the company has been able to raise new equity, without reducing its valuation and most importantly from new strategic investors who through their investment in our SMA business will improve our longer-term prospects considerably. These strategic investors are major suppliers in the markets targeted by CML.

Our core commercial objective in 2022 despite market headwinds was to grow revenue. We achieved an 81% year on year increase. Pleasingly, in percentage terms, the revenue growth was almost matched by growth in gross profit. Overall, the net loss increased by £210k, this is due to the development of our own driver chip, which the directors hope will lead to a larger return in 2023 and beyond.

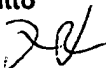
The underlying revenue growth arose mostly from two areas; the income earned from our combined autofocus and optical image stabilisation actuator which is in mass production and being delivered by multiple supply chains; and the engineering fees charged for developing new products with major corporates in new markets such as augmented reality (AR) glasses.

Building the business for longer-term success was also a priority in 2022. Our work in developing new camera products, new product areas such as AR, and the growth and diversification of our customer base. In addition, internal developments including management re-structuring and development of our operating processes have added more focus to our sales and engineering functions, sets the foundations for future growth.

We have also continued the implementation of our silicon strategy. The investment made in new SMA drive chips will allow us to receive appropriate value for our SMA control technology, which delivers the market required performance from the SMA actuators manufactured by our licensees.

I am grateful to my colleagues on the CML Board for inviting me to act as Chairman and whose experience and active involvement in our business is much valued.

Jorgen Lantto
Chairman



Date: 10 February 2023

Cambridge Mechatronics Limited

Strategic report (continued)

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

Despite the difficult economic and political backdrop, revenue increased 81% year on year, from £5.5m in 2021 to £10m in 2022; and gross profit increased by 74% from £5.4m in 2021 to £9.5m in 2022. The groups overall loss for the year was £210k greater than in 2021, this is largely due to the driver chip development.

Royalty income increased in the year from £1.4m in 2021 to £3.2m in 2022 reflecting growing business opportunities in the smartphone camera market; and the introduction of new products such as CML's sensor-shift optical image stabilisation product and its 8WS actuator product which delivers both autofocus and optical image stabilisation. A third new camera product, providing ground-breaking image stabilisation performance, has been developed during the year, which has promising potential for use in next generation smartphone cameras.

In addition to increasing shipments of smartphone camera actuators, CML is also working on commercialisation of its SMA technology in new markets such as Augmented Reality and Medical Devices. Significant traction has been made in this regard, evidenced by an increase in Engineering Services revenue from £1.2m in 2021 to £3.7m in 2022. CML is working with Industry leaders in these new market areas who are willing to fund engineering developments to help resolve product hardware challenges.

CML is implementing its plan to capture a larger share of the value generated by its technology platform through the development of 2 new actuator drive chips during 2022 which the directors believe will lead to revenue generation from the second half of 2023. By selling driver chips as a package with CML firmware, the company is able to increase the per unit revenue it generates from its technology.

To further improve its medium and longer-term prospects, the company has developed strategic relationships. New equity investment has been received over the last 18 months from two industry leading, global suppliers of actuators; a supplier of key camera components to the smartphone industry, a leading smartphone manufacturer, a US West Coast technology company developing next generation augmented reality glasses and a world leader in the manufacture and supply of SMA wire.

Key performance indicators

The directors consider the principal key performance indicators to be: the number of technologies brought 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; the number of actuators and driver chips sold; the margin achieved on driver chip sales; and the number and quality of its strategic partners.

CML has increased the number of companies holding a licence to its technology from 16 at the start of the year to 20 at the end. CML expects the increased market penetration to result in significant opportunities for royalty income. Revenue per head has increased to £81k per head in 2022 compared to £47k per head in 2021.

New shipments during the year took the groups cumulative actuator sales volumes to approximately 50 million units which have shipped in 27 handsets.

Cambridge Mechatronics Limited

Strategic report (continued)

CML employs engineering resource dedicated to the development of new products. During 2022, CML developed several new product concepts using its SMA technologies and know-how based on market analysis and demand from its strategic partners. 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 10 at the start of the year to 12 at 31 December 2022. In 2022 CML has seen a profitable returns from its technology developments projects with strategic partners on AR/VR, Sensor Shift & Module Tilt technologies.

Key performance indicators (continued)

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 44 patents granted and has filed 133 new applications, giving a portfolio at 31 December 2022 of 203 granted and pending patents of 476. The increase in patent filing is an indicator of the heightened level of product development undertaken by CML in 2022 and the inventiveness of its talented workforce.

Principal risks and uncertainties

The directors maintain a risk register that is formally reviewed at meetings of the Audit Committee. The Audit 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.

CML has historically relied on a small number of customers within a market subjected to restrictions from governments and technology giants. CML has strategic partners in Europe, US and Asia which it is leveraging to broaden its customer base and spread of applications for its platform technology.

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.

Cash flow risk

The group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates. To limit the exchange rate exposure receipts and payments denominated in foreign currencies are matched as far as is possible. In 2022, 76% of CML's revenue was denominated in GBP with the remainder in USD.

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 continually evaluates the amount of capital required and takes the appropriate actions, such as capital raising to mitigate the risk.

Cambridge Mechatronics Limited

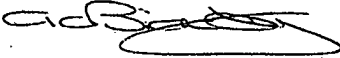
Strategic report (continued)

Future developments

CML believes that its relationships with strategic partners who are major participants in smartphone camera supply chains will better position the company to increase sales volumes in 2023 and beyond. Two areas of development are of particular note. 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 higher volume production in 2022. Secondly, CML is working on new camera actuator solutions with improved performance with the aim to capture more of the flagship camera business.

CML has raised approximately £12m of new equity over the last 12 months. The funds raised will be used to accelerate new product development and commercialisation and to fund the development of the next generation CML chip designs.

Approved by the Board and signed on its behalf by:



A Bickley
Managing Director

Date: 10 February 2023

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 2022.

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

Directors

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

A Bickley (appointed 17/11/2022)
G M Harbour
Dr M P Knight
J Lantto (Chairman)
N Lerner
G McFarland
S Newton
A Osmant
Dr R Talluri

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. At 31 December 2022, the group held cash of £4,165,396 (2021: £8,224,891). The group's cash position has improved since year end following the completion of the third £4,750,000 tranche of the group's fund raising on 30 January 2023.

The directors have considered the financing requirements of the group for a period of at least 12 months from the date of approval of these financial statements. In their consideration of going concern, the directors have prepared cash flow projections that take account of the impact of the restrictions related to the COVID-19 pandemic and the ongoing US-China trade war, which has had a significant detrimental impact on the shipment volumes achieved by the group's licensees, resulting in disappointing royalty income. In assessing the going concern assumption, the directors have prepared a reasonable worst case forecast that has been subjected to sensitivity analysis. In performing this analysis, the directors have not identified any material uncertainties that cast significant doubt upon the group's ability to continue as a going concern for a period of at least twelve months from the date of approval of these financial statements. Consequently, the directors consider it appropriate to continue to adopt the going concern basis in preparing the financial statements.

Cambridge Mechatronics Limited

Directors' report (continued)

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

On 30 January 2023 the company issued 475,000 Preferred Ordinary shares for total subscription proceeds of £4,750,000. This share issue represents the third tranche of the group's funding round.

Dividends

The directors are unable to recommend the payment of a dividend (2021 - £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 10 February 2023

Cambridge Mechatronics Limited

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 2022 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.

Conclusions relating to going concern

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.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the group's and parent company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

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.

Cambridge Mechatronics Limited

Independent auditor's report (continued)

To the members of Cambridge Mechatronics Limited (continued)

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.

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. 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 and the directors about their own identification and assessment of the risks of irregularities, including those that are specific to the group's business sector.

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
- Going concern – We identified the forecasted cash flows for the next 12 months used in the directors' assessment of going concern as a fraud risk. In addressing the risk we have obtained copies of managements forecasts and challenged assumptions and inputs used and our conclusion in relation to this is detailed in the going concern paragraph included on the first page of the audit report.

Cambridge Mechatronics Limited

Independent auditor's report (continued)

To the members of Cambridge Mechatronics Limited (continued)

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.

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: 10 February 2023

Cambridge Mechatronics Limited**Consolidated profit and loss account
For the year ended 31 December 2022**

	Note	2022 £	2021 £
Turnover	3	10,010,245	5,542,357
Cost of sales		(549,751)	(114,859)
Gross profit		<u>9,460,494</u>	<u>5,427,498</u>
Other Income	4	109,803	-
Distribution costs		(1,674,435)	(1,557,856)
Research and development expenditure		(10,243,535)	(8,835,733)
Administrative expenses		(4,245,875)	(1,754,032)
Operating loss		<u>(6,593,548)</u>	<u>(6,720,123)</u>
Bank interest receivable		9,250	2,538
Loss before taxation	5	<u>(6,584,298)</u>	<u>(6,717,585)</u>
Tax on loss	8	983,929	1,324,450
Loss for the financial year		<u>(5,600,369)</u>	<u>(5,393,135)</u>

All activities derive from continuing operations.

**Consolidated statement of comprehensive income
For the year ended 31 December 2022**

	Note	2022 £	2021 £
Loss for the financial year		(5,600,369)	(5,393,135)
Currency translation difference on overseas subsidiaries and branch		(20,830)	(434)
Total comprehensive expense		<u>(5,621,199)</u>	<u>(5,393,569)</u>

Cambridge Mechatronics Limited

Consolidated balance sheet At 31 December 2022

	Note	2022 £	2021 £
Fixed assets			
Goodwill	10	6,251	81,250
Tangible assets	11	273,439	303,286
		<u>279,690</u>	<u>384,536</u>
Current assets			
Stocks	13	230,336	302,653
Debtors	14	6,858,313	4,138,926
Cash at bank and in hand		4,165,396	5,202,891
		<u>11,254,045</u>	<u>9,644,470</u>
Creditors: amounts falling due within one year	15	(2,217,173)	(2,973,504)
Net current assets		<u>9,036,872</u>	<u>6,670,966</u>
Total assets less current liabilities		<u>9,316,562</u>	<u>7,055,502</u>
Net assets		<u>9,316,562</u>	<u>7,055,502</u>
Capital and reserves			
Called up share capital	16	51,237	49,514
Share premium account	16	61,901,792	55,132,285
Profit and loss account	16	(52,636,467)	(48,126,297)
Shareholders' funds		<u>9,316,562</u>	<u>7,055,502</u>

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

Signed on behalf of the Board of Directors by:



N Lerner
Director
Date: 10 February 2023

Cambridge Mechatronics Limited**Company balance sheet
At 31 December 2022**

	Note	2022 £	2021 £
Fixed assets			
Goodwill	10	6,251	81,250
Tangible assets	11	249,057	302,570
Investments	12	79,418	79,418
		<u>334,726</u>	<u>463,238</u>
Current assets			
Stocks	13	230,336	302,653
Debtors	14	6,888,720	4,197,445
Cash at bank and in hand		4,082,951	5,071,881
		<u>11,202,007</u>	<u>9,571,979</u>
Creditors: amounts falling due within one year	15	<u>(2,283,749)</u>	<u>(3,011,162)</u>
Net current assets		<u>8,918,258</u>	<u>6,560,817</u>
Total assets less current liabilities		<u>9,252,984</u>	<u>7,024,055</u>
Net assets		<u>9,252,984</u>	<u>7,024,055</u>
Capital and reserves			
Called up share capital	16	51,237	49,514
Share premium account	16	61,901,792	55,132,285
Profit and loss account	16	<u>(52,700,045)</u>	<u>(48,157,744)</u>
Shareholders' funds		<u>9,252,984</u>	<u>7,024,055</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 £5,629,207 (2021 - £5,421,001).

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

Signed on behalf of the Board of Directors by:



N Lerner
Director
Date: 10 February 2023

Cambridge Mechatronics Limited

Consolidated statement of changes in equity At 31 December 2022

	Called up share capital £	Share premium account £	Profit and loss account £	Total £
At 1 January 2021	48,565	52,773,329	(43,184,119)	9,637,775
Issue of share capital (note 17)	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
Issue of share capital (note 17)	1,723	6,769,507	-	6,771,230
Credit to equity for equity settled share based payment	-	-	1,111,029	1,111,029
Currency translation difference on overseas subsidiaries and overseas branch	-	-	(20,830)	(20,830)
Loss for the year and total comprehensive expenses	-	-	(5,600,369)	(5,600,369)
At 31 December 2022	51,237	61,901,792	(52,636,467)	9,316,562

Company statement of changes in equity At 31 December 2022

	Called up share capital £	Share premium account £	Profit and loss account £	Total £
At 1 January 2021	48,565	52,773,329	(43,185,152)	9,636,742
Issue of share capital (note 17)	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
Issue of share capital (note 17)	1,723	6,769,507	-	6,771,230
Credit to equity for equity settled share based payment	-	-	1,111,029	1,111,029
Currency translation difference on overseas branch	-	-	(24,123)	(24,123)
Loss for the year and total comprehensive expenses	-	-	(5,629,207)	(5,629,207)
At 31 December 2022	51,237	61,901,792	(52,700,045)	9,252,984

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Cambridge Mechatronics Limited

Consolidated cash flow statement For the year ended 31 December 2022

	Note	2022 £	2021 £
Net cash flow from operating activities	18	<u>(7,628,229)</u>	<u>(4,933,235)</u>
Cash flow from investing activities			
Purchase of tangible fixed assets		(193,264)	(300,775)
Disposal of tangible fixed assets		24,348	-
Acquisition of business combination			(100,000)
Interest received		9,250	2,538
Net cash flows from investing activities		<u>(159,666)</u>	<u>(398,237)</u>
Cash flows from financing activities			
Net proceeds on issue of shares		6,771,230	2,309,906
Net cash flows from financing activities		<u>6,771,230</u>	<u>2,309,906</u>
Net (decrease) increase in cash and cash equivalents		(1,016,665)	(3,021,566)
Effect of foreign exchange rate changes		(20,830)	(434)
Cash and cash equivalents at beginning of year		5,202,891	8,224,891
Cash and cash equivalents at end of year		<u>4,165,396</u>	<u>5,202,891</u>

Cambridge Mechatronics Limited

Notes to the financial statements For the year ended 31 December 2022

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. At 31 December 2022, the group held cash of £4,165,396 (2021: £5,202,891). The group's cash position has improved since year end following the completion of the third £4,750,000 tranche of the group's fund raising on 30 January 2023.

The directors have considered the financing requirements of the group for a period of at least 12 months from the date of approval of these financial statements. In their consideration of going concern, the directors have prepared cash flow projections that take account of the impact of the restrictions related to the COVID-19 pandemic and the ongoing US-China trade war, which has had a significant detrimental impact on the shipment volumes achieved by the group's licensees, resulting in disappointing royalty income. In assessing the going concern assumption, the directors have prepared a reasonable worst case forecast that has been subjected to sensitivity analysis. In performing this analysis, the directors have not identified any material uncertainties that cast significant doubt upon the group's ability to continue as a going concern for a period of at least twelve months from the date of approval of these financial statements. Consequently, the directors consider it appropriate to continue to adopt the going concern basis in preparing the financial statements.

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.

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 2022

1. Accounting policies (continued)

Tangible fixed assets

Tangible fixed assets are stated at cost, net of depreciation and any provision for impairment. Depreciation is provided on all tangible fixed assets at rates calculated to write off the cost, less estimated residual value, of each asset on a straight-line basis over its expected useful life as follows:

Plant and machinery	33% per annum
Office equipment	33% per annum
Computers and software	33% per annum
Leasehold improvements	the unexpired minimum lease term

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

Research and development and intangible fixed assets

Research and development expenditure is not capitalised on the 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.

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.

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 2022

1. Accounting policies (continued)

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 as described below.

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

Non-refundable licence fees in respect of perpetual licences are recognised when all obligations relating to the grant of the licence 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.

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 2022

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.

Other income

Other income relating to the RDEC R&D tax credits scheme are 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 in the year in which it is incurred.

Cambridge Mechatronics Limited

Notes to the financial statements For the year ended 31 December 2022

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. Expected volatility was determined by reference to businesses that are in a similar industry sector to the group. The expected life 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.

3. Turnover

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

	2022 £	2021 £
Licence fees	2,720,336	2,718,191
Royalties	3,189,207	1,357,668
Engineering services	3,693,633	1,248,952
Sale of goods	403,088	193,161
Other turnover	3,981	24,385
	<u>10,010,245</u>	<u>5,542,357</u>

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

	2022 £	2021 £
Asia	7,954,060	5,361,457
Europe	396,589	180,900
Rest of the world	1,659,596	-
	<u>10,010,245</u>	<u>5,542,357</u>

4. Other Income

	2022 £	2021 £
Other Income (RDEC Credit)	109,803	-
	<u>109,803</u>	<u>-</u>

Cambridge Mechatronics Limited

Notes to the financial statements For the year ended 31 December 2022

5. Loss before taxation

	2022	2021
	£	£
Loss before taxation is stated after charging/(crediting):		
Amortisation of goodwill (see note 10)	74,999	68,749
Depreciation of tangible fixed assets (note 11)	198,763	169,754
Research and development	10,243,535	8,835,733
Land and buildings operating lease rentals	402,960	337,179
Fees payable to the company's auditor and its associates for the audit of the company's annual accounts	55,125	52,500
Fees payable to the company's auditor and its associates for other services to the group:		
Taxation compliance services	8,000	7,239
Other taxation advisory services	22,570	11,775
Foreign exchange (gain) loss	(127,735)	31,990

6. Staff numbers and costs

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

	Group		Company	
	2022	2021	2022	2021
	Number	Number	Number	Number
Research and development	97	98	87	90
Sales and marketing	8	9	8	7
Administration	19	11	17	9
	<u>124</u>	<u>118</u>	<u>112</u>	<u>106</u>

	Group		Company	
	2022	2021	2022	2021
	£	£	£	£
The aggregate remuneration comprised:				
Wages and salaries	8,338,322	7,184,135	7,623,732	6,707,968
Social security costs	887,907	731,360	861,543	713,462
Pension costs (note 20)	373,397	307,967	299,013	261,460
	<u>9,599,626</u>	<u>8,223,462</u>	<u>8,784,288</u>	<u>7,682,890</u>

Cambridge Mechatronics Limited

Notes to the financial statements For the year ended 31 December 2022

7. Directors' remuneration

	2022	2021
	£	£
Emoluments	418,193	360,505
Sums paid to third parties in respect of directors' services	50,475	57,970
Company contributions to money purchase pension schemes	6,919	6,100
	<u>475,587</u>	<u>424,575</u>

	2022	2021
	Number	Number
The number of directors who:		
Are members of a money purchase pension scheme	2	1
Exercised options over shares in the company	-	-
Had awards receivable in the form of shares under a long-term incentive scheme	<u>4</u>	<u>3</u>

Remuneration of highest paid director:

	2022	2021
	£	£
Emoluments	166,178	165,995
Company contributions to money purchase pension schemes	6,100	6,100
	<u>172,278</u>	<u>172,095</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 2022

8. Tax on loss

	2022 £	2021 £
Current taxation		
Research and development expenditure tax credit	(1,659,564)	(1,821,731)
Foreign tax	675,635	497,281
Tax on loss	<u>(983,929)</u>	<u>(1,324,450)</u>

The standard rate of tax for the year, based on the UK standard rate of corporation tax is 19% (2021 - 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:

	2022 £	2021 £
Loss before tax	(6,584,298)	(6,717,585)
Tax on loss at standard rate UK corporation tax rate of 19% (2021 - 19%)	(1,251,018)	(1,276,341)
Factors affecting charge for the year:		
Expenses not deductible for tax purposes	278,728	73,453
Capital allowances in deficit of depreciation	51,335	40,098
Research and development expenditure tax credit	(710,145)	(783,863)
Higher tax rates on overseas earnings	542,209	397,668
Adjustment in respect of prior year	18,468	-
Tax losses carried forward	86,495	224,535
Total tax on loss	<u>(983,929)</u>	<u>(1,324,450)</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. The closing deferred tax assets and liabilities have been calculated at 25%, on the basis that this is the rate at which those assets and liabilities are expected to unwind. At 31 December 2022, the parent company had unutilised tax losses of £17,968,742 (2021 - £17,457,992) for which no deferred tax asset has been recognised.

9. 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 2022

10. Goodwill

Group and Company	Goodwill £
Cost	
At 1 January 2022	149,999
Additions	-
At 31 December 2022	149,999
Depreciation	
At 1 January 2022	68,749
Charge for the year	74,999
At 31 December 2022	143,748
Net book value	
At 31 December 2022	6,251
At 31 December 2021	81,250

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.

11. Tangible fixed assets

Group	Leasehold improvements £	Plant and machinery £	Office equipment £	Computers and software £	Total £
Cost					
At 1 January 2022	212,128	309,116	71,529	518,684	1,111,457
Additions	7,413	50,519	12,793	122,539	193,264
Disposals	-	(24,501)	-	(2,682)	(27,183)
At 31 December 2022	219,541	335,134	84,322	638,541	1,277,538
Depreciation					
At 1 January 2022	131,005	263,932	12,612	400,622	808,171
Charge for the year	50,274	45,724	26,829	75,936	198,763
Disposals	-	(2,087)	-	(750)	(2,837)
At 31 December 2022	181,279	307,569	39,441	475,810	1,004,099
Net book value					
At 31 December 2022	38,262	27,565	44,881	162,731	273,439
At 31 December 2021	81,123	45,184	58,917	118,062	303,286

Cambridge Mechatronics Limited

Notes to the financial statements For the year ended 31 December 2022

10. Tangible fixed assets (continued)

Company	Leasehold improvements £	Plant and machinery £	Office equipment £	Computers and software £	Total £
Cost					
At 1 January 2022	212,128	309,116	71,529	517,964	1,110,737
Additions	7,413	28,451	12,793	116,835	165,492
Disposals	-	(24,501)	-	(2,682)	(27,183)
At 31 December 2022	219,541	313,066	84,322	632,117	1,249,046
Depreciation					
At 1 January 2022	131,005	263,932	12,612	400,618	808,167
Charge for the year	50,274	42,230	26,829	75,326	194,659
Disposals	-	(2,087)	-	(750)	(2,837)
At 31 December 2022	181,279	304,075	39,441	475,194	999,989
Net book value					
At 31 December 2022	38,262	8,991	44,881	156,923	249,057
At 31 December 2021	81,123	45,184	58,917	117,346	302,570

12. Investments

Company	Subsidiary undertakings £
At 1 January 2022 and 31 December 2022	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 ¹	Technical support	Hong Kong	Ordinary shares *	100%
Cambridge Mechatronics (Shenzhen) Co., Ltd. ²	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:

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

² 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 2022

13. Stocks

	Group		Company	
	2022	2021	2022	2021
	£	£	£	£
Finished goods and goods for resale	230,336	302,653	230,336	302,653

The cost of stocks recognised as an expense during the year was £550,875 (2021 - £97,028)

14. Debtors: Amounts falling due within one year

	Group		Company	
	2022	2021	2022	2021
	£	£	£	£
Trade debtors	3,794,266	1,339,424	3,794,266	1,339,424
Corporation tax recoverable	1,787,834	1,821,731	1,787,834	1,821,731
Called up and unpaid share capital	5,413	5,413	5,413	5,413
Other debtors	380,453	486,091	377,788	494,037
Amounts owed by group companies	-	-	38,885	57,519
Prepayments	890,347	486,267	884,534	479,321
	<u>6,858,313</u>	<u>4,138,926</u>	<u>6,888,720</u>	<u>4,197,445</u>

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

15. Creditors: Amounts falling due within one year

	Group		Company	
	2022	2021	2022	2021
	£	£	£	£
Trade creditors	1,269,639	288,231	1,216,239	236,250
Other taxation and social security	529,719	372,200	506,569	362,515
Other creditors	11,720	-	11,720	-
Accruals	272,090	375,121	265,699	370,117
Amounts owed to group companies	-	-	149,517	104,328
Deferred income	134,005	1,937,952	134,005	1,937,952
	<u>2,217,173</u>	<u>2,973,504</u>	<u>2,283,749</u>	<u>3,011,162</u>

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

16. Called up share capital and reserves

	2022	2021
	£	£
Allotted, called up and fully paid		
4,135,391 (2021: 3,449,286) Preferred Ordinary shares of 0.25p each	10,338	8,623
13,998,016 (2021: 13,995,166) Ordinary shares of 0.25p each	34,995	34,988
157,050 A1 Ordinary shares of 0.25p each	393	393
38,896 Deferred shares of 0.25p each	97	97
	<u>45,823</u>	<u>44,101</u>

Cambridge Mechatronics Limited

Notes to the financial statements For the year ended 31 December 2022

Allotted, called up and unpaid

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
	<hr/>	<hr/>
	5,413	5,413
	<hr/>	<hr/>
Called up share capital	51,237	49,514

Share issues

The aggregate nominal value of shares issued during the year was £1,722. The total consideration received for shares issued in the year was £6,873,875.

During the year, the company issued 686,105 Preferred Ordinary shares of 0.25p each at a subscription price of £10 per share.

During the year, the company issued the 2,850 Ordinary shares of 0.25p each at a subscription price of £4.50 per share in relation to the exercise of employee held share options.

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.

Cambridge Mechatronics Limited

Notes to the financial statements For the year ended 31 December 2022

16. Called up share capital and reserves (continued)

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 2022

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:

	2022	Weighted average exercise price (£)	2021	Weighted average exercise price (£)
	Number of share options		Number of share options	
Outstanding at beginning of year	783,578	5.618	684,578	5.525
Granted during the year	276,000	10.000	115,000	6.260
Forfeited during the year	(158,150)	7.883	(13,000)	6.260
Exercised during the year	(2,850)	4.500	(3,000)	6.260
Expired during the year	-	-	-	-
Outstanding at the end of the year	898,578	4.899	783,578	5.618
Exercisable at the end of the year	532,745	5.463	606,912	5.431

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 £1,111,029 in 2022 (2021 - £491,391) relating to equity-settled share-based payment transactions.

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

	2022	2021
Weighted Average Exercise Price	£7.704	£5.080
Expected Volatility	41%	44%
Expected Life	7.7 years	6.7 years
Risk free rate	2.49%	0.46%

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 2022

17. Share based payments (continued)

At 31 December 2022 employees held options for 898,578 unissued Ordinary shares (2021 – 783,578) as follows:

Issue date	At 1 January 2022	Issued	Exercised	Lapsed	At 31 December 2022	Option price per share £	Exercise Period
23/03/2016	234,000		(2,850)	(7,150)	224,000	4.500	10 years
16/05/2018	152,578			(12,000)	140,578	6.260	5 years
18/12/2018	72,000			(12,500)	59,500	6.260	5 years
20/12/2019	185,000			(34,500)	150,500	6.260	5 years
04/03/2020	25,000			-	25,000	2.600	2 years
16/08/2021	115,000			(20,000)	95,000	6.260	10 years
07/01/2022	-	276,000	-	(72,000)	204,000	10.00	10 years
	<u>783,578</u>	<u>276,000</u>	<u>(2,850)</u>	<u>(158,150)</u>	<u>898,578</u>		

The options outstanding at 31 December 2022 had a weighted average exercise price of £4.899 (2021 - £5.618) and a weighted average remaining contractual life of 41.4 months (2021 – 47.5 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

	2022 £	2021 £
Operating loss	(6,593,548)	(6,720,123)
Adjustment for:		
Depreciation and amortisation	273,762	238,503
Share based payment expense	1,111,029	451,391
(Decrease) / increase in provisions	-	(250,000)
Operating cash flows before working capital	(5,208,757)	(6,280,229)
Decrease in stocks	72,317	(302,653)
Increase in debtors	(2,941,126)	(984,541)
Decrease in creditors	(938,890)	1,427,455
Cash utilised in operations	(9,016,456)	(6,139,968)
Net income taxes received	1,388,227	1,206,733
Net cash flow from operating activities	<u>(7,628,229)</u>	<u>(4,933,235)</u>

Cambridge Mechatronics Limited

Notes to the financial statements For the year ended 31 December 2022

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 2022, the total termination penalty is nil (2021 - £1,126,025).

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

	Group		Company	
	2022	2021	2022	2021
	Land and buildings £	Land and buildings £	Land and buildings £	Land and buildings £
Within 1 year	377,199	440,337	348,082	348,082
Between 1 and 5 years	87,021	220,495	87,021	216,584
	<u>464,220</u>	<u>660,832</u>	<u>435,103</u>	<u>564,666</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 2022 was £373,397 (2021 - £307,967).

21. Subsequent events

On 30 January 2023 the company issued 475,000 Preferred Ordinary shares for total subscription proceeds of £4,750,000.

22. Related party transactions

Directors' remuneration

West End Tech Ltd., a company of which G McFarland is also a director, invoiced £564 for consultancy services provided by G McFarland during the year (2021 - £23,403). The balance due to West End Tech Ltd. in respect of these services at 31 December 2022 was £nil (2021 - £nil).

Bromma Tech Consulting AB, a company of which J Lantto is also a director, invoiced £55,454 for consultancy services provided by J Lantto during the year (2021 - £34,567). The balance due to Bromma Tech Consulting AB in respect of these services at 31 December 2022 was £nil (2021 - £nil).

Including the fees invoiced by West End Tech Ltd. and Bromma Tech Consulting AB, the group paid £475,587 (2021 - £424,575) 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 2022 are not secured on the group's assets (2021 - unsecured).

23. Controlling party

In the view of the directors there is no single ultimate controlling party.