

Afon Technology Ltd

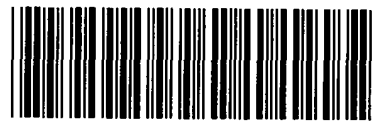
Financial Statements

Period Ended

31 December 2019

Company Number 09700231

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Afon Technology Ltd
Registered number: 09700231

Statement of Financial Position
As at 31 December 2019


	Note	31 December 2019 £	31 December 2019 £	31 March 2019 £	31 March 2019 £
Fixed assets					
Intangible assets	5		77,193		-
Tangible assets	6		26,781		-
			103,974		-
Current assets					
Stocks	7	2		-	
Debtors: amounts falling due within one year	8	156,113		1	
Cash at bank and in hand		214,003		-	
		370,118		1	
Creditors: amounts falling due within one year	9	(148,713)		-	
Net current assets			221,405		1
Net assets			325,379		1
Capital and reserves					
Called up share capital	10		3,300		1
Share premium account	11		1,298,702		-
Profit and loss account	11		(976,623)		-
Total equity			325,379		1

The financial statements have been prepared in accordance with the provisions applicable to companies subject to the small companies regime and in accordance with the provisions of FRS 102 Section 1A - small entities.

The financial statements have been delivered in accordance with the provisions applicable to companies subject to the small companies regime.

The company has opted not to file the statement of comprehensive income in accordance with provisions applicable to companies subject to the small companies' regime.

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

 15th September 2020

M S Chaudhry
Director

The notes on pages 3 to 14 form part of these financial statements.

Afon Technology Ltd

Statement of Changes in Equity For the Period Ended 31 December 2019

	Called up share capital	Share premium account	Profit and loss account	Total equity
	£	£	£	£
At 1 April 2019	1	-	-	1
Comprehensive loss for the period				
Loss for the period	-	-	(976,623)	(976,623)
Total comprehensive loss for the period	-	-	(976,623)	(976,623)
Contributions by and distributions to owners				
Shares issued during the period	3,299	1,298,702	-	1,302,001
Total transactions with owners	3,299	1,298,702	-	1,302,001
At 31 December 2019	3,300	1,298,702	(976,623)	325,379

Statement of Changes in Equity For the Year Ended 31 March 2019

	Called up share capital	Total equity
	£	£
At 1 April 2018	1	1
Comprehensive loss for the year		
Loss for the year	-	-
Total comprehensive loss for the year	-	-
At 31 March 2019	1	1

The notes on pages 3 to 14 form part of these financial statements.

Afon Technology Ltd

Notes to the Financial Statements For the Period Ended 31 December 2019

1. General information

Afon Technology Ltd is a private company limited by shares and incorporated in England and Wales under the Companies Act 2006. The address of the registered office is given on the company information page and the nature of the company's operations and its principal activities are set out in the directors' report.

2. Accounting policies

2.1 Basis of preparation of financial statements

The financial statements have been prepared under the historical cost convention unless otherwise specified within these accounting policies and in accordance with Section 1A of Financial Reporting Standard (FRS 102), the Financial Reporting Standard applicable in the UK and the Republic of Ireland and the Companies Act 2006.

The preparation of financial statements in compliance with Section 1A of FRS 102 requires the use of certain critical accounting estimates. It also requires management to exercise judgement in applying the company's accounting policies (see note 3).

The presentational and functional currency of these financial statements is GBP. Values are rounded to the nearest pound.

The following principal accounting policies have been applied:

Afon Technology Ltd

Notes to the Financial Statements For the Period Ended 31 December 2019

2. Accounting policies (continued)

2.2 Going concern

Afon Technology conducted clinical trials in October 2019 at Profil (a world leading clinical research organisation for diabetes) in Germany. The trial produced encouraging results comparing favourably with early commercial iterations of its minimally invasive competitors. The Principle Investigator at Profil presented the results at the Advanced Technologies and Treatments for Diabetes conference in Madrid in February 2020, which has attracted interest from a number of global smart device manufacturers.

Afon Technology was awarded a Welsh Government Experimental Development grant of £200,000 in September 2019, to be claimed in instalments throughout 2020.

The technology is still at an early stage and will need funding to reach revenue. Further clinical trials will follow, and product development has already begun. The key risks to solvency are a lack of new funding, poor clinical trial results, technical/engineering difficulties with product development.

The Profil results were significant enough to mitigate against clinical risks and warrant further investment. The Board and existing shareholders have been supportive of progressing the project to the development phase. A significant investment was already secured at the start of 2020 from existing shareholders who have also expressed interest in follow on in the next phase. The scope of the project has also been of considerable interest to potential new investors, and the board is confident that any shortfall in future investment from existing shareholders will be taken up by new investors. The future cash needs of the business have been identified by the Director's based on their previous experiences of medical product development. The Company has been operating on a frugal basis to preserve and manage its finances.

Potential technical/engineering difficulties have been mitigated by way of recruiting high calibre experienced engineers. The Company has also adopted the principles of design for manufacture to ensure the practicability of cost-effective downstream manufacturing.

The recent Covid outbreak has had a significant impact on the economy, and may make it more difficult to attract investment. However diabetes is a global disease on which billions is spent and for which there is no cure. People with diabetes have been shown to be worse affected by Covid-19 than healthy people, so there will be more demand than ever for a device that can help people with diabetes to manage their condition.

These events or conditions indicate that a material uncertainty exists that may cast significant doubt on the company's ability to continue as a going concern and therefore its ability to realise its assets and discharge its liabilities in the normal course of business.

Despite the company having £874,000 in the bank at the end of July 2020, the directors expect the business to need additional funds to continue as a going concern through 2021 until no later than September 2021.

The directors continue to be engaged with current investors and potential providers of long-term finance, to navigate this challenging period. The directors have concluded that they have a high degree of confidence that the company has the ability to manage operations and to attract further investment to continue in operational existence for the foreseeable future.

If future investment is not made available, the business will need to reduce variable expenditure, which will adversely affect the progress of development.

The directors are satisfied that as a result of the strength of the company's technology and management, there continues to be substantial long-term strength in interest from future investors.

Afon Technology Ltd

Notes to the Financial Statements For the Period Ended 31 December 2019

2. Accounting policies (continued)

2.2 Going concern (continued)

For these reasons, including the company's history of raising significant amounts of capital, the directors continue to adopt the going concern basis of accounting in preparing the annual financial statements. The financial statements do not reflect the adjustments that would be required if the company ceased to operate as a going concern.

2.3 Grants

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

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

2.4 Intangible assets

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

Amortisation is provided on the following bases:

Trademarks - 10 % straight line

All intangible assets are considered to have a finite useful life. If a reliable estimate of the useful life cannot be made, the useful life shall not exceed ten years.

2.5 Tangible fixed assets

Tangible fixed assets under the cost model are stated at historical cost less accumulated depreciation and any accumulated impairment losses. Historical cost includes expenditure that is directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

Depreciation is charged so as to allocate the cost of assets less their residual value over their estimated useful lives.

Depreciation is provided on the following basis:

Fixtures and fittings - 15% - 33% straight line

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

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in the statement of comprehensive income.

Afon Technology Ltd

Notes to the Financial Statements For the Period Ended 31 December 2019

2. Accounting policies (continued)

2.6 Stocks

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

At each statement of financial position date, stocks are assessed for impairment. If stock is impaired, the carrying amount is reduced to its selling price less costs to complete and sell. The impairment loss is recognised immediately in the statement of comprehensive income.

2.7 Debtors

Short term debtors are measured at transaction price, less any impairment.

2.8 Cash and cash equivalents

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

2.9 Financial instruments

The company only enters into basic financial instrument transactions that result in the recognition of financial assets and liabilities like trade and other debtors and creditors, loans from banks and other third parties, loans to related parties and investments in ordinary shares.

Debt instruments (other than those wholly repayable or receivable within one year), including loans and other accounts receivable and payable, are initially measured at present value of the future cash flows and subsequently at amortised cost using the effective interest method. Debt instruments that are payable or receivable within one year, typically trade debtors and creditors, are measured, initially and subsequently, at the undiscounted amount of the cash or other consideration expected to be paid or received. However, if the arrangements of a short-term instrument constitute a financing transaction, like the payment of a trade debt deferred beyond normal business terms or in case of an out-right short-term loan that is not at market rate, the financial asset or liability is measured, initially at the present value of future cash flows discounted at a market rate of interest for a similar debt instrument and subsequently at amortised cost, unless it qualifies as a loan from a director in the case of a small company, or a public benefit entity concessionary loan.

Financial assets that are measured at cost and amortised 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 the statement of comprehensive income.

For financial assets measured at amortised cost, the impairment loss is measured as the difference between an asset's carrying amount and the present value of estimated cash flows discounted at the asset's original effective interest rate. If a financial asset has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

For financial assets measured at cost less impairment, the impairment loss is measured as the difference between an asset's carrying amount and best estimate of the recoverable amount, 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.

Financial assets and liabilities are offset and the net amount reported in the statement of financial

Afon Technology Ltd

Notes to the Financial Statements For the Period Ended 31 December 2019

2. Accounting policies (continued)

2.9 Financial instruments (continued)

position when there is an enforceable right to set off the recognised amounts and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

2.10 Creditors

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

2.11 Foreign currency translation

Transactions and balances

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

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

Foreign exchange gains and losses resulting from the settlement of transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of comprehensive income.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the statement of comprehensive income. All other foreign exchange gains and losses are presented in the statement of comprehensive income, within 'other operating income'.

2.12 Pensions

Defined contribution pension plan

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

The contributions are recognised as an expense in the statement of comprehensive income when they fall due. Amounts not paid are shown in accruals as a liability in the statement of financial position. The assets of the plan are held separately from the company in independently administered funds.

2.13 Research and development

In the research phase of an internal project it is not possible to demonstrate that the project will generate future economic benefits and hence all expenditure on research shall be recognised as an expense when it is incurred. Intangible assets are recognised from the development phase of a project if and only if certain specific criteria are met in order to demonstrate the asset will generate probable future economic benefits and that its cost can be reliably measured.

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

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Notes to the Financial Statements For the Period Ended 31 December 2019

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

In preparing these financial statements, the directors have made the following judgements:

- Useful economic lives of assets

Tangible fixed assets are depreciated over their useful lives taking into account residual values, where appropriate. The actual lives of the assets and residual values are assessed annually and may vary depending on a number of factors. In re-assessing asset lives, factors such as technological innovation, product life cycles and maintenance programmes are taken into account. Residual value assessments consider issues such as future market conditions, the remaining life of the asset and projected disposal values.

- Recoverable value of fixed assets

Management make judgements and estimates to determine whether there are indicators of impairment of the company's tangible and intangible assets. Factors taken into consideration in reaching such a decision include the economic viability and expected future financial performance of the asset and where it is a component of a larger cash generating unit, the viability and expected future performance of that unit.

4. Employees

The average monthly number of employees, including directors, during the period was 9 (year ended 31 March 2019 - Nil).

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Notes to the Financial Statements For the Period Ended 31 December 2019

5. Intangible assets

	Trademarks £
Cost	
At 1 April 2019	-
Additions	84,784
At 31 December 2019	<u>84,784</u>
Amortisation	
At 1 April 2019	-
Charge for the period	7,591
At 31 December 2019	<u>7,591</u>
Net book value	
At 31 December 2019	<u>77,193</u>
At 31 March 2019	<u>-</u>

Afon Technology Ltd

Notes to the Financial Statements For the Period Ended 31 December 2019

6. Tangible fixed assets

	Fixtures and fittings £
Cost	
At 1 April 2019	-
Additions	35,554
At 31 December 2019	35,554
Depreciation	
At 1 April 2019	-
Charge for the period	8,773
At 31 December 2019	8,773
Net book value	
At 31 December 2019	26,781
At 31 March 2019	-

7. Stocks

	31 December 2019 £	31 March 2019 £
Raw materials and consumables	2	-
	2	-

8. Debtors: amounts falling due within one year

	31 December 2019 £	31 March 2019 £
Other debtors	9,730	-
Called up share capital not paid	-	1
Grants receivable	146,383	-
	156,113	1

Afon Technology Ltd

Notes to the Financial Statements For the Period Ended 31 December 2019

9. Creditors: amounts falling due within one year

	31 December 2019 £	31 March 2019 £
Trade creditors	44,978	-
Other creditors	551	-
Accruals and deferred income	103,184	-
	148,713	-

10. Share capital

	31 December 2019 £	31 March 2019 £
Allotted, called up and fully paid		
Nil (31 March 2019 - 1) ordinary shares of £1 each	-	1
1,500 (31 March 2019 - Nil) B ordinary shares of £1 each	1,500	-
500 (31 March 2019 - Nil) C1 ordinary shares of £1 each	500	-
200 (31 March 2019 - Nil) C2 ordinary shares of £0.001 each	-	-
100 (31 March 2019 - Nil) C3 ordinary shares of £0.001 each	-	-
1,300,000 (31 March 2019 - Nil) A ordinary shares of £0.001 each	1,300	-
	3,300	1

11. Reserves

The company's capital and reserves are as follows:

Called up share capital

Called up share capital represents the nominal value of the shares issued.

Share premium account

The share premium account includes the premium on issue of equity shares, net of any issue costs. The share premium of £1,298,702 was derived from the issue of A ordinary shares.

Profit and loss account

The profit and loss account represents cumulative profits or losses, net of dividends paid and other adjustments.

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Notes to the Financial Statements For the Period Ended 31 December 2019

12. Business combinations

Orsus Medical Limited appointed CVR Global LLP on 25th March 2019 as Administrators of the Company. Afon Technology Ltd, acquired the entirety of the trade and assets of Orsus Medical Limited from the Administrators for a consideration of £100,000 on 5th April 2019 as a going concern. All staff were retained and became employees of Afon Technology Limited. The Directors of Orsus Medical were reappointed as Directors of Afon Technology Ltd.

The following assets were transferred on the completion date:

	Book value £	Fair value £
Tangible	29,996	29,996
Intangible	70,000	70,000
	99,996	99,996
Stocks	2	2
Total assets	99,998	99,998
Total identifiable net assets	99,998	99,998
Goodwill		2
Total purchase consideration		100,000
Consideration		£
Cash		100,000
Total purchase consideration		100,000
Cash outflow on acquisition		£
Purchase consideration settled in cash, as above		100,000
		100,000
Net cash outflow on acquisition		100,000

Afon Technology Ltd

Notes to the Financial Statements For the Period Ended 31 December 2019

13. Pension commitments

The company operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the company in an independently administered fund. The pension cost charge represents contributions payable by the company to the fund and amounted to £3,545 (year ended 31 March 2019 - £Nil). Contributions totalling £551 (31 March 2019 - £Nil) were payable to the fund at the reporting date and are included in creditors.

14. Commitments under operating leases

At 31 December 2019 the company had future minimum lease payments under non-cancellable operating leases as follows:

	31 December 2019 £	31 March 2019 £
Not later than 1 year	1	-
	<u>1</u>	<u>-</u>

15. Related party transactions

The directors did not receive any dividends during the period to December 2019 (March 2019 - £nil).

The total remuneration paid to directors for services to the company was £200,734 (March 2019 - £nil).

The company purchased services worth £50,000 (March 2019 - £nil) from, and have a year end creditor balance of £10,000 (March 2019 - £nil) with Citalytics. Citalytics is considered a related party as a director of Afon technologies is also a director of Citalytics.

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Notes to the Financial Statements For the Period Ended 31 December 2019

16. Post balance sheet events

Covid-19 was recognised as a pandemic by the World Health Organisation on 11 March 2020 and as such has been treated as a non-adjusting post balance sheet event.

People with diabetes have been shown to be worse affected by Covid-19 than healthy people, so there will be more demand than ever for a device that can help people with diabetes to manage their condition.

Prior to lockdown and as a risk mitigation exercise, Afon Technology sourced all necessary PCB components by way of forward ordering. The company also scheduled assembly slots with contract manufacturers before the lockdown and before they were redirected to support government initiatives to manufacture PCBs for ventilator equipment needed in addressing the Covid-19 outbreak.

During the Covid-19 crisis, the work at Afon was able to continue on this project. None of the Afon Technology staff were furloughed, all were able to work from home. Although UK trials at a Welsh NHS facility were not able to take place, the project plan was reorganised, and work began on in-house product development activities.

Many tasks including software development, PCB layout and algorithm refinement have been carried out remotely. As lockdown has been gradually lifted necessary testing has resumed in the laboratory. The lab is spacious and has been marked to enable up to three engineers to work at a safe distance.

Afon Technology is also exploring moving the clinical trials from the NHS test site to bespoke Clinical Research Organisations (CROs).

All health and safety advice has been followed to ensure safe working and therefore Afon technology is well placed even if there is a second Covid-19 spike.

After the year-end, the company issued additional shares to raise capital. Shares were issued at £1.50 with a nominal value of £0.001. At the time of writing 962,767 shares have been allotted with provisional further sales of 33,350 agreed. This has raised an additional £1,444,000 in equity with the expectation of raising an additional £50,000.

17. Controlling party

The directors do not believe that there is any single controlling party.

18. Auditor's information

The auditor's report on the financial statements for the period ended 31 December 2019 was unqualified.

In their report, the auditor emphasised the following matter without qualifying their report:

Material uncertainty related to going concern

We draw attention to note 2.2 to the financial statements, which indicates that the business has identified liquidity and funding risks which raise material uncertainties over going concern. As stated in note 2.2, these events or conditions indicate that a material uncertainty exists that may cast significant doubt on the company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

The audit report was signed on 23 September 2020 by Antonio Antonius (Senior Statutory Auditor) on behalf of BDO LLP.