

REGISTERED NUMBER: 08324226 (England and Wales)

**GROUP STRATEGIC REPORT, REPORT OF THE DIRECTORS AND
CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST DECEMBER 2022
FOR
HILIGHT SEMICONDUCTOR LIMITED**

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FOR THE YEAR ENDED 31ST DECEMBER 2022**

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HILIGHT SEMICONDUCTOR LIMITED
COMPANY INFORMATION
FOR THE YEAR ENDED 31ST DECEMBER 2022

DIRECTORS: J G Steele
B Long

REGISTERED OFFICE: Parkers
Cornelius House
178-180 Church Road
Hove
East Sussex
BN3 2DJ

REGISTERED NUMBER: 08324226 (England and Wales)

AUDITORS: Parkers
Chartered Accountants and Statutory Auditors
178-180 Church Road
Hove, East Sussex
BN3 2DJ

**GROUP STRATEGIC REPORT
FOR THE YEAR ENDED 31ST DECEMBER 2022**

The directors present their strategic report of the company and the group for the year ended 31st December 2022.

During 2022 the Company's Product Sales again grew strongly, 72% above 2021 in Sterling terms.

For a second year there were serious Supply Chain disruptions, post-COVID, and in particular Wafer Factories stopped taking new orders, unless a premium price was paid. This impacted both our Sales growth and our Gross Profit Margins for the year. Fortunately it does now look like this was a temporary 'glitch' and supply, and prices, are normalising in 2023. Despite these supply issues, the Company's core technology choice, CMOS, continues to be the correct strategic choice, with our customers worldwide fully accepting the advantages this brings.

As before, HiLight invested heavily in R&D. We announced several breakthrough products for the important 10G PON market, with patent protection in all the key territories, including the US and Asia.

The continued roll-outs of 4G and 5G Cellular, PON/Fiber to the Home infrastructure, plus Data centres/Cloud Computing can be confidently expected to continue to grow further in future years and this will provide the ideal market environment for the Company.

ON BEHALF OF THE BOARD:

J G Steele - Director

15th December 2023

**REPORT OF THE DIRECTORS
FOR THE YEAR ENDED 31ST DECEMBER 2022**

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

PRINCIPAL ACTIVITY

The principal activity of the group in the year under review was that of research into and design and development of new higher speed Integrated Circuits.

DIVIDENDS

No dividends will be distributed for the year ended 31st December 2022.

RESEARCH AND DEVELOPMENT

The Company is continuing to develop its 3rd generation of integrated circuit technology to facilitate the roll-out of 5G cellular infrastructure and the latest PON/Internet Access requirements.

DIRECTORS

The directors shown below have held office during the whole of the period from 1st January 2022 to the date of this report.

J G Steele
B Long

FINANCIAL INSTRUMENTS

3,065,690 A Ordinary Non-Voting shares at £0.125 per share, 875,300 at £1.00 per share, 390,588 at £1.60 per share and 84,000 at £0.25 were exercised during the year. A further 10,000 A Ordinary Non-Voting shares at £0.125 per share, 161,500 at £1.00 per share and 25,000 at £1.60 per share lapsed.

The total number of A Ordinary Non-Voting shares under option as at 31st December 2022, including the as yet unvested options, were 1,299,600 at £0.125 per share, 416,000 at £1.00 per share, 295,000 at £1.60 per share, 21,000 at £0.25 per share and 349,00 at \$0.20 per share.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the Group Strategic Report, the Report of the Directors and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and the group and of the profit or loss of the group for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- 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 and the group's transactions and disclose with reasonable accuracy at any time the financial position of the company and the group 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 the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

STATEMENT AS TO DISCLOSURE OF INFORMATION TO AUDITORS

So far as the directors are aware, there is no relevant audit information (as defined by Section 418 of the Companies Act 2006) of which the group's auditors are unaware, and each director has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the group's auditors are aware of that information.

**REPORT OF THE DIRECTORS
FOR THE YEAR ENDED 31ST DECEMBER 2022**

AUDITORS

The auditors, Parkers, will be proposed for re-appointment at the forthcoming Annual General Meeting.

ON BEHALF OF THE BOARD:

J G Steele - Director

15th December 2023

REPORT OF THE INDEPENDENT AUDITORS TO THE MEMBERS OF HILIGHT SEMICONDUCTOR LIMITED

Qualified Opinion

We have audited the financial statements of Hilight Semiconductor Limited (the 'parent company') and its subsidiaries (the 'group') for the year ended 31st December 2022 which comprise the Consolidated Income Statement, Consolidated Other Comprehensive Income, Consolidated Balance Sheet, Company Balance Sheet, Consolidated Statement of Changes in Equity, Company Statement of Changes in Equity, Consolidated Cash Flow Statement and Notes to the Consolidated Cash Flow Statement, Notes to the Financial Statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and 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, except for the possible effects of the matters described in the basis for qualified opinion section of our report, the financial statements:

- give a true and fair view of the state of the group's affairs at at 31st December 2022 and of its loss 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 qualified opinion

With respect to an Research and Development tax credit of £1,556,827, the claim is currently subject to a HMRC enquiry and therefore the exact amount recoverable is uncertain.

Conclusions relating to going concern

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

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the group's and 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.

Other information

The directors are responsible for the other information. The other information comprises the information in the Group Strategic Report and the Report of the Directors, but does not include the financial statements and our Report of the Auditors thereon.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether 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.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Group Strategic Report and the Report of the Directors for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Group Strategic Report and the Report of the Directors have been prepared in accordance with applicable legal requirements.

**REPORT OF THE INDEPENDENT AUDITORS TO THE MEMBERS OF
HILIGHT SEMICONDUCTOR LIMITED**

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 Report of the Directors.

We have nothing to report in respect of the following matters where 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 Statement of Directors' Responsibilities set out on page three, 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 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.

REPORT OF THE INDEPENDENT AUDITORS TO THE MEMBERS OF HILIGHT SEMICONDUCTOR LIMITED

Auditors' 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 a Report of the Auditors that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

- We focused on specific laws and regulations which we considered may have a direct material effect on the financial statements or the operations of the Company, including the Companies Act 2006.
- We obtained an understanding of the legal and regulatory framework applicable to the entity and how the entity is complying with that framework by making appropriate enquiries of management as well as considering the internal controls in place to mitigate risks of fraud and non-compliance with laws and regulations;
- We made enquiries of those charged with governance and management concerning
- The risks of fraud;
- Instances of non-compliance with laws and regulations or knowledge of actual, suspected, or alleged fraud is documented during the period;
- We allocated an engagement team that we considered collectively had the appropriate competence and capabilities to identify or recognise non-compliance with laws and regulations

Audit response to the risk of irregularities including fraud

Based on the results of our risk assessment, our procedures included, but were not limited to:

- Performing analytical procedures to identify any unusual or unexpected relationships
- Evaluating whether judgements and assumptions made in determining the accounting estimates set out in note 2 were indicative of potential bias
- Assessing whether judgements and assumptions made in determining the accounting estimates set out in note 2 were indicative of potential bias.
- Agreeing financial statements disclosures to underlying supporting documentation
- Reviewing the correspondence with relevant regulatory bodies
- Testing of journal entries to address the risk of fraud through management override
- Incorporation an element of unpredictability in the selection of the nature, timing, and extent of our audit procedures.
- Corroborating the business rationale for transactions outside the normal course of business.

Conclusions regarding the risks of irregularities including fraud

There are inherent limitations in our audit procedures described above. The more removed that laws and regulations are from financial transactions, the less likely it is that we would become aware of non-compliance.

Material misstatements that arise due to fraud can be harder to detect than those that arise from error as they may involve deliberate concealment or collusion.

We considered our audit was capable of detecting irregularities due to:

- The effectiveness of the entity's internal controls;
- The nature, timing and extent of audit procedures performed; and
- The absence of contradictory evidence

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. This description forms part of our Report of the Auditors.

**REPORT OF THE INDEPENDENT AUDITORS TO THE MEMBERS OF
HILIGHT SEMICONDUCTOR LIMITED**

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 a Report of the Auditors 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.

Annette Watson BSc PhD FCA (Senior Statutory Auditor)
for and on behalf of Parkers
Chartered Accountants and Statutory Auditors
178-180 Church Road
Hove, East Sussex
BN3 2DJ

15th December 2023

**CONSOLIDATED
INCOME STATEMENT
FOR THE YEAR ENDED 31ST DECEMBER 2022**

	Notes	2022 £	2021 £
TURNOVER	3	3,548,608	2,086,855
Cost of sales		<u>1,924,370</u>	<u>1,048,987</u>
GROSS PROFIT		1,624,238	1,037,868
Administrative expenses		<u>9,284,001</u>	<u>8,952,579</u>
		(7,659,763)	(7,914,711)
Other operating income		<u>-</u>	<u>699,578</u>
OPERATING LOSS	5	(7,659,763)	(7,215,133)
Interest payable and similar expenses	6	<u>161,467</u>	<u>465,023</u>
LOSS BEFORE TAXATION		(7,821,230)	(7,680,156)
Tax on loss	7	<u>(1,556,827)</u>	<u>(1,610,852)</u>
LOSS FOR THE FINANCIAL YEAR		(6,264,403)	(6,069,304)
Loss attributable to:			
Owners of the parent		<u>(6,264,403)</u>	<u>(6,069,304)</u>

The notes form part of these financial statements

**CONSOLIDATED
OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31ST DECEMBER 2022**

	Notes	2022 £	2021 £
LOSS FOR THE YEAR		(6,264,403)	(6,069,304)
OTHER COMPREHENSIVE INCOME		-	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		<u>(6,264,403)</u>	<u>(6,069,304)</u>
Total comprehensive income attributable to: Owners of the parent		<u>(6,264,403)</u>	<u>(6,069,304)</u>

The notes form part of these financial statements

CONSOLIDATED BALANCE SHEET
31ST DECEMBER 2022

	Notes	2022 £	£	2021 £	£
FIXED ASSETS					
Tangible assets	9		2,170,824		3,134,474
Investments	10		<u>-</u>		<u>-</u>
			2,170,824		3,134,474
CURRENT ASSETS					
Stocks	11	1,581,448		1,459,840	
Debtors	12	2,723,087		2,597,022	
Cash at bank		<u>31,931</u>		<u>127,975</u>	
		4,336,466		4,184,837	
CREDITORS					
Amounts falling due within one year	13	<u>20,192,149</u>		<u>16,064,893</u>	
NET CURRENT LIABILITIES			(15,855,683)		(11,880,056)
TOTAL ASSETS LESS CURRENT LIABILITIES			(13,684,859)		(8,745,582)
CREDITORS					
Amounts falling due after more than one year	14		303,207		821,601
PROVISIONS FOR LIABILITIES	18		225,637		246,061
CAPITAL AND RESERVES					
Called up share capital	19	3,621,664		3,069,715	
Share premium	20	30,954,709		29,642,714	
Retained earnings	20	<u>(48,790,076)</u>		<u>(42,525,673)</u>	
SHAREHOLDERS' FUNDS			(14,213,703)		(9,813,244)
			(13,684,859)		(8,745,582)

The financial statements were approved by the Board of Directors and authorised for issue on 15th December 2023 and were signed on its behalf by:

J G Steele - Director

COMPANY BALANCE SHEET
31ST DECEMBER 2022

	Notes	2022		2021	
		£	£	£	£
FIXED ASSETS					
Tangible assets	9		1,350,052		3,134,474
Investments	10		<u>2</u>		<u>1</u>
			1,350,054		3,134,475
CURRENT ASSETS					
Stocks	11	1,581,448		1,459,840	
Debtors	12	3,068,928		2,597,022	
Cash at bank		<u>11,346</u>		<u>127,975</u>	
		4,661,722		4,184,837	
CREDITORS					
Amounts falling due within one year	13	<u>19,780,770</u>		<u>16,064,893</u>	
NET CURRENT LIABILITIES			(15,119,048)		(11,880,056)
TOTAL ASSETS LESS CURRENT LIABILITIES			(13,768,994)		(8,745,581)
CREDITORS					
Amounts falling due after more than one year	14		-		821,601
PROVISIONS FOR LIABILITIES	18		-		246,061
CAPITAL AND RESERVES					
Called up share capital	19	3,621,664		3,069,715	
Share premium	20	30,954,709		29,642,714	
Retained earnings	20	<u>(48,345,367)</u>		<u>(42,525,672)</u>	
SHAREHOLDERS' FUNDS			(13,768,994)		(9,813,243)
			(13,768,994)		(8,745,581)
Company's loss for the financial year			(5,819,695)		(6,069,303)

The financial statements were approved by the Board of Directors and authorised for issue on 15th December 2023 and were signed on its behalf by:

J G Steele - Director

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31ST DECEMBER 2022**

	Called up share capital £	Retained earnings £	Share premium £	Total equity £
Balance at 1st January 2021	2,499,527	(36,456,369)	24,496,588	(9,460,254)
Changes in equity				
Issue of share capital	570,188	-	5,146,126	5,716,314
Total comprehensive income	-	(6,069,304)	-	(6,069,304)
Balance at 31st December 2021	<u>3,069,715</u>	<u>(42,525,673)</u>	<u>29,642,714</u>	<u>(9,813,244)</u>
Changes in equity				
Issue of share capital	551,949	-	1,311,995	1,863,944
Total comprehensive income	-	(6,264,403)	-	(6,264,403)
Balance at 31st December 2022	<u>3,621,664</u>	<u>(48,790,076)</u>	<u>30,954,709</u>	<u>(14,213,703)</u>

The notes form part of these financial statements

COMPANY STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31ST DECEMBER 2022

	Called up share capital £	Retained earnings £	Share premium £	Total equity £
Balance at 1st January 2021	2,499,526	(36,456,369)	24,496,588	(9,460,255)
Changes in equity				
Issue of share capital	570,189	-	5,146,126	5,716,315
Total comprehensive income	-	(6,069,303)	-	(6,069,303)
Balance at 31st December 2021	<u>3,069,715</u>	<u>(42,525,672)</u>	<u>29,642,714</u>	<u>(9,813,243)</u>
Changes in equity				
Issue of share capital	551,949	-	1,311,995	1,863,944
Total comprehensive income	-	(5,819,695)	-	(5,819,695)
Balance at 31st December 2022	<u>3,621,664</u>	<u>(48,345,367)</u>	<u>30,954,709</u>	<u>(13,768,994)</u>

The notes form part of these financial statements

**CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEAR ENDED 31ST DECEMBER 2022**

	Notes	2022 £	2021 £
Cash flows from operating activities			
Cash generated from operations	1	(3,738,603)	(6,754,578)
Interest paid		(24,956)	-
Interest element of finance lease payments paid		(93,711)	(108,241)
Finance costs paid		(42,800)	(356,782)
Tax paid		<u>1,610,852</u>	<u>1,380,179</u>
Net cash from operating activities		<u>(2,289,218)</u>	<u>(5,839,422)</u>
Cash flows from investing activities			
Purchase of tangible fixed assets		(69,511)	(1,837,176)
Sale of tangible fixed assets		926	127,272
Net cash from investing activities		<u>(68,585)</u>	<u>(1,709,904)</u>
Cash flows from financing activities			
New loans in year		2,982,989	4,746,568
Loan repayments in year		(1,973,483)	(13,028)
Capital repayments in year		(611,691)	(564,696)
Share issue		551,949	5,716,315
Share premium		1,311,995	-
New finance leases		-	1,090,678
Loans converted to share capital		-	(3,327,621)
Net cash from financing activities		<u>2,261,759</u>	<u>7,648,216</u>
(Decrease)/increase in cash and cash equivalents		<u>(96,044)</u>	<u>98,890</u>
Cash and cash equivalents at beginning of year	2	127,975	29,085
Cash and cash equivalents at end of year	2	<u>31,931</u>	<u>127,975</u>

The notes form part of these financial statements

NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEAR ENDED 31ST DECEMBER 2022

1. RECONCILIATION OF LOSS BEFORE TAXATION TO CASH GENERATED FROM OPERATIONS

	2022	2021
	£	£
Loss before taxation	(7,821,230)	(7,680,156)
Depreciation charges	1,032,232	1,037,310
Profit on disposal of fixed assets	-	(127,272)
Movement on provisions	(20,424)	-
Finance costs	161,467	465,023
	<u>(6,647,955)</u>	<u>(6,305,095)</u>
Increase in stocks	(121,608)	(271,859)
Increase in trade and other debtors	(180,090)	(435,017)
Increase in trade and other creditors	3,211,050	257,393
Cash generated from operations	<u>(3,738,603)</u>	<u>(6,754,578)</u>

2. CASH AND CASH EQUIVALENTS

The amounts disclosed on the Cash Flow Statement in respect of cash and cash equivalents are in respect of these Balance Sheet amounts:

Year ended 31st December 2022

	31/12/22	1/1/22
	£	£
Cash and cash equivalents	<u>31,931</u>	<u>127,975</u>

Year ended 31st December 2021

	31/12/21	1/1/21
	£	£
Cash and cash equivalents	<u>127,975</u>	<u>29,085</u>

3. ANALYSIS OF CHANGES IN NET DEBT

	At 1/1/22	Cash flow	At 31/12/22
	£	£	£
Net cash			
Cash at bank	<u>127,975</u>	<u>(96,044)</u>	<u>31,931</u>
	<u>127,975</u>	<u>(96,044)</u>	<u>31,931</u>
Debt			
Finance leases	(1,436,573)	611,691	(824,882)
Debts falling due within 1 year	<u>(13,202,224)</u>	<u>(1,009,503)</u>	<u>(14,211,727)</u>
	<u>(14,638,797)</u>	<u>(397,812)</u>	<u>(15,036,609)</u>
Total	<u>(14,510,822)</u>	<u>(493,856)</u>	<u>(15,004,678)</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST DECEMBER 2022

1. **STATUTORY INFORMATION**

Hilight Semiconductor Limited is a private company, limited by shares, registered in England and Wales. The company's registered number and registered office address can be found on the General Information page.

2. **ACCOUNTING POLICIES**

Basis of preparing the financial statements

The financial statements have been prepared on the going concern basis due to the continuing support of the principal shareholders as evidenced by the provision of further loan finance during the year ended 31st December 2022, and in 2023, as required.

The company has substantially reduced its R&D spend during 2023 so as to achieve operating profitability and positive cashflow.

Significant judgements and estimates

No significant judgements have had to be made by the directors in preparing these financial statements other than as regards the realisable value of the stock.

Turnover

Turnover represents net invoiced sales of goods and services, excluding value added tax.

Tangible fixed assets

Depreciation is provided at the following annual rates in order to write off each asset over its estimated useful life or, if held under a finance lease, over the lease term, whichever is the shorter.

Plant and machinery	- at varying rates on cost
Fixtures and fittings	- 15% on cost
Tooling (masks)	- 10% on cost
Computer equipment	- 33% on cost

The company's own production masks (tooling) are capitalised at their cumulative development cost once the design has been finalised and tested and production has commenced.

Stocks

Stocks of finished products ready for sale and product work in progress are valued at original cost, which is expected to continue to be less than realisable value, with no provisions for obsolete or slow moving items.

Cost includes initial purchase and subsequent processing costs at the US\$ rate applicable at the time of purchase and, as all stocks are held at the third party processors, there are no costs in bringing stocks to their present location.

Financial instruments

The company only enters into basic financial instruments transactions that result in the recognition of financial assets and liabilities like trade and other accounts receivable and payable, asset finance and loans from related parties.

Financial assets that are measured at cost are assessed at the end of each reporting period for objective evidence of impairment. If objective evidence of impairment is found, an impairment loss is recognised in profit or loss.

For financial assets measured at cost less impairment, the impairment loss is measured as the difference between an asset's carrying amount and the best estimate, which is an approximation, of the amount that the company would receive for the asset if it were to be sold at the reporting date.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED 31ST DECEMBER 2022

2. **ACCOUNTING POLICIES - continued**

Taxation

Taxation for the year comprises current and deferred tax. Tax is recognised in the Consolidated Income Statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity.

Current or deferred taxation assets and liabilities are not discounted.

Current tax is recognised at the amount of tax payable using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred tax

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date.

Timing differences arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in financial statements. Deferred tax is measured using tax rates and laws that have been enacted or substantively enacted by the year end and that are expected to apply to the reversal of the timing difference.

Unrelieved tax losses and other deferred tax assets are recognised only to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

Research and development

Expenditure on research and development is written off in the year in which it is incurred.

Foreign currencies

Assets and liabilities in foreign currencies are translated into sterling at the rates of exchange ruling at the balance sheet date. Transactions in foreign currencies are translated into sterling at the rate of exchange ruling at the date of transaction. Exchange differences are taken into account in arriving at the operating result.

Hire purchase and leasing commitments

Assets obtained under hire purchase contracts or finance leases are capitalised in the balance sheet. Those held under hire purchase contracts are depreciated over their estimated useful lives. Those held under finance leases are depreciated over their estimated useful lives or the lease term, whichever is the shorter.

The interest element of these obligations is charged to profit or loss over the relevant period. The capital element of the future payments is treated as a liability.

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

Secondary rentals on finance lease assets retained but fully depreciated over the primary rental period are expensed as operating lease rentals with the liability disclosed as a rental commitment.

Pension costs and other post-retirement benefits

The group operates a defined contribution pension scheme. Contributions payable to the group's pension scheme are charged to profit or loss in the period to which they relate.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED 31ST DECEMBER 2022

2. ACCOUNTING POLICIES - continued

Impairment of non-financial assets

At each reporting date non-financial assets not carried at fair value, like intellectual property, plant, property and equipment, are reviewed to determine whether there is an indication that an asset may be impaired. If there is an indication of possible impairment, the recoverable amount of any asset or group of related assets, which is the higher of value in use and the fair value less cost to sell, is estimated and compared with its carrying amount. If the recoverable amount is lower, the carrying amount of the asset is reduced to its recoverable amount and an impairment loss is recognised immediately in profit or loss.

Stock and work in progress is also assessed for impairment at each reporting date but carried at original cost.

If an impairment loss is subsequently reversed, the carrying amount of the asset or group of related assets is increased to the revised estimate of its recoverable amount, but not to exceed the amount that would have been determined had no impairment loss been recognised for the asset or group of related assets.

3. TURNOVER

The turnover and loss before taxation are attributable to the one principal activity of the group.

An analysis of turnover by class of business is given below:

	2022	2021
	£	£
Sale of integrated circuits	<u>3,548,608</u>	<u>2,086,855</u>
	<u>3,548,608</u>	<u>2,086,855</u>

An analysis of turnover by geographical market is given below:

	2022	2021
	£	£
Asia	<u>3,548,608</u>	<u>2,086,855</u>
	<u>3,548,608</u>	<u>2,086,855</u>

4. EMPLOYEES AND DIRECTORS

	2022	2021
	£	£
Wages and salaries	3,894,167	4,243,821
Social security costs	450,357	400,694
Other pension costs	62,398	68,088
	<u>4,406,922</u>	<u>4,712,603</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED 31ST DECEMBER 2022

4. **EMPLOYEES AND DIRECTORS - continued**

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

	2022	2021
R&D and support staff	52	53
Overseas sales staff	4	11
UK directors	1	1
	<u>57</u>	<u>65</u>

The average number of employees by undertakings that were proportionately consolidated during the year was 46 (2021 - NIL) .

	2022	2021
	£	£
Directors' remuneration	30,000	50,000
Directors' pension contributions to money purchase schemes	<u>713</u>	<u>1,313</u>

5. **OPERATING LOSS**

The operating loss is stated after charging/(crediting):

	2022	2021
	£	£
Hire of plant and machinery	587,721	487,276
Other operating leases	177,058	185,304
Depreciation - owned assets	436,183	472,616
Depreciation - assets on finance leases	596,052	564,693
Profit on disposal of fixed assets	-	(127,272)
Auditors' remuneration	13,000	8,250
Foreign exchange differences	<u>775,421</u>	<u>335,420</u>

6. **INTEREST PAYABLE AND SIMILAR EXPENSES**

	2022	2021
	£	£
HMRC Interest payable	24,956	-
Finance lease charges	93,711	108,241
Loan interest	<u>42,800</u>	<u>356,782</u>
	<u>161,467</u>	<u>465,023</u>

7. **TAXATION**

Analysis of the tax credit

The tax credit on the loss for the year was as follows:

	2022	2021
	£	£
Current tax:		
UK corporation tax	<u>(1,556,827)</u>	<u>(1,610,852)</u>
Tax on loss	<u>(1,556,827)</u>	<u>(1,610,852)</u>

UK corporation tax has been charged at 19 % .

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED 31ST DECEMBER 2022

7. TAXATION - continued

The group has unutilised tax losses of approximately £28 million.

8. INDIVIDUAL INCOME STATEMENT

As permitted by Section 408 of the Companies Act 2006, the Income Statement of the parent company is not presented as part of these financial statements.

9. TANGIBLE FIXED ASSETS

Group

	Plant and machinery £	Fixtures and fittings £	Tooling (masks) £	Computer equipment £	Totals £
COST					
At 1st January 2022	5,643,736	77,693	1,617,028	256,416	7,594,873
Additions	61,247	-	-	8,264	69,511
Disposals	-	-	-	(926)	(926)
At 31st December 2022	<u>5,704,983</u>	<u>77,693</u>	<u>1,617,028</u>	<u>263,754</u>	<u>7,663,458</u>
DEPRECIATION					
At 1st January 2022	3,677,998	57,408	490,886	234,107	4,460,399
Charge for year	842,277	10,636	161,703	17,619	1,032,235
At 31st December 2022	<u>4,520,275</u>	<u>68,044</u>	<u>652,589</u>	<u>251,726</u>	<u>5,492,634</u>
NET BOOK VALUE					
At 31st December 2022	<u>1,184,708</u>	<u>9,649</u>	<u>964,439</u>	<u>12,028</u>	<u>2,170,824</u>
At 31st December 2021	<u>1,965,738</u>	<u>20,285</u>	<u>1,126,142</u>	<u>22,309</u>	<u>3,134,474</u>

Fixed assets, included in the above, which are held under finance leases are as follows:

	Plant and machinery £
COST	
At 1st January 2022 and 31st December 2022	<u>4,226,249</u>
DEPRECIATION	
At 1st January 2022	2,809,425
Charge for year	596,052
At 31st December 2022	<u>3,405,477</u>
NET BOOK VALUE	
At 31st December 2022	<u>820,772</u>
At 31st December 2021	<u>1,416,824</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED 31ST DECEMBER 2022

9. TANGIBLE FIXED ASSETS - continued

Company

	Plant and machinery £	Fixtures and fittings £	Tooling (masks) £	Computer equipment £	Totals £
COST					
At 1st January 2022	5,643,736	77,693	1,617,028	256,416	7,594,873
Additions	61,247	-	-	7,338	68,585
Disposals	(1,881,258)	-	-	-	(1,881,258)
At 31st December 2022	<u>3,823,725</u>	<u>77,693</u>	<u>1,617,028</u>	<u>263,754</u>	<u>5,782,200</u>
DEPRECIATION					
At 1st January 2022	3,677,998	57,408	490,886	234,107	4,460,399
Charge for year	636,513	10,636	161,703	17,619	826,471
Eliminated on disposal	(854,722)	-	-	-	(854,722)
At 31st December 2022	<u>3,459,789</u>	<u>68,044</u>	<u>652,589</u>	<u>251,726</u>	<u>4,432,148</u>
NET BOOK VALUE					
At 31st December 2022	<u>363,936</u>	<u>9,649</u>	<u>964,439</u>	<u>12,028</u>	<u>1,350,052</u>
At 31st December 2021	<u>1,965,738</u>	<u>20,285</u>	<u>1,126,142</u>	<u>22,309</u>	<u>3,134,474</u>

Fixed assets, included in the above, which are held under finance leases are as follows:

	Plant and machinery £
COST	
At 1st January 2022	4,226,249
Disposals	(1,881,258)
At 31st December 2022	<u>2,344,991</u>
DEPRECIATION	
At 1st January 2022	2,809,425
Charge for year	390,288
Eliminated on disposal	(854,722)
At 31st December 2022	<u>2,344,991</u>
NET BOOK VALUE	
At 31st December 2022	<u>-</u>
At 31st December 2021	<u>1,416,824</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED 31ST DECEMBER 2022

10. FIXED ASSET INVESTMENTS

Company

	Shares in group undertakings £
COST	
At 1st January 2022	1
Additions	1
At 31st December 2022	<u>2</u>
NET BOOK VALUE	
At 31st December 2022	<u>2</u>
At 31st December 2021	<u>1</u>

11. STOCKS

	Group		Company	
	2022 £	2021 £	2022 £	2021 £
Work-in-progress	1,146,395	1,051,895	1,146,395	1,051,895
Finished goods	435,053	407,945	435,053	407,945
	<u>1,581,448</u>	<u>1,459,840</u>	<u>1,581,448</u>	<u>1,459,840</u>

12. DEBTORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	Group		Company	
	2022 £	2021 £	2022 £	2021 £
Trade debtors	1,051,370	835,096	64,666	835,096
Amounts owed by group undertakings	-	-	1,357,533	-
Other debtors	9,559	7,950	9,559	7,950
Research & Development Tax				
Credits	1,556,827	1,610,852	1,556,827	1,610,852
VAT	32,567	-	7,579	-
Prepayments	72,764	143,124	72,764	143,124
	<u>2,723,087</u>	<u>2,597,022</u>	<u>3,068,928</u>	<u>2,597,022</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED 31ST DECEMBER 2022

13. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	Group		Company	
	2022	2021	2022	2021
	£	£	£	£
Other loans (see note 15)	14,211,727	13,202,224	14,211,727	13,202,224
Finance leases (see note 16)	521,675	614,972	-	614,972
Trade creditors	3,254,239	1,627,460	2,438,221	1,627,459
Amounts owed to group undertakings	-	-	-	1
Social security and other taxes	594,000	591,671	-	591,671
Other creditors	19,836	14,065	22	14,065
Accruals and deferred income	1,536,731	-	1,159,491	-
Accrued expenses	53,941	14,501	1,971,309	14,501
	<u>20,192,149</u>	<u>16,064,893</u>	<u>19,780,770</u>	<u>16,064,893</u>

14. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	Group		Company	
	2022	2021	2022	2021
	£	£	£	£
Finance leases (see note 16)	<u>303,207</u>	<u>821,601</u>	<u>-</u>	<u>821,601</u>

15. LOANS

An analysis of the maturity of loans is given below:

	Group		Company	
	2022	2021	2022	2021
	£	£	£	£
Amounts falling due within one year or on demand:				
Shareholder loans	13,699,956	12,741,488	13,699,956	12,741,488
Harbert Euro loan	511,771	460,736	511,771	460,736
	<u>14,211,727</u>	<u>13,202,224</u>	<u>14,211,727</u>	<u>13,202,224</u>

16. LEASING AGREEMENTS

Minimum lease payments fall due as follows:

Group	Finance leases	
	2022	2021
	£	£
Net obligations repayable:		
Within one year	521,675	614,972
Between one and five years	<u>303,207</u>	<u>821,601</u>
	<u>824,882</u>	<u>1,436,573</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED 31ST DECEMBER 2022

16. LEASING AGREEMENTS - continued

Company

	Finance leases	
	2022	2021
	£	£
Net obligations repayable:		
Within one year	-	614,972
Between one and five years	-	821,601
	<u>-</u>	<u>1,436,573</u>

Company

	Non-cancellable	operating
	2022	leases
	£	2021
	£	£
Within one year	1,307,000	1,291,000
Between one and five years	952,000	1,514,000
	<u>2,259,000</u>	<u>2,805,000</u>

17. SECURED DEBTS

The following secured debts are included within creditors:

	Group		Company	
	2022	2021	2022	2021
	£	£	£	£
Finance leases	824,882	1,436,573	-	1,436,573
Harbert Euro Loan	511,770	460,735	511,770	460,735
	<u>1,336,652</u>	<u>1,897,308</u>	<u>511,770</u>	<u>1,897,308</u>

Finance lease liabilities are secured on the finance lease assets and the Harbert loan is secured on the other assets of the company.

18. PROVISIONS FOR LIABILITIES

	Group		Company	
	2022	2021	2022	2021
	£	£	£	£
Other provisions	225,637	246,061	-	246,061
Aggregate amounts	<u>225,637</u>	<u>246,061</u>	<u>-</u>	<u>246,061</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED 31ST DECEMBER 2022

18. PROVISIONS FOR LIABILITIES - continued

Company

	Other provisions £
Balance at 1st January 2022	246,061
Unused amounts reversed during year	<u>(246,061)</u>
Balance at 31st December 2022	<u>-</u>

Other provisions comprise the notional value of accrued but untaken holidays for the group's employees as at the end of December each year.

19. CALLED UP SHARE CAPITAL

Allotted, issued and fully paid:

Number:	Class:	Nominal value:	2022 £	2021 £
569,883	Ordinary	12.5p	71,236	71,236
5,435,349	A Ordinary Non-Voting	12.5p	679,419	127,470
4,454,031	B Preferred	12.5p	556,754	556,754
4,520,155	Series A	12.5p	565,019	565,019
2,733,298	Series B	12.5p	341,662	341,662
143,500	C Ordinary	12.5p	17,938	17,938
7,418,446	Series C Convertible Preferred	12.5p	927,307	927,307
3,698,635	Series D Convertible Preferred	12.5p	462,329	462,329
			<u>3,621,664</u>	<u>3,069,715</u>

During the year the company issued 4,415,578 £0.125 A Ordinary Non-Voting shares.

Options:

As at 1st January 2021, the company had options in force over 6,992,678 A Ordinary Non-Voting shares, 4,375,290 at £0.125 (4,375,290 vested), 1,452,800 at £1.00 (1,393,134 vested), 710,588 at £1.60 (700,588 vested), 105,000 at £0.25 (103,000 vested) and 349,000 at \$0.20 (Nil vested).

3,065,690 A Ordinary Non-Voting shares at £0.125, 875,300 at £1.00, 390,588 at £1.60 and 84,000 at £0.25 were exercised during the year. A further 10,000 A Ordinary Non-Voting shares at £0.125, 161,500 at £1.00 and 25,000 at £1.60 lapsed.

As at 31st December 2022, the company had options in force over 2,380,600 A Ordinary Non-Voting shares, 1,299,600 at £0.125 (1,299,600 vested), 416,000 at £1.00 (416,000 vested), 295,000 at £1.60 (295,000 vested), 21,000 at £0.25 (21,000 vested) and 349,000 at \$0.20 (116,000 vested).

Warrants and Convertible Loans:

Harbert European Growth Capital Fund has a warrant to subscribe for new shares to the value of US\$200,000 at the issue price at the next equity funding round.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED 31ST DECEMBER 2022

20. RESERVES

Group

	Retained earnings £	Share premium £	Totals £
At 1st January 2022	(42,525,673)	29,642,714	(12,882,959)
Deficit for the year	(6,264,403)		(6,264,403)
Cash share issue	-	1,311,995	1,311,995
At 31st December 2022	<u>(48,790,076)</u>	<u>30,954,709</u>	<u>(17,835,367)</u>

Company

	Retained earnings £	Share premium £	Totals £
At 1st January 2022	(42,525,672)	29,642,714	(12,882,958)
Deficit for the year	(5,819,695)		(5,819,695)
Cash share issue	-	1,311,995	1,311,995
At 31st December 2022	<u>(48,345,367)</u>	<u>30,954,709</u>	<u>(17,390,658)</u>

21. RELATED PARTY DISCLOSURES

At the year end the company owed £4,960,373 (2021: £6,383,858) to Roundhurst Holdings Limited, a company controlled by Mr J G Steele. The loan is interest free, designated in GBP and repayable on demand. The company also owed \$1,151,287 (2021: \$1,151,287) to Roundhurst Holdings Limited. Interest is charged on the loan at 6% per annum but not accrued as it will be waived on conversion into Series C shares at the lenders discretion. The loan is designated in USD.

At the year end the company also owed \$2,025,000 (2021: \$2,025,000) to Atlantic Bridge III Limited Partnership, a shareholder of the company. Interest is charged on the loan at 6% per annum but not accrued as it will be waived on conversion into Series C shares at the lenders discretion. The loan is designated in USD.

At the year end the company also owed £Nil (2021: £300,000) to J G Steele, a shareholder and director of the company. The loan is interest free, designated in GBP and repayable on demand.

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