Registered Number: 08684474
(England & Wales)

Xeros Technology Group plc
Annual Report

For the year ended 31 July 2014

Operational Highlights

- 37 installed and committed machines in the US and 7 in Europe as at 31 July 2014 with focus on accelerating installations in 2015, and expecting to exceed 80 installed and committed machines by end of calendar year 2014
- AIM listing in March 2014 supported increased customer and commercial partner engagement
- Continued development of supply chain and sales infrastructure with new offices in the US and headcount growth to 62 people worldwide as of now
- Now count four out of the world's top five hotel groups as customers in the US, a priority market for Xeros
- Machine sales into further channels including retail dry cleaning, fitness centres and the US military
- Several US utility companies offering substantial financial incentives for customers investing in Xeros machines including Liberty Utilities and, since the year end, National Grid and Columbia Gas
- Xeros Sbeadycare® Pulse, the Group's proprietary intelligent monitoring system, launched in the period and is proving attractive to customers
- Patent portfolio strengthened with 5 new patents filed in the period, bringing the total to 33 patent families (covering 33 inventions)
- Since the year end, awarded a €700,000 Eco-Innovation grant to drive early adoption in Europe

Financial Highlights

- Group earned income increased 385% to £315k for the year, up from £65k in 2012/13, largely driven by progress in the US
- Net cash outflow from operations of £7.2m from £3.1m in 2012/13 reflecting continued investment in research & development programmes alongside Commercial Laundry working capital and start-up costs
- At 31 July 2014, the Group had cash balances (including cash equivalents and investments in the form of term deposits) of £29.5m (2013: £8.5m) and remains debt free

Contents

CHAIRMAN'S STATEMENT

Picture Removed

John Samuel
Chairman

Overview

This is the Group's first full year results announcement since our successful admission to AIM in March 2014. I am delighted with the progress we have made in the year to 31 July 2014 and believe we are well placed to capitalise upon that progress in the current financial year.

The Technology

The Xeros bead cleaning system replaces the majority of water used in conventional aqueous washing with reusable and recyclable polymer beads. Although it can be applied in a number of industries, we have chosen to target laundry as our first market and in commercial laundry we are already demonstrating very significant reductions in the use of water, detergent and energy as well as providing improved cleaning and fabric care.

Commercial Laundry

It was only in June 2013 at the Clean Show in New Orleans that we first launched our 25kg machine. Since then our strategy has been to focus upon On-Premise Laundry ("OPL") in the Hospitality sector. Whilst it takes time to win the endorsement of major hotel chains, this has given us time to fine-tune both machine performance and our service offering. Even so, our customers currently include hotels representing four of the five largest hotel groups in the world. We believe that these early adopters have given us a platform for the future roll out of our system across the hotels in their estates.

'In addition to laundry there are a number of other exciting applications for this technology and we have selected leather processing as our next target.'

John Samuel
Chairman

We have also opened offices in Manchester, New Hampshire, and now employ a team of 21 to support the US roll out. This infrastructure, coupled with our Xeros Sbeadycare® service model and the launch of our remote monitoring system ("Sbeadycare Pulse"), means we are well placed to accelerate the number of our machines in the market.

The number of installed and committed machines in the US stood at 37 on 31 July 2014 (Europe 7) and we believe the combined total will exceed 80 by the end of the calendar year. Xeros is still at a relatively early stage in its commercial interactions, with actual machine volumes difficult to predict. Whilst this number is below our own estimates at Admission, we have made concerted efforts to secure 'flagship' installs at key hotel chains, which should aid future roll outs, as opposed to simply reacting to ad hoc demand and one off sales. This will come too, as we further build resources. However, the work done now should give us a great platform for accelerated growth in future years - a great achievement from all of our staff both in the UK and US.

During 2015 we intend to apply the lessons learned in the US to the European market and extend our offering to include a 15kg machine and an 8kg machine (where we already have a late stage prototype) aiming for launches in the second half of 2015.

Domestic Laundry

The publicity generated by our IPO has created interest from a number of potential partners and discussions with a select number of them continue. Unlike Commercial Laundry, our strategy here is to engage with partners capable of swift and effective deployment.

To assist in this endeavour, we have completed the first stage of extensive consumer research in the USA. The results of that research were outstanding, and we intend to move into in-home machine testing in 2015.

Beyond Laundry

In addition to laundry there are a number of other exciting applications for this technology, and we have selected leather processing as our next target. This is a market with a value of $65bn and we have made significant progress with the Institute for Creative Leather Technologies ("ICLT") at our shared facility at the University of Northampton. Following our ongoing discussions we shall be seeking the support of partners to bring this application to tannery trials in 2015.

Innovation

During the year, we have learned much about the performance of our machines and the optimisation of cleaning results. We also continue to file patents to protect our Intellectual Property. Our innovation partnership with BASF is promising, and together we are working upon new bead types which will provide multi-dimensional benefits beyond superior cleaning, and further improve fabric care.

The Board

Charles Winward left the Board of Xeros in June 2014 after an involvement of over 4 years. I would like to thank him for his invaluable support. I am pleased to welcome Dr Richard Ellis to the Board as a Non-Executive Director. Until recently, Richard was the Head of Global Research and Development at Reckitt Benckiser Group plc.

Outlook

In the year since we first exhibited our 25kg machine at the Clean Show in New Orleans we have made significant progress. In Commercial Laundry in the US, I believe that we have a growing momentum supported by hard economic evidence of our superiority over conventional machines, and utility companies are also beginning to offer incentive payment programs to our customers.

Domestic Laundry is beginning to pick up pace, and beyond that, we have an exciting programme in leather processing. On admission to AIM, we raised £30m, and are therefore in a position to finance these projects.

In 2015, we will be focused on extending our installed base in the US with existing and new customers, geographic expansion in Commercial Laundry, product development and continued innovation.

John Samuel
Chairman
21 October 2014

CHIEF EXECUTIVE OFFICER'S REVIEW

Picture Removed

Heat-map indicating water stress in North America

Picture Removed

Death Valley, California

The drought that has been affecting most of the Western states for the past 13 years may be a 'megadrought,' and the likelihood is high that this century could see a multi-decade dry spell like nothing else seen over the past 1,000 years, according to research presented at the American Geophysical Union

www.climatecentral.org

Picture Removed

'Xeros now counts as customers four out of the five largest global hotel brands'

Bill Westwater
Chief Executive Officer

Overview

This has been a very positive year for our team and business. Although obviously time consuming in the first quarter of calendar 2014, our successful IPO funding round clears the way for us to concentrate on growing the business, knowing the financial resources are in place to execute our plans. Key new hires have been added to an already experienced team; early customers have become enthusiastic endorsers of our technology; and there seems no better time to introduce ultra-low water cleaning to the world.

The issues of water scarcity and increased cost, particularly in our primary US market, are urgent and a daily feature in news bulletins. This has raised the profile and immediate relevance of water efficiency technologies, such as Xeros, in laundry applications, where efficient water use, combined with superior cleaning performance, presents significant potential benefits to our customers. In 2014, we have seen these benefits being endorsed by big, early adopter Commercial Laundry customers who also benefit from the innovative Xeros Sbeadycare® service model we deliver. This "one-stop-shop" service for all their laundry needs builds our brand as an all-round problem solver not simply as an innovation provider.

We have had several notable highlights this year: our successful admission to AIM in March 2014 raising £30 million before expenses; solid organic growth in our key market, notably Xeros now counts as customers four out of the five largest global hotel brands; confirmation of financial incentive programmes sponsored and funded by major US utility companies including National Grid, Columbia Gas and Liberty Utilities; machine sales into further channels including retail dry cleaning, fitness centres and the US military; confirmation of a 700,000 Eco-Innovation grant to drive early adoption in Europe.

The promising progress establishing and validating the Xeros offering in the US Commercial Laundry market, provides a strong foundation from which to further drive our bead cleaning technology in other markets as well as to build a first sustainable revenue stream. Our objective for the year ahead is to fuel this US Commercial Laundry success whilst driving visibility in further geographies and applications that will ensure Xeros polymer beads are sold widely in multiple major markets.

Financial summary

The Group achieved earned income of £315k for the year, which represents an increase of 385% on our 2012/13 income of £65k. This income growth came mainly from the US business where 14 machines were installed and commissioned during the year. The embedded future income from the income generating installed base of 17 machines as at 31 July 2014, based on contracted monthly payments, amounts to £870k.

As previously indicated we expect our cash utilisation to accelerate over the coming years, as we continue to fund our R&D programmes alongside the Commercial Laundry working capital and start-up costs. The increase in our net cash outflow from operations to £7.2m from £3.1m reflects the start of this acceleration, in line with our expectations.

The Group's cash position was strengthened during the year through our admission to AIM raising £30m before expenses. At 31 July 2014, the Group had cash balances (including cash equivalents and investments in the form of term deposits) of £29.5m (2013: £8.5m) and remains debt free. We therefore remain well funded as we continue to develop the business.

Strategy Summary

Picture Removed

'When we first installed it, we were just amazed at the quality of the product that came out.'

David Slan
President/CEO Slan Companies

Our goal is to sell large quantities of high margin Xeros polymer beads across multiple industries. These beads will be recycled to provide additional revenue and promote our overall environment promise. Xeros beads will be bought and consumed by end customers in a variety of bead-consuming machines that will be deployed by the company directly, (Commercial Laundry), or by corporate partners already well-established in those industries. Underlying this goal and deployment strategy is our R&D capability, which will continue to optimise bead cleaning performance, and design the bead-consuming machines. This R&D capability will include demonstrating the technology in a pilot or demonstration phase, as necessary, to ensure corporate partnership and scale-up.

These strategic pillars have remained consistent since before our IPO, but, as with any early stage technology, we realise the importance of remaining flexible in our approach, to meet the dynamic demands and changes in the markets we seek to operate in. We keep under constant review the exact nature of our corporate partnering approach and will selectively prioritise the multiple potential market opportunities in order to maximise shareholder return.

Picture Removed

'We've 100% saving from a natural gas perspective and then, from our water and sewer, we're certainly using a lot less water, we're seeing about a 75% reduction for our water.'

Dennis Kim
President Kleen Inc

Picture Removed

'Xeros machines are providing us with a wash quality that is unparalleled. The linens that we have are fresher, they smell better, they are cleaner, they're softer.'

Chad Hanson
Regional VP Operations
Comfort Inn North Shore

Our Technology

Xeros bead cleaning is characterised by replacing the majority of water used in existing conventional washing with reusable and recyclable polymer beads. Through enhanced mechanical action, attraction and absorption, the beads provide superior cleaning benefits whilst significantly reducing the consumption of water, energy and chemicals in the process. For instance, in commercial laundries, we have proven reductions of up to 80% in water, 50% in energy (often 100% with our ambient temperature programmes) and 50% in detergent dosing. Our R&D team continues to explore further multi-dimensional benefits through bead innovation and wash methods that go beyond this basic superior cleaning/savings promise. These innovations will begin to come on stream in 2015 to help accelerate adoption in our Commercial Laundry market as well as boost performance by the time we launch in the Domestic Laundry market.

The company filed 5 new patents in the year to 31 July 2014, bringing the current total to 33 patent families (covering 33 inventions). We will continue to build and strengthen this portfolio as part of our strategy to develop layered protection of the overall Xeros bead cleaning system.

We continue to explore various bead re-use and recycling methods with our polymer suppliers, sharing our goal to ensure no incremental polymer is produced as a result of our novel cleaning method, nor any Xeros beads find their way into the waste stream. In short, our goal is simply to "borrow polymer" from the supply chain for use in our novel method and then return that polymer back into the supply chain after its end-of-life with Xeros.

Picture Removed

Xeros beads lift and lock away stains and soil

Commercial Laundry

We have focused on Commercial Laundry as our initial key market, and the US as our first key geography. Our first product, the 25kg capacity machine, is a workhorse size for the OPL customer segment we target there. Xeros Inc, the Group's wholly owned US subsidiary, has developed from being a small exploratory team a year ago to a team of 21 people targeting customers across the US in the commercial laundry sector, with key hires having significant experience in commercial laundry sales and operations. This team now operates from premises in Manchester, New Hampshire.

Picture Removed

Our US sales strategy is to concentrate on large enterprise customers, in particular large hotel chains, with potential to roll out the Xeros offering across significant estates. Such potential customers have internal approval processes that can make commitment to adoption of innovative technologies such as Xeros a slow process, but in the US, we now count as customers four out of the five largest global hotel chains. Since establishing these chains as customers, our focus has been on validating Xeros performance with hotel general managers within select hotel properties, in order to build up an internal network of Xeros endorsers within those chains, thus providing a stronger foundation from which our sales team can enable wider roll-out. Two good examples are our installations at Hyatt Regency Hotel, Reston, Virginia, owned by Host Hotel & Resorts Inc., a Real Estate Investment Trust (REIT), and at Comfort Inn, Danvers, Massachusetts, part of Choice Hotels International portfolio. Their endorsement of Xeros performance, savings and service look set to facilitate larger hotel property orders in the near term.

Picture Removed

Xeros polymer beads

Our "one-stop-shop" Xeros Sbeadycare® service model is also proving attractive to customers. The service provides customers with a single point of contact for all their laundry needs, from operator training and consumables supply through to co-marketing programmes. Customers subscribe to Xeros Sbeadycare® service for a minimum 5 year term which provides an embedded value of recurring income to the company that stretches well beyond a one-off machine sale. This fee-paying service model is supported by our remote monitoring technology, "Sbeadycare Pulse", that calculates the water and energy consumption by machine by wash cycle. This provides both the customer and Xeros with information to calculate the savings compared to a conventional machine to show the immediate value of the Xeros Sbeadycare® service monthly fee. Xeros will continue to drive this service model and develop the Pulse technology alongside it, providing value to customers and the company alike, far beyond the traditional machine sales model.

'The service and the personnel with Xeros have just been extremely professional. They're partners in what we do every day, and we look forward to a long relationship with them.'

David Eisenman
GM, Hyatt Regency, Reston VA, USA

Picture Removed

Hyatt Regency Reston, Virginia, USA

Picture Removed

Picture Removed

Picture Removed

Hotel in-room communication

We have also targeted high volume shirt laundry service dry cleaning chains in the US. Our large size 25kg machine fits well with their larger facilities, and Xeros' cleaning methods resonate as a differentiator for their businesses on the high street. We intend to heighten our focus on this particular sector in the coming months.

Most recently, we sold our first machine to the US military who will evaluate Xeros technology for a number of classified applications.

Xeros has also seen incoming enquiries from equipment distributors, with several of whom we are now in discussions regarding them buying machines upfront in anticipation of demand in their particular regions of focus. Alongside these incoming enquiries, Xeros is now developing its own "forward channel partner" programme, which addresses the challenge of how we scale, whilst ensuring the same level of customer satisfaction already achieved.

One further highlight in our US Commercial Laundry business, was the start of several US utility companies offering substantial financial incentives for customers investing in Xeros machines. The first of these programmes was announced by Liberty Utilities in May 2014. National Grid and Columbia Gas have recently announced similar programmes. These incentives mean Xeros customers receiving up to $28,000 towards the installed cost of a Xeros machine.

Looking forward, we see substantial opportunity to grow our US Commercial Laundry business, having made strong progress with significant customers and potential target customers in the year. We aim to secure further orders from hotel groups; continue to expand Xeros Sbeadycare® Pulse; secure further utility company incentive programmes; and start to scale up through distributors committed to expanding Xeros in their particular regions of focus.

Xeros will exhibit at the next global commercial laundry expo in June 2015 - Clean 2015. The show will be in Atlanta, one of the most expensive water cities in the US. We expect some key Atlanta hotels to have Xeros installed by then, so businesses attending the Show should read about Xeros in their hotel rooms, even before they visit our stand at the show.

'Knowing that it's not using hot water and washing the same things that I wash with every other machine, and seeing the results that I get, which are pretty astounding, it's pretty amazing to know that you're getting that without the hot water.'

Glen Stevens
GM, Sterling Linen Services, Manchester NH, USA

While our sales efforts to date have primarily focused on the US market, we will look to drive sales in the UK. All UK customers using Xeros machines have expressed satisfaction with the performance, in particular reduced throwaway linen from superior stain removal. However, we need additional size machines to the 25kg size to fit the smaller UK operations of many of our target customers. Developing our product range to include smaller sizes is the focus of our engineering team. We will prioritise a 15kg machine for launch in the second half of 2015 and are in the process of evaluating an 8kg size for which we already have a late stage prototype.

Picture Removed

Additional machine sizes are in development

We have recently been awarded a 700,000 Eco-Innovation grant from the EU to help us deploy both in the UK and beyond. This is particularly to support early stage market penetration of new technology and will assist our expansion in Europe in a similar fashion to the utility company incentives in the US market. We are exploring setting up a test market in Europe in 2015, seeing advantages for introducing Xeros technology given high water costs, demand for greener technology, and assisted by Eco-Innovation grant support.

Our plans to develop the China market continue to be explored, although our priority is the European market in the short term.

> 'We're delighted to be at the forefront of innovation and the machines are already proving highly beneficial to us. Clothes smell fresher and shirts are easier to finish.'
>
> **Ejaz Osmani**
> **Owner, White Rose Laundries, London, UK**

Picture Removed

Prototypes of US Residential matched pair

Domestic Laundry

Our deployment strategy in Domestic Laundry is to partner with a major machine manufacturer who will produce and distribute Xeros bead-consuming washing machines, leveraging their existing scale. Since the IPO publicity, we have seen inbound interest from a number of significant parties, both machine manufacturers and detergent companies, and discussions with them continue as we further optimise the technology.

The most important first corporate partnership for bead innovation and supply is already in place with BASF. We continue to develop "Gen 2" polymer innovation with them, and new patent filings are imminent.

This year we have built more machine prototypes for accelerated testing; explored multi-dimensional benefits beyond the core benefit of superior cleaning/savings, and filed further IP. Most recently, we fielded our own independent research amongst US consumers nationwide. The results were very positive for Xeros compared to a leading US brand conventional washing machine used as a control. This research will further guide our development efforts as well as help frame the significant opportunity for potential partners.

In the next twelve months, we aim to finalise our launch partner(s), and move to in-home machine testing, which is the next phase to optimise the machine design and will further confirm US consumer acceptance.

'This new technology will have a profoundly beneficial effect in permitting the leather industry to meet ever more stringent environmental targets, whilst simultaneously providing a means to obtain leather with markedly improved properties'

Professor Tony Covington
ICLT, University of Northampton, UK

Beyond Laundry

The company has multiple patented opportunities beyond the laundry market. We have chosen to prioritise leather processing in 2014/2015, where we continue to make good technical progress at our shared research facility at the University of Northampton. Our plan is to secure innovation partners at both ends of the supply chain – big leather consumer brands and tanneries further upstream.

Overall

In summary, we have made significant progress in Commercial Laundry, with the majority of the organisation fully focused on this first key market and proving ground for the technology generally. All our early adopter customers are extremely enthusiastic about the benefits they see in their laundries. This, together with the quality of the pipeline we have developed, particularly in hotels, provides a good foundation from which to build. The number of machines installed and committed to install in the USA stood at 37 on 31 July 2014 (Europe 7), and we believe the combined total will exceed 80 by the end of the calendar year.

We will continue to invest in the success of the Xeros Sbeadycare® service model, particularly in the US; bead innovation and new machine sizes will come on stream for Commercial Laundry in 2015; Xeros Sbeadycare® Pulse will be further developed and distributed; and, pending further market investigation, we will look to expand Commercial Laundry into at least one further country, in Europe, in 2015.

Domestic Laundry and limited Beyond Laundry applications will be developed through our own innovation pipeline, under our control, and progress does not rely on early corporate partner commitment.

Such a positive year fuels the team's excitement for the future and motivates us on the road to our ultimate objective – to transform the conventional world of aqueous washing to Xeros bead cleaning.

Bill Westwater
Chief Executive Officer
21 October 2014

Picture Removed

Continuously developing bead cleaning at Xeros

Picture Removed

Bradbury Dam at Lake Cachuma Reservoir during drought in Santa Ynez County in California

'This is the third year of record-low rainfall in California and we aim to do our part in water conservation, Xeros' green and sustainable laundry system enables us to dramatically reduce our water, energy and detergent usage while delivering exceptional cleaning results for our members.'

Rick Leonard
Executive Director, Capital Athletic Club

Picture Removed

STRATEGIC REPORT

Principal activity

Xeros has developed a patented polymer bead cleaning system with multiple identified potential commercial applications. The Group has targeted the commercial laundry market and has begun the roll-out of 25kg capacity washing machines which exclusively use Xeros's patented polymer bead cleaning system. In trials with customers, this system has been shown to achieve superior cleaning performance as well as material reductions in water, energy and chemical usages compared to conventional commercial laundry methods. The Xeros proprietary polymer bead cleaning system also reduces the carbon footprint of the entire laundry process. In addition to the commercial laundry market, the Group's polymer bead technology has a range of potential applications in other industries including domestic laundry, leather processing, garment finishing and metal cleaning. The Group is currently in various stages of development and preparation for commercialisation of other identified applications, the most advanced of which is domestic laundry.

The Company is incorporated and domiciled in the UK.

Business model

A description of the Company's activities and how it seeks to add value are included in the Chairman's Statement and Chief Executive Officer's Review on pages 3 to 12.

Business review and results

A review of the Group's performance and future prospects is included in the Chairman's statement and Chief Executive Officer's review on pages 3 to 12. The loss for the year attributable to equity holders was £6,379,000 (2013: £3,244,000). The directors do not recommend the payment of a dividend (2013: nil).

Key performance indicators

As the Group is in the process of development and commercialisation, the Directors consider the key quantitative performance indicator to be the level of cash and deposits held in the business of £29,525,000 (2013: £8,477,000). The Board performs monthly reviews of actual results against budget, and monitors cash balances on a regular basis to ensure that the business has sufficient resources to enact its current strategy. Certain qualitative measures, such as the performance of product development initiatives, are monitored on a monthly basis. The Board will continue to review the KPIs used to assess the business as it grows.

Key risks

The Board carefully considers the risks facing the Group and endeavours to minimise the impact of those risks. The key risks are as follows:

Intellectual property

The Group's success will depend in part on its ability to maintain adequate protection of its intellectual property, covering its processes and applications. The intellectual property on which the Group's business is based is a combination of patent applications and proprietary know-how. No assurance can be given that any pending patent applications (including the Core Process application in the US) or any future patent applications will result in granted patents, that any patents will be granted on a timely basis, that the scope of any patent protection will exclude competitors or provide competitive advantages to the Group, that any of the Group's patents will be held valid if challenged, or that third parties will not claim rights in, or ownership of, the patents and other proprietary rights held by the Group.

There can be no assurance that others have not developed or will not develop similar products, duplicate any of the Group's products or design around any patent applications held by the Group. Others may hold or receive patents which contain claims having a scope that covers products developed by the Group (whether or not patents are issued to the Group). In addition, no assurance can be given that others will not independently develop or otherwise acquire substantially equivalent techniques or otherwise gain access to the Company's unpatented proprietary technology or disclose such technology or that the Company can ultimately protect meaningful rights to such unpatented technology.

Any claims made against the Group's intellectual property rights, even without merit, could be time-consuming and expensive to defend and could have a materially detrimental effect on the Group's resources.

Third party intellectual property

Although the Board believes that the Group's current products, products in development and processes do not infringe the intellectual property rights of any third parties, it is impossible to be aware of all third party intellectual property. No assurance can be given that third parties will not in the future claim rights in or ownership of the patents and other proprietary rights from time to time held by the Group.

Research and development risk

The Company is involved in complex scientific areas and new product development. There is no guarantee that the Group will be successful in its research and product development. Some of the Group's technology and intellectual property portfolio is at an early stage of commercial development. The Group may not be able to develop and exploit its technology sufficiently to enable it to develop commercial and marketable products. Furthermore, the Group may not be able to develop new applications or identify additional specific market needs that can be addressed by the Group's technology.

Risk of competing technology

There is a risk that technological advances in competing technology and/or the lower cost of such technology may impede the commercial exploitation of the Group's technology.

Acceptance of the Group's products

The success of the Group will depend on the market's acceptance of, and attribution of value to, its core technology and the benefits of incorporating the same into various applications. There can be no guarantee that this acceptance will be forthcoming, that an acceptable value will be placed upon such technology or that the Group's core technology will succeed as an alternative to other applications.

Commercialisation risk

The Group has, and will continue to enter into, arrangements with third parties in respect of the development, production and commercialisation of products based on its technology. The Group's negotiating position in agreeing terms of either joint development, distribution, service or supply arrangements may be affected by its size and limited cash resources relative to potential development partners with substantial cash resources and established levels of commercial success. An inability to enter into or renew such arrangements on favourable terms, if at all, or disagreements between the Group and any of its potential partners could lead to delays in the Group's commercialisation strategy.

Early stage of operations

Whilst the Group has made initial limited product sales, it is still at an early stage of development. There are a number of operational, strategic and financial risks associated with such early stage companies. In particular, the Group's future growth and prospects will depend on its ability to develop products and services for applications which have sufficient commercial appeal, to manage growth and to continue to develop operational, financial and quality control systems on a timely basis, whilst at the same time maintaining effective cost controls. Any failure to develop operational, financial and management information and quality control systems in line with the Group's growth could have a material adverse effect on its business, financial condition and results of operations.

The Group is currently loss making and there can be no certainty that the Group will achieve increased or sustained revenues, profitability or positive cash flow from its operating activities within the timeframe expected by the Board or at all. The development of the Group's revenues is difficult to predict and there is no guarantee that it will generate any material revenues in the foreseeable future. The Group has a limited operating history upon which its performance and prospects can be evaluated.

STRATEGIC REPORT
continued

Competition risk

Given the potentially disruptive nature of the Group's technology in relation to established markets, the Group may face significant competition and negative commentary from organisations which have greater capital resources than it and/or which have a product offering competitive to that of the Group, to the detriment of the Group.

Supply Chain Risk

The Group is dependent on a limited number of key suppliers in relation to the production of its polymer bead cleaning system (which includes the production of the machines used in the system). Should any such key supplier cease to deal with the Group for any reason and/or materially and adversely change the terms upon which it deals with the Group, difficulties may be experienced by the Group in sourcing alternative suppliers on acceptable terms.

Dependence on key executives and personnel and the ability to attract and retain appropriately qualified personnel

The Group's future success is substantially dependent on the continued services and performance of its executive Directors and senior management and its ability to attract and retain suitably skilled and experienced personnel. The Company cannot give assurances that members of the senior management team and the executive Directors will continue to remain within the Group. Finding and hiring any such replacements could be costly and might require the Company to grant significant equity awards or other incentive compensation, which could adversely impact its financial results.

Reduction in government support for environmental-focused technologies

Most states in the US offer energy incentive programs to help offset energy costs, with the Federal Energy Management Program's Energy Incentive Program providing information to Federal agencies about the availability of energy-efficiency and renewable-energy project funding for public purpose programs on a state-by-state basis. These public purpose programs are administered by utilities, state agencies, or other third parties and paid for by utility ratepayers, typically through a non-bypassable system benefits charge instituted as part of restructuring legislation or rules; or through utility programs administered by the local utility and paid for by utility ratepayers through their bundled rates; or through programs sponsored by state agencies designed to promote energy efficiency and renewable energy and typically funded out of general tax revenues. The Group's existing and prospective customers in the US are potentially able to benefit from attractive incentives to install Xeros washing machines as a result of these incentive programs. In the event that the federal government reviews, reduces or withdraws its energy efficiency and renewable-energy project funding, the Group's ability to sign up new customers who would be able to benefit from incentives to install Xeros washing machines could be adversely affected.

Future developments

Future developments are described in the Chairman's statement and Chief Executive Officer's review on pages 3 to 12.

On behalf of the Board

W. G. Westwater

Bill Westwater
Chief Executive Officer

21 October 2014

DIRECTORS' REPORT

The Directors hereby present their annual report and audited consolidated financial statements for the year ended 31 July 2014 and for the Company for the period from 10 September 2013 (date of incorporation) to 31 July 2014. Xeros Technology Group plc (formerly known as Hamsard 3323 Limited) acquired the whole of the issued share capital of Xeros Limited on 17 March 2014 by way of a share for share exchange. As explained in the accounting policies (basis of consolidation) this combination has been accounted for as a reverse acquisition and accordingly the results for the Group are presented as if Xeros Limited (and its subsidiary undertaking at the date of the share for share exchange) had always been part of Xeros Technology Group plc, even though the parent company was only incorporated on 10 September 2013.

Incorporation and change of name

The Company was incorporated on 10 September 2013 as Hamsard 3323 Limited and passed a special resolution to change its name to Xeros Technology Group plc and to re-register as a public limited company on 18 March 2014.

Share capital and funding

Full details of the Group and Company's share capital movements during the year are given in note 19 of the financial statements.

Directors and their interests

The following directors held office since 10 September 2013, the date of incorporation of the Company:

John Samuel	appointed 17 March 2014
Bill Westwater	appointed 17 March 2014
Chris Hanson	appointed 6 March 2014
Dr Steve Jenkins	appointed 17 March 2014
Julian Viggars	appointed 17 March 2014
Dr Maciek Drozdz	appointed 17 March 2014
Dr Richard Ellis	appointed 21 October 2014
Charles Winward	appointed 17 March 2014, resigned 17 June 2014
Peter Mortimer Crossley	appointed 10 September 2013, resigned 6 March 2014
Squire Sanders Directors Limited	appointed 10 September 2013, resigned 6 March 2014

Directors' interests in the shares of the Company, including family interests are included in the Directors' Remuneration Report on pages 19 to 21.

Directors' indemnity insurance

The Group has maintained insurance throughout the year for its directors and officers against the consequences of actions brought against them in relation to their duties for the Group.

Profile of the directors

John Samuel, Chairman

John joined Xeros as Chairman in September 2011. John has previously held a number of senior finance positions and was formerly the CEO of the Molnlycke Health Care Group as well as a former partner with Apax Partners LLP. John is also the Non-Executive Chairman at Tissue Regenix Group plc.

Bill Westwater, Chief Executive Officer

Bill joined Xeros as Chief Executive Officer in November 2008. Bill's earlier career was in international marketing (particularly China) with global corporates including P&G, Royal Dutch Shell and Hutchison Whampoa. Since 2004, Bill has held leadership positions in entrepreneurial SMEs, especially in the clean-tech sector.

DIRECTORS' REPORT
continued

Chris Hanson, Finance Director and Company Secretary

Chris joined Xeros as Finance Director in February 2012. Chris has extensive experience as a Finance Director having held that position with a number of private and listed companies. Chris qualified as a Chartered Accountant with KPMG in 1982.

Dr Steve Jenkins, Chief Science Officer

Steve is a polymer physicist with over 20 years of experience in new product R&D. He joined Xeros in March 2009. His career to date with various blue chip corporations (including DuPont, INVISTA and ICI) has focused on novel polymer solutions. Over this time he has successfully commercialised new product developments in Europe, USA, India and the Far East. Steve is the author of multiple patents associated with these developments and heads Xeros's Research and Development team.

Julian Viggars, Non-Executive Director

Julian was appointed to the Xeros board in June 2009. Julian is Head of Technology Investment at Enterprise Ventures, which, through its client funds, is an investor in Xeros. He was previously a Director of BioProjects International plc, an AIM-traded early stage technology fund and an Associate Partner with accountancy firm NCL Smith & Williamson in London.

Dr Maciek Drozdz, Non-Executive Director

Maciek was appointed to the Xeros board in October 2013. Maciek is an investment manager at Entrepreneurs Fund, an investor in Xeros. Before joining Entrepreneurs Fund he was an analyst at Atlas Venture in Munich and an investment director at MCI Bioventures in Poland. Maciek holds an MSc in molecular biology from A. Mickiewicz University, and a PhD from Zentrum fur Molekulare Biologie in Heidelberg. He also has an MBA from Said Business School in Oxford.

Dr Richard Ellis, Non-Executive Director

Richard joined the board in October 2014. Richard was the Head of Global Research and Development at Reckitt Benckiser Group plc, and Vice President R&D North America at Diversey Lever, a division of Unilever plc. He brings international experience of both the industrial and domestic laundry markets. He has a BSc and PhD in Chemistry from the University of Manchester and is a Fellow of the Royal Society of Chemistry.

Substantial shareholders

As at 16 October 2014, shareholders holding more than 3% of the share capital of Xeros Technology Group plc were:

Name of shareholder	Number of shares	% of voting rights
Invesco Asset Management Limited	17,620,365	27.0
IP Group plc*	12,093,359	18.6
Entrepreneurs Fund LP	7,350,345	11.3
Baillie Gifford & Co	4,050,817	6.2
Parkwalk Advisors Funds	2,877,975	4.4
RisingStars Growth Fund II	2,798,999	4.3
Woodford Investment Management	2,570,000	3.9
Finance Yorkshire Seedcorn LP	2,249,665	3.5
SandAire Asset Management	2,000,000	3.1

**Held through IP2IPO Limited, Techtran Group Limited and IP Venture Fund.*

DIRECTORS' REPORT

continued

Employment policies

The Group supports employment of disabled people, where possible, through recruitment, by retention of those who become disabled and generally through training, career development and promotion.

The Group is committed to keeping employees as fully-informed as possible with regard to the Group's performance and prospects and seeks their views, wherever possible, on matters which affect them as employees.

Statement as to disclosure of information to the auditor

The Directors who were in office on the date of approval of these financial statements have confirmed that, as far as they are aware, there is no relevant audit information of which the auditor is unaware. Each of the Directors has confirmed that they 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 it has been communicated to the auditor.

Auditor

During the period, the Directors appointed KPMG LLP as the Company's auditor. The Board will put KPMG LLP forward to be re-appointed as auditor by the shareholders, and a resolution concerning their appointment will be put to the forthcoming AGM of the Company.

On behalf of the Board

Bill Westwater
Chief Executive Officer

21 October 2014

DIRECTORS' REMUNERATION REPORT

It is the Company's policy that Executive Directors should have contracts with an indefinite term providing for a maximum of six months' notice. In the event of early termination, the Directors' contracts provide for compensation up to a maximum of basic salary for the notice period.

Non-Executive Directors are employed on letters of appointment which may be terminated on not less than one month's notice.

Companies with securities listed on AIM do not need to comply with the UKLA Listing Rules. The Remuneration Committee is however committed to maintaining high standards of corporate governance and disclosure and has applied the guidelines as far as practical given the current size and development of the Company.

Remuneration Committee

The Remuneration Committee's primary responsibilities are to review the performance of the Executive Directors of the Company and to determine the broad policy and framework for their remuneration and the terms and conditions of their service and that of senior management (including the remuneration of and grant of options to such persons under any share scheme adopted by the Company). The Remuneration Committee comprises John Samuel, who is chairman of the committee and Julian Viggars. The committee meets no less than twice in each financial year.

The main elements of the remuneration packages for Executive Directors and senior management are:

Basic annual salary (including directors' fees)

The base salary is reviewed annually from the beginning of each calendar year. The review process is undertaken by the Remuneration Committee and takes into account several factors, including the current position and development of the Group, individual contribution and market salaries for comparable organisations.

Discretionary annual bonus and Deferred Annual Bonus Plan

All Executive Directors and senior managers are eligible for a discretionary annual bonus which is paid in accordance with a bonus scheme developed by the Remuneration Committee. This takes into account individual contribution, business performance and commercial progress, along with financial results.

On 18 March 2014, the Board approved the implementation of a Deferred Annual Bonus plan (the "DAB Plan"). Under the terms of the DAB Plan directors and senior managers will be given the opportunity to defer up to 50% of any gross cash annual bonus in exchange for a nominal cost share option over ordinary shares in the Company (the "Deferred Award"), which can be exercised after three years (or earlier if the participant ceases employment). The number of ordinary shares comprising the Deferred Award (i.e. subject to the option) will be calculated by dividing the amount of the cash bonus deferred by the closing market value of the ordinary shares of the Company on the dealing day immediately prior to the date of grant of the award. By participating in the DAB Plan directors and senior managers will be entitled to receive a matching award at no additional cost (the "Matching Award"). The Matching Award will also be a nominal cost option over ordinary shares in the Company. The number of ordinary shares comprising the Matching Award will be equivalent to two times the number of ordinary shares received in the Deferred Award. Participants will not be entitled to receive the Matching Award until the vesting date is reached which is three years from the date of grant of the award. The vesting of a Matching Award will be subject to performance conditions which will be determined by the Remuneration Committee. The first awards under the DAB will take place early in 2015 following confirmation of bonuses for the calendar year 2014.

Share incentive schemes

The Group operates share option plans, under which certain directors' and senior management have been granted options to subscribe for ordinary shares. All options are equity settled. The options are subject to service and performance conditions, have an exercise price of between 0.15 pence and 16.2 pence and the vesting period is generally 1-3 years. If the options remain unexercised after a period of 10 years from the date of grant, the options expire. The Group has no legal or constructive obligation to repurchase or settle the options in cash.

DIRECTORS' REMUNERATION REPORT

continued

Remuneration Policy for Non-Executive Directors

Remuneration for Non-Executive Directors is set by the Chairman and the Executive Members of the Board. Non-Executives do not participate in bonus schemes.

Directors' remuneration

The remuneration of the main Board Directors of Xeros Technology Group plc who served from their appointment to 31 July 2014 was:

	Salary and fees £000	Bonus £000	Benefits £000	Total 2014 £000	Total 2013 £000
John Samuel	39	–	5	44	23
Bill Westwater (note 1,2)	183	50	1	234	155
Chris Hanson (note 1,2)	130	26	–	156	35
Dr Steve Jenkins (notes 1,2)	116	35	1	152	114
Julian Viggars	10	–	–	10	13
Dr Maciek Drozdz	8	–	–	8	–
Charles Winward (note 3)	9	–	–	9	13
Peter Mortimer Crossley (note 4)	–	–	–	–	–
Squire Sanders Directors Ltd (note 4)	–	–	–	–	–
Total	495	111	7	613	353

Note 1: In addition certain directors hold employee share scheme interests in the company. Fair value share based payment charges recognised in the consolidated statement of profit or loss and other comprehensive income attributable to these directors are: John Samuel £8,000 (2013: £nil), Bill Westwater £75,000 (2013: £38,000), Chris Hanson £56,000 (2013: £26,000), Dr Steve Jenkins £40,000 (2013: £18,000).

Note 2: Remuneration was paid through the Company's subsidiary, Xeros Limited.

Note 3: Charles Winward resigned from the Company on 6 June 2014.

Note 4: Peter Mortimer Crossley and Squire Sanders Directors Limited resigned from the Company on 6 March 2014.

Directors' shareholdings

The interests of the Directors holding office at 31 July 2014 in the shares of the Company, including family interests were:

	Ordinary shares of 0.15p each 2014 Number	2014 %
John Samuel	1,454,975	2.2
Bill Westwater	689,332	1.1
Chris Hanson (note 1)	376,498	0.6
Dr Steve Jenkins	50,833	0.1
Julian Viggars	–	–
Dr Maciek Drozdz	–	–

Note 1: Includes 83,332 Ordinary Shares held on trust for Chris Hanson's children.

Directors' interests in share options

Directors' interests in share options, granted under either the Xeros Technology Group plc Enterprise Management Incentive Share Option Scheme or the Xeros Technology Group plc Unapproved Share Option Scheme, to acquire ordinary shares of 0.15 pence each in the Company at 31 July 2014 were:

	At 1 August 2013	Exercised during year	Lapsed during year	Granted during year	At 31 July 2014	Exercise price
Bill Westwater (note 1)	366,166	–	–	–	366,166	10.8 pence
Bill Westwater (note 2)	588,500	–	–	–	588,500	12.0 pence
Bill Westwater (note 3)	713,166	–	–	–	713,166	16.2 pence
Bill Westwater (note 4)	–	–	–	609,756	609,756	0.15 pence
Chris Hanson (note 2)	891,500	–	–	–	891,500	12.0 pence
Chris Hanson (note 4)	–	–	–	406,504	406,504	0.15 pence
Dr Steve Jenkins (note 5)	300,333	–	–	–	300,333	10.8 pence
Dr Steve Jenkins (note 2)	284,666	–	–	–	284,666	12.0 pence
Dr Steve Jenkins (note 6)	427,832	–	–	–	427,832	16.2 pence
Dr Steve Jenkins (note 4)	–	–	–	325,204	325,204	0.15 pence
John Samuel (note 4)	–	–	–	81,300	81,300	0.15 pence

Note 1. There were employment conditions in relation to the 366,166 options granted on 13 May 2010 which allowed for vesting in six instalments between the date of grant and 17 June 2011.

Note 2. There were employment conditions in relation to the 1,746,666 options granted on 24 April 2013 which allowed for vesting in nine instalments between the date of grant and 4 March 2016.

Note 3. There were employment conditions in relation to the 375,500 options granted on 18 March 2011 which allowed for vesting in nine instalments between the date of grant and 11 October 2013, and in relation to the 337,666 options granted on 19 March 2012 and 20 July 2012 which allowed for vesting in nine instalments between the date of grant and 1 January 2015.

Note 4. There were employment period and performance conditions in relation to the 1,422,764 options granted on 25 March 2014 which allowed for vesting in three equal proportions on or after the three consecutive annual anniversaries from the date of grant, subject to the Company's share price reaching 184.5 pence per share, 246 pence per share and 307.5 pence per share. As at the 31 July 2014 the performance conditions had not been met and the options were not eligible for exercise.

Note 5. There were employment conditions in relation to the 300,333 options granted on 13 May 2010 which allowed for vesting in nine instalments between the date of grant and 9 March 2012.

Note 6. There were employment conditions in relation to 225,166 options granted on 18 March 2011 which allowed for vesting in nine instalments between the date of grant and 11 October 2013. Additionally a further 202,666 options granted on 19 March 2012 allowed for vesting in nine instalments between the date of grant and 1 January 2015.

On behalf of the Board

John Samuel
Chairman of the Remuneration Committee
21 October 2014

CORPORATE GOVERNANCE STATEMENT

Corporate governance

The Company is not required to comply with the UK Corporate Governance Code (the "Code") and does not voluntarily apply the full requirements of the Code. However, our governance arrangements do meet many of the requirements of the Code which the Directors deem most relevant to an AIM listed company having consideration to the size, nature and scope of the Company and Group's activities.

The Board

The Board currently comprises three Executive Directors and four Non-Executive Directors.

Audit Committee

The Audit Committee's primary responsibilities are to monitor the integrity of the financial affairs and statements of the Company, to ensure that the financial performance of the Company and any subsidiary of the Company is properly measured and reported on, to review reports from the Companies auditors relating to the accounting and internal controls and to make recommendations relating to the appointment of the external auditors.

The Audit Committee comprised Charles Winward as chairman, until his resignation on 17 June 2014, and John Samuel, and now comprises John Samuel as chairman.

Internal Control

The Board is responsible for maintaining a sound system of internal control. The Board's measures are designed to manage, not eliminate, risk, and such a system provides reasonable but not absolute assurance against material misstatement or loss. Whilst, as a small AIM listed company, the company is not required to comply with the full provisions of the "Internal Control Guidance for Directors on the Combined Code" (The Turnbull Report), the Board considers that the internal controls do meet many of those requirements and are adequate given the size of the company.

Some key features of the internal control system are:

(i) Management accounts information, budgets, forecasts and business risk issues are regularly reviewed by the Board who meet at least ten times per year;

(ii) The Company has operational, accounting and employment policies in place;

(iii) The Board actively identifies and evaluates the risks inherent in the business and ensures that appropriate controls and procedures are in place to manage these risks;

(iv) There is a clearly defined organisational structure; and

(v) There are well-established financial reporting and control systems.

Going Concern

At 31 July 2014, the Group had £27,999,000 of cash and cash equivalents available to it, along with £1,526,000 of cash held in term deposit accounts. The Directors have considered their obligation, in relation to the assessment of the going concern of the Group and each statutory entity within it and have reviewed the current budget cash forecasts and assumptions as well as the main risk factors facing the Group.

After due enquiry, the Directors consider that the Group has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the financial statements.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

Statement of Directors' responsibilities in respect of the Annual Report, Strategic Report, the Directors' Report and the financial statements

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

Company law requires the directors to prepare Group and parent Company financial statements for each financial year. As required by the AIM rules of the London Stock Exchange they are required to prepare the Group financial statements in accordance with International Financial Reporting Standards as adopted by the EU and applicable law and have elected to prepare the parent Company financial statements on the same basis.

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 the parent Company and of their profit or loss for that period. In preparing each of the Group and the parent Company financial statements, the Directors are required to:

a. select suitable accounting policies and then apply them consistently;

b. make judgements and estimates that are reasonable and prudent;

c. state whether they have been prepared in accordance with IFRS as adopted by the EU; and

d. prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the parent company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent Company's transactions and disclose with reasonable accuracy at any time the financial position of the parent Company and to enable them to ensure that the financial statements comply with the Companies Act 2006. They have a general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect 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.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF XEROS TECHNOLOGY GROUP PLC

We have audited the financial statements of Xeros Technology Group plc (formerly known as Hamsard 3323 Limited) for the year ended 31 July 2014 set out on pages 25 to 56. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU and, as regards the Parent Company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

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.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 23, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

Opinion on financial statements

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 July 2014 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 EU;
- the parent company's financial statements have been properly prepared in accordance with IFRSs as adopted by the EU and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion 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.

Matters on which we are required to report by exception

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

- adequate accounting records have not been kept by the parent 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.

Jeremy Gledhill

Jeremy Gledhill (Senior Statutory Auditor)
For and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
1 The Embankment
Neville Street
Leeds LS1 4DW

21 October 2014

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the year ended 31 July 2014

	Notes	2014 £000	2013 £000
Earned income		**315**	65
Less: lease interest income	8	**(3)**	–
REVENUE	4	**312**	65
Cost of sales		**(294)**	(53)
GROSS PROFIT		**18**	12
Lease interest income	8	**3**	–
Adjusted gross margin		**21**	12
Administrative expenses	7	**(6,793)**	(3,665)
Other operating income		**–**	191
Adjusted EBITDA*		**(6,335)**	(3,320)
Share-based payment expense	22	**(210)**	(100)
Non operating exceptional costs	7	**(163)**	–
Depreciation of tangible fixed assets	11	**(67)**	(42)
OPERATING LOSS		**(6,775)**	(3,462)
Finance income	8	**113**	52
LOSS BEFORE TAXATION		**(6,662)**	(3,410)
Taxation	9	**283**	166
LOSS AFTER TAX		**(6,379)**	(3,244)
OTHER COMPREHENSIVE INCOME:			
Items that are or may be reclassified to profit or loss:			
Foreign currency translation differences – foreign operations		**(38)**	–
TOTAL COMPREHENSIVE EXPENSE FOR THE YEAR		**(6,417)**	(3,244)
LOSS PER SHARE			
Basic and diluted on loss from continuing operations	10	**(12.92)p**	(7.97)p

**Adjusted EBITDA comprises loss on ordinary activities before interest, tax, share-based payment expense, non operating exceptional costs, depreciation and amortisation.*

As explained in the accounting policies (basis of consolidation) the consolidated statement of profit or loss and other comprehensive income has been prepared using reverse acquisition accounting principles and is presented as if the Group had been in existence throughout the current and prior periods.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 July 2014

	Share capital £000	Share premium £000	Merger reserve £000	Foreign currency translation reserve £000	Retained earnings deficit £000	Total £000
At 31 July 2012	61	–	15,449	–	(3,824)	11,686
Loss and total comprehensive expense for the year	–	–	–	–	(3,244)	(3,244)
Share-based payment expense	–	–	–	–	100	100
At 31 July 2013	61	–	15,449	–	(6,968)	8,542
Loss for the year	–	–	–	–	(6,379)	(6,379)
Other comprehensive expense	–	–	–	(38)	–	(38)
Loss and total comprehensive expense for the year	–	–	–	(38)	(6,379)	(6,417)
Issue of shares	37	29,963	–	–	–	30,000
Costs of share issues	–	(1,842)	(6)	–	–	(1,848)
Exercise of share options	–	11	–	–	–	11
Share-based payment expense	–	–	–	–	210	210
At 31 July 2014	**98**	**28,132**	**15,443**	**(38)**	**(13,137)**	**30,498**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as at 31 July 2014

	Notes	2014 £000	2013 £000
ASSETS			
Non-current assets			
Property, plant and equipment	11	**121**	113
Trade and other receivables	13	**177**	–
TOTAL NON-CURRENT ASSETS		**298**	113
Current assets			
Inventories	12	**747**	63
Trade and other receivables	13	**654**	327
Investments – bank deposits	14	**1,526**	6,005
Cash and cash equivalents	15	**27,999**	2,472
TOTAL CURRENT ASSETS		**30,926**	8,867
TOTAL ASSETS		**31,224**	8,980
LIABILITIES			
Non-current liabilities			
Deferred tax	18	**(17)**	(16)
TOTAL NON-CURRENT LIABILITIES		**(17)**	(16)
Current liabilities			
Trade and other payables	17	**(709)**	(422)
TOTAL CURRENT LIABILITIES		**(709)**	(422)
TOTAL LIABILITIES		**(726)**	(438)
NET ASSETS		**30,498**	8,542
EQUITY			
Share capital	19	**98**	61
Share premium	19	**28,132**	–
Merger reserve	19	**15,443**	15,449
Foreign currency translation reserve	20	**(38)**	–
Retained earnings deficit	20	**(13,137)**	(6,968)
TOTAL EQUITY		**30,498**	8,542

Approved by the Board of Directors and authorised for issue on 21 October 2014.

John Samuel
Chairman

Chris Hanson
Finance Director

Company number: 08684474

CONSOLIDATED STATEMENT OF CASH FLOW

for the year ended 31 July 2014

	Notes	2014 £000	2013 £000
Operating activities			
Loss before tax		**(6,662)**	(3,410)
Adjustment for non-cash items:			
Depreciation of property, plant and equipment	11	**67**	42
Share-based payment	22	**210**	100
Increase in inventories		**(876)**	(63)
Increase in trade and other receivables		**(312)**	(83)
Increase in trade and other payables		**251**	196
Finance income		**(113)**	(52)
Cash used in operations		**(7,435)**	(3,270)
Tax refunded		**284**	170
Net cash outflow from operations		**(7,151)**	(3,100)
INVESTING ACTIVITIES			
Finance income		**113**	52
Cash withdrawn from/(placed on) deposits with more than three months maturity		**4,479**	(6,005)
Purchases of property, plant and equipment	11	**(75)**	(43)
Net cash inflow/(outflow) from investing activities		**4,517**	(5,996)
FINANCING ACTIVITIES			
Proceeds from issue of share capital, net of costs	19	**28,163**	9,975
Net cash inflow from financing activities		**28,163**	9,975
Increase in cash and cash equivalents		**25,529**	879
Cash and cash equivalents at start of year		**2,472**	1,593
Effect of exchange rate fluctuations on cash held		**(2)**	-
CASH AND CASH EQUIVALENTS AT END OF YEAR	15	**27,999**	2,472

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 July 2014

(1) BASIS OF PREPARATION

Xeros Technology Group plc is a public limited company domiciled in the United Kingdom. The financial statements of Xeros Technology Group plc are audited consolidated financial statements for the year to 31 July 2014. These include comparatives for the year to 31 July 2013. The level of rounding for financial information is the nearest thousand pounds.

The Company's registered office is Unit 14 Evolution, Advanced Manufacturing Park, Whittle Way, Catcliffe, Rotherham S60 5BL.

Business combinations and basis of consolidation

Subsidiaries are entities controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable or convertible are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Where the acquisition is treated as a business combination, the purchase method of accounting is used to account for the acquisition of subsidiaries by the Group.

The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange. Acquisition costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of the acquisition is less than the fair value of net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

All intra-group balances and transactions, including unrealised profits arising from intra-group transactions, are eliminated fully on consolidation.

On 17 March 2014, Xeros Technology Group Limited entered into a share for share exchange agreement with the shareholders of Xeros Limited, whereby Xeros Technology Group Limited acquired the entire issued share capital of Xeros Limited and its subsidiary, the consideration being satisfied by the allotment of ordinary shares in Xeros Technology Group Limited to the shareholders of Xeros Limited. On 18 March 2014, the Company was re-registered as a public limited company under the name of Xeros Technology Group plc.

The acquisition has been accounted for by applying the principals of reverse acquisition accounting under IFRS 3, as if the group (as currently constituted) had been in place throughout the whole of the period covered by these financial statements. As such, the results for the year ended 31 July 2014 have been presented as a continuation of the previously existing Xeros Limited group.

Accordingly, the consolidated statement of profit and loss and other comprehensive income for the period to 9 September 2013 reflects the results of the Group as though the Group had been in existence throughout the period. The comparative equity structure has been restated as if the shares issued by Xeros Technology Group plc to acquire Xeros Limited were issued throughout the comparative period.

Going concern

As at 31 July 2014, the Group had £27,999,000 of cash and cash equivalents available to it, along with £1,526,000 of cash held on term deposit accounts. The Directors have considered their obligation, in relation to the assessment of the going concern of the Group and each statutory entity within it and have reviewed the current budget cash forecasts and assumptions as well as the main risk factors facing the Group as set out on pages 13 to 15.

After due enquiry, the Directors consider that the Group has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the financial statements.

(2) SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared under the historical cost convention in accordance with International Financial Reporting Standards as adopted by the European Union (EU IFRS).

The principal accounting policies applied are set out below.

Revenue recognition

Revenue is recognised at the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of business and is shown net of Value Added Tax. The Group primarily earns revenues from the sale/provision of polymer bead cleaning equipment, consumables and services.

Where products are sold outright, product sales revenues are recognised once the goods have been despatched. Where sales are made through the Xeros Sbeadycare® service, the contract is separated into the element relating to the initial sale of equipment (where relevant), and the ongoing service element. Consideration is allocated to the different components based on their relative fair values. Service income is recognised pro-rata over the life of the contract. Equipment revenue is recognised in accordance with the stated policy for lessor accounting.

The difference between the amount of income recognised and the amount invoiced on a particular contract is included in the statement of financial position as deferred income. Amounts included in deferred income due within one year are expected to be recognised within one year and are included within current liabilities.

Foreign currencies

The individual financial statements of each Group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purposes of the consolidated financial statements, the results and the financial position of each Group entity are expressed in Pounds Sterling, which is the functional currency of the Company and the presentational currency for the consolidated financial statements.

In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the rates of exchange prevailing at the dates of the transactions. At each balance sheet date, monetary items denominated on foreign currencies are retranslated at the rates prevailing at the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined.

Non-monetary items that are measured in terms of historical cost in foreign currency are not retranslated.

The assets and liabilities of foreign operations are translated using exchange rates at the balance sheet date. The components of shareholders' equity are started at historical value. An average exchange rate for the period is used to translate the results and cash flows of foreign operations.

Exchange differences arising on translating the results and net assets of foreign operation are taken to the translation reserve in equity until the disposal of the investment. The gain or loss in the statement of profit or loss and other comprehensive income on the disposal of foreign operations includes the release of the translation reserve relating to the operation that is being sold.

Government grants

Government grants are recognised where there is reasonable assurance that the grant will be received and all attached conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the costs, which it is intended to compensate, are expensed. Where the grant relates to an asset, it is recognised as income in equal amounts over the expected useful life of the related asset.

Income from grants is included within 'other operating income' in the Consolidated statement of profit or loss and other comprehensive income.

(2) SIGNIFICANT ACCOUNTING POLICIES continued

Research and development

Expenditure on research activities is recognised as an expense in the period in which it is incurred. Development costs are only capitalised when the related products meet the recognition criteria of an internally generated intangible asset, the key criteria being as follows:

- technical feasibility of the completed intangible asset;
- the probability of future economic benefits;
- the reliable measurement of costs;
- the ability and intention of the Group to use or sell the intangible asset.

Such intangible assets are amortised on a straight-line basis from the point at which the assets are ready for use over the period of the expected benefit, and are reviewed for an indication of impairment at each reporting date. Other development costs are charged against profit or loss as incurred since the criteria for their recognition as an asset are not met.

The costs of an internally generated intangible asset comprise all directly attributable costs necessary to create, produce and prepare the asset to be capable of operating in the manner intended by management. Directly attributable costs include employee costs incurred on technical development, testing and certification, materials consumed and any relevant third party cost. The costs of internally generated developments are recognised as intangible assets and are subsequently measured in the same way as externally acquired intangible assets. However, until completion of the development project, the assets are subject to impairment testing only.

No development costs to date have been capitalised as intangible assets.

Leases

As a lessee

At the current time, the Group only partakes of lease arrangements where all of the risks and rewards incidental to ownership are not transferred to the Group (an 'operating lease'), the total rentals payable under the lease are charged to the consolidated statement of profit or loss and other comprehensive income on a straight line basis over the lease term. The aggregate benefit of lease incentives is recognised as a reduction in the rental expense over the lease term.

As a lessor

As the Company transfers substantially all the risks and benefits of ownership of the asset, the arrangement is classified as a finance lease and a receivable is recognised for the initial direct costs of the lease and the present value of the minimum lease payments. As payments fall due, finance income is recognised in the income statement so as to achieve a constant rate of return on the remaining net investment in the lease.

Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation and any impairment losses. Cost includes the original purchase price of the asset and the costs attributable to bringing the asset to its working condition for its intended use. Depreciation is charged so as to write off the costs of assets over their estimated useful lives, on the following basis:

Leasehold improvements	–	over the term of the lease on a straight line basis
Plant and machinery	–	20% on cost on a straight line basis
Fixtures and fittings	–	20% on cost on a straight line basis
Computer equipment	–	33% on cost on a straight line basis

The gain or loss arising on the disposal of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the statement of profit or loss and other comprehensive income.

(2) SIGNIFICANT ACCOUNTING POLICIES continued

Impairment of property, plant and equipment

At each reporting date, the Group reviews the carrying amounts of its property, plant and equipment assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash generating unit) is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Inventories

Inventories are valued at the lower of cost and net realisable value. Cost incurred in bringing each product to its present location and condition is accounted for as follows:

Raw materials, work in progress and finished goods – Purchase cost on a first-in, first-out basis.

Net realisable value is the estimated selling price in the ordinary course of business.

Share-based payments

Certain employees and consultants (including Directors and senior executives) of the Group receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date on which they are granted. The fair value is determined by using an appropriate pricing model. The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ("the vesting date"). The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The profit or loss charge or credit for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance and/or service conditions are satisfied. Where the terms of an equity-settled award are modified, the minimum expense recognised is the expense as if the terms had not been modified. An additional expense is recognised for any modification, which increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph. The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

NOTES TO THE FINANCIAL STATEMENTS

continued

(2) SIGNIFICANT ACCOUNTING POLICIES continued

Financial assets and liabilities

Financial assets and financial liabilities are recognised in the consolidated statement of financial position when the Group becomes party to the contractual provisions of the instrument. Financial assets are de-recognised when the contractual rights to the cash flows from the financial asset expire or when the contractual rights to those assets are transferred. Financial liabilities are de-recognised when the obligation specified in the contract is discharged, cancelled or expired.

Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost less provision for impairment. Appropriate provisions for estimated irrecoverable amounts are recognised in the statement of profit or loss and other comprehensive income when there is objective evidence that the assets are impaired.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

Investments – bank deposits

Comprise bank deposits maturing more than three months after the balance sheet date.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recorded at the proceeds received, net of direct issue costs.

Trade and other payables

Trade payables are initially measured at their fair value and are subsequently measured at their amortised cost using the effective interest rate method; this method allocates interest expense over the relevant period by applying the "effective interest rate" to the carrying amount of the liability.

Taxation

The tax expense/(credit) represents the sum of the tax currently payable or recoverable and the movement in deferred tax assets and liabilities.

Current tax is based upon taxable profit/(loss) for the year. Taxable profit/(loss) differs from net profit/(loss) as reported in the statement of profit or loss and other comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible.

The Group's liability for current tax is calculated by using tax rates that have been enacted or substantively enacted by the reporting date.

Credit is taken in the accounting period for research and development tax credits, which have been claimed from HM Revenue & Customs, in respect of qualifying research and development costs incurred. Research and development tax credits have been accounted for on a cash receipts basis.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled based upon tax rates that have been enacted or substantively enacted by the reporting date. Deferred tax is charged or credited in the statement of profit or loss and other comprehensive income, except when it relates to items credited or charged directly to equity, in which case the deferred tax is also dealt with in equity.

NOTES TO THE FINANCIAL STATEMENTS

continued

(2) SIGNIFICANT ACCOUNTING POLICIES continued

Taxation continued

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit and is accounted for using the liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the profit nor the accounting period.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Critical accounting estimates and areas of judgement

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results may differ from these estimates. The estimates and assumptions that have the most significant effects on the carrying amounts of the assets and liabilities in the financial information are discussed below:

Revenue recognition

The Group offers an integrated service and care package, marketed under Xeros Sbeadycare®. This package includes the transfer of equipment and an ongoing commitment to service and support. As part of determining the appropriate revenue recognition policy for such packages, the Group is required to determine the relative fair values of the various elements of revenue. The Group is also required to make judgements as to the market rate of interest used in the calculations. Due to the unique nature of the product and the stage of development of the Group, such assessment is based on limited historical information and requires a level of judgement. These judgements may be revised in future years.

Equity settled share-based payments

The estimation of share-based payment costs requires the selection of an appropriate valuation method, consideration as to the inputs necessary for the valuation model chosen and the estimation of the number of awards that will ultimately vest. Inputs subject to judgement relate to the future volatility of the share price of comparable companies, the Group's expected dividend yields, risk free interest rates and expected lives of the options. The Directors draw on a variety of sources to aid in the determination of the appropriate data to use in such calculations. The share-based payment charge for the year was £210,000 (31 July 2013: £100,000).

Research and development costs

Careful judgement by the Directors is applied when deciding whether the recognition requirements for capitalising development costs have been met. This is necessary as the economic success of any product development is uncertain and may be subject to future technical problems. Judgements are based on the information available at each reporting date which includes the progress with testing and certification and progress on, for example, establishment of commercial arrangements with third parties. In addition, all internal activities related to research and development of new products are continuously monitored by the Directors. To date, no development costs have been capitalised.

NOTES TO THE FINANCIAL STATEMENTS

continued

(2) SIGNIFICANT ACCOUNTING POLICIES continued

Recoverability of deferred tax assets

Deferred tax assets are recognised only to the extent that it is considered probable that those assets will be recoverable. This involves an assessment of when those deferred tax assets are likely to reverse and a judgement as to whether or not there will be sufficient taxable profits available to offset the tax assets when they do reverse. This requires assumptions regarding future probability and is therefore inherently uncertain. To the extent that assumptions regarding future probability change, there can be an increase or decrease in the level of deferred tax assets recognised which can result in a charge or credit to the statement of profit and loss and other comprehensive income in the period in which the change occurs.

Accounting standards and interpretations not applied

At the date of authorisation of these financial statements, the following IFRSs, IASs and Interpretations were in issue but not yet effective. Their adoption is not expected to have a material effect on the financial statements unless otherwise indicated:

- IFRS 9 Financial Instruments (effective date not yet confirmed and standard not yet endorsed by the EU);
- IFRS 15 Revenue from Contracts with Customers (effective date 1 January 2017, not yet endorsed by the EU);
- Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to IAS16 and IAS38) (effective date 1 January 2016);
- Accounting for Acquisitions of Interests in Joint Operations (Amendments to IFRS11) (effective date 1 January 2016); and
- IFRS14 Regulatory Deferral Accounts (effective date 1 January 2016).

(3) FINANCIAL RISK MANAGEMENT

The Board has overall responsibility for the determination of the Group's risk management objectives and policies. The overall objective of the Board is to set policies that seek to reduce risk as far as possible without unduly affecting the Group's competitiveness and flexibility. The Group does not use derivative financial instruments such as forward currency contracts or similar instruments. The Group does not issue or use financial instruments of a speculative nature.

The Group is exposed to the following financial risks:

- Credit risk
- Liquidity risk
- Market risk
- Foreign currency risk

To the extent that financial instruments are not carried at fair value in the consolidated statement of financial position, book value approximates to fair value at 31 July 2012, 31 July 2013 and 31 July 2014.

Trade and other receivables are measured at fair value and amortised cost. Book values and expected cash flows are reviewed by the Board and any impairment charged to the consolidated statement of profit or loss and other comprehensive income in the relevant period.

Cash and cash equivalents and investments (in the form of term deposits) are held in either UK Sterling or US dollars and are placed on deposits in UK or US banks. Trade and other payables are measured at book value and amortised cost.

(3) FINANCIAL RISK MANAGEMENT continued

Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Group is potentially exposed to credit risk from credit sales, but the Directors consider this to be a low risk. At 31 July 2014, the Group had trade receivables outstanding of £20,000 (2013: £nil).

The Group is exposed to credit risk in respect of these balances such that, if one or more customers or a counterparty to a financial instrument encounters financial difficulties, this could materially and adversely affect the Group's financial results. The Group attempts to mitigate credit risk by assessing the credit rating of new customers and financial counterparties prior to entering into contracts and by entering into contracts with customers on agreed credit terms.

The Directors are not aware of any factors affecting the recoverability of outstanding balances at 31 July 2014 and consequently no provisions have been made for bad and doubtful debts.

The Group is potentially exposed to credit risk in respect of its bank deposits in the event of failure of the respective banks. The Group attempts to mitigate this risk by spreading its cash deposits across a number of different banks and through ongoing monitoring of the credit ratings of those banks. Further details are set out in note 15. At 31 July 2014 the Directors were not aware of any factors affecting the recoverability of the Group's bank balances.

Liquidity risk

Liquidity risk arises from the Group's management of working capital. It is the risk that the Group will encounter difficulty in meeting its future obligations as they fall due. The Group's policy is to ensure that it will always have sufficient cash to allow it to meet its liabilities when they become due. To achieve this aim, it seeks to maintain cash balances to meet its expected cash requirements.

Market risk

Market risk is the risk that changes in market prices, such as interest rates or foreign exchange rates will affect the Group's income. The objective of market risk management is to manage and control market risk exposures within acceptable parameters. Market interest rate risk arises from the Group's holding of cash and cash equivalent balances and from cash held on term deposit accounts (see notes 14 and 15). The Board make ad hoc decisions at their regular Board meetings, as to whether to hold funds in instant access accounts or longer term deposits. All accounts are held with reputable banks. These policies are considered to be appropriate to the current stage of development of the group, and will be kept under review in future years.

Based on the Group's cash balances at 31 July 2014, if interest rates had been 5% higher, then the impact on the results for the year would be a reduction in the loss for the year of approximately £750,000 with a corresponding increase in the Group's net assets. If the interest rate had reduced to zero %, then the impact on the results for the year would be an increase in the loss for the year of £110,000 with a corresponding decrease in the Group's net assets.

Foreign currency risk

The Group is exposed to currency risk on sales and purchase transactions and cash held on deposit accounts that are denominated in a currency other than the respective functional currencies of group entities, primarily Pound Sterling (GBP), the US Dollars (USD) and the Euro (EUR).

In respect of other monetary assets and liabilities denominated in foreign currencies, the Group's policy is to ensure that its net exposure is kept to an acceptable level by buying foreign currencies at spot rates when necessary to meet working capital requirements in each of the Group's entities.

(3) FINANCIAL RISK MANAGEMENT continued

Capital risk management

The Group's capital is made up of share capital, share premium and retained losses, totalling £15,093,000 at 31 July 2014 (31 July 2013: deficit of £6,907,000).

The Group's objectives when managing capital are:

- to safeguard the entity's ability to continue as a going concern, so that it can provide returns for shareholders and benefits for other stakeholders; and
- to provide an adequate return to shareholders by pricing products and services commensurately with the level of risk.

The capital structure of the Group consists of shareholders' equity as set out in the consolidated statement of changes in equity. All working capital requirements are financed from existing cash resources. There are no externally imposed capital requirements. Financing decisions are made by the Board of Directors based on forecasts of the expected timing and level of capital and operating expenditure required to meet the Group's commitments and development plans.

(4) SEGMENTAL REPORTING

The information that is presented to the Chief Executive Officer, who is considered to be the Chief Operating Decision Maker ("CODM"), for the purposes of resource allocation and assessment of performance, is based wholly on the overall activities of the Group. Due to the current size and activities of the Group, there is a high degree of centralisation of activities. The Directors therefore consider that there is one operating, and hence one reportable segment for the purposes of presenting information under IFRS8; that of "Development and commercialisation of polymer bead cleaning technologies". There are no differences between the segment results and the consolidated statement of comprehensive income. The assets and liabilities information presented to the CODM is consistent with the consolidated statement of financial position.

The single operating segment includes revenue by category as follows:

	Year to 31 July 2014 £000	Year to 31 July 2013 £000
Sale of goods	**284**	65
Rendering of services	**28**	–
	312	65

During the year ended 31 July 2014, the Group had six customers who generated more than 10% of total revenue. These customers generated 16%, 14%, 12%, 12%, 10% and 10% of revenue respectively.

During the year ended 31 July 2013, the Group had two customers who generated more than 10% of total revenue. These customers generated 62% and 34% of revenue respectively.

An analysis of revenues by geographic location of customers is set out below:

	Year to 31 July 2014 £000	Year to 31 July 2013 £000
United Kingdom	**37**	41
United States of America	**257**	2
Germany	**18**	22
	312	65

NOTES TO THE FINANCIAL STATEMENTS

continued

(4) SEGMENTAL REPORTING continued

An analysis of non-current assets by location is set out below:

	Year to 31 July 2014 £000	Year to 31 July 2013 £000
United Kingdom	**130**	113
United States of America	**168**	–
	298	113

(5) LOSS FROM OPERATIONS

	Year to 31 July 2014 £000	Year to 31 July 2013 £000
Loss from operations is stated after crediting:		
Grant income	**–**	191
Foreign exchange gains	**21**	–
Loss from operations is stated after charging to administrative expenses:		
Depreciation of plant and equipment (see note 11)	**67**	42
Operating lease rentals – land and buildings	**42**	39
Staff costs	**2,534**	1,230
Foreign exchange losses	**–**	6
Research and development	**1,324**	1,144
Auditor's remuneration:		
– Audit of these financial statements	**8**	–
– Audit of financial statements of subsidiaries of the company	**7**	5
– all other services	**154**	–
Total auditor's remuneration	**169**	5

Other services relate to transaction services in relation to the IPO.

NOTES TO THE FINANCIAL STATEMENTS

continued

(6) STAFF COSTS

	Year to 31 July 2014 Number	Year to 31 July 2013 Number
The average monthly number of persons (including Directors) employed by the Group during the year was:		
Directors	**7**	7
Operational staff	**36**	17
	43	24

	Year to 31 July 2014 £000	Year to 31 July 2013 £000
The aggregate remuneration, including Directors, comprised:		
Wages and salaries	**2,286**	1,015
Share based expense (see note 22)	**210**	100
Social security and healthcare costs	**248**	115
	2,744	1,230
Directors' remuneration comprised:		
Emoluments for qualifying services	**613**	353

Directors' emoluments disclosed above include £234,000 paid to the highest paid director (2013: £155,000). There are no pension benefits for directors.

(7) EXPENSES BY NATURE

The administrative expenses charge by nature is as follows:

	Year to 31 July 2014 £000	Year to 31 July 2013 £000
Staff costs, recruitment and other HR	**2,717**	1,322
Share-based payment expense	**210**	100
Premises and establishment costs	**73**	56
Research and development costs	**1,324**	1,144
Patent and IP costs	**423**	416
Legal, professional and consultancy fees	**700**	244
IT, telecoms and office costs	**151**	58
Depreciation charge	**67**	42
Travelling, subsistence and entertaining	**482**	168
Advertising, conferences and exhibitions	**376**	60
Foreign exchange (gains)/losses	**(21)**	6
Other expenses	**128**	49
Total operating administrative expenses	**6,630**	3,665
Non-operating administrative exceptional items:		
AIM flotation costs	**163**	–
Total administrative expenses	**6,793**	3,665

NOTES TO THE FINANCIAL STATEMENTS

continued

(8) FINANCE INCOME

	Year to 31 July 2014 £000	Year to 31 July 2013 £000
Bank interest receivable	**110**	52
Finance income from lease receivables	**3**	–
	113	52

(9) TAXATION

Tax on loss on ordinary activities

	Year to 31 July 2014 £000	Year to 31 July 2013 £000
Current tax:		
Tax credits received in respect of prior periods	**(284)**	(170)
	(284)	(170)
Deferred tax:		
Origination and reversal of temporary timing differences	**1**	4
Tax credit on loss on ordinary activities	**(283)**	(166)

The charge for the year can be reconciled to the loss before tax per the statement of profit or loss and other comprehensive Income as follows:

Factors affecting the current tax charges

The tax assessed for the year varies from the small company rate of corporation tax as explained below:

	Year to 31 July 2014 £000	Year to 31 July 2013 £000
The tax assessed for the period varies from the main company rate of corporation tax as explained below:		
Loss on ordinary activities before tax	**(6,662)**	(3,410)
Tax at the standard rate of corporation tax 20%	**(1,332)**	(682)
Effects of:		
Expenses not deductable for tax purposes	**55**	28
Research and development tax credits received	**(283)**	(169)
Unutilised tax losses	**1,277**	657
Tax credit for the year	**(283)**	(166)

NOTES TO THE FINANCIAL STATEMENTS

continued

(10) LOSS PER SHARE (BASIC AND DILUTED)

Basic loss per share is calculated by dividing the loss attributable to equity holders of the parent by the weighted average number of ordinary shares in issue during the year. Diluted loss per share is calculated by adjusting the weighted average number of ordinary shares in issue during the year to assume conversion of all dilutive potential ordinary shares.

	Year to 31 July 2014 £000	Year to 31 July 2013 £000
Total loss attributable to the equity holders of the parent	**(6,379)**	(3,244)

	Number	Number
Weighted average number of ordinary shares in issue during the year	**49,360,625**	40,683,333
Loss per share		
Basic and diluted on loss for the year	**(12.92)p**	(7.97)p

Adjusted earnings per share has been calculated so as to exclude the effect of non operating exceptional costs including related tax charges and credits. Adjusted earnings used in the calculation of basic and diluted earnings per share reconciles to basic earnings as follows:

	£000	£000
Basic earnings	**(6,379)**	(3,244)
Non-operating exceptional costs	**163**	–
Adjusted earnings	**(6,216)**	(3,244)
Adjusted loss per share		
Basic and diluted on loss for the year	**(12.59)p**	(7.97)p

The weighted average number of shares in issue throughout the period is as follows:

	Year to 31 July 2014 Number	Year to 31 July 2013 Number
Issued ordinary shares at 1 August *	**40,683,333**	40,683,333
Effect of shares issued on 18 March 2014	**733,158**	–
Effect of shares issued on 25 March 2014	**7,924,682**	–
Effect of shares issued on 22 May 2014	**19,452**	–
Weighted average number of shares at 31 July	**49,360,625**	40,683,333

* *The comparative figures are based on the number of shares that would have been in issue had the capital structure of the new parent company always been in place.*

The Company has issued employee options over 6,232,589 ordinary shares which are potentially dilutive. There is, however, no dilutive effect of these issued options as there is a loss for each of the years concerned.

NOTES TO THE FINANCIAL STATEMENTS
continued

(11) PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements £000	Plant and equipment £000	Computer equipment £000	Plant and fittings £000	Total £000
Cost					
At 31 July 2012	63	52	14	37	166
Additions	3	22	14	4	43
At 31 July 2013	66	74	28	41	209
Additions	25	18	29	3	75
At 31 July 2014	**91**	**92**	**57**	**44**	**284**
Depreciation					
At 31 July 2012	16	14	6	18	54
Charge for the year	16	12	6	8	42
At 31 July 2013	32	26	12	26	96
Charge for the year	31	15	12	9	67
At 31 July 2014	**63**	**41**	**24**	**35**	**163**
Net book value					
At 31 July 2014	**28**	**51**	**33**	**9**	**121**
At 31 July 2013	34	48	16	15	113
At 31 July 2012	47	38	8	19	112

(12) INVENTORIES

	31 July 2014 £000	31 July 2013 £000
Finished goods	**747**	63

In the year end 31 July 2014, changes in finished goods recognised as cost of sales amounted to £712,000 (2013: £53,000).

NOTES TO THE FINANCIAL STATEMENTS

continued

(13) TRADE AND OTHER RECEIVABLES

	2014	2013
	£000	£000
Due within 12 months		
Trade debtors	**20**	–
Other receivables	**269**	282
Prepayments and accrued income	**365**	45
	654	327

	2014	2013
Due after more than 12 months		
Other receivables	**177**	–

There is no material difference between the lease receivables amounts included in other receivables noted above, the minimum lease payments or gross investment in the lease as defined by IAS17.

The minimum lease payment is receivable as follows:

	2014	2013
	£000	£000
Not later than one year	**23**	–
Later than one year not later than five years	**100**	–
Later than five years	**77**	–
	200	–

Contractual payment terms with the Group's customers are typically 30 to 60 days.

There are no amounts of overdue debts for which no allowance has been made. There are no provisions for impairment losses in respect of trade and other receivables. There are no receivables at any of the period ends which were considered to be past due. The Directors believe that the carrying value of trade and other receivables represents their fair value. In determining the recoverability of trade receivables the Board considers any change in the credit quality of the receivable from the date credit was granted up to the reporting date. For details on credit risk management policies, refer to note 3.

Included within other receivables in the prior year was an amount of £198,000 which was due from Directors of the company. This was the deferred consideration for the subscription price for the issue of 4,369 ordinary shares on 18 July 2012 and 3,039 ordinary shares on 23 May 2013. The deferred consideration was due for payment by the shareholders only when called by the company, or if certain triggering events arise. During the year ended 31 July 2014, the company called for the payment to be made and these balances were settled during March 2014.

Other receivables of £177,000 due after more than one year comprise the long term portion of finance leases where the Group acts as lessor.

NOTES TO THE FINANCIAL STATEMENTS
continued

(14) INVESTMENTS – BANK DEPOSITS

	2014	2013
	£000	£000
Bank deposits maturing between three and 12 months	**1,526**	6,005

At 31 July 2014 the company held £1,526,000 (2013: £2,005,000) in a 95-day deposit account and £nil (2013: £4,000,000) in fixed rate bonds. These balances are all denominated in UK Sterling (£). The Directors consider that the carrying value of cash and cash equivalents approximates to their fair value. For details of credit risk management policies, refer to note 3.

(15) CASH AND CASH EQUIVALENTS

	2014	2013
	£000	£000
AA-	**–**	2,472
A	**27,999**	–
Cash and cash equivalents	**27,999**	2,472

The above has been split by the Fitch rating system and gives an analysis of the credit rating of the financial institutions where cash balances are held.

All of the Group's cash and cash equivalents at 31 July 2014 are at floating interest rates, except for the fixed rate bond in the prior year referred to in note 14. Balances are denominated in UK Sterling (£), US Dollars ($) and Euros as follows:

	2014	2013
	£000	£000
Denominated in Pound Sterling	**25,719**	2,202
Denominated in US Dollars	**2,255**	244
Denominated in Euros	**25**	26
Cash and cash equivalents	**27,999**	2,472

The Directors consider that the carrying value of cash and cash equivalents approximates to their fair value. For details of credit risk management policies, refer to note 3.

NOTES TO THE FINANCIAL STATEMENTS
continued

(16) FINANCIAL INSTRUMENTS

Non-derivative financial assets

At the reporting date, the Group held the following non-derivative financial assets which best represent the maximum exposure to credit risk at the balance sheet date:

	2014	2013
	£000	£000
Due within three months		
Cash and cash equivalents	**27,999**	2,472
Trade receivables	**20**	–
Other receivables	**634**	327
	28,653	2,799
Due between three months and 12 months		
Investments: fixed rate bonds and cash deposits	**1,526**	6,005
Due after more than 12 months		
Other receivables	**177**	–

The concentration of credit risk for trade and other receivables at the balance sheet date by geographic region was:

	2014	2013
	£000	£000
United Kingdom	**568**	327
United States of America	**86**	–
	654	327

Non-derivative financial liabilities

At the reporting date, the Group held the following financial liabilities, all of which were classified as other non-derivative financial liabilities:

	2014	2013
	£000	£000
Due within three months		
Trade payables	**379**	180
Other payables	**330**	242
	709	422

NOTES TO THE FINANCIAL STATEMENTS

continued

(16) FINANCIAL INSTRUMENTS

Interest rate sensitivity

The principal impact to the Company is the result of interest-bearing cash and cash equivalent balances and investment accounts held as set out below:

		31 July 2014	
	Fixed rate £000	**Floating rate £000**	**Total £000**
Cash and cash equivalents	**–**	**27,999**	**27,999**
Investments: Fixed rate bonds and cash deposits	**–**	**1,526**	**1,526**

		31 July 2013	
	Fixed rate £000	Floating rate £000	Total £000
Cash and cash equivalents	–	2,472	2,472
Investments: Fixed rate bonds and cash deposits	4,000	2,005	6,005

Based on the Group's above balances at 31 July 2014, if interest rates had been 5% higher, then the impact on the results for the year would be a reduction in the loss for the year of approximately £750,000 with a corresponding increase in the Group's net assets. If the interest rate had reduced to zero %, then the impact on the results for the year would be an increase in the loss for the year of £110,000 with a corresponding decrease in the Group's net assets.

Market risk – foreign currency risk

The Group's exposure to foreign currency risk is as follows. This is based on the carrying amount for monetary financial instruments.

	Sterling £000	**US Dollar £000**	**Euro £000**	**Total £000**
Inventories	127	620	–	747
Cash and cash equivalents	25,719	2,255	25	27,999
Trade and other receivables	568	86	–	654
Trade and other payables	(586)	(123)	–	(709)
Balance sheet exposure	25,828	2,838	25	28,691

NOTES TO THE FINANCIAL STATEMENTS

continued

(17) TRADE AND OTHER PAYABLES

	31 July 2014 £000	31 July 2013 £000
Trade payables	**379**	180
Taxes and social security	**68**	42
Other creditors	**34**	4
Accruals	**228**	196
	709	422

Trade payables, split by the currency they will be settled are shown below:

	31 July 2014 £000	31 July 2013 £000
Sterling	**257**	175
US Dollars	**115**	2
Euros	**7**	3
Trade payables	**379**	180

Trade and other payables principally comprise amounts outstanding for trade purchases and ongoing costs. They are non-interest bearing and are normally settled on 30 to 45 day terms. The Directors consider that the carrying value of trade and other payables approximate their fair value.

The Group has financial risk management policies in place to ensure that all payables are paid within the credit timeframe and no interest has been charged by any suppliers as a result of late payment of invoices during the year.

(18) DEFERRED TAX

	31 July 2014 £000	31 July 2013 £000
Accelerated depreciation for tax purposes	**17**	16
Deferred tax expense/(credit)	**1**	4

	31 July 2014 £000	31 July 2013 £000
At beginning of year	**16**	12
Tax expense	**1**	4
At end of year	**17**	16

As at 31 July 2014, the Group had unrecognised deferred tax assets totalling £2,319,000 (31 July 2013: £1,175,000), which primarily relate to losses and the IFRS 2 share based payment charge. The Group has not recognised this as an asset in the Statement of Financial Position due to the uncertainty in the timing of its crystallisation.

NOTES TO THE FINANCIAL STATEMENTS
continued

(19) SHARE CAPITAL

	Number	Share capital £000	Share premium £000	Merger reserve £000	Total £000
Total Ordinary shares of 0.15p each 10 September 2013 (date of incorporation)	**–**	**–**	**–**	**–**	**–**
Issue of ordinary shares	65,073,549	98	29,963	15,449	45,510
Share options exercised	100,000	–	11	–	11
Costs of share issues	–	–	(1,842)	(6)	(1,848)
Total Ordinary shares of 0.15p each as at 31 July 2014	**65,173,549**	**98**	**28,132**	**15,443**	**43,673**

As permitted by the provisions of the Companies Act 2006, the Company does not have an upper limit to its authorised share capital.

The Company was incorporated in England and Wales as a private limited company on 10 September 2013 with subscription share capital of one ordinary share of £1 each issued at par, fully paid.

The following is a summary of the changes in the issued share capital of the Company since its incorporation:

(a) by a special resolution dated 17 March 2014, the Company adopted articles of association providing that the share capital of the Company be comprised of Xeros Ordinary Shares, A Ordinary Shares, B Ordinary Shares, C Ordinary Shares and C1 Ordinary Shares;

(b) on 17 March 2014, in aggregate 37,756 Xeros Ordinary Shares, 31,490 A Ordinary Shares, 64,144 B Ordinary Shares, 102,881 C Ordinary Shares and 7,825 C1 Ordinary Shares were issued to the shareholders of Xeros Limited, fully paid, in consideration of the acquisition of the entire issued share capital of Xeros Limited;

(c) on 18 March 2014, 8,148 C1 Ordinary Shares and 3,658 C Ordinary Shares were allotted to EIS investors at a price of £205 per C1 Ordinary Share and C Ordinary Share (which equated to the Placing Price on conversion into Ordinary Shares as described in paragraph (d) below). The total cash consideration was £2,420,230;

(d) by a special resolution dated 18 March 2014, conditional upon and with effect from Admission, each Xeros Ordinary Share, A Ordinary Share, B Ordinary Share, C Ordinary Share and C1 Ordinary Share in issue was redesignated as 166.6666667 Ordinary Shares, having the rights set out in the articles of association;

(e) on 25 March 2014, 22,422,579 Ordinary Shares were allotted at a price of £1.23 per share for total cash consideration of £27,579,772, being the Placing and Admission of the Company onto AIM;

(f) on 22 May 2014, 100,000 Ordinary Shares were allotted at a price of 10.8 pence per share, for total cash consideration of £10,800, upon the exercise of share options granted in the Company's Unapproved share option scheme.

At 31 July 2014, the Company had only one class of share, being Ordinary Shares of 0.15 pence each. Total costs of the above share issues of £1,842,000 have been charged against the share premium account.

(20) MOVEMENT IN RETAINED EARNINGS AND FOREIGN CURRENCY TRANSLATION RESERVE

	Retained earnings deficit £000	**Foreign currency translation reserve £000**
At 31 July 2012	(3,824)	–
Loss for the year	(3,244)	–
Other comprehensive income/(expenses) – Foreign currency translation differences – foreign operation	–	–
Share-based payment charge	100	–
At 31 July 2013	(6,968)	–
Loss for the year	(6,379)	–
Other comprehensive income/(expenses) – Foreign currency translation differences – foreign operation	–	(38)
Shared-based payment charge	210	–
At 31 July 2014	**(13,137)**	**(38)**

(21) COMMITMENTS

Operating lease commitments

The Group leases premises under non-cancellable operating lease agreements. The future aggregate minimum lease and service charge payments under non-cancellable operating leases are as follows:

	31 July 2014 £000	31 July 2013 £000
Land and buildings:		
Amounts due within one year	**4**	37
Amounts due between one and five years	**6**	8
	10	45

On 19 October 2009, the Group entered into a lease in respect of a property. The Group has an annual rent commitment of £15,000 and the lease contains break clauses every 12 months. This lease expires on 18 October 2014.

On 2 March 2012, the Group entered into a further lease in respect of a second unit in the property. The Group has an annual rent commitment of £22,000 on that lease and the lease contains break clauses every 12 months. This lease expires on 18 October 2017.

Other commitments

Under the terms of a manufacturing agreement between Xeros Limited and Jiangsu Sea-lion Machinery Group, Xeros Limited is committed to acquire machines at a total cost of approximately $1.3 million by the end of 2014.

(22) SHARE-BASED PAYMENTS

Share options

The Company has share option plans (The Xeros Technology Group plc Unapproved Share Option Scheme and The Xeros Technology Group plc Enterprise Management Incentive Share Option Scheme) under which it grants options over ordinary shares to certain Directors, employees and consultants of the Group. Options under these plans are exercisable at a range of exercise prices ranging from the nominal value of the Company's shares to the market price of the Company's shares on the date of the grant. The vesting period for shares is usually over a period of three years. The options are settled in equity once exercised. If the options remain unexercised for a period after 10 years from the date of grant, the options expire. Options are forfeited if the employee leaves the Group before the options vest.

The number and weighted average exercise prices of share options are as follows:

	Number of share interests			Weighted average exercise price per share (£)
	EMI options	Unapproved options	Total	
At 31 July 2012	2,096,827	421,500	2,518,327	0.141
Exercised in the year	–	(200,167)	(200,167)	(0.108)
Issued in the year	1,764,666	–	1,764,666	0.12
At 31 July 2013	3,861,493	221,333	4,082,826	0.134
Exercised in the year	–	(100,000)	(100,000)	0.108
Issued in the year	555,036	1,694,727	2,249,763	0.045
At 31 July 2014	**4,416,529**	**1,816,060**	**6,232,589**	**0.102**

There were 2,941,650 share options outstanding at 31 July 2014 which were eligible to be exercised. The remaining options were not eligible to be exercised as these are subject to employment period and market-based vesting conditions, some of which had not been met at 31 July 2014. Options have a range of exercise prices from 0.15 pence per share to 16.2 pence per share and have a weighted contractual life of 8.32 years.

In respect of 1,422,764 of the options outstanding at 31 July 2014, the performance conditions in relation to these options allows for vesting in equal proportions on or after the three consecutive annual anniversaries from the date of grant subject to the Company's share price reaching certain hurdle values by the respective vesting dates.

	Options Granted year to 31 July 2014	Options Granted year to 31 July 2013
Dividend yield	**0%**	0%
Expected volatility*	**40%**	40%
Risk free interest rate (%)	**2.02%**	2.02%
Expected vesting life of options (years)	**6**	6
Weighted average share price (£)	**0.68**	0.12

** Expected volatility is based upon implied volatility as determined by a simple average of a sample of listed companies based in similar sectors.*

Any share options which are not exercised within 10 years from the date of grant will expire.

NOTES TO THE FINANCIAL STATEMENTS

continued

(22) SHARE-BASED PAYMENTS continued

A charge has been recognised in the consolidated statement of profit or loss and other comprehensive income for each year as follows:

	Year to 31 July 2014 £000	Year to 31 July 2013 £000
Share options	**210**	100

(23) RELATED PARTY TRANSACTIONS

During the year the Group entered into transactions, in the ordinary course of business, with other related parties. Those transactions with Directors are disclosed below. Transactions entered into, along with trading balances outstanding at 31 July with other related parties, are as follows:

	Relationship	**Purchases from related party 2014 £000**	**Amounts owed to related party 2014 £000**	Purchases from related party 2013 £000	Amounts owed to related party 2013 £000
Related party:					
IP2IPO Limited	Shareholder (note 1)	**9**	**-**	13	-
Top Technology Ventures Limited	Connected to IP2IPO Limited	**1**	**-**	75	-
Enterprise Ventures Limited	Fund manager for certain shareholders (note 2)	**10**	**-**	13	-
Entrepreneurs' Fund Management LLP	Fund manager for a shareholder (note 3)	**10**	**-**	13	-

Note 1: IP2IPO Limited provided the services of Charles Winward as a Director of the Company, until his resignation on 17 June 2014 and invoiced the Group for associated directors' fees.

Note 2: Enterprise Ventures Limited provides the services of Julian Viggars as a Director for the Company and invoiced the Group for associated directors' fees.

Note 3: Entrepreneurs' Fund Management LLP provides the services of Dr Maciek Drozdz a director for the Company and invoiced the Group for associated directors' fees.

Terms and conditions of transactions with related parties

Purchases between related parties are made on an arm's length basis. Outstanding balances are unsecured, interest free and cash settlement is expected within 60 days of invoice.

Transactions with Key Management Personnel

The Company's key management personnel comprise only the Directors of the Company. During the year the Company entered into the following transactions in which the Directors had an interest:

NOTES TO THE FINANCIAL STATEMENTS

continued

(23) RELATED PARTY TRANSACTIONS continued

Directors' remuneration:

Remuneration received by the Directors from the Company is set out below. Further detail is provided within the Directors' Remuneration Report:

	Year to 31 July 2014 £000	Year to 31 July 2013 £000
Short-term employment benefits*	**613**	353

**In addition, certain directors hold share options in the Company for which a fair value share based charge of £179,000 has been recognised in the consolidated statement of profit or loss and other comprehensive income (2013: £82,000).*

During the year ended 31 July 2014, the Company entered into numerous transactions with its subsidiary company which net off on consolidation – these have not been shown above.

	Attributable to the equity holders of the Company				
	Share Capital £000	**Share Premium £000**	**Merger reserve £000**	**Retained Earnings Reserve £000**	**Total £000**
At 10 September 2013 (date of incorporation)	–	–	–	–	–
Total expense and other comprehensive loss for the period	–	–	–	(134)	(134)
Share capital issued	37	29,963	–	–	30,000
Arising on acquisition	61	–	6,625	–	6,686
Costs of share issues		(1,842)	–	–	(1,842)
Share options exercised	–	11	–	–	11
Share-based payment expense in respect of services provided to subsidiary undertaking	–	–	–	165	165
At 31 July 2014	**98**	**28,132**	**6,625**	**31**	**34,886**

COMPANY STATEMENT OF FINANCIAL POSITION

as at 31 July 2014

	Notes	2014 £000
ASSETS		
Non-current assets		
Investments	C3	**6,851**
Total non-current assets		
Current assets		
Trade and other receivables	C4	**91**
Intercompany loan balance	C5	**19,880**
Cash and cash equivalents		**8,101**
Total current assets		**28,072**
TOTAL ASSETS		**34,923**
LIABILITIES		
Current liabilities		
Trade and other payables	C6	**(37)**
TOTAL LIABILITIES		**(37)**
NET ASSETS		**34,886**
EQUITY		
Share capital	19	**98**
Share premium	19	**28,132**
Merger reserve		**6,625**
Retained earnings deficit		**31**
TOTAL EQUITY		**34,886**

Approved by the Board of Directors and authorised for issue on 21 October 2014.

John Samuel
Chairman

Chris Hanson
Finance Director

Company number: 08684474

COMPANY STATEMENT OF CASH FLOWS

for the period ended 31 July 2014

	Notes	2014 £000
Operating activities		
Loss before tax		**(134)**
Finance income		**(7)**
Operating cash outflow		**(141)**
Increase in trade and other receivables		**(91)**
Increase in trade and other payables		**37**
Net cash generated from operations		**(195)**
INVESTING ACTIVITIES		
Finance income		**7**
Loans to subsidiary undertakings	C5	**(19,880)**
Net cash used in investing activities		**(19,873)**
FINANCING ACTIVITIES		
Proceeds from issue of share capital, net of costs	19	**28,169**
Net cash generated from financing activities		**28,169**
DECREASE IN CASH AND CASH EQUIVALENTS		**8,101**
Cash and cash equivalents at start of period		**-**
CASH AND CASH EQUIVALENTS AT END OF PERIOD		**8,101**

NOTES TO THE COMPANY INFORMATION

for the period ended 31 July 2014

C1. Principal accounting policies

The financial statements of the Company are presented as required by the Companies Act 2006 and in accordance with IFRS.

The principal accounting policies adopted are the same as for those set out in the Group's financial statements.

C2. Company results

The Company has elected to take the exemption under section 408 of the Companies Act 2006 not to present the Parent Company's statement of profit or loss and other comprehensive income. The parent company's result for the period ended 31 July 2014 was a loss of £134,000.

The audit fee for the company is set out in note 5 of the Group's financial statements.

C3. Investment in subsidiary companies

At 31 July 2014, the Company held the following investments in subsidiaries:

Undertaking	Sector	Share of issued capital and voting rights 2014
Xeros Limited	Research, development and commercialisation of polymer bead cleaning alternatives to traditional aqueous based cleaning	**100%**
Xeros Inc*	Commercialisation of polymer bead cleaning alternatives to traditional aqueous based cleaning	**100%**

** Held through Xeros Limited.*

Xeros Limited, is incorporated in England and Wales as a private limited company under registered number 05933013. Xeros Inc. is incorporated in Delaware, USA.

On 17 March 2014, the Company entered into a share for share agreement with the shareholders of Xeros Limited, whereby the Company acquired the entire issued share capital of Xeros Limited. As a result, Xeros Limited became a wholly-owned subsidiary of the Company.

Cost	**£000**
At 10 September 2013 (date of incorporation)	–
Additions	6,851
At 31 July 2014	6,851
Impairment	
At 10 September 2013 (date of incorporation)	–
At 31 July 2014	–
Carrying value at 31 July 2014	**6,851**

Included within additions of £6,851,000 is an amount of £165,000 in respect of the IFRS 2 share-based payment contribution relating to options granted to employees of the Company's subsidiaries.

C4. Trade and other receivables

	31 July 2014 £000
Prepayments and accrued income	12
Other debtors	79
	91

C5. Current assets

	31 July 2014 £000
Intercompany loan	**19,880**

A loan of £19,855,000 was advanced to Xeros Limited in the year. No interest was payable on the balance. A loan of £25,000 was advanced to Xeros Inc. in the year. No interest was payable on the balance. All intercompany loans are repayable on demand.

C6. Trade and other payables

	31 July 2014 £000
Social security and other taxes	13
Accruals	24
	37

Xeros Technology Group plc
Unit 14, Evolution
Advanced Manufacturing Park
Whittle Way
Catcliffe
Rotherham
South Yorkshire
S60 5BL
www.xeroscleaning.com