

**REGISTERED NUMBER: 08324226 (England and Wales)**

**STRATEGIC REPORT, REPORT OF THE DIRECTORS AND  
FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST DECEMBER 2021  
FOR  
HILIGHT SEMICONDUCTOR LIMITED**

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FOR THE YEAR ENDED 31ST DECEMBER 2021**

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**HILIGHT SEMICONDUCTOR LIMITED**  
**COMPANY INFORMATION**  
**FOR THE YEAR ENDED 31ST DECEMBER 2021**

**DIRECTORS:** J G Steele  
B Long

**REGISTERED OFFICE:** 1 Stoke Road  
Guildford  
Surrey  
GU1 4HW

**REGISTERED NUMBER:** 08324226 (England and Wales)

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

**STRATEGIC REPORT  
FOR THE YEAR ENDED 31ST DECEMBER 2021**

The directors present their strategic report for the year ended 31st December 2021.

During 2021 the Company's Product Sales grew strongly, doubling again versus the prior year. Indeed sales growth would have been higher still were it not for the well-publicised Supply Chain disruptions, post-COVID. Order backlog at the time of writing was over \$3m.

In order to mitigate any further supply disruption the company qualified 2nd-sources for mass-production Assembly and Test and this was in turn supported by our major customers. The Company has a secure allocation of wafers for 2022 and expects to be able to increase this allocation in 2023.

As before, HiLight invested heavily in R&D during the year, adding more engineering staff and equipment. The R&D spend has been supported by \$3m of new equity funding from publicly listed firms in China, and \$6m of new Convertible Loans from existing investors.

In December the company announced a Co-operation with the prestigious SITRI group in Shanghai which will lead to a Joint-Venture in China and \$20m of new funding.

The Company's core technology choice, CMOS, continues to be the correct strategic choice, with the Company able to launch many world's firsts in this technology during the period. Nearly all optical communications OEMs already use one or more HiLight products already, and are actively evaluating HiLight's most recent product releases.

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

**ON BEHALF OF THE BOARD:**

J G Steele - Director

30th September 2022

**REPORT OF THE DIRECTORS  
FOR THE YEAR ENDED 31ST DECEMBER 2021**

The directors present their report with the financial statements of the company for the year ended 31st December 2021.

**PRINCIPAL ACTIVITIES**

The principal activities of the company in the year under review were those of research into and design and development of new higher speed Integrated Circuits.

**DIVIDENDS**

No dividends will be distributed for the year ended 31st December 2021.

**RESEARCH AND DEVELOPMENT**

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

**EVENTS SINCE THE END OF THE YEAR**

Information relating to events since the end of the year is given in the notes to the financial statements.

**DIRECTORS**

The directors shown below have held office during the whole of the period from 1st January 2021 to the date of this report.

J G Steele

B Long

**FINANCIAL INSTRUMENTS**

The company granted options over a further 30,000 A Ordinary Non-Voting shares at £1.60 per share and 105,000 A Ordinary Non-Voting shares at £0.25 per share to employees during the year. A further 72,000 A Ordinary Non-Voting shares at £1.00 per share and 80,000 A Ordinary Non-Voting shares at £1.60 lapsed.

The total number of A Ordinary Non-Voting shares under option as at 31st December 2021, including the as yet unvested options, was 4,375,290 at £0.125 per share, 1,437,800 at £1.00 per share, 685,588 at £1.60 per share and 105,000 at £0.25 per share.

**STATEMENT OF DIRECTORS' RESPONSIBILITIES**

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

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

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

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

**REPORT OF THE DIRECTORS  
FOR THE YEAR ENDED 31ST DECEMBER 2021**

**STATEMENT AS TO DISCLOSURE OF INFORMATION TO AUDITORS**

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

**ON BEHALF OF THE BOARD:**

J G Steele - Director

30th September 2022

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

### Opinion

We have audited the financial statements of Hilight Semiconductor Limited (the 'company') for the year ended 31st December 2021 which comprise the Income Statement, Other Comprehensive Income, Balance Sheet, Statement of Changes in Equity, Cash Flow Statement and Notes to the Cash Flow Statement, Notes to the Financial Statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' (United Kingdom Generally Accepted Accounting Practice).

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31st December 2021 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

### Basis for 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 Auditors' responsibilities for the audit of the financial statements section of our report. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the 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

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

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

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

### Other information

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

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

### Opinions on other matters prescribed by the Companies Act 2006

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

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

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

### **Matters on which we are required to report by exception**

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report or the Report of the Directors.

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

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

### **Responsibilities of directors**

As explained more fully in the Statement of Directors' Responsibilities set out on page three, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the 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.

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

### **Auditors' responsibilities for the audit of the financial statements**

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

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 UK pensions legislation and UK tax legislation 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 preparation of the financial statements such as 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 stock and work in progress cut off and realisable values where there may be incentive for manipulation of profits which could be achieved through the manipulation of estimates such as stock and work in progress provisions. Audit procedures performed by the engagement team included:

- Discussions with management, including consideration of known or suspected instances of non-compliance with laws and regulation and fraud;
- Challenging assumptions and judgements made by management in their significant accounting estimates; and
- Identifying and testing journal entries, in particular any journal entries posted with unusual account combinations including journal entries which inflated the Company's results for the period with unusual offset entries and journal entries impacting work in progress with unusual offset entries to detect any unusual capitalisation of costs.

There are inherent limitations in the audit procedures described above 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. 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 Financial Reporting Council's website at [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our Report of the Auditors.

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

**Use of our report**

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

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

30th September 2022

**INCOME STATEMENT  
FOR THE YEAR ENDED 31ST DECEMBER 2021**

|  | Notes | Year ended<br>31/12/21<br>£ | Period<br>1/4/20<br>to<br>31/12/20<br>£ |
|--|-------|-----------------------------|---|
| <b>TURNOVER</b>                        | 3     | <b>2,086,855</b>            | 1,064,981                               |
| Cost of sales                          |       | <u>1,048,987</u>            | <u>475,091</u>                          |
| <b>GROSS PROFIT</b>                    |       | <b>1,037,868</b>            | 589,890                                 |
| Administrative expenses                |       | <u>8,952,578</u>            | <u>6,479,338</u>                        |
|  |       | <b>(7,914,710)</b>          | <b>(5,889,448)</b>                      |
| Other operating income                 |       | <u>699,578</u>              | <u>-</u>                                |
|  |       | <b>(7,215,132)</b>          | <b>(5,889,448)</b>                      |
| Interest receivable and similar income |       | <u>-</u>                    | <u>8</u>                                |
|  |       | <b>(7,215,132)</b>          | <b>(5,889,440)</b>                      |
| Interest payable and similar expenses  | 5     | <u>465,023</u>              | <u>121,580</u>                          |
| <b>LOSS BEFORE TAXATION</b>            | 6     | <b>(7,680,155)</b>          | <b>(6,011,020)</b>                      |
| Tax on loss                            | 7     | <u>(1,610,852)</u>          | <u>(1,379,512)</u>                      |
| <b>LOSS FOR THE FINANCIAL YEAR</b>     |       | <b><u>(6,069,303)</u></b>   | <b><u>(4,631,508)</u></b>               |

The notes form part of these financial statements

OTHER COMPREHENSIVE INCOME  
FOR THE YEAR ENDED 31ST DECEMBER 2021

|  | Notes | Year ended<br>31/12/21<br>£ | Period<br>1/4/20<br>to<br>31/12/20<br>£ |
|--|-------|-----------------------------|---|
| LOSS FOR THE YEAR                          |       | (6,069,303)                 | (4,631,508)                             |
| OTHER COMPREHENSIVE INCOME                 |       | -                           | -                                       |
| TOTAL COMPREHENSIVE INCOME<br>FOR THE YEAR |       | <u>(6,069,303)</u>          | <u>(4,631,508)</u>                      |

The notes form part of these financial statements

**BALANCE SHEET**  
**31ST DECEMBER 2021**

|  | Notes | 2021<br>£           | £                   | 2020<br>£           | £                   |
|--|-------|---------------------|---------------------|---------------------|---------------------|
| <b>FIXED ASSETS</b>                          |       |                     |                     |                     |                     |
| Tangible assets                              | 8     |                     | 3,134,474           |                     | 2,334,607           |
| Investments                                  | 9     |                     | <u>1</u>            |                     | <u>-</u>            |
|  |       |                     | <u>3,134,475</u>    |                     | <u>2,334,607</u>    |
| <b>CURRENT ASSETS</b>                        |       |                     |                     |                     |                     |
| Stocks                                       | 10    | 1,459,840           |                     | 1,187,981           |                     |
| Debtors                                      | 11    | 2,597,022           |                     | 1,931,332           |                     |
| Cash at bank                                 |       | <u>127,975</u>      |                     | <u>29,085</u>       |                     |
|  |       | 4,184,837           |                     | 3,148,398           |                     |
| <b>CREDITORS</b>                             |       |                     |                     |                     |                     |
| Amounts falling due within one year          | 12    | <u>16,064,893</u>   |                     | <u>14,173,552</u>   |                     |
| <b>NET CURRENT LIABILITIES</b>               |       |                     | <u>(11,880,056)</u> |                     | <u>(11,025,154)</u> |
| <b>TOTAL ASSETS LESS CURRENT LIABILITIES</b> |       |                     | <u>(8,745,581)</u>  |                     | <u>(8,690,547)</u>  |
| <b>CREDITORS</b>                             |       |                     |                     |                     |                     |
| Amounts falling due after more than one year | 13    |                     | 821,601             |                     | 554,641             |
| <b>PROVISIONS FOR LIABILITIES</b>            | 17    |                     | 246,061             |                     | 215,067             |
| <b>CAPITAL AND RESERVES</b>                  |       |                     |                     |                     |                     |
| Called up share capital                      | 18    | 3,069,715           |                     | 2,499,526           |                     |
| Share premium                                | 19    | 29,642,714          |                     | 24,496,588          |                     |
| Retained earnings                            | 19    | <u>(42,525,672)</u> |                     | <u>(36,456,369)</u> |                     |
| <b>SHAREHOLDERS' FUNDS</b>                   |       |                     | <u>(9,813,243)</u>  |                     | <u>(9,460,255)</u>  |
|  |       |                     | <u>(8,745,581)</u>  |                     | <u>(8,690,547)</u>  |

The financial statements were approved by the Board of Directors and authorised for issue on 30th September 2022 and were signed on its behalf by:

J G Steele - Director

STATEMENT OF CHANGES IN EQUITY  
FOR THE YEAR ENDED 31ST DECEMBER 2021

|                                      | Called up<br>share<br>capital<br>£ | Retained<br>earnings<br>£ | Share<br>premium<br>£ | Total<br>equity<br>£ |
|--------------------------------------|------------------------------------|---------------------------|-----------------------|----------------------|
| <b>Balance at 1st April 2020</b>     | 2,499,526                          | (31,824,861)              | 24,496,588            | (4,828,747)          |
| <b>Changes in equity</b>             |                                    |                           |                       |                      |
| Total comprehensive income           | -                                  | (4,631,508)               | -                     | (4,631,508)          |
| <b>Balance at 31st December 2020</b> | <u>2,499,526</u>                   | <u>(36,456,369)</u>       | <u>24,496,588</u>     | <u>(9,460,255)</u>   |
| <b>Changes in equity</b>             |                                    |                           |                       |                      |
| Issue of share capital               | 570,189                            | -                         | 5,146,126             | 5,716,315            |
| Total comprehensive income           | -                                  | (6,069,303)               | -                     | (6,069,303)          |
| <b>Balance at 31st December 2021</b> | <u>3,069,715</u>                   | <u>(42,525,672)</u>       | <u>29,642,714</u>     | <u>(9,813,243)</u>   |

The notes form part of these financial statements

**CASH FLOW STATEMENT  
FOR THE YEAR ENDED 31ST DECEMBER 2021**

|   |       | Year ended<br>31/12/21<br>£ | Period<br>1/4/20<br>to<br>31/12/20<br>£ |
|---|-------|-----------------------------|---|
| <b>Cash flows from operating activities</b>             | Notes |                             |   |
| Cash generated from operations                          | 1     | (6,754,579)                 | (4,148,707)                             |
| Interest element of finance lease payments paid         |       | (108,241)                   | (71,957)                                |
| Finance costs paid                                      |       | (356,782)                   | (49,623)                                |
| Tax paid  |       | 1,380,179                   | 1,560,333                               |
| Net cash from operating activities                      |       | <u>(5,839,423)</u>          | <u>(2,709,954)</u>                      |
| <b>Cash flows from investing activities</b>             |       |                             |   |
| Purchase of tangible fixed assets                       |       | (1,837,176)                 | (731,630)                               |
| Purchase of fixed asset investments                     |       | (1)                         | -                                       |
| Sale of tangible fixed assets                           |       | 127,272                     | -                                       |
| Interest received                                       |       | -                           | 8                                       |
| Net cash from investing activities                      |       | <u>(1,709,905)</u>          | <u>(731,622)</u>                        |
| <b>Cash flows from financing activities</b>             |       |                             |   |
| New loans in year                                       |       | 4,746,568                   | 5,564,313                               |
| Loan repayments in year                                 |       | (13,028)                    | (2,080,698)                             |
| New finance leases in year                              |       | 1,090,678                   | 94,556                                  |
| Loans converted to share capital in year                |       | (3,327,621)                 | -                                       |
| Capital repayments in year                              |       | (564,694)                   | (306,756)                               |
| Share issue   |       | 5,716,315                   | -                                       |
| Net cash from financing activities                      |       | <u>7,648,218</u>            | <u>3,271,415</u>                        |
| <b>Increase/(decrease) in cash and cash equivalents</b> |       | <u>98,890</u>               | <u>(170,161)</u>                        |
| <b>Cash and cash equivalents at beginning of year</b>   | 2     | <u>29,085</u>               | 199,246                                 |
| <b>Cash and cash equivalents at end of year</b>         | 2     | <u>127,975</u>              | <u>29,085</u>                           |

The notes form part of these financial statements

NOTES TO THE CASH FLOW STATEMENT  
FOR THE YEAR ENDED 31ST DECEMBER 2021

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

|                                       | Year ended<br>31/12/21<br>£ | Period<br>1/4/20<br>to<br>31/12/20<br>£ |
|---------------------------------------|-----------------------------|---|
| Loss before taxation                  | (7,680,155)                 | (6,011,020)                             |
| Depreciation charges                  | 1,037,310                   | 560,086                                 |
| Profit on disposal of fixed assets    | (127,272)                   | -                                       |
| Finance costs                         | 465,023                     | 121,580                                 |
| Finance income                        | -                           | (8)                                     |
|                                       | <u>(6,305,094)</u>          | <u>(5,329,362)</u>                      |
| Increase in stocks                    | (271,859)                   | (64,160)                                |
| Increase in trade and other debtors   | (435,017)                   | (50,172)                                |
| Increase in trade and other creditors | 257,391                     | 1,294,987                               |
| <b>Cash generated from operations</b> | <u>(6,754,579)</u>          | <u>(4,148,707)</u>                      |

2. CASH AND CASH EQUIVALENTS

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

Year ended 31st December 2021

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

Period ended 31st December 2020

|                           | 31/12/20<br>£ | 1/4/20<br>£    |
|---------------------------|---------------|----------------|
| Cash and cash equivalents | <u>29,085</u> | <u>199,246</u> |

3. ANALYSIS OF CHANGES IN NET DEBT

|                                 | At 1/1/21<br>£      | Cash flow<br>£     | At 31/12/21<br>£    |
|---------------------------------|---------------------|--------------------|---------------------|
| <b>Net cash</b>                 |                     |                    |                     |
| Cash at bank                    | <u>29,085</u>       | <u>98,890</u>      | <u>127,975</u>      |
|                                 | <u>29,085</u>       | <u>98,890</u>      | <u>127,975</u>      |
| <b>Debt</b>                     |                     |                    |                     |
| Finance leases                  | (910,588)           | (525,985)          | (1,436,573)         |
| Debts falling due within 1 year | (11,739,043)        | (1,463,181)        | (13,202,224)        |
| Debts falling due after 1 year  | (57,264)            | 57,264             | -                   |
|                                 | <u>(12,706,895)</u> | <u>(1,931,902)</u> | <u>(14,638,797)</u> |
| <b>Total</b>                    | <u>(12,677,810)</u> | <u>(1,833,012)</u> | <u>(14,510,822)</u> |

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31ST DECEMBER 2021**

**1. STATUTORY INFORMATION**

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

**2. ACCOUNTING POLICIES**

**Basis of preparing the financial statements**

The financial statements have been prepared on the going concern basis due to the continuing support of the principal shareholders as evidenced by the provision of over \$6M of loan finance during the year ended 31st December 2021 as required.

The company is due to receive a further investment of £15M in early April.

**Significant judgements and estimates**

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

**Turnover**

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

**Tangible fixed assets**

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

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

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

**Investments in subsidiaries**

Investments in subsidiary undertakings are recognised at cost.

**Stocks**

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

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

**Financial instruments**

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

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

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

NOTES TO THE FINANCIAL STATEMENTS - continued  
FOR THE YEAR ENDED 31ST DECEMBER 2021

2. **ACCOUNTING POLICIES - continued**

**Taxation**

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

Current or deferred taxation assets and liabilities are not discounted.

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

**Deferred tax**

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

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

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

**Research and development**

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

**Foreign currencies**

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

**Hire purchase and leasing commitments**

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

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

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

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

**Pension costs and other post-retirement benefits**

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

**Grants**

Grants are credited to profit and loss account as the eligible expenditure is incurred except where costs exceed the approved budget and the completion date is uncertain when estimated time to complete is used to time apportion the income over the life of the project.

NOTES TO THE FINANCIAL STATEMENTS - continued  
FOR THE YEAR ENDED 31ST DECEMBER 2021

2. ACCOUNTING POLICIES - continued

**Impairment of non-financial assets**

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

Stock and work in progress is also assessed for impairment at each reporting date but carried at original cost. If an impairment loss is subsequently reversed, the carrying amount of the asset or group of related assets is increased to the revised estimate of its recoverable amount, but not to exceed the amount that would have been determined had no impairment loss been recognised for the asset or group of related assets.

3. TURNOVER

The turnover and loss before taxation are attributable to the principal activities of the company.

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

|                             | Year ended<br>31/12/21<br>£ | Period<br>1/4/20<br>to<br>31/12/20<br>£ |
|-----------------------------|-----------------------------|---|
| Sale of integrated circuits | <u>2,086,855</u>            | <u>1,064,981</u>                        |
|                             | <u>2,086,855</u>            | <u>1,064,981</u>                        |

An analysis of turnover by geographical market is given below:

|      | Year ended<br>31/12/21<br>£ | Period<br>1/4/20<br>to<br>31/12/20<br>£ |
|------|-----------------------------|---|
| Asia | <u>2,086,855</u>            | <u>1,064,981</u>                        |
|      | <u>2,086,855</u>            | <u>1,064,981</u>                        |

4. EMPLOYEES AND DIRECTORS

|                       | Year ended<br>31/12/21<br>£ | Period<br>1/4/20<br>to<br>31/12/20<br>£ |
|-----------------------|-----------------------------|---|
| Wages and salaries    | 4,243,821                   | 2,992,818                               |
| Social security costs | 400,694                     | 308,633                                 |
| Other pension costs   | 68,088                      | 46,309                                  |
|                       | <u>4,712,603</u>            | <u>3,347,760</u>                        |

NOTES TO THE FINANCIAL STATEMENTS - continued  
FOR THE YEAR ENDED 31ST DECEMBER 2021

4. **EMPLOYEES AND DIRECTORS - continued**

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

|                       | Year ended<br>31/12/21 | Period<br>1/4/20<br>to<br>31/12/20 |
|-----------------------|------------------------|------------------------------------|
| R&D and support staff | 53                     | 49                                 |
| Overseas sales staff  | 11                     | 12                                 |
| UK Directors          | <u>1</u>               | <u>1</u>                           |
|                       | <u>65</u>              | <u>62</u>                          |

|  | Year ended<br>31/12/21<br>£ | Period<br>1/4/20<br>to<br>31/12/20<br>£ |
|--|-----------------------------|---|
| Directors' remuneration                                    | 50,000                      | 37,500                                  |
| Directors' pension contributions to money purchase schemes | <u>1,313</u>                | <u>985</u>                              |

5. **INTEREST PAYABLE AND SIMILAR EXPENSES**

|                       | Year ended<br>31/12/21<br>£ | Period<br>1/4/20<br>to<br>31/12/20<br>£ |
|-----------------------|-----------------------------|---|
| Finance lease charges | 108,241                     | 71,957                                  |
| Loan interest         | <u>356,782</u>              | <u>49,623</u>                           |
|                       | <u>465,023</u>              | <u>121,580</u>                          |

6. **LOSS BEFORE TAXATION**

The loss is stated after charging/(crediting):

|   | Year ended<br>31/12/21<br>£ | Period<br>1/4/20<br>to<br>31/12/20<br>£ |
|---|-----------------------------|---|
| Hire of plant and machinery             | 487,276                     | 352,868                                 |
| Other operating leases                  | 185,304                     | 134,100                                 |
| Depreciation - owned assets             | 472,616                     | 253,329                                 |
| Depreciation - assets on finance leases | 564,693                     | 306,755                                 |
| Profit on disposal of fixed assets      | (127,272)                   | -                                       |
| Auditors' remuneration                  | 8,250                       | 8,750                                   |
| Foreign exchange differences            | <u>335,420</u>              | <u>(295,544)</u>                        |

**NOTES TO THE FINANCIAL STATEMENTS - continued**  
**FOR THE YEAR ENDED 31ST DECEMBER 2021**

**7. TAXATION****Analysis of the tax credit**

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

|                    | Year ended<br>31/12/21<br>£ | Period<br>1/4/20<br>to<br>31/12/20<br>£ |
|--------------------|-----------------------------|---|
| Current tax:       |                             |   |
| UK corporation tax | (1,610,852)                 | (1,380,179)                             |
| Prior year tax     | -                           | 667                                     |
|                    | (1,610,852)                 | (1,379,512)                             |

UK corporation tax has been charged at 19% .

The UK corporation tax credit for the year arises from the enhanced own qualifying research & development expenditure at 14.5%.

The company has unutilised tax losses of approximately £26 million.

**8. TANGIBLE FIXED ASSETS**

|                       | Plant and<br>machinery<br>£ | Fixtures<br>and<br>fittings<br>£ | Tooling<br>(masks)<br>£ | Computer<br>equipment<br>£ | Totals<br>£ |
|-----------------------|-----------------------------|----------------------------------|-------------------------|----------------------------|-------------|
| <b>COST</b>           |                             |                                  |                         |                            |             |
| At 1st January 2021   | 4,515,249                   | 77,693                           | 917,450                 | 247,305                    | 5,757,697   |
| Additions             | 1,128,487                   | -                                | 699,578                 | 9,111                      | 1,837,176   |
| At 31st December 2021 | 5,643,736                   | 77,693                           | 1,617,028               | 256,416                    | 7,594,873   |
| <b>DEPRECIATION</b>   |                             |                                  |                         |                            |             |
| At 1st January 2021   | 2,832,873                   | 46,022                           | 336,196                 | 207,999                    | 3,423,090   |
| Charge for year       | 845,125                     | 11,386                           | 154,690                 | 26,108                     | 1,037,309   |
| At 31st December 2021 | 3,677,998                   | 57,408                           | 490,886                 | 234,107                    | 4,460,399   |
| <b>NET BOOK VALUE</b> |                             |                                  |                         |                            |             |
| At 31st December 2021 | 1,965,738                   | 20,285                           | 1,126,142               | 22,309                     | 3,134,474   |
| At 31st December 2020 | 1,682,376                   | 31,671                           | 581,254                 | 39,306                     | 2,334,607   |

NOTES TO THE FINANCIAL STATEMENTS - continued  
FOR THE YEAR ENDED 31ST DECEMBER 2021

8. TANGIBLE FIXED ASSETS - continued

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

|                       | Plant and<br>machinery<br>£ |
|-----------------------|-----------------------------|
| <b>COST</b>           |                             |
| At 1st January 2021   | 3,135,570                   |
| Additions             | 1,090,679                   |
| At 31st December 2021 | <u>4,226,249</u>            |
| <b>DEPRECIATION</b>   |                             |
| At 1st January 2021   | 2,244,732                   |
| Charge for year       | 564,693                     |
| At 31st December 2021 | <u>2,809,425</u>            |
| <b>NET BOOK VALUE</b> |                             |
| At 31st December 2021 | <u>1,416,824</u>            |
| At 31st December 2020 | <u>890,838</u>              |

9. FIXED ASSET INVESTMENTS

|                       | Shares in<br>group<br>undertakings<br>£ |
|-----------------------|---|
| <b>COST</b>           |   |
| Additions             | 1                                       |
| At 31st December 2021 | <u>1</u>                                |
| <b>NET BOOK VALUE</b> |   |
| At 31st December 2021 | <u>1</u>                                |

10. STOCKS

|                  | 2021<br>£        | 2020<br>£        |
|------------------|------------------|------------------|
| Work-in-progress | 1,051,895        | 952,356          |
| Finished goods   | 407,945          | 235,625          |
|                  | <u>1,459,840</u> | <u>1,187,981</u> |

NOTES TO THE FINANCIAL STATEMENTS - continued  
FOR THE YEAR ENDED 31ST DECEMBER 2021

11. DEBTORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

|                            | 2021             | 2020             |
|----------------------------|------------------|------------------|
|                            | £                | £                |
| Trade debtors              | 835,096          | 138,310          |
| Other debtors              | 7,950            | 7,950            |
| Research & Development Tax |                  |                  |
| Credits                    | 1,610,852        | 1,380,179        |
| VAT                        | -                | 242,551          |
| Prepayments                | 143,124          | 162,342          |
|                            | <u>2,597,022</u> | <u>1,931,332</u> |

12. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

|                                    | 2021              | 2020              |
|------------------------------------|-------------------|-------------------|
|                                    | £                 | £                 |
| Other loans (see note 14)          | 13,202,224        | 11,739,043        |
| Finance leases (see note 15)       | 614,972           | 413,211           |
| Trade creditors                    | 1,627,459         | 1,770,680         |
| Amounts owed to group undertakings | 1                 | -                 |
| Social security and other taxes    | 591,671           | 221,750           |
| Other creditors                    | 14,065            | 14,367            |
| Accrued expenses                   | 14,501            | 14,501            |
|                                    | <u>16,064,893</u> | <u>14,173,552</u> |

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

|                              | 2021           | 2020           |
|------------------------------|----------------|----------------|
|                              | £              | £              |
| Other loans (see note 14)    | -              | 57,264         |
| Finance leases (see note 15) | 821,601        | 497,377        |
|                              | <u>821,601</u> | <u>554,641</u> |

14. LOANS

An analysis of the maturity of loans is given below:

|   | 2021              | 2020              |
|---|-------------------|-------------------|
|   | £                 | £                 |
| Amounts falling due within one year or on demand: |                   |                   |
| Shareholder loans                                 | 12,741,488        | 11,322,543        |
| Harbert €uro loan                                 | 460,736           | 416,500           |
|   | <u>13,202,224</u> | <u>11,739,043</u> |
| Amounts falling due between one and two years:    |                   |                   |
| Harbert €uro loan in 1-2 years                    | <u>-</u>          | <u>57,264</u>     |

NOTES TO THE FINANCIAL STATEMENTS - continued  
FOR THE YEAR ENDED 31ST DECEMBER 2021

15. LEASING AGREEMENTS

Minimum lease payments fall due as follows:

|                            | Finance leases          |                         |
|----------------------------|-------------------------|-------------------------|
|                            | 2021                    | 2020                    |
|                            | £                       | £                       |
| Net obligations repayable: |                         |                         |
| Within one year            | 614,972                 | 413,211                 |
| Between one and five years | <u>821,601</u>          | <u>497,377</u>          |
|                            | <u><b>1,436,573</b></u> | <u><b>910,588</b></u>   |
|                            | Non-cancellable         | operating leases        |
|                            | 2021                    | 2020                    |
|                            | £                       | £                       |
| Within one year            | 1,291,000               | 1,113,000               |
| Between one and five years | <u>1,514,000</u>        | <u>1,243,000</u>        |
|                            | <u><b>2,805,000</b></u> | <u><b>2,356,000</b></u> |

16. SECURED DEBTS

The following secured debts are included within creditors:

|                   | 2021                    | 2020                    |
|-------------------|-------------------------|-------------------------|
|                   | £                       | £                       |
| Finance leases    | 1,436,573               | 910,588                 |
| Harbert €uro loan | <u>460,735</u>          | <u>473,763</u>          |
|                   | <u><b>1,897,308</b></u> | <u><b>1,384,351</b></u> |

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

17. PROVISIONS FOR LIABILITIES

|                               | 2021           | 2020                  |
|-------------------------------|----------------|-----------------------|
|                               | £              | £                     |
| Other provisions              | <u>246,061</u> | <u>215,067</u>        |
|                               |                | Other provisions      |
|                               |                | £                     |
| Balance at 1st January 2021   |                | 215,067               |
| Provided during year          |                | <u>30,994</u>         |
| Balance at 31st December 2021 |                | <u><b>246,061</b></u> |

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

NOTES TO THE FINANCIAL STATEMENTS - continued  
FOR THE YEAR ENDED 31ST DECEMBER 2021

18. CALLED UP SHARE CAPITAL

| Allotted, issued and fully paid: |                                |                | 2021             | 2020             |
|----------------------------------|--------------------------------|----------------|------------------|------------------|
| Number:                          | Class:                         | Nominal value: | £                | £                |
| 569,883                          | Ordinary                       | 12.5p          | 71,236           | 71,236           |
| 1,019,771                        | A Ordinary Non-Voting          | 12.5p          | 127,470          | 131,470          |
| 4,454,031                        | B Preferred                    | 12.5p          | 556,754          | 556,754          |
| 4,520,155                        | Series A                       | 12.5p          | 565,019          | 565,019          |
| 2,733,298                        | Series B                       | 12.5p          | 341,662          | 341,662          |
| 143,500                          | C Ordinary                     | 12.5p          | 17,938           | 17,938           |
| 7,418,446                        | Series C Convertible Preferred | 12.5p          | 927,307          | 815,447          |
| 3,698,635                        | Series D Convertible Preferred | 12.5p          | 462,329          | -                |
|                                  |                                |                | <u>3,069,715</u> | <u>2,499,526</u> |

During the year the company issued 894,879 £0.125 Series C Convertible Preferred Ordinary shares at £1.635 and 3,698,635 £0.125 Series D Convertible Preferred Shares at £1.147.

**Options:**

As at 1st January 2021, the company had options in force over 6,620,678 A Ordinary Non-Voting shares, 4,375,290 at £0.125 (4,375,290 vested), 1,509,800 at £1.00 (931,227 vested) and 735,588 at £1.60 (721,215 vested).

The unvested balance over 72,000 A Ordinary Non-Voting shares at £1.00 and 80,000 A Ordinary Non-Voting shares at £1.60 per share lapsed and

The company granted options over a further 30,000 A Ordinary Non-Voting shares at £1.60 per share and 105,000 A Ordinary Non-Voting shares at £0.25 per share.

As at 31st December 2021, the company had options in force over 6,603,678 A Ordinary Non-Voting shares, 4,375,290 at £0.125 (4,375,290 vested), 1,437,800 at £1.00 (1,416,384 vested), 685,588 at £1.60 (674,338 vested) and 105,000 at £0.25 (103,000 vested).

**Warrants and Convertible Loans:**

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

19. RESERVES

|                       | Retained earnings<br>£ | Share premium<br>£ | Totals<br>£         |
|-----------------------|------------------------|--------------------|---------------------|
| At 1st January 2021   | (36,456,369)           | 24,496,588         | (11,959,781)        |
| Deficit for the year  | (6,069,303)            |                    | (6,069,303)         |
| Cash share issue      | -                      | 5,146,126          | 5,146,126           |
| At 31st December 2021 | <u>(42,525,672)</u>    | <u>29,642,714</u>  | <u>(12,882,958)</u> |

NOTES TO THE FINANCIAL STATEMENTS - continued  
FOR THE YEAR ENDED 31ST DECEMBER 2021

20. **RELATED PARTY DISCLOSURES**

At the year end the company owed £6,383,858 (2020: £6,238,858) to Roundhurst Holdings Limited, a company controlled by Mr J G Steele. The loan is interest free, designated in GBP and repayable on demand. The company also owed \$1,151,287 (2020: \$3,000,000) to Roundhurst Holdings Limited. Interest is charged on the loan at 6% per annum but not accrued as it will be waived on conversion into Series C shares at the lenders discretion. The loan is designated in USD.

At the year end the company also owed \$2,025,000 (2020: \$3,000,000) to Atlantic Bridge III Limited Partnership, a shareholder of the company. Interest is charged on the loan at 6% per annum but not accrued as it will be waived on conversion into Series C shares at the lenders discretion. The loan is designated in USD.

At the year end the company also owed £300,000 (2020: £589,370) to J G Steele, a shareholder and director of the company. The loan is interest free, designated in GBP and repayable on demand.

21. **POST BALANCE SHEET EVENTS**

After the year end the company transferred a substantial part of its trade and intellectual property to its 100% subsidiary, Hilight Research Limited, along with its ongoing liabilities. The remaining shareholder loans were converted to equity. The company retains a small amount of its original trade and assets and will continue to trade as a going concern on this basis.

22. **SHARE-BASED PAYMENT TRANSACTIONS**

The company granted options over a further 30,000 A Ordinary Non-Voting shares at £1.60 per share and 105,000 A Ordinary Non-Voting shares at £0.25 per share.

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