

**M SQUARED LASERS LIMITED**

**ANNUAL REPORT AND FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 28 FEBRUARY 2023**

## M SQUARED LASERS LIMITED

### COMPANY INFORMATION

**Directors**

Dr Graeme Malcolm  
Dr Gareth Maker  
Angus Morrison  
Stuart Malcolm  
Dr John Nicholls (resigned 1 December 2022)

**Company secretary**

Stuart Malcolm

**Registered number**

SC243330

**Registered office**

Venture Building  
1 Kelvin Campus, West of Scotland Science Park  
Maryhill Road  
Glasgow  
G20 0SP

**Independent auditor**

Anderson Anderson & Brown Audit LLP  
81 George Street  
Edinburgh  
EH2 3ES

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**GROUP STRATEGIC REPORT  
FOR THE YEAR ENDED 28 FEBRUARY 2023**

**Introduction**

M Squared Lasers Limited and subsidiaries ("Group") are private companies limited by shares incorporated in the United Kingdom (registered in Scotland), United States of America and Germany. The directors, in preparing this strategic report, have complied with s414C of the Companies Act 2006. This strategic report has been prepared for the Group as a whole and therefore gives greater emphasis to those matters which are significant to M Squared Lasers Limited and its subsidiary undertakings (see Note 14) when viewed as a whole.

**Principal Activities**

The Group focuses on the development and production of photonics and quantum technologies and it is on a mission to harness the power of light to change the world. The Group is innovation led and by harnessing its ability to produce the world's purest light it seeks to produce technology which will result in society leading innovation and address some of society's greatest challenges. The Group's technology has transformative, real world applications that can help global approaches to the climate emergency, greatly improve biomedical imaging, realise the next generation of semiconductors, and practically unlock the coming quantum age.

The Group continues to export in excess of 90% of its products and services overseas, including North America, Europe, China and Japan. The Group had an average of 68 employees in the financial year 2022/23 ("FY23"), and 100 employees in the prior year ("FY22"). The Group has its headquarters in Glasgow, Scotland, alongside offices in England, the USA and Germany.

**Business Review**

The Group's turnover for FY23 was £17.8m. In FY22 the Group recorded turnover of £22.9m. This was a very positive achievement given the continued challenges in global markets due to COVID, particularly its impact in China, and the indirect impact of the ongoing war in Ukraine on the Group's operational activities.

In Scotland, all Covid-19 related legal restrictions, including the wearing of face coverings, were removed in March 2022 and the majority of international travel restrictions were gradually lifted over the remainder of the calendar year. The Group experienced some recovery in customer activities, particularly in new order placement, however, the continued COVID restrictions in China, which applied until January 2023, had a negative impact on sales into that market and impacted our ability to source certain components.

The conflict in Ukraine, which began on 24 February 2022, when Russian military forces entered the country, has had a significant indirect negative impact on the Group's trading performance. In particular, the resultant increased activity in the defence sector restricted our ability to source certain components and required us to seek out alternative sources and to strategically increase inventory levels to safeguard production. The resurgence in defence sector activity caused by the conflict also resulted in the Group experiencing higher than normal staff attrition in certain areas and a general tightening in the labour market for certain skills extended the time taken to hire replacements.

The issues created by the extended Covid restrictions in China and the impacts of the Ukraine war contributed to a net £3.3m reduction in turnover generated from our core sales activities (e.g. to sectors other than the space sector), compared to FY22. In part as a strategic response to these challenges, but also recognising the opportunities created by the timing of various satellite programmes, the Group successfully expanded the level of its commercial activities in the space sector during FY23 and experienced strong growth in that sector. During FY23, the Group generated almost £5m of turnover from the space sector which was a more than three-fold increase by comparison to the previous year. Our activities in this sector are further discussed later in this review.

The Group experienced a £3.6m increase in the level of accrued income recorded on the 28 February 2023 balance sheet compared with the previous year end position, which was largely due to production backlogs caused by workforce gaps during the period.

In this report, the Group consolidation has been prepared and reported at the level of M Squared Lasers Limited. The consolidation of the ultimate parent company, M Squared Technologies Group Limited has also been prepared and reported separately, in the form of the M Squared Technologies Group Limited annual report and financial statements.

**GROUP STRATEGIC REPORT (CONTINUED)  
FOR THE YEAR ENDED 28 FEBRUARY 2023**

**Business Review (continued)**

In FY23, the Group's order book expanded across all business segments, establishing a favourable opening position in our core areas for FY24 and beyond. This growth positions us strategically to capitalise on developing markets such as semiconductors, metrology, life sciences, and notably in the groundbreaking field of quantum technology.

The Group's long-standing strategy of identifying and commercialising research and development (R&D) is well recognised. We maintain strong partnerships with key global technology companies and government entities, addressing significant technological and scientific challenges. A substantial portion of group resources is dedicated to R&D, both in existing and new product domains. This effort is spearheaded by our Innovation business unit, which not only bolsters the business but also generates cash flow through customer partnerships, engineering services, end-user support, and grant funding.

As a global leader in frontier science and deep technology, the Group continues to advance significantly in various core growth areas and further expands and develops its broad Intellectual Property (IP) portfolio.

Our current focus and growth areas include:

**Advancements in Quantum Technology:**

The Group has made notable progress in making quantum technology a practical reality. This advancement is supported by partnerships, such as with the UK and Scottish governments and the University of Strathclyde (Square project), to enhance quantum computing capabilities. Our efforts in 'ultra-cold matter' sensing, time-keeping, and quantum computing have positioned us as both a supplier and integrator in key global programmes. We continue to develop our expertise in quantum accelerometers, quantum gravimeters, and the optical lattice clock.

The Square project has advanced to state-of-the-art levels in neutral atom quantum computing, whilst our internal engineering and product development programme culminated in the launch of the Maxwell Neutral Atom Quantum Computing platform at the UK National Quantum Technologies Showcase in November 2022.

At the Showcase, we also demonstrated our Atom Interferometer Accelerometer system which was deployed in field trials during the year. The Group successfully secured orders for various 'Quantum Modules' and OEM sub-assemblies for commercial cold matter quantum computers, as emerging start-up companies in this field are increasingly adopting our laser platforms.

**Earth Observation for Climate Change, Pollution and Global Food Security missions in the Space Industry:**

The Group has solidified its role in supporting the crucial Earth observation segment of the space industry. The current year's activities focused on calibration systems to enable global CO2 emission measurement and sustainable agriculture. Our precision light sources, covering an unprecedented spectral range, are instrumental in mapping atmospheric pollution and climate change gases. These sources have also been expanded to other missions, with significant deliveries and developments achieved with leading customers in FY23 and FY22 now moving forward in the end user missions.

**Powering Advanced Manufacturing for Industry:**

FY23 witnessed the expansion of our precision light laser products into new manufacturing domains, including strong uptake in semiconductors and novel metrology applications. This expansion has enhanced the precision of manufacturing processes, improved yields, increased uptime, and reduced ownership costs, while also significantly lowering energy consumption and CO2 emissions often by many hundred-fold against previous generations of technology.

**GROUP STRATEGIC REPORT (CONTINUED)  
FOR THE YEAR ENDED 28 FEBRUARY 2023**

**Advancements in Biological Imaging & Healthcare:**

Our advanced imaging product lines have evolved to offer standard products to solve some of biological imaging's hardest problems and at higher resolution imaging performance, pushing the boundaries in life sciences, including neuroscience, cancer biology, organoid biology, human reproductive IVF processes and plant biology.

**Investment in Strategic Partnerships:**

The Group's investment in strategic partnerships is pivotal in this high-barrier field. Our track record in forming multifaceted partnerships, aligned with common objectives, has made us a preferred partner for numerous global 'blue chip' corporations as they prepare for a 'quantum-ready' future, or develop precision optical systems for advanced manufacturing processes or metrology. During the year the company was successful in achieving UK funding for Innovation Acceleration to allow more Quantum end-user activities in FY24 especially in the application of novel Quantum Computing use-cases.

**Financial Key Performance Indicators**

The Group tracks EBITDA as a primary financial KPI. EBITDA performance for FY23 was £5.1m (FY22 £5.5m), representing a 28% Return on Revenue (FY22: 32%) which is calculated by dividing EBITDA by Turnover. The Profit before Tax in FY23 was £1.9m (FY22: £2.6M).

EBITDA was calculated as follows:

	28 February 2023	28 February 2022
Operating Profit	2,004,621	2,723,476
Add back:		
Depreciation of tangible assets	163,710	164,092
Amortisation of intangible fixed assets	2,909,192	2,632,608
EBITDA	<u>5,077,523</u>	<u>5,520,176</u>

**Research and Development:** The Group's Innovation business unit continues to develop a number of new laser based photonic solutions, aimed at addressing global issues in the fields of physical, biological and chemical sciences. The progress made in development of certain innovation programs was such that the directors, in line with previous reporting periods, consider it appropriate to capitalise £1,411,828 (FY22: £1,746,843) of related expenditure as an intangible asset with amortisation in the year of £2,296,592 (FY22: £2,023,233).

**GROUP STRATEGIC REPORT (CONTINUED)  
FOR THE YEAR ENDED 28 FEBRUARY 2023**

**Principal Risks and Uncertainties**

**COVID-19**

The directors have given due consideration to the impact of the worldwide COVID-19 pandemic on future operations and the impact this has had since March 2020.

**Financial Exposure**

The Group's principal financial assets are cash balances, trade and other debtors. The Group's credit risk is primarily attributable to its trade debtors. The directors are of the opinion that the Group has no concentration of credit risk, with exposure spread over a large number of customers, many of whom are long established research institutions, government bodies and 'blue chip' organisations.

The directors retain overall responsibility for the Group's system of internal financial control, which is designed to give reasonable assurance against material financial misstatement or loss. Financial controls have been established which the directors believe enable them to meet their responsibility for the integrity and accuracy of the Group's accounting records.

The directors consider that the current global economic conditions create uncertainty, particularly over movements in exchange rates between GBP (the Group's reporting currency) and the principal currencies in which the Group trades globally, and the impact that could have on financial and trading performance.

**Interest Rate Risk**

The Group has a mix of borrowings (with interest rates which can be fixed or floating), providing a certain degree of interest rate risk mitigation. The directors regularly reviewed interest rates throughout the year to determine the optimum risk mitigation strategy.

**Credit Risk**

The Group monitors credit risk closely and considers that its current policies of credit checks meets its objectives of managing exposure to credit risk. All customers who wish to trade on credit terms are subject to credit verification procedures. Trade debtors are reviewed on a regular basis and provision is made for doubtful debts when necessary, although this is considered a rare occurrence.

**Liquidity Risk**

The Group manages its cash and borrowing requirements in order to minimise interest expense, whilst ensuring the Group has sufficient liquid resources to meet the operating needs of the business.

**Currency Risk**

The Group is exposed in its trading operations to the risk of changes in foreign currency exchange rates. The main currencies in which the Group operates are GBP, Euro and the US dollar. The Group considers that it has a natural hedge in that many of its key suppliers' invoice in the same currency as its main customers. However, this is reviewed on a regular basis and the use of foreign currency hedging would be considered if the directors concluded that foreign currency fluctuations could have a material impact.

**GROUP STRATEGIC REPORT (CONTINUED)  
FOR THE YEAR ENDED 28 FEBRUARY 2023**

**Future Developments**

The directors are satisfied with the Group's position at the end of the period and remain confident in the Group's continuing ability to generate growth and to access financial support from its shareholders.

The end-markets for the Group's products, particularly in the field of quantum technology, continue to be well funded by many national governments and the directors expect there to be scope for further growth in the business.

The Group intends to maintain its investments within the valuable R&D projects that have underpinned its growth so far.

The directors would like to record their thanks and appreciation to all members of staff for their ongoing support and commitment provided during the reporting period.

This report was approved by the board and signed on its behalf.

**Dr Graeme P A Malcolm OBE FREng FRSE FInstP**  
Director

Date: 27 November 2023

## **M SQUARED LASERS LIMITED**

### **DIRECTORS' REPORT FOR THE YEAR ENDED 28 FEBRUARY 2023**

The directors present their report and the financial statements for the year ended 28 February 2023.

#### **Results and dividends**

The profit for the year, after taxation, amounted to £1,151,225 (2022 - £1,568,125).

#### **Existence of branches outside the UK**

The Company has no branches, as defined in section 1046(3) of the Companies Act 2006, outside the UK other than its subsidiaries listed in Note 14.

#### **Post balance sheet events**

Recognising the significance of the combined effects of the impact of the Ukraine war and the extended lock down of the China market, coming soon after the Covid pandemic, the Directors entered discussions with the Parent Company's largest institutional shareholder, the Scottish National Investment Bank ('SNIB') to agree terms for subscription for additional equity investment in the Group. The details of the investment are as disclosed at Note 2.3.

#### **Going concern**

At the Balance sheet date the Group has net current liabilities of £2,987,716. Included within current liabilities are amounts owed to the immediate parent company of £8,567,397. The Directors have confirmed the continuing support of the parent company and that this balance will not be called up on to be repaid within the coming 12 month period.

The Group is funded by its shareholders, bank term loans, working capital facility and cash flow arising from its trading activities.

The directors have prepared detailed forecasts of Group profitability and cash flow incorporating appropriate downside sensitivities. These forecasts have been used to assess the adequacy of funding resources available within the Company's parent group. These forecasts show that there can be reasonable certainty that the Company and Group will have sufficient funding resources available to them throughout the assessment period and beyond. The following events are reflected in these forecasts and are relevant to the going concern assessment.

Subsequent to the year end, the Directors of M Squared Technologies Group Limited ('the Parent Company') entered discussions with the Parent Company's largest institutional shareholder, the Scottish National Investment Bank ('SNIB') to agree terms for subscription for additional equity investment in the overall Group. In consideration of a £7,720,576 investment made by SNIB received in two tranches on 4 September 2023 and 28 September 2023, the Parent Company issued shares to SNIB under a new class of A Preferred Ordinary Shares.

Concurrent with receipt of the first tranche, BGF Investments LP ('BGF') paid the Parent Company an amount of £284,459 in consideration for subscription of BGF Warrant Shares in accordance with the BGF Warrant Instrument which was issued on 13 November 2020.

The Parent Company financial statements disclose the amendments agreed between the company and its senior lenders to reprofile the term loan facilities. This amendment was agreed on 28 February 2023 and the amended repayment profile of the term loan is reflected in these financial statements.

Taking the above factors into account, the directors have made an informed judgement, at the time of approving the financial statements, that there is a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. As a result, the directors have continued to adopt the going concern basis of accounting in preparing the annual financial statements.

**DIRECTORS' REPORT (CONTINUED)  
FOR THE YEAR ENDED 28 FEBRUARY 2023**

**Directors**

The directors who served during the year were:

Dr Graeme Malcolm  
Dr Gareth Maker  
Angus Morrison  
Stuart Malcolm  
Dr John Nicholls (resigned 1 December 2022)

**Directors indemnities**

The Group has made qualifying third-party indemnity provisions for the benefit of its directors which were made during the year and remain in force at the date of this report.

**Disclosure of information to auditor**

Each of the persons who are directors at the time when this Directors' report is approved has confirmed that:

- so far as the director is aware, there is no relevant audit information of which the Company and the Group's auditor is unaware, and
- the director has taken all the steps that ought to have been taken as a director in order to be aware of any relevant audit information and to establish that the Company and the Group's auditor is aware of that information.

**Auditor**

Under section 487(2) of the Companies Act 2006, Anderson Anderson & Brown Audit LLP will be deemed to have been reappointed as auditor 28 days after these financial statements were sent to members or 28 days after the latest date prescribed for filing the accounts with the registrar, whichever is earlier.

This report was approved by the board and signed on its behalf.

**Dr Graeme P A Malcolm OBE FREng FRSE FInstP**  
Director

Date: 27 November 2023

**DIRECTORS' RESPONSIBILITIES STATEMENT  
FOR THE YEAR ENDED 28 FEBRUARY 2023**

The directors are responsible for preparing the Group strategic report, the Directors' report and the consolidated 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 applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland'. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and the Group and of the profit or loss of the Group for that period.

In preparing these financial statements, the directors are required to:

- select suitable accounting policies for the Group's financial statements and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group 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 the Group and to 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 the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF M SQUARED LASERS LIMITED**

**Opinion**

We have audited the financial statements of M Squared Lasers Limited (the 'parent Company') and its subsidiaries (the 'Group') for the year ended 28 February 2023, which comprise the Consolidated statement of comprehensive income, the Consolidated Balance Sheet, the Company Balance Sheet, the Consolidated Statement of Cash Flows, the Consolidated Statement of Changes in Equity, the Company Statement of Changes in Equity and the related notes, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' (United Kingdom Generally Accepted Accounting Practice).

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 28 February 2023 and of the Group's profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

**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 in accordance with the ethical requirements that are relevant to our audit of the financial statements in the United Kingdom, including the Financial Reporting Council's Ethical Standard and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

**Conclusions relating to going concern**

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

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

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF M SQUARED LASERS LIMITED (CONTINUED)**

**Other information**

The other information comprises the information included in the Annual Report other than the financial statements and our Auditor's report thereon. The directors are responsible for the other information contained within the Annual Report. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon. Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

**Opinion 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 Group strategic report and the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Group strategic report and the 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 Group strategic report or the Directors' 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
- 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.

**Responsibilities of directors**

As explained more fully in the Directors' responsibilities statement set out on page 8, 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.

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF M SQUARED LASERS LIMITED (CONTINUED)**

**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 Group financial statements

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

We obtained an understanding of the legal and regulatory frameworks within which the company operates, focusing on those laws and regulations that have a direct effect on the determination of material amounts and disclosures in the financial statements.

The laws and regulations we considered in this context were the Companies Act 2006 and Taxation legislation.

We identified the greatest risk of material impact on the financial statements from irregularities including fraud to be:

- Management override of controls to manipulate the company's key performance indicators to meet targets;
- Timing and completeness of revenue recognition;
- Management judgement applied in calculating provisions; and
- Compliance with relevant laws and regulations which directly impact the financial statements and those that the company needs to comply with for the purpose of trading.

Our audit procedures to respond to these risks included:

- Reviewed internal documentation and correspondence with regulators for evidence or irregularities;
- Testing the timing and completeness of revenue;
- Consideration of the assumptions applied whether the calculation of provision were appropriate;
- Testing of journal entries and other adjustments for appropriateness;
- Evaluating the business rationale of significant transactions outside the normal course of business;
- Enquiries of management about litigation and claims and inspection of relevant correspondence; and
- Reviewing legal and professional fees to identify indications of actual or potential litigation, claims and any non-compliance with laws and regulations.

Because of the inherent limitations of an audit, there is a risk that we will not detect all irregularities, including those leading to a material misstatement in the financial statements or non-compliance with regulation. This risk increases the more that compliance with a law or regulation is removed from the events and transactions reflected in the financial statements, as we will be less likely to become aware of instances of non-compliance. The risk is also greater regarding irregularities occurring due to fraud rather than error, as fraud involves intentional concealment, forgery, collusion, omission or misrepresentation.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our Auditor's report.

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF M SQUARED LASERS LIMITED (CONTINUED)**

**Use of our report**

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an Auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Stuart Rose (Senior statutory auditor)

for and on behalf of

**Anderson Anderson & Brown Audit LLP**

81 George Street  
Edinburgh  
EH2 3ES

27 November 2023

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME  
FOR THE YEAR ENDED 28 FEBRUARY 2023**

	Note	2023 £	2022 £
Turnover	4	17,835,465	17,359,014
Cost of sales		(7,978,566)	(6,997,467)
<b>Gross profit</b>		<u>9,856,899</u>	<u>10,361,547</u>
Administrative expenses		(9,730,327)	(9,468,745)
Other operating income	5	1,878,049	1,832,674
<b>Operating profit</b>	6	<u>2,004,621</u>	<u>2,725,476</u>
Interest payable and similar expenses	10	(138,373)	(166,081)
<b>Profit before tax</b>		<u>1,866,248</u>	<u>2,559,395</u>
Tax on profit	11	(715,023)	(991,270)
<b>Profit for the financial year</b>		<u><u>1,151,225</u></u>	<u><u>1,568,125</u></u>
<b>Other comprehensive income for the year</b>			
Exchange differences on retranslation of subsidiary undertakings		578	(21,803)
<b>Other comprehensive income for the year</b>		<u>578</u>	<u>(21,803)</u>
<b>Total comprehensive income for the year</b>		<u><u>1,151,803</u></u>	<u><u>1,546,322</u></u>
<b>Profit for the year attributable to:</b>			
Owners of the parent company		<u><u>1,151,225</u></u>	<u><u>1,568,125</u></u>

The notes on pages 21 to 44 form part of these financial statements.

**M SQUARED LASERS LIMITED**

REGISTERED NUMBER: SC243330

**CONSOLIDATED BALANCE SHEET  
AS AT 28 FEBRUARY 2023**

	Note	2023 £	2022 £
<b>Fixed assets</b>			
Intangible assets	12	11,079,174	11,918,473
Tangible assets	13	195,824	357,969
		<u>11,274,998</u>	<u>12,276,442</u>
<b>Current assets</b>			
Stocks	15	3,256,060	4,931,492
Debtors: amounts falling due within one year	16	12,120,640	9,246,713
Cash at bank and in hand	17	181,675	124,533
		<u>15,558,375</u>	<u>14,302,738</u>
Creditors: amounts falling due within one year	18	(18,546,091)	(19,134,904)
<b>Net current liabilities</b>		<u>(2,987,716)</u>	<u>(4,832,166)</u>
<b>Total assets less current liabilities</b>		<u>8,287,282</u>	<u>7,444,276</u>
Creditors: amounts falling due after more than one year	19	(1,368,880)	(2,395,548)
<b>Provisions for liabilities</b>			
Deferred tax	22	(2,087,269)	(1,369,398)
		<u>(2,087,269)</u>	<u>(1,369,398)</u>
<b>Net assets</b>		<u><u>4,831,133</u></u>	<u><u>3,679,330</u></u>
<b>Capital and reserves</b>			
Called up share capital	23	47,105	47,105
Share premium account		463,862	463,862
Foreign exchange reserve		(98,781)	(99,359)
Profit and loss account		4,418,947	3,267,722
		<u>4,831,133</u>	<u>3,679,330</u>

The financial statements were approved and authorised for issue by the board and were signed on its behalf by:

**Dr Graeme P A Malcolm OBE FREng FRSE FInstP**  
Director

Date: 27 November 2023

The notes on pages 21 to 44 form part of these financial statements.

**M SQUARED LASERS LIMITED**

REGISTERED NUMBER: SC243330

**COMPANY BALANCE SHEET  
AS AT 28 FEBRUARY 2023**

	Note	2023 £	2022 £
<b>Fixed assets</b>			
Intangible assets	12	10,165,192	10,845,894
Tangible assets	13	178,934	334,289
Investments	14	30,405	30,405
		<hr/>	<hr/>
		10,374,531	11,210,588
<b>Current assets</b>			
Stocks	15	3,085,995	4,638,286
Debtors: amounts falling due within one year	16	11,964,602	3,822,455
Cash at bank and in hand	17	30,894	17,509
		<hr/>	<hr/>
		15,081,491	8,478,250
Creditors: amounts falling due within one year	18	(15,060,547)	(11,967,058)
		<hr/>	<hr/>
<b>Net current assets/(liabilities)</b>		20,944	(3,488,808)
		<hr/>	<hr/>
<b>Total assets less current liabilities</b>		10,395,475	7,721,780
Creditors: amounts falling due after more than one year	19	(768,880)	(1,123,548)
<b>Provisions for liabilities</b>			
Deferred taxation	22	(2,087,269)	(1,369,398)
		<hr/>	<hr/>
		(2,087,269)	(1,369,398)
		<hr/>	<hr/>
<b>Net assets</b>		<u>7,539,326</u>	<u>5,228,834</u>
<b>Capital and reserves</b>			
Called up share capital	23	47,105	47,105
Share premium account		463,862	463,862
Foreign exchange reserve		537	537
Profit and loss account		7,027,822	4,717,330
		<hr/>	<hr/>
		<u>7,539,326</u>	<u>5,228,834</u>

**M SQUARED LASERS LIMITED**

**REGISTERED NUMBER: SC243330**

**COMPANY BALANCE SHEET (CONTINUED)  
AS AT 28 FEBRUARY 2023**

The financial statements were approved and authorised for issue by the board and were signed on its behalf by:

**Dr Graeme P A Malcolm OBE FREng FRSE FInstP**  
Director

Date: 27 November 2023

The notes on pages 21 to 44 form part of these financial statements.

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY  
FOR THE YEAR ENDED 28 FEBRUARY 2023**

	Called up share capital £	Share premium account £	Foreign exchange reserve £	Profit and loss account £	Total equity £
<b>At 1 March 2021</b>	47,105	463,862	(77,555)	1,699,597	2,133,009
<b>Comprehensive income for the year</b>					
Profit for the year	-	-	-	1,568,125	1,568,125
Exchange differences on retranslation of subsidiary undertakings	-	-	(21,804)	-	(21,804)
<b>At 1 March 2022</b>	<u>47,105</u>	<u>463,862</u>	<u>(99,359)</u>	<u>3,267,722</u>	<u>3,679,330</u>
<b>Comprehensive income for the year</b>					
Profit for the year	-	-	-	1,151,225	1,151,225
Exchange differences on retranslation of subsidiary undertakings	-	-	578	-	578
<b>At 28 February 2023</b>	<u>47,105</u>	<u>463,862</u>	<u>(98,781)</u>	<u>4,418,947</u>	<u>4,831,133</u>

The notes on pages 21 to 44 form part of these financial statements.

**COMPANY STATEMENT OF CHANGES IN EQUITY  
FOR THE YEAR ENDED 28 FEBRUARY 2023**

	Called up share capital £	Share premium account £	Foreign exchange reserve £	Profit and loss account £	Total equity £
<b>At 1 March 2021</b>	47,105	463,862	537	2,314,910	2,826,414
<b>Comprehensive income for the year</b>					
Profit for the year	-	-	-	2,402,420	2,402,420
<b>At 1 March 2022</b>	47,105	463,862	537	4,717,330	5,228,834
<b>Comprehensive income for the year</b>					
Profit for the year	-	-	-	2,310,492	2,310,492
<b>At 28 February 2023</b>	<u>47,105</u>	<u>463,862</u>	<u>537</u>	<u>7,027,822</u>	<u>7,539,326</u>

The notes on pages 21 to 44 form part of these financial statements.

**CONSOLIDATED STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED 28 FEBRUARY 2023**

	2023 £	2022 £
<b>Cash flows from operating activities</b>		
Profit for the financial year	1,151,225	1,568,125
<b>Adjustments for:</b>		
Amortisation of intangible assets	2,909,192	2,632,608
Depreciation of tangible assets	163,710	164,092
Government grants	(1,878,049)	(1,832,674)
Interest paid	138,373	166,081
Taxation charge	715,023	991,270
Decrease/(increase) in stocks	1,675,432	(416,437)
(Increase) in debtors	(2,899,406)	(1,989,604)
(Decrease)/increase in creditors	(650,870)	247,535
(Decrease) in amounts owed to groups	(964,611)	(977,090)
Corporation tax received	28,327	279,825
Foreign exchange	578	(21,468)
Tax credits included in operating profit	-	(446,900)
Foreign exchange movement on fixed assets	(1,565)	-
<b>Net cash generated from operating activities</b>	<u>387,359</u>	<u>365,363</u>
<b>Cash flows from investing activities</b>		
Purchase of intangible fixed assets	(2,069,893)	(2,460,340)
Purchase of tangible fixed assets	-	(202,941)
Government grants received	1,878,049	1,832,674
<b>Net cash from investing activities</b>	<u>(191,844)</u>	<u>(830,607)</u>
<b>Cash flows from financing activities</b>		
Repayment of other loans	-	(122,445)
Interest paid	(138,373)	(166,081)
<b>Net cash used in financing activities</b>	<u>(138,373)</u>	<u>(288,526)</u>
<b>Net increase/(decrease) in cash and cash equivalents</b>	57,142	(753,770)
Cash and cash equivalents at beginning of year	124,533	878,303
<b>Cash and cash equivalents at the end of year</b>	<u>181,675</u>	<u>124,533</u>
<b>Cash and cash equivalents at the end of year comprise:</b>		
Cash at bank and in hand	<u>181,675</u>	<u>124,533</u>

The notes on pages 21 to 44 form part of these financial statements.

**CONSOLIDATED ANALYSIS OF NET DEBT  
FOR THE YEAR ENDED 28 FEBRUARY 2023**

	At 1 March 2022 £	Cash flows £	Other non-cash changes £	At 28 February 2023 £
Cash at bank and in hand	124,533	57,142	-	181,675
Debt due after 1 year	(1,272,000)	-	672,000	(600,000)
Debt due within 1 year	-	-	(672,000)	(672,000)
	<u>(1,147,467)</u>	<u>57,142</u>	<u>-</u>	<u>(1,090,325)</u>

The notes on pages 21 to 44 form part of these financial statements.

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 28 FEBRUARY 2023**

**1. General information**

M Squared Lasers Limited is a limited liability company incorporated in Scotland. The registered office is Venture Building, 1 Kelvin Campus, West of Scotland Science Park, Maryhill Road, Glasgow, G20 0SP.

**2. Accounting policies**

**2.1 Basis of preparation of financial statements**

The financial statements have been prepared under the historical cost convention unless otherwise specified within these accounting policies and in accordance with Financial Reporting Standard 102, the Financial Reporting Standard applicable in the UK and the Republic of Ireland and the Companies Act 2006.

The preparation of financial statements in compliance with FRS 102 requires the use of certain critical accounting estimates. It also requires Group management to exercise judgement in applying the Group's accounting policies (see note 3).

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.

For their respective years ended 28 February 2023 the following subsidiaries are entitled to exemption from audit under section 479A of the Companies Act 2006 relating to subsidiary companies: Solus Technologies Limited (SC303447) and M Squared Life Limited (SC522938).

The following principal accounting policies have been applied:

**2.2 Basis of consolidation**

The consolidated financial statements present the results of the Company and its own subsidiaries ("the Group") as if they form 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 Balance sheet, 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.

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 28 FEBRUARY 2023

2. Accounting policies (continued)

2.3 Going concern

At the Balance sheet date the Group has net current liabilities of £2,987,716 Included within current liabilities are amounts owed to the immediate parent company of £8,567,397. The Directors have confirmed the continuing support of the parent company and that this balance will not be called up on to be repaid within the coming 12 month period.

The Group is funded by its shareholders, bank term loans, working capital facility and cash flow arising from its trading activities.

The directors have prepared detailed forecasts of Group profitability and cash flow incorporating appropriate downside sensitivities. These forecasts have been used to assess the adequacy of funding resources available within the Company's parent group. These forecasts show that there can be reasonable certainty that the Company and Group will have sufficient funding resources available to them throughout the assessment period and beyond. The following events are reflected in these forecasts and are relevant to the going concern assessment.

Subsequent to the year end, the Directors of M Squared Technologies Group Limited ('the Parent Company') entered discussions with the Parent Company's largest institutional shareholder, the Scottish National Investment Bank ('SNIB') to agree terms for subscription for additional equity investment in the overall Group. In consideration of a £7,720,576 investment made by SNIB received in two tranches on 4 September 2023 and 28 September 2023, the Parent Company issued shares to SNIB under a new class of A Preferred Ordinary Shares.

Concurrent with receipt of the first tranche, BGF Investments LP ('BGF') paid the Parent Company an amount of £284,459 in consideration for subscription of EGF Warrant Shares in accordance with the BGF Warrant Instrument which was issued on 13 November 2020.

The Parent Company financial statements disclose the amendments agreed between the company and its senior lenders to reprofile the term loan facilities. This amendment was agreed on 28 February 2023 and the amended repayment profile of the term loan is reflected in these financial statements.

Taking the above factors into account, the directors have made an informed judgement, at the time of approving the financial statements, that there is a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. As a result, the directors have continued to adopt the going concern basis of accounting in preparing the annual financial statements.

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 28 FEBRUARY 2023**

**2. Accounting policies (continued)**

**2.4 Foreign currency translation**

**Functional and presentation currency**

The Company's functional and presentational currency is GBP.

**Transactions and balances**

Foreign currency transactions are translated into the functional currency using the spot exchange rates at the dates of the transactions.

At each period end foreign currency monetary items are translated using the closing rate. Non-monetary items measured at historical cost are translated using the exchange rate at the date of the transaction and non-monetary items measured at fair value are measured using the exchange rate when fair value was determined.

Foreign exchange gains and losses resulting from the settlement of transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss except when deferred in other comprehensive income as qualifying cash flow hedges.

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

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.

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 28 FEBRUARY 2023**

**2. Accounting policies (continued)**

**2.5 Revenue**

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenue is measured as the fair value of the consideration received or receivable, excluding discounts, rebates, value added tax and other sales taxes. The following criteria must also be met before revenue is recognised:

**Sale of goods**

Revenue from the sale of goods is recognised when all of the following conditions are satisfied:

- the Group has transferred the significant risks and rewards of ownership to the buyer;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the Group will receive the consideration due under the transaction; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

**Rendering of services**

Revenue from a contract to provide services is recognised in the period in which the services are provided in accordance with the stage of completion of the contract when all of the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the Group will receive the consideration due under the contract;
- the stage of completion of the contract at the end of the reporting period can be measured reliably; and
- the costs incurred and the costs to complete the contract can be measured reliably.

In the ordinary course of business, the Company receives payments on account from certain customers throughout the progress of a contract.

**2.6 Operating leases: the Group as lessee**

Rentals paid under operating leases are charged to profit or loss on a straight-line basis over the lease term.

Benefits received and receivable as an incentive to sign an operating lease are recognised on a straight-line basis over the lease term, unless another systematic basis is representative of the time pattern of the lessee's benefit from the use of the leased asset.

**2.7 Research and development**

In the research phase of an internal project it is not possible to demonstrate that the project will generate future economic benefits and hence all expenditure on research shall be recognised as an expense when it is incurred. Intangible assets are recognised from the development phase of a project if and only if certain specific criteria are met in order to demonstrate the asset will generate probable future economic benefits and that its cost can be reliably measured. The capitalised development costs are subsequently amortised on a straight line basis over their useful economic lives, which is deemed as 7 years.

If it is not possible to distinguish between the research phase and the development phase of an internal project, the expenditure is treated as if it were all incurred in the research phase only.

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 28 FEBRUARY 2023**

**2. Accounting policies (continued)**

**2.8 Government grants**

Grants are accounted under the accruals model as permitted by FRS 102. Grants relating to expenditure on tangible fixed assets are credited to profit or loss at the same rate as the depreciation on the assets to which the grant relates. The deferred element of grants is included in creditors as deferred income.

Grants of a revenue nature are recognised in the Consolidated statement of comprehensive income in the same period as the related expenditure.

**2.9 Finance costs**

Finance costs are charged to profit or loss over the term of the debt using the effective interest method so that the amount charged is at a constant rate on the carrying amount. Issue costs are initially recognised as a reduction in the proceeds of the associated capital instrument.

**2.10 Borrowing costs**

All borrowing costs are recognised in profit or loss in the year in which they are incurred.

**2.11 Pensions**

**Defined contribution pension scheme**

The Group contributes to a defined contribution scheme for its employees. A defined contribution scheme is a pension plan under which the Group pays fixed contributions into a separate entity. Once the contributions have been paid the Group has no further payment obligations.

The contributions are recognised as an expense in profit or loss when they fall due. Amounts not paid are shown in accruals as a liability on the Balance sheet. The assets of the scheme are held separately from the Group in independently administered funds.

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 28 FEBRUARY 2023**

**2. Accounting policies (continued)**

**2.12 Current and deferred taxation**

The tax expense for the year comprises current and deferred tax. Tax is recognised in profit or loss except that a charge attributable to an item of income and expense recognised as other comprehensive income or to an item recognised directly in equity is also recognised in other comprehensive income or directly in equity respectively.

The current income tax charge is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the balance sheet date in the countries where the Company and the Group operate and generate income.

Deferred tax balances are recognised in respect of all timing differences that have originated but not reversed by the balance sheet date, except that:

- The recognition of deferred tax assets is limited to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits;
- Any deferred tax balances are reversed if and when all conditions for retaining associated tax allowances have been met; and
- Where they relate to timing differences in respect of interests in subsidiaries, associates, branches and joint ventures and the Group can control the reversal of the timing differences and such reversal is not considered probable in the foreseeable future.

Deferred tax balances are not recognised in respect of permanent differences except in respect of business combinations, when deferred tax is recognised on the differences between the fair values of assets acquired and the future tax deductions available for them and the differences between the fair values of liabilities acquired and the amount that will be assessed for tax. Deferred tax is determined using tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

**2.13 Intangible assets**

Intangible assets are initially recognised at cost. After recognition, under the cost model, intangible assets are measured at cost less any accumulated amortisation and any accumulated impairment losses.

**Research and Development**

Research expenditure is written off as incurred. Development expenditure is also written off, except where the directors are satisfied as to the technical, commercial and financial viability of individual projects. In such cases, the identifiable expenditure is capitalised as an intangible asset and amortised over the period during which the Group is expected to benefit. This period is over 7 years on a straight line basis. Provision is made for any impairment.

**Patents and Trademarks**

Separately acquired patents and trademarks are included at cost and amortised in equal annual instalments over a period of 5 years and 10 years respectively which is their estimated useful economic life. Provision is made for any impairment.

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 28 FEBRUARY 2023

2. Accounting policies (continued)

2.14 Tangible fixed assets

Tangible fixed assets under the cost model 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.

Depreciation is charged so as to allocate the cost of assets less their residual value over their estimated useful lives, using the straight-line method.

Depreciation is provided on the following basis:

Long-term leasehold property	- Over period of lease (up to 4 years)
Office & laboratory equipment	- 25% per annum
Computer equipment	- 25% per annum

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

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in profit or loss.

2.15 Valuation of investments

Investments in subsidiaries are measured at cost less accumulated impairment.

Investments in unlisted Group shares, whose market value can be reliably determined, are remeasured to market value at each balance sheet date. Gains and losses on remeasurement are recognised in the Consolidated statement of comprehensive income for the period. Where market value cannot be reliably determined, such investments are stated at historic cost less impairment.

Investments in listed company shares are remeasured to market value at each balance sheet date. Gains and losses on remeasurement are recognised in profit or loss for the period.

2.16 Stocks

Stocks are stated at the lower of cost and net realisable value, being the estimated selling price less costs to complete and sell. Cost is based on the cost of purchase on a first in, first out basis.

At each balance sheet date, stocks are assessed for impairment. If stock 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.

2.17 Debtors

Short-term debtors are measured at transaction price, less any impairment. Loans receivable are measured initially at fair value, net of transaction costs, and are measured subsequently at amortised cost using the effective interest method, less any impairment.

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 28 FEBRUARY 2023**

**2. Accounting policies (continued)**

**2.18 Cash and cash equivalents**

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are highly liquid investments that mature in no more than three months from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

In the Consolidated statement of cash flows, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the Group's cash management.

**2.19 Creditors**

Short-term creditors are measured at the transaction price. Other financial liabilities, including bank loans, are measured initially at fair value, net of transaction costs, and are measured subsequently at amortised cost using the effective interest method.

**2.20 Provisions for liabilities**

Provisions are made where an event has taken place that gives the Group a legal or constructive obligation that probably requires settlement by a transfer of economic benefit, and a reliable estimate can be made of the amount of the obligation.

Provisions are charged as an expense to profit or loss in the year that the Group becomes aware of the obligation, and are measured at the best estimate at the balance sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

When payments are eventually made, they are charged to the provision carried in the Balance sheet.

The Company offers warranties on certain products. A provision for warranty costs is recognised only where the costs can be identified and are considered material.

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 28 FEBRUARY 2023**

**2. Accounting policies (continued)**

**2.21 Financial instruments**

The Group has elected to apply the provisions of Section 11 “Basic Financial Instruments” of FRS 102 to all of its financial instruments.

The Group has elected to apply the recognition and measurement provisions of IFRS 9 Financial Instruments (as adopted by the UK Endorsement Board) with the disclosure requirements of Sections 11 and 12 and the other presentation requirements of FRS 102.

Financial instruments are recognised in the Group's Balance sheet when the Group becomes party to the contractual provisions of the instrument.

Financial assets and liabilities are offset, with the net amounts presented in the financial statements, when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

**Basic financial assets**

Basic financial assets, which include trade and other receivables, cash and bank balances, are initially measured at their transaction price including transaction costs and are subsequently carried at their amortised cost using the effective interest method, less any provision for impairment, 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.

Discounting is omitted where the effect of discounting is immaterial. The Group's cash and cash equivalents, trade and most other receivables due with the operating cycle fall into this category of financial instruments.

**Other financial assets**

Other financial assets, which includes investments in equity instruments which are not classified as subsidiaries, associates or joint ventures, are initially measured at fair value, which is normally the recognised transaction price. Such assets are subsequently measured at fair value with the changes in fair value being recognised in the profit or loss. Where other financial assets are not publicly traded, hence their fair value cannot be measured reliably, they are measured at cost less impairment.

**Impairment of financial assets**

Financial assets are assessed for indicators of impairment at each reporting date.

Financial assets are impaired when events, subsequent to their initial recognition, indicate the estimated future cash flows derived from the financial asset(s) have been adversely impacted. The impairment loss will be the difference between the current carrying amount and the present value of the future cash flows at the asset(s) original effective interest rate.

If there is a favourable change in relation to the events surrounding the impairment loss then the impairment can be reviewed for possible reversal. The reversal will not cause the current carrying amount to exceed the original carrying amount had the impairment not been recognised. The impairment reversal is recognised in the profit or loss.

**Financial liabilities**

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instruments any contract that evidences a residual interest in the assets of the Group after the deduction of all its liabilities.

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 28 FEBRUARY 2023**

**2. Accounting policies (continued)**

**2.21 Financial instruments (continued)**

Basic financial liabilities, which include trade and other payables, bank loans, other loans and loans due to fellow group companies are initially measured at their transaction price after transaction costs. When this constitutes a financing transaction, whereby the debt instrument is measured at the present value of the future receipts discounted at a market rate of interest. Discounting is omitted where the effect of discounting is immaterial.

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

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

**Other financial instruments**

Derivatives, including forward exchange contracts, futures contracts and interest rate swaps, are not classified as basic financial instruments. These are initially recognised at fair value on the date the derivative contract is entered into, with costs being charged to the profit or loss. They are subsequently measured at fair value with changes in the profit or loss.

Debt instruments that do not meet the conditions as set out in FRS 102 paragraph 11.9 are subsequently measured at fair value through the profit or loss. This recognition and measurement would also apply to financial instruments where the performance is evaluated on a fair value basis as with a documented risk management or investment strategy.

**Derecognition of financial instruments**

**Derecognition of financial assets**

Financial assets are derecognised when their contractual right to future cash flow expire, or are settled, or when the Group transfers the asset and substantially all the risks and rewards of ownership to another party. If significant risks and rewards of ownership are retained after the transfer to another party, then the Group will continue to recognise the value of the portion of the risks and rewards retained.

**Derecognition of financial liabilities**

Financial liabilities are derecognised when the Group's contractual obligations expire or are discharged or cancelled.

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 28 FEBRUARY 2023**

**3. Judgement in applying accounting policies and key sources of estimation uncertainty**

Judgements made by the directors, in the application of these accounting policies that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed below:

**Capitalisation of development expenditure**

During the year £1,411,828 (2022 - £1,746,843) of development expenditure was capitalised. The directors assess the technical, commercial and financial viability of individual projects. The directors prepared market research reports and technical feasibility project proposals in order to satisfy themselves that these projects had reached the required development stage and requirements for capitalisation. The assets are amortised over 7 years on a straight line basis.

**Key source of estimation uncertainty - impairment of intangible assets**

Determining whether intangible assets are impaired requires an estimation of the future cash generation relative to carrying value of the intangible assets. Based on current market knowledge, the directors consider there was no impairment during the year (2022 - £NIL). The carrying amount of intangible assets (excluding development costs) at the balance sheet date was £2,019,757 (2022 - £1,974,292).

**4. Turnover**

The whole of the turnover is attributable to the Group's principal activity and represents the sale of goods and related services. A geographical analysis of turnover is not included as the directors believe it would be prejudicial to the Group's interests.

**5. Other operating income**

	2023 £	2022 £
Government grants receivable	<u>1,878,049</u>	<u>1,832,674</u>

**6. Operating profit**

The operating profit is stated after charging:

	2023 £	2022 £
Research & development charged as an expense	171,352	525,802
Exchange differences	(190,160)	228,909
Operating lease rentals	1,366,305	1,225,266
Depreciation of tangible fixed assets	163,710	164,092
Amortisation of intangible fixed assets	<u>2,909,192</u>	<u>2,632,608</u>

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 28 FEBRUARY 2023

7. Auditor's remuneration

During the year, the Group obtained the following services from the Company's auditor:

	2023 £	2022 £
Fees payable to the Company's auditor for the audit of the consolidated and parent Company's financial statements	39,750	36,000

8. Employees

Staff costs, including directors' remuneration, were as follows:

	Group 2023 £	Group 2022 £	Company 2023 £	Company 2022 £
Staff salaries and PHI	6,073,818	7,002,465	5,222,607	5,733,771
Social security costs	704,411	776,332	602,517	623,257
Cost of defined contribution scheme	111,023	143,093	95,312	120,050
	<u>6,889,252</u>	<u>7,921,890</u>	<u>5,920,436</u>	<u>6,477,078</u>

The average monthly number of employees, including the directors, during the year was as follows:

	Group 2023 No.	Group 2022 No.	Company 2023 No.	Company 2022 No.
Production and Installation	27	46	25	42
Research and development	22	27	16	25
Sales and marketing	9	10	6	7
Administration	10	14	9	12
	<u>68</u>	<u>97</u>	<u>56</u>	<u>86</u>

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 28 FEBRUARY 2023

9. Directors' remuneration

	2023 £	2022 £
Directors' emoluments	2,364,532	2,200,240
Group contributions to defined contribution pension schemes	23,550	110,475
	<u>2,388,082</u>	<u>2,310,715</u>

During the year retirement benefits were accruing to 4 directors (2022 - 5) in respect of defined contribution pension schemes.

The highest paid director received remuneration of £914,539 (2022 - £845,645).

The value of the Group's contributions paid to a defined contribution pension scheme in respect of the highest paid director amounted to £4,000 (2022 - £48,533).

10. Interest payable and similar expenses

	2023 £	2022 £
Bank interest payable	1,232	27,606
Other loan interest payable	137,141	138,475
	<u>138,373</u>	<u>166,081</u>

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 28 FEBRUARY 2023

11. Taxation

	2023 £	2022 £
<b>Corporation tax</b>		
Current tax on profits for the year	44	84,911
Adjustments in respect of previous periods	(2,892)	-
	<u>(2,848)</u>	<u>84,911</u>
<b>Foreign tax</b>		
Foreign tax on income for the year	-	20,175
	<u>(2,848)</u>	<u>105,086</u>
<b>Deferred tax</b>		
Origination and reversal of timing differences	522,646	557,528
Changes to tax rates	165,046	328,656
Adjustment in respect of prior periods	30,179	-
	<u>717,871</u>	<u>886,184</u>
<b>Taxation on profit on ordinary activities</b>	<u><u>715,023</u></u>	<u><u>991,270</u></u>

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 28 FEBRUARY 2023

11. Taxation (continued)

**Factors affecting tax charge for the year**

The tax assessed for the year is higher than (2022 - higher than) the standard rate of corporation tax in the UK of 19% (2022 - 19%). The differences are explained below:

	2023 £	2022 £
Profit on ordinary activities before tax	<u>1,866,248</u>	<u>2,559,395</u>
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 19% (2022 - 19%)	354,587	486,285
<b>Effects of:</b>		
Expenses not deductible for tax purposes, other than goodwill amortisation and impairment	56,070	56,978
Overseas taxes suffered	-	20,175
Non-taxable income less expenses not deductible for tax purposes, other than goodwill and impairment	-	(174)
Research and development expenditure	18,052	(28,904)
Tax rate changes	165,046	328,656
Unrelieved tax losses carried forward	-	128,254
Unrelieved loss on foreign subsidiaries	27,959	-
Unrecognised deferred tax asset	93,309	-
<b>Total tax charge for the year</b>	<u><u>715,023</u></u>	<u><u>991,270</u></u>

**Factors that may affect future tax charges**

Deferred tax balances have been calculated based on the expected future tax rate substantively enacted at the balance sheet date. On 3 March 2021 it was announced by the UK Government that the corporation tax rate in the UK will increase to 25% effective from 1 April 2023. Deferred tax has been provided for at 25% as this is the rate that was substantively enacted at the balance sheet date.

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 28 FEBRUARY 2023

12. Intangible assets

Group

	Patents £	Development expenditure £	Trademarks £	Total £
<b>Cost</b>				
At 1 March 2022	4,308,230	15,358,350	154,501	19,821,081
Additions	658,065	1,411,828	-	2,069,893
At 28 February 2023	<u>4,966,295</u>	<u>16,770,178</u>	<u>154,501</u>	<u>21,890,974</u>
<b>Amortisation</b>				
At 1 March 2022	2,434,247	5,414,169	54,192	7,902,608
Charge for the year on owned assets	589,378	2,296,592	23,222	2,909,192
At 28 February 2023	<u>3,023,625</u>	<u>7,710,761</u>	<u>77,414</u>	<u>10,811,800</u>
<b>Net book value</b>				
At 28 February 2023	<u>1,942,670</u>	<u>9,059,417</u>	<u>77,087</u>	<u>11,079,174</u>
At 28 February 2022	<u>1,873,983</u>	<u>9,944,181</u>	<u>100,309</u>	<u>11,918,473</u>

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 28 FEBRUARY 2023

12. Intangible assets (continued)

Company

	Patents £	Development expenditure £	Trademarks £	Total £
<b>Cost</b>				
At 1 March 2022	2,476,221	15,358,350	154,501	17,989,072
Additions	481,050	1,411,828	-	1,892,878
At 28 February 2023	<u>2,957,271</u>	<u>16,770,178</u>	<u>154,501</u>	<u>19,881,950</u>
<b>Amortisation</b>				
At 1 March 2022	1,674,817	5,414,169	54,192	7,143,178
Charge for the year	253,766	2,296,592	23,222	2,573,580
At 28 February 2023	<u>1,928,583</u>	<u>7,710,761</u>	<u>77,414</u>	<u>9,716,758</u>
<b>Net book value</b>				
At 28 February 2023	<u>1,028,688</u>	<u>9,059,417</u>	<u>77,087</u>	<u>10,165,192</u>
At 28 February 2022	<u>801,404</u>	<u>9,944,181</u>	<u>100,309</u>	<u>10,845,894</u>

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 28 FEBRUARY 2023

## 13. Tangible fixed assets

## Group

	Leasehold improve- ments £	Office equipment £	Computer equipment £	Total £
<b>Cost or valuation</b>				
At 1 March 2022	322,151	1,102,175	368,583	1,792,909
Exchange adjustments	-	448	(200)	248
At 28 February 2023	<u>322,151</u>	<u>1,102,623</u>	<u>368,383</u>	<u>1,793,157</u>
<b>Depreciation</b>				
At 1 March 2022	129,940	1,012,477	292,523	1,434,940
Charge for the year on owned assets	74,357	52,819	36,534	163,710
Exchange adjustments	-	33	(1,350)	(1,317)
At 28 February 2023	<u>204,297</u>	<u>1,065,329</u>	<u>327,707</u>	<u>1,597,333</u>
<b>Net book value</b>				
At 28 February 2023	<u>117,854</u>	<u>37,294</u>	<u>40,676</u>	<u>195,824</u>
At 28 February 2022	<u>192,211</u>	<u>89,698</u>	<u>76,060</u>	<u>357,969</u>

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 28 FEBRUARY 2023

13. Tangible fixed assets (continued)

Company

	Leasehold improve- ments £	Office equipment £	Computer equipment £	Total £
<b>Cost or valuation</b>				
At 1 March 2022	322,151	1,071,527	360,302	1,753,980
At 28 February 2023	<u>322,151</u>	<u>1,071,527</u>	<u>360,302</u>	<u>1,753,980</u>
<b>Depreciation</b>				
At 1 March 2022	129,940	1,003,884	285,867	1,419,691
Charge for the year on owned assets	74,357	45,530	35,468	155,355
At 28 February 2023	<u>204,297</u>	<u>1,049,414</u>	<u>321,335</u>	<u>1,575,046</u>
<b>Net book value</b>				
At 28 February 2023	<u>117,854</u>	<u>22,113</u>	<u>38,967</u>	<u>178,934</u>
At 28 February 2022	<u>192,211</u>	<u>67,643</u>	<u>74,435</u>	<u>334,289</u>

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 28 FEBRUARY 2023

14. Fixed asset investments

Company

	Investments in subsidiary companies £
<b>Cost or valuation</b>	
At 1 March 2022	30,405
At 28 February 2023	<u>30,405</u>

**Subsidiary undertakings**

The following were subsidiary undertakings of the Company:

Name	Registered office	Holding
M Squared Lasers, Inc	160 Greentree Drive, Suite 1919 Dover	100 %
Solus Technologies Limited	Venture Building, 1 Kelvin Campus, Maryhill Road, Glasgow, United Kingdom	100 %
M Squared Lasers GmbH	Rudower Chaussee 29 (IGZ), 12489 Berlin, Germany	100 %
M Squared Life Limited	Venture Building, 1 Kelvin Campus, Maryhill Road, Glasgow, United Kingdom	100 %

The aggregate of the share capital and reserves as at 28 February 2023 and the profit or loss for the year ended on that date for the subsidiary undertakings were as follows:

Name	Aggregate of share capital and reserves £	Profit/(Loss) £
M Squared Lasers, Inc	(463,298)	(245,464)
Solus Technologies Limited	(157,502)	-
M Squared Lasers GmbH	262,540	98,308
M Squared Life Limited	(2,509,459)	(1,020,242)

**M SQUARED LASERS LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 28 FEBRUARY 2023**

**15. Stocks**

	Group 2023 £	Group 2022 £	Company 2023 £	Company 2022 £
Raw materials and consumables	1,192,481	1,739,080	1,192,481	1,542,075
Finished goods and goods for resale	2,063,579	3,192,412	1,893,514	3,096,211
	<u>3,256,060</u>	<u>4,931,492</u>	<u>3,085,995</u>	<u>4,638,286</u>

The difference between purchase price or production cost of stocks and their replacement cost is not material.

**16. Debtors**

	Group 2023 £	Group 2022 £	Company 2023 £	Company 2022 £
Trade debtors	2,236,709	3,243,807	1,168,033	1,093,675
Amounts owed by group undertakings	-	-	4,780,598	-
Other debtors	479,513	245,150	100,359	139,940
Prepayments and accrued income	9,070,801	5,398,660	5,581,995	2,229,744
Tax recoverable	333,617	359,096	333,617	359,096
	<u>12,120,640</u>	<u>9,246,713</u>	<u>11,964,602</u>	<u>3,822,455</u>

**17. Cash and cash equivalents**

	Group 2023 £	Group 2022 £	Company 2023 £	Company 2022 £
Cash at bank and in hand	<u>181,675</u>	<u>124,533</u>	<u>30,894</u>	<u>17,509</u>

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 28 FEBRUARY 2023

18. Creditors: Amounts falling due within one year

	Group 2023 £	Group 2022 £	Company 2023 £	Company 2022 £
Other loans	672,000	-	-	-
Trade creditors	3,487,792	3,071,299	2,408,892	2,911,150
Amounts owed to group undertakings	8,567,397	9,532,008	8,757,432	4,885,458
Other taxation and social security	693,574	1,066,857	599,361	823,557
Other creditors	2,536,698	2,510,531	1,213,156	979,594
Accruals and deferred income	2,588,630	2,954,209	2,081,706	2,367,299
	<u>18,546,091</u>	<u>19,134,904</u>	<u>15,060,547</u>	<u>11,967,058</u>

19. Creditors: Amounts falling due after more than one year

	Group 2023 £	Group 2022 £	Company 2023 £	Company 2022 £
Loan notes	600,000	1,272,000	-	-
Accruals and deferred income	768,880	1,123,548	768,880	1,123,548
	<u>1,368,880</u>	<u>2,395,548</u>	<u>768,880</u>	<u>1,123,548</u>

20. Loans

Analysis of the maturity of loans is given below:

	Group 2023 £	Group 2022 £
<b>Amounts falling due within one year</b>		
Other loans	672,000	-
<b>Amounts falling due 1-2 years</b>		
Other loans	-	672,000
<b>Amounts falling due 2-5 years</b>		
Other loans	600,000	600,000
	<u>1,272,000</u>	<u>1,272,000</u>

The above loan notes are unsecured.

The Company has entered into cross-corporate guarantees with its immediate parent company as part of security arrangements with the Group's bankers. Total facilities secured under this guarantee are £20,000,000 (2022: £21,875,000). As part of this guarantee, the Company has issued a bond and floating charge to its bankers.

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 28 FEBRUARY 2023

21. Financial instruments

	Group 2023 £	Company 2023 £
<b>Financial assets</b>		
Financial assets measured at fair value through profit or loss	<u>181,675</u>	<u>30,894</u>

Financial assets measured at fair value through profit or loss comprise cash at bank.

22. Deferred taxation

Group

	2023 £
At beginning of year	1,369,398
Charged to profit or loss	(717,871)
<b>At end of year</b>	<u>2,087,269</u>

Company

	2023 £
At beginning of year	1,369,398
Charged to profit or loss	(717,871)
<b>At end of year</b>	<u>2,087,269</u>

	Group 2023 £	Group 2022 £	Company 2023 £	Company 2022 £
Accelerated capital allowances	2,165,611	2,364,589	2,165,611	2,364,589
Tax losses carried forward	(50,175)	(890,383)	(50,175)	(890,383)
Short term timing differences	(28,167)	(104,808)	(28,167)	(104,808)
	<u>2,087,269</u>	<u>1,369,398</u>	<u>2,087,269</u>	<u>1,369,398</u>

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 28 FEBRUARY 2023

23. Share capital

	2023	2022
	£	£
<b>Allotted, called up and fully paid</b>		
4,710,485 (2022 - 4,710,485) Ordinary shares of £0.01 each	<u>47,105</u>	<u>47,105</u>

24. Pension commitments

The Group contributes to a defined contribution pension scheme for its employees. At the balance sheet date the Group had outstanding pension contributions of £61,615 (2022 - £70,669).

25. Commitments under operating leases

At 28 February 2023 the Group and the Company had future minimum lease payments due under non-cancellable operating leases for each of the following periods:

	Group 2023	Group 2022	Company 2023	Company 2022
	£	£	£	£
Not later than 1 year	829,841	789,570	829,841	789,570
Later than 1 year and not later than 5 years	297,920	321,900	297,920	321,900
	<u>1,127,761</u>	<u>1,111,470</u>	<u>1,127,761</u>	<u>1,111,470</u>

26. Other financial commitments

At the Balance Sheet date, the Company had guarantees in place with customers of £1,111,293.

27. Related party transactions

Included within current liabilities are amounts payable to the directors of £464,374 (2022 - £NIL). These amounts have no fixed terms of repayment and no interest is payable.

28. Post balance sheet events

Recognising the significance of the combined effects of the impact of the Ukraine war and the extended lock down of the China market, coming soon after the Covid pandemic, the Directors entered discussions with the Parent Company's largest institutional shareholder, the Scottish National Investment Bank ('SNIB') to agree terms for subscription for additional equity investment in the Group. The details of the investment are as disclosed at Note 2.3.

29. Controlling party

The immediate and ultimate parent company is M Squared Technologies Group Limited, a company incorporated in Scotland and having its registered office at Venture Building, 1 Kelvin Campus, West of Scotland Science Park, Glasgow, G20 0SP, United Kingdom.



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