

Registered Number 03986643

IQE Silicon Compounds Limited
Report and financial statements
for the year ended 31 December 2022

FRIDAY



ACA08014

A28

25/08/2023

#158

COMPANIES HOUSE

IQE Silicon Compounds Limited
Report and financial statements
for the year ended 31 December 2022

Contents

Directors and advisers for the year ended 31 December 2022	1
Strategic report for the year ended 31 December 2022	2
Directors' report for the year ended 31 December 2022	4
Profit and loss account for the year ended 31 December 2022	7
Balance sheet as at 31 December 2022.....	8
Statement of changes in equity for the year ended 31 December 2022	9
Notes to the financial statements for the year ended 31 December 2022	10

Directors and advisers for the year ended 31 December 2022

Directors

Mr T Pullen (resigned 7 June 2023)

Dr A W Nelson (resigned 10 January 2022)

Mr A Lemos (appointed 10 January 2022)

Mr N J Rummings (appointed 7 June 2023)

Secretary

Mr T A Dale

Registered Office

Beech House

Pascal Close

St Mellons

Cardiff

South Glamorgan

CF3 0LW

Bankers

HSBC Bank Plc

Strategic report for the year ended 31 December 2022

The directors present their strategic report for the company for the year ended 31 December 2022.

Review of the business

The principal activity of the company is the manufacture of compound semiconductor wafers or "epiwafer" using a process called epitaxy. The epitaxial growth process is a nanotechnology whereby complex atomic structures are produced under strictly controlled conditions to produce atomically engineered layers of crystalline materials that contain a variety of semiconductor materials. The epitaxial layers are grown onto a crystal substrate or wafer and the finished product containing the wafer and its atomically modified surface is known as an 'epiwafer'.

The company has focused on the manufacture of photonics epiwafer products that can be found in consumer, commercial and industrial applications that either emit or detect light and the manufacture of compound materials on silicon that combine the advanced properties of compound semiconductors with those of silicon. The Company's key photonics products include Vertical Cavity Surface Emitting Lasers ('VCSELs') which are a key sensing technology enabling facial recognition, gesture control, LiDAR and other sensing applications and silicon photonics products that have applications within data centres and optical sensing.

The Company is a market leader in the manufacture of VCSEL epiwafers, achieved by virtue of a combination of technology leadership and continued investment in research and development that is necessary in order to meet increasing market and customer demand for photonics epiwafer products. The Company's compound materials on silicon technology form part of a critical foundation in the rapidly emerging field of silicon photonics with the Company's technology development continuing to support the advancement of silicon photonics into high volume applications with customers.

Significant opportunities exist for continued growth in the photonics and compound materials on silicon marketplaces and the company continues to invest in research and development in order to take advantage of these new opportunities with its partners. The Directors remain positive about the company's prospects for 2023 and beyond.

Financial review

The Company reported revenue for the financial year of £36,197,000 (2021: £28,023,000) and made a profit for the financial year of £2,655,000 (2021: £3,801,000 loss).

The increase in revenues primarily reflects higher customer demand for VCSEL epiwafers used in 3D sensing applications. The increase in gross profit to £6,282,000 (2021: £3,133,000) reflects a combination of the increase in volume of VCSEL epiwafer sales and improvements in gross margin linked to an increase in the utilisation of certain assets at the Company's manufacturing site.

The decrease in administrative expenses to £2,223,000 (2021: £2,657,000) principally reflects a reduction in administrative depreciation charges. Other income primarily relates to research and development expenditure tax credits and rental income and cost recharges associated with sublet space at the company's manufacturing sites.

There is no tax charge in the current year as unrecognised tax losses have been recognised to offset current year taxable profit. The prior year tax charge of £3,239,000 consisted of a deferred tax charge of £3,239,000 which principally reflected the reversal and de-recognition of previously recognised tax losses. Deferred tax asset recognition has been restricted to reflect future forecast profitability, an assessment that takes account of current and forecast trading performance and the impact of controlled investment that is forecast in certain functions and activities to support business development and growth.

The profit generated for the financial year of £2,655,000 (2021: £3,801,000 loss) primarily reflects a combination of the increase in revenue, increase in gross profit and decrease in tax charge.

Strategic report for the year ended 31 December 2022

The company principally supplies materials for the high growth photonics marketplace. With the continued support of its ultimate parent company, the Directors' remain positive about the company's prospects and future financial performance.

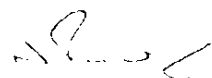
Key performance indicators

Given the nature of the business, the Company's directors are of the opinion that analysis using key performance indicators beyond the key financial metrics given above is not necessary for an understanding of the development, performance or position of the business.

Principal risks and uncertainties

From the perspective of the Company, the principal risks and uncertainties are integrated with the principal risks of the group. Accordingly, the principal risks and uncertainties of the IQE Plc Group, which include those of the Company, are discussed in the Strategic Report of the Group's annual report, which does not form part of this report.

By order of the Board



Mr N J Rummings
Director
30 June 2023

Directors' report for the year ended 31 December 2022

The directors present their report and the financial statements of the company for the year ended 31 December 2022.

Principal activities

The principal activity of the company is the manufacture of compound semiconductor wafers or "epiwafer" using a process called epitaxy.

Business review and future developments

The business review and future developments are set out in the strategic report on page 2.

Results and dividends

The profit for the financial year amounted to £2,655,000 (2021: £3,801,000 loss).

The directors do not recommend the payment of a dividend (2021: £nil).

Directors

The directors of the Company, who were in office during the year and up to the date of signing the financial statements unless otherwise stated, are set out on page 1.

Research and development

The company incurred costs in respect of research and development during the year of £3,915,000 (2021: £3,348,000). All research and development expenditure is charged to the profit and loss account in the period it is incurred.

Going concern

The Company made a profit of £2,655,000 (2021: £3,801,000 loss) and had a decrease in cash and cash equivalents of £4,637,000 (2021: £216,000 decrease) resulting in a bank overdraft at the year end of £4,588,000 (2021: £nil).

The following matters have been considered by the directors in determining the appropriateness of the going concern basis of preparation in the financial statements:

- The Company remains an integral part of the Group's operations and its trading has remained resilient throughout the year with revenues increasing to £36,197,000 (2021: £28,023,000) and profit for the year increasing to £2,655,000 (2021: £3,801,000 loss).
- The Company continues to receive the support of its ultimate parent company, IQE plc and the directors have received confirmation that IQE plc intends to support the Company for at least 12 months after these financial statements are approved.
- The IQE plc Group meets its day-to-day working capital and other cash requirements through its bank facilities and available cash. The Group's severe but plausible downside cash flow forecasts and projections show that the Group has adequate cash resources to continue operating for the foreseeable future following the refinancing of the Group's £28,688,000 (\$35,000,000) multi-currency revolving credit facility provided by HSBC Bank plc on 16 May 2023 and the successful £31,099,000 equity fund raise completed on 18 May 2023.

The directors have assessed the Group's funding requirements and after making enquiries, including consideration of the future prospects of the Company have a reasonable expectation that the Company will have adequate resources to continue operating for the foreseeable future with the continued support of IQE plc. The directors have received confirmation that IQE plc intends to support the Company for at least 12 months after these financial statements are approved and therefore the going concern basis has been adopted in preparing these financial statements.

Directors' report for the year ended 31 December 2022

Financial risk management

The Company's activities expose it to a number of financial risks including foreign exchange risk, credit risk and interest rate risk.

Treasury

The IQE group operates a central treasury function which acts in accordance with specific Board policies. Speculative transactions are not permitted.

Interest rate risk

The Group is financed with Group wide facilities therefore interest rate risk is managed on a Group wide basis. The risks associated with changes in interest rates is regularly reviewed by the Group and its exposure to interest rate risk, in particular the mix between fixed and floating rate facilities. The Board does not speculate on future changes in interest rates.

Currency risk - Cash flow risk

The Company's functional currency is Sterling.

The company has transactional exposure to US dollars. The Company's cash flows are affected by fluctuations in the rate of exchange between Sterling and the US dollar, and to a lesser extent, the Company also has exposures to other currencies including Yen and Euros.

The Group actively seeks to manage this where possible by establishing natural currency hedges, matching the currency of material purchases to the sales made in foreign currency on a group wide basis.

Where this is not possible the Company management team work in conjunction with the Group Treasury team to forecast the foreign currency exposures and monitor foreign currency rates as part of its ongoing evaluation of the cost versus benefit of using forward contracts to manage any residual foreign currency exposure. Any forward cover obtained would be purely for hedging purposes as speculative transactions are not permitted. The Company did not enter into any forward contracts during 2022.

Credit risk

Many of the Company's customers are part of large, multinational, high-tech organisations and the credit risk is therefore generally considered to be relatively low. Where the Company does perceive a credit risk, this is dealt with either by up-front payment prior to the shipment of goods or by other credit risk mitigation measures. As a result, the Company has historically had and continues to have a low level of payment default.

Directors' report for the year ended 31 December 2022

Statement of directors' responsibilities

The directors are responsible for preparing the strategic report, the director's 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 prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting standards, comprising Financial Reporting Standard 102 'The Financial Reporting Standard Applicable in the UK and Republic of Ireland' (FRS 102), 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 company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- 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.

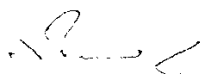
Qualifying third party indemnity provisions

The company has granted to the Directors of the company a deed of indemnity which constitutes a third-party indemnity provision for the purposes of the Companies Act 2006. In addition, the company has in place appropriate Directors and Officers liability insurance cover which has been in place for the entire year and at the date of approval of the financial statements.

Audit exemption

IQE Silicon Compounds Limited is exempt from the requirements to file audited accounts by virtue of section 479a of the Companies Act 2006. A statutory guarantee has been provided to IQE Silicon Compounds Limited by IQE plc the ultimate controlling party.

By order of the Board



Mr N J Rummings

Director
30 June 2023

Profit and loss account for the year ended 31 December 2022

	Note	2022 £'000	2021 £'000
Turnover	3	36,197	28,023
Cost of sales		(29,915)	(24,890)
Gross profit		6,282	3,133
Distribution costs		(174)	(135)
Administrative expenses		(2,223)	(2,657)
Other income		820	923
Operating profit	4	4,705	1,264
Interest payable and similar charges	7	(2,050)	(1,826)
Profit/(loss) on ordinary activities before taxation		2,655	(562)
Tax on profit/(loss) on ordinary activities	8	-	(3,239)
Profit/(loss) for the financial year	19	2,655	(3,801)
Total comprehensive income/(expense) for the year		2,655	(3,801)

All the results derive from continuing activities.

IQE Silicon Compounds Limited

Registered number: 03986643

Balance Sheet as at 31 December 2022

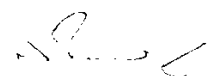
	Note	2022 £'000	2021 £'000
Fixed assets			
Intangible assets	9	122	147
Tangible assets	10	39,854	42,841
		39,976	42,988
Current Assets			
Stocks	12	5,909	3,843
Debtors	13	5,050	4,575
Cash at bank and in hand		-	79
		10,959	8,497
Creditors - amounts falling due within one year	14	(25,215)	(19,360)
Net current liabilities		(14,256)	(10,863)
Total assets less current liabilities		25,720	32,125
Creditors - amounts falling due after more than one year	15	(29,454)	(38,852)
Provisions for liabilities	17	(324)	-
Net liabilities		(4,058)	(6,727)
Capital and reserves			
Called up share capital	18	-	-
Other reserves		47	47
Profit and loss account	19	(4,105)	(6,774)
Total shareholder deficit		(4,058)	(6,727)

Subsidiary Audit Exemption

For the financial year in question the company was entitled to exemption under section 479a of the Companies Act 2006. No members have required the company to obtain an audit of its accounts for the year in question in accordance with section 476 of the Companies Act 2006.

The directors acknowledge their responsibility for complying with the requirements of the Companies Act 2006 with respect to accounting records and for the preparation of accounts.

The financial statements on pages 7 to 30 were approved by the board of directors on 30 June 2023 and were signed on its behalf by:

By order of the board

Mr N J Rummings
Director
30 June 2023

Statement of changes in equity for the year ended 31 December 2022

	Called up share capital £'000	Other reserves £'000	Profit and loss account £'000	Total £'000
Balance at 1 January 2022	-	47	(6,774)	(6,727)
Profit for the year	-	-	2,655	2,655
Credit relating to equity settled share based payments	-	-	14	14
Balance at 31 December 2022	-	47	(4,105)	(4,058)

	Called up share capital £'000	Other reserves £'000	Profit and loss account £'000	Total £'000
Balance at 1 January 2021	-	47	(3,066)	(3,019)
Loss for the year	-	-	(3,801)	(3,801)
Credit relating to equity settled share based payments	-	-	93	93
Balance at 31 December 2021	-	47	(6,774)	(6,727)

**Notes to the financial statements for the year ended 31
December 2022**

1 Accounting policies

General Information

IQE Silicon Compounds Limited researches, develops and manufactures advanced semiconductor materials and technology. The company manufactures in the UK and sells to customers based globally.

The company is a private company limited by shares and is incorporated and domiciled in England. The address of the registered office is Beech House, Pascal Close, St Mellons, Cardiff, CF3 0LW.

Statement of compliance

The individual financial statements of IQE Silicon Compounds Limited have been prepared in compliance with United Kingdom Accounting Standards, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland" (FRS102) and the Companies Act 2006.

Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless stated otherwise.

Basis of preparation

These financial statements are prepared on a going concern basis, under the historical cost convention as modified by the revaluation of certain financial assets and liabilities measured at fair value through profit and loss and in accordance with FRS 102 and the Companies Act 2006.

The preparation of financial statements in conformity with FRS 102 requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 2.

Going concern

The company meets its working capital requirements through a combination of cash generated from operations, bank loans and funding from its ultimate parent company, IQE plc.

The Group meets its day-to-day working capital and other cash requirements through its bank facilities and available cash. The Group's severe but plausible downside cash flow forecasts and projections show that the Group has adequate cash resources to continue operating for the foreseeable future following the refinancing of the Group's £28,688,000 (\$35,000,000) multi-currency revolving credit facility provided by HSBC Bank plc on 16 May 2023 and the successful £31,099,000 equity fund raise completed on 18 May 2023.

The directors have assessed the Group's funding requirements and after making enquiries, including consideration of the future prospects of the Company have a reasonable expectation that the Company will have adequate resources to continue operating for the foreseeable future with the continued support of the ultimate parent company, IQE plc. The directors have received confirmation that IQE plc intends to support the Company for at least 12 months after these financial statements are approved and therefore the going concern basis has been adopted in preparing these financial statements.

Notes to the financial statements for the year ended 31 December 2022 (continued)**1 Accounting policies****Exemptions for qualifying entities under FRS 102**

FRS 102 allows certain disclosure exemptions for qualifying entities. The company has taken advantage of available exemptions stated below as the information is contained in the consolidated financial statements of IQE plc as at 31 December 2022 which can be obtained from the Company Secretary at Pascal Close, Cardiff, CF3 0LW.

Cash Flows

The Company has taken advantage of the exemption, under FRS 102 paragraph 1.12(b), from preparing a statement of cash flows on the basis that it is a qualifying entity and its ultimate parent company, IQE plc includes the company's cash flows in its own consolidated financial statements.

Shares & Share Based Payments

The Company has taken advantage of the exemption, under paragraph 1.12(d), from certain share-based payment disclosures on the basis that it is a subsidiary of IQE plc and the share-based payments concern equity instruments of the group entity.

Financial Instruments

The Company has taken advantage of the exemption, under paragraph 1.12(c), from certain financial instrument disclosures on the basis that it is a qualifying entity and its ultimate parent company, IQE plc includes the financial instrument disclosures in its own consolidated financial statements.

Key Management Compensation

The Company has taken advantage of the exemption, under paragraph 1.12(e), from certain key management compensation disclosures on the basis that it is a subsidiary of IQE plc and IQE plc includes this information in its own consolidated financial statements.

Related Party Transactions

The Company has taken advantage of the exemption, under FRS 102 paragraph 33.1a from disclosing transactions with members of the same group that are wholly owned.

Turnover

Revenue is measured at the fair value of the consideration received or receivable and represents the amount receivable for goods supplied or services rendered, net of returns, discounts and rebates allowed by the company and value added taxes.

Where the consideration receivable in cash or cash equivalents is deferred, and the arrangement constitutes a financing transaction, the fair value of the consideration is measured as the present value of all future receipts using the imputed rate of interest.

Sale of Goods

The company recognises revenue when (a) the significant risks and rewards of ownership have been transferred to the buyer; (b) the company retains no continuing involvement or control over the goods; (c) the amount of revenue can be measured reliably; (d) it is probable that future economic benefits will flow to the entity and (e) when the specific criteria relating to each of the company's sales channels have been met.

The amount of revenue recognised is adjusted for expected returns, which are estimated based on historical data for each specific type of product, with a refund liability recognised as part of provisions. The Company reviews its estimate of expected returns at each reporting date and updates the amounts of any liability accordingly.

Notes to the financial statements for the year ended 31 December 2022 (continued)**1 Accounting policies****Research and development**

Research and development expenditure is charged to the profit and loss account in the period in which it is incurred.

Operating Leases

Leases that do not transfer all the risks and rewards of ownership are classified as operating leases. Costs in respect of operating leases are charged in arriving at operating profit on a straight-line basis over the lease term.

Employee benefits

The Company provides a range of benefits to employees, including annual bonus arrangements, paid holiday arrangements, defined contribution pension plans and share based payments.

- (i) Short term benefits – Short term benefits, including holiday pay and other similar non-monetary benefits, are recognised as an expense in the period in which the service is received.
- (ii) Bonuses - An expense is recognised in the profit and loss account if the criteria have been met to satisfy the payment of a bonus as a result of past events and a reliable estimate of the obligation can be made.
- (iii) Defined contribution pension plans - The Company operates a defined contribution pension scheme. A defined contribution plan is a pension plan under which the company pays fixed contributions into a separate entity. Contributions are charged to the profit and loss account as they become payable in accordance with the rules of the scheme.
- (iv) Share based payments - Under the IQE plc Share Option Scheme, the scheme participants are eligible for the grant of share options in the Ultimate Parent Company. These have vesting periods of 3 years and can be exercised within 10 years from the date of grant, subject to performance criteria relating to a combination of earnings per share, total shareholder return and the achievement of group wide strategic and personal objectives. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted which is calculated using the Black-Scholes option pricing model or a Monte-Carlo pricing model.

Taxation

Income tax on the profit or loss for the year comprises current and deferred tax.

Current tax is the expected tax payable on the taxable income for the year using rates substantially enacted at the balance sheet date, and any adjustments to tax payable in respect of prior years. Amounts receivable from tax authorities in relation to research and development ('R&D') tax relief claims under the research and development expenditure credit scheme ('RDEC') are recognised within operating profit. Where amounts are outstanding at the year end and have not been formally agreed, an appropriate estimate of the amount is included within other receivables.

**Notes to the financial statements for the year ended 31
December 2022 (continued)****1 Accounting policies****Taxation (continued)**

Deferred taxation is provided in full on timing differences that result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and law. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in the financial statements.

Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

Foreign currency translation

The Company's functional and presentational currency is GBP. Transactions in foreign currencies during the period are recorded in sterling at the rates of exchange ruling at the date of the transaction. Monetary assets and liabilities in foreign currencies are translated into sterling at the rates ruling at the balance sheet date. All exchange differences are taken to the profit and loss account.

Investments in Joint ventures and associates

Investment in Joint ventures and associates is held at cost less accumulated impairment losses.

Intangible fixed assets

Purchased intangible fixed assets are initially recognised at cost. After initial recognition, under the cost model, patent costs are measured at cost less any accumulated amortisation and any accumulated impairment losses.

Amortisation has been calculated so as to write down the cost of assets to their residual values over their estimated useful economic lives. The useful economic lives used are:

Patents	- 15 years
---------	------------

Amortisation is charged to administrative expenses in the profit and loss account.

Intangible fixed assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying value of the assets may not be recoverable. The directors also review the useful economic life of the assets on an annual basis.

Tangible fixed assets

Tangible fixed assets under the cost model are stated at historical cost less accumulated depreciation and provision for impairment. Cost includes the original purchase cost of the asset and the costs attributable to bringing the asset to its working condition for its intended use. Repairs and maintenance costs are expensed as incurred.

Depreciation has been calculated so as to write down the cost of assets to their residual values over their estimated useful economic lives, as follows:

Short leasehold improvements	- Over period of lease
Plant and machinery	- 5 to 15 years
Fixtures and fittings	- 3 to 5 years

Notes to the financial statements for the year ended 31 December 2022 (continued)**1 Accounting policies****Tangible fixed assets (continued)**

No depreciation is provided on assets in the course of construction. Assets residual values and useful lives are reviewed, and adjusted, if appropriate, at the end of each reporting period. The effect of any change is accounted for prospectively.

Tangible assets are derecognised on disposal or when no future economic benefits are expected. Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in administrative expenses in the profit and loss account.

Impairment of non-financial assets

At each balance sheet date non-financial assets not carried at fair value are assessed to determine whether there is an indication that the asset may be impaired. If there is such an indication the recoverable amount of the asset is compared to the carrying amount of the asset.

The recoverable amount of the asset is the higher of the fair value less costs to sell and value in use. Value in use is defined as the present value of the future cash flows before interest and tax obtainable as a result of the asset's continued use. These cash flows are discounted using a pre-tax discount rate that represents the current market risk-free rate and the risks inherent in the asset.

If the recoverable amount of the asset is estimated to be lower than the carrying amount, the carrying amount is reduced to its recoverable amount. An impairment loss is recognised in the profit and loss account, unless the asset has been revalued when the amount is recognised in other comprehensive income to the extent of any previously recognised revaluation. Thereafter any excess is recognised in profit or loss.

If an impairment loss is subsequently reversed, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but only to the extent that the revised carrying amount does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised in prior periods. A reversal of an impairment loss is recognised in the profit and loss account.

Stocks

Stocks are stated at the lower of cost and net realisable value. Cost includes all costs incurred in bringing each item to its present location and condition including:

- the purchase cost of direct materials on a first-in first-out basis;
- the cost of direct labour (for work in progress and finished goods); and
- the cost of attributable overheads based on normal level of activities.

Provision is made for obsolete and slow moving or defective items where appropriate.

Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities.

Provisions

Provisions are recognised when the company has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount of the obligation can be estimated reliably. Provisions are not made for future operating losses.

Notes to the financial statements for the year ended 31 December 2022 (continued)**1 Accounting policies****Provisions (continued)**

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as a finance cost.

Financial instrumentsFinancial assets

Basic financial assets, including trade and other receivables, amounts owed by group undertakings and associate and cash and bank balances are initially recognised at transaction price, unless the arrangement constitutes a financing transaction, where the transaction is measured at the present value of the future receipts discounted at a market rate of interest.

Such assets are subsequently carried at amortised cost using the effective interest method.

At the end of each reporting period financial assets measured at amortised cost are assessed for objective evidence of impairment. If an asset is impaired the impairment loss is the difference between the carrying amount and the present value of the estimated cash flows discounted at the asset's original effective interest rate. The impairment loss is recognised in profit or loss.

If there is a decrease in the impairment loss arising from an event occurring after the impairment was recognised, the impairment is reversed. The reversal is such that the current carrying amount does not exceed what the carrying amount would have been had the impairment not previously been recognised. The impairment reversal is recognised in profit or loss.

Financial assets are derecognised when (a) the contractual rights to the cash flows from the asset expire or are settled, or (b) substantially all the risks and rewards of the ownership of the asset are transferred to another party or (c) control of the asset has been transferred to another party who has the practical ability to unilaterally sell the asset to an unrelated third party without imposing additional restrictions.

Financial liabilities

Basic financial liabilities, including trade and other payables and loans from fellow group companies that are classified as debt, are initially recognised at transaction price, unless the arrangement constitutes a financing transaction, where the debt instrument is measured at the present value of the future receipts discounted at a market rate of interest.

Debt instruments are subsequently carried at amortised cost, using the effective interest rate method.

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities. Trade payables are recognised initially at transaction price and subsequently measured at amortised cost using the effective interest method.

Financial liabilities are derecognised when the liability is extinguished, that is when the contractual obligation is discharged, cancelled or expires.

Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new ordinary shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Notes to the financial statements for the year ended 31 December 2022 (continued)**2 Critical accounting judgements and estimation uncertainty**

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Critical judgements in applying the entity's accounting policies**Associated undertaking – Leased assets**

The Compound Semiconductor Centre Limited ('CSCL') was established on 9 July 2015 by the IQE Group and its joint venture partner, Cardiff University, as a centre of excellence for the development and commercialisation of advanced compound semiconductor wafer products in Europe.

The company owns a 17% equity stake in CSCL and treats this equity investment as a fixed asset investment.

As part of the initial formation of the CSCL IQE Group entered into an agreement with CSCL that has been extended in the current year and conveys to the company the right to use certain assets of CSCL for a minimum period up to 31 March 2024. This right to the use of CSCL assets has been treated as an operating lease in the application of the Company's accounting policies.

Costs associated with the right to use the assets of the CSCL are charged to the company at a mutually agreed price by the IQE Group and Cardiff University. The price reflects the company's right to use the assets and is variable based on the CSCL's cash cost of production (including direct labour, materials and other foundry costs).

Shared based payments

The company's employees have been granted share options by the ultimate parent company, IQE plc. The company makes use of the exemption in Section 26 of FRS 102 to account for the expense based on a reasonable allocation of the parent's total expense. The company has calculated its allocation of the parent company's total expense based on the number of participating employees in the company.

Critical accounting estimates and assumptions

The company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

Inventory provisioning

The company manufactures advanced semiconductor materials and is subject to changing demands in new technology. As a result, it is necessary to consider the recoverability of the cost of inventory and the associated provisioning required. When calculating the inventory provision, management considered the nature and the condition of the inventory, as well as applying assumptions around anticipated saleability of finished goods and future usage of raw materials. See note 12 for the net carrying amount of the inventory and associated provision.

Impairment of trade and other debtors

The company makes an estimate of the recoverable value of trade and other debtors. When assessing impairment of trade and other debtors, management considers factors including the current credit rating of the debtor, the age profile of debtor balances and historical collection experience. See note 13 for the net carrying amount of trade and other debtors and associated provision.

**Notes to the financial statements for the year ended 31
December 2022 (continued)****2 Critical accounting judgements and estimation uncertainty**Impairment of preference share debt

The company classifies its preference share financial assets due from its associated undertaking, CSCL, as debt instruments. The nominal value of the preference share debt is £338,000 (2021: £338,000) and the carrying value is £nil (2021: £nil) following prior period impairment charges.

When measuring impairment on the preference share debt due from CSCL the company uses reasonable and supportable forward-looking information, which is primarily based on assumptions about forecast future financial performance of CSCL.

The company recognises impairment when there has been a significant increase in credit risk associated with the debt instrument since initial recognition. The Company has assessed, based on its joint venture's latest forecast, that the preference share debt is no longer likely to be recovered in a reasonable period such that the credit risk has increased to the extent that default is probable. In making this assessment, qualitative and quantitative reasonable and supportable forward-looking information associated with the forecast future financial performance and cash generation of CSCL has been used.

Deferred tax asset recognition

Deferred tax assets are only recognised to the extent that it is probable that future taxable profits will be available against which deductible temporary differences can be utilised. This necessitates an assessment of future trading forecasts, capital expenditure and the utilisation of tax losses.

Deferred tax assets are recognised for tax losses carried forward to the extent that the realisation of the related tax benefit through future taxable profits from the same trade is probable. The Company assesses future forecast taxable profit as probable by reference to its five-year plan. Any potential deferred tax asset assessed by reference to the level of future forecast taxable profit over this five-year period has, in the current and prior year, been restricted to the extent of taxable temporary differences due to the Company's current financial performance and recent history of taxable losses.

The Company did not recognise deferred income tax assets of £4,222,000 (2021: £4,782,000 recognised) in respect of losses amounting to £16,890,000 (2021: £19,128,000) that can be carried forward against future taxable income. The deferred tax asset can be recognised if sufficient profits from the same trade arise in future periods.

**Notes to the financial statements for the year ended 31
December 2022 (continued)****3 Turnover**

Analysis of the company's turnover by geographical destination is given below:

	2022	2021
	£'000	£'000
Europe	3,280	2,392
North America	534	932
Asia	32,383	24,699
	36,197	28,023
<hr/>		
	2022	2021
	£'000	£'000
Sale of goods	36,197	28,023

Amounts relate to the geographical destination of the end customer. Of the amount above £33,687,000 (2021: £25,627,000) was sold through fellow group companies.

Notes to the financial statements for the year ended 31 December 2022 (continued)

4 Operating profit

Operating profit is after charging	2022 £'000	2021 £'000
Wages and salaries	4,888	4,081
Social security costs	567	478
Other pension costs	410	323
Shared options costs	14	93
Staff Costs	5,879	4,975
Amortisation of intangible fixed assets	25	25
Depreciation of tangible fixed assets	3,443	3,535
Inventory recognised as an expense	9,943	7,980
Operating lease rentals		
~ Plant and equipment	1,967	1,594
~ Land and buildings	3,102	2,758
Foreign exchange losses	39	9

Staff costs include costs recharged from CSCL for staff who are contracted to CSCL and are recharged as part of the company's contractual right to use the assets of CSCL (see note 2). Staff costs also include costs recharged from fellow group companies.

Notes to the financial statements for the year ended 31 December 2022 (continued)**5 Employees**

The average monthly number of employees during the year was 79 (2021: 73), and was split as follows:

	2022	2021
	No	No
Production	62	58
Selling and distribution	4	3
Administration	13	12
	79	73

6 Directors emoluments

The directors of the company hold their employment contracts with other group companies. The emoluments of the directors are disclosed in the financial statements of IQE plc. No recharge is made for their emoluments as it is not possible to apportion emoluments across the various group companies.

7 Interest payable and similar charges

	2022	2021
	£'000	£'000
Intercompany loans	1,588	1,436
Bank loans and charges	462	390
	2,050	1,826

Notes to the financial statements for the year ended 31 December 2022 (continued)

8 Tax on loss on ordinary activities

	2022 £'000	2021 £'000
Current tax charge	-	-
Deferred tax charge	-	3,239
Total tax charge	-	3,239

The tax assessed for the year is lower (2021: higher) than the standard rate of corporation tax in the UK of 19.00% (2021: 19.00%) and is explained below:

	2022 £'000	2021 £'000
Profit/(loss) on ordinary activities before taxation	2,655	(562)
Tax on profit/(loss) on ordinary activities before taxation at 19.00% (2021: 19.00%)	504	(107)
Effects of:		
Expenses not deductible for tax purposes	16	(12)
Impact on deferred tax as a result of changes in tax rates	156	(1,148)
Impact of unrecognised deferred tax assets	(588)	4,782
Adjustments in respect of prior years	(88)	(276)
Total tax charge for the year	-	3,239

Notes to the financial statements for the year ended 31 December 2022 (continued)

8 Tax on loss on ordinary activities (continued)

Deferred tax asset	2022 £'000	2021 £'000
At 1 January	-	3,239
Tax charge recognised in the year	-	(3,239)
At 31 December	-	-

Deferred tax asset recognition has been restricted to reflect future forecast profitability, an assessment that takes account of current and forecast trading performance and the impact of controlled investment that is forecast in certain functions and activities to support business development and growth. As a result, lower utilisation of deferred tax assets is projected which has restricted the ability to recognise deferred tax assets for historical tax losses.

Deferred tax is measured at the tax rates that are expected to apply in the period when the asset is realised or the liability is settled, based on tax rates and tax laws that have been substantively enacted at the balance sheet date.

The Company did not recognise deferred tax assets of £4,222,000 (2021: £4,782,000 recognised) in respect of losses amounting to £16,890,000 (2021: £19,128,000) that can be carried forward against future taxable income. The deferred tax asset can be recognised if sufficient profits from the same trade arise in future periods.

Finance Act 2021, which was substantively enacted on 24 May 2021, included legislation to increase the rate of corporation tax to 25% from 1 April 2023. In the Autumn Statement in November 2022, the UK government confirmed that the increase in corporation tax rate to 25% from 1 April 2023 will go ahead. Accordingly, any closing deferred tax assets in the financial statements have been recognised in accordance with the rate enacted as part of the Finance Act 2021 with any timing differences expected to reverse on or after 1 April 2023 recognised at a corporation tax rate of 25%.

Notes to the financial statements for the year ended 31 December 2022 (continued)

9 Intangible fixed assets

	Patents
	£'000
Cost	
At 1 January 2022	307
Additions	-
At 31 December 2022	307
Accumulated amortisation and impairment	
At 1 January 2022	160
Charge for the year	25
At 31 December 2022	185
Net book value	
At 31 December 2022	122
At 31 December 2021	147

IQE Silicon Compounds Limited

Registered number: 03986643

Notes to the financial statements for the year ended 31 December 2022 (continued)

10 Tangible fixed assets

	Short leasehold improvements	Plant and machinery	Fixtures and fittings	Total
	£'000	£'000	£'000	£'000
Cost				
At 1 January 2022	17,182	39,455	1,011	57,648
Additions	26	188	242	456
Disposals	-	-	-	-
At 31 December 2022	17,208	39,643	1,253	58,104
Accumulated depreciation and impairment				
At 1 January 2022	7,801	6,195	811	14,807
Charge for the year	762	2,592	89	3,443
Disposals	-	-	-	-
At 31 December 2022	8,563	8,787	900	18,250
Net book value				
At 31 December 2022	8,645	30,856	353	39,854
At 31 December 2021	9,381	33,260	200	42,841

11 Fixed asset investments

The company owns a 17% equity interest in the ordinary share capital of Compound Semiconductor Centre Limited, a company incorporated in the United Kingdom whose principal activity is the research, development and manufacture of epitaxial wafers. The registered address of CSCL is C/O Berry Smith LLP, Haywood House, Dumfries Place, Cardiff, Wales, CF10 3GA. The cost of investment in CSCL was £4,040,000 and has been fully provided at 31 December 2022 and 31 December 2021.

**Notes to the financial statements for the year ended 31
December 2022 (continued)****12 Stocks**

	2022	2021
	£'000	£'000
Raw materials	4,006	3,459
Work in progress	5	230
Finished goods	1,898	154
	5,909	3,843

Inventories are stated after provisions for impairment of £1,495,000 (2021: £972,000).

13 Debtors

	2022	2021
	£'000	£'000
Trade debtors	882	324
Amounts owed by group companies	2,947	2,183
Other debtors	836	1,540
Prepayments and accrued income	385	528
	5,050	4,575

Included within amounts stated above are the following amounts falling due after more than one year:

	2022	2021
	£'000	£'000
Other debtors	48	58
Preference Shares	-	-
	48	58

The preference share debt with a nominal value of £338,000 (2021: £338,000) and a carrying value of £nil (2021: £nil) falls due after more than one year and is stated after provision for impairment.

Amounts due from group undertakings are unsecured, interest free and carry no fixed term of repayment.

Trade debtors are stated after provisions for impairment of £nil (2021: £nil).

Notes to the financial statements for the year ended 31 December 2022 (continued)**14 Creditors – Amounts falling due within one year**

	2022	2021
	£'000	£'000
Bank overdrafts	4,558	-
Bank loans	6,254	6,252
Trade creditors	2,442	1,311
Amounts owed to group undertakings	965	1,424
Taxation and social security	130	98
Other creditors	88	82
Accruals and deferred income	10,778	10,193
	25,215	19,360

Amounts due to group undertakings are unsecured, interest free and carry no fixed term of repayment.

15 Creditors – Amounts falling due after more than one year

	2022	2021
	£'000	£'000
Loan due to parent Company	25,329	28,502
Bank loan	4,125	10,350
	29,454	38,852

The loan from parent Company does not fall due for repayment within one year and has no specified repayment date beyond this period. The loan is unsecured and bears interest at 5%.

On the 29 August 2019 the company agreed a new £30,000,000 Asset Finance facility provided by HSBC Bank Plc that is secured over various plant and machinery. The facility has a five-year term and an interest rate margin of 1.65% per annum over the base rate on any drawn balances.

**Notes to the financial statements for the year ended 31
December 2022 (continued)**
**15 Creditors – Amounts falling due after more than one year
(continued)**

Bank loan balance can be analysed as follows:

	2022	2021
	£'000	£'000
Payments due		
Not later than one year	6,254	6,252
Later than one year not later than five years	4,125	10,350
	10,379	16,602

16 Financial instruments

	2022	2021
	£'000	£'000
Financial assets:		
Finance assets measured at amortised cost	4,665	4,126
Financial liabilities:		
Financial liabilities measured at amortised cost	54,539	58,114

Financial assets measured at amortised cost comprise cash at bank and in hand, trade debtors, amounts owed by group undertakings, preference shares held in associate and other debtors.

Financial liabilities measured at amortised cost comprise trade creditors, amounts owed to group undertakings, bank overdrafts, bank loans, other creditors and accruals and deferred income.

Notes to the financial statements for the year ended 31 December 2022 (continued)

17 Provisions

	Warranty provision	Total
	£'000	£'000
At 1 January 2022	-	-
Charged to profit and loss account	(131)	(131)
Transfer	455	455
At 31 December 2022	324	324

The provision transfer relates to the reclassification of warranty provisions from trade debtors to provisions within the year.

The warranty provision relates to the costs of expected customer returns which are estimated based on historical data for each specific type of product. The warranty provision is expected to be utilised over a period up to 30 June 2023.

18 Called up share capital

	2022	2021
	£	£
Authorised		
100,000 (2021: 100,000) ordinary shares of £1 each	100,000	100,000
Allotted, called-up and fully paid		
2 (2021: 2) ordinary shares of £1 each	2	2

19 Profit and loss account

	2022	2021
	£'000	£'000
At 1 January	(6,774)	(3,066)
Profit/(loss) for the financial year	2,655	(3,801)
Share based payment costs transferred to other reserves	14	93
At 31 December	(4,105)	(6,774)

Notes to the financial statements for the year ended 31 December 2022 (continued)**20 Operating lease commitments**

	2022	2021
	£'000	£'000
Payments due		
Not later than one year	6,646	4,904
Later than one year not later than five	18,555	17,994
Due after five years	2,456	7,297
	27,657	30,195

21 Contingencies

The company is a party to a cross guarantee with other group companies to guarantee the group indebtedness to the Group's primary bankers. This guarantee is supported by a fixed and floating charge over the assets and undertakings of the company.

22 Share based payments

Certain employees of the company along with other group employees have been granted long term incentive awards and options over the shares in IQE plc.

Long Term Incentive Awards

Long-term incentive awards become exercisable between three and ten years from the date of grant subject to continued employment and the achievement of performance conditions relating to a combination of earnings per share, total shareholder return targets and the achievement of group wide strategic and personal objectives over a three-year vesting period that cannot be extended. The Group has no legal or constructive obligation to repurchase or settle the options in cash.

Share Options

Share options are granted with a contractual life of ten years with a fixed exercise price equal to the market value of the shares under option at the date of grant. Options become exercisable between one and ten years from the date of grant subject to continued employment and the achievement of performance conditions, including growth in earnings per share.

The company recognises an equity-settled share-based payment expense based on a reasonable allocation of the total charge for the group in respect of long-term incentive and share option awards. This allocation is the total charge for the group prorated for the number of participating employees of the company.

Notes to the financial statements for the year ended 31 December 2022 (continued)**23 Related Party Transactions**

Compound Semiconductor Centre Limited (CSCL) was established by the IQE plc group and its joint venture partner as a centre of excellence for the development and commercialisation of advanced compound semiconductor wafer products in Europe. On its formation the IQE plc group contributed assets to the joint venture valued at £12,000,000, transferred employees and licensed intellectual property to establish the CSCL's manufacturing and technical capability whilst at the same time entering into an agreement with CSCL that conveys to the Company the right to use the assets of the CSCL for a minimum five-year period following formation of the joint venture (see note 2). Cardiff University contributed cash.

The commercial purpose of the CSCL is the research, development and manufacture by MOCVD of advanced compound semiconductor materials in Europe. The business was set-up by the joint venture partners to provide a bridge between early stage research and high-volume manufacturing and was established in a manner to provide the CSCL with the capability to deliver specialist compound semiconductor product development, prototyping and early stage manufacturing services to academic and industrial customers from its own compound semiconductor foundry.

CSCL operates from its manufacturing facilities in Cardiff, United Kingdom and procures certain administrative support services from the IQE plc group. As part of the administrative support services provided to CSCL the Company procured goods and services, recharged to CSCL at cost, totalling £1,208,000 (2021: £981,000).

As part of the initial formation of the CSCL IQE Group entered into an agreement with CSCL that has been extended in the current year and conveys to the company the right to use certain assets of CSCL for a minimum period up to 31 March 2023. Costs associated with the right to use the CSCL's assets are treated by the Company as operating lease costs (see note 2) and are charged by the CSCL at a price which reflects the CSCL's cash cost of production (including direct labour, materials and site costs) but excludes any related depreciation or amortisation of the CSCL's property, plant and equipment and intangible assets. Costs associated with the right to use the CSCL's assets totalled £1,967,000 (2021: £1,594,000) in the year.

At 31 December 2022 an amount of £37,000 (2021: £203,000 owed from) was owed to the CSCL.

In the Company's year-end balance sheet 'A' Preference Shares with a nominal value of £338,000 (2021: £338,000) are included in financial assets at an amortised cost of £nil (2021: £nil).

24 Pension commitments

The Company operates a defined contribution pension scheme covering all of its employees, but excluding non-executive directors. Contributions of £410,000 (2021: £323,000) were charged to the profit and loss account in the year in which they were payable. The balance owed to the pension providers at 31 December 2022 is £nil (2021: £nil). All commitments under the pension scheme in respect of the employer's contributions have been met during the year.

25 Parent company and ultimate controlling party

The ultimate parent company and controlling party is IQE Plc, whose consolidated financial statements are available from the Company Secretary, Pascal Close, St Mellons, Cardiff, CF3 0LW. This is the smallest and largest group in which the results of the Company are included.

IQE Plc is incorporated in England and Wales.