Compound Photonics Group Limited

Annual Report and Consolidated Financial Statements

Year Ended

31 December 2017

Company Number 06917133

SATURDAY

A7ZFEYSP

A12 16/02/2019 #222

COMPANIES HOUSE

Compound Photonics Group Limited

Report and financial statements
for the year ended 31 December 2017

Contents

Page:

Directors

A P A De Cort
J P A Fletcher
N S Woo
R Jackson
Y Valler

Registered office

Riverbank House, Swan Lane, London, England, EC4R 3TT

Company number

06917133

Auditors

BDO LLP, 2 City Place, Beehive Ring Road, Gatwick, West Sussex, RH6 0PA

Compound Photonics Group Limited

Strategic report
for the year ended 31 December 2017

PRINCIPAL ACTIVITIES

Product Development/R&D

Compound Photonics Group Limited and its subsidiaries (the "Group") is developing next generation microdisplays for the augmented reality and head up display market. During 2017 and 2018 the Group successfully executed upon its plan to simplify the business, refocus upon its core microdisplay technology and improve financial efficiency.

The Group has successfully completed its plans to consolidate its operations and reduce operating expense. In May 2017 the Group reduced the scope of its Phoenix, AZ operations; implementing a strategy of external sourcing for its LCoS display fabrication retaining only a Research & Development function. Through 2018 the Group has forged strategic partnerships with key suppliers and contract manufacturing service providers in order to realize a quality and efficient development and production capability.

In May 2017 the Newton Aycliffe facility was sold to Kaiam Laser Limited and in January 2018 the Phoenix, AZ operations relocated to a more cost effective facility in Chandler, AZ. Such actions have realized an on-going saving of approximately $17m per annum.

During the course of 2018, the Group's main research and development (R&D) efforts have been directed at:

- 1080p microdisplays
- Control electronics and software for the microdisplays
- Microdisplay system assemblies

The Group made good technical progress in 2018 and is scheduled in 2019 to release a suite of 1080p microdisplay products targeted at the head mounted and head up display market.

The Group operates out of its USA facilities in Madison, Wisconsin; Phoenix, Arizona and Vancouver, Washington.

Manufacturing
The Group manufactures and sells infrared laser products from its Madison facility.

FINANCIAL REVIEW

Turnover from continuing operations was £2.295M vs £1.972M in 2016.

Operating expenses for continued operations increased through 2017 at $37M vs $33M in 2016.

Research and development expenditure decreased from $3.062M in 2016 to $ 2.654 M in 2017.

KEY PERFORMANCE INDICATORS

	2017	**2016**
	£'000	**£'000**
Turnover from continuing operations	**2,295**	1,972
Total Spend from continuing operations	**24,685**	28,652
Headcount from continuing operations	**124**	173
Loss on Ordinary Activities Before Tax from continuing operations	**(35,744)**	(27,413)

Turnover in 2017 increased from that of 2016 as a result of increased revenue from the laser systems operation out of Madison, WI. 2018 revenue is expected to be slightly lower, again dominated by sales from the Madison laser systems operation.

Headcount reductions were largely a consequence of the change in scope of the Phoenix, AZ facility and its focus upon Research & Development only.

PRINCIPAL RISKS AND UNCERTAINTIES

Technical risks

The Group is engaged on research and development in several key areas:

- microdisplays
- electronics
- compact mechanical design and packing techniques for microdisplay assemblies

Each of these projects requires innovation in design, fabrication techniques, materials and process development as well as equipment creation or modification necessary to have a successful outcome.

There are inherent risks associated with potential failures or delays in such innovations which may lead to increased time and/or costs to product launch, but none of them is insurmountable. However. even though the Group mitigates this risk by having the necessary equipment and processes either in-house or through strategic partnerships with external organizations and the required knowledge has either been practised by staff for years or is within the capabilities of the highly-educated teams engaged on each project, there is no guarantee that technical challenges will not delay the Group's product launch.

Financial risks

Income from sales and cash will be insufficient to sustain the Group until it reaches a cash positive position. As such further funding will be required.

Total new investment of $36M was raised in 2017 from the issue of Ordinary shares during the year to its major shareholders, Vollin Limited & Minden Worldwide Limited. During 2018 a further $37M was raised and received from the same shareholders. The Group has recently completed discussions with the majority shareholders and has completed a subscription agreement for $28.4M for 2019, the receipt of which is subject to the company continuing to follow its business plan.

DIRECTORS & MANAGEMENT

There have been several changes in the Board and Management. The list of Director changes is set out on the next page.

Stephen Woo resigned as CEO with effect of November 01, 2018 being replaced by Dr Yiwan Wong who had previously served as GM Microdisplay Business from June 2018. Stephen Woo continues to serve as Executive Chairman.

APPROVAL

This Strategic Report was approved on behalf of the Board on 15 February 2019.

Nam Sung Woo
Director

Directors' report
for the year ended 31 December 2017

The directors present their report together with the audited financial statements for the year ended 31 December 2017.

DIRECTORS

The directors of the company during and since 2017:
A P A De Cort
J P A Fletcher
J C Mercer (appointed 30 August 2017, resigned 16 March 2018)
P Tatyanin (appointed 30 August 2017, resigned 9 March 2018)
N S Woo
R Jackson (appointed 31 October 2017)
Y Valler (appointed 31 October 2017)
P J McDermid (resigned 30 August 2017)
B G Bolger (resigned 20 October 2017)

DIVIDENDS

The directors do not recommend the payment of a dividend (2016 – nil).

FINANCIAL INSTRUMENTS

Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations.

It is company policy, implemented locally, to assess the credit risk of new customers before entering into supply agreements. Each new customer is analysed individually for creditworthiness before the Group's standard payment and delivery terms and conditions are offered. Purchase limits are established for each customer, which represents the maximum open amount without requiring approval.

Liquidity risk

Liquidity risk arises from the Group's management of working capital. It is the risk that the Group will encounter difficulty in meeting its financial obligations as they fall due.

The Board receives information regarding cash balances on a monthly basis. Please refer to the going concern policy in note 1 of the financial statements for further information.

Foreign exchange risk

Foreign exchange risk arises when the Group enters into transactions denominated in a currency other than its functional currency.

The Group is predominantly exposed to currency risk on purchases made from suppliers based outside of the US. There are currently no specific measures in place to mitigate this risk other than keen price negotiation by the Group's experienced procurement team.

LIKELY FUTURE DEVELOPMENTS IN THE BUSINESS OF THE COMPANY

The Group is advancing its product development programs so as to commercialise its LCoS microdisplay components in mid-2019.

Development kits containing the Group's display systems have been shipped to more than 6 potential customers in the Augmented Reality (AR) market space. The Group is actively engaged with potential customers across the AR or automotive head up display markets. What remains of interest to such operators is the Group's display system's small pixel size, small form factor and low latency.

RESEARCH AND DEVELOPMENT

The Group continues to invest in research and development. Expenditure incurred to date does not yet satisfy the capitalisation criteria and has been expensed in the income statement. Research costs incurred that did not meet the criteria for capitalisation and were therefore charged to profit or loss totalled £3,379,713 (2016 - £2,259,231). Through 2019 certain research projects will enter the development phase and satisfy the criteria for capitalisation. The Compound Photonics Development Procedures dictates the milestones required for transition from research into development.

EXISTENCE OF BRANCHES OF THE COMPANY OUTSIDE OF THE UNITED KINGDOM

The company through its wholly owned subsidiary, Compound Photonics Limited, owns 100% of Compound Photonics U.S. Corporation. Compound Photonics U.S. Corporation is a Delaware corporation with offices located in the states of Arizona, Washington and Wisconsin.

EMPLOYMENT OF DISABLED PERSONS

The group gives full and fair consideration to applications for employment and their continued employment, training and career development, on the basis of aptitude and ability without discrimination of any kind.

EMPLOYEE INVOLVEMENT

The flow of information to staff has been maintained by regular all-hands staff meetings and other communication. Members of the management team frequently visit the three US locations and discuss matters of current interest and concern to the business with members of staff.

DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the strategic report, directors' 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 International Financial Reporting Standards (IFRS) and applicable law. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the Group for that period.

DIRECTORS' RESPONSIBILITIES *(continued)*

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;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; 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.

AUDITORS

All of the directors as at the date of this report have taken all the steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information. The directors are not aware of any relevant audit information of which the company's auditor is unaware.

APPROVAL

This Directors' Report was approved by order of the Board on 15 February 2019.

Nam Sung Woo
Director

INDEPENDENT AUDITOR'S REPORT TO MEMBERS OF COMPOUND PHOTONICS GROUP LIMITED

Opinion

We have audited the financial statements of Compound Photonics Group Limited ("the Parent Company") and its subsidiaries ("the Group") for the year ended 31 December 2017 which comprise the consolidated income statement, the consolidated statement of comprehensive income, the consolidated and company statement of financial position, the consolidated cash flow statements, the consolidated and company statement of changes in equity and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the Parent Company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2017 and of the Group's loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the Parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Separate opinion in relation to IFRSs as issued by the IASB

As explained in note 1 to the Group financial statements, the Group in addition to complying with its legal obligation to apply IFRSs as adopted by the European Union, has also applied IFRSs as issued by the International Accounting Standards Board (IASB).

In our opinion the Group financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2017 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with IFRSs as issued by the IASB.

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 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 to the financial statements, which indicates that the Group requires additional funds to finance the Group's planned work programme and to fund working capital from quarter 3 of 2019 and this is yet to be confirmed. As stated in note 1, these events or conditions indicate the existence of a material uncertainty that may cast significant doubt on the Group and the Parent Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other information

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

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

We have nothing to report in this regard.

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 Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic report and Directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the Group and the Parent Company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic report and Director's report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you 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

Matters on which we are required to report by exception (continued)

- 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; or
- the Directors were not entitled to take advantage of the small companies' exemptions in preparing the Directors' report and from the requirement to prepare a Strategic report.

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

Use of our report

This report is made solely to the Parent 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 Parent 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 Parent Company and the Parent Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Bdo LLP

John Everingham (Senior Statutory Auditor)
For and on behalf of BDO LLP, statutory auditor
Gatwick
Date 15 February 2018

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

Compound Photonics Group Limited

Consolidated income statement
for the year ended 31 December 2017

	Note	2017 £'000	2016 £'000
Turnover	4	**2,295**	1,972
Cost of sales		**(924)**	(714)
Gross profit		**1,371**	1,258
Administrative expenses		**(24,685)**	(28,652)
Other operating expenses		**(15,752)**	(20)
Group operating loss	5	**(39,066)**	(27,414)
Other income		**3,322**	-
Interest receivable		**-**	1
Loss on ordinary activities before tax		**(35,744)**	(27,413)
Corporation tax	8	**-**	-
Loss from continuing operations		**(35,744)**	(27,413)
Profit / (loss) on discontinued operations, net of tax	20	**477**	(11,445)
Loss for the financial year		**(35,267)**	(38,858)

The notes on pages 18 to 40 form part of these financial statements.

Compound Photonics Group Limited

Consolidated statement of comprehensive income
for the year ended 31 December 2017

	Note	2017 £'000	2016 £'000
Loss for the financial year		**(35,267)**	(38,858)
Items that will or may be reclassified to profit or loss:			
Exchange translation differences on retained losses		**(3,005)**	(4,627)
Total comprehensive loss for the year		**(38,272)**	(43,485)

The notes on pages 18 to 40 form part of these financial statements.

Compound Photonics Group Limited

Consolidated statement of financial position
at 31 December 2017

Company number 06917133	Note	2017 £'000	2016 £'000
Non-current assets			
Intangible assets	10	**2,626**	2,984
Property, plant and equipment	11	**7,926**	9,686
Investment	12	**-**	-
		10,552	12,670
Current assets			
Stocks	13	**386**	565
Trade and other debtors	14	**2,245**	3,193
Cash and cash equivalents		**10,419**	3,004
		13,050	6,762
Assets in disposal groups classified as held for sale	20	**-**	10,060
Total current assets		**13,050**	16,822
Total assets		**23,602**	29,492
Creditors: amounts falling due within one year	15	**(1,815)**	(7,903)
Liabilities directly associated with assets in disposal groups classified as held for sale	20	**-**	(1,967)
Total current liabilities		**(1,815)**	(9,870)
Net current assets		**11,235**	6,953
Total assets less current liabilities		**21,787**	19,622
Creditors: amounts falling due after one year	16	**(12)**	(23)
Total net assets		**21,775**	19,599

Compound Photonics Group Limited

Consolidated statement of financial position
at 31 December 2017 (continued)

	Note	**2017** **£'000**	2016 £'000
Capital and reserves			
Called up share capital	17	**79**	51
Share premium account		**202,226**	160,895
Foreign exchange reserves		**2,912**	5,917
Revaluation reserve		**-**	911
Merger reserve		**6,501**	6,501
Retained losses		**(189,943)**	(154,676)
Shareholders' funds		**21,775**	19,599

The financial statements were approved by the Board of Directors and authorised for issue on 15 February 2019.

Nam Sung Woo
Director

The notes on pages 18 to 40 form part of these financial statements.

Compound Photonics Group Limited

Consolidated statement of changes in equity
for the year ended 31 December 2017

	Share capital £'000	Share premium £'000	Foreign exchange reserve £'000	Revaluation reserve £'000	Merger reserve £'000	Retained losses £'000	Total £'000
1 January 2016	40	131,909	1,290	911	6,501	(115,818)	24,833
Shares issued	11	28,986	-	-	-	-	28,997
Total comprehensive loss for the year	-	-	-	-	-	(38,858)	(38,858)
Other comprehensive losses	-	-	4,627	-	-	-	4,627
31 December 2016	51	160,895	5,917	911	6,501	(154,676)	19,599
1 January 2017	51	160,895	5,917	911	6,501	(154,676)	19,599
Shares issued	28	41,331	-	-	-	-	41,359
Total comprehensive loss for the year	-	-	-	-	-	(35,267)	(35,267)
Other comprehensive losses	-	-	(3,005)	-	-	-	(3,005)
Disposal	-	-	-	(911)	-	-	(911)
31 December 2017	79	202,226	2,912	-	6,501	(189,943)	21,775

The notes on pages 18 to 40 form part of these financial statements.

Compound Photonics Group Limited

Consolidated cash flow statement
for the year ended 31 December 2017

	Note	2017 £'000	2016 £'000
Cash flows from operating activities			
Loss for the financial year		**(35,267)**	(38,858)
Adjustments for:			
- Depreciation	11	**1,051**	1,657
- Amortisation	10	**539**	405
- Impairment of investments	12	**15,733**	-
- Loss on disposal of property, plant and equipment		**648**	81
- Unrealised exchange rate (profit) / loss		**(1,588)**	2,850
- Decrease in trade and other debtors		**666**	94
- Decrease/(Increase) in stocks		**179**	(16)
- Decrease in trade and other creditors		**(6,099)**	(1,735)
- (Gain)/Loss on disposal of discontinued operations, net of tax	20	**(624)**	1,506
Cash used by operations		**(24,762)**	(34,106)
Corporation tax		**-**	-
Net cash used by operating activities		**(24,762)**	(34,106)
Cash flows from investing activities			
Purchases of tangible fixed assets	11	**(2,020)**	(2,172)
Proceeds from sale of tangible fixed assets		**833**	152
Purchase of intangibles	10	**(350)**	(492)
Purchase of fixed asset investments	12	**(7,645)**	-
Net cash used by investing activities		**(9,182)**	(2,512)
Cash flows from financing activities			
Proceeds from issue of ordinary shares		**41,359**	28,997
Net cash from financing activities		**41,359**	28,997
Net increase / (decrease) in cash and cash equivalents		**7,415**	(7,531)
Cash and cash equivalents at beginning of year		**3,004**	10,535
Cash and cash equivalents at end of year		**10,419**	3,004
Cash and cash equivalents comprise:			
Cash at bank and in hand		**10,419**	3,004

The notes on pages 18 to 40 form part of these financial statements.

Compound Photonics Group Limited

Company statement of financial position
at 31 December 2017

Company number 06917133	Note	2017 £'000	2016 £'000
Non-current assets			
Investments	12	**-**	-
Intangible assets	10	**699**	650
		699	650
Current assets			
Debtors	14	**17**	79,427
Cash and cash equivalents		**-**	422
		17	79,849
Creditors: amounts falling due within one year	15	**(188)**	(4,168)
Net current (liabilities) / assets		**(171)**	75,681
Total net assets		**528**	76,331
Capital and reserves			
Called up share capital	17	**79**	51
Share premium account		**202,226**	160,895
Merger reserve		**6,501**	6,501
Retained profit		**(208,278)**	(91,116)
Shareholders' funds		**528**	76,331

The parent company made a loss of £117,161,962 (2016 – loss of £93,656,496).

The financial statements were approved by the Board of Directors and authorised for issue on 15 February 2019.

Nam Sung Woo
Director

The notes on pages 18 to 40 form part of these financial statements.

Compound Photonics Group Limited

Company statement of changes in equity
for the year ended 31 December 2017

	Share capital £'000	Share premium £'000	Merger reserve £'000	Retained losses £'000	Total £'000
1 January 2016	40	131,910	6,501	2,541	140,992
Shares issued	11	28,985	-	-	28,996
Profit for the year	-	-	-	(93,657)	(93,657)
Share-based payment credits	-	-	-	-	-
31 December 2016	51	160,895	6,501	(91,116)	76,331
1 January 2017	**51**	**160,895**	**6,501**	**(91,116)**	**76,331**
Shares issued	**28**	**41,331**	-	-	**41,359**
Loss for the year	-	-	-	**(117,162)**	**(117,162)**
Share-based payment credits	-	-	-	-	-
31 December 2017	**79**	**202,226**	**6,501**	**(208,278)**	**528**

The notes on pages 18 to 40 form part of these financial statements.

1 Accounting policies

Basis of presentation

Compound Photonics Group Limited is a company incorporated in England & Wales under the Companies Act. The address of the registered office is given on the contents page and the nature of the group's operations and its principal activities are set out in the strategic report. These financial statements have been prepared in accordance with International Financial Reporting Standards, International Accounting Standards and Interpretations (collectively IFRS) issued by the International Accounting Standards Board (IASB) and adopted by the European Union (adopted IFRSs) and in accordance with IFRS as issued by the IASB.

Basis of consolidation

The consolidated financial statements present the results of the Group as if they formed a single entity. Intercompany transactions and balances between Group companies are therefore eliminated in full.

The consolidated financial statements incorporate the results of business combinations using the purchase method. In the statement of financial position, the acquiree's identifiable assets, liabilities and contingent liabilities are initially recognised at their fair values at the acquisition date. The results of acquired operations are included in the consolidated statement of comprehensive income from the date on which control is obtained. They are deconsolidated from the date control ceases.

An entity is treated as an associated undertaking where the Group exercises significant influence in that it has the power to participate in the operating and financial policy decisions. The Group has no associates.

Going concern

During 2017 $21M was raised from the issue of 13.7M ordinary shares and a convertible loan was issued to the value of $16M from the majority shareholders that was converted to 10.5M Ordinary Shares on December 31, 2018. The Group has recently completed discussions with the majority shareholders and has completed a subscription agreement for $28.4M for 2019, the receipt of which is subject to the company continuing to follow its business plan.

Based on current forecasts the 2019 funding is expected to support the Group and its short term development plans through to quarter 3 of 2019. Additional funding will be sought in the final fiscal quarter of 2019 to support longer term research and development plans that are targeted towards revenue generation in 2020/2021 and to fund working capital, and a mixture of internal and external funding is being considered. However, income from existing sales and cash would be insufficient to sustain the Group before reaching a cash positive position. Further funding will need to be sought in late 2019 in-line with a three year plan presented to the existing investors. As this long term funding has not yet been approved the directors acknowledge that there is a material uncertainty related to these events, which may cast doubt on the Group's and the company's ability to continue as a going concern.

The Group has faced this matter previously and always raised the required funds. The directors are confident that additional funding will be raised within an appropriate timeframe as the existing investors have expressed an interest in continuing to fund the business and it is on that basis they continue to adopt the going concern basis of preparation. No amendments have been made to the financial statements should the going concern basis of preparation not be appropriate.

1 Accounting policies *(continued)*

Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The consolidated financial statements are presented in sterling, which is the company's functional and the Group's presentation currency.

On consolidation, the results of overseas operations are translated into sterling at rates approximating to those ruling when the transactions took place. All assets and liabilities of overseas operations are translated at the rate ruling at the reporting date. Exchange differences arising on translating the opening net assets at opening rate and the results of overseas operations at actual rate are recognised in other comprehensive income. Exchange differences recognised in the profit or loss in Group entities' separate financial statements on the translation of long-term monetary items forming part of the Group's net investment in the overseas operation concerned are reclassified to other comprehensive income and accumulated in the foreign exchange reserve on consolidation.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the income statement within other finance costs. All other foreign exchange gains and losses are presented in profit or loss within other operating income.

Revenue

Revenue from the sales of goods is recognised when the Group has transferred the significant risks and rewards of ownership to the buyer and it is probable that the Group will receive the previously agreed upon payment. These criteria are considered to be met when the goods are delivered to the buyer.

Intangible assets

(a) Goodwill

Goodwill represents the excess of the cost of a business combination over the fair value of the Group's share of the net identifiable assets of the business at the date of acquisition. Goodwill on acquisitions of businesses is included in intangible assets. Goodwill is carried at cost less accumulated impairment losses. Goodwill is not amortised. At each reporting date, the Group assesses whether there is any indication that goodwill may be impaired. If any such indication exists, the entity estimates the recoverable amount of the asset. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units (CGUs) (or Groups of CGUs) for the purpose of impairment testing. The allocation is made to those CGUs or Groups of CGUs that are expected to benefit from the synergies of the business combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

1 Accounting policies *(continued)*

(b) Negative goodwill

Where the fair value of identifiable assets, liabilities and contingent liabilities exceed the fair value of consideration paid, the excess is recognised immediately in the income statement.

(c) Customer related intangible assets

Separately acquired customer-related intangible assets acquired in a business combination are recognised at fair value at the acquisition date. Customer-related intangible assets have a finite useful life and are carried at cost less accumulated amortisation and any accumulated impairment losses. Amortisation is calculated using the straight-line method to allocate the cost of customer related intangible assets over their estimated useful lives, as follows:

Customer-related intangible assets	-	5 years

(d) Internally generated intangible assets (development costs)

Expenditure on internally developed products is capitalised if it can be demonstrated that:

- it is technically feasible to develop the product for it to be sold;
- adequate resources are available to complete the development;
- there is an intention to complete and sell the product;
- the company is able to sell the product;
- sale of the product will generate future economic benefits; and
- expenditure on the project can be measured reliably.

Capitalised development costs are amortised over the periods the company expects to benefit from selling the products developed. The amortisation expense is included within administrative expenses in the statement of comprehensive income.

Development expenditure not satisfying the above criteria and expenditure on the research phase of internal projects are recognised in the income statement as incurred.

Tangible fixed assets

Tangible fixed assets are stated at historical cost less accumulated depreciation and any accumulated impairment losses. Historical cost includes expenditure that is directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

Repairs and maintenance are charged to profit or loss during the period in which they are incurred.

Freehold land and buildings are carried at fair value, based on periodic valuations by a professionally qualified valuer. These revaluations are made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period. Changes in fair value are recognised in other comprehensive income and accumulated in the revaluation reserve except to the extent that any decrease in value in excess of the credit balance on the revaluation reserve, or reversal of such a transaction, is recognised in profit or loss.

1 Accounting policies *(continued)*

Freehold land is not depreciated. Depreciation on assets under construction does not commence until they are complete and available for use. Depreciation is provided on all other items of property, plant and equipment so as to write off their carrying value over their expected useful economic lives. It is provided at the following rates:

Building Plant and Facilities	-	10 to 15 years
Manufacturing plant and equipment	-	10 years with a 35% residual value
Computer and office equipment, furniture and fixtures	-	5 years

The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted prospectively if appropriate, if there is an indication of a significant change since the last reporting date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within administrative expenses in the income statement.

Impairment of fixed assets and goodwill

Assets that are subject to depreciation or amortisation are assessed at each reporting date to determine whether there is any indication that the assets are impaired. Where there is any indication that an asset may be impaired, the carrying value of the asset (or cash-generating unit to which the asset has been allocated) is tested for impairment. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's (or CGU's) fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (CGUs). Non-financial assets that have been previously impaired are reviewed at each reporting date to assess whether there is any indication that the impairment losses recognised in prior periods may no longer exist or may have decreased.

Valuation of investments

Investments in subsidiaries are measured at cost less accumulated impairment. Where merger relief is applicable, the cost of the investment in a subsidiary undertaking is measured at the nominal value of the shares issued together with the fair value of any additional consideration paid.

Leased assets

Where substantially all of the risks and rewards incidental to ownership of a leased asset have been transferred to the company (a finance lease), the asset is treated as if it had been purchased outright. The amount initially recognised as an asset is the lower of the fair value of the leased property and the present value of the minimum lease payments payable over the term of the lease. The company does not hold any assets under finance leases.

Where substantially all of the risks and rewards incidental to ownership are not transferred to the company (an operating lease), the total rentals payable under the lease are charged to the statement of comprehensive income on a straight-line basis over the lease term. The aggregate benefit of lease incentives is recognised as a reduction of the rental expense over the lease term on a straight-line basis.

Lease incentives primarily include up-front cash payments or rent-free periods. Lease incentives are capitalised and spread over the period of the lease term.

1 Accounting policies *(continued)*

Stocks

Stocks are stated at the lower of cost and estimated selling price less costs to complete and sell. Cost is determined using the first-in, first-out (FIFO) method. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity).

At each reporting date, stocks are assessed for impairment. If stock value is impaired, the carrying amount is reduced to its selling price less costs to complete and sell; the impairment loss is recognised immediately in profit or loss.

Cash and cash equivalents

Cash and cash equivalents includes cash on hand, demand deposits and other short-term highly liquid investments with original maturities of three months or less. The Group has no bank overdrafts.

Derivative financial instruments and hedging activities

The Group has no derivative financial instruments or hedging activities.

Government grants

Grants from the government, for the furtherance of research and development in accordance with strategic aims of the Group, are recognised at their fair value in profit or loss where there is a reasonable assurance that the grant will be received and the Group has complied with all attached conditions. Grants received where the Group has yet to comply with all attached conditions are recognised as a liability (and included in deferred income within trade and other payables) and released to income when all attached conditions have been complied with. Government grants received are included in other operating income in the income statement.

Deferred taxation

Deferred tax assets and liabilities are recognised where the carrying amount of an asset or liability in the statement of financial position differs from its tax base, except for differences arising on:

- the initial recognition of goodwill;
- the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction affects neither accounting or taxable profit; and
- investments in subsidiaries and jointly controlled entities where the company is able to control the timing of the reversal of the difference and it is probable that the difference will not reverse in the foreseeable future.

Recognition of deferred tax assets is restricted to those instances where it is probable that taxable profit will be available against which the difference can be utilised.

The amount of the asset or liability is determined using tax rates that have been enacted or substantively enacted by the reporting date and are expected to apply when the deferred tax liabilities/ (assets) are settled/ (recovered).

Discontinued operations

A discontinued operation is a component of the Group that has either been disposed of or meets the criteria to be classified as held for sale and represents a separate major line of business or geographical area of operations or is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations.

The results of discontinued operations include the post-tax profit or loss on the discontinued operation along with the post-tax gain or loss recognised on the re-measurement of the non-current assets of the discontinued operation to fair value less costs to sell, and the consequent gain or loss on the disposal of the discontinued operation.

1 Accounting policies *(continued)*

Pension costs

Contributions to the Group's defined contribution pension schemes are charged to profit or loss in the year in which they become payable.

Holiday pay accrual

A liability is recognised to the extent of any unused holiday pay entitlement which has accrued at the balance sheet date and carried forward to future periods. This is measured at the undiscounted salary cost of the future holiday entitlement so accrued at the balance sheet date.

Financial liabilities and equity

Financial instruments issued by the company are classified as equity only to the extent that they do not meet the definition of a financial liability or financial asset.

The company's ordinary shares are classified as equity instruments.

Share Options

The Group operates a discretionary equity-settled, share-based option plan. The fair value of the options granted is measured by reference to the estimated fair value at the grant date of equity instruments granted and is recognised as an expense over the vesting period. The estimated fair value of the option granted is calculated using a Black-Scholes pricing model. The total amount expensed is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied.

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

New standards, interpretations and amendments effective from 1 January 2017

There were no new standards or interpretations effective for the first time for periods beginning on or after 1 January 2017 that had a significant effect on the Group's financial statements.

New standards, interpretations and amendments not yet effective

There are a number of standards and interpretations which have been issued by the International Accounting Standards Board that are effective in future accounting periods that the group has decided not to adopt early .

IFRS 9 Financial Instruments

The group has identified that the adoption IFRS 9, which replaces IAS 39 Financial Instruments: Recognition and Measurement from 1 January 2018, will not have a material impact its consolidated financial statements.

1) The group will need to apply an expected credit loss model when calculating impairment losses on its trade and other receivables (both current and non-current). This will result in increased impairment provisions and greater judgement due to the need to factor in forward looking information when estimating the appropriate amount of provisions. In applying IFRS 9 the group must consider the probability of a default occurring over the contractual life of its trade receivables and contracts asset balances on initial recognition of those assets. This will however not be material for the group due to the low value of third party transactions.

2) There are changes in the classification categories of financial assets and liabilities, however these are not expected to have any impact on the recognition or measurement of financial assets and liabilities of the company.

1 Accounting policies *(continued)*

IFRS 15 Revenue from Contracts with Customers

This standard introduces a five step process to recognising revenue. However as the Company earns revenue from the sale of a product which is delivered to the customer at a point in time, and as the Company is in start-up phase meaning that limited revenue is currently being earned, the impact is not expected to be material.

IFRS 16 Leases

Adoption of IFRS 16 will result in the group recognising right of use assets and lease liabilities for all contracts that are, or contain, a lease. For leases currently classified as operating leases, under current accounting requirements the group does not recognise related assets or liabilities, and instead spreads the lease payments on a straight-line basis over the lease term, disclosing in its annual financial statements the total commitment.

The group has decided it will apply the modified retrospective adoption method in IFRS 16 and, therefore, will only recognise leases on balance sheet as at 1 January 2019. In addition, it has decided to measure right-of-use assets by reference to the measurement of the lease liability on that date. This will ensure there is no immediate impact to net assets on that date. At 31 December 2017 operating lease commitments amounted to £617,000 (see note 21), which is not expected to be materially different to the anticipated position on 31 December 2019.

Instead of recognising an operating expense for its operating lease payments, the group will instead recognise interest on its lease liabilities and amortisation on its right-of-use assets. This will increase reported EBITDA by the amount of its current operating lease cost, which for the year ended 31 December 2017 was approximately £2 million.

Other

The following is a list of other new and amended standards which, at the time of writing, had been issued by the IASB but which are effective in future periods. The Group does not expect any of these standards to have an effect on the group:.

- IFRIC 22 Foreign Currency Translations and Advance Consideration (effective 1 January 2018)
- Amendments to IFRS 2 classification and Measurement of Share-based payment Transactions (effective 1 January 2018)
- Amendments to IFRS 4: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (effective 1 January 2018)
- Amendments to IAS 40: Transfers of Investment Property (effective 1 January 2018)
- Annual Improvements to IFRS Standards 2014-2016 cycle dealing with matters in IFRS 1 First-time Adoption and IAS 28 Investments in Associates and Joint Ventures (effective1 January 2018)
- IFRIC 23 Uncertainty over Income Tax Positions (effective 1 January 2019)
- Amendments to IFRS 9 Prepayment Features with Negative Compensation (effective 1 January 2019)
- Amendments to IAS 28:Long-term Interests in Associates and Joint Ventures (effective 1 January 2019)
- IFRS 17 Insurance Contracts (effective 1 January 2021)

2 Judgements in applying accounting policies and key sources of estimation uncertainty

Estimates and judgements are continually evaluated. They are based on historical experience and other factors, including expectations of the future.

In preparing these financial statements, the directors have made the following judgements:

- whether leases entered into by the Group either as a lessor or a lessee are operating or finance leases. These decisions depend on an assessment of whether the risks and rewards of ownership have been transferred from the lessor to the lessee on a lease by lease basis.

2 Judgements in applying accounting policies and key sources of estimation uncertainty *(continued)*

- whether there are indicators of impairment of the Group's tangible and intangible assets, including goodwill. Factors taken into consideration in reaching such a decision include the economic viability and expected future financial performance of the asset and where it is a component of a larger cash-generating unit, the viability and expected future performance of that unit.
- whether R & D costs should be capitalised as self-generated intangible assets, under IAS 38. The decision was made that, according to the companies' system monitors and procedures, the activity had yet to progress to the development phase. The cost has been accordingly charged to the period Income Statement.
- whether intercompany balances and investments are deemed to be recoverable in the parent company balance sheet. The company reviews the solvency and future trading forecasts of subsidiaries to determine whether the group company balances have suffered any impairment.

3 Financial instruments - risk management

The Group is exposed through its operations to the following financial risks:

- Credit risk;
- Fair value or cash flow interest rate risk;
- Foreign exchange risk; and
- Liquidity risk.

In common with all other businesses, the Group is exposed to risks that arise from its use of financial instruments. This note describes the Group's objectives, policies and processes for managing those risks and the methods used to measure them. Further quantitative information in respect of these risks is presented throughout these financial statements.

There have been no substantive changes in the Group's exposure to financial instrument risks, its objectives, policies and processes for managing those risks or the methods used to measure them from previous periods unless otherwise stated in this note.

(i) Principal financial instruments

The principal financial instruments used by the Group, from which financial instrument risk arises, are as follows:

- Trade receivables
- Cash and cash equivalents
- Trade and other payables

(ii) Financial instruments by category

Financial assets

Loans and receivables	**2017**	**2016**
	£'000	**£'000**
Cash and cash equivalents	**10,419**	3,004
Trade and other debtors	**2,046**	2,783
Total financial assets	**12,465**	5,787

Financial liabilities

The Group's only financial liabilities are trade and other payables as disclosed in notes 15/16.

(iii) Financial instruments not measured at fair value

Financial instruments not measured at fair value includes cash and cash equivalents, trade and other receivables, and trade and other payables.

Due to their short-term nature, the carrying value of cash and cash equivalents, trade and other receivables, trade and other payables approximates their fair value.

The Group has no other financial instruments.

3 Financial instruments – risk management *(continued)*

General objectives, policies and processes

The Board has overall responsibility for the determination of the Group's risk management objectives and policies and, whilst retaining ultimate responsibility for them, it has delegated the authority for designing and operating processes that ensure the effective implementation of the objectives and policies to the Group's finance function. The Board receives monthly reports from the finance function through which it reviews the effectiveness of the processes put in place and the appropriateness of the objectives and policies it sets.

The overall objective of the Board is to set policies that seek to reduce risk as far as possible without unduly affecting the Group's competitiveness and flexibility. Further details regarding these policies are set out below:

Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations.

It is company policy, implemented locally, to assess the credit risk of new customers before entering into supply agreements. Each new customer is analysed individually for creditworthiness before the Group's standard payment and delivery terms and conditions are offered. Purchase limits are established for each customer, which represents the maximum open amount without requiring approval.

Further disclosures regarding trade and other receivables, which are neither past due nor impaired, are provided in note 14.

Fair value and cash flow interest rate risk

The Group has no borrowings and therefore no exposure to cash flow interest rate risk. None of the financial instruments are at fair value.

Foreign exchange risk

Foreign exchange risk arises when the Group enters into transactions denominated in a currency other than its functional currency.

The Group is predominantly exposed to currency risk on purchases made from suppliers based outside of the UK and the US. There are currently no specific measures in place to mitigate this risk other than keen price negotiation by the Group's very experienced procurement team.

Liquidity risk

Liquidity risk arises from the Group's management of working capital. It is the risk that the Group will encounter difficulty in meeting its financial obligations as they fall due.

The Board receives information regarding cash balances on a monthly basis. Three year cash forecasts are prepared and reviewed at a six monthly interval from which capital injections were duly secured in January 2017, April 2017, June 2017, October 2017, December 2017, February 208 and April 2018.

4 Analysis of turnover

Analysis by country of destination:	2017 £'000	2016 £'000
United Kingdom	-	-
Rest of Europe	-	-
United States and Canada	2,281	1,922
Rest of the world	14	50
Total	**2,295**	1,972

5 Operating loss

Operating loss is stated after charging/(crediting):	2017 £'000	2016 £'000
Fees payable to the company's auditor and its associates for the audit of the company's annual accounts	17	19
Fees payable to the company's auditor and its associates for other services to the Group:		
- The audit of the company's subsidiaries pursuant to legislation	62	89
- Taxation compliance services	10	10
- Financial accounts preparation	3	3
Unrealised net gain / (loss) on foreign currency translation	452	(207)
Depreciation of tangible fixed assets	1,029	1,657
Amortisation of intangible fixed assets	539	405
Impairment of investments	15,733	-
Research and development expenditure	3,380	4,868
Loss/(profit) on disposal of fixed assets	648	152
Foreign exchange gain	23	808

6 Employees

Staff costs consist of:	**2017 £'000**	**2016 £'000**
Wages and salaries	**11,322**	18,555
Social security costs	**864**	1,476
Cost of defined contribution scheme	**62**	283
	12,248	20,314

The average number of employees during the year was as follows:

	2017 Number	**2016 Number**
	166	294

The Group operates a defined contribution pension scheme for its employees in the US. The Group does not currently make any contributions to the scheme.

A defined contribution pension scheme is operated by the Group on behalf of the employees of one of the UK subsidiary undertakings. The assets of the scheme are held separately from those of the Group in an independently administered fund. The pension charge represents contributions payable by the Group to the fund and amounted to £62,091 (2016 - £282,530). Contributions amounting to £nil (2016 - £43,224) were payable to the fund at 31 December 2017.

7 Key management personnel compensation

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group, including the directors of the company listed in the Directors' Report on page 4.

The members of the Board are not entitled to any remuneration in their capacity as Directors.

	2017 £'000	**2016 £'000**
Salary	**2,000**	1,440
Consultancy fees	**-**	186
Other long-term benefits	**-**	14
Share based payment expense	**-**	1
	2,000	1,641

8 Taxation

UK corporation tax	2017 £'000	2016 £'000
Current tax on profits for the year	-	-
Adjustments in respect of prior periods R&D tax credit	**(821)**	(651)
Total current credit	**(821)**	(651)
Deferred taxation		
Movement in the period	-	-
Taxation credit on loss on ordinary activities	**(821)**	(651)
Continuing and discontinued operations:		
Income tax expense from continuing operations	-	-
Income tax credit from discontinued operation (Note 20)	**(821)**	(651)
	(821)	(651)

The actual tax charge for the current and preceding period differs from that resulting from applying the standard rate of corporation tax in the UK of 19.25% (2016 - 20%) for the reasons set out in the following reconciliation:

	2017 £'000	2016 £'000
Loss for the financial year	**(35,267)**	(38,858)
Income tax credit on discontinued operation	**(821)**	(651)
Loss before tax	**(36,088)**	(39,509)
Tax on loss on ordinary activities at standard rate (19.25%)	**(6,947)**	(7,902)
Add tax effect of:		
Expenses not deductible for tax purposes	**3,115**	4,359
Income not taxable for tax purposes	**(465)**	-
Other Movements	**(4,449)**	(5,666)
Deferred tax not recognised	**5,488**	9,209
Research and development credit	-	(651)
Losses forfeited	**2,437**	-
Taxation on profit ordinary activities	**(821)**	(651)

8 Taxation (continued)

Deferred Tax

A deferred tax asset has not been recognised in respect of timing differences relating to excess tax losses carried forward and capital allowances in excess of depreciation, as there is insufficient evidence that the asset would be recoverable. The amount of untilised tax losses in Compound Photonics US is $207,681,376 (2016: $174,575,626). The deferred tax asset that is not recognised in relation to the UK entities, Compound Photonics Group Limited, Compound Photonics Limited and Compound Photonics UK Limited is £3,164,436 (2016 – £2,913,270). These assets would be recoverable if sufficient taxable profits are made in the future.

9 Parent company loss for the year

The company has taken advantage of the exemption allowed under section 408 of the Companies Act 2006 and has not presented its own statement of comprehensive income in these financial statements. The Group loss for the year includes a loss of £117,161,962 (2016 – loss of £93,656,496), the results for the year include an exceptional intercompany provision of £88,825,826 (2016 – £102,194,143) which is dealt with in the financial statements of the parent company.

10 Intangible assets

Group	**Goodwill £'000**	**Technology & customer related £'000**	**Patents & intellectual property £'000**	**Total £'000**
Cost or valuation				
At 1 January 2017	762	2,329	1,756	4,847
Additions	-	-	350	350
Foreign exchange rate movement	(65)	(199)	-	(264)
At 31 December 2017	**697**	**2,130**	**2,106**	**4,933**
Amortisation				
At 1 January 2017	-	1,099	764	1,863
Charge for the year	-	181	358	539
Foreign exchange rate movement	-	(95)	-	(95)
At 31 December 2017	-	**1,185**	**1,122**	**2,307**
Carrying amount				
At 31 December 2017	**697**	**945**	**984**	**2,626**
At 31 December 2016	762	1,230	992	2,984

10 Intangible assets *(continued)*

The carrying amount of goodwill is allocated to cash generating units ("CGUs") as follows:

	2017 £'000	2016 £'000
Compound Photonics U.S. Corporation – laser manufacturing Wisconsin	**697**	762

The recoverable amounts of the above CGU has been determined based on the discounted cashflow method and market approach. The recoverable amount of the CGU that holds the Group's goodwill balance is $6,974,980 which exceeds its carrying amount of $3,997,656.

Company	**Patents & intellectual property £'000**
Cost or valuation	
At 1 January 2017	902
Additions	351
At 31 December 2017	**1,253**
Amortisation	
At 1 January 2017	252
Charge for the year	302
At 31 December 2017	**554**
Carrying amount	
At 31 December 2017	**699**
At 31 December 2016	650

11 Property, plant and equipment

Group	Manufacturing plant & equipment £'000	Computer and office equipment, furniture and fixtures £'000	Total £'000
Cost or valuation			
At 1 January 2017	10,958	3,565	14,523
Additions	1,830	190	2,020
Disposals	(2,363)	-	(2,363)
FX Exchange	(1,355)	(305)	(1,660)
At 31 December 2017	**9,070**	**3,450**	**12,520**
Depreciation			
At 1 January 2017	3,389	1,448	4,837
Charge for the year	410	641	1,051
Disposals	(882)	-	(882)
FX Exchange	(285)	(127)	(412)
At 31 December 2017	**2,632**	**1,962**	**4,594**
Carrying amount			
At 31 December 2017	**6,375**	**1,551**	**7,926**
At 31 December 2016 restated	7,569	2,117	9,686

The Group does not lease any vehicles or machinery under non-cancellable finance lease agreements.

12 Fixed asset investments

Company	**£'000**
Cost	
At 1 January 2017	6,504
Additions	15,733
At 31 December 2017	22,237
Impairment provision	
At 1 January 2017	6,504
Provision in the year	15,733
At 31 December 2017	22,237
Net book value at 31 December 2017	-
Net book value at 31 December 2016	-

The company owns 100% of the share capital of the following UK subsidiaries:

	Class of share held	**Number of shares held**	**Nature of business**
Compound Photonics Limited	Ordinary £0.001	3,149,910	Research and development
Compound Photonics UK Limited	Ordinary £1.00	1	Research, development and semiconductor manufacturing

The company also indirectly owns 100% of the share capital of Compound Photonics U.S. Corporation, a company incorporated in the US. The registered address of the UK subsidiaries is the same as listed on the contents page. The registered address of Compound Photonics U.S. Corporâtion is 1110 N52nd Street, Phoenix, AZ 85008.

The company owns 3.5% (2016: nil %) of the share capital of the following US entity:

	Class of share held	**Number of shares held**	**Nature of business**
Kaiam Corp.	Series F preferred stock	1,648,786	Development, manufacturing and marketing of optical components

The investment in Kaiam Corp. was acquired during the year. £8 million was acquired as consideration for the sale of the Newton Aycliffe plant (refer to note 20) while the remainder was invested as cash during the year.

13 Stocks

	Group 2017 £'000	Group 2016 £'000	Company 2017 £'000	Company 2016 £'000
Raw materials	**381**	546	-	-
Work in progress	**43**	52	-	-
Finished goods	**24**	28	-	-
Stock provision	**(62)**	(61)	-	-
	386	565	-	-

14 Debtors

	Group 2017 £'000	Group 2016 £'000	Company 2017 £'000	Company 2016 £'000
Trade receivables	**101**	602	-	-
Prepayments	**199**	411	**4**	3
Receivables from related parties	-	-	-	79,277
Other receivables	**1,945**	2,180	**13**	147
	2,245	3,193	**17**	79,427

Included within trade receivables is an impairment provision of £136,669 (2016 - £149,454). There is an intercompany provision in the company included within receivables from related parties of £199,652,864 (2016 – £102,194,143).

Fair value of current trade and other receivables

The carrying amount of short term (less than 12 months) trade and other receivables approximates their fair values.

15 Creditors: amounts falling due within one year

	Group 2017 £'000	Group 2016 £'000	Company 2017 £'000	Company 2016 £'000
Trade payables	**715**	1,962	**35**	650
Amounts due to related parties	**-**	3,486	**101**	3,486
Social security and other taxes	**196**	404	**-**	-
Deferred rent	**-**	427	**-**	-
Accrued expenses	**834**	1,252	**52**	32
Other payables	**70**	372	**-**	-
	1,815	7,903	**188**	4,168

Fair value of current trade and other payables

The carrying amount of short term (less than 12 months) trade and other payables approximates their fair values.

16 Creditors: amounts falling due after one year

	Group 2017 £'000	Group 2016 £'000	Company 2017 £'000	Company 2016 £'000
Deferred rent	**12**	23	**-**	-
	12	23	**-**	-

17 Share capital

	2017 £'000	2017 Number	2016 £'000	2016 Number
Allotted, called up and fully paid				
Ordinary shares of £0.001 each	**79**	**79,207,853**	51	51,103,267
B Shares of £0.001 each	**-**	**15,000**	-	15,000
	79	**79,222,853**	51	51,118,267

18 Reserves

The following describes the nature and purpose of each reserve within equity:

Reserve	Description and purpose
Share capital	Nominal value of share capital subscribed for.
Share premium account	Amount subscribed for share capital in excess of nominal value.
Foreign exchange reserves	Gains/losses arising on retranslating the net assets of overseas operations into pounds sterling. This reserve is not distributable to shareholders.
Revaluation reserve	Gains/losses arising on the revaluation of the company's property (other than investment property). This reserve is not distributable to shareholders.
Merger reserve	Reserves at acquisition of subsidiary acquired in 2009. This reserve is not distributable to shareholders.
Retained earnings	All other net gains and losses, and transactions with owners (e.g. dividends) not recognised elsewhere.

19 Share based payment

Share options are granted to selected employees under an unapproved scheme. The exercise price of the granted options is equal to the estimated market price of the shares on the date of the grant. The options become exercisable (vest) 25% on the anniversary of the option grant date and 25% yearly on each anniversary for the following three years. If the options remain unexercised after a period of ten years from the date of grant, the options expire.

19 Share based payment *(continued)*

Movements in the number of share options outstanding and their related weighted average exercise prices are as follows:

	2017 Average exercise price in £ per share	2017 Number of options	2016 Average exercise price in £ per share	2016 Number of options
At 1 January	**3.00**	**712,060**	3.00	762,495
Granted during the year	**1.13**	**11,243,887**	-	-
Exercised during the year	-	-	-	-
Forfeited during the year	**2.51**	**(358,937)**	3.25	(10,973)
At 31 December	**1.20**	**11,597,010**	3.00	751,522
Exercisable at 31 December	**1.20**	**4,516,181**	2.97	712,060

The average remaining contractual lives of the options outstanding at the end of the period was 9.04 years (2016: 6.29 years). At the end of the year these outstanding share options had an exercise price of £1.13 (2016: £3.25).

The Group recognised total expenses of £nil relating to equity-settled share-based payments in 2017 (2016 – Nil).

20 Discontinued operations and assets held for sale

In light of the greater focus on components rather than manufacturing projection systems, the company undertook a review of its capabilities vs requirements, and in November 2016 determined that the high volume manufacturing capabilities of its Newton Aycliffe facility were not required; instead the Group would establish strategic relationships with external manufacturing organizations for its production requirements. In December 2016 the Group signed heads of terms with Kaiam Laser Limited for the sale of the associated trade and assets and this transaction was finalised in May 2017.

In the prior year as substantial progress towards the sale was made before the end of 2016, and the disposal was expected to be completed towards the end of the first half of 2017, the associated assets and liabilities were classified as held for sale in the consolidated statement of financial position. As the disposal of Newton Aycliffe constitutes a separate major line of business or geographical area of operation, it has been treated as a discontinued operation.

The following major classes of assets and liabilities relating to these operations have been classified as held for sale in the consolidated statement of financial position on 31 December:

	2017	**2016**
	£'000	**£'000**
Fixed assets	-	10,731
Stocks	-	588
Trade and other receivables	-	247
Impairment	-	(1,506)
Assets held for sale	-	**10,060**
Deferred grant income	-	(1,967)
Liabilities held for sale	-	**(1,967)**

An impairment gain of £623,805 (2016: loss of £1,506,000) on the measurement of the disposal group to fair value less cost to sell has been recognised and is included in the gain / (loss) for discontinuing operations.

Results of discontinued operations

	2017	**2016**
	£'000	**£'000**
Revenue	**2,162**	4,423
Cost of sales	**298**	(1,187)
Operating expenses	**(3,579)**	(14,431)
Other income	**151**	605
Tax (expense)/credit	**821**	651
Impairment loss on the measurement of the disposal Group	-	(1,506)
Gain on disposal of disposal Group	**624**	-
	477	(11,445)

21 Commitments under operating leases

The Group and the company had minimum lease payments under non-cancellable operating leases as set out below:

	Group 2017 £'000	Group 2016 £'000	Company 2017 £'000	Company 2016 £'000
Less than one year	**579**	2,296	-	-
One to five years	**38**	290	-	-
Greater than five years	-	-	-	-
Total	**617**	2,586	-	-

22 Related party transactions

Vollin Holdings Limited and Minden Limited each owned 48% of Compound Photonics Group Limited's Ordinary share capital at 31 December 2017 (2016 – 47%). The ultimate controlling party of the Group is Redrock Group Limited, a company registered in the British Virgin Islands.

Compound Photonics Group Limited is the most senior parent that produces consolidated financial statements available for public use. No other Group accounts are prepared in the UK for the UK entities in the Group.

The members of the Board are not entitled to any remuneration in their capacity as Directors.

23 Capital commitments

	Group 2017 £'000	Group 2016 £'000	Company 2017 £'000	Company 2016 £'000
Contracted but not provided for	-	-	-	-

24 Events after the reporting date

During January 2019 Kaiam Corp was placed under administration. Based on management's discussions with Kaiam management, Kaiam is likely to be liquidated and Compound Photonics Group Limited have therefore impaired their investment in this company.