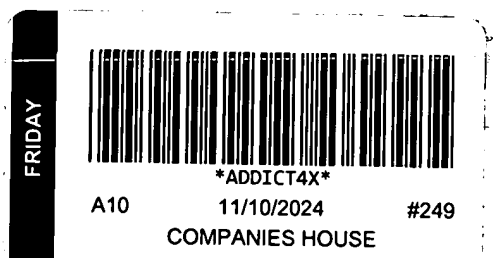


COMPANY REGISTRATION NUMBER: SC267035

Powerphonic Limited
Group Financial Statements
For the year ended
31 December 2023



Powerphotonic Limited

Group Financial Statements

Year ended 31 December 2023

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Powerphotonic Limited

Officers and Professional Advisers

The Board of Directors

Dr R McBride
S C Younger
Dr R Black
D R Evans

Company Secretary

Numbersmiths Consulting Ltd

Registered Office

Unit 5A
St David's Business Park
St David's Drive
Dalgety Bay
Fife
KY11 9PF

Auditor

CT
Chartered Accountants & Statutory Auditor
61 Dublin Street
Edinburgh
EH3 6NL

Bankers

Virgin Money
64 High Street
Dunfermline
Fife
KY12 7DF

Powerphotonic Limited

Directors' Report

Year ended 31 December 2023

The directors present their report and the Group financial statements of the group for the year ended 31 December 2023.

Principal activity

The principal activity of the company continues to be the design, development, manufacture and sale of precision micro-optics for the laser industry.

Business Review

Revenues continued to improve in 2023, with total group turnover 9% higher than in the prior year at £5,450,127 (2022: £5,002,441). Defence sales were broadly in line with those from the previous year, while sales to the Industrial markets fell slightly following a strong post-pandemic recovery the previous year. Medical revenues grew strongly, and the resulting change in product mix was reflected in a lower Gross Margin of 59% (2022: 65%). Administrative expenses were 27% higher than the prior year at £4,942,333 (2021: £3,896,748) as production started at the group's new manufacturing facility in Sahuarita, Arizona, USA. Other Operating Income was lower at £43,750 (2022: £144,245) as a result of reduced grant revenue. The Operating Loss for the year was £1,668,882 (2022: £520,329 loss). During the year the group incurred capital expenditure of £621,511 (2022: £1,365,634), the majority of which, in both years, was in relation to setting up a new US operation.

Directors

The directors who served the company during the year were as follows:

Dr R McBride
S C Younger
Dr R Black
D R Evans
R J G Clarke (Resigned 29 September 2023)

Events after the end of the reporting period

Particulars of events after the reporting date are detailed in note 15 to the Group financial statements.

Directors' responsibilities statement

The directors are responsible for preparing the directors' report and the Group financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare Group financial statements for each financial year. Under that law the directors have elected to prepare the Group 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 Group financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and the company and the profit or loss of the group for that period.

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

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- prepare the Group financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the Group financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Powerphotonic Limited

Directors' Report *(continued)*

Year ended 31 December 2023

Auditor

Each of the persons who is a director at the date of approval of this report confirms that:

- so far as they are aware, there is no relevant audit information of which the group and the company's auditor is unaware; and
- they have taken all steps that they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the group and the company's auditor is aware of that information.

Small company provisions

This report has been prepared in accordance with the provisions applicable to companies entitled to the small companies exemption.

This report was approved by the board of directors on 8 October 2024 and signed on behalf of the board by:

Roy McBride

Dr R McBride
Director

Powerphotonic Limited

Independent Auditor's Report to the Members of Powerphotonic Limited

Year ended 31 December 2023

Opinion

We have audited the Group financial statements of Powerphotonic Limited (the 'parent company') and its subsidiaries (the 'group') for the year ended 31 December 2023 which comprise the consolidated statement of comprehensive income, consolidated statement of financial position, company statement of financial position, consolidated statement of changes in equity, 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 FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland (United Kingdom Generally Accepted Accounting Practice).

In our opinion the Group financial statements:

- give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2023 and of the group's loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice;
- 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 group 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 Group financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We draw attention to the "Going Concern" section of note 3 in the financial statements which indicates that the Group incurred pre-tax losses of £1,951,252 and requires further external funding in order to meet its financial obligations as they fall due for a period of not less than 12 months from the date of approval of these financial statements. These events or conditions indicate that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern. Our audit opinion is not modified in respect of the matter.

Other information

The other information comprises the information included in the annual report, other than the Group financial statements and our auditor's report thereon. The directors are responsible for the other information. Our opinion on the Group 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 Group financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the Group financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the Group financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Powerphotonic Limited

Independent Auditor's Report to the Members of Powerphotonic Limited *(continued)*

Year ended 31 December 2023

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 directors' report for the financial year for which the Group financial statements are prepared is consistent with the Group financial statements; and
- the directors' report has been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

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, 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 the 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; and
- the directors were not entitled to prepare the financial statements in accordance with the small companies regime and take advantage of the small companies exemption in preparing the directors reports and take advantage of the small companies exemption from the requirement to prepare a strategic report.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the Group 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 Group financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the Group 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.

Powerphotonic Limited

Independent Auditor's Report to the Members of Powerphotonic Limited *(continued)*

Year ended 31 December 2023

Auditor's responsibilities for the audit of the group financial statements

Our objectives are to obtain reasonable assurance about whether the Group 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 gained an understanding of the legal and regulatory framework applicable to the company and the industry in which it operates and considered the risk of acts by the company which were contrary to applicable laws and regulations, including fraud. These included but were not limited to the Companies Act 2006 and general Health and Safety Regulations.

Our audit procedures were designed to respond to risks of material misstatement in the financial statements, recognising that the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery, misrepresentations or through collusion.

We focused on laws and regulations that could give rise to a material misstatement in the company's financial statements. Our tests included, but were not limited to:

- agreement of the financial statement disclosures to underlying supporting documentation;
- enquiries of the finance director, the directors and shareholders;
- review of minutes of board meetings throughout the period, and
- obtaining an understanding of the control environment in monitoring compliance with laws and regulations.

There are inherent limitations in an audit of financial statements and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we would become aware of it. We also addressed the risk of management override of internal controls, including testing journals and evaluating whether there was evidence of bias by the directors that represented a risk of material misstatement due to fraud.

A further description of our responsibilities for the audit of the Group financial statements is located on the Financial Reporting Council's website at www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Powerphotonic Limited

Independent Auditor's Report to the Members of Powerphotonic Limited *(continued)*

Year ended 31 December 2023

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.

Barry Truswell

Barry Truswell CA (Senior Statutory Auditor)

For and on behalf of

CT

Chartered Accountants & Statutory Auditor

61 Dublin Street

Edinburgh

EH3 6NL

8 October 2024

Powerphotonic Limited**Consolidated Statement of Comprehensive Income**

Year ended 31 December 2023

	Note	2023 £	2022 £
Turnover		5,450,127	5,002,441
Cost of sales		(2,220,426)	(1,770,267)
Gross profit		3,229,701	3,232,174
Administrative expenses		(4,942,333)	(3,896,748)
Other operating income		43,750	144,245
Operating loss		(1,668,882)	(520,329)
Other interest receivable and similar income		896	–
Interest payable and similar expenses		(283,266)	(54,372)
Loss before taxation	6	(1,951,252)	(574,701)
Tax on loss		127,351	181,631
Loss for the financial year		(1,823,901)	(393,070)
Foreign currency retranslation		54,187	3,634
Total comprehensive income for the year		(1,769,714)	(389,436)

All the activities of the group are from continuing operations.

The notes on pages 13 to 21 form part of these Group financial statements.

Powerphotonic Limited**Consolidated Statement of Financial Position****31 December 2023**

	Note	2023 £	2022 £
Fixed assets			
Tangible assets	8	2,327,604	2,208,834
Current assets			
Stocks		659,267	560,796
Debtors	10	1,617,697	1,412,407
Cash at bank and in hand		528,427	1,476,019
		<u>2,805,391</u>	<u>3,449,222</u>
Creditors: amounts falling due within one year	11	<u>(2,851,009)</u>	<u>(1,618,929)</u>
Net current (liabilities)/assets		<u>(45,618)</u>	<u>1,830,293</u>
Total assets less current liabilities		<u>2,281,986</u>	<u>4,039,127</u>
Creditors: amounts falling due after more than one year	12	<u>(1,633,897)</u>	<u>(1,660,816)</u>
Net assets		<u><u>648,089</u></u>	<u><u>2,378,311</u></u>
Capital and reserves			
Called up share capital		15,563	15,563
Share premium account		4,846,357	4,846,357
Translation reserve		60,731	6,544
Profit and loss account		(4,274,562)	(2,490,153)
Shareholders funds		<u><u>648,089</u></u>	<u><u>2,378,311</u></u>

These Group financial statements have been prepared in accordance with the provisions applicable to companies subject to the small companies' regime and in accordance with Section 1A of FRS 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland'.

These Group financial statements were approved by the board of directors and authorised for issue on 8 October 2024, and are signed on behalf of the board by:

Roy McBride

Dr R McBride
Director

Company registration number: SC267035

The notes on pages 13 to 21 form part of these Group financial statements.

Powerphotonic Limited

Company Statement of Financial Position

31 December 2023

	Note	2023 £	2022 £
Fixed assets			
Tangible assets	8	1,082,123	1,405,982
Investments	9	1	–
		<u>1,082,124</u>	<u>1,405,982</u>
Current assets			
Stocks		649,900	560,796
Debtors	10	4,143,876	2,177,362
Cash at bank and in hand		485,561	1,457,053
		<u>5,279,337</u>	<u>4,195,211</u>
Creditors: amounts falling due within one year	11	<u>(2,731,146)</u>	<u>(1,087,256)</u>
Net current assets		<u>2,548,191</u>	<u>3,107,955</u>
Total assets less current liabilities		<u>3,630,315</u>	<u>4,513,937</u>
Creditors: amounts falling due after more than one year	12	<u>(1,209,863)</u>	<u>(1,247,229)</u>
Net assets		<u>2,420,452</u>	<u>3,266,708</u>
Capital and reserves			
Called up share capital		15,563	15,563
Share premium account		4,846,357	4,846,357
Profit and loss account		<u>(2,441,468)</u>	<u>(1,595,212)</u>
Shareholders funds		<u>2,420,452</u>	<u>3,266,708</u>

The loss for the financial year of the parent company was £885,747 (2022: £389,288 profit).

These Group financial statements have been prepared in accordance with the provisions applicable to companies subject to the small companies' regime and in accordance with Section 1A of FRS 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland'.

These Group financial statements were approved by the board of directors and authorised for issue on 8 October 2024, and are signed on behalf of the board by:

Roy McBride

Dr R McBride
Director

Company registration number: SC267035

The notes on pages 13 to 21 form part of these Group financial statements.

Powerphotonic Limited**Consolidated Statement of Changes in Equity**

Year ended 31 December 2023

	Called up share capital £	Share premium account £	Translation reserve £	Profit and loss account £	Total £
At 1 January 2022	15,563	4,846,357	2,910	(2,134,070)	2,730,760
Loss for the year				(393,070)	(393,070)
Other comprehensive income for the year:					
Foreign currency retranslation	—	—	3,634	—	3,634
Total comprehensive income for the year	—	—	3,634	(393,070)	(389,436)
Equity-settled share-based payments	—	—	—	36,987	36,987
Total investments by and distributions to owners	—	—	—	36,987	36,987
At 31 December 2022	15,563	4,846,357	6,544	(2,490,153)	2,378,311
Loss for the year				(1,823,901)	(1,823,901)
Other comprehensive income for the year:					
Foreign currency retranslation	—	—	54,187	—	54,187
Total comprehensive income for the year	—	—	54,187	(1,823,901)	(1,769,714)
Equity-settled share-based payments	—	—	—	39,492	39,492
Total investments by and distributions to owners	—	—	—	39,492	39,492
At 31 December 2023	<u>15,563</u>	<u>4,846,357</u>	<u>60,731</u>	<u>(4,274,562)</u>	<u>648,089</u>

The notes on pages 13 to 21 form part of these Group financial statements.

Powerphotonic Limited

Company Statement of Changes in Equity

Year ended 31 December 2023

	Called up share capital £	Share premium account £	Profit and loss account £	Total £
At 1 January 2022	15,563	4,846,357	(2,021,487)	2,840,433
Profit for the year			389,288	389,288
Total comprehensive income for the year	—	—	389,288	389,288
Equity-settled share-based payments	—	—	36,987	36,987
Total investments by and distributions to owners	—	—	36,987	36,987
At 31 December 2022	15,563	4,846,357	(1,595,213)	3,266,707
Loss for the year			(885,747)	(885,747)
Total comprehensive income for the year	—	—	(885,747)	(885,747)
Equity-settled share-based payments	—	—	39,492	39,492
Total investments by and distributions to owners	—	—	39,492	39,492
At 31 December 2023	<u>15,563</u>	<u>4,846,357</u>	<u>(2,441,468)</u>	<u>2,420,452</u>

The notes on pages 13 to 21 form part of these Group financial statements.

Powerphotonic Limited

Notes to the Group Financial Statements

Year ended 31 December 2023

1. General information

The company is a private company limited by shares, registered in Scotland. The address of the registered office is Unit 5A, St David's Business Park, Dalgety Bay, Fife, KY11 9PF.

2. Statement of compliance

These Group financial statements have been prepared in compliance with Section 1A of FRS 102, 'The Financial Reporting Standard applicable in the UK and the Republic of Ireland'.

3. Accounting policies

Basis of preparation

The Group financial statements have been prepared on the historical cost basis, as modified by the revaluation of certain financial assets and liabilities and investment properties measured at fair value through profit or loss.

The Group financial statements are prepared in sterling, which is the functional currency of the entity.

Going concern

Turnover increased once again in 2023, but the group made a loss before taxation for the year of £1,951,252 (2022: £574,701 loss) and ended the year with cash balances of £528,427 (2022: £1,476,019). Despite the Revenue growth, EBIT was negative and capital expenditure remained high during the early months of the year, resulting in significant cash outflow.

As a result, the group created £1,000,000 in unsecured convertible loan notes on 31 May 2023. The loan notes had a nominal value of £1.00 each, expiring on 31 August 2024. In the event of a fund raising prior to the expiry date, the notes would be convertible and, if not redeemed or converted prior to the expiry date, any outstanding notes would also be converted. A premium was payable on redemption on any issued notes, which accrued daily from the date of issue of the notes to the redemption date. Of the loan notes created, £500,000 were issued on the date of creation to provide working capital and fund continued growth; and a further £500,000 issued on 25 August 2023. The Convertible Loan Note Instrument was subsequently amended on 10 October 2023 to allow creation of an additional 1,028,140 convertible loan notes each with nominal value of £1.00. Of the additional loan notes, a drawdown of £514,070 took place on the same date to facilitate further capital investment by the business. During the year, the above drawdowns contributed to a net increase in group borrowings of £1,619,131.

The financial statements have been prepared on a going concern basis, which assumes that the company will continue in operation for the foreseeable future. The company incurred pre-tax losses during the year of £1,951,252 and requires further external funding in order to support its operations for the foreseeable future. The company has discussed its funding situation with its principal investors and a fundraise is planned within the next three months. Based on these discussions, the Directors are of the opinion that, whilst there is a degree of uncertainty, the going concern basis of preparation is appropriate.

Consolidation

The Group financial statements consolidate the Group financial statements of Powerphotonic Limited and all of its subsidiary undertakings.

The results of subsidiaries acquired or disposed of during the year are included from or to the date that control passes.

The parent company has applied the exemption contained in section 408 of the Companies Act 2006 and has not presented its individual profit and loss account.

Powerphotonic Limited

Notes to the Group Financial Statements (continued)

Year ended 31 December 2023

3. Accounting policies (continued)

Revenue recognition

Turnover is measured at the fair value of the consideration received or receivable for goods supplied and services rendered, net of discounts and Value Added Tax.

Revenue from the sale of goods is recognised when the significant risks and rewards of ownership have transferred to the buyer (usually on despatch of the goods); the amount of revenue can be measured reliably; it is probable that the associated economic benefits will flow to the entity; and the costs incurred or to be incurred in respect of the transactions can be measured reliably.

Taxation

Current tax is recognised on taxable profit for the current and past periods. Current tax is measured at the amounts of tax expected to pay or recover using the tax rates and laws that have been enacted or substantively enacted at the reporting date.

Deferred tax is recognised in respect of all timing differences at the reporting date. Unrelieved tax losses and other deferred tax assets are recognised to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

Deferred tax is measured using the tax rates and laws that have been enacted or substantively enacted by the reporting date that are expected to apply to the reversal of the timing difference.

Deferred tax is provided on the liability method to take account of timing between the treatment of certain items for financial statements purposes and the treatment for tax purposes. Tax deferred is accounted for in respect of all material timing differences. Deferred tax assets are only recognised to the extent that they are regarded as recoverable.

Foreign currencies

Foreign currency transactions are initially recorded in the functional currency, by applying the spot exchange rate as at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the exchange rate ruling at the reporting date, with any gains or losses being taken to the profit and loss account.

Operating leases

Lease payments are recognised as an expense over the lease term on a straight-line basis. The aggregate benefit of lease incentives is recognised as a reduction to expense over the lease term, on a straight-line basis.

Intangible assets

Intangible assets are initially recorded at cost, and are subsequently stated at cost less any accumulated amortisation and impairment losses. Any intangible assets carried at revalued amounts, are recorded at the fair value at the date of revaluation, as determined by reference to an active market, less any subsequent accumulated amortisation and subsequent accumulated impairment losses. Intangible assets acquired as part of a business combination are recorded at the fair value at the acquisition date.

Powerphotonic Limited

Notes to the Group Financial Statements *(continued)*

Year ended 31 December 2023

3. Accounting policies *(continued)*

Amortisation

Amortisation is calculated so as to write off the cost of an asset, less its estimated residual value, over the useful life of that asset as follows:

Intellectual Property - 33% straight line

If there is an indication that there has been a significant change in amortisation rate, useful life or residual value of an intangible asset, the amortisation is revised prospectively to reflect the new estimates.

Research and development

Research and development expenditure is written off in the year in which it is incurred, except where expenditure is made on a clearly defined project with reasonable certainty as to its technical feasibility and ultimate commercial viability. Where this is the case, these costs will be capitalised and amortised over a defined period.

Tangible assets

All fixed assets are initially recorded at cost. Certain internally constructed assets are recorded at the cost of the materials used to construct the assets however internal labour resources used in the construction are not capitalised as part of the cost of the asset.

Depreciation

Depreciation is calculated so as to write off the cost or valuation of an asset, less its residual value, over the useful economic life of that asset as follows:

Equipment - 25% - 33% Straight Line
Leasehold improvements - Over the term of the lease

During the year the company has been constructing assets for use internally. As at 31 December 2022, the construction is not complete and the assets are not in use by the company. The assets have been recognised at cost but will not be depreciated until they are brought into use and transferred to Equipment costs.

Investments

Fixed asset investments are initially recorded at cost, and subsequently stated at cost less any accumulated impairment losses.

Listed investments are measured at fair value with changes in fair value being recognised in profit or loss.

Investments in associates

Investments in associates are accounted for using the equity method of accounting, whereby the investment is initially recognised at the transaction price and subsequently adjusted to reflect the group's share of the profit or loss, other comprehensive income and equity of the associate.

Investments in joint ventures

Investments in joint ventures are accounted for using the equity method of accounting, whereby the investment is initially recognised at the transaction price and subsequently adjusted to reflect the group's share of the profit or loss, other comprehensive income and equity of the joint venture.

Powerphotonic Limited

Notes to the Group Financial Statements *(continued)*

Year ended 31 December 2023

3. Accounting policies *(continued)*

Impairment of fixed assets

A review for indicators of impairment is carried out at each reporting date, with the recoverable amount being estimated where such indicators exist. Where the carrying value exceeds the recoverable amount, the asset is impaired accordingly. Prior impairments are also reviewed for possible reversal at each reporting date.

Stocks

Stocks are measured at the lower of cost and estimated selling price less costs to complete and sell. Cost includes all costs of purchase, costs of conversion and other costs incurred in bringing the stock to its present location and condition.

Government grants

Government grants in respect of capital expenditure are deferred and are then amortised as income to the profit and loss account in line with the depreciation of the asset purchased.

Government grants received in respect of revenue expenditure are included in turnover in the profit and loss account in the same period as the costs to which the grants relate were incurred.

Defined contribution plans

Contributions to defined contribution plans are recognised as an expense in the period in which the related service is provided. Prepaid contributions are recognised as an asset to the extent that the prepayment will lead to a reduction in future payments or a cash refund.

Share-based payments

Equity-settled share-based payment transactions are measured at fair value at the date of grant. The fair value is expensed on a straight-line basis over the vesting period, with a corresponding increase in equity. This is based upon the company's estimate of the shares or share options that will eventually vest which takes into account all vesting conditions and non-market performance conditions, with adjustments being made where new information indicates the number of shares or share options expected to vest differs from previous estimates.

Fair value is determined using an appropriate pricing model. All market conditions and non-vesting conditions are taken into account when estimating the fair value of the shares or share options. As long as all other vesting conditions are satisfied, no adjustment is made irrespective of whether market or non-vesting conditions are met.

Where the terms of an equity-settled transaction are modified, an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any increase in the fair value of the transaction, as measured at the date of modification.

Where an equity-settled transaction is cancelled or settled, it is treated as if it had vested on the date of cancellation or settlement, and any expense not yet recognised in profit or loss is expensed immediately.

Cash-settled share-based payment transactions are measured at the fair value of the liability. Until the liability is settled, the fair value of the liability is re-measured at each reporting date and at the date of settlement, with any changes in fair value recognised in profit or loss for the period.

Powerphotonic Limited

Notes to the Group Financial Statements *(continued)*

Year ended 31 December 2023

4. Auditor's remuneration

	2023 £	2022 £
Fees payable for the audit of the group financial statements	<u>16,650</u>	<u>11,750</u>

5. Employee numbers

The average number of persons employed by the company during the year amounted to 49 (2022: 48).

6. Profit before taxation

Profit before taxation is stated after charging:

	2023 £	2022 £
Depreciation of tangible assets	<u>453,535</u>	<u>382,113</u>

7. Intangible assets

Group and company

Intellectual
Property
£

Cost

At 1 January 2023 and 31 December 2023

70,413

Amortisation

At 1 January 2023 and 31 December 2023

70,413

Carrying amount

At 1 January 2023 and 31 December 2023

-

At 31 December 2022

-

Powerphotonic Limited

Notes to the Group Financial Statements (continued)

Year ended 31 December 2023

8. Tangible assets

Group	Assets under construction £	Equipment £	Leasehold improvements £	Total £
Cost				
At 1 January 2023	1,134,038	3,192,750	217,768	4,544,556
Additions	71,939	481,451	68,121	621,511
Disposals	(13,763)	–	–	(13,763)
At 31 December 2023	<u>1,192,214</u>	<u>3,674,201</u>	<u>285,889</u>	<u>5,152,304</u>
Depreciation				
At 1 January 2023	–	2,279,882	55,840	2,335,722
Charge for the year	–	469,168	19,810	488,978
At 31 December 2023	<u>–</u>	<u>2,749,050</u>	<u>75,650</u>	<u>2,824,700</u>
Carrying amount				
At 31 December 2023	<u>1,192,214</u>	<u>925,151</u>	<u>210,239</u>	<u>2,327,604</u>
At 31 December 2022	<u>1,134,038</u>	<u>912,868</u>	<u>161,928</u>	<u>2,208,834</u>
Company				
	Assets under construction £	Equipment £	Leasehold improvements £	Total £
Cost				
At 1 January 2023	553,809	2,847,614	201,665	3,603,088
Additions	–	66,043	–	66,043
Disposals	(13,763)	(92,830)	–	(106,593)
At 31 December 2023	<u>540,046</u>	<u>2,820,827</u>	<u>201,665</u>	<u>3,562,538</u>
Depreciation				
At 1 January 2023	–	2,141,266	55,840	2,197,106
Charge for the year	–	318,676	15,684	334,360
Disposals	–	(51,051)	–	(51,051)
At 31 December 2023	<u>–</u>	<u>2,408,891</u>	<u>71,524</u>	<u>2,480,415</u>
Carrying amount				
At 31 December 2023	<u>540,046</u>	<u>411,936</u>	<u>130,141</u>	<u>1,082,123</u>
At 31 December 2022	<u>553,809</u>	<u>706,348</u>	<u>145,825</u>	<u>1,405,982</u>

9. Investments

The group has no investments.

Powerphotonic Limited

Notes to the Group Financial Statements (continued)

Year ended 31 December 2023

9. Investments (continued)

Company	Shares in group undertakings £
Cost	
At 1 January 2023 and 31 December 2023	<u>1</u>
Impairment	
At 1 January 2023 and 31 December 2023	<u>–</u>
Carrying amount	
At 1 January 2023 and 31 December 2023	<u>1</u>
At 31 December 2022	<u>1</u>

The company holds 100% of the share capital of Powerphotonic Inc., a company incorporated in the United States of America. Powerphotonic Inc. was dormant in the prior year but started trading again in the current year. The results of Powerphotonic Inc. are fully consolidated within these financial statements.

10. Debtors

	Group		Company	
	2023 £	2022 £	2023 £	2022 £
Trade debtors	1,138,869	939,713	819,687	933,172
Amounts owed by group undertakings	–	–	2,914,466	843,739
Other debtors	478,828	472,694	409,723	400,451
	<u>1,617,697</u>	<u>1,412,407</u>	<u>4,143,876</u>	<u>2,177,362</u>

11. Creditors: amounts falling due within one year

	Group		Company	
	2023 £	2022 £	2023 £	2022 £
Bank loans	493,299	332,595	439,950	332,595
Trade creditors	369,933	776,061	344,654	294,594
Social security and other taxes	121,610	69,452	121,610	69,452
Convertible loan note	1,485,346	–	1,485,346	–
Other creditors	380,821	440,821	339,586	390,615
	<u>2,851,009</u>	<u>1,618,929</u>	<u>2,731,146</u>	<u>1,087,256</u>

The bank loan is secured by a bond and floating charge over all company property and assets.

Powerphotonic Limited

Notes to the Group Financial Statements *(continued)*

Year ended 31 December 2023

12. Creditors: amounts falling due after more than one year

	Group		Company	
	2023	2022	2023	2022
	£	£	£	£
Bank loans	1,633,897	1,247,229	1,209,863	1,247,229
Other creditors	–	413,587	–	–
	<u>1,633,897</u>	<u>1,660,816</u>	<u>1,209,863</u>	<u>1,247,229</u>

The bank loan is secured as detailed in note 11.

13. Share-based payments

Certain employees had been granted options to subscribe for shares in the company under share option schemes as follows:

	Number of shares
Option exercise period October 2017 to October 2027	2,500
Option exercise period June 2019 to June 2029	317,044
Option exercise period June 2021 to June 2031	78,100
Option exercise period February 2023 to February 2033	125,412

The remaining unapproved options outstanding, granted on 4 June 2019 at an option price of £1.29 are shown below:

	Number of shares
Option exercise period June 2019 to June 2029	14,000

The estimated fair value of each share option granted is as follows:

Option	Number	Exercise Price	Fair Value
Approved	2,500	£0.90	£0.77
Approved 2019	317,044	£1.18	£0.99
Approved 2021	78,100	£1.18	£0.22
Approved 2023	125,412	£0.90	£0.01
Unapproved	14,000	£0.01	£1.29

Details of the number and weighted average exercise prices (WAEP) of share options during the year are as follows:

Group and company	2023		2022	
	No.	WAEP	No.	WAEP
Outstanding at 1 January 2023	539,556	0.92	604,056	0.95
Granted during the year	125,412	0.17	–	–
Exercised during the year	(25,000)	1.18	(64,500)	1.18
Cancelled during the year	(102,912)	0.01	–	–
Outstanding at 31 December 2023	<u>537,056</u>	<u>0.91</u>	<u>539,556</u>	<u>0.92</u>

Powerphotonic Limited

Notes to the Group Financial Statements (continued)

Year ended 31 December 2023

The total expense recognised in profit or loss for the year is as follows:

	Group		Company	
	2023	2022	2023	2022
	£	£	£	£
Equity-settled share-based payments	<u>39,492</u>	<u>36,987</u>	<u>39,492</u>	<u>36,987</u>

The estimated fair values were calculated by applying the Black-Scholes option pricing model. The model inputs were

	2023
Share price at grant date	£1.30
Exercise price	£0.01-£1.18
Expected volatility	70%
Expected life	10 years
Risk free interest rate	0.90%-3.95%
Dividend yield	0%

14. Operating leases

The total future minimum lease payments under non-cancellable operating leases are as follows:

	Group		Company	
	2023	2022	2023	2022
	£	£	£	£
Not later than 1 year	191,476	157,905	79,000	67,200
Later than 1 year and not later than 5 years	800,674	390,861	316,000	–
Later than 5 years	861,505	558,267	316,000	–
	<u>1,853,655</u>	<u>1,107,033</u>	<u>711,000</u>	<u>67,200</u>

15. Events after the end of the reporting period

On 26 March 2024, the group issued the remaining convertible loan notes that had been created via the Subscription Agreement dated 10 October 2023. The final drawdown amounted to £514,070, taking the group's convertible loan note borrowings to £2,028,140. Later in the year, as the business explored options for funding in the longer term, the note holders agreed to extend the expiry of the loan notes - which had been due to convert on 31 August 2024 - for a further period of 8 months to 30 April 2025. If not redeemed or converted prior to the expiry date, any outstanding notes would continue to be converted.