



Registered Number: 09210371

Compound Semiconductor Centre Limited
Report and financial statements
for the year ended 31 December 2022



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Directors and advisers for the year ended 31 December 2022

Directors

Prof C Whitehouse (resigned 18 September 2023)

Prof R K Allemann (resigned 22 September 2023)

Prof P M Snowton (resigned 22 September 2023)

Dr R I Pelzel

Mr D Xiberras (appointed 1 January 2022) (resigned 22 September 2023)

Mr M D Geen (appointed 23 November 2022)

Secretary

Berry Smith LLP

Registered Office

C/O Berry Smith LLP

Haywood House

Dumfries Place

Cardiff, Wales

CF10 3GA

Bankers

HSBC Bank plc

Website

<http://csc.wales>

Independent auditors

PricewaterhouseCoopers LLP

Statutory Auditors and Chartered Accountants

1 Kingsway

Cardiff

CF10 3PW

Strategic report for the year ended 31 December 2022

Review of the Business

On 9 July 2015 Compound Semiconductor Centre Limited (the "CSC") became a joint venture between Cardiff University and IQE plc. The shareholder agreement establishes that the CSC is jointly controlled by the shareholders who have an equal share of the voting rights.

The commercial purpose of the CSC is the research, development and manufacture by Metal Organic Vapour Phase Epitaxy ('MOVPE') of advanced compound semiconductor materials to serve novel, emerging applications.

Semiconductors as an enabling technology

Semiconductor technology has been at the heart of the computer age that has dominated the way we work, live and spend our leisure time over the last sixty years. The rapidly increasing power of computing capability was articulated by Gordon Moore, one of the founders of the computer chip giant Intel, when he published his observation of the trend that computing capability doubled every eighteen months. This observation which has become known as Moore's Law, has held true over the last six decades, largely as a result of silicon device miniaturisation allowing more and more components to be embedded in a single silicon "chip."

Whilst silicon remains the workhorse of most microprocessors today, the ability for incumbent silicon technology to sustain the trajectory predicted by Moore's Law is becoming increasingly difficult and extremely costly to maintain. This is where the enhanced performance and lower power consumption of compound semiconductors play an important role. With capabilities such as switching speeds that are several orders of magnitude faster than that possible using silicon alone, materials such as Gallium Arsenide (GaAs), Indium Phosphide (InP) and Gallium Nitride (GaN) have already made a valuable contribution to the continuation of Moore's Law where high-speed, efficient performance is critical, in areas such as smartphones and tablets.

The photonic properties of these compound semiconductors also lend themselves to a wide range of optical communications devices and sensing applications that are gaining in importance in our increasingly connected and autonomous world.

Compound semiconductors come of age

Compound semiconductor materials have historically provided high-performance component technologies for high-speed data communications devices from wireless technologies to fibre-optics. Devices manufactured using these advanced materials have enabled a wide range of technological applications that permeate our daily lives, from the internet to smartphones and from consumer electronics to satellite technologies.

Due to their advanced properties and superior performance, compound semiconductors are now playing a central role in new and emerging trends such as autonomous and electrically powered vehicles, advanced healthcare technologies and a range of sustainable energy devices from solid-state lighting to highly efficient solar power generation and high-efficiency power switching.

Technology clusters

The major global silicon semiconductor clusters are well known, from Silicon Valley to Asia where the entrepreneurship and innovation has spawned thousands of businesses supporting high value employment. These clusters tend to form around a seed organisation, which is often a hub for innovative research and development. Within Europe there exist a number of such silicon clusters, the most notable being in and around Eindhoven, Grenoble, Dresden and Leuven. As yet, there are no recognised clusters focussing on compound semiconductors.

The Welsh and UK governments have recognised the economic opportunity around expansion of commercial activity driven by compound semiconductors, and have made significant investments in research, innovation and skills development since 2016. The current South Wales ecosystem is based on interdependency and common goals, and a co-ordinated manufacturing base in a 70-mile corridor from Chepstow to Swansea.

Strategic report for the year ended 31 December 2022

Technology clusters (continued)

In 2022, the ecosystem grew to 2,615 staff involved in research, engineering and high value added manufacturing, with in excess of 20% of the workforce engaged in R&D and innovation intensive activity. Collective turnover of industry partners is > £550,000,000 pa, and over 95% of manufacturing output is classed as export. The consortium directly contributes £212,000,000 pa to Welsh GVA (gross value-add), but this grows to £303,000,000 pa once supply chain and household effects are considered. Each direct job in the cluster supports an additional 0.5 of a job elsewhere in the Welsh economy, and over £122,000 of Welsh GVA per employee. The sector is characterised by high productivity, higher than average wages, and GVA per job well in excess (>2x) of the Welsh average.

The CSC sits firmly within this ecosystem and will provide a path from research to commercialisation for novel compound semiconductor materials and devices.

The CSC Vision and mission

The CSC is playing a pivotal role in establishing the world's first compound semiconductor cluster by building on research undertaken at Cardiff University's Institute for Compound Semiconductors to develop innovative new materials technologies that will enable a wide range of new photonic and micro-electronic applications. The CSC also works closely with the Compound Semiconductor Applications Catapult and other academic and industrial partners to provide a Collaborative Research and Development (CRD) model to support commercialisation across the advanced semiconductor technology supply chain.

Strategy

It is estimated that the global market for compound semiconductor materials is currently worth around \$33.7Bn, with a compound annual growth rate (CAGR) of 17.3%. Demand is forecast to grow to >\$128bn by 2025 (Source: Global Markets for Compound Semiconductors, BCC Research).

The CSC's technical strategy is based on addressing higher value segments of the market that complement the capabilities of the shareholders, and present mid-term commercial opportunities that can be serviced using the CRD model. Currently, primary areas of focus include:

Photonics

Current photonic device technology is largely based on compound semiconductor based optical emitters (lasers) and detectors. The immense technical and commercial value of being able to fully integrate compound semiconductor technology with the silicon "control" electronics has long been recognised and addresses a number of key issues facing society. These include the need for optical interconnects at the board and chip level to remove bottlenecks in data transfer and to facilitate a world where everything is connected. Optical interconnects enabled by compound semiconductors also increase the energy efficiency of data transfer, which currently makes up 4% of the world's electricity usage, and is growing exponentially as more and more devices and people become "connected."

Quantum Technologies

The UK government recognised the potential of new Quantum Technologies (QT) when it announced £270m of funding in the 2013 Autumn Statement to set up the National Quantum Technologies Programme. QT are expected to have a profound impact on many of the world's biggest markets, for example, significantly enhancing the £306Bn global semiconductor industry and the £1.6 trillion world oil and gas industry. Compound semiconductor materials are utilised increasingly in QT components such as single photon detectors and emitters, diode laser pump sources in atomic clocks and high sensitivity magnetic and gravitational sensors due to inherent properties such as sensitivity, low energy consumption and resilience to use in harsh environments. CSC supported a successful bid for Industry Strategy Challenge Funding for the Commercialisation of Quantum Technologies (~£153m investment by the UK Government over 6 years from 2019). In March 2023 the UK Government announced another £2.5B funding for Phase 3 of the Quantum Technologies programme over the next decade, and this has resulted in ongoing emphasis for QT in the CSC roadmap.

Strategic report for the year ended 31 December 2022**Strategy (continued)****Wireless, RF and Power infrastructure**

It is envisaged that future high frequency wireless systems (i.e. 5G/LTE), RF Pulsed Power and power electronics will be dominated by gallium nitride transistors because of their performance advantages over the incumbent silicon-based technologies. One of the key markets for this technology is RF transistor technology for use in mobile communication infrastructure. Estimates by ABI Research indicate that the RF base stations account for 60% of the present \$1.2Bn RF Power market. The Power semiconductor market is currently dominated by Silicon, but Silicon Carbide and Gallium Nitride (GaN) are extremely important emerging technologies, providing major benefits in efficiency and power consumption for switching applications. The GaN Power electronics market is predicted to surpass \$1Bn by 2026 (Yole, 2021).

Hence RF and Power continues to be an area of success for CSC bid activity, and this has resulted in increased emphasis, particularly for GaN Power device architectures, in the 2020-23 roadmap.

Progress

In the year from 1 January to 31 December 2022, the CSC has progressed in several areas.

- The CSC continues to build its Collaborative Research and Development (CRD) project portfolio. Thirty-one competitively awarded funded collaborative projects have been secured to date in Photonic, Quantum Technologies and RF/Wireless/Power components.
- The total value of the thirty-one projects awarded is >£82,000,000 across all partners. This equates to a total secured grant offer of £5,800,000 to CSC since 2016. The CRD Grant income realised by CSC in 2022 was £533,000 (2020: £472,000) with further grant offers of £496,000 secured in 2022.
- Third party income streams were impacted by resourcing issues, and the commercial research income realised by CSC in 2022 was £995,000, down 18% from £1,220,000 in 2021.
- The commercial order pipeline increased to £3,304,000 of quotations with a 71% (£2,343,000) order closure rate (2021: 71% (£1,870,000)).

External Recognition

CSC continues to attract important external recognition for its efforts in promoting research collaboration within the compound semiconductor sector:

- 2022: 'Future Open Networks Research Challenge' in a consortium led by Bristol University
- 2021: Dr Wyn Meredith, CSC Founding GM, Honorary Professorship by Cardiff University
- 2021: Dr Drew Nelson, CSC Founding Director, Learned Society of Wales 'Menelaus Medal'
- 2020: 'Strength in Places Fund: Wave 1': CSconnected
- 2019: 'Made in UK' Collaboration of the Year Award
- 2018: 'Made in Wales' Collaboration of the Year Award
- 2017: Techworks Research Collaboration Award
- 2017: Economic Impact title at the Business and Education Partnerships Awards
- 2017: Short-listed, Times Higher Education awards: Knowledge Exchange Initiative of the Year

Strategic report for the year ended 31 December 2022**Future Outlook**

The Directors look forward to progressing several key activity areas in 2023 including:

- Further growth and diversification of the commercial revenue via further exploitation of CRD outcomes.
- Further considered diversification of CRD projects aligned with the technical roadmap.

On 22 September 2023, the 50% shareholding in the Company held by Cardiff University was purchased by IQE (Europe) Limited. From this date, IQE plc indirectly owned 100% of the shares in the Company.

Financial Review

Gross loss of £569,000 (2021: £427,000) is broadly consistent with prior year and includes non-cash fixed asset depreciation charges of £1,318,000 (2021: £1,225,000). The increase in operating loss to £1,306,000 (2021: £1,135,000) reflects a combination of the increase in gross loss and higher administrative expenses of £737,000 (2021: £708,000) where certain additional investment in people and professional services has been required to support the development of new funded collaborative research and development opportunities and the development of new independent customer relationships. Underlying earnings before interest, tax, depreciation and amortisation decreased to £12,000 (2021: £90,000) in the year.

A tax charge of £nil (2021: £nil) was recognised in the year reflecting current year trading losses and the non-recognition of certain potential deferred tax assets given uncertainty over the ability to utilise accumulated tax losses given a combination of current and future forecast trading performance.

Preference share debt, including accrued dividends, is paid from surplus cash generated by the business. Expected surplus cash flows were calculated at the date of issuance of the instruments and used to set the amortisation profile for the preference share debt. This amortisation profile was based on management's best estimate of the cash flows at the time of issuance of the preference share debt and was aligned with the cash flow forecasts contained in the original business plan. Financial forecasts contained in the original business plan and used to set the original amortisation profile were revised downwards in 2021. The downward revision to the financial forecasts in 2021 reflected updated trading and capital expenditure forecasts and indicated that the expected preference share debt repayments were sufficiently different to those that were expected based on prior period cash flow forecasts such that the amortisation profile and carrying value of the preference share debt was adjusted to reflect the revised forecast repayment profile. This resulted in a reduction in the preference share liability in the balance sheet and the recognition of an exceptional non-cash gain of £2,491,000 in finance income in 2021.

Financial forecasts have been updated in 2022 and indicate that the profile of expected preference share debt repayments is not sufficiently different to the 2021 position with no revision to the amortisation profile for the preference share debt required in the current year. Preference share debt continues to be amortised in line with the profile established in 2021 with a non-cash charge of £431,000 charged to finance costs.

The financial position of the Company as at 31 December 2022 is shown on the balance sheet and reflects a net current liability position of £245,000 (2021: £191,000 net current assets) including a bank overdraft of £447,000 (2021: £363,000 net cash). The net liability position of £6,742,000 (2021: £4,964,000) principally reflects the capital structure of the business where preference share debt and shareholder loans due after more than one year totalling £10,670,000 (2021: £10,212,000) are due to the shareholders,

Financial liquidity

The Company meets its working capital and other cash requirements through a combination of cash generated from operations and its bank facilities. Following the acquisition of the 50% shareholding previously held by Cardiff University, IQE plc now indirectly own 100% of the share capital in the Company and has committed to provide the necessary financial support for the business for a period of at least 12 months from the date which these financial statements were approved.

Key performance indicators

Given the nature of the business, the CSC's directors are of the opinion that analysis using key performance indicators beyond the financial metrics described in the Financial Review and the progress section of the Strategic Report is not necessary for managing the development, performance or position of the business.

Strategic report for the year ended 31 December 2022**Principal risks and uncertainties**

The management of risk is the responsibility of the Board of Directors.

In managing risk, regular Board meetings are held with comprehensive Board papers being provided to the Board to ensure that the key risks are appropriately identified and managed.

Robust financial management processes and budgetary controls have been implemented. The initial business and capital investment plans were approved as part of the formation of the joint venture. Subsequent budgets and capital investment plans are reviewed, assessed and approved by the Board.

The principal risks identified are listed below with mitigation where possible.

Major health and safety incident and/or major accident to the environment

CSC operates in a highly controlled and regulated environment due to the nature of the materials used as part of its compound semiconductor manufacturing processes. Health, safety and environmental risks relate to potential harm to CSC's people or the environment and principally arise from either non-compliance with applicable legislation or the failure to implement and adopt appropriate health, safety and environmental systems, processes and controls. To mitigate against this risk CSC has implemented strong internal controls, including technical and engineering control measures, makes continuous improvement to health, safety and environmental management systems, restricts work with potentially harmful materials to trained and competent personnel and maintains ISO 14001 compliance at each of its manufacturing sites.

Breach of legal and regulatory requirements

The risk is that the CSC fails to comply with applicable legislation such as the Bribery Act, Employment legislation and Company legislation. To mitigate against this risk continuous training of the CSC team on legislative developments and requirements is undertaken alongside internal compliance reviews and external compliance audits.

Loss of key employees

This is the risk that the CSC loses key employees and critical skills. To mitigate this risk, retention and development of the workforce is critical to the long-term success of the CSC. Competitive reward schemes including comprehensive benefits, employee communication and engagement strategies and talent development and retention plans have been implemented to mitigate the risk of the loss of key employees.

High level of customer concentration

Service revenue of £6,530,000 (~79% of total revenue) has been generated from the two joint venture shareholders whilst commercial income of £1,220,000 (~15% of total revenue) has been derived from a small number of key customers. To mitigate customer concentration risk CSC has continued to focus its strategy on higher value segments of the growing compound semiconductor market. This strategy has targeted product innovation and diversification via the application of its CRD model where twenty-nine competitively awarded funded collaborative projects have been secured whilst simultaneously leveraging existing products and technical know-how to build the number of existing commercial relationships and commercial income opportunities.

Insufficient cashflow generation to underpin capital investment or other cashflow requirements

The Company's trading has remained resilient throughout the year although EBITDA generation of the business remains relatively low and cash outflows from operations has resulted in a bank overdraft of £447,000 at the year end. To mitigate against cashflow and liquidity risks the business retains the formal financial support of its joint venture shareholders, maintains appropriate bank facilities, prepares long term 3-year business plans and forecasts to determine investment and cashflow priorities and prepares short term cashflow forecasts to manage day-to-day working capital and liquidity requirements.

Strategic report for the year ended 31 December 2022

Principal risks and uncertainties (continued)

Russia and Ukraine conflict

CSC does not have any current business in either Russia or Ukraine and an assessment of significant supply chains has determined that this conflict is unlikely to have a direct impact on CSC. Indirect impacts such as increasing energy prices are mitigated in the short term by pre-existing commercial arrangements with contracted pricing for energy supplies

On behalf of the Board



**Dr R Pelzel
Director
29 September 2023**

Directors' report for the year ended 31 December 2022

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

Business review and future developments

Analysis of the development and performance of the business, its financial position and future developments is given in the strategic report.

Dividends

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

Directors

The directors of the company who were in office during the year and up to the date of signing the financial statements, unless otherwise stated, were as follows:

Prof C Whitehouse (resigned 18 September 2023)

Prof R K Allemann (resigned 22 September 2023)

Prof P M Smowton (resigned 22 September 2023)

Dr R I Pelzel

Mr D Xiberras (appointed 1 January 2022) (resigned 22 September 2023)

Mr T N Pullen (resigned 23 November 2022)

Mr K C Anderson (resigned 23 November 2022)

Mr M D Geen (appointed 23 November 2022)

Financial risk management*Treasury*

The Company manages treasury in accordance with specific Board policies. Speculative transactions are not permitted. Significant cash balances are placed on deposit to maximise the return and the term of the deposit is determined based on the expected future cash requirements. Bank facilities are monitored throughout the year to ensure compliance with the relevant terms and conditions.

Interest rate risk

The Company has shareholder loans which bear interest at the European State Aid reference rate. These loans have no fixed term. The company's A and B preference shares are treated as debt in the balance sheet. The A and B preference shares are repayable in proportion to the outstanding principle from surplus cash generated and the A preference shares provide the holders with a cumulative dividend equivalent to the HSBC Bank Plc annual base rate. The Company did not enter into any interest rate swap instruments during 2022. This remains under regular review.

Credit risk

Where the Company perceives there to be a credit risk, this is dealt with by up-front payment prior to the goods or services being provided or by other credit risk mitigation measures.

Research and development

The Company incurred costs in respect of research and development during the year of £678,000 (2021: £661,000). Research and development expenditure is charged to the profit and loss account in the period it is incurred.

Directors' report for the year ended 31 December 2022**Going Concern**

The Company made a loss of £1,778,000 (2021: £1,219,000 profit) and had a net overdraft position of £447,000 (2021: £363,000 net cash) following a decrease in cash and cash equivalents of £810,000 (2021: £429,000 decrease) for the year ended 31 December 2022.

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

- The Company's trading has remained resilient throughout the year with revenue generated from independent customer relationships of £1,528,000 (2021: £1,692,000) and EBITDA of £12,000 (2021: £90,000).
- On 22 September 2023, the 50% shareholding in the Company held by Cardiff University was purchased by IQE (Europe) Limited. From this date, IQE plc indirectly owned 100% of the shares in the Company.
- The Company is now an integral part of the IQE plc group and receives the support of its ultimate parent company, IQE plc. The directors have received confirmation that IQE plc intends to support the Company for at least 12 months after these financial statements are approved.
- The IQE plc Group meets its day-to-day working capital and other cash requirements through its bank facilities and available cash. The Group's severe but plausible downside cash flow forecasts and projections show that the Group has adequate cash resources to continue operating for the foreseeable future following the refinancing of the Group's £28,688,000 (\$35,000,000) multi-currency revolving credit facility provided by HSBC Bank plc on 16 May 2023 and the successful £31,099,000 equity fund raise completed on 18 May 2023.

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

Directors' report for the year ended 31 December 2022**Statement of directors' responsibilities**

The directors are responsible for preparing the Report and the financial statements in accordance with applicable law and regulation.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable United Kingdom Accounting Standards, comprising FRS 102, have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are 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.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006.

Qualifying third party indemnity provisions

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

Disclosure of information to auditors

So far as the directors are aware, there is no relevant audit information of which the Company's auditors are unaware and the directors have taken all the steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

On behalf of the Board



Dr R Pelzel
Director
29 September 2023

Independent Auditors' report to the members of Compound Semiconductor Centre Limited**Report on the audit of the financial statements****Opinion**

In our opinion, Compound Semiconductor Centre Limited's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2022 and of its loss and cash flows for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Report and financial statements (the "Annual Report"), which comprise: the Balance sheet as at 31 December 2022; the Statement of comprehensive income, the Statement of changes in equity and the Statement of cash flows for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern

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 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.

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.

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the company's ability to continue as a going concern.

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

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance 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 an apparent material inconsistency or material

Independent Auditors' report to the members of Compound Semiconductor Centre Limited

misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic report and Directors' report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on our work undertaken in the course of the audit, the Companies Act 2006 requires us also to report certain opinions and matters as described below.

Strategic report and Directors' report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and Directors' report for the year ended 31 December 2022 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic report and Directors' report.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of directors' responsibilities, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they 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 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 company or to cease operations, or have no realistic alternative but to do so.

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

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.

Based on our understanding of the company and industry, we identified that the principal risks of non-compliance with laws and regulations related to employment legislation and health and safety regulation, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the financial statements such as UK tax legislation and the Companies Act 2006. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting of inappropriate journal entries to manipulate financial results and potential management bias in accounting estimates. Audit procedures performed by the engagement team included:

Independent Auditors' report to the members of Compound Semiconductor Centre Limited

- Evaluation of the adequacy of the design of managements' controls to prevent and detect irregularities;
- Enquiry of management around known or suspected instances of fraud and non-compliance with laws and regulations;
- Review of minutes of meetings of those charged with governance;
- Challenging assumptions made by management in its significant accounting estimates;
- Identifying and testing the validity of journal entries, in particular any journal entries posted with unusual account combinations;
- Incorporating an element of unpredictability into our audit procedures.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, 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 or intentional misrepresentations, or through collusion.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.


Other required reporting

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not obtained all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.



Stuart Couch (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Cardiff
29 September 2023

Statement of comprehensive income for the year ended 31 December 2022

| | Note | 2022 £'000 | 2021 £'000 |
|---|------|----------------|---------------|
| Turnover | 2 | 8,519 | 8,222 |
| Cost of sales | | (9,088) | (8,649) |
| Gross loss | | (569) | (427) |
| Administrative expenses | | (737) | (708) |
| Operating loss | 3 | (1,306) | (1,135) |
| Finance income – exceptional | 6 | - | 2,491 |
| Finance costs | 7 | (472) | (137) |
| (Loss) / profit before taxation | | (1,778) | 1,219 |
| Tax on (loss) / profit | 8 | - | - |
| (Loss) / profit for the financial year | 18 | (1,778) | 1,219 |

All the results above arise from continuing activities.

Balance sheet as at 31 December 2022

| | Note | 2022 £'000 | 2021 £'000 |
|--|------|-----------------|-----------------|
| Fixed assets | | | |
| Intangible assets | 9 | - | - |
| Tangible assets | 10 | 4,173 | 5,057 |
| Total fixed assets | | 4,173 | 5,057 |
| Current assets | | | |
| Stocks | 11 | 54 | 54 |
| Debtors | 12 | 2,144 | 1,620 |
| Cash at bank and in hand | | - | 363 |
| | | 2,198 | 2,037 |
| Creditors: amounts falling due within one year | 13 | (2,443) | (1,846) |
| Net current liabilities | | (245) | 191 |
| Total assets less current liabilities | | 3,928 | 5,248 |
| Creditors: amounts falling due after more than one year | 14 | (10,670) | (10,212) |
| Net liabilities | | (6,742) | (4,964) |
| Capital and reserves | | | |
| Called up share capital | 17 | 20 | 20 |
| Share premium account | | 23,980 | 23,980 |
| Capital contribution | | 1,619 | 1,674 |
| Accumulated losses | 18 | (32,361) | (30,638) |
| Total shareholders' deficit | | (6,742) | (4,964) |

The financial statements on pages 14 to 35 were approved by the board of directors on 29 September 2023 and were signed on its behalf by:



Dr R Pelzel
Director
29 September 2023

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

| | Called up Share Capital £'000 | Share premium account £'000 | Capital Contribution £'000 | Accumulated losses £'000 | Total Shareholders' deficit £'000 |
|---|--|--------------------------------------|----------------------------------|--------------------------------|--|
| 1 January 2022 | 20 | 23,980 | 1,674 | (30,638) | (4,964) |
| Loss for the financial year | - | - | - | (1,778) | (1,778) |
| Total comprehensive expense for the year | - | - | - | (1,778) | (1,778) |
| Unwind of discount on shareholder preference shares | - | - | (55) | 55 | - |
| Total transactions with owners recognised directly in equity | - | - | (55) | 55 | - |
| 31 December 2022 | 20 | 23,980 | 1,619 | (32,361) | (6,742) |

| | Called up Share Capital £'000 | Share premium account £'000 | Capital Contribution £'000 | Accumulated losses £'000 | Total Shareholders' deficit £'000 |
|---|--|--------------------------------------|----------------------------------|--------------------------------|--|
| 1 January 2021 | 20 | 23,980 | 1,726 | (31,909) | (6,183) |
| Profit for the financial year | - | - | - | 1,219 | 1,219 |
| Total comprehensive income for the year | - | - | - | 1,219 | 1,219 |
| Unwind of discount on shareholder preference shares | - | - | (52) | 52 | - |
| Total transactions with owners recognised directly in equity | - | - | (52) | 52 | - |
| 31 December 2021 | 20 | 23,980 | 1,674 | (30,638) | (4,964) |

Statement of cash flows for the year ended 31 December 2022

| | Note | 2022 £'000 | 2021 £'000 |
|---|------|---------------|---------------|
| Net cash flows (used in) / generated from operating activities | 19 | (362) | 54 |
| Interest paid | | (16) | (21) |
| Net cash (used in) / generated from operating activities | | (378) | 33 |
| Cash flows from investing activities | | | |
| Purchase of tangible fixed assets | | (432) | (462) |
| Net cash used in investing activities | | (432) | (462) |
| Net decrease in cash and cash equivalents | | (810) | (429) |
| Cash and cash equivalents at the beginning of the year | | 363 | 792 |
| Cash and cash equivalents at the end of the year | | (447) | 363 |

**Notes to the financial statements for the year ended
31 December 2022****1 Accounting policies****General Information**

Compound Semiconductor Centre Limited researches, develops and manufactures advanced semiconductor materials and technology. The Company manufactures in the UK and primarily sells its materials in the UK.

The Company is a private company limited by shares and it is incorporated in the United Kingdom and domiciled in Wales. The address of the registered office is C/O Berry Smith LLP, Haywood House, Dumfries Place, Cardiff, CF10 3GA, Wales.

Statement of Compliance

The individual financial statements of Compound Semiconductor Centre Limited have been prepared in compliance with United Kingdom Accounting Standards, including Financial Reporting Standard 102, the Financial Reporting Standard applicable in the United Kingdom and the Companies Act 2006.

Summary of Significant Accounting Policies

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

Basis of preparation

These financial statements are prepared on a going concern basis, under the historical convention. The preparation of financial statements in conformity with FRS 102 requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed on page 25.

Going Concern

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

On 22 September 2023, the 50% shareholding in the Company held by Cardiff University was purchased by IQE (Europe) Limited. From this date, IQE plc indirectly owned 100% of the shares in the Company.

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

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

**Notes to the financial statements for the year ended
31 December 2022****1 Accounting policies – continued****Revenue**

The Company provides product prototyping services and research and development ('R&D') services to its customers. Service sales are recognised in the month that they are provided. Revenue is measured exclusive of value-added taxation.

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

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

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

Employee Benefits**Short Term Benefits**

Short term benefits, including holiday pay and other similar non-monetary benefits are recognised as an expense within the period in which the services are received.

Defined contribution pension plans

The costs of the Company's defined contribution pension scheme and contributions to personal pension plans are charged to the statement of comprehensive income in the period in which they become payable in accordance with the rules of the scheme.

Operational bonus plan

The Company operates an operational bonus plan. An expense is recognised in the statement of comprehensive income if the criteria have been met to satisfy the payment of an operational bonus as a result of past events and a reliable estimate of the obligation can be made.

Taxation

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

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

Deferred taxation is provided in full on timing differences that result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and law. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in the financial statements. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

**Notes to the financial statements for the year ended
31 December 2022****1 Accounting policies – continued****Foreign currencies**

Assets and liabilities denominated in foreign currencies are translated into Sterling at the rate 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 the transaction. Exchange differences are considered in arriving at the operating result.

Leases

Leases that do not transfer all the risks and rewards of ownership are classified as operating leases. Payments under operating leases are charged to the profit and loss account on a straight-line basis over the period of the lease.

Tangible fixed assets

Tangible fixed assets are stated at cost less accumulated depreciation and provision for impairment. Costs comprise all costs that are directly attributable to bringing the asset into working condition for its intended use.

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

| | | |
|---------------------------|---|----------------------------|
| Plant and machinery | - | 5-15 years - straight-line |
| Fixtures and fittings | - | 5 years - straight-line |
| Computers and accessories | - | 3 years - straight-line |

Intangible assets

Intangible assets are stated at cost less accumulated amortisation and provision for impairment. Costs comprise all costs that are directly attributable to the asset.

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

| | | |
|-----------------------|---|-----------------------|
| Intellectual Property | - | 7 years straight-line |
|-----------------------|---|-----------------------|

Impairment of non-financial assets

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

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

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

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

**Notes to the financial statements for the year ended
31 December 2022****1 Accounting policies – continued****Financial instruments**

The Company has chosen to adopt Sections 11 and 12 of FRS 102 in respect of financial instruments.

Financial assets

Basic financial assets, including trade and other receivables, cash and bank balances are initially recognised at transaction price, unless the arrangement constitutes a financing transaction, where the transaction is measured at the present value of the future receipts discounted at a market rate of interest. Such assets are subsequently carried at amortised cost using the effective interest method.

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

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

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

Financial liabilities

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

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

Preference shares, which result in fixed returns to the holder or are mandatorily redeemable on a specific date, are classified as liabilities. The dividends on these preference shares are recognised in the profit and loss account as interest expense.

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

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

**Notes to the financial statements for the year ended
31 December 2022****1 Accounting policies – continued****Stocks**

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

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

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

Cash and cash equivalents

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

Provisions

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

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

Share capital

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

Related party transactions

The Company discloses transactions with related parties which are not wholly owned with the same group.

**Notes to the financial statements for the year ended
31 December 2022****1 Accounting policies – continued****Critical accounting judgements and estimation uncertainty**

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

Critical accounting estimates and assumptions

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

Deferred tax asset recognition

The Company has made trading losses in each year of trading and is yet to reach the point where it is generating sustainable trading profit. The current trading performance of the company creates uncertainty over the ability to utilise accumulated trading losses in future periods.

As a result, the directors have concluded that it is not appropriate to recognise any deferred tax assets in relation to trading losses as at the balance sheet date.

Carrying value of tangible fixed assets

The carrying value of non-current tangible fixed assets have been reviewed for impairment as at the reporting date. The recoverable amount of the tangible fixed assets has been determined based on fair value less cost to sell which has been estimated by reference to an independent valuation of the Company's plant and machinery performed by Liquidity Services UK.

In light of the independent tangible fixed asset valuation the Board has concluded that the recoverable value of tangible fixed assets at the balance sheet date was such that the current carrying value is supported, and there should be no recognition of impairment, or reversal of previously impaired amounts.

Impairment of trade and other debtors

The company makes an estimate of the recoverable value of trade and other debtors. When assessing impairment of trade and other debtors, management considers factors including the current credit rating of the debtor, the aging profile of debtors and historical collection experience. See note 12 for the net carrying amount of trade and other debtors and associated provision.

Carrying value of preference share debt

Preference share debt, including accrued dividends, is paid from surplus cash generated by the business. Expected surplus cash flows were calculated at the date of issuance of the instruments and used to set the amortisation profile for the preference share debt. This amortisation profile was based on management's best estimate of the cash flows at the time of issuance of the preference share debt and was aligned with the cash flow forecasts contained in the Company's original business plan.

Financial performance has been adverse compared to the original business plan and no surplus cash has been generated to date to repay preference share debt. In 2021 the Board considered the most recent cash flow forecasts and determined that the expected repayments were sufficiently different to those which were expected on inception such that the amortisation profile and carrying value of the preference share debt was adjusted to reflect the revised forecast repayment profile. This resulted in a reduction in the preference share liability in the balance sheet and the recognition of an exceptional non-cash gain of £2,491,000 in finance income. In 2022 the Board has considered the most recent financial forecasts which indicate that the profile of expected preference share debt repayments is not sufficiently different to the 2021 position such that no revision to the amortisation profile for the preference share debt has been required in the current year. Preference share debt continues to be amortised in line with the profile established in 2021 with a non-cash charge of £431,000 charged to finance costs.

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

2 Turnover

| | 2022 | 2021 |
|-----------------------|--------------|-------|
| | £'000 | £'000 |
| United Kingdom | 8,519 | 8,222 |

| | 2022 | 2021 |
|--|--------------|-------|
| | £'000 | £'000 |
| Service revenue | 6,991 | 6,530 |
| Collaborative research & development revenue | 533 | 472 |
| Commercial revenue | 995 | 1,220 |
| | 8,519 | 8,222 |

3 Operating loss

| | 2022 | 2021 |
|--|--------------|-------|
| | £'000 | £'000 |
| Operating loss is stated after charging | £'000 | £'000 |
| Wages and salaries | 3,135 | 3,030 |
| Social security costs | 365 | 332 |
| Other pension costs | 272 | 229 |
| Staff Costs | 3,772 | 3,591 |
| Services provided by the company's auditors: | | |
| - Fees payable for the audit of the financial statements | 33 | 29 |
| Depreciation | 1,318 | 1,225 |
| Operating lease charges | 115 | 115 |

**Notes to the financial statements for the year ended
31 December 2022****4 Directors' emoluments**

Professor C Whitehouse received remuneration of £18,000 (2021: £18,000) during the year. No other emoluments were payable to Professor C Whitehouse.

The Directors' remuneration for the directors representing the joint venture shareholders is borne by the joint venture shareholders that they represent. It is not possible to apportion their remuneration related to services as a director of the Company and no recharge is made to the Company.

The Board of directors are considered the key management personnel for the entity.

5 Employees

The average monthly number of employees during the year was 69 (2021: 76) and was split as follows:

| | 2022 | 2021 |
|--------------------------|-----------|-----------|
| | No. | No. |
| Production | 63 | 70 |
| Selling and distribution | 2 | 2 |
| Administration | 4 | 4 |
| | 69 | 76 |

6 Finance income - exceptional

| | 2022 | 2021 |
|---|-------|-------|
| | £'000 | £'000 |
| Adjustment in respect of preference shares carrying value | - | 2,491 |

Preference share debt, including accrued dividends, is paid from surplus cash generated by the business. Expected surplus cash flows were calculated at the date of issuance of the instruments and used to set the amortisation profile for the preference share debt which was based on management's best estimate of the cash flows at the time of issue.

Downward revisions to financial forecasts in 2021 indicated that the expected preference share debt repayments are sufficiently different to those which were expected on inception such that the amortisation profile and carrying value of the preference share debt was adjusted to reflect the revised forecast repayment profile. This resulted in a reduction in the preference share liability in the balance sheet and the recognition of an exceptional non-cash finance gain of £2,491,000 in 2021.

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

7 Finance cost

| | 2022 | 2021 |
|---|------------|------------|
| | £'000 | £'000 |
| Bank interest | 16 | 21 |
| Shareholder loan interest – related parties | 25 | 25 |
| Preference share interest – related parties | 431 | 91 |
| | 472 | 137 |

8 Tax on (loss) / profit

| | 2022 | 2021 |
|---|-------|-------|
| | £'000 | £'000 |
| Tax credit included in (loss) / profit: | | |
| Deferred tax | | |
| Reversal origination of temporary differences | - | - |
| Deferred tax | - | - |
| Tax on (loss) / profit | - | - |

Tax for the year is lower (2021: lower) than the standard rate of corporation tax in the UK for the year ended 31 December 2022 of 19% (2021: 19%). The differences are explained below:

| | 2022 | 2021 |
|--|----------------|-------|
| | £'000 | £'000 |
| (Loss) / profit before taxation | (1,778) | 1,219 |
| (Loss) / profit before taxation multiplied by the standard tax rate in the UK of 19% | (338) | 232 |
| Effects of: | | |
| Expenses not deductible for tax purposes | 85 | (505) |
| Unrecognised deferred tax assets | 253 | 273 |
| Tax credit | - | - |

Factors that may affect the future tax charge

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

Finance Act 2021, which was substantively enacted on 24 May 2021, included legislation to increase the rate of corporation tax to 25% from 1 April 2023. In the Autumn Statement in November 2022, the government confirmed the increase in corporation tax rate to 25% from 1 April 2023 will go ahead.

**Notes to the financial statements for the year ended
31 December 2022****9 Intangible assets**

| | Intellectual Property |
|---------------------------------|----------------------------------|
| | £'000 |
| Cost | |
| At 1 January 2022 | 20,000 |
| Additions | - |
| At 31 December 2022 | 20,000 |
| Accumulated amortisation | |
| At 1 January 2022 | 20,000 |
| Charge for the year | - |
| At 31 December 2022 | 20,000 |
| Net Book Value | |
| At 31 December 2022 | - |
| At 31 December 2021 | - |

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

10 Tangible assets

| | Plant & Machinery | Fixtures & Fittings | Computers & Accessories | Total |
|---------------------------------|----------------------|------------------------|-------------------------------|-----------------|
| | £'000 | £'000 | £'000 | £'000 |
| Cost | | | | |
| At 1 January 2022 | 23,170 | 181 | 14 | 23,365 |
| Additions | 398 | 35 | 1 | 434 |
| At 31 December 2022 | 23,568 | 216 | 15 | 23,799 |
| Accumulated Depreciation | | | | |
| At 1 January 2022 | (18,247) | (50) | (11) | (18,308) |
| Charge for the year | (1,287) | (30) | (1) | (1,318) |
| At 31 December 2022 | (19,534) | (80) | (12) | (19,626) |
| Net book value | | | | |
| At 31 December 2022 | 4,034 | 136 | 3 | 4,173 |
| At 31 December 2021 | 4,923 | 131 | 3 | 5,057 |

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

11 Stocks

| | 2022 | 2021 |
|---------------|--------------|--------------|
| | £'000 | £'000 |
| Raw materials | 54 | 54 |

12 Debtors

| | 2022 | 2021 |
|--|--------------|--------------|
| | £'000 | £'000 |
| Amounts falling due within one year | | |
| Trade debtors | 1,901 | 1,047 |
| Other debtors | 145 | 105 |
| Prepayments and accrued income | 98 | 468 |
| | 2,144 | 1,620 |

Trade debtors are stated after provisions for impairment of £51,000 (2021: £nil). Included within trade debtors are £1,456,000 (2021: £429,000) due from IQE plc group companies and £27,000 (2021: £208,000) due from Cardiff University which are related parties. These amounts are unsecured and interest free.

13 Creditors: Amounts falling due within one year

| | 2022 | 2021 |
|------------------------------|--------------|--------------|
| | £'000 | £'000 |
| Bank loans and overdrafts | 447 | - |
| Trade creditors | 1,646 | 1,552 |
| Taxation and social security | 234 | 228 |
| Accruals and deferred income | 116 | 66 |
| | 2,443 | 1,846 |

Included within trade creditors are £1,593,000 (2021: £1,459,000) due to IQE plc group companies which are related parties. These amounts are unsecured and interest free.

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

14 Creditors: Amounts falling due after more than one year

| | 2022 | 2021 |
|-------------------|---------------|---------------|
| | £'000 | £'000 |
| Preference shares | 8,276 | 7,843 |
| Shareholder loans | 2,394 | 2,369 |
| | 10,670 | 10,212 |

Shareholder loans owed to joint venture shareholders are unsecured, bear interest at the European State Aid reference rate, and carry no fixed term of repayment, however, the loans are repayable on demand with mutual shareholder agreement. The shareholders have agreed that they do not intend to repay the loans within the next 12 months therefore they are presented as long term. The terms of the preference shares are set out in note 16.

15 Provisions for liabilities

| | 2022 | 2021 |
|--|----------|----------|
| | £'000 | £'000 |
| Deferred tax liabilities (accelerated tax depreciation) | | |
| At 1 January | - | - |
| Credited to statement of comprehensive income | - | - |
| At 31 December | - | - |

Deferred tax assets of £10,446,000 (2021: £10,081,000 restated) have not been recognised in respect of trading losses and capital allowances. The prior year amount has been restated to reflect the submitted tax return.

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

16 Preference shares

| Authorised | 2022 | 2021 |
|------------------------------------|---------------|-------------|
| | No. | No. |
| A preference shares of £1,000 each | 8,800 | 8,800 |
| B preference shares of £1,000 each | 10,160 | 10,160 |
| | 18,960 | 18,960 |

| Fully Paid | 2022 | 2021 |
|------------------------------------|---------------|-------------|
| | No. | No. |
| A preference shares of £1,000 each | 8,800 | 8,800 |
| B preference shares of £1,000 each | 10,160 | 10,160 |
| | 18,960 | 18,960 |

The A preference shares are held by the IQE plc Group and the B preference shares are held by Cardiff University.

The A and B preference shares carry the following rights and obligations:

- No voting rights;
- Repayable in proportion to the outstanding principle from surplus cash generated; and
- On a winding-up the assets of the Company are distributed in the following order or priority:
 - First, in paying to the holders of the A preference shares the original subscription price per A preference share and to the holders of the B preference shares an amount equivalent to the B capital premium in proportion to the amounts due to each such share held;
 - Second, with reference to any arrears and accruals of the preference dividend, in paying to the holders of the A preference shares a sum equal to any preference share arrears; and
 - Thirdly, in paying the ordinary shares.

A preference shares are entitled to a dividend equivalent to the HSBC Bank PLC base rate for the applicable period on the amount paid up, subject to the Company having available profits.

Preference share debt, including accrued dividends, is paid from surplus cash generated by the business. Expected surplus cash flows were calculated at the date of issuance of the instruments and used to set the amortisation profile for the preference share debt which was based on management's best estimate of the cash flows at the time of issue.

Downward revisions to financial forecasts in 2021 indicated that the expected preference share debt repayments are sufficiently different to those which were expected on inception such that the amortisation profile and carrying value of the preference share debt was adjusted to reflect the revised forecast repayment profile. This resulted in a reduction in the preference share liability in the balance sheet and the recognition of an exceptional non-cash finance gain of £2,491,000 in 2021.

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

17 Called up share capital

| Issued, allotted, called up and fully paid: | 2022 | 2021 |
|--|---------------|--------|
| | No. | No. |
| A Ordinary shares of £1 each (2021: £1 each) | 10,000 | 10,000 |
| B Ordinary shares of £1 each (2021: £1 each) | 10,000 | 10,000 |
| | 20,000 | 20,000 |

| | 2022 | 2021 |
|--|--------------|-------|
| | £'000 | £'000 |
| A Ordinary shares of £1 each (2021: £1 each) | 10 | 10 |
| B Ordinary shares of £1 each (2021: £1 each) | 10 | 10 |
| | 20 | 20 |

18 Accumulated losses

| | 2022 | 2021 |
|---|-----------------|----------|
| | £'000 | £'000 |
| At 1 January | (30,638) | (31,909) |
| (Loss)/profit for the financial year | (1,778) | 1,219 |
| Unwind of discount on shareholder preference shares | 55 | 52 |
| At 31 December | (32,361) | (30,638) |

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

19 Net cash flows generated from operating activities

| | 2022 | 2021 |
|---|--------------|-----------|
| | £'000 | £'000 |
| (Loss) / profit before taxation | (1,778) | 1,219 |
| Finance income | - | (2,430) |
| Finance cost | 472 | 76 |
| Depreciation | 1,318 | 1,225 |
| Working capital movements | | |
| - Increase in stock | - | (6) |
| - Increase in receivables | (524) | (240) |
| - Increase in payables | 150 | 210 |
| Net cash flows generated from operating activities | (362) | 54 |

20 Analysis of changes in net debt

| | At 1 January 2022 | Cash flows | At 31 December 2022 |
|----------------------------------|-------------------|--------------|---------------------|
| | £'000 | £'000 | £'000 |
| Cash and cash equivalents | | | |
| Cash at bank and in hand | 363 | (363) | - |
| Bank overdrafts | - | (447) | (447) |
| Net (debt) / funds | 363 | (810) | (447) |

The Company had an arranged overdraft facility with a limit of £1,000,000 in place during the year. Following the acquisition of Cardiff University's shareholding by IQE (Europe) Limited the overdraft limit was reduced to £500,000. The facility is uncommitted, repayable on demand and subject to annual review and renewal.

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

21 Other Financial Commitments

The Company has the following future minimum lease payments under non-cancellable operating leases for each of the following periods:

| | 2022 | 2021 |
|---|------------|------------|
| | £'000 | £'000 |
| Payments due: | | |
| Not later than one year | 115 | 115 |
| Later than one year not later than five years | - | - |
| Financial Commitments | 115 | 115 |

22 Related Party Transactions

CSC was established as a centre of excellence for the development and commercialisation of advanced compound semiconductor wafer products. During the year, IQE plc group companies owned 50% of the ordinary share capital of CSC with the remaining 50% owned by Cardiff University.

The activities of the CSC include research and development into advanced compound semiconductor wafer products and the manufacture of compound semiconductor wafers.

CSC operates from its manufacturing facilities in Cardiff, United Kingdom and leases certain additional administrative building space from IQE plc group companies. During the year CSC leased this space from IQE plc group companies for £115,000 (2021: £115,000) and procured certain administrative support services from IQE plc group companies for £235,000 (2021: £235,000). As part of the administrative support services provided to CSC by IQE plc group companies IQE plc group companies procured goods and services, recharged to the CSC at cost, totalling £4,031,000 (2021: £3,882,000) and manufactured goods sold to CSC for £nil (2021: £nil).

CSC granted IQE plc group companies the right to use its assets following its formation for a minimum five-year period. This right to use CSC's assets is charged to IQE plc group companies at a price which reflects the CSC's cash cost of production (including direct labour, materials and site costs) but excludes any related depreciation or amortisation of the CSC's property, plant and equipment and intangible assets respectively under the terms of the joint venture agreement between the parties. Costs associated with the right to use the CSC's assets totalled £6,822,000 (2021: £6,234,000) in the year.

At 31 December 2022 an amount of £137,000 (2021: £1,030,000) was owed to IQE plc group companies. During 2018 CSC completed phase 2 of its capital expansion plan with the installation and commissioning of a new cleanroom built to house a Cardiff University MOCVD research reactor. Costs associated with operating and maintaining the reactor have been charged to Cardiff University at cost and total £227,000 (2021: £227,000). At 31 December 2022 CSC had trade receivables of £27,000 (2021: £208,000) due from Cardiff University.

At 31 December 2022 and 2021 the Company has the following amounts payable to shareholders relating to preference share debt and shareholder loans:

IQE plc group companies – A preference shares with a nominal value of £8,800,000 (2021: £8,800,000) and a shareholder loan of £230,000 (2021: £230,000).

**Notes to the financial statements for the year ended
31 December 2022****22 Related Party Transactions - continued**

Cardiff University – B preference shares with a nominal value of £10,160,000 (2021: £10,160,000) and a shareholder loan of £2,000,000 (2021: £2,000,000). Accrued interest on the shareholder loan totalled £147,000 (2021: £125,000).

23 Pension commitments

The Company operates a defined contribution pension scheme covering all of its employees, but excluding non-executive directors. Contributions of £272,000 (2021: £229,000) were charged to the profit and loss account in the year in which they were payable. The balance owed to the pension providers at 31 December 2022 is £nil (2021: £nil). All commitments under the pension scheme in respect of the employer's contributions have been met during the year.

24 Joint venture parties

During the year, Compound Semiconductor Centre Limited was a Joint Venture which was owned by Cardiff University and IQE plc group companies with each party having a 50% holding and joint control. IQE PLC consolidated financial statements are available from the Company Secretary, Mr T Dale, Pascal Close, St Mellons, Cardiff, CF3 0LW. The financial statements for Cardiff University are available from the Accounting Officer Professor Colin Riordan, Main Building, Cathays Park, Cardiff, CF10 3AT.

Cardiff University and IQE plc are incorporated in England and Wales.

25 Non-adjusting post balance sheet events

On 22 September 2023, the 50% shareholding in the Company held by Cardiff University was purchased by IQE (Europe) Limited. From this date, IQE plc indirectly owned 100% of the shares in the Company.