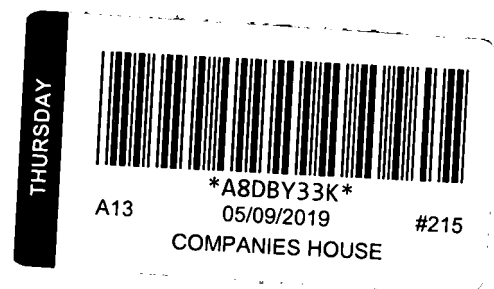


COMPANY REGISTRATION NUMBER 08683015

ROCKLEY PHOTONICS LIMITED
FINANCIAL STATEMENTS
FOR THE YEAR ENDED
31 DECEMBER 2018



ROCKLEY PHOTONICS LIMITED

FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2018

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ROCKLEY PHOTONICS LIMITED

OFFICERS AND PROFESSIONAL ADVISERS

The Board of Directors

Dr A. G. Rickman
Mr J. A. Burgess
Mr R. J. Rickman
Mr M. H. K. Hirvonen
Mr S. Rikhi
Dr C. A. Brown (appointed 1st January 2019)

Company Secretary

Mrs A. L. Finn

Registered Office

Dashwood
69 Old Broad Street
London
EC2M 1QS
United Kingdom

Auditor

Grant Thornton UK LLP
3140 Rowan Place
John Smith Drive
Oxford Business Park South
OXFORD
OX4 2WB
United Kingdom

Bankers

Silicon Valley Bank
Alphabeta
14-18 Finsbury Square
London
EC2A 1BR
United Kingdom

Solicitors / General Counsel

Cooley (UK) LLP
Dashwood
69 Old Broad Street
London
EC2M 1QS
United Kingdom

ROCKLEY PHOTONICS LIMITED

THE STRATEGIC REPORT

YEAR ENDED 31 DECEMBER 2018

BUSINESS REVIEW

At 31 December 2018 the Group was in the fifth full year of the development phase of its business plan, recorded a fivefold increase in revenue at \$19.5m and finished the year with an order book of \$24.7m. The Group reported revenue in accordance with IFRS 15.

Both the uses of our optical chipsets in traditional format optical fiber transceivers and in the new product class of OptoASIC has heightened our level of commercial activity with both Mega Scale Data Center (MSDC) customers and switch ASIC and system providers. We have evolved our optical engine strategy to both address the traditional transceiver market moving to higher data rates, and to provide the same technology to incorporate optical interfaces directly into the package of the datacenter switch ASIC chips. Instead of pitching one use case of our technology against another we have provided an approach for customers that will meet their requirements whichever way they lean in the next generation of datacenter network infrastructure, while still leveraging our competitive advantages.

In the 3D imaging/LiDAR application market we are leveraging aspects of the platform derived from communication and from the consumer sensing core IP development. Interest is growing broadly across the sector and we already have the market leader and a technology leader signed up as paying customers, working closely with us and employing our photonics chipset solution to produce their next generation products. This application field has significant potential from autonomous vehicle applications, robotics, consumer, industrial and medical, and could be larger than our other customer sensing applications.

As noted in last year's accounts, on 22 March 2018 the shareholders approved a share subdivision whereby each Ordinary Share of £0.0001 each was divided into 10 Ordinary Shares of £0.00001 each.

MANAGEMENT TEAM

The team is expanding according to plan with further world-class talent recruited during the year.

PERFORMANCE INDICATORS

During this development phase traditional financial key performance indicators are not considered to be relevant and instead the Directors have monitored the financial performance of the Group by reference to the detailed budgets contained within the business plan. The Directors also regularly consider non-financial performance aspects, such as the progress of the technical development and whether this is on course with the business plan. For the year ended 31 December 2018 the Directors are satisfied with the overall performance of the Group, which is largely on track with the business plan. Technical progress is evidenced by further successful live demonstrations to customers of a comprehensive set of product elements at the Optical Networking and Communication Conference (OFC) in March 2019.

FUTURE DEVELOPMENTS

The Group continues to invest in technical development and expects to further advance product marketing during 2019.

ROCKLEY PHOTONICS LIMITED

THE STRATEGIC REPORT (CONTINUED)

YEAR ENDED 31 DECEMBER 2018

PRINCIPAL RISKS AND UNCERTAINTIES

The Group has funded the technical development phase by raising to date \$131.2m of funds from its shareholders through a series of funding rounds. Series D closed 6 April 2018 with \$50.4m raised. Series E was opened 28 November 2018 and receipts to date total \$28.0m, with \$5.6m received as at 31 December. Confirmed commitments at the time of signing the accounts stands at \$68.4m with the balance of the funds due by the end of May.

The requirement for capital in the financial plan is a function of our confidence in raising further capital at an advantageous valuation to shareholders and using it to fully capitalise on and expand the addressable market. The plan, with the additional capital, aims to cement our leadership position in the field of silicon photonics, to complete the development phase and provide working capital for the marketing phase of the business plan.

With the expanded range of opportunities and larger addressable market following our evolution to a chipset business model, we appointed Lazard & Co., Limited to assist us with strategy, valuation, timing and data room materials for our E round funding. By its nature there is a level of uncertainty and risk attached to the success of any future funding round, which is key to the Group's appropriate use of the going concern basis, as it relies on future events outside of the control of the Group.

EFFECT OF BREXIT

Although uncertainty remains as to the outcome of the Brexit negotiations between the UK and EU, the Group has adopted an approach that we believe will allow us to manage the risks Brexit brings. These risks could include:

- Changes in how we transact intra-Group operations, share data, manage tax and foreign exchange exposures, and manage our intellectual property.
- Changes in people-specific rules and regulations that could impact the international mobility of our colleagues.

At present, the Group does not currently foresee any adverse material impact on day to day operations.

POST BALANCE SHEET EVENTS

Since 31 December 2018, the Company has received commitments of \$68.4m in aggregate as part of its Series E Fundraise, these commitments are either for the subscription of ordinary shares or for the subscription for convertible loan notes that will convert into ordinary shares on receipt of the cash portion of the equity subscriptions. At the time of signing these accounts we have received \$28.0m, with the balance of the funds due by the end of May.

On 4 March 2019 the company announced that it has expanded its strategic relationship with Shanghai stock-exchange listed Hengtong Optic-Electric Co. Ltd (Hengtong). The Suzhou-based joint venture with Hengtong addresses the burgeoning 400G DR4 transceiver market. As part of the same deal, Hengtong will invest \$30m in Rockley's Series E funding round.

On receipt of the equity funds from Hengtong we have agreed to invest a further \$5m in the joint venture company Hengtong Rockley Technology Co., Ltd. This investment will take place in the second half of the year and will increase the investment to date to \$8,486,000. This also maintains the level of ownership at 24.9%.

A new subsidiary Rockley Photonics Hong Kong Limited was incorporated in Hong Kong on 22 March 2019.

ROCKLEY PHOTONICS LIMITED

THE STRATEGIC REPORT (CONTINUED)

YEAR ENDED 31 DECEMBER 2018

INTERNAL FINANCIAL CONTROL

The Group has established policies covering the key areas of internal financial control and the appropriate procedures, controls, authority levels and reporting requirements which must be applied throughout the Group.

The key procedures that have been established in respect of internal financial control are:

- internal control: the Directors review the effectiveness of the Group's system of internal controls on a regular basis;
- financial reporting: a comprehensive system of financial reporting is in place based on the annual budget approved by the board. The results of the Group are reported monthly along with an analysis of key variances, and year-end forecasts are updated on a regular basis; and
- expenditure appraisal: applications for significant expenditure of either a revenue or capital nature are made in a format which places emphasis of the commercial and strategic justification as well as the cost effectiveness. All significant projects require specific board approval.

No system can provide absolute assurance against material misstatement or loss, but the group's systems are designed to provide reasonable assurance as to the reliability of financial information, ensuring proper control over expenditure, assets and liabilities.



Director, Mr R.J. Rickman

Approved by the directors on 11 April 2019

ROCKLEY PHOTONICS LIMITED

THE DIRECTORS' REPORT

YEAR ENDED 31 DECEMBER 2018

The directors have pleasure in presenting their report and the financial statements of the company for the year ended 31 December 2018.

DIRECTORS

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

Dr A. G. Rickman
Mr J. A. Burgess
Mr R. J. Rickman
Mr M. H. K. Hirvonen
Mr S. Rikhi

Dr C. A. Brown was appointed as a director on 1st January 2019.

The Group maintains director and officers' liability insurance.

DIVIDENDS

The Directors do not recommend the payment of a dividend in respect of the year ended 31 December 2018 (2017 - \$nil).

DIRECTORS' RESPONSIBILITIES STATEMENT

The directors are responsible for preparing the Strategic Report, the Directors' Report 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 Group financial statements in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the European Union, and the parent company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law) including Financial Reporting Standard 101 'Reduced Disclosure Framework'. 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 group and parent company and of the profit or loss of the group and parent 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;
- state whether applicable IFRSs as adopted by the European Union and UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the group and parent company financial statements respectively; 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 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.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

ROCKLEY PHOTONICS LIMITED

THE DIRECTORS' REPORT (CONTINUED)

YEAR ENDED 31 DECEMBER 2018

DIRECTORS' RESPONSIBILITIES STATEMENT (CONTINUED)

The Group implemented IFRS 15 on revenue recognition and a detailed policy on revenue recognition is set out in note 1 to the financial statements and is referenced in the Group's significant accounting judgements.

During FY18 management has performed an in-depth review of existing revenue recognition policies in order to determine the impact from the implementation of IFRS 15. The Audit Committee has overseen this exercise and reviewed the proposed revenue recognition policies, satisfying itself that the approach applied to determine revenue recognised in FY18 was appropriate, consistent across the Group and in line with the Group's accounting policy. The Audit Committee also received and discussed the external auditor reports setting out its work and conclusions on this area.

GOING CONCERN BASIS

The financial statements are prepared on a going concern basis, as the Directors are satisfied that the Group has the resources to continue in business for the foreseeable future. In making this assessment, the Directors have considered a wide range of information relating to present and future conditions as noted above in the strategic report. Also, refer to note 1 of the accounts.

RESEARCH AND DEVELOPMENT

\$45,914,000 was spent on research and development by the Group during 2018 (2017 - \$35,427,000). Under IAS 38 "Intangible Assets" the Group has expensed all research and development expenditure as the criteria for capitalization has not been met. The Group continues to invest in developing all three of our chipset product lines.

FINANCIAL RISK MANAGEMENT

Details of the Group's financial risk management objectives and policies are disclosed in the Strategic report on pages 3 and 4, and in note 2 to the financial statements.

STRATEGIC REPORT

In accordance with Section 414C(11) of the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013 the Group has set out in the Strategic Report the information required by Schedule 7 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008.

AUDITORS

Pursuant to Section 487(2) of the Companies Act 2006, the auditor will be deemed to be reappointed and therefore Grant Thornton UK LLP will continue in office for the financial period 1st January 2019 to 31 December 2019.

DISCLOSURE OF INFORMATION TO THE AUDITOR

The Directors confirm that:

- so far as each director is aware, there is no relevant audit information of which the company's auditor is 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 auditor is aware of that information.

Approved by the directors on 11 April 2019 and signed on behalf of the directors by:



MR R. J. Rickman
Director

ROCKLEY PHOTONICS LIMITED

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ROCKLEY PHOTONICS LIMITED

OPINION

We have audited the financial statements of Rockley Photonics Limited (the 'parent company') and its subsidiaries (the 'group') for the year ended 31 December 2018 which comprise the consolidated statement of profit or loss and other comprehensive income, consolidated statement of financial position, consolidated statement of changes in equity, consolidated statement of cash flows, parent company balance sheet, parent company statement of changes in equity and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 101 'Reduced Disclosure Framework' (United Kingdom Generally Accepted Accounting Practice).

In our opinion:

the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2018 and of the group's loss for the year then ended;

- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report. We are independent of the group and the parent 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.

MATERIAL UNCERTAINTY RELATED TO GOING CONCERN

We draw attention to note 1 in the financial statements, which indicates that the group incurred a net loss of \$22m during the year ended 31 December 2018 and group and parent company are required to secure further funding from shareholders in order to complete their product development. As stated in note 1, these events or conditions, along with the other matters as set forth in note 1, indicate that a material uncertainty exists that may cast significant doubt on the group and parent company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

ROCKLEY PHOTONICS LIMITED

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ROCKLEY PHOTONICS LIMITED (CONTINUED)

OTHER INFORMATION

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report 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 there is a material misstatement in 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 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 directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

MATTER ON WHICH WE ARE REQUIRED TO REPORT UNDER THE COMPANIES ACT 2006

In the light of the knowledge and understanding of the group and the parent company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the directors' report.

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

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

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

ROCKLEY PHOTONICS LIMITED

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ROCKLEY PHOTONICS LIMITED (CONTINUED)

RESPONSIBILITIES OF DIRECTORS FOR THE FINANCIAL STATEMENTS

As explained more fully in the directors' responsibilities statement set out on page 4, 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 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 group's and the parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

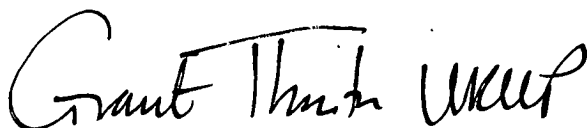
AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

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

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

USE OF OUR REPORT

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



Mark Bishop FCA
Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
Oxford

DATE: 11 April 2019

ROCKLEY PHOTONICS LIMITED

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

YEAR ENDED 31 DECEMBER 2018

	Note	YEAR ENDED 31 Dec 2018 \$'000	YEAR ENDED 31 Dec 2017 \$'000
Continuing Operations			
Revenue from contracts with customers	3	19,465	3,780
Cost of providing services		(9,895)	(1,224)
		<u>9,570</u>	<u>2,556</u>
Gross Profit			
Administrative expenses		(48,390)	(40,864)
Net gain/(loss) on foreign currency translation		444	(566)
		<u>(38,376)</u>	<u>(38,874)</u>
Operating loss from continuing operations			
Finance Costs	7	(828)	(1,420)
Interest and other income		98	28
Change in fair value of derivatives	15	(209)	-
		<u>(39,315)</u>	<u>(40,266)</u>
Income taxes	8	17,392	4,746
		<u>(21,923)</u>	<u>(35,520)</u>
Other comprehensive income:			
Foreign exchange differences on translation to presentational currency		998	626
		<u>998</u>	<u>626</u>
Total comprehensive loss for the financial period attributable to equity holders		<u>(20,925)</u>	<u>(34,894)</u>

All of the activities of the group are classed as continuing.

All of the profit/(loss) for the period is attributable to the equity holders of Rockley Photonics Limited.

The notes on pages 14 to 40 form part of the consolidated financial statements.

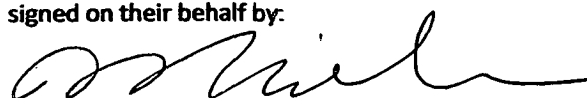
ROCKLEY PHOTONICS LIMITED

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2018

	Note	As at 31 Dec 2018 \$'000	As at 31 Dec 2017 \$'000
ASSETS			
Non-current assets			
Property, plant and equipment	9	3,030	1,423
Assets under construction		-	30
Deferred tax assets	8	1,046	821
Investment in associate	10	3,486	-
		<u>7,562</u>	<u>2,274</u>
Current assets			
Trade and other receivables	11	21,052	6,485
Cash and cash equivalents	12	11,358	22,826
		<u>32,410</u>	<u>29,311</u>
Total assets		<u><u>39,972</u></u>	<u><u>31,585</u></u>
EQUITY			
Called up share capital	18	-	-
Share premium		108,529	80,338
Equity settled share based payments reserve	19	8,356	4,106
Foreign currency translation reserves		(3,332)	(1,327)
Retained earnings		(89,180)	(68,255)
Total equity		<u><u>24,373</u></u>	<u><u>14,862</u></u>
LIABILITIES			
Current liabilities			
Trade and other payables	13	8,977	7,248
Short term bank loan	14	3,807	3,420
Cash settled share based payment liabilities	13	306	295
		<u>13,090</u>	<u>10,963</u>
Non-current liabilities			
Long term bank loan	14	1,605	5,337
Derivative liability	15	632	423
Deferred tax liabilities	8	272	-
		<u>2,509</u>	<u>5,760</u>
Total liabilities		<u><u>15,599</u></u>	<u><u>16,723</u></u>
Total equity and liabilities		<u><u>39,972</u></u>	<u><u>31,585</u></u>

These financial statements were approved by the directors and authorised for issue on 11 April 2019, and are signed on their behalf by:



Mr R. J. Rickman
Director

Company Registration Number 08683015

The notes on pages 14 to 40 form part of the consolidated financial statements.

ROCKLEY PHOTONICS LIMITED

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

YEAR ENDED 31 DECEMBER 2018

	Equity Share capital \$'000	Share premium \$'000	Equity- settled share based payment reserve \$'000	Foreign currency translation reserve \$'000	Retained earnings \$'000	Total Shareholder 's equity \$'000
Balance at 31st December 2016	-	52,079	834	(1,953)	(32,735)	18,225
Loss for the period	-	-	-	-	(35,520)	(35,520)
Other comprehensive income for the period	-	-	-	626	-	626
Issue of ordinary share capital	-	28,259	-	-	-	28,259
Share option compensation charge	-	-	3,272	-	-	3,272
Total movement in shareholders' equity	-	28,259	3,272	626	(35,520)	(3,363)
Balance at 31st December 2017	-	80,338	4,106	(1,327)	(68,255)	14,862
Loss for the period	-	-	-	-	(20,925)	(20,925)
Other comprehensive income for the period	-	-	-	998	-	998
Exchange differences on translating foreign operations	-	-	(161)	(3,003)	-	(3,164)
Issue of ordinary share capital	-	28,191	-	-	-	28,191
Share option compensation charge	-	-	4,411	-	-	4,411
Total movement in shareholders' equity	-	28,191	4,250	(2,005)	(20,925)	9,511
Balance at 31st December 2018	-	108,529	8,356	(3,332)	(89,180)	24,373

The notes on pages 14 to 40 form part of the consolidated financial statements.

ROCKLEY PHOTONICS LIMITED

CONSOLIDATED STATEMENT OF CASH FLOWS

YEAR ENDED 31 DECEMBER 2018

	Note	Year ended 31 Dec 2018 \$'000	Year ended 31 Dec 2017 \$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash used in operations	24	(37,214)	(33,421)
Corporation taxes received		8,665	8,971
Net cash used in operating activities		(28,549)	(24,450)
CASH FLOWS FROM INVESTING ACTIVITIES			
Net interest received		98	28
Net interest paid		(733)	(1,020)
Payment for investment in associate		(3,486)	-
Purchase of property, plant and equipment		(2,659)	(1,097)
Purchase of assets under construction		-	(30)
Net cash used in investing activities		(6,780)	(2,119)
CASHFLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of new shares		28,191	28,259
Proceeds from loans granted in year		-	15,104
Repayment of loans in year		(3,225)	(6,747)
Net cash generated from financing activities		24,966	36,616
Net increase in cash and cash equivalents		(10,363)	10,047
Cash and cash equivalents at the beginning of the period		22,826	12,610
Effects of exchange rate fluctuations on cash held		(1,105)	169
Cash and cash equivalents at the end of the period	12	11,358	22,826

The notes on pages 14 to 40 form part of the consolidated financial statements.

ROCKLEY PHOTONICS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2018

1. ACCOUNTING POLICIES

General information

Rockley Photonics Limited ('the Company') and its subsidiaries (together 'the Group') specialise in the research and development of a silicon photonics platform-based business model. The Group is currently making design sales with chipset sales to follow.

At 31 December 2018 the group was still in the development phase of its business plan and recorded \$19.5m of development turnover for the period.

Going concern

The Group is currently in the development phase of its business lifecycle and as is common with many research and development businesses, requires investment to fund its ongoing development. To date the Group has received significant funding from its shareholders, successfully raising \$131.2 million over five funding rounds. At 31 December 2018 the Group had net assets of \$24m but had made a loss of \$22m for the year, due to on-going expenditure on research and development. The Group is forecasting to require further funding during 2019 to continue its planned product development and marketing. The directors acknowledge that there is some element of risk in any fundraising and that this therefore represents a material uncertainty for the Group, which could have a significant impact on the Group's ability to continue as a going concern. However, given the track record the business has of raising funds, and the anticipated interest in future raises, the directors are confident that the planned fifth funding round will also be successful and provide the funds required to complete the development phase and provide working capital for the marketing phase of the business plan. For this reason, the directors are satisfied that the Group will have adequate resources to continue to operate for the foreseeable future. Accordingly, the directors have prepared these financial statements on the going concern basis.

Basis of preparation

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS's) issued by the International Accounting Standards Board (IASB) as adopted by the European Union as they apply to the financial statements of the Group for the year ended 31 December 2018 and applied in accordance with the Companies Act 2006. These include International Accounting Standards (IAS's), as issued by the IASB and with those of the Standing Interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC).

The consolidated financial statements have been prepared on the historical cost basis except for certain financial assets and financial liabilities that are measured at fair value through profit or loss, as discussed in the accounting policies below. The Group's financial statements are presented in United States Dollars.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries), together 'the Group'. Rockley Photonics Limited ('the Company') beneficially owns 100% of the voting rights in all its subsidiaries. Control is achieved where the Company has power over the investee, exposure, or rights, to variable returns from its involvement with the investee and the ability to use its power over the investee to affect the amount of the investor's returns. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-recognised from the date that control ceases.

These notes form part of the consolidated financial statements

ROCKLEY PHOTONICS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2018

ACCOUNTING POLICIES (CONTINUED)

Application of new and revised International Financial Reporting Standards (IFRSs)

For the purposes of the preparation of these consolidated financial statements, the Group has applied all standards and interpretations that are effective for accounting periods beginning on or after 1 January 2018.

In 2018 the Group has adopted new guidance for the recognition of revenue from contracts with customers (see note below). This guidance was applied using a modified retrospective ('cumulative catch-up') approach under which changes having a material effect on the consolidated statement of financial position as at 1 January 2018 are presented together as a single adjustment to the opening balance of retained earnings. Accordingly, the Group is not required to present a third statement of financial position as at that date. While this represents significant new guidance, the implementation of this new guidance did not have any impact on the timing or amount of revenue recognised by the Group in any year.

Further, the Group has adopted new guidance for accounting for financial instruments (see note below). This guidance was applied using the transitional relief allowing the entity not to restate prior periods. Differences arising from the adoption of IFRS 9 in relation to classification, measurement, and impairment are recognised in retained earnings. While this represents significant new guidance, the implementation of this new guidance did not have any impact on previously reported figures.

The Group intends to adopt IFRS 16 Leases, effective 1 January 2019. The Group's results announcement for the year ending 31 December 2019 will be the first to be prepared under IFRS 16. The Group will transition in accordance with the modified retrospective approach, and prior year information will not be restated. IFRS 16 requires a lessee to recognise assets and liabilities for almost all leases. In the income statement, operating lease charges will be replaced by depreciation and interest expenses. The estimated impact on the Group results in 2019 is expected to be immaterial. At 31 December 2018 the future minimum lease payments amounted to \$3,331,000.

No new standards, amendments or interpretations to existing standards that have been published and that are mandatory for the Group's accounting periods on or after 1 January 2018, or later periods, have been adopted early. The Directors do not consider that the adoption of these standards and interpretations would have a material impact on the Group's financial statements.

New standards and interpretations currently in issue but not effective, based on EU mandatory effective dates are:

• IFRS 9 Financial Instruments (Issued on 24 July 2014) - implemented	01 January 2018	No material effect
• IFRS 15 Revenue from Contracts with Customers (issued on 28 May 2014) including amendments to IFRS 15: Effective date of IFRS 15 (issued on 11 September 2015) - implemented	01 January 2018	No material effect
• IFRS 16 Leases (Issued on 13 January 2016)	01 January 2019	Still assessing impact
• Clarifications to IFRS 15 Revenue from Contracts with Customers (issued on 12 April 2016)	01 January 2018	No material effect
• Amendments to IFRS 2: Classification and Measurement of Share-based Payment Transactions (issued on 20 June 2016)	01 January 2018	No material effect
• Annual improvements to IFRS 2014-2016 Cycle (Issued 8 December 2016) - Relating to IFRS 1 First time adoption of IFRS and IAS 28 Investment in associates and joint ventures	01 January 2018	Not applicable
• IFRIC Interpretation 22 Foreign currency transactions and advance considerations (issued on 8 December 2016)	01 January 2018	No material effect
• Amendments to IAS 40: Transfers of investment property (issued 8 December 2016)	01 January 2018	Not applicable

These notes form part of the consolidated financial statements

ROCKLEY PHOTONICS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2018

ACCOUNTING POLICIES (CONTINUED)

Segmental reporting

No operating segments are reported which is in a manner consistent with the internal reporting provided to the Rockley Photonics Limited chief operating decision maker for the use in strategic decision making and monitoring of performance. The group considers the chief operating decision maker to be the executive board.

Associates

Associates are all entities over which the group has significant influence but not control or joint control. This is generally the case where the group holds between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting after initially being recognised at cost.

Under the equity method of accounting, the investments are initially recognised at cost and adjusted thereafter to recognise the group's share of the post-acquisition profits or losses of the investee in profit or loss, and the group's share of movements in other comprehensive income of the investee in other comprehensive income. Dividends received or receivable from associates and joint ventures are recognised as a reduction in the carrying amount of the investment.

When the group's share of losses in an equity-accounted investment equals or exceeds its interest in the entity, including any other unsecured long-term receivables, the group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the other entity.

Unrealised gains on transactions between the group and its associates and joint ventures are eliminated to the extent of the group's interest in these entities. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of equity accounted investees have been changed where necessary to ensure consistency with the policies adopted by the group.

The carrying amount of equity-accounted investments is tested for impairment in accordance with the policy described in the note below.

At 31 December 2018 the Group had a 24.9% interest (\$3.5m) (2017: nil) investment in Hengtong Rockley Technology Co., Ltd (HRT) and has two board members. The remaining interest of 75.1% is held by Hengtong Optical Network Technology Co., Ltd., who have three board members, including the Chairman. The Group exercises significant influence over HRT's operation and therefore accounts for its investment in HRT as an associate.

Impairment of assets

Goodwill and intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

ROCKLEY PHOTONICS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2018

ACCOUNTING POLICIES (CONTINUED)

Revenue recognition

Revenue currently arises mainly from the sale of services for the custom design of high-volume optics applications.

To determine whether to recognise revenue, the Group follows a 5-step process:

- 1 Identifying the contract with a customer
- 2 Identifying the performance obligations
- 3 Determining the transaction price
- 4 Allocating the transaction price to the performance obligations
- 5 Recognising revenue when/as performance obligation(s) are satisfied.

Revenue is recognised either at a point in time or over time, when (or as) the Group satisfies performance obligations by transferring the promised goods or services to its customers.

Research and development

Research and development expense consists primarily of personnel costs for our engineers and third parties engaged in the design and development of our products, software and technologies, including salary, bonus and share-based compensation expense, project material costs, services and depreciation. Such costs are charged to research and development expense as they are incurred.

Property, plant and equipment

Property, plant and equipment are initially recorded at cost of purchase or construction and are depreciated on a straight-line basis, except for land, which is not depreciated. Estimated useful lives of major classes of depreciable assets are as follows:

Computer equipment	- 3 years
Fixtures and fittings	- 4 years
Motor Vehicles	- 3 years

Repairs and maintenance costs are recognised as expenses as incurred.

Cash and cash equivalents

Cash and cash equivalents comprises cash on hand, call and current balances with banks and similar institutions, which are readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value.

Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the income statement on a straight line basis over the lease term. See notes above for application of IFRs 16 Leases, for future years.

Taxation

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates and laws that are enacted or substantively enacted by the statement of financial position date.

These notes form part of the consolidated financial statements

ROCKLEY PHOTONICS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2018

ACCOUNTING POLICIES (CONTINUED)

Taxation (Continued)

Deferred income tax is recognised on all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements, except in respect of deferred income tax assets which are recognised only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, carried forward tax credits or tax losses can be utilised.

Deferred income tax assets and liabilities are measured on an undiscounted basis at the tax rates that are expected to apply when the related asset is realised, or liability is settled, based on tax rates and laws enacted or substantively enacted at the statement of financial position date.

Income tax is charged or credited directly to equity if it relates to items that are credited or charged to equity. Otherwise income tax is recognised in the income statement.

Research and development tax credits not received at the year end date are included as current assets within the Consolidated Statement of Financial Position, amounts receivable are included within taxation in the Consolidated Statement Profit and Loss and other Comprehensive Income.

Equity

(a) Share capital

The Share capital is determined using the nominal value of shares that have been issued.

(b) Share premium

The share premium account represents premiums received on the initial issuing of the share capital. Any transaction costs associated with the issuing of shares are deducted from share premium, net of any related income tax benefits.

(c) Equity-settled share based payments

The share based payment reserve represents the cumulative amount which has been expensed in the Consolidated Statement of Comprehensive Income in connection with equity settled share based payments, less any amounts transferred to the profit and loss account on the exercise of share options.

(d) Foreign currency translation

The foreign exchange reserve represents exchange differences in relation to translation of operations in USD. The year end exchange rate used were: EUR 1.14 (2017:1.20); GBP was 1.27 (2017: 1.35).

Financial instruments

Impact of IFRS 9

Under IFRS 9, where financial liabilities are subsequently measured at fair value, any element of the fair value gain or loss arising that is attributable to changes in credit risk is recognised in other comprehensive income. Under the Group's previous accounting policy, such amounts were recognised within net operating costs. Overall, IFRS 9 does not have a significant impact since the majority of the Group's financial assets continue to be held at amortised cost. The Group is also not exposed to a significant concentration of credit risk, and accordingly the impact of applying an expected credit loss model to its financial assets was not material.

These notes form part of the consolidated financial statements

ROCKLEY PHOTONICS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2018

ACCOUNTING POLICIES (CONTINUED)

(a) Financial Assets and Liabilities

Recognition, Initial Measurement, and Derecognition

Financial assets and financial liabilities are recognized when the Company becomes a party to the contractual provisions of the financial instrument and are measured initially at fair value adjusted for transaction costs, except for those carried at fair value through profit or loss which are measured initially at fair value. Subsequent measurement of financial assets and financial liabilities is described below.

Recognition, Initial Measurement, and Derecognition Continued

Financial assets are derecognized when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and all substantial risks and rewards are transferred. A financial liability is derecognized when it is extinguished, discharged, cancelled, or expires.

Classification and Subsequent Measurement of Financial Assets

For subsequent measurement, financial assets are classified as loans and receivables into the following categories upon initial recognition:

Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those with maturities greater than twelve months after the consolidated balance sheet date, which are classified as non-current assets.

Financial instruments classified as loans and receivables are initially recorded at the fair value plus transaction costs at the time the transactions are executed. After initial recognition, these are measured at amortized cost using the effective interest method, less provision for impairment.

Impairment

At the end of each reporting period, financial assets are assessed for indication of impairment. If there is objective evidence that impairment exists, the loss is recognized in profit or loss. The impairment loss is measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in profit or loss.

Classification and Subsequent Measurement of Financial Liabilities

The Group's financial liabilities include trade and other payables, derivative liability (warrants related to loan) and debt. Financial liabilities other than derivatives are initially measured at fair value net of transaction costs and subsequently measured at amortized cost using the effective interest rate method. Derivative financial instruments are accounted for at fair value through profit and loss at each reporting period. Derivative financial instruments are recorded at fair value using the Black-Scholes options pricing model, Monte Carlo Simulation model, or a binomial option pricing model.

ROCKLEY PHOTONICS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2018

ACCOUNTING POLICIES (CONTINUED)

(b) Trade receivables

Trade receivables are recognised at fair value, less provision for impairment. A provision for impairment is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation and default or delinquency in payments are considered indicators that the trade receivable is impaired.

(c) Trade payables

Trade payables are recognised at fair value.

(d) Share capital

Ordinary shares are classified as equity.

(e) Warrants

The Company may issue warrants for services rendered. All goods and services received in exchange for the grant of any warrants are measured at their fair values. Where vendors are rewarded warrants, the fair value of the services are determined by the fair value of the services received. This fair value is appraised at the grant date and excludes the impact of non-market vesting conditions (for example profitability and sales growth targets and performance conditions). All warrants are ultimately recognized as an expense in profit or loss with a corresponding credit in the share-based payment reserve. If vesting periods or other vesting conditions apply, the expense is allocated over the vesting period, based on the best available estimate of the number of share options expected to vest.

(f) Derivatives

Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated at fair value through profit or loss. Such derivative financial instruments are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative. Any gains or losses arising from changes in the fair value of derivatives are taken directly to profit or loss.

Foreign currency translation

(a) Functional and prestation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in United States Dollars, which is the Group's presentational currency.

ROCKLEY PHOTONICS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2018

ACCOUNTING POLICIES (CONTINUED)

(b) Transaction and balances

Transactions in foreign currencies are recorded at the rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the statement of financial position date. All differences are taken to the income statement.

(c) Group companies

The results and financial position of all Group entities that have a functional currency different from the presentation currency are translated into United States Dollars as follows:

- Assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet.
- Income and expenses for each income statement are translated at the average exchange rate for the period where these approximate the exchange rate at the date of the transaction; and
- Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity (and attributed to non-controlling interest as appropriate).

ROCKLEY PHOTONICS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2018

ACCOUNTING POLICIES (CONTINUED)

Employee benefits

(a) Share-based compensation

The Group operates a number of equity-settled and cash-settled, share based compensation plans.

Equity-settled share-based payments and warrants are measured at fair value at the date of grant. The fair value determined at the date of the grant of the equity-settled share based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest. Fair value is measured by use of the Black-Scholes pricing model or a binomial option valuation model as appropriate depending on the terms of the options.

For cash-settled share-based payments, a liability is recognised for the goods or services acquired over the vesting period, measured initially at the fair value of the liability. At the end of each reporting period until the liability is settled, and at the date of settlement, the fair value of the liability is re-measured, with any changes in fair value recognised in profit or loss for the year.

If options lapse during the vesting period, no additional expense is charged to the income statement and no adjustment is made to that already charged.

Significant management judgement in applying accounting policies and estimation of uncertainty

When preparing the financial statements, management makes a number of judgements, estimates and assumptions about the recognition and measurement of assets, liabilities, income and expenses.

Significant management judgements

The following are the judgements made by management in applying the accounting policies of the Group that have the most significant effect on the financial statements.

(b) Assessing the amount of deferred tax asset that has been recognised

The amount of the deferred tax asset included in the Consolidated Statement of Financial Position of the Group is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. In estimating the amount of the deferred tax asset that may be recognised the Directors make judgements, based on current budgets and forecasts, about the amount of future taxable profits and the timing of when these will be realised. Details are contained in note 8.

(c) Extinguishment of debt

On January 27, 2017, to bridge cash requirements between equity funding rounds the company secured a loan of \$5m. As the Round D equity fund raise was slightly delayed the company secured a new loan on 26 May 2017 for \$10m, that was split 50/50 USD and Euros and was provided by two banks, one being the provider of the initial loan. The \$5m from the new loan was used to repay the January 2017 loan with a waiver of the prepayment fee. The repayment of the January 2017 loan was treated as an extinguishment of debt and the associated unamortized fees on this loan of \$271,000 were treated as a loss on exchange of debt. Under IAS 39, Financial Instruments: Recognition and Measurement, an entity that accounts for an exchange of debt instruments or modification of terms as an extinguishment, shall recognize any costs or fees as part of the gain or loss on the extinguishment. As such, the Company recognized an additional \$289,000 as a loss on exchange of debt. During the year ended December 31, 2017, the Company recognized a total of \$560,000 loss related to the exchange of the debt.

These notes form part of the consolidated financial statements

ROCKLEY PHOTONICS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2018

ACCOUNTING POLICIES (CONTINUED)

(d) R&D tax credit recognition

On 19 July 2018, the 2017 claim was paid in full and the company received funds of £6,678,000 (\$8,800,000, an increase of £3,678,000 (\$4,780,000) on the amount provided). The company is currently working with our advisors on the claim for the period January 1 to December 31, 2018. At this stage the draft claim for 2018 total totals £9,233,000 (\$12,003,000). As claims for the last two years have been paid in full the company expect the 2018 claim to be paid in full so has provided to receive 100%, or £9,233,000 (\$12,000,000) in preparing the 2018 accounts.

Estimation uncertainty

Information about estimates and assumptions that may have the most significant effect on recognition and measurement of assets, liabilities, income and expenses is provided below. Actual results may be substantially different

(e) Fair values for share-based compensation

The establishment of fair values in respect of employee services received in exchange for share options require the exercise of judgement and estimation in respect of the life of the option, the expected dividend yield and, in particular, the expected volatility of the underlying shares. A calculated value for the latter may not accurately reflect the future share price movements given the Group's stage of development, whilst a value benchmarked against peers may not control for factors unique to either business. Details are contained in note 19.

(f) Embedded derivatives in the loan agreement – Interest Rate Floor and Prepayment Option

The Group estimated the value of the embedded instruments in the loan agreement using the Monte Carlo Simulation model. The models take into account the potential movements in interest rates and the 3-year term for the loan. It was noted that to some extent these two embedded derivatives counterbalance each other. If market interest rates fell significantly, then the loan would end up charging an above market interest rate due to the floor, but the borrower could negate this by choosing to prepay. Due to this counterbalance feature and short time to loan maturity, management have determined that the embedded derivative value is nil at each reporting period.

ROCKLEY PHOTONICS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2018

2. FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of commercial and financial risks: foreign exchange risks and liquidity risks. The Group's overall financial risk management programme focuses on minimising the cost of borrowings whilst retaining the flexibility of funding opportunities, to minimise potential adverse effects on the Group's financial performance. Risk management is carried out by the Group's board of directors.

(a) Foreign exchange risks

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to Sterling (£) and the Euro (€).

The Group considers foreign exchange to be a risk and seeks to minimise its effects by holding bank deposit accounts in the respective currencies to hedge against known foreign exchange exposures only and are not used for speculative purposes.

The Group had the following current assets and liabilities denominated in currencies other than the function currency of the Group (US Dollars):

	Sterling £'000	Euros €'000
Year ended 31 December 2018		
Trade and other receivables denominated in foreign currency	12,264	161
Cash balances denominated in foreign currency	3,535	93
Loan balance denominated in foreign currency	-	2,631
Trade and other payables denominated in foreign currency	(2,222)	(418)
Net current assets denominated in foreign currency	13,577	2,467
Year ended 31 December 2017		
Trade and other receivables denominated in foreign currency	4,259	1,034
Cash balances denominated in foreign currency	5,624	376
Loan balance denominated in foreign currency	-	4,477
Trade and other payables denominated in foreign currency	(2,491)	(742)
Net current assets denominated in foreign currency	7,392	5,145

(b) Liquidity risks

Liquidity risk is that the Group might be unable to meet its obligations and arises from trade and other payables. The Group manages liquidity risk by maintaining adequate reserves and bank balances and by continuously monitoring forecasts and actual cash flows.

ROCKLEY PHOTONICS LIMITED**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****YEAR ENDED 31 DECEMBER 2018****3. REVENUE**

The Group's revenue is analysed as follows:

	Year ended 31 Dec 2018 \$'000	Year ended 31 Dec 2017 \$'000
Services transferred over time	<u>19,465</u>	<u>3,780</u>
By primary Geographical markets		
USA	<u>16,340</u>	3,780
Other Countries	<u>3,125</u>	-
Total	<u>19,465</u>	<u>3,780</u>

4. OPERATING LOSS FOR THE YEAR

Operating loss from continuing operations is stated after charging:

	Year ended 31 Dec 2018 \$'000	Year ended 31 Dec 2017 \$'000
Depreciation of owned fixed assets	1,050	610
Research and development expense	45,914	35,427
Auditor's remuneration		
- fees payable to company auditor for the audit of the consolidated financial statements and parent company financial statements	44	47
- audit of subsidiary	61	9
- tax related services	233	277
- other	31	105
Operating lease rentals:		
- Land and buildings	767	511
- Plant and equipment	354	132

Research and development expense noted above include amounts reported in cost of providing services.

ROCKLEY PHOTONICS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2018

5. STAFF COSTS

The average number of staff employed by the group (including directors) during the financial period amounted to:

	Year ended 31 Dec 2018	Year ended 31 Dec 2017
	No	No
Number of research and development staff	83	56
Number of SG&A staff	25	22
	<u>108</u>	<u>78</u>

The aggregate payroll costs of the above were:

	Year ended 31 Dec 2018	Year ended 31 Dec 2017
	\$'000	\$'000
Wages and salaries	17,514	12,507
Social security and other employment provision costs	2,991	1,908
Expense of share-based payments	2,528	3,154
	<u>23,033</u>	<u>17,569</u>

6. KEY MANAGEMENT COMPENSATION

The Directors are of the opinion that the key management of the Group comprises the executive board of Directors of Rockley Photonics Limited, consisting of the persons listed as Directors on page 4. These persons have authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly.

Details of aggregate key management emoluments for the year (being the same as Director's emoluments) are as follows:

	Year ended 31 Dec 2018	Year ended 31 Dec 2017
	\$'000	\$'000
Salaries and other short term employee benefits	517	411
Expense of share-based payments	128	41
	<u>645</u>	<u>452</u>

ROCKLEY PHOTONICS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2018

6. KEY MANAGEMENT COMPENSATION (CONT)

During the period four (2017 – One) Directors were granted share options under the Group's share based compensation plan. Nil share options were exercised by Directors during the year (2017 – nil).

At 31 December 2018 the number of Directors who were participating in the Group's share based compensation plans was four (2017 – Three).

	Year ended 31 Dec 2018 \$'000	Year ended 31 Dec 2017 \$'000
Total remuneration	<u>461</u>	<u>393</u>
	<u>461</u>	<u>393</u>

7. FINANCE COST

	Year ended 31 Dec 2018 \$'000	Year ended 31 Dec 2017 \$'000
Interest charge on initial loan	-	196
Loss on loan extinguishment	-	560
Interest on new loan	<u>828</u>	<u>664</u>
	<u>828</u>	<u>1,420</u>

ROCKLEY PHOTONICS LIMITED**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****YEAR ENDED 31 DECEMBER 2018****8. INCOME TAXES****Income tax recognised in profit or loss**

	Year ended 31 Dec 2018 \$'000	Year ended 31 Dec 2017 \$'000
Current tax / (credit)		
Foreign tax charges	268	249
Research and Development tax credit	(12,000)	(3,895)
Adjustment in respect of prior year	(5,554)	(837)
Deferred tax		
Excess of taxation allowances over depreciation	-	-
Foreign deferred taxes	(106)	(263)
	<u>(17,392)</u>	<u>(4,746)</u>

Reconciliation of the total tax credit

The tax charge for the year differs from that calculated by applying the pro-rated standard rate of corporation tax in the UK of 19.00% (2017 – 19.25%). The differences are explained below:

	Year ended 31 Dec 2018 \$'000	Year ended 31 Dec 2017 \$'000
Loss on ordinary activities before corporation tax	(39,315)	(40,266)
At the standard rate of corporation tax in the UK	(7,469)	(7,751)
Effects of:		
Expenses not deductible for tax purposes	391	611
Deferred tax not recognised	7,240	7,126
Research and development credit	(12,000)	(3,895)
Adjustment to prior periods	(5,554)	(837)
Total tax credit	<u>(17,392)</u>	<u>(4,746)</u>

Deferred tax balances

The Group had recognised deferred tax assets of \$1,046,000 (2017 - \$821,000) and deferred tax liabilities of \$272,000 (2017 -\$153,000) in respect of US timing differences, which are expected to reverse in the short term. In addition, the Group has tax losses which during the year, generated an unrecognized deferred tax asset of approximately \$3,727,000 (2017 - \$7,126,000) for offset against future operating profits. The Group has not recognised any further deferred tax asset in respect of these or any other of the Group's losses which are significant. The losses are still to be agreed with the tax authorities. It is anticipated that the losses will be available for offset against future profits. However, there is uncertainty over the timing of future profits and therefore a UK deferred tax asset has not been recognised.

These notes form part of the consolidated financial statements

ROCKLEY PHOTONICS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2018

9. PROPERTY, PLANT AND EQUIPMENT

	Computer & Lab equipment \$'000	Fixtures & fittings \$'000	Motor Vehicles \$'000	Total \$'000
COST				
At 31st December 2016	1,240	150	33	1,423
Foreign currency revaluation	2	2	(2)	2
Additions	1,018	79	-	1,097
Disposals	-	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
At 31st December 2017	2,260	231	31	2,522
Foreign currency revaluation	(7)	4	-	(3)
Additions	2,159	499	-	2,658
Disposals	-	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
At 31st December 2018	4,412	734	31	5,177
DEPRECIATION				
At 31st December 2016	439	39	14	492
Foreign currency revaluation	-	(1)	(2)	(3)
Provided in the year	555	45	10	610
On Disposals	-	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
At 31st December 2017	994	83	22	1,099
Foreign currency revaluation	(8)	6	-	(2)
Provided in the year	956	85	9	1,050
On Disposals	-	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
At 31st December 2018	1,942	174	31	2,147
NET BOOK VALUE				
Net book value at 31st December 2018	2,470	560	-	3,030
Net book value at 31st December 2017	1,266	148	9	1,423

The net book value of computer equipment held under finance leases at 31 December 2018 is \$141,000 (2017 - \$217,000)

10. INVESTMENTS IN ASSOCIATES

Set out below is the associate of the group as at 31 December 2018 which, in the opinion of the directors, is material to the group. The entity listed below has share capital consisting solely of ordinary shares, which are held directly by the group. The country of incorporation or registration is also their principal place of business, and the proportion of ownership interest is the same as the proportion of voting rights held.

	As at 31 Dec 2018 \$'000	As at 31 Dec 2017 \$'000
As at 1 January	-	-
Investment in Associate	3,486	-
Share of post-tax results of Associate	-	-
	<hr/>	<hr/>
	3,486	-

These notes form part of the consolidated financial statements

ROCKLEY PHOTONICS LIMITED**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****YEAR ENDED 31 DECEMBER 2018****10. INVESTMENTS IN ASSOCIATES (CONTINUED)**

Details of the Group's principal associate is provided below.

Company Name: **Hengtong Rockley Technology Co., Ltd**

Country of incorporation and principal place of business: **China**

Proportion of ownership interest: **24.9%**

Principal Activities: **Manufacture and sale of optical fiber transceivers based on silicon photonics chipsets**

11. TRADE AND OTHER RECEIVABLES

	As at 31 Dec 2018 \$'000	As at 31 Dec 2017 \$'000
Current assets		
Other receivables	12,508	4,225
Trade receivables	4,933	997
Amount owed by Associate	832	-
VAT recoverable	434	331
Prepayments and contract assets	2,345	932
	<u>21,052</u>	<u>6,485</u>

12. CASH AND CASH EQUIVALENTS

	As at 31 Dec 2018 \$'000	As at 31 Dec 2017 \$'000
Cash and cash equivalents	<u>11,358</u>	<u>22,826</u>

Included within Cash and cash equivalents is \$155,403 (2017 - \$157,000) of funds restricted against an Irrevocable Standby Letter of Credit dated November 20, 2015 drawn on Silicon Valley Bank in favour of 21st Century Techbanq Pasadena, LLC, landlord of the office and laboratory premises leased by Rockley Photonics, Inc. in Pasadena, California, USA, expiring 20th November 2016 and automatically extending annually at a reduced sum until 15th May 2021.

The group's overall interest rate risk is explained in note 2 "Financial risk management":

13. TRADE AND OTHER PAYABLES

	As at 31 Dec 2018 \$'000	As at 31 Dec 2017 \$'000
Amounts falling due within one year		
Trade payables	4,375	3,620
PAYE, social security and other taxes	206	222
Cash-settled share based payments	306	295
Equipment leasing	-	145
Accruals and contract liabilities	4,396	3,261
	<u>9,283</u>	<u>7,543</u>

These notes form part of the consolidated financial statements

ROCKLEY PHOTONICS LIMITED**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****YEAR ENDED 31 DECEMBER 2018****14. BORROWINGS**

	As at 31 Dec 2018 \$'000	As at 31 Dec 2017 \$'000
Bank Loans	<u>5,412</u>	<u>8,757</u>
TOTAL BORROWINGS	<u>5,412</u>	<u>8,757</u>
SPLIT BETWEEN		
No later than 1 Year	3,807	3,420
Later than 1 Year but no later than 5 Years	1,605	5,337

No new loans were taken out in 2018. On January 27, 2017, to bridge cash requirements between equity funding rounds the company secured a loan of \$5m. Key features were:

Term	3 years to 31 March 2020
Amount/Currency	\$5m
Interest Rate	Wall Street prime +5.50%
Interest Floor	9.00%
Prepayment Fees	3% yr1, 2% yr 2, 1% yr 3
Arrangement Fees	\$50,000
Maturity Fee	n/a
Warrants at \$86.46 exercise price	5,205

As the Round D equity fund raise was slightly delayed the company secured new loan on 26 May 2017 for \$10m, that split 50/50 USD and Euros and was provided by two banks, one being the provider of the initial loan. Key features are:

Term	3 years to 1 June 2020
Amount/Currency	\$10m (split \$5m + €4.5m)
Interest Rate	Wall Street prime +5.50%
Interest Floor	9.00%
Prepayment Fees	3% yr1, 2% yr 2, 1% yr 3
Arrangement Fees	\$45,070
Maturity Fee	\$200,000 on US\$ loan/€180,280 on €euro loan
Warrants at \$86.46 exercise price	5,205

The \$5m from the new loan was used to repay the January 2017 loan with a waiver of the prepayment fee. The repayment of the January 2017 loan was treated as an extinguishment of debt and the associated unamortized fees on this loan of \$271,000 were treated as a loss on exchange of debt. Under IAS 39, Financial Instruments: Recognition and Measurement, an entity that accounts for an exchange of debt or gain or loss on the extinguishment. As such, the Company recognized an additional \$289,000 as a loss on exchange of debt in 2017. During the year ended December 31, 2017, the Company recognized a total of \$560,000 loss related to the exchange of the debt.

These notes form part of the consolidated financial statements

ROCKLEY PHOTONICS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2018

14 BORROWINGS (CONTINUED)

The provider of the initial loan and the additional joint provider of the second loan each received warrants at the loan dates noted above on the following key on the following key terms:

"Warrant Price" means US\$86.46 per Ordinary Share or the Next Round Price per Next Round Share.

"Warrant Shares" means, at the election of the Holder, its absolute discretion either (i) 5,205 Ordinary Shares; or (ii) such number of Next Round Shares as is calculated by dividing US\$450,000 by the Next Round Price and "Warrant Share" means any one of them.

"Expiration Date" means 10 years from the date that a Warrant is issued.

"Next Round" means the next arm's length round of equity financing by the Company subsequent to the date of this Warrant Instrument in which the Company issues or sells any of its Shares for aggregate cash proceeds of at least US\$20,000,000 (excluding any amounts received upon conversion or cancellation of indebtedness) to persons which includes as the lead investor a fund, institution or body corporate who is not a shareholder of the Company as at the date of this Warrant (the "Anticipated Next Round") provided always that if the Company completes a round of equity financing by the Company prior to Anticipated Next Round then the Holder can elect, its absolute discretion, that such round be the Next Round for the purpose of this Warrant Instrument;

"Next Round Shares" means any class of Shares or other securities (including loan stock or loan notes) issued by the Company in the Next Round;

"Next Round Price" means the lowest price paid for a Next Round Share (taking in account any discounts including those arising on conversion or cancellation or any indebtedness and/or interest thereon); Exercise of Subscription Rights

- Subscription Rights may be exercised in whole or in part by the relevant Holder completing the Notice of Exercise and lodging the relevant Certificate at the registered office of the Company for the time being together with a remittance for the aggregate price payable for the Warrant Shares in respect of which Subscription Rights are to be exercised.
- The aggregate Subscription Price for the Warrant Shares to be issued upon exercise shall, at the absolute discretion of the Holder, be satisfied either:
 - o by the payment in cash for each of the Warrant Shares forming the subject matter of a Notice of Exercise at the Warrant Price; or
 - o on a net issuance basis, whereby the Holder will receive a reduced number of Warrant Shares fully paid up in lieu of paying the aggregate Warrant Price for the Warrant Shares forming the subject matter of a Notice of Exercise.

As the next round was more than \$20m and the share price achieved was above \$86.46 the number of warrant shares for each loan provider is fixed at 5,205.

The company reviewed the terms of the warrant and concluded that under IAS 32: Financial instruments: Presentation, the warrants represent derivative liability contracts. This is because of two issues, either of which would cause derivative liability classification:

- at inception the holder can choose to request a variable number of ordinary shares to be issued, depending on changes in market prices of the shares in the next round fundraising - "down round" adjustment clauses.
- the "net share" settlement feature where the holder can choose settlement net in cash or by exchanging shares for cash

As part of the warrants granted, the expected life of the warrant had to be determined. The expected life is estimated using the contractual life of the warrant of 10 years. The volatility is estimated based on share price movements of comparable business. It was determined that the original fair value of each warrant was \$41.46 and the fair value of the 10,210 warrants was \$423,000 and this cost was expensed as part of the loan extinguishment costs noted above.

These notes form part of the consolidated financial statements

ROCKLEY PHOTONICS LIMITED**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****YEAR ENDED 31 DECEMBER 2018****15. DERIVATIVE LIABILITY**

The Group's derivative financial instruments measure at fair value are summarised below:

	As at 31 Dec 2018 \$'000	As at 31 Dec 2017 \$'000
Fair value at beginning of period	423	-
Warrants on loans	-	423
Change in fair value of derivatives	209	-
	<u>632</u>	<u>423</u>
Fair value at end of period	<u>632</u>	<u>423</u>
	<u>632</u>	<u>423</u>
Warrants on loans	<u>632</u>	<u>423</u>
Derivative financial liabilities	<u>632</u>	<u>423</u>

The 10,210 warrants relating to the borrowing raised in 2017 were accounted for at fair value, as determined by the Black-Scholes option pricing model using the following weighted-average assumptions. The 2018 figures are adjusted for the 1 for 10 share split.

	31 Dec 2018	31 Dec 2017	26 May 2017	27 January 2017
Expected volatility	58.0%	55.0%	55.0%	55.0%
Expected life	3 years	4 years	4 years	4 years
Expected forfeiture rate	0.0%	0.0%	0.0%	0.0%
Dividend yield	0.0%	0.0%	0.0%	0.0%
Risk-free investment rate	2.00%	1.53%	1.53%	1.53%
Weighted average fair value at date of grant	\$6.194	\$54.96	\$54.96	\$54.30
Weighted average exercise price at date of grant	\$4.137	\$41.37	£41.37	\$40.96

The Company's derivative financial instruments are measured at fair value and are detailed above. The Company's borrowings are detailed in Note 14.

ROCKLEY PHOTONICS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2018

16. FINANCIAL ASSETS AND LIABILITIES

Trade and other receivables, cash and cash equivalents, and trade and other payables are measured at amortised cost. Cash-settled share-based payment liabilities are stated at their fair value. The accounting policies applied are set out in note 1. The carrying amounts of financial assets and liabilities as at 31 December 2018 are categorised as follows:

	As at 31 Dec 2018	As at 31 Dec 2017
Carrying value of financial assets and liabilities within the Consolidated Statement of Financial Position:		
Financial assets		
Trade and other receivables	18,273	5,222
Cash and cash equivalents	11,358	22,826
	<u>29,631</u>	<u>28,048</u>
Financial liabilities		
Trade and other payables at amortised cost	4,581	3,842
Loan	5,412	8,757
	<u>9,993</u>	<u>12,599</u>
Cash-settled share-based payments due < 1 year	306	295
Derivative	632	423
	<u>938</u>	<u>718</u>

All financial liabilities at amortised cost based on contractual undiscounted payments are due for settlement within six months.

17. FINANCIAL COMMITMENTS

The Group leases offices under non-cancellable operating lease agreements. The leases have various terms, escalation clauses and renewal rights. The Group also leases datacentre services under non-cancellable operating lease agreements. The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	As at 31 Dec 2018		As at 31 Dec 2017	
	Property \$'000	Equipment \$'000	Property \$'000	Equipment \$'000
Group				
No later than one year	921	-	495	32
Later than one year and no later than five years	2,361	-	954	1
Later than five years	49	-	-	-
	<u>3,331</u>	<u>-</u>	<u>1,449</u>	<u>33</u>

Financial commitments in respect of expenditure contracted for but not provided for, are as follows:

	31 Dec 2018 \$'000	31 Dec 2017 \$'000
Research and development expenditure		
Engineering R & D partner programs	2,941	3,878
	<u>2,941</u>	<u>3,878</u>

These notes form part of the consolidated financial statements

ROCKLEY PHOTONICS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2018

18. SHARE CAPITAL

	As at 31 Dec 2018	As at 31 Dec 2017
	\$'000	\$'000
Allotted, called up and fully paid		
29,215,692 of £0.00001 each (2017 – 2,639,127 of £0.0001 each)	-	-
	<u>-</u>	<u>-</u>
	<u>-</u>	<u>-</u>

During the year the company issued 2,824,422 new shares of £0.00001 each. (2017 – 305,472 new shares of £0.0001) Proceeds net of costs were \$28,191,000.

	Shares issued	Subscription Price	Share premium
	No.	£/\$	\$'000
Investment Round D Ordinary £0.0001 shares, 2017	2,425,710	95.00	34,089
EMI Scheme Nov 2013 – share options exercised	10,000	4.39	44
EMI Scheme Nov 2013 – share options exercised	253	13.31	3
Investment Round E Ordinary £0.00001 shares, 2017	388,459	14.298	5,554
	<u>2,824,422</u>		<u>39,690</u>

On 22 March 2018 the shareholders approved a share subdivision whereby each Ordinary Share of £0.0001 each was divided into 10 Ordinary Shares of £0.00001 each.

19. SHARE BASED PAYMENTS

The Company has established a number of share based incentive schemes for current employees, directors and others, which include Share Appreciation Rights, Share Option Scheme and Warrants.

Cash-settled share-based payments – Share Appreciation Rights

On, the 12th November 2013, the Company issued to certain employees Share Appreciation Rights (SARs) that require the company to pay the intrinsic value of the SARs to the employee at the date of exercise. These SARs vest over a period of 4 years, provided the employee remains in the employment of the Group.

A summary of the SARs granted at 31 December 2018 are as follows (table adjusted for 10 for 1 share split):

	As at 31 Dec 2018	Exercise price Per SAR	As at 31 Dec 2017	As at 31 Dec 2017 Pre-split
	No.	£/\$	No.	No.
Stock Appreciation Rights – 12th November 2013	30,000	£0.00001	30,000	3,000
	<u>30,000</u>		<u>30,000</u>	<u>3,000</u>

At 31 December 2018, the Company had recorded liabilities of \$306,000 (2017 - \$295,000) in respect of these SARs. The fair value of the SARs has been based on \$86.46 (2017 - \$86.46) being the assessed fair value of Company's shares at 31 December 2018. The Company recorded total expenses of \$11,000 (2017 - \$95,000) during the year ended 31 December 2018 in respect of SARs. At 31 December 2018 the total intrinsic value of the vested SARs was \$306,000 (2017 - \$295,000).

These notes form part of the consolidated financial statements

ROCKLEY PHOTONICS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2018

SHARE BASED PAYMENTS (continued)

Equity-settled share based payments – Share Options

The Company has issued share options to certain individuals to subscribe for ordinary shares of the Company. All of the share options have been granted under the Company's 2013 Equity Incentive Plan. A summary of the share options granted at 31 December 2018 are as follows (all figures have been adjusted for the 10 for 1 share split):

	Exercise Price £/\$	Total issued as at 31 Dec 2017 No	Total exercisable as at 31 Dec 2017 No.	Granted No.	Exercised No.	Lapsed No.	Total issued as at 31 Dec 2018 No	Total exercisable as at 31 Dec 2018 No.	Total Issued as at 31 Dec 2017 Pre-split No.	Total Exercisable as at 31 Dec 2017 Pre-split No.
EMI Scheme Nov 2013	£0.00001	135,500	135,500	-	-	-	135,500	135,500	13,550	13,550
Non-Qualified Options Nov 2013	£0.00001	190,000	190,000	-	-	-	190,000	190,000	19,000	19,000
EMI Scheme Sept 2014	\$0.439	62,960	51,160	-	10,000	-	52,960	52,960	6,296	5,116
Incentive Stock Options Sept 2014	\$0.439	643,190	522,590	-	-	-	643,190	596,397	64,319	52,259
Non-Statutory Stock Options Sept 2014	\$0.439	100,000	81,250	-	-	-	100,000	100,000	10,000	8,125
Non-Qualified Stock Options Sept 2014	\$0.439	229,740	186,660	-	-	-	229,740	229,740	22,974	18,666
EMI Scheme Nov 2015	\$1.331	31,670	17,330	-	-	-	31,670	25,244	3,167	1,733
Incentive Stock Options 2015	\$1.331	1,420,230	895,980	-	12,250	127,120	1,280,860	1,156,811	142,023	89,598
Non-Statutory Stock Options 2015	\$1.331	162,350	108,230	-	-	-	162,350	159,076	16,235	10,823
Non-Qualified Stock Options 2015	\$1.331	121,000	75,380	-	-	-	121,000	105,623	12,100	7,538
Incentive Stock Options 2016	\$4.30	274,390	82,690	-	-	92,437	181,953	104,754	27,439	8,269
Non-Qualified Stock Options 2016	\$4.30	31,000	9,310	-	-	-	31,000	26,432	3,100	931
Non-Qualified Stock Options 2017	\$4.30	33,000	-	-	-	7,500	25,500	12,270	3,300	-
Incentive Stock Options 2017	\$4.30	1,930,410	-	-	-	549,608	1,380,802	627,617	193,041	-
EMI Scheme Nov 2017	\$4.30	130,000	-	-	-	-	130,000	40,207	13,000	-
Non-Statutory Stock Options 2017	\$5.363	40,000	-	-	-	-	40,000	13,333	4,000	-
Non-Statutory Stock Options 2018	\$5.363	-	-	173,860	-	-	173,860	-	-	-
EMI Scheme 2018	\$5.363	-	-	82,700	-	-	82,700	1,170	-	-
Incentive Stock Options 2018	\$5.363	-	-	619,000	-	-	619,000	-	-	-
Totals		5,535,440	2,356,080	875,560	22,250	776,665	5,612,085	3,577,134	553,544	235,608

All options vest over the earlier of 4 years of service from grant or start of service, with typically 25% becoming exercisable on the first anniversary of the grant or start of service and the balance becoming exercisable in equal monthly portions over the following 36 months.

These notes form part of the consolidated financial statements

ROCKLEY PHOTONICS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2018

SHARE BASED PAYMENTS (continued)

Equity-settled share based payments – Share Options (continued)

The fair values of options granted during the period were determined using a binomial pricing model that takes into account factors specific to the share option plans, such as the vesting period.

The following principal assumptions were used in the valuation (2017 amended for share split):

	31 Dec 2018	31 Dec 2017
Weighted average share price at date of grant	\$6.551	\$4.789
Volatility	58.00%	55.00%
Vesting period (years of service from date of grant)	4 years	4 years
Dividend yield	0.0%	0.0%
Risk-free investment rate	2.00%	1.53%
Weighted average fair value at date of grant	\$4.547	\$4.238
Weighted average exercise price at date of grant	<u>\$6.551</u>	<u>\$4.789</u>

The underlying expected volatility was determined by reference to equity volatilities and metrics calculated from comparable listed companies.

Equity-settled share based payments – Warrants

The company has issued warrant certificates to certain individuals to subscribe for ordinary shares of the company. The warrant certificates entitle the holder to subscribe for ordinary shares of the company, the volume dependent upon the individual achieving certain share capital investment targets. A summary of the warrants granted at 31 December 2018 are as follows (both years are presented after the impact of the 10 for 1 share split):

	As at 31 Dec 2018	Exercise price Per Warrant	As at 31 Dec 2017
	No.	£/\$	No.
Equity Warrant Instrument Feb 2014	51,000	£0.001	51,000
Equity Warrant Instrument Feb 2014	13,950	\$1.000	13,950
Equity Warrant Instrument Feb 2015	137,540	\$2.671	137,540
Equity Warrant Instrument Feb 2016	12,840	\$8.646	12,840
Equity Warrant Instrument Feb 2016	65,690	\$8.646	65,690
Equity Warrant Instrument Feb 2017	64,180	\$8.646	64,180
Equity Warrant Instrument Feb 2017	2,570	\$8.646	2,570
Equity Warrant Instrument Feb 2017	52,050	\$8.646	52,050
Equity Warrant Instrument Feb 2018	112,210	\$9.500	-
Equity Warrant Instrument Feb 2018	113,570	\$9.500	-
Equity Warrant Instrument Apr 2018	52,632	\$9.500	-
	<u>678,232</u>		<u>399,820</u>

The fair values of the warrants granted during the period were determined using the same binomial pricing model and the same principal assumptions that were applied to the valuation of the options above.

These notes form part of the consolidated financial statements

ROCKLEY PHOTONICS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2018

SHARE BASED PAYMENTS (continued)

Expense recognised in profit or loss

During the year the Group recognised a total expense relating to share-based payments in respect of its SARs, Share Options and Warrants as follows:

	Year ended 31 Dec 2018 \$'000	Year ended 31 Dec 2017 \$'000
Share Appreciation Rights	11	74
Share Options	4,411	3,154
	<u>4,422</u>	<u>3,228</u>

20. ULTIMATE CONTROLLING PARTY

The directors consider there to be no ultimate controlling party. Day to day control of the company's operations is held by the directors.

21. RELATED PARTY TRANSACTIONS

Transactions between the company and its subsidiaries have been eliminated on consolidation.

During the year the Group made sales to its associate company, Hengtong Rockley Technology Co., Ltd, of \$3,125,000. At 31 December 2018, the balance owed by Hengtong Rockley Technology Co., Ltd amounted to \$832,500 (2017 - \$nil).

During the year the Group purchased services and reimbursed expenses from Rockley Ventures Limited, amounting to \$866,000 (2017 - \$841,000). Rockley Ventures Limited is a company in which Dr A. G. Rickman is a director and shareholder. At 31 December 2018, the balance owed to Rockley Ventures Limited amounted to \$21,000 (2017 - \$nil).

During the year the Group purchased services amounting to \$262,000 (2017 - \$60,000) from Reach for Infinity, a limited liability partnership in which Mr S Rikhi is a partner. At 31 December 2018, the balance owed to Reach for Infinity amounted to \$25,000 (2017 - \$nil).

During the year the Group purchased services amounting to \$48,000 (2016 - \$38,000) from Dr A. G. Rickman trading as Haredown Estate. At 31 December 2018, the balance owed to Dr A. G. Rickman trading as Haredown Estate was \$4,000 (2017 - \$nil).

During the year the Group purchased services and reimbursed expenses from Mr R. J. Rickman amounting to \$11,000 (2017 - \$30,000). As at 31 December 2018, the balance owed to Mr R. J. Rickman was \$1,000 (2017 - \$1,000).

During the year the Group purchased services from Rockley Management HK Ltd amounting to \$563,000 (2017 - \$70,000). Rockley Management HK Ltd is a company in which Mr R. J. Rickman and Dr A. G. Rickman are directors and shareholders. As at 31 December 2018, the balance owed to Rockley Management HK Ltd was \$22,000 (2017 - \$nil).

These notes form part of the consolidated financial statements

ROCKLEY PHOTONICS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2018

RELATED PARTY TRANSACTIONS (continued)

During the year the Group purchased services from Hirvonventures OY amounting to \$124,000 (2017 – \$92,000) Hirvonventures OY is a company in which Mr M.H.K. Hirvonen is a director and shareholder. As at 31st December 2018, the balance owed to Hirvonventures OY was \$nil (2017 - nil).

During the year the Group purchased services and reimbursed expenses from Mr J. A. Burgess amounting to \$12,000 (2017 - \$13,000). As at 31 December 2018, the balance owed to Mr J. A. Burgess was \$nil (2017 – nil).

22. CONTINGENT LIABILITIES

Rockley's products incorporate third party technology, usually under licence. Inadvertent actions may expose the Group to the risk of infringing third party intellectual property rights. Potential claims can still be submitted many years after a product has been deployed. Any such claims are vigorously defended. At 31 December 2018 the Group is not aware of any such claims.

23. POST BALANCE SHEET EVENTS

Since 31 December 2018, the Company has received commitments of \$68.4m in aggregate as part of its Series E Fundraise, these commitments are either for the subscription of ordinary shares or for the subscription for convertible loan notes that will convert into ordinary shares on receipt of the cash portion of the equity subscriptions. At the time of signing these accounts we have received \$28.0m, with the balance of the funds due by the end of May.

On 4 March 2019 the company announced that it has expanded its strategic relationship with Shanghai stock-exchange listed Hengtong Optic-Electric Co. Ltd (Hengtong). The Suzhou-based joint venture with Hengtong addresses the burgeoning 400G DR4 transceiver market. As part of the same deal, Hengtong will invest \$30m in Rockley's Series E funding round.

On receipt of the equity funds from Hengtong we have agreed to invest a further \$5m in our joint venture company Hengtong Rockley Technology Co., Ltd. This investment will take place in the second half of the year and will increase our investment to date to \$8,486,000. This also maintains our level of ownership at 24.9%.

A new subsidiary Rockley Photonics Hong Kong Limited was incorporated in Hong Kong on 22 March 2019.

ROCKLEY PHOTONICS LIMITED**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****YEAR ENDED 31 DECEMBER 2018****24. CASH FLOWS FROM OPERATING ACTIVITIES**

	Year ended 31 Dec 2018 \$'000	Year ended 31 Dec 2017 \$'000
Loss for the year	(21,923)	(35,520)
<i>Adjustments to reconcile operating loss to net cash flows from operating activities</i>		
Income tax gain recognised in profit or loss	(17,392)	(4,746)
Investment income recognised in profit or loss	(98)	(28)
Interest cost recognised in profit or loss	828	1,420
Depreciation and amortisation of non-current assets	1,049	610
Expense recognised on share-based payments	4,411	3,154
Change in fair value of derivatives	209	
Foreign exchange movements	585	464
Movements in working capital		
Increase in trade and other receivables	(6,625)	(2,261)
Increase in trade and other payables	1,731	3,391
Cash settled share based payment	11	95
	<u>(37,214)</u>	<u>(33,421)</u>

These notes form part of the consolidated financial statements

ROCKLEY PHOTONICS LIMITED

PARENT COMPANY STATEMENT OF FINANCIAL POSITION

YEAR ENDED 31 DECEMBER 2018

	Note	As at 31 Dec 2018 \$'000	As at 31 Dec 2017 \$'000
ASSETS			
Non-current asset			
Property, plant and equipment	D	11	15
Investments	C	3	3
Investment in associate	10	3,486	-
Deferred tax assets	8	-	-
		<u>3,500</u>	<u>18</u>
Current assets			
Trade and other receivables	E	24,793	8,289
Cash and cash equivalents	F	10,793	21,684
		<u>35,586</u>	<u>29,973</u>
		<u>39,086</u>	<u>29,991</u>
Equity			
Called up share capital	J	-	-
Share premium		108,529	80,338
Equity settled share based payments reserve	19	8,356	4,106
Retained earnings		(101,757)	(74,342)
		<u>15,128</u>	<u>10,102</u>
LIABILITIES			
Current liabilities			
Trade and other payables	G	17,627	10,414
Short term bank loan	K	3,807	3,420
Cash settled share based payment liabilities	13	306	295
		<u>21,740</u>	<u>14,129</u>
Non-current liabilities			
Long term bank loan	K	1,586	5,337
Derivative liability	15	632	423
Deferred tax liabilities	8	-	-
		<u>2,218</u>	<u>5,760</u>
Total liabilities		<u>23,958</u>	<u>19,889</u>
Total equity and liabilities		<u>39,086</u>	<u>29,991</u>

The company made a loss of \$25,278,000 for the year ended 31 December 2018 (2017 loss of \$37,443,000)

These financial statements were approved by the directors and authorised for issue on 11 April 2019, and are signed on their behalf by:

MR R. J. Rickman
Director



Company Registration Number 08683015

The notes on pages 43 to 52 form part of the parent company financial statements.

ROCKLEY PHOTONICS LIMITED

PARENT COMPANY STATEMENT OF CHANGES IN EQUITY

31 DECEMBER 2018

	Equity Share capital \$'000	Share premium \$'000	Equity- settled share based payments reserve \$'000	Retained earnings \$'000	Total shareholders' equity £'000
Balance at 31st December 2016	-	52,079	834	(37,590)	15,323
Loss for the period	-	-	-	(37,443)	(37,443)
Other comprehensive expense for the period	-	-	-	691	691
Issue of ordinary share capital	-	28,259	-	-	28,259
Share option compensation charge	-	-	3,272	-	3,272
Total movement in shareholders' equity	-	28,259	3,272	(36,752)	(5,221)
At 31st December 2017	-	80,338	4,106	(74,342)	10,102
Loss for the period	-	-	-	(25,278)	(25,278)
Other comprehensive expense for the period	-	-	-	(2,137)	(2,137)
Exchange differences on translation	-	-	(161)	-	(161)
Issue of ordinary share capital	-	28,191	-	-	28,191
Share option compensation charge	-	-	4,411	-	4,411
Total movement in shareholders' equity	-	28,191	4,250	(27,415)	5,026
At 31st December 2018	-	108,529	8,356	(101,757)	15,128

The notes on pages 43 to 52 form part of the parent company financial statements.

ROCKLEY PHOTONICS LIMITED

NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2018

A. ACCOUNTING POLICIES

Statement of compliance with FRS 101

These financial statements (the parent company financial statements) were prepared in accordance with Financial Reporting Standard 101 'Reduced Disclosure Framework' (FRS 101) and in accordance with applicable accounting standards.

No profit and loss account is presented by the Company as permitted by Section 408 of the Companies Act 2006. The results of Rockley Photonics Limited are included in the consolidated financial statements of Rockley Photonics Limited which are included on pages 10 to 41.

The accounting policies which follow set out those policies which apply in preparing the parent company financial statements for the year ended 31 December 2018. The parent company financial statements are presented in United States Dollars (USD) and all values are rounded to the nearest thousand (\$'000) except when otherwise indicated.

Going concern

The Group is currently in the development phase of its business lifecycle and as is common with many research and development businesses, requires investment to fund its ongoing development. To date the Group has received significant funding from its shareholders, successfully raising \$131.2 million over five funding rounds. At 31 December 2018 the Group had net assets of \$21m but had made a loss of \$23m for the year, due to on-going expenditure on research and development. The Group is forecasting to require further funding during 2019 to continue its planned product development and marketing. The directors acknowledge that there is some element of risk in any fundraising and that this therefore represents a material uncertainty for the Group, which could have a significant impact on the Group's ability to continue as a going concern. However, given the track record the business has of raising funds, and the anticipated interest in future raises, the directors are confident that the planned fifth funding round will also be successful and provide the funds required to complete the development phase and provide working capital for the marketing phase of the business plan. For this reason, the directors are satisfied that the Group will have adequate resources to continue to operate for the foreseeable future. Accordingly, the directors have prepared these financial statements on the going concern basis.

Basis of preparation

The Company has taken advantage of the following disclosure exemptions under FRS 101:

- The requirements of paragraphs 45(b) and 46-52 of IFRS 2 'Share Based Payments';
- The requirements of paragraphs 62, B64(d), B64(e), B64(g), B64(h), B64(j) to B64(m), B64(n)(ii), B64(o)(ii), B64(p), B64(q)(ii), B66 and B67 of IFRS 3 'Business Combinations';
- The requirements of IFRS 7 'Financial Instruments: Disclosures';
- The requirements of paragraphs 91-99 of IFRS 13 'Fair Value Measurement';
- The requirements of paragraphs 10(d), 10(f), 39(c) and 134-136 of IAS 1 'Presentation of Financial Statements';
- The requirements of IAS 7 'Statement of Cash Flows';
- The requirements of paragraph 73(e) of IAS 16 'Property, Plant and Equipment';
- The requirements of paragraphs 30 and 31 of IAS 8 'Accounting Policies';
- The requirements of paragraph 17 of IAS 24 'Related Party Disclosures';
- The requirements in IAS 24 'Related Party Disclosures' to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member; and
- The requirements of paragraphs 134(d) to 134(f) and 135(c) to 135(e) of IAS 36 'Impairment of Assets'.

These notes form part of the parent company financial statements

ROCKLEY PHOTONICS LIMITED

NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2018

Research and development

Research and development expenditure is written off in the period in which it is incurred.

Property, plant and equipment

Property, plant and equipment are initially recorded at cost of purchase or construction and are depreciated on a straight-line basis, except for land, which is not depreciated. Estimated useful lives of major classes of depreciable assets are as follows:

Computer equipment	- 3 years
Fixtures and fittings	- 4 years
Motor Vehicles	- 3 years

Repairs and maintenance costs are recognised as expenses as incurred.

Cash and cash equivalents

Cash and cash equivalents comprises cash on hand, call and current balances with banks and similar institutions, which are readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value.

Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the income statement on a straight line basis over the lease term.

Taxation

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates and laws that are enacted or substantively enacted by the statement of financial position date.

Deferred income tax is recognised on all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements, except in respect of deferred income tax assets which are recognised only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, carried forward tax credits or tax losses can be utilised.

Deferred income tax assets and liabilities are measured on an undiscounted basis at the tax rates that are expected to apply when the related asset is realised or liability is settled, based on tax rates and laws enacted or substantively enacted at the statement of financial position date.

Income tax is charged or credited directly to equity if it relates to items that are credited or charged to equity. Otherwise income tax is recognised in the income statement.

Research and development tax credits not received at the year end date are included as current assets within the Consolidated Statement of Financial Position, amounts receivable are included within taxation in the Consolidated Statement of Comprehensive Income.

ROCKLEY PHOTONICS LIMITED

NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2018

Financial instruments

Impact of IFRS 9

Under IFRS 9, where financial liabilities are subsequently measured at fair value, any element of the fair value gain or loss arising that is attributable to changes in credit risk is recognised in other comprehensive income. Under the company's previous accounting policy, such amounts were recognised within net operating costs. Overall, IFRS 9 does not have a significant impact since the majority of the company's financial assets continue to be held at amortised cost. The Group is also not exposed to a significant concentration of credit risk, and accordingly the impact of applying an expected credit loss model to its financial assets was not material.

Financial instruments are classified and accounted for, according to the substance of the contractual arrangement, as either financial assets, financial liabilities or equity instruments. An equity instrument is any contract that evidences a residual interest in the assets of the company after deducting all of its liabilities.

(a) Trade receivables

Trade receivables are recognised at fair value, less provision for impairment. A provision for impairment is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation and default or delinquency in payments are considered indicators that the trade receivable is impaired.

(b) Trade payables

Trade payables are recognised at fair value.

(c) Share capital

Ordinary shares are classified as equity.

Foreign currency translation

Transactions in foreign currencies are recorded at the rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the statement of financial position date. All differences are taken to the income statement.

Employee benefits

(a) Share-based compensation

The Group operates a number of equity-settled and cash-settled, share based compensation plans.

Equity-settled share-based payments and warrants are measured at fair value at the date of grant. The fair value determined at the date of the grant of the equity-settled share based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest. Fair value is measured by use of the Black-Scholes pricing model or a binomial option valuation model as appropriate depending on the terms of the options. For cash-settled share-based payments, a liability is recognised for the goods or services acquired over the vesting period, measured initially at the fair value of the liability. At the end of each reporting period until the liability is settled, and at the date of settlement, the fair value of the liability is re-measured, with any changes in fair value recognised in profit or loss for the year. If options lapse during the vesting period, no additional expense is charged to the income statement and no adjustment is made to that already charged.

These notes form part of the parent company financial statements

ROCKLEY PHOTONICS LIMITED

NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2018

Significant management judgement in applying accounting policies and estimation of uncertainty

When preparing the financial statements, management makes a number of judgements, estimates and assumptions about the recognition and measurement of assets, liabilities, income and expenses.

Significant management judgements

The following are the judgements made by management in applying the accounting policies of the Group that have the most significant effect on the financial statements.

(b) Assessing the amount of deferred tax asset that has been recognised

The amount of the deferred tax asset included in the balance sheet of the Group is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. In estimating the amount of the deferred tax asset that may be recognised the Directors make judgements, based on current budgets and forecasts, about the amount of future taxable profits and the timing of when these will be realised. Details are contained in note 7.

(c) R&D tax credit recognition

On 19 July 2018, the 2017 claim was paid in full and the company received funds of £6,678,000 (\$8,800,000, an increase of £3,678,000 (\$4,780,000) on the amount provided). The company is currently working with Grant Thornton on the claim for the period January 1 to December 31, 2018. At this stage the draft claim for 2018 total totals £9,233,000 (\$12,003,000). As claims for the last two years have been paid in full the company expect the 2018 claim to be paid in full so has provided to receive 100%, or £9,233,000 (\$12,000,000) in preparing the 2018 accounts.

Estimation uncertainty

Information about estimates and assumptions that may have the most significant effect on recognition and measurement of assets, liabilities, income and expenses is provided below. Actual results may be substantially different

(d) Fair values for share-based compensation

The establishment of fair values in respect of employee services received in exchange for share options require the exercise of judgement and estimation in respect of the life of the option, the expected dividend yield and, in particular, the expected volatility of the underlying shares. A calculated value for the latter may not accurately reflect the future share price movements given the Group's stage of development, whilst a value benchmarked against peers may not control for factors unique to either business. Details are contained in note 16.

ROCKLEY PHOTONICS LIMITED

NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2018

B. LOSS FOR THE YEAR

As permitted by Section 408 of the Companies Act 2006, the parent company's profit and loss account has not been included in these financial statements. The parent company's loss after tax was \$25,278,000 (2017 – loss: \$37,443,000).

Director's emoluments are disclosed in note 5 on page 23. The parent company had an average of 11 employees including directors during the year (2017 – 11). The audit fee for the parent company is as disclosed in note 3 on page 22.

C. FIXED ASSET INVESTMENTS

	Year ended 31 Dec 2018 \$'000	Year ended 31 Dec 2017 \$'000
Cost as at 1 January	3	3
Additions (incorporation of Rockley Photonics Ireland Limited)	-	-
Cost at 31 December	3	3

The parent company's interest in Group's subsidiaries at the end of the report period are as follows:

Name of subsidiary	Place of incorporation	Proportion of ownership interest and voting power held by the Group	
Rockley Photonics Inc	USA	100%	100%
Rockley Photonics Oy	Finland	100%	100%
Rockley Photonics Ireland Limited	Eire	100%	100%

All of the subsidiary undertakings principal activity is that of research and development of silicon photonic solutions for the 3D Imaging/Lidar market and internet data centre industry.

All of the subsidiary undertakings are included within the consolidated financial statements of Rockley Photonics Limited.

Rockley Photonics Ireland Limited was incorporated on 13 March 2018.

Rockley Photonics Hong Kong Limited was incorporated in Hong Kong on 22 March 2019.

ROCKLEY PHOTONICS LIMITED

NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2018

D. PROPERTY, PLANT AND EQUIPMENT

	Computer equipment \$'000	Fixtures & fittings \$'000	Total \$'000
COST			
At 31st December 2016	12	9	21
Foreign currency revaluation	-	(1)	(1)
Additions	3	7	10
	<hr/>	<hr/>	<hr/>
At 31st December 2017	15	15	30
Foreign currency revaluation	-	-	-
Additions	3	-	3
	<hr/>	<hr/>	<hr/>
At 31st December 2018	18	15	33
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
DEPRECIATION			
At 31st December 2016	8	3	11
Foreign currency revaluation	(1)	(1)	(2)
Provided in the year	4	2	6
	<hr/>	<hr/>	<hr/>
At 31st December 2017	11	4	15
Foreign currency revaluation	(1)	-	(1)
Provided in the year	4	4	8
	<hr/>	<hr/>	<hr/>
At 31st December 2018	14	8	22
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
NET BOOK VALUE			
Net book value at 31st December 2018	4	7	11
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
Net book value at 31st December 2017	4	11	15
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

The net book value of computer equipment held under finance leases at 31 December 2018 is nil (nil: 2017).

E. TRADE AND OTHER RECEIVABLES

	Year ended 31 Dec 2018 \$'000	Year ended 31 Dec 2017 \$'000
Current assets		
Amounts owed from group undertakings	6,440	2,531
Trade receivables	4,933	997
Amount owed by Associate	832	-
Other receivables	12,000	4,058
VAT recoverable	264	200
Prepayments and contract assets	324	503
	<hr/>	<hr/>
	24,793	8,289
	<hr/> <hr/>	<hr/> <hr/>

These notes form part of the parent company financial statements

ROCKLEY PHOTONICS LIMITED**NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS****YEAR ENDED 31 DECEMBER 2018****F. CASH AND CASH EQUIVALENTS**

	Year ended 31 Dec 2018 \$'000	Year ended 31 Dec 2017 \$'000
Cash and cash equivalents	<u>10,793</u>	<u>21,684</u>

The group's overall interest rate risk is explained in note 2 "Financial risk management":

G. TRADE AND OTHER PAYABLES

	Year ended 31 Dec 2018 \$'000	Year ended 31 Dec 2017 \$'000
Amounts falling due within one year		
Trade payables	1,805	2,191
PAYE, social security and other taxes	112	-
Amount due to group undertaking	13,752	7,350
Accruals and contract liabilities	1,958	873
	<u>17,627</u>	<u>10,414</u>

H. FINANCIAL ASSETS AND LIABILITIES

Trade and other receivables, cash and cash equivalents, and trade and other payables are measured at amortised cost. Cash-settled share-based payment liabilities are stated at their fair value. The accounting policies applied are set out in note A. The carrying amounts of financial assets and liabilities as at 31 December 2018 are categorised as follows:

	Year ended 31 Dec 2018 \$'000	Year ended 31 Dec 2017 \$'000
Carrying value of financial assets and liabilities within the parent company balance sheet:		
Financial assets		
Trade and other receivables	24,205	7,586
Cash and cash equivalents	10,793	21,684
Financial assets at amortised cost	<u>34,998</u>	<u>29,270</u>
Financial liabilities		
Trade and other payables at amortised cost	15,669	9,541
Cash-settled share-based payments due <1 year	306	295
Derivative	632	423
Financial liabilities at fair value through profit and loss	<u>938</u>	<u>718</u>

All financial liabilities at amortised cost based on contractual undiscounted payments are due for settlement within six months.

These notes form part of the parent company financial statements

ROCKLEY PHOTONICS LIMITED

NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2018

I. FINANCIAL COMMITMENTS

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

	As at 31 Dec 2018		As at 31 Dec 2017	
	Property \$'000	Equipment \$'000	Property \$'000	Equipment \$'000
Company				
No later than one year	40	-	35	-
Later than one year and no later than five years	-	-	-	-
Later than five years	-	-	-	-
	<u>40</u>	<u>-</u>	<u>35</u>	<u>-</u>

Financial commitments in respect of expenditure contract for but not provided for, are as follows:

	As at 31 Dec 2018 \$'000	As at 31 Dec 2017 \$'000
Research and development expenditure		
Engineering R&D partner programs	<u>2,941</u>	<u>3,878</u>

J. SHARE CAPITAL

	As at 31 Dec 2018 £'000	As at 31 Dec 2017 £'000
Allotted, called up and fully paid		
29,215,692 of £0.00001 each (2017 – 2,639,217 Ordinary shares of £0.0001 each)	<u>-</u>	<u>-</u>

During the year the company issued 2,824,422 new shares of £0.00001 each. (2017 – 305,472 new shares of £0.0001) Proceeds net of costs were \$28,191,000.

On 22 March 2018 the shareholders approved a share subdivision whereby each Ordinary Share of £0.0001 each was divided into 10 Ordinary Shares of £0.00001 each.

ROCKLEY PHOTONICS LIMITED

NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2018

K. BORROWINGS

	As at 31 Dec 2018 \$'000	As at 31 Dec 2017 \$'000
Bank Loans	5,393	8,757
TOTAL BORROWINGS	5,393	8,757
SPLIT BETWEEN		
No later than 1 Year	3,807	3,420
Later than 1 Year but no later than 5 Years	1,586	5,337

No new loans were taken out in 2018.

Please see Note 14 to the Consolidated Financial Statements for full details of the loans.

L. SHARE BASED PAYMENTS

Information on the Company' Share Appreciation Rights, Share Option Scheme and Warrants are given in note 19 to the consolidated financial statements.

M. POST BALANCE SHEET EVENTS

Since 31 December 2018, the Company has received commitments of \$68.4m in aggregate as part of its Series E Fundraise, these commitments are either for the subscription of ordinary shares or for the subscription for convertible loan notes that will convert into ordinary shares on receipt of the cash portion of the equity subscriptions. At the time of signing these accounts we have received \$28.0m, with the balance of the funds due by the end of May.

On 4 March 2019 the company announced that it has expanded its strategic relationship with Shanghai stock-exchange listed Hengtong Optic-Electric Co. Ltd (Hengtong). The Suzhou-based joint venture with Hengtong addresses the burgeoning 400G DR4 transceiver market. As part of the same deal, Hengtong will invest \$30m in Rockley's Series E funding round.

On receipt of the equity funds from Hengtong we have agreed to invest a further \$5m in the joint venture company Hengtong Rockley Technology Co., Ltd. This investment will take place in the second half of the year and will increase the investment to date to \$8,486,000. This also maintains the level of ownership at 24.9%.

A new subsidiary Rockley Photonics Hong Kong Limited was incorporated in Hong Kong on 22 March 2019.

ROCKLEY PHOTONICS LIMITED

NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2018

N. RELATED PARTY TRANSACTIONS

During the year the Group made sales to its associate company, Hengtong Rockley Technology Co., Ltd, of \$3,125,000. At 31 December 2018, the balance owed by Hengtong Rockley Technology Co., Ltd amounted to \$832,500 (2017 - \$nil).

During the year the Group purchased services and reimbursed expenses from Rockley Ventures Limited, amounting to \$866,000 (2017 - \$841,000). Rockley Ventures Limited is a company in which Dr A. G. Rickman is a director and shareholder. At 31 December 2018, the balance owed to Rockley Ventures Limited amounted to \$21,000 (2017 - \$nil).

During the year the Group purchased services amounting to \$262,000 (2017 - \$60,000) from Reach for Infinity, a limited liability partnership in which Mr S Rikhi is a partner. At 31 December 2018, the balance owed to Reach for Infinity amounted to \$25,000 (2017 - \$nil).

During the year the Group purchased services amounting to \$48,000 (2016 - \$38,000) from Dr A. G. Rickman trading as Haredown Estate. At 31 December 2018, the balance owed to Dr A. G. Rickman trading as Haredown Estate was \$4,000 (2017 - \$nil).

During the year the Group purchased services and reimbursed expenses from Mr R. J. Rickman amounting to \$11,000 (2017 - \$30,000). As at 31 December 2018, the balance owed to Mr R. J. Rickman was \$1,000 (2017 - \$1,000).

During the year the Group purchased services from Rockley Management HK Ltd amounting to \$563,000 (2017 - \$70,000). Rockley Management HK Ltd is a company in which Mr R. J. Rickman and Dr A. G. Rickman are directors and shareholders. As at 31 December 2018, the balance owed to Rockley Management HK Ltd was \$22,000 (2017 - \$nil).

During the year the Group purchased services from Hirvonventures OY amounting to \$124,000 (2017 - \$92,000) Hirvonventures OY is a company in which Mr M.H.K. Hirvonen is a director and shareholder. As at 31st December 2018, the balance owed to Hirvonventures OY was \$nil (2017 - nil).

During the year the Group purchased services and reimbursed expenses from Mr J. A. Burgess amounting to \$12,000 (2017 - \$13,000). As at 31 December 2018, the balance owed to Mr J. A. Burgess was \$nil (2017 - nil).