

Company number: 08684474

**XEROS TECHNOLOGY GROUP PLC**  
**ANNUAL REPORT**

**FOR THE YEAR**  
**ENDED 31 DECEMBER 2017**

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COMPANIES HOUSE

**XEROS TECHNOLOGY GROUP PLC**  
**DIRECTORS AND OFFICERS**

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**DIRECTORS**

|                  |                           |
|------------------|---------------------------|
| John Samuel      | (Chairman)                |
| Mark Nichols     | (Chief Executive Officer) |
| Paul Denney      | (Chief Financial Officer) |
| Julian Viggars   | (Non-Executive Director)  |
| Dr Richard Ellis | (Non-Executive Director)  |
| Stephen Taylor   | (Non-Executive Director)  |

**COMPANY SECRETARY**

Paul Denney

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## **XEROS TECHNOLOGY GROUP PLC**

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## **XEROS TECHNOLOGY GROUP PLC**

### **CHAIRMAN'S STATEMENT**

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This has been another year of considerable progress at Xeros. Having now materially completed the development for the majority of our chosen applications, the Group is focused on their commercialisation under IP-rich, capital-light business models. After many years of groundbreaking innovation, we are now in the position of being able to engage meaningfully with major industry players around the world, who are best placed to market and sell our technologies into the global markets they serve.

Our applications are targeted at global scale industries, the long-term viability of which are being threatened by increasing water constraints and pollution challenges. Xeros' technologies materially improve sustainability whilst simultaneously delivering performance and economic benefits. In this respect, Xeros represents a unique solution to a world already suffering from high water stress, which will only increase with population growth and continued urbanisation.

During the year, we continued to demonstrate and prove the benefits of Xeros technology in our Cleaning and Tanning Technology businesses. We also established that we have the potential to create significant value with our Textile applications.

In Cleaning Technologies, we established a new business unit, High Performance Workwear, which made a number of acquisitions in the fifteen months to April 2018 to build a platform from which to serve firefighters across the US. The application of Xeros' technology significantly reduces harmful contamination in expensive firefighters' Personal Protective Equipment ("PPE") whilst simultaneously extending its life. The learning and knowledge from owning these businesses will create a platform which we believe will create a valuable proprietary asset which can be leveraged to bring our technology to PPE markets on a global basis

In the domestic market, we launched our new low cost domestic washing machine design, the XDrum™, to wide acclaim at the Consumer Electronics Show in Las Vegas in January 2018. We also unveiled our proprietary microparticle filtration solution, the XFiltr™, which radically reduces the micro-plastic pollution produced by the washing of synthetic garments. Our objective in doing so was to start meaningful discussions with major OEMs, which are now underway.

We also commenced implementation of our plan to move our Hotel & Lodging business to a low-cost model with the launch of the Symphony Project in April 2017. Symphony Project enables OEMs to integrate Xeros' technology into their own-branded products and to use their existing channels for its commercialisation. Subject to successful validation and testing we are targeting OEMs to begin this commercialisation in 2019.

At the end of the year, we had a total of 381 commissioned machines earning revenue, a growth of 80% during the year. Our learning and US market presence has been instrumental in creating demand for Xeros' benefits in multiple new geographies and has provided credibility for all the applications we are now looking to commercialise.

Following the contract signature with Wollsdorf Leder, our Tanning Technologies team have successfully delivered many scale trials with leading European tanneries. With the technology itself now proven, focus has been on completing the engineering solutions which customers need to incorporate the technology into their process. Our plan is to sign a number of multi-year contracts in 2018.

The development of Textile Technologies, which we started in mid-2016, is now delivering comparable water and chemistry savings to those achieved by our other applications. Following further scale trials, we are planning to engage with major garment manufacturers and targeting to sign development agreements by the end of the year.

We have a clear commercialisation strategy predicated on generating returns on our intellectual property. We only physically enter markets where it is imperative for us to prove out and de-risk our applications, ahead of licensing or selling our technology to others who are best placed to maximise their commercial potential.

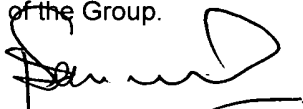
**XEROS TECHNOLOGY GROUP PLC**  
**CHAIRMAN'S STATEMENT - continued**

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Our strategy is dependent upon a robust intellectual property portfolio which at the end of March 2018 totaled 48 "pending" and "granted" patent families which represents an increase of 7 since the beginning of 2017.

In December, we raised £25m before fees to accelerate the commercialisation of our application portfolio and to achieve specific commercial milestones in each of our businesses, thereby giving a clear line of sight to monetisation of our intellectual property portfolio.

The Board and I view the Group as now being close to a number of major inflection points, each of which has the capacity to generate significant value for our investors, many of whom have been supportive since the inception of the Group in 2006. Their loyalty, combined with the continued commitment and dedication of our employees, has taken us to this point. I look forward to 2018 being a pivotal year in the development of the Group.



**John Samuel**  
Chairman

18 April 2018

## **Strategic Overview**

Xeros develops polymer based technologies which radically improve the sustainability, performance and economics of water intensive processes, dramatically reducing water, chemistry, energy and effluent whilst either meeting or exceeding the conventional quality standards for the materials being processed.

We have established that our technologies can deliver these benefits in three world-scale industries: cleaning, tanning and textiles. We are now progressively commercialising applications in these sectors to generate profitable returns, leveraging our intellectual property and know-how with low capital requirements.

Given the scale of the markets in which we operate, our strategy is to commercialise our technology with partners who already have strong international market positions and who also demonstrate a strategic intent to deliver increased levels of sustainability. The disruptive nature of our technology enables the creation of new high value-added business models and revenue streams. Where necessary, we enter markets ourselves to prove out our propositions so that our prospective partners benefit from materially lower risk profiles when they join us in the commercialisation process.

In order to accelerate the adoption of our technology, we have increased and aligned our resources to each of the application areas that we are pursuing with the vast majority being applied to those with nearer term profitability. Commercialisation is in progress in our Cleaning Technologies business with Hotel & Lodging and High Performance Workwear business units generating revenue of £2.0m and £0.2m respectively. We are targeting Tanning Technologies to deliver its first revenues in 2018 with Textile Technologies revenues in 2019, once scale trials have been completed.

Having proven the scale and the quantum of the economic improvements of many of our applications we are now organised to generate revenues where the time horizons for generating significant income from our investments are increasingly in the near term.

In December, we raised £25m before fees in an oversubscribed placing to accelerate the commercialisation of our application portfolio and to achieve specific commercial milestones in each of our businesses, thereby giving a clear line of sight to monetisation of our intellectual property portfolio. The Group expects to raise further funds in 2018 for the execution of specific commercialisation strategies.

## **Operating Review**

### **Cleaning Technologies**

#### High Performance Workwear

Having extensively trialed our technology in the high added value Personal Protective Equipment ("PPE") market during 2017, we entered this market with the acquisition of Marken PPE Restoration's operations in Nevada in July 2017. Turnover for the five months ended December 2017 totaled £0.2m. This was an initial step in our aim to create a nation-wide network which will enable us to serve the US firefighter market. We have since acquired our second and third sites in Atlanta and Miami through the acquisition of the trade and assets of Gloves Inc. in March 2018 and are targeting to open two more by the end of the current year. Our target is to have a total of five sites by the end of 2018 with full national coverage of the US achieved by the end of 2019.

The US firefighter PPE market is a specialist market for the cleaning, inspection and repair of uniforms and is valued at approximately \$330m p.a. With 1.1m firefighters in the US, there are 350,000 professional firefighters based in approximately 8,000 fire crews. Nearly 40% of these professional firefighters are based within 100 miles of one of the top 10 major US metropolitan areas. Each professional firefighter has, on average, 2 sets of bespoke turnout gear.

## **XEROS TECHNOLOGY GROUP PLC**

### **CHIEF EXECUTIVE OFFICER'S REVIEW - CONTINUED**

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Once our network in the US is completed, we believe we will create a valuable proprietary asset which can be leveraged to bring our technology to PPE markets on a global basis.

The PPE market spans many additional sub-segments including petrochemicals, mining, military and transportation, many of which are becoming increasingly aware of the adverse and potentially dangerous effects of incorrectly or insufficiently cleaned workwear. In the transportation sector, we increased the footprint of machines in France cleaning the PPE of SNCF's workers to six by the end of December 2017.

The ability of Xeros' technology to significantly outperform conventional cleaning technologies coupled with major cost savings from extending the life of expensive PPE garments, puts Xeros in a unique position to create high added value for our customers and our shareholders.

#### Domestic Laundry

During 2017, we developed a new solution called the XDrum™ to simply and inexpensively incorporate Xeros' cleaning technology inside a domestic washing machine. Similar to High Performance Workwear, we have demonstrated that Xeros' technology can improve cleaning results whilst simultaneously making garments look better for longer. In so doing, we have the capacity to provide consumers with washing outcomes which are better, cheaper and more environmentally friendly than conventional washing machine technology.

We unveiled the XDrum™ technology at the Consumer Electronics Show ("CES") in January 2018, following which we have entered into structured discussions with a number of major OEMs with the objective of licensing our technology.

In response to the increasing amounts of micro-plastic pollution from synthetic fibers in fabrics and garments that are released when they are washed, Xeros also unveiled its proprietary XFiltra™ technology at CES. The company expects regulatory authorities across the world to increasingly demand that OEMs place such filters in their washing machines to reduce the micro-plastic pollution.

Xeros' XFiltra™ is a novel, simple, low cost solution to meet this need. A licensing process similar to that of XDrum™ is being developed as a potential revenue stream.

The estimated global market size for domestic washing machines in 2015 was 119m units including 57m units sold in China.

#### Hotel & Lodging

We entered the US market in 2013 with our own brand machines and an "all requirements" multi-year contract package, which was sold and delivered by our own staff in combination with "Forward Channel Partners". In 2017, we initiated a plan to transition to a business model whereby major market incumbents incorporate and sell our proprietary technology in exchange for royalties.

To this end we announced Symphony Project in April 2017 and demonstrated a leading conventional branded commercial size washing machine with Xeros' technology inside at the Clean Show in Las Vegas in June. Following this demonstration, we are currently working with two major OEM's on the testing and validation of Xeros technology inside their own branded machines. The objective being to have these companies marketing, selling and servicing machines incorporating Xeros' technology through their own well-established channels.

Simultaneously, we have signed agreements with Forward Channel Partners in Australia, UAE and South Africa, who will market, sell and provide the full set of services for Xeros enabled machines. A number of additional opportunities in high water shortage/price countries are in the pipeline. We have adopted a similar approach in the US with a high focus on metropolitan areas with acute water shortages. This targeted approach to the US market will be with a reduced direct sales and service force and with focused Forward Channel Partners.

Having validated the value and benefits of our technology in the years since our market entry, the new model to which we are migrating will enable broader market penetration of our technology but with lower capital intensity for Xeros, both in operational and financial terms; the savings being redeployed to commercialise our other applications.

The Information Technology solutions required to implement the new commercialisation model met major milestones during the year, with the release of the XConnect™ online portal. The portal provides complete operational, financial and sustainability information with which to manage and optimise on-premise laundries.

As part of our strategy to commercialise our technologies in China, the Company joined the UK Department of International Trade's mission to exhibit the country's best advanced manufacturing and innovation companies at the International Industrial Fair in Shanghai in November 2017. Xeros was selected to participate alongside major UK brands and technologies including Jaguar Land Rover, Dyson, McLaren and The Graphene Institute. Xeros is now actively developing opportunities for the licensing of its Cleaning Technologies in China.

In October 2017, we started to implement the relocation of all our US operations (excluding High Performance Workwear) into a new facility in Providence, Rhode Island. It was commissioned in March 2018. The facility, which benefits from favourable tax incentives, will consolidate four office and warehouse locations and result in cost savings.

Additional measures taken to increase penetration of the market included commercialising, at scale, our 16kg commercial washing machine to supplement our 25kg version. The first trial units being delivered to US customers in late 2016, with 88 commissioned by the end of 2017.

Including both our 25kg and 16kg machine options, the total number of machines commissioned and generating revenue grew by 169 during the year commencing 1 January 2017 to a total of 381 at the end of December 2017.

Our plan in this application is for Xeros to make a financial return on its intellectual property and know-how with relatively low capital intensity. Our target is that by the end of 2020, a machine will be commissioned every working hour incorporating Xeros' technology with each providing a royalty to Xeros.

### **Tanning Technologies**

As of the end of March 2018, our tanning team have processed over 2,300 hides in trials in the Retanning and Dyeing phases of the tanning process with multiple tanneries. Production scale trials have proven that our technology works for all hide applications, including auto and shoe leather, and in the different drum types used in their production irrespective of their construction material.

As of the end of March 2018, we have designed the engineering solutions required to introduce our polymers into the tanning process, manage them during the cycle, and then remove them from hides before their re-use. These developments are a significant step forward for transitioning tanneries from trials to contract and implementation. Under proposed contracts, the cost of the equipment that Xeros would supply would be reimbursed, so making the business one of low capital intensity for the Group.

## **XEROS TECHNOLOGY GROUP PLC**

### **CHIEF EXECUTIVE OFFICER'S REVIEW - CONTINUED**

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Our business model for this industry is one of sharing gains with customers under long-term contracts. This has been validated by the contract signed with Wollsdorf Leder in July 2017 and in other on-going commercial negotiations. We await a start date for implementing our engineering solutions in Wollsdorf. Following customer acceptance of our engineering solutions, revenue will be generated.

We are currently focused on commercialising our technology in the Retanning and Dyeing stages which use large volumes of water to apply specialty chemicals. In due course, we will also move upstream to the Tanning stages of the process which typically uses proportionately more water to apply bulk chemicals.

We estimate that 300 million bovine hides are tanned per annum and we target to be applying our technology to up to 20 percent of this market by the end of 2022.

#### **Textile Technologies**

During 2017, we ratified our mid-2016 decision to include textiles applications within our commercialisation plans due to the scale of the global textiles industry and the very significant water and chemistry usage within the industry. We have now successfully demonstrated that Xeros' technology has the capacity to deliver water, chemistry, energy and effluent reductions which at least match performance outcomes in our other selected applications.

We are achieving these results in Denim Finishing and Garment Dyeing with reductions in chemical and water consumption of up to 70%, initially in lab scale trials but now also increasingly at larger scale. In the case of Denim Finishing, we have also achieved significant reductions in cycle time.

Our scale trials have been conducted in our Technology Centre using adapted commercial size washing machines which are equivalent to the engineered solutions used in the industry.

We have concurrently been working on filing IP on our inventions on these applications with 4 applications made across both areas. With this protection in place, we anticipate moving to scale trials and development agreements with major manufacturers in the near term.

Xeros' solutions in these applications offer manufacturers the resource and pollution reductions that consumers and governments are demanding. One example being the plan for "Zero Discharge of Hazardous Chemicals by 2020" which has 23 global clothing brands as signatories.

This is a sizable opportunity for Xeros, with 22.7 million tonnes of natural fibres processed annually for the clothing and textiles industries, a third of those in China.

#### **Polymer Technologies**

During 2017 we completed the polymer developments necessary to begin commercialisation of all our present applications in Cleaning, Tanning and Textiles. In Cleaning Technologies, we use the cleaning properties of nylon polymers which are supplied by our global partner, BASF, under a multi-year agreement through to 2021. Polypropylene, which is broadly available on a global basis, is used for all our Tanning and Textiles applications.

Our polymer science team continues to work on developing "Generation Three" polymers which use novel surface effects with the objective of delivering further major reductions in process inputs or improvements in our Cleaning Technologies. We are currently scaling these developments up at lab scale and in the event they are successful, we anticipate these improvements being introduced within a two year timeframe.

All our novel polymer and engineering developments are underpinned by Intellectual Property and in the 15 months to the end of March 2018 we increased our "pending" or "granted" patent families by seven to a total of 48. A number of these filings have the benefit of significantly extending the time horizon of the protection of our applications.

## **Outlook**

With the development of our Cleaning and Tanning Technologies materially completed during 2017, Xeros is now focused on their commercialisation. The proven sustainability, performance and economic benefits of our technologies have become increasingly understood and accepted by both consumers and those who serve them. They are attracting a number of major industry players to the table. We look forward to reaching formal agreements in the current year.

The results from our Textiles programme are as material to those in Cleaning and Tanning. They indicate that we have the capacity to substantially improve the long-term viability of another global industry, which is currently under extreme pressure to reduce its environmental impact. We anticipate demonstrating these technologies at scale with manufacturers in the current year.

All of the commercialisation models for our applications are IP-rich and capital-light with our physical participation in the supply chain only undertaken at an early stage, when there is a need to prove out and de-risk our technologies for current market incumbents.

In December 2017 we raised £25m, before fees, from both existing and new investors to fund the business through to the realisation of significant commercial milestones by the end of 2018. In each of our businesses we have a clear strategy to achieve commercial inflection points in 2018 which will allow future monetisation of these businesses. With development work materially completed in 2017 and the foundations for commercialisation put in place, Xeros' costs will remain fixed whilst revenues increase from licensing and other low capital intensity models.

Overall, the Group is trading in line with the Board's expectations.



**Mark Nichols**  
Chief Executive Officer

18 April 2018

**XEROS TECHNOLOGY GROUP PLC**  
**CHIEF FINANCIAL OFFICER'S REVIEW**

**Financial review**

Group earned income was generated as follows:

|                       | <b>Year<br/>ended<br/>31 December<br/>2017<br/>£'000</b> | <b>17-month<br/>period ended<br/>31 December<br/>2016<br/>£'000</b> |
|-----------------------|--|---|
| Machine sales         | 726  | 1,540   |
| Service income        | 1,451  | 837   |
| Consumables           | 13   | 16  |
| Lease interest income | 80   | 73  |
| Total earned income   | <b>2,270</b>   | <b>2,466</b>  |

Group earned income was £2,270,000 in the year ended 31 December 2017 (17-month 31 December 2016: £2,466,000).

On a normalised basis, average monthly earned income is 30% higher than the previous period (year ended 31 December 2017: £189,000 compared to 17-months to 31 December 2016: £145,000). Service income includes £249,000 from MarKen PPE since its acquisition in July 2017. This income reflects the unit-based pricing model in this business.

In the Hotel & Lodging business, the point at which revenue and costs from machine sales can be recognised is dependent on the completion of a number of stages. These include the installation of the machine, commissioning of the machine, acceptance of the machine by the customer, completion of utility incentive formalities, where applicable, and then, in the case of lease sales, finalisation of the lease agreement. The Group does not recognise revenue and costs from a machine sale until all of these aspects are complete.

The number of machines installed in the period are as follows:

|   | <b>Year<br/>ended<br/>31 December<br/>2017<br/>No.</b> | <b>17-month<br/>period ended<br/>31 December<br/>2016<br/>No.</b> |
|---|--|---|
| Machines sold – revenue and costs taken to P&L statement  | 26   | 76  |
| Machines commissioned and generating service revenue,<br>but machine sale revenues and costs not yet recognised | 143  | 64  |
| Total revenue generating machines   | <b>169</b>   | <b>140</b>  |
| Machines installed but not yet commissioned   | (104)  | 70  |
| Machines installed in the period  | <b>65</b>  | <b>210</b>  |

**XEROS TECHNOLOGY GROUP PLC**  
**CHIEF FINANCIAL OFFICER'S REVIEW - CONTINUED**

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During the period the Group has focused on increasing its commissioning capacity in the Hotel & Lodging business through the use of Forward Channel Partners and this has resulted in an increase of 143 machines commissioned in 2017 (17-month 31 December 2016: 64). At the start of the period the Group had 104 machines installed but not yet commissioned and, due to the focus on increasing commissioning capacity these machines were either commissioned or sold during the year. Therefore the number of machines installed but not yet commissioned at the end of the year was zero and the balance reduced by 104 during the year.

As at 31 December 2017 the total revenue generating estate increased by 169 machines (17-month 31 December: 140) to 381 machines. As there were 212 revenue generating machines at the start of the year this represents growth of 80% during the year.

As at 31 December 2017, contracted future revenues amount to £4.2m (31 December 2016: £3.8m) and average contract length is 24 months (31 December 2016: 59 months). As the Group's commercial activities have expanded this average contract period reflects normal trading terms.

Gross loss was £448,000 (17-month 31 December 2016: gross profit £290,000). Adjusted gross loss, defined as gross loss plus lease interest income, was £368,000 (17-month 31 December 2016: gross profit of £363,000). The gross loss figure includes a loss of £74,000 from the MarKen business since its acquisition in July 2017. The move to a gross loss in the period was a result of an increase in consumables costs (principally chemistry and machine spare parts) used to support a larger customer base.

Adjusted gross profit/loss and adjusted EBITDA are considered the key financial performance measures of the Group as they reflect the true nature of our continuing trading activities.

The Group has continued to invest in its R&D programme but, as the Group has now completed all fundamental development, the total R&D spend in the period has fallen in comparison with the prior period. The Group spent £5.1m on R&D including staff and patent costs (17-month 31 December 2016: £7.6m). This includes direct R&D expense of £1.8m (17-month 31 December 2016: £3.1m), patent and intellectual property expense of £1.2m (17-month 31 December 2016: £1.7m) and £2.0m of salary costs (17-month 31 December 2016: £2.8m). This R&D spend was all expensed during the period as it represents Group expenditure on Textiles, Domestic laundry development and Tanning engineering development, none of which yet meet the full criteria for capitalisation of these costs in accordance with IAS 38. When these business areas are deemed to have met the IAS 38 capitalisation criteria ongoing development costs will be capitalised.

Total administrative expenses (which include the R&D expenses) increased to £30.9m (17-month 31 December 2016: £22.6m). During the period the Group began the reallocation of expenses away from the US Hotel & Lodging business and towards the new areas of High Performance Workwear and Domestic Laundry. This was achieved through a reduction in direct headcount in the US and an increase in the use of Forward Channel Partners. This reallocation of expenses will continue in 2018.

Administrative expenses include a foreign exchange loss of £2.2m resulting from movements in the US dollar rate (17-month 31 December 2016: gain of £3.8m) and £0.4m of administrative expenses from MarKen since its acquisition in July 2017. After adjusting for MarKen and the impact of foreign exchange, underlying administrative expenses increased from £26.4m (17 months ending 31 December 2016) to £28.3m.

This has resulted in an Adjusted EBITDA loss of £28.7m (17-month 31 December 2016: loss £20.7m). Adjusted EBITDA is defined as the loss on ordinary activities before interest, tax, share-based payment expense, non-operating exceptional costs, depreciation and amortisation. Non-operating exceptional costs are the professional advisory costs related to the December 2017 fundraising.

Whilst Sterling is still weaker against the US\$ compared to the previous reporting period, which increases the reported losses in 2017, it has gradually strengthened against the US\$ during 2017. As we continue to fund the working capital and operating costs of the US Hotel & Lodging and MarKen businesses this stronger Sterling benefits the Group.

**XEROS TECHNOLOGY GROUP PLC**  
**CHIEF FINANCIAL OFFICER'S REVIEW - CONTINUED**

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The Group reported an operating loss of £31.3m (17-month 31 December 2016: loss £22.4m). The loss per share was 34.92p (17-month 31 December 2016: loss 25.04p).

The Group expects cash utilisation to remain at current levels over the coming years, as we continue to fund the current portfolio of businesses. The increase in net cash outflow from operations to £27.1m (17-month period ended 31 December 2016: £26.4m) reflects these activities and was in line with the Board's expectations.

The Group had existing cash resources as at 31 December 2017 of £25.1m (31 December 2016: £28.9m) and remains debt free. The Group expects to raise further funds from investors in 2018.

The Group has tax losses of approximately £72.5m to offset against future taxable profits (31 December 2016: £42.4m).



**Paul Denney**  
Chief Financial Officer

18 April 2018

## **XEROS TECHNOLOGY GROUP PLC**

### **STRATEGIC REPORT**

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#### **Principal activity**

Xeros Technology Group plc (LN: XSG) is a platform technology company that is reinventing water intensive industrial and commercial processes by reducing water and chemistry usage with its polymer technologies. Its patented technologies have the capacity to provide material economic, operational and sustainability improvements that are unattainable with traditional processes. The Group is currently exploiting its intellectual property in three areas: Cleaning Technologies, Tanning Technologies and Textile Technologies.

The Company is incorporated and domiciled in the UK.

#### **Business model**

A description of the Group's activities and how it seeks to add value are included in the Chairman's statement, Chief Executive Officer's review and Chief Financial Officer's Review on pages 1 to 10.

#### **Business review and results**

A review of the Group's performance and future prospects is included in the Chairman's statement, Chief Executive Officer's review and Chief Financial Officer's review on pages 1 to 10. The loss for the year attributable to equity holders was £30,611,000 (17-month period ended 31 December 2016: £20,239,000). The directors do not recommend the payment of a dividend (2016: 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 £25,149,000 (31 December 2016: £28,934,000). The Board performs regular 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 also monitored on a regular 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 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 Group's unpatented proprietary technology or disclose such technology or that the Group 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 Group 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.

***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 Group 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 Group 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. 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.

***Brexit***

The Board expects future revenues from the commercialisation of its technology in the EU to effectively be in the form of royalties on its intellectual property. The international patent laws that apply to the protection of intellectual property are not affected by the status of the UK's membership of the EU and therefore the Board do not view Brexit as posing a material risk to the Group's future revenues.

***Foreign exchange risk***

Given the international nature of its business, the Group is exposed to foreign exchange risk arising from the normal conduct of its activities. The Board regularly reviews this foreign exchange risk and all forward currency purchases of foreign currency are reviewed and approved within the framework of an agreed risk policy.

***Future developments***

Future developments are described in the Chairman's statement, Chief Executive Officer's review and Chief Financial Officer's review on pages 1 to 10.

On behalf of the Board



Mark Nichols  
Chief Executive Officer  
18 April 2018

## **XEROS TECHNOLOGY GROUP PLC**

### **DIRECTORS' REPORT**

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The Directors hereby present their annual report and audited consolidated and parent company financial statements for the year ended 31 December 2017.

#### **Share capital and funding**

Full details of the Group and Company's share capital movements during the year are given in note 20 of the financial statements.

#### **Directors and their interests**

The following directors held office during the period and up to the date of signing this report:

John Samuel  
Mark Nichols  
Paul Denney  
Julian Viggars  
Dr Richard Ellis  
Stephen Taylor                      appointed 13 February 2017

Directors' interests in the shares of the Company, including family interests are included in the Directors' Remuneration Report on pages 17 to 19.

#### **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 current 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 and Vernacare Group Limited.

##### **Mark Nichols, Chief Executive Officer**

Mark joined Xeros as Chief Executive Officer in September 2015. Mark's background is in business development, finance and operations with Global enterprises including Total, Laing O'Rourke and BOC. During his career he has lived and worked in the US, Asia and Europe. Prior to joining Xeros, Mark led a number of technology start-ups in the cleantech arena.

##### **Paul Denney, Chief Financial Officer and Company Secretary**

Paul joined Xeros as Chief Financial Officer in October 2016. He established his career in financial management with US-based IT outsourcing business, Electronic Data Systems Inc. (now part of Hewlett Packard), working in the UK, Spain and Latin America. His two most significant recent roles were within high growth environments at Experian plc and at Callcredit Information Group. Paul is a qualified accountant and has an MBA from the London Business School.

##### **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 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.

## **XEROS TECHNOLOGY GROUP PLC**

### **DIRECTORS' REPORT - CONTINUED**

#### **Richard Ellis, Non-Executive Director**

Richard joined the board in October 2014. Richard was the global head of Research and Development for Reckitt Benckiser and prior to that held positions with Unilever. He has experience of both the consumer and industrial cleaning markets and has worked in the UK, Netherlands, USA and Australia. He has a BSc and PhD in Chemistry from the University of Manchester.

#### **Stephen Taylor, Non-Executive Director**

Stephen joined the board in February 2017. He is currently the Chief Marketing Officer for PayPal Europe and has over 20 years of experience working in brand development and marketing in the FMCG sector. He was previously the Chief Marketing Officer, Europe for Samsung Electronic Appliances. Prior to this he held a number of commercial and business development roles within Procter & Gamble and Findus.

#### **Substantial shareholders**

As at 29 March 2018, shareholders holding more than 3% of the share capital of Xeros Technology Group plc were:

| <b>Name of shareholder</b>         | <b>Number of shares</b> | <b>% of voting rights</b> |
|------------------------------------|-------------------------|---------------------------|
| Woodford Investment Management LLP | 25,085,961              | 25.3                      |
| Invesco Asset Management Limited   | 23,583,013              | 23.8                      |
| IP Group plc*                      | 16,864,042              | 17.0                      |
| Entrepreneurs Fund LP              | 7,255,774               | 7.3                       |
| Baillie Gifford & Co               | 4,680,870               | 4.7                       |

\*Held through IP2IPO Limited, IP Assist Services Limited (formerly Techtran Group Limited), IP Venture Fund and Parkwalk Advisors Funds

#### **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, that there is no relevant audit information of which the auditor is unaware. Each of the Directors have 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.

**XEROS TECHNOLOGY GROUP PLC**  
**DIRECTORS' REPORT - CONTINUED**

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**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



Mark Nichols  
Chief Executive Officer  
18 April 2018

Unit 2, Evolution  
Advanced Manufacturing Park  
Whittle Way, Catcliffe  
Rotherham  
S60 5BL

## **XEROS TECHNOLOGY GROUP PLC**

### **DIRECTORS' REMUNERATION REPORT**

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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 months' 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 consists of John Samuel as Chairman, Julian Viggars, Richard Ellis and Stephen Taylor.

The Remuneration Committee will review and make recommendations in respect of the Directors' remuneration and benefits packages, including share options, and the terms of their appointment. The remuneration committee will also make recommendations to the Board concerning the allocation of share options to employees under the share incentive schemes. The Remuneration Committee will meet at least once a 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.

The Group has 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 3 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 Plan took place early in 2015 following confirmation of bonuses for the calendar year 2014 and further awards were made in early 2016 following confirmation of bonuses for the calendar year 2015 and in early 2017 following confirmation of bonuses for the calendar year 2016.

**XEROS TECHNOLOGY GROUP PLC**  
**DIRECTORS' REMUNERATION REPORT - CONTINUED**

**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 305.00 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.

**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 1 January 2017 (or date of appointment if later) to 31 December 2017 (or date of resignation if earlier) was:

|                                     | Salary<br>and<br>fees<br>£000 | Bonus<br>Payments<br>£000 | Benefits<br>£000 | Total<br>Year<br>ended<br>31 December<br>2017<br>£000 | Total<br>17 months<br>ended<br>31 December<br>2016<br>£000 |
|-------------------------------------|-------------------------------|---------------------------|------------------|---|--|
| John Samuel                         | 62                            | -                         | -                | 62  | 87   |
| Mark Nichols (notes 1 and 8)        | 231                           | 100                       | 3                | 334   | 457  |
| Paul Denney (notes 2 and 8)         | 159                           | 100                       | 2                | 261   | 56   |
| Dr Steve Jenkins (notes 3<br>and 8) | -                             | -                         | -                | -   | 100  |
| Julian Viggars                      | 30                            | -                         | -                | 30  | 28   |
| Dr Maciek Drozd (note 4)            | -                             | -                         | -                | -   | 4  |
| Dr Richard Ellis                    | 30                            | -                         | -                | 30  | 35   |
| Chris Hanson (notes 5 and 8)        | -                             | -                         | -                | -   | 307  |
| Bill Westwater (note 6)             | -                             | -                         | -                | -   | 135  |
| Stephen Taylor (note 7)             | 26                            | -                         | -                | 26  | -  |
| <b>Total</b>                        | <b>538</b>                    | <b>200</b>                | <b>5</b>         | <b>743</b>  | <b>1,209</b>   |

Note 1: Mark Nichols was appointed as a director on 14 September 2015.

Note 2: Paul Denney was appointed as a director on 3 October 2016.

Note 3: Dr Steve Jenkins resigned as a director on 26 January 2016. His remuneration was paid through the Company's subsidiary, Xeros Limited.

Note 4: Dr Maciek Drozd resigned as a director on 11 January 2016.

Note 5: Chris Hanson resigned as a director on 3 October 2016.

Note 6: Bill Westwater resigned as a director on 15 September 2015. His remuneration was paid through the Company's subsidiary, Xeros Limited.

Note 7: Stephen Taylor was appointed as a director on 13 February 2017.

Note 8: In addition to the remuneration above, 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: Mark Nichols £397,286 (2016: £715,519), Paul Denney £214,426 (2016: £nil), Chris Hanson £nil (2016: £55,163), Dr Steve Jenkins £nil (2016: £1,499)

**XEROS TECHNOLOGY GROUP PLC**  
**DIRECTORS' REMUNERATION REPORT - CONTINUED**

**Directors' shareholdings**

The interests of the Directors holding office at 31 December 2017 in the shares of the Company, including family interests were:

|                  | Ordinary shares of 0.15p each |           |
|------------------|-------------------------------|-----------|
|                  | 2017<br>Number                | 2017<br>% |
| John Samuel      | 1,477,188                     | 1.5       |
| Mark Nichols     | -                             | -         |
| Paul Denney      | -                             | -         |
| Julian Viggars   | -                             | -         |
| Stephen Taylor   | -                             | -         |
| Dr Richard Ellis | -                             | -         |

**Directors' interests in share options**

Directors' interests in share options, for directors who held office at any point during the period, 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 December 2017 were:

|                       | At 1<br>January<br>2017 | Granted<br>during the<br>period | Exercised<br>during<br>the period | Forfeited/<br>lapsed during<br>the period | At 31<br>December<br>2017 | Exercise price |
|-----------------------|-------------------------|---------------------------------|-----------------------------------|---|---------------------------|----------------|
| John Samuel (note 1)  | 81,300                  | -                               | -                                 | -   | 81,300                    | 0.15 pence     |
| Mark Nichols (note 2) | 1,250,000               | -                               | -                                 | -   | 1,250,000                 | 225.0 pence    |
| Mark Nichols (note 3) | 34,188                  | 14,283                          | -                                 | -   | 48,471                    | 0.15 pence     |
| Mark Nichols (note 4) | -                       | 250,000                         | -                                 | -   | 250,000                   | 210.0 pence    |
| Paul Denney (note 4)  | -                       | 500,000                         | -                                 | -   | 500,000                   | 210.0 pence    |

*Note 1: There were employment period and performance conditions in relation to the 81,300 options granted on 25 March 2014 which allowed for vesting in three equal proportions on or after 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 2015 the performance conditions had been met.*

*Note 2: There were employment conditions in relation to 1,000,000 options granted on 12 November 2015 which allowed for vesting in 3 annual instalments between 14 September 2016 and 14 September 2018, and a further 250,000 options granted on 16 December 2015 which allowed for vesting in 3 annual instalments between 16 December 2016 and 16 December 2018.*

*Note 3: There were employment conditions in relation to 34,188 options granted on 20 January 2016 which allowed for vesting on 20 January 2019 and a further 14,283 options granted on 27 January 2017 which allowed for vesting on 27 January 2020.*

*Note 4. There were employment conditions in relation to 750,000 options granted on 25 January 2017 which allowed for vesting in 3 annual instalments between 25 January 2018 and 25 January 2020.*

On behalf of the Board

John Samuel  
Chairman of the Remuneration Committee  
18 April 2018

## **XEROS TECHNOLOGY GROUP PLC**

### **CORPORATE GOVERNANCE REPORT**

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#### **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 two Executive Directors and four Non-Executive Directors.

#### **Audit Committee**

The Audit Committee consists of Julian Viggars as Chairman and John Samuel. The Audit Committee will, inter alia, determine and examine matters relating to the financial affairs of the Company including the terms of engagement of the Company's auditor and, in consultation with the auditor, the scope of the audit. It will receive and review reports from management and the Company's auditor relating to the annual accounts and the accounting and the internal control systems in use throughout the Group. The Audit Committee will meet at least twice a year.

#### **Nominations Committee**

The Nominations Committee consists of John Samuel as Chairman, Julian Viggars and Richard Ellis. The Nominations Committee will monitor the size and composition of the Board and the other Board Committees, be responsible for identifying suitable candidates for board membership and monitor the performance and suitability of the current Board on an ongoing basis. The Nominations Committee will meet at least once a year.

#### **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 seven 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 December 2017, the Group had £25.1m of cash and cash equivalents. At this stage in its development the Group is reliant on equity share funding. When making their going concern assessment the directors assess available and committed funds against all non-discretionary expenditure, and related cash flows, as forecast for the period ended 30 April 2019. These forecasts indicate that the Group is able to settle its liabilities as they fall due in the forecast period. In these forecasts the directors have considered appropriate sensitivities such as the level of discretionary expenditure included and the ability to raise additional funds during 2018. Accordingly, the directors consider that this should enable the Group to continue in operational existence for the foreseeable future and the Directors believe that it remains appropriate to prepare the financial statements on a going concern basis.

Note 17 to this financial information includes the Group's objectives, policies and processes for managing its capital, its financial risk management objectives, details of its financial instruments and its exposure to credit, liquidity and market risk. 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.

**XEROS TECHNOLOGY GROUP PLC**  
**STATEMENT OF DIRECTORS' RESPONSIBILITIES**

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

The Directors are responsible for preparing the Annual Report and the Group and parent Company 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, relevant and reliable;
- c. state whether they have been prepared in accordance with IFRS as adopted by the EU;
- d. assess the Group and parent Company's ability to continue as a going concern, disclosing as applicable, matters relating to going concern; and
- e. use the going concern basis of accounting unless they either intend to liquidate the Group or the parent Company, or to cease operations, or have no realistic alternative but to do so.

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 are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and 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.

Under applicable law and regulations, the Directors are also responsible for preparing a Strategic Report and a Directors' Report that complies with that law and those regulations.

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.

## **XEROS TECHNOLOGY GROUP PLC**

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

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#### **1. Our opinion is unmodified**

We have audited the financial statements of Xeros Technology Group Plc ("the Company") for the year ended 31 December 2017 which comprise the consolidated statement of profit and loss and other comprehensive income, consolidated statement of changes in equity, consolidated statement of financial position, consolidated statement of cash flows, company statement of changes in equity, company statement of financial position, company statement of cash flows and the related notes, including the accounting policies in note 2.

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent Company's affairs as at 31 December 2017 and of the Group's loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU);
- the parent Company 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.

#### ***Basis for opinion***

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the Group in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to listed entities. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

#### **2. Key audit matters: our assessment of risks of material misstatement**

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In arriving at our audit opinion above, the key audit matters, in decreasing order of audit significance, were as follows (unchanged from 2016):

##### **Completeness of capitalised development costs (Group: capitalised development costs at 31 December 2017 £nil (2016: £nil))**

##### ***Risk vs 2016: ◀▶***

Refer to pages 32 and 36.

- **The risk**

**Accounting treatment** –The Group is developing its own technologies and products across various markets and sectors, with each project being at various stages of development. The technologies in these developments are inherently disruptive, therefore technical feasibility can take significant investment and the commercial success of each project can be subjective. Commercial subjectivity is largely driven by the fact the Group's products have no proven market or track record of commercial success. Assessing whether the capitalisation criteria are met is inherently judgmental and there is a risk that the appropriate point in time for capitalisation is not identified appropriately and therefore costs continue to be expensed when they should be capitalised.

- **Our response**

Our procedures included:

- **Assessing application** – Specific focus was given to the status of the significant development projects currently ongoing and to which the majority of research and development spend relates. We critically assessed the Group's evaluation of the technical and commercial status of each of these projects and the conclusion against the criteria for capitalisation, including inspecting project status announcements. This included in particular for Tanning Technologies, consideration of the contract now in place with a key partner and how this impacted achievement of the criteria.
- **Personnel interviews** – We corroborated the status of the projects by interviewing technical staff outside of the finance function.

**Recoverability of carrying value of investment in subsidiary (Parent Company only, investment carrying value at 31 December 2017 £9.1m (2016: £7.9m), inter-company receivable carrying value at 31 December 2017 £63.6m (2016: £60.5m)**

**Risk vs 2016:** ◀▶

Refer to pages 63, 64 and 65.

- **The risk**

**Forecast-based valuation** – The parent company balance sheet includes an investment in a trading subsidiary of £9.1m (2016: £7.9m) and a receivable from that subsidiary of £63.6m (2016: £60.5m). The subsidiary is currently loss making given the nature of its development stage activities and therefore the company's assessment of potential impairment is inherently subjective. Given the nature of the business, the group assesses recoverability with reference to their expectations of the projects and external valuations.

- **Our response**

Our procedures included:

- **Our sector experience** – We considered the current stage of the various projects currently in development in the subsidiary and in particular how these have enabled the Group to raise further equity linked to announcements of development progress.
- **Comparing valuations** – We considered the carrying value of investment and inter-company receivable with reference to the net assets of the subsidiary. We also considered the carrying values of each underlying business segment in the subsidiaries with reference to analyst reports.
- **Assessing analyst credentials** – We evaluated the third-party analyst's credentials and independence.

### **3. Our application of materiality and an overview of the scope of our audit**

The materiality for the Group financial statements as a whole was set at £1,111,000 (2016: £750,000), determined with reference to a benchmark of Group loss before taxation, of which it represents 3.5% (2016: 3.5%).

Materiality for the Parent Company financial statements as a whole was set at £889,000 (2016: £740,000) determined with reference to a benchmark of gross assets, of which it represents 0.8% (2016: 1%).

We agreed to report to the Audit Committee any corrected and uncorrected identified misstatements exceeding £56,000 (2016: £37,500) in addition to other identified misstatements that warranted reporting on qualitative grounds.

## **XEROS TECHNOLOGY GROUP PLC**

### **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF XEROS TECHNOLOGY GROUP PLC- CONTINUED**

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Of the Group's 4 (2016:3) reporting components, we subjected 4 (2016:3) to full scope audits for Group reporting purposes. These components accounted for 100% of: total Group revenue, Group loss before taxation and total Group assets.

All component audits (2016: all), including that of the parent company, were performed by the Group team.

Component materiality levels were set individually for each component having regard to the mix of size and risk profile of the Group across the components, and ranged from £889,000 to £659,000 (2016: £740,000 to £355,000).

#### **4. We have nothing to report on going concern**

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least twelve months from the date of approval of the financial statements. We have nothing to report in these respects.

#### **5. We have nothing to report on the other information in the Annual Report**

The directors are responsible for the other information presented in the Annual Report together with the financial statements. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work we have not identified material misstatements in the other information.

#### ***Strategic report and directors' report***

Based solely on our work on the other information:

- we have not identified material misstatements in the strategic report and the directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

#### **6. We have nothing to report on the other matters on which we are required to report by exception**

Under the Companies Act 2006, we are required 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.

We have nothing to report in these respects.

**7. Respective responsibilities**

***Directors' responsibilities***

As explained more fully in their statement set out on page [A], the directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Group and parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Group or the parent Company or to cease operations, or have no realistic alternative but to do so.

***Auditor's responsibilities***

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

A fuller description of our responsibilities is provided on the FRC's website at [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities).

**8. The purpose of our audit work and to whom we owe our responsibilities**

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.



**Claire Needham (Senior Statutory Auditor)**  
**For and on behalf of KPMG LLP, Statutory Auditor**  
*Chartered Accountants*  
1 Sovereign Square  
Sovereign Street  
Leeds  
LS1 4DA

18 April 2018

**XEROS TECHNOLOGY GROUP PLC**
**CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME  
FOR THE YEAR ENDED 31 DECEMBER 2017**

|   |              | <b>Year<br/>ended<br/>31 December<br/>2017<br/>£000</b> | <b>17 months<br/>ended<br/>31 December<br/>2016<br/>£000</b> |
|---|--------------|---|--|
|   | <b>Notes</b> |   |  |
| Earned income   |              | <b>2,270</b>  | 2,466  |
| Less: lease interest income                                     | 7            | <b>(80)</b>   | (73)   |
| <b>REVENUE</b>  | 3            | <b>2,190</b>  | 2,393  |
| Cost of sales   |              | <b>(2,638)</b>  | (2,103)  |
| <b>GROSS (LOSS)/PROFIT</b>                                      |              | <b>(448)</b>  | 290  |
| <b>Lease interest income</b>                                    | 7            | <b>80</b>   | 73   |
| <b>Adjusted gross margin*</b>                                   |              | <b>(368)</b>  | 363  |
| Administrative expenses   | 6            | <b>(30,894)</b>   | (22,640)   |
| <b>Adjusted EBITDA*</b>   |              | <b>(28,669)</b>   | (20,659)   |
| Share based payment expense                                     | 23           | <b>(1,865)</b>  | (1,232)  |
| Non-operating exceptional costs                                 | 6            | <b>(195)</b>  | (87)   |
| Amortisation of intangible fixed assets                         | 10           | <b>(39)</b>   | -  |
| Depreciation of tangible fixed assets                           | 11           | <b>(574)</b>  | (372)  |
| <b>OPERATING LOSS</b>   |              | <b>(31,342)</b>   | (22,350)   |
| Net finance (expense)/income                                    | 7            | <b>(574)</b>  | 1,225  |
| <b>LOSS BEFORE TAXATION</b>                                     |              | <b>(31,916)</b>   | (21,125)   |
| Taxation  | 8            | <b>1,305</b>  | 886  |
| <b>LOSS AFTER TAX</b>   |              | <b>(30,611)</b>   | (20,239)   |
| <b>OTHER COMPREHENSIVE INCOME/(EXPENSE):</b>                    |              |   |  |
| <b>Items that are or may be reclassified to profit or loss:</b> |              |   |  |
| Foreign currency translation differences – foreign operations   |              | <b>1,727</b>  | (1,720)  |
| <b>TOTAL COMPREHENSIVE EXPENSE FOR THE PERIOD</b>               |              | <b>(28,884)</b>   | (21,959)   |
| <b>LOSS PER SHARE</b>   |              |   |  |
| <b>Basic and diluted on loss from continuing operations</b>     | 9            | <b>(34.92)p</b>   | (25.04)p   |

\* Adjusted gross margin comprises gross profit plus lease interest income

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

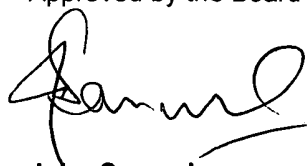
**XEROS TECHNOLOGY GROUP PLC**  
**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**  
**FOR THE YEAR ENDED 31 DECEMBER 2017**

|  | Share<br>capital<br>£000 | Share<br>premium<br>£000 | Merger<br>reserve<br>£000 | Foreign<br>currency<br>translation<br>reserve<br>£000 | Retained<br>earnings<br>deficit<br>£000 | Total<br>£000 |
|--|--------------------------|--------------------------|---------------------------|---|---|---------------|
| <b>At 31 July 2015</b>                                 | 98                       | 28,178                   | 15,443                    | (22)  | (22,426)                                | 21,271        |
| Loss for the period                                    | -                        | -                        | -                         | -   | (20,239)                                | (20,239)      |
| Other comprehensive expense                            | -                        | -                        | -                         | (1,720)   | -                                       | (1,720)       |
| Loss and total comprehensive expense for the period    | -                        | -                        | -                         | (1,720)   | (20,239)                                | (21,959)      |
| Transactions with owners, recorded directly in equity: |                          |                          |                           |   |   |               |
| Issue of shares  | 27                       | 39,973                   | -                         | -   | -                                       | 40,000        |
| Exercise of share options                              | 4                        | 281                      | -                         | -   | -                                       | 285           |
| Costs of share issues                                  | -                        | (2,152)                  | -                         | -   | -                                       | (2,152)       |
| Share based payment expense                            | -                        | -                        | -                         | -   | 1,232                                   | 1,232         |
| Total contributions by and distributions to owners     | 31                       | 38,102                   | -                         | -   | 1,232                                   | 39,365        |
| <b>At 31 December 2016</b>                             | <b>129</b>               | <b>66,280</b>            | <b>15,443</b>             | <b>(1,742)</b>  | <b>(41,433)</b>                         | <b>38,677</b> |
| Loss for the year                                      | -                        | -                        | -                         | -   | (30,611)                                | (30,611)      |
| Other comprehensive expense                            | -                        | -                        | -                         | 1,727   | -                                       | 1,727         |
| Loss and total comprehensive expense for the year      | -                        | -                        | -                         | 1,727   | (30,611)                                | (28,884)      |
| Transactions with owners, recorded directly in equity: |                          |                          |                           |   |   |               |
| Issue of shares following placing                      | 17                       | 24,983                   | -                         | -   | -                                       | 25,000        |
| Exercise of share options                              | 3                        | 493                      | -                         | -   | -                                       | 496           |
| Costs of share issues                                  | -                        | (1,374)                  | -                         | -   | -                                       | (1,374)       |
| Share based payment expense                            | -                        | -                        | -                         | -   | 1,865                                   | 1,865         |
| Total contributions by and distributions to owners     | 20                       | 24,102                   | -                         | -   | 1,865                                   | 25,987        |
| <b>At 31 December 2017</b>                             | <b>149</b>               | <b>90,382</b>            | <b>15,443</b>             | <b>(15)</b>   | <b>(70,179)</b>                         | <b>35,780</b> |

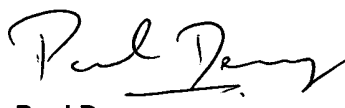
**XEROS TECHNOLOGY GROUP PLC**  
**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
**FOR THE YEAR ENDED 31 DECEMBER 2017**

|                                      |       | At<br>31 December<br>2017<br>£000 | At<br>31 December<br>2016<br>£000 |
|--------------------------------------|-------|-----------------------------------|-----------------------------------|
|                                      | Notes |                                   |                                   |
| <b>ASSETS</b>                        |       |                                   |                                   |
| <b>Non-current assets</b>            |       |                                   |                                   |
| Intangible assets                    | 10    | 654                               | -                                 |
| Property, plant and equipment        | 11    | 3,516                             | 1,588                             |
| Trade and other receivables          | 14    | 1,104                             | 1,656                             |
| <b>TOTAL NON-CURRENT ASSETS</b>      |       | <b>5,274</b>                      | <b>3,244</b>                      |
| <b>Current assets</b>                |       |                                   |                                   |
| Inventories                          | 12    | 6,392                             | 7,005                             |
| Other financial assets               | 13    | -                                 | 705                               |
| Trade and other receivables          | 14    | 2,235                             | 1,830                             |
| Current tax asset                    | 8     | 1,306                             | -                                 |
| Investments – bank deposits          | 15    | -                                 | 9,959                             |
| Cash and cash equivalents            | 16    | 25,149                            | 18,975                            |
| <b>TOTAL CURRENT ASSETS</b>          |       | <b>35,082</b>                     | <b>38,474</b>                     |
| <b>TOTAL ASSETS</b>                  |       | <b>40,356</b>                     | <b>41,718</b>                     |
| <b>LIABILITIES</b>                   |       |                                   |                                   |
| <b>Non-current liabilities</b>       |       |                                   |                                   |
| Deferred consideration               | 18    | (185)                             | -                                 |
| Deferred tax                         | 19    | (38)                              | (39)                              |
| <b>TOTAL NON-CURRENT LIABILITIES</b> |       | <b>(223)</b>                      | <b>(39)</b>                       |
| <b>Current liabilities</b>           |       |                                   |                                   |
| Trade and other payables             | 18    | (4,353)                           | (3,002)                           |
| <b>TOTAL CURRENT LIABILITIES</b>     |       | <b>(4,353)</b>                    | <b>(3,002)</b>                    |
| <b>TOTAL LIABILITIES</b>             |       | <b>(4,576)</b>                    | <b>(3,041)</b>                    |
| <b>NET ASSETS</b>                    |       | <b>35,780</b>                     | <b>38,677</b>                     |
| <b>EQUITY</b>                        |       |                                   |                                   |
| Share capital                        | 20    | 149                               | 129                               |
| Share premium                        | 20    | 90,382                            | 66,280                            |
| Merger reserve                       | 20    | 15,443                            | 15,443                            |
| Foreign currency translation reserve | 21    | (15)                              | (1,742)                           |
| Accumulated losses                   | 21    | (70,179)                          | (41,433)                          |
| <b>TOTAL EQUITY</b>                  |       | <b>35,780</b>                     | <b>38,677</b>                     |

Approved by the Board of Directors and authorised for issue on 18 April 2018.



**John Samuel**  
Chairman



**Paul Denney**  
Chief Financial Officer

Company number: 08684474

**XEROS TECHNOLOGY GROUP PLC**  
**CONSOLIDATED STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED 31 DECEMBER 2017**

|   |              | <b>Year<br/>ended<br/>31 December<br/>2017<br/>£000</b> | <b>17 months<br/>ended<br/>31 December<br/>2016<br/>£000</b> |
|---|--------------|---|--|
|   | <b>Notes</b> |   |  |
| <b>Operating activities</b>   |              |   |  |
| Loss before tax   |              | <b>(31,916)</b>   | <b>(21,125)</b>  |
| Adjustment for non-cash items:  |              |   |  |
| Amortisation of intangible assets   | 10           | <b>39</b>   | <b>-</b>   |
| Depreciation of property, plant and equipment                             |              | <b>574</b>  | <b>372</b>   |
| Share based payment   | 23           | <b>1,865</b>  | <b>1,232</b>   |
| Increase in inventories   |              | <b>(2,218)</b>  | <b>(3,957)</b>   |
| Increase in trade and other receivables                                   |              | <b>(26)</b>   | <b>(2,424)</b>   |
| Increase/(decrease) in trade and other payables                           |              | <b>3,983</b>  | <b>(663)</b>   |
| Finance income  |              | <b>(131)</b>  | <b>(1,225)</b>   |
| Finance expense   |              | <b>705</b>  | <b>-</b>   |
| <b>Cash used in operations</b>  |              | <b>(27,125)</b>   | <b>(27,790)</b>  |
| Tax (payments)/receipts   |              | <b>(2)</b>  | <b>1,380</b>   |
| <b>Net cash outflow from operations</b>                                   |              | <b>(27,127)</b>   | <b>(26,410)</b>  |
| <b>INVESTING ACTIVITIES</b>   |              |   |  |
| Finance income  |              | <b>131</b>  | <b>520</b>   |
| Acquisition of subsidiary undertaking                                     | 25           | <b>(577)</b>  | <b>-</b>   |
| Cash withdrawn from/(placed on) deposits with more than 3 months maturity |              | <b>9,959</b>  | <b>(8,420)</b>   |
| Purchases of property, plant and equipment                                |              | <b>(271)</b>  | <b>(811)</b>   |
| <b>Net cash inflow/(outflow) from investing activities</b>                |              | <b>9,242</b>  | <b>(8,711)</b>   |
| <b>FINANCING ACTIVITIES</b>   |              |   |  |
| Proceeds from issue of share capital, net of costs                        | 20           | <b>24,122</b>   | <b>38,133</b>  |
| <b>Net cash inflow from financing activities</b>                          |              | <b>24,122</b>   | <b>38,133</b>  |
| Increase in cash and cash equivalents                                     |              | <b>6,237</b>  | <b>3,012</b>   |
| Cash and cash equivalents at start of year/period                         |              | <b>18,975</b>   | <b>15,913</b>  |
| Effect of exchange rate fluctuations on cash held                         |              | <b>(63)</b>   | <b>50</b>  |
| <b>CASH AND CASH EQUIVALENTS AT END OF YEAR/PERIOD</b>                    | <b>16</b>    | <b>25,149</b>   | <b>18,975</b>  |

**XEROS TECHNOLOGY GROUP PLC**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2017**

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**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 ended 31 December 2017. These include comparatives for the 17-month period to 31 December 2016. The level of rounding for financial information is the nearest thousand pounds.

The Company's registered office is Unit 2, Evolution, Advanced Manufacturing Park, Whittle Way, Catcliffe, Rotherham, S60 5BL.

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).

**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.

**Going Concern**

At 31 December 2017, the Group had £25.1m of cash and cash equivalents. At this stage in its development the Group is loss making and incurs operating cash outflows. It is therefore reliant on equity share funding to continue its development operations and will require a further capital injection to meet forecast spend (both discretionary and non discretionary) over the next 12 months to April 2019. As with all such businesses, the group is reliant on cyclical equity funding while developing technologies, with a long term view to commercialising those technologies to enable them to provide a return to the shareholders. Whilst there is no guarantee that further equity funding will be made available, the directors believe that given past history of successful share placings, and the consistent development progress across the project portfolio, the required cash can be raised in line with the above.

When making their going concern assessment the directors assess available and committed funds against all non-discretionary expenditure, and related cash flows, as forecast for the period ended 30 April 2019. These forecasts indicate that the Group is able to settle its liabilities as they fall due in the forecast period. In these forecasts the directors have considered appropriate sensitivities such as the level of discretionary expenditure included and the ability to raise additional funds as described above. Accordingly, the directors consider that this should enable the Group to continue in operational existence for the foreseeable future and the Directors believe that it remains appropriate to prepare the financial statements on a going concern basis.

**XEROS TECHNOLOGY GROUP PLC**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2017**

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Note 17 to this financial information includes the Group's objectives, policies and processes for managing its capital, its financial risk management objectives, details of its financial instruments and its exposure to credit, liquidity and market risk. 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.

**2) SIGNIFICANT ACCOUNTING POLICIES**

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. Within the Hotel & Lodging segment, where products are sold outright, product sales revenues are recognised once substantially all the risks and rewards of ownership have been transferred. 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. Where equipment is sold under a finance lease agreement revenue is recognised in accordance with the stated lessor accounting policy. Amounts received in respect of operating leases are recognised in the income statement with reference to the period of rental.

Within the High Performance Workwear segment, revenues are recognised once the service contracted with the customer is completed.

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 in 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 stated 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 operations 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.

**XEROS TECHNOLOGY GROUP PLC**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2017**

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**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 allocated to 'cost of sales' and 'administrative expenses' in the Consolidated statement of profit or loss and other comprehensive income to match it against the underlying expenditure incurred.

**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:

- it is probable that the future economic benefits that are attributable to the asset will flow to the Group;
- the project is technically and commercially feasible;
- the Group intends to and has sufficient resources to complete the project;
- the Group has the ability to use or sell the asset; and
- the cost of the asset can be measured reliably.

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 as it is deemed that the probability of future economic benefit is currently uncertain.

**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.

**XEROS TECHNOLOGY GROUP PLC**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2017**

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*As a lessor*

As the Group 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. Assets held for rentals to customers under operating leases are recorded as fixed assets and are depreciated on a straight-line basis to their estimated residual values over their estimated useful lives. Operating lease income is recognised within revenue on a straight-line basis over the term of the rental period.

**INTANGIBLE ASSETS AND GOODWILL**

***Recognition and measurement***

Goodwill - Goodwill arising on the acquisition of subsidiaries is measured at cost less accumulated impairment losses.

Other intangible assets – Other intangible assets, including customer relationships and brands, that are acquired by the Group and have finite useful lives are measured at cost less accumulated amortisation and any accumulated impairment losses.

***Amortisation***

Amortisation is calculated to write off the cost of intangible assets less their estimated residual values using the straight-line method over their estimated useful lives and is generally recognised in profit or loss. Goodwill is not amortised. The estimated useful lives for current and comparative periods are as follows:

- Customer lists – 5 years
- Brands – 5 years

Amortisation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate. Assets considered to have indefinite useful economic lives are tested annually for impairment.

**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.

**XEROS TECHNOLOGY GROUP PLC**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2017**

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**IMPAIRMENT OF NON-CURRENT ASSETS**

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level. Goodwill is allocated to those cash-generating units that are expected to benefit from synergies of the related business combination and represent the lowest level at which management monitors goodwill. Cash-generating units to which goodwill has been allocated are tested for impairment at least annually. All other individual assets or cash-generating units are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the assets or cash-generating unit's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of fair value, reflecting market conditions less costs to sell, and value in use based on an internal discounted cash flow evaluation.

**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.

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**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 and Customs, in respect of qualifying research and development costs incurred. Research and development tax credits are recognised on an accruals basis with reference to the level of certainty regarding acceptance of the claims by HMRC.

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.

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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.

***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. Specifically, the Directors consider production scale evidence of commercial operation of the Group's technology. 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.

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**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 2 (amended June 2016)  | Share-based payment                                     | 1 January 2018 |
| IFRS 4 (amended September 2016)                                       | Insurance Contracts                                     | 1 January 2018 |
| IFRS 9  | Financial Instruments                                   | 1 January 2018 |
| IFRS 15   | Revenue from Contracts with Customers                   | 1 January 2018 |
| IFRS 16   | Leases  | 1 January 2019 |
| IFRS 17   | Insurance Contracts                                     | 1 January 2021 |
| IFRIC 22  | Foreign Currency Transactions and Advance Consideration | 1 January 2018 |
| IFRIC 23  | Uncertainty over Income Tax Treatments                  | 1 January 2019 |
| IAS 28 (amended October 2017)   | Investment in Associates and Joint Ventures             | 1 January 2019 |
| IAS 40 (amended December 2016)  | Investment Property                                     | 1 January 2018 |
| IAS 41 (amended June 2014)  | Agriculture   | 1 January 2018 |
| Amendments resulting from September 2014 Annual Improvements to IFRSs |   | 1 January 2018 |

The Group is implementing IFRS 15 for the period ending 31 December 2018. Transition is ongoing and will be performed under the cumulative effect method as permitted under the standard. Had IFRS 15 been in effect for the period ended 31 December 2017, the Directors do not consider that there would have been a material impact on the results reported.

The Directors are currently evaluating the impact of IFRS 16 on the accounting policies of the Group.

The Directors do not consider that IFRS 9 will have a material impact on the results of the Group. It is not anticipated that any of the other new standards or interpretations will have a material impact.

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**3) SEGMENTAL REPORTING**

The financial information by segment detailed below is frequently reviewed by the Chief Executive Officer, who has been identified as the Chief Operating Decision Maker ("CODM"). The segments are distinct due to the markets they serve. The all other activities segment contains supporting functions and activities in respect of applications that have not yet been fully commercialised.

The way in which the CODM reviews information has changed in the period as the internal reporting structure of the Group has developed and as a result of the acquisition made in the period. The comparative information for the period ended 31 December 2016 is not restated.

For the year ended 31 December 2017:

|                                 | Hotel & Lodging | High Performance<br>Workwear | All Other<br>Activities | Total    |
|---------------------------------|-----------------|------------------------------|-------------------------|----------|
|                                 | £'000           | £'000                        | £'000                   | £'000    |
| Revenue                         | 1,941           | 249                          | -                       | 2,190    |
| Gross loss                      | (374)           | (74)                         | -                       | (448)    |
| Adjusted EBITDA                 | (10,854)        | (453)                        | (17,362)                | (28,669) |
| Operating loss                  | (11,260)        | (499)                        | (19,583)                | (31,342) |
| Net finance<br>income/(expense) | 80              | -                            | (654)                   | (574)    |
| Loss before tax                 | (11,180)        | (499)                        | (20,237)                | (31,916) |
| Segmental net assets            | 9,928           | 87                           | 25,765                  | 35,780   |
| Other segmental<br>information: |                 |                              |                         |          |
| Capital expenditure             | -               | -                            | 271                     | 271      |
| Depreciation                    | 253             | 7                            | 314                     | 574      |
| Amortisation                    | -               | 39                           | -                       | 39       |

For the 17-month period ended 31 December 2016:

|                              | Single Operating<br>Segment |
|------------------------------|-----------------------------|
|                              | £'000                       |
| Revenue                      | 2,466                       |
| Gross profit                 | 290                         |
| Adjusted EBITDA              | (20,659)                    |
| Operating loss               | (22,350)                    |
| Net finance income/(expense) | 1,225                       |
| Loss before tax              | (21,125)                    |
| Segmental net assets         | 38,677                      |
| Other segmental information: |                             |
| Capital expenditure          | 811                         |
| Depreciation                 | 372                         |
| Amortisation                 | -                           |

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An analysis of revenues by type is set out below:

|                       | <b>Year<br/>ended<br/>31 December<br/>2017<br/>£000</b> | <b>17 months<br/>ended<br/>31 December<br/>2016<br/>£000</b> |
|-----------------------|---|--|
| Sale of goods         | <b>738</b>  | 1,556  |
| Rendering of services | <b>1,452</b>  | 837  |
|                       | <b>2,190</b>  | 2,393  |

During the year ended 31 December 2017 the Group had no customers who individually generated more than 10% of revenue.

During the 17-month period ended 31 December 2016 the Group had two customers who individually generated more than 10% of revenue. Those customers accounted for 19% and 13% of revenue respectively.

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

|               | <b>Year<br/>ended<br/>31 December<br/>2017<br/>£000</b> | <b>17 months<br/>ended<br/>31 December<br/>2016<br/>£000</b> |
|---------------|---|--|
| Europe        | <b>361</b>  | 259  |
| North America | <b>1,829</b>  | 2,134  |
|               | <b>2,190</b>  | 2,393  |

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

|               | <b>31 December<br/>2017<br/>£000</b> | <b>31 December<br/>2016<br/>£000</b> |
|---------------|--------------------------------------|--------------------------------------|
| Europe        | <b>1,529</b>                         | 722                                  |
| North America | <b>3,745</b>                         | 2,522                                |
|               | <b>5,274</b>                         | 3,244                                |

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**4) LOSS FROM OPERATIONS**

|  | Year<br>ended<br>31 December<br>2017<br>£000 | 17 months<br>ended<br>31 December<br>2016<br>£000 |
|--|--|---|
| Loss from operations is stated after (crediting):                            |  |   |
| Grant income   | -  | (410)   |
| Foreign exchange gains   | -  | (3,848)   |
| Loss from operations is stated after charging to<br>administrative expenses: |  |   |
| Foreign exchange losses  | 2,178  | -   |
| Depreciation of plant and equipment (note 11)                                | 574  | 372   |
| Amortisation of intangible assets (note 10)                                  | 39   | -   |
| Operating lease rentals – land and buildings                                 | 271  | 270   |
| Staff costs (excluding share-based payment charge)                           | 11,740                                       | 10,525  |
| Research and development   | 1,859  | 3,067   |
| <b>Auditors remuneration:</b>  |  |   |
| - Audit of these financial statements  | 19   | 12  |
| - Audit of financial statements of subsidiaries of the<br>company            | 21   | 12  |
| - All other services   | 6  | 29  |
| <b>Total auditor's remuneration</b>  | <b>46</b>                                    | <b>53</b>   |

Other services in the current period related to interim review work, tax advice and advice in respect of the Group's overseas subsidiary.

**5) STAFF NUMBERS AND COSTS**

|   | Year<br>ended<br>31 December<br>2017<br>Number | 17 months<br>ended<br>31 December<br>2016<br>Number |
|---|--|---|
| The average monthly number of persons (including<br>directors) employed by the Group during the year was: |  |   |
| Directors   | 6  | 6   |
| Operational staff   | 140  | 92  |
|   | <b>146</b>                                     | <b>98</b>   |
|   | <b>£000</b>                                    | <b>£000</b>   |
| The aggregate remuneration, including directors,<br>comprised:  |  |   |
| Wages and salaries  | 10,637   | 9,512   |
| Social security costs   | 987  | 992   |
| Pension contributions   | 116  | 21  |
| Share based expense (note 23)   | 1,865  | 1,232   |
|   | <b>13,605</b>                                  | <b>11,757</b>                                       |
| Directors' remuneration comprised:  |  |   |
| Emoluments for qualifying services  | 743  | 1,209   |

Directors' emoluments disclosed above include £334,000 paid to the highest paid director (Period ended 31 December 2016: £457,000). There are no pension benefits for directors. Please see Directors' Remuneration Report on pages 17 to 19 for further information on directors' emoluments.

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**6) EXPENSES BY NATURE**

The administrative expenses charge by nature is as follows:

|   | Year<br>ended<br>31 December<br>2017<br>£000 | 17 months<br>ended<br>31 December<br>2016<br>£000 |
|---|--|---|
| Staff costs, recruitment and other HR           | 12,617                                       | 11,288  |
| Share-based payment expense                     | 1,865  | 1,232   |
| Premises and establishment costs                | 586  | 504   |
| Research and development costs                  | 1,859  | 3,067   |
| Patent and IP costs                             | 1,176  | 1,661   |
| Engineering and operational costs               | 1,978  | 1,314   |
| Legal, professional and consultancy fees        | 2,978  | 2,720   |
| IT, telecoms and office costs                   | 725  | 645   |
| Depreciation charge                             | 377  | 361   |
| Amortisation charge                             | 39   | -   |
| Travelling, subsistence and entertaining        | 2,221  | 2,102   |
| Advertising, conferences and exhibitions        | 1,234  | 1,548   |
| Bad debt expense                                | 412  | 88  |
| Other expenses                                  | 434  | 237   |
| Foreign exchange losses/(gains)                 | 2,198  | (3,848)   |
| Less: grants receivable                         | -  | (366)   |
| Total operating administrative expenses         | 30,699                                       | 22,553  |
| Non-operating administrative exceptional items: |  |   |
| Costs of placing of ordinary shares             | 195  | 87  |
| <b>Total administrative expenses</b>            | <b>30,894</b>                                | <b>22,640</b>                                     |

**7) NET FINANCE (EXPENSE)/INCOME**

|   | Year<br>ended<br>31 December<br>2017<br>£000 | 17 months<br>ended<br>31 December<br>2016<br>£000 |
|---|--|---|
| Bank interest receivable                            | 51   | 447   |
| (Loss)/gain from forward foreign currency contracts | (705)  | 705   |
| Finance income from lease receivables               | 80   | 73  |
| <b>Net finance (expense)/income</b>                 | <b>(574)</b>                                 | <b>1,225</b>                                      |

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**8) TAXATION**

**Tax on loss on ordinary activities**

|  | Year<br>ended<br>31 December<br>2017<br>£000 | 17 months<br>ended<br>31 December<br>2016<br>£000 |
|--|--|---|
| <b>Current tax:</b>                                      |  |   |
| UK Tax credits received in respect of prior periods      | (1,306)                                      | (923)   |
| Foreign taxes paid                                       | 2  | 20  |
|  | <b>(1,304)</b>                               | <b>(903)</b>                                      |
| <b>Deferred tax:</b>                                     |  |   |
| Origination and reversal of temporary timing differences | (1)  | 17  |
| <b>Tax credit on loss on ordinary activities</b>         | <b>(1,305)</b>                               | <b>(886)</b>                                      |

The credit for the year/period 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 main company rate of corporation tax as explained below:

|  | Year<br>ended<br>31 December<br>2017<br>£000 | 17 months<br>ended<br>31 December<br>2016<br>£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   | <b>(31,916)</b>                              | <b>(21,125)</b>                                   |
| Tax at the standard rate of corporation tax 19.25% (2016: 20%)   | <b>(6,144)</b>                               | <b>(4,225)</b>                                    |
| Effects of:  |  |   |
| Expenses not deductible for tax purposes   | 418  | 291   |
| Research and development tax credits receivable  | (1,306)                                      | (923)   |
| Unutilised tax losses for which no deferred tax asset is recognised                                      | 6,649  | 5,130   |
| Employee share acquisition adjustment  | (924)  | (1,172)   |
| Foreign taxes paid   | 2  | 20  |
| Change in tax rates  | -  | (7)   |
| <b>Tax credit for the year/period</b>  | <b>(1,305)</b>                               | <b>(886)</b>                                      |

The Group accounts for Research and Development tax credits where there is certainty regarding HMRC approval. The Group has recognised a debtor in respect of the claim which has been approved for payment by HMRC and subsequently received by the Group.

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**9) 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 period to assume conversion of all dilutive potential ordinary shares.

|  | Year<br>ended<br>31 December<br>2017<br>£000 | 17 months<br>ended<br>31 December<br>2016<br>£000 |
|--|--|---|
| <b>Total loss attributable to the equity holders of the parent</b>         | <b>(30,611)</b>                              | <b>(20,239)</b>                                   |
|  | <b>No.</b>                                   | <b>No.</b>  |
| <b>Weighted average number of ordinary shares in issue during the year</b> | <b>87,671,769</b>                            | <b>80,839,504</b>                                 |
| <b>Loss per share</b>  |  |   |
| Basic and diluted on loss for the year                                     | <b>(34.92)p</b>                              | <b>(25.04)p</b>                                   |

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:

|  |                 |                 |
|--|-----------------|-----------------|
| <b>Basic earnings</b>                  | <b>(30,611)</b> | <b>(20,239)</b> |
| Non-operating exceptional costs        | <b>195</b>      | <b>87</b>       |
| <b>Adjusted earnings</b>               | <b>(30,416)</b> | <b>(20,152)</b> |
| <b>Adjusted loss per share</b>         |                 |                 |
| Basic and diluted on loss for the year | <b>(34.69)p</b> | <b>(24.93)p</b> |

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

|   | Year<br>ended<br>31 December<br>2017 | 17 months<br>ended<br>31 December<br>2016 |
|---|--------------------------------------|---|
| Issued ordinary shares at 1 January 2017/1 August 2015  | <b>86,021,911</b>                    | 65,504,879                                |
| Effect of shares issued for cash                        | <b>1,649,858</b>                     | 15,334,625                                |
| <b>Weighted average number of shares at 31 December</b> | <b>87,671,769</b>                    | <b>80,839,504</b>                         |

The Company has issued employee options over 7,658,146 (31 December 2016: 6,687,763) 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 periods concerned.

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**10) INTANGIBLE ASSETS AND GOODWILL**

|   | <b>Goodwill<br/>£000</b> | <b>Customer<br/>relationships<br/>£000</b> | <b>Brand<br/>£000</b> | <b>Total<br/>£000</b> |
|---|--------------------------|--|-----------------------|-----------------------|
| <b>Cost</b>   |                          |  |                       |                       |
| <b>At 31 July 2015 and 31 December 2016</b>           | -                        | -  | -                     | -                     |
| Acquisitions through business combinations            | 133                      | 246  | 326                   | 705                   |
| Foreign currency differences                          | (2)                      | (4)  | (6)                   | (12)                  |
| <b>At 31 December 2017</b>                            | <b>131</b>               | <b>242</b>                                 | <b>320</b>            | <b>693</b>            |
| <b>Accumulated amortisation and impairment losses</b> |                          |  |                       |                       |
| <b>At 31 July 2015 and 31 December 2016</b>           | -                        | -  | -                     | -                     |
| Amortisation charge for the year                      | -                        | 39   | -                     | 39                    |
| Foreign currency differences                          | -                        | -  | -                     | -                     |
| <b>At 31 December 2017</b>                            | <b>-</b>                 | <b>39</b>                                  | <b>-</b>              | <b>39</b>             |
| <b>Net book value</b>                                 |                          |  |                       |                       |
| <b>At 31 December 2017</b>                            | <b>131</b>               | <b>203</b>                                 | <b>320</b>            | <b>654</b>            |
| <b>At 31 December 2016</b>                            | -                        | -  | -                     | -                     |
| <b>At 31 July 2015</b>                                | -                        | -  | -                     | -                     |

**Amortisation**

The amortisation of customer relationships is included within administrative expenses in the consolidated statement of profit or loss and other comprehensive income.

The brand acquired is considered to have a five-year economic life and will be amortised in future periods.

**Impairment testing for CGUs containing goodwill**

For the purposes of impairment testing, goodwill has been allocated to the Group's CGUs (operating divisions) as follows:

|                                  | <b>2017<br/>£000</b> | <b>2016<br/>£000</b> |
|----------------------------------|----------------------|----------------------|
| <b>Commercial Laundry</b>        | -                    | -                    |
| <b>High Performance Workwear</b> | <b>131</b>           | -                    |
|                                  | <b>131</b>           | -                    |

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**High Performance Workwear**

The recoverable amount of this CGU is based on fair value less costs of disposal, estimated using discounted cash flows.

The key assumptions used in the estimation of the recoverable amount are set out below. The values assigned to the key assumptions represent management's assessment of future trends in the relevant industry and have been based on historical data from both external and internal sources.

|   | <b>2017</b> | <b>2016</b> |
|---|-------------|-------------|
|   | <b>%</b>    | <b>%</b>    |
| <b>Discount rate</b>  | 15%         | -           |
| <b>Terminal value growth rate</b>                             | 1%          | -           |
| <b>Budget EBITDA growth rate (average of next five years)</b> | 5%          |             |

All goodwill relates to the purchase of MarKen PPE. Goodwill arising on acquisition represents excess of the fair value of the consideration given over the fair value of the identifiable net assets acquired. The goodwill arising from the acquisition consists largely of the synergies expected from combining the MarKen PPE business with the proprietary Xeros technology and the workforce acquired.

The Group tests annually for impairment, or more frequently if there are indications that goodwill might be impaired.

The forecast used in impairment testing is approved by management and the Board of Directors and is based on a bottom up assessment of costs and uses the known and estimated sales pipeline.

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**11) PROPERTY, PLANT AND EQUIPMENT**

|                                 | Assets<br>under<br>construction<br>£000 | Leasehold<br>improvements<br>£000 | Plant and<br>equipment<br>£000 | Computer<br>equipment<br>£000 | Fixtures<br>and<br>fittings<br>£000 | Motor<br>vehicles<br>£000 | Total<br>£000 |
|---------------------------------|---|-----------------------------------|--------------------------------|-------------------------------|-------------------------------------|---------------------------|---------------|
| <b>Cost</b>                     |   |                                   |                                |                               |                                     |                           |               |
| At 31 July 2015                 | 360                                     | 130                               | 151                            | 85                            | 91                                  | -                         | 817           |
| Additions                       | 116                                     | 225                               | 801                            | 186                           | 53                                  | -                         | 1,381         |
| Transfers                       | (476)                                   | 476                               | -                              | -                             | -                                   | -                         | -             |
| Foreign currency<br>differences | -                                       | 11                                | 10                             | 6                             | 5                                   | -                         | 32            |
| <b>At 31 December<br/>2016</b>  | -                                       | <b>842</b>                        | <b>962</b>                     | <b>277</b>                    | <b>149</b>                          | -                         | <b>2,230</b>  |
| Arising on<br>acquisitions      | -                                       | -                                 | 12                             | 11                            | 11                                  | 3                         | 37            |
| Additions                       | -                                       | 71                                | 81                             | 69                            | 34                                  | -                         | 255           |
| Transfers from<br>inventory     | -                                       | -                                 | 2,270                          | -                             | -                                   | -                         | 2,270         |
| Foreign currency<br>differences | -                                       | (20)                              | (64)                           | (12)                          | (5)                                 | -                         | (101)         |
| <b>At 31 December<br/>2017</b>  | -                                       | <b>893</b>                        | <b>3,261</b>                   | <b>345</b>                    | <b>189</b>                          | <b>3</b>                  | <b>4,691</b>  |
| <b>Depreciation</b>             |   |                                   |                                |                               |                                     |                           |               |
| At 31 July 2015                 | -                                       | 87                                | 65                             | 44                            | 44                                  | -                         | 240           |
| Charge for the<br>period        | -                                       | 203                               | 81                             | 61                            | 27                                  | -                         | 372           |
| Foreign currency<br>differences | -                                       | 16                                | 6                              | 6                             | 2                                   | -                         | 30            |
| <b>At 31 December<br/>2016</b>  | -                                       | <b>306</b>                        | <b>152</b>                     | <b>111</b>                    | <b>73</b>                           | -                         | <b>642</b>    |
| Charge for the<br>year          | -                                       | 206                               | 259                            | 86                            | 23                                  | -                         | 574           |
| Transfers from<br>inventory     | -                                       | -                                 | (5)                            | -                             | -                                   | -                         | (5)           |
| Foreign currency<br>differences | -                                       | (15)                              | (14)                           | (6)                           | (1)                                 | -                         | (36)          |
| <b>At 31 December<br/>2017</b>  | -                                       | <b>497</b>                        | <b>392</b>                     | <b>191</b>                    | <b>95</b>                           | -                         | <b>1,175</b>  |
| <b>Net book value</b>           |   |                                   |                                |                               |                                     |                           |               |
| At 31 December<br>2017          | -                                       | 396                               | 2,869                          | 154                           | 94                                  | 3                         | 3,516         |
| <b>At 31 December<br/>2016</b>  | -                                       | <b>536</b>                        | <b>810</b>                     | <b>166</b>                    | <b>76</b>                           | -                         | <b>1,588</b>  |
| <b>At 31 July 2015</b>          | <b>360</b>                              | <b>43</b>                         | <b>86</b>                      | <b>41</b>                     | <b>47</b>                           | -                         | <b>577</b>    |

Assets under construction comprised leasehold improvements at the Company's Technology Centre at the Advanced Manufacturing Park. These premises were completed in August 2015 and these costs were transferred to leasehold improvements.

Included within plant and machinery are assets with a net book value of £2,582,000 (31 December 2016: £506,000) which the Group leases (as lessor) to customers under a number of operating lease agreements.

When an operating lease is agreed with a customer, the assets to which the operating lease relates are, if necessary, transferred from inventory into property, plant and equipment for the duration of the lease. Depreciation is charged on these assets in line with their useful economic lives.

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**12) INVENTORIES**

|                | <b>31 December<br/>2017<br/>£000</b> | <b>31 December<br/>2016<br/>£000</b> |
|----------------|--------------------------------------|--------------------------------------|
| Finished goods | <b>6,392</b>                         | <b>7,005</b>                         |

In the year ended 31 December 2017, changes in finished goods recognised as cost of sales amounted to £742,000 (period ended 31 December 2016: £920,000).

**13) OTHER FINANCIAL ASSETS**

|   | <b>31 December<br/>2017<br/>£000</b> | <b>31 December<br/>2016<br/>£000</b> |
|---|--------------------------------------|--------------------------------------|
| <b>Current</b>  |                                      |                                      |
| Foreign currency forward contracts designated as fair value through profit and loss | -                                    | 705                                  |

**14) TRADE AND OTHER RECEIVABLES**

|                                      | <b>31 December<br/>2017<br/>£000</b> | <b>31 December<br/>2016<br/>£000</b> |
|--------------------------------------|--------------------------------------|--------------------------------------|
| <b>Due within 12 months</b>          |                                      |                                      |
| Trade debtors                        | <b>345</b>                           | 272                                  |
| Other receivables                    | <b>856</b>                           | 1,078                                |
| Prepayments and accrued income       | <b>1,034</b>                         | 480                                  |
|                                      | <b>2,235</b>                         | 1,830                                |
| <b>Due after more than 12 months</b> |                                      |                                      |
| Other receivables                    | <b>1,104</b>                         | 1,656                                |

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 IAS 17.

The minimum lease payment is receivable as follows:

|   | <b>31 December<br/>2017<br/>£000</b> | <b>31 December<br/>2016<br/>£000</b> |
|---|--------------------------------------|--------------------------------------|
| Not later than one year                       | <b>252</b>                           | 284                                  |
| Later than one year not later than five years | <b>917</b>                           | 1,185                                |
| Later than five years                         | <b>187</b>                           | 471                                  |
|   | <b>1,356</b>                         | 1,940                                |

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

The Directors considered the carrying value of trade receivables at 31 December 2017 and made a provision of £270,000 (31 December 2016: £77,000) for potential impairment losses arising from balances 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 Directors consider 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 17.

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Other receivables of £1,104,000 (31 December 2016: £1,656,000) due after more than one year comprise the long-term portion of finance leases where the Group acts as lessor.

In July 2017 a small number of lease agreements were sold to Hitachi Capital. The value of the agreements sold is not material to the financial statements.

**15) INVESTMENTS – BANK DEPOSITS**

|  | <b>31 December<br/>2017<br/>£000</b> | 31 December<br>2016<br>£000 |
|--|--------------------------------------|-----------------------------|
| Bank deposits maturing between 3 and 12 months | -                                    | 9,959                       |

At 31 December 2017, the Group held £nil (31 December 2016: £9,959,000) in 95-day deposit accounts. This balance was 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 17.

**16) CASH AND CASH EQUIVALENTS**

|                           | <b>31 December<br/>2017<br/>£000</b> | 31 December<br>2016<br>£000 |
|---------------------------|--------------------------------------|-----------------------------|
| A+                        | 11                                   | -                           |
| A                         | -                                    | 5,206                       |
| BBB+                      | 25,138                               | 13,769                      |
| Cash and cash equivalents | 25,149                               | 18,975                      |

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

All of the Group's cash and cash equivalents at 31 December 2017 are at floating interest rates. Balances are denominated in UK Sterling (£), US Dollars (\$) and Euros (€) as follows:

|                               | <b>31 December<br/>2017<br/>£000</b> | 31 December<br>2016<br>£000 |
|-------------------------------|--------------------------------------|-----------------------------|
| Denominated in Pound Sterling | 24,095                               | 16,999                      |
| Denominated in US Dollars     | 752                                  | 1,755                       |
| Denominated in Euros          | 302                                  | 221                         |
| Cash and cash equivalents     | 25,149                               | 18,975                      |

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 17.

## **17) FINANCIAL INSTRUMENTS**

The Group's principal financial instruments comprise short-term receivables and payables and cash and cash equivalents. The Group does not trade in financial instruments but uses derivative financial instruments in the form of forward foreign currency contracts to help manage its foreign currency exposure and to enable the Group to manage its working capital requirements.

### **(a) Fair Values of Financial Assets and Financial Liabilities**

#### ***Derivative Financial Instruments – Fair Value Hierarchy***

The following hierarchy classifies each class of financial asset or liability depending on the valuation technique applied in determining its fair value:

- Level 1: The fair value is calculated based on quoted prices traded in active markets for identical assets or liabilities.
- Level 2: The fair value is based on inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. The fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.
- Level 3: The fair value is based on inputs for the asset or liability that are not based on observable market data (unobservable inputs).

In these financial statements, all of the forward foreign exchange contracts are considered to be Level 2 in the fair value hierarchy. There have been no transfers between categories in the current or preceding year. The fair value of financial instruments held at fair value have been determined based on available market information at the balance sheet date.

### **(b) Credit risk**

#### ***Financial Risk Management***

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 exposed to credit risk in respect of trade and lease receivable 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 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 different banks and through ongoing monitoring of the credit ratings of those banks. Further details are set out in note 16. At 31 December 2017, the Directors were not aware of any factors affecting the recoverability of the Group's bank balances.

#### ***Exposure to Credit Risk***

At 31 December 2017, the Group had net trade receivables outstanding of £345,000 (2016: £272,000). The Directors have considered the recoverability of outstanding balances at 31 December 2017 and have made provisions for bad and doubtful debts amounting to £270,000 (2016: £77,000). The Group had lease receivable balances outstanding of £1,356,000 (2016: £1,940,000) after the deduction of provisions amounting to £108,000 (2016: £nil).

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

|                          | <b>31 December<br/>2017<br/>£000</b> | <b>31 December<br/>2016<br/>£000</b> |
|--------------------------|--------------------------------------|--------------------------------------|
| United Kingdom           | <b>1,029</b>                         | 1,153                                |
| United States of America | <b>2,310</b>                         | 2,333                                |
|                          | <b>3,339</b>                         | 3,486                                |

**(c) Liquidity Risk**

***Financial Risk Management***

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.

The following are the contractual maturities of financial liabilities:

| <b>Non-derivative financial liabilities</b> | <b>31 December<br/>2017<br/>£000</b> | <b>31 December<br/>2016<br/>£000</b> |
|---|--------------------------------------|--------------------------------------|
| <b>Due within one year</b>                  |                                      |                                      |
| Trade and other payables                    | <b>1,661</b>                         | 1,062                                |

**(d) Market Risk**

***Financial Risk Management***

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 15 and 16). 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.

**Foreign Currency Risk**

The Group is exposed to currency risk on sales and purchases and cash held in bank 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). The Group's policy is to reduce currency exposure on sales and purchasing through forward foreign currency contracts.

The following are the fair values of assets held in respect of forward foreign currency contracts:

| <b>Derivative financial assets</b>                  | <b>31 December<br/>2017<br/>£000</b> | <b>31 December<br/>2016<br/>£000</b> |
|---|--------------------------------------|--------------------------------------|
| <b>Due within one year</b>                          |                                      |                                      |
| Forward foreign exchange contracts used for hedging | -                                    | 705                                  |

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

**At 31 December 2017**

|                             | <b>Sterling<br/>£000</b> | <b>US Dollar<br/>£000</b> | <b>Euro<br/>£000</b> | <b>Total<br/>£000</b> |
|-----------------------------|--------------------------|---------------------------|----------------------|-----------------------|
| Cash and cash equivalents   | 24,095                   | 752                       | 302                  | 25,149                |
| Income tax receivable       | 1,306                    | -                         | -                    | 1,306                 |
| Trade and other receivables | 1,029                    | 2,309                     | -                    | 3,338                 |
| Trade and other payables    | (774)                    | (873)                     | (14)                 | (1,661)               |
| Balance sheet exposure      | 25,656                   | 2,188                     | 288                  | 28,132                |
| Net exposure                | -                        | 2,188                     | 288                  | 2,476                 |

**At 31 December 2016**

|                             | <b>Sterling<br/>£000</b> | <b>US Dollar<br/>£000</b> | <b>Euro<br/>£000</b> | <b>Total<br/>£000</b> |
|-----------------------------|--------------------------|---------------------------|----------------------|-----------------------|
| Cash and cash equivalents   | 16,999                   | 1,755                     | 221                  | 18,975                |
| Investments: Cash deposits  | 9,959                    | -                         | -                    | 9,959                 |
| Trade and other receivables | 1,153                    | 2,333                     | -                    | 3,486                 |
| Forward exchange contracts  | 705                      | -                         | -                    | 705                   |
| Trade and other payables    | (489)                    | (559)                     | (14)                 | (1,062)               |
| Balance sheet exposure      | 28,327                   | 3,529                     | 207                  | 32,063                |
| Net exposure                | -                        | 3,529                     | 207                  | 3,736                 |

**Sensitivity Analysis**

A 10% weakening of the following currencies against the £ sterling at 31 December 2017 would have increased equity and profit or loss by the amounts shown below. The calculation assumes that the change occurred at the balance sheet date and had been applied to the risk exposure existing at that date.

This analysis assumes that all other variables, in particular, other exchange rates and interest rates remain constant. The analysis is performed on the same basis for the period ended 31 December 2016.

|            | <b>Equity</b>                        |                                      | <b>Profit or Loss</b>                |                                      |
|------------|--------------------------------------|--------------------------------------|--------------------------------------|--------------------------------------|
|            | <b>31 December<br/>2017<br/>£000</b> | <b>31 December<br/>2016<br/>£000</b> | <b>31 December<br/>2017<br/>£000</b> | <b>31 December<br/>2016<br/>£000</b> |
| US Dollars | (219)                                | (353)                                | (219)                                | (353)                                |
| Euros      | (29)                                 | (21)                                 | (29)                                 | (21)                                 |

A 10% strengthening of the above currencies against the Pound Sterling at 31 December 2017 would have had the equal but opposite effect on the above currencies to the amounts shown above on the basis that all other variables remain constant.

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**Interest Rate Risk**

At the balance sheet date the interest rate profile of the Group's interest-bearing financial instruments was:

|                                  | <b>31 December<br/>2017<br/>£000</b> | <b>31 December<br/>2016<br/>£000</b> |
|----------------------------------|--------------------------------------|--------------------------------------|
| <b>Fixed rate instruments</b>    |                                      |                                      |
| Financial assets                 | -                                    | 9,959                                |
| Financial liabilities            | -                                    | -                                    |
|                                  | -                                    | 9,959                                |
| <b>Variable rate instruments</b> |                                      |                                      |
| Financial assets                 | <b>25,149</b>                        | 18,975                               |
| Financial liabilities            | -                                    | -                                    |
|                                  | <b>25,149</b>                        | 18,975                               |

Based on the Group's above balances at 31 December 2017, if interest rates had been 5 per cent higher, then the impact on the results for the year would be a reduction in the loss for the period of approximately £831,000 with a corresponding increase in the Group's net assets. If the interest rate had reduced to zero per cent, then the impact on the results for the period would be an increase in the loss for the year of £51,000 with a corresponding decrease in the Group's net assets.

**(e) Foreign Exchange Forward Contracts**

The following table indicates the periods in which the cash flows associated with cash flow hedging instruments are expected to occur:

|                                    | <b>31 December<br/>2017<br/>£000</b> | <b>31 December<br/>2016<br/>£000</b> |
|------------------------------------|--------------------------------------|--------------------------------------|
| <b>Due within one year</b>         |                                      |                                      |
| <b>Forward exchange contracts:</b> |                                      |                                      |
| Assets                             | -                                    | 705                                  |
| Liabilities                        | -                                    | -                                    |
|                                    | -                                    | 705                                  |

**(f) Capital Management**

The Group's capital is made up of share capital, share premium and retained losses, totalling £20,352,000 at 31 December 2017 (31 December 2016: £24,976,000).

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.

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**18) TRADE AND OTHER PAYABLES**

|                                    | <b>31 December<br/>2017<br/>£000</b> | <b>31 December<br/>2016<br/>£000</b> |
|------------------------------------|--------------------------------------|--------------------------------------|
| Trade payables                     | <b>1,223</b>                         | 696                                  |
| Taxes and social security          | <b>126</b>                           | 116                                  |
| Other creditors                    | <b>438</b>                           | 366                                  |
| Accruals and deferred income       | <b>2,566</b>                         | 1,824                                |
| Contingent consideration (note 25) | <b>185</b>                           | -                                    |
|                                    | <b>4,538</b>                         | 3,002                                |
| Current                            | <b>4,353</b>                         | -                                    |
| Non-current                        | <b>185</b>                           | 3,002                                |
|                                    | <b>4,538</b>                         | 3,002                                |

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

|                | <b>31 December<br/>2017<br/>£000</b> | <b>31 December<br/>2016<br/>£000</b> |
|----------------|--------------------------------------|--------------------------------------|
| Sterling       | <b>639</b>                           | 400                                  |
| US Dollars     | <b>570</b>                           | 282                                  |
| Euros          | <b>14</b>                            | 14                                   |
| Trade payables | <b>1,223</b>                         | 696                                  |

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 period.

**19) DEFERRED TAX**

|  | <b>31 December<br/>2017<br/>£000</b> | <b>31 December<br/>2016<br/>£000</b> |
|--|--------------------------------------|--------------------------------------|
| Accelerated depreciation for tax purposes    | <b>38</b>                            | 39                                   |
| Deferred tax credit/(expense) for the period | <b>(1)</b>                           | 17                                   |

|                      | <b>Year<br/>ended<br/>31 December<br/>2017<br/>£000</b> | <b>17 months<br/>ended<br/>31 December<br/>2016<br/>£000</b> |
|----------------------|---|--|
| At beginning of year | <b>39</b>   | 22   |
| Tax expense          | <b>(1)</b>  | 17   |
| At end of year       | <b>38</b>   | 39   |

As at 31 December 2017, the Group had unrecognised deferred tax assets totalling approximately £12,968,000 (31 December 2016: £7,208,000), 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.

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**20) SHARE CAPITAL**

|   | Number     | Share capital<br>£000 | Share premium<br>£000 | Merger reserve<br>£000 | Total<br>£000 |
|---|------------|-----------------------|-----------------------|------------------------|---------------|
| <b>Total Ordinary shares of 0.15p each as at 31 July 2015</b>     | 65,504,879 | 98                    | 28,178                | 15,443                 | 43,719        |
| Issue of ordinary shares following placing                        | 17,777,778 | 27                    | 39,973                | -                      | 40,000        |
| Issue of ordinary shares on exercise of share options             | 2,739,254  | 4                     | 281                   | -                      | 285           |
| Costs of share issues   | -          | -                     | (2,152)               | -                      | (2,152)       |
| <b>Total Ordinary shares of 0.15p each as at 31 December 2016</b> | 86,021,911 | 129                   | 66,280                | 15,443                 | 81,852        |
| Issue of ordinary shares following placing                        | 11,111,112 | 17                    | 24,983                | -                      | 25,000        |
| Issue of ordinary shares on exercise of share options             | 2,036,933  | 3                     | 493                   | -                      | 496           |
| Costs of share issues   | -          | -                     | (1,374)               | -                      | (1,374)       |
| <b>Total Ordinary shares of 0.15p each as at 31 December 2017</b> | 99,169,956 | 149                   | 90,382                | 15,443                 | 105,974       |

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

The following is a summary of the changes in the issued share capital of the Company during the period ended 31 December 2017:

- 421,888 Ordinary Shares were allotted at a price of 0.15 pence per share, for total cash consideration of £633, upon the exercise of share options granted in the Company's share option schemes.
- 1,351,833 Ordinary Shares were allotted at a price of 12 pence per share, for total cash consideration of £162,220, upon the exercise of share options granted in the Company's share option schemes.
- 85,333 Ordinary Shares were allotted at a price of 16.2 pence per share, for total cash consideration of £13,824, upon the exercise of share options granted in the Company's share option schemes.
- 32,800 Ordinary Shares were allotted at a price of 160.5 pence per share, for total cash consideration of £52,644, upon the exercise of share options granted in the Company's share option schemes.
- 1,215 Ordinary Shares were allotted at a price of 169.5 pence per share, for total cash consideration of £2,059, upon the exercise of share options granted in the Company's share option schemes.
- 136,250 Ordinary Shares were allotted at a price of 182.5 pence per share, for total cash consideration of £248,656, upon the exercise of share options granted in the Company's share option schemes.
- 7,614 Ordinary Shares were allotted at a price of 210 pence per share, for total cash consideration of £15,989, upon the exercise of share options granted in the Company's share option schemes.
- 11,111,112 Ordinary Shares were allotted at a price of 225 pence per share, for total cash consideration of £25,000,000 (before costs) following a placing of shares.

At 31 December 2017, the Company had only one class of share, being Ordinary Shares of 0.15p each.

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**21) MOVEMENT IN ACCUMULATED LOSSES AND FOREIGN CURRENCY TRANSLATION RESERVE**

|  | Accumulated losses<br>£000 | Foreign currency translation reserve<br>£000 |
|--|----------------------------|--|
| <b>At 31 July 2015</b>   | (22,426)                   | (22)   |
| Loss for the period  | (20,239)                   | -  |
| Other comprehensive expense – Foreign currency translation differences – foreign operation | -                          | (1,720)                                      |
| Shared based payment charge  | 1,232                      | -  |
| <b>At 31 December 2016</b>   | <b>(41,433)</b>            | <b>(1,742)</b>                               |
| Loss for the year  | (30,611)                   | -  |
| Other comprehensive income – Foreign currency translation differences – foreign operation  | -                          | 1,727  |
| Shared based payment charge  | 1,865                      | -  |
| <b>At 31 December 2017</b>   | <b>(70,179)</b>            | <b>(15)</b>                                  |

**22) 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 December<br>2017<br>£000 | 31 December<br>2016<br>£000 |
|--|-----------------------------|-----------------------------|
| Land and buildings:                    |                             |                             |
| Amounts due within one year            | 377                         | 179                         |
| Amounts due between one and five years | 686                         | 97                          |
|  | <b>1,063</b>                | <b>276</b>                  |

On 19 October 2014, the Group entered into a five-year lease arrangement in respect of a property. The Group has an annual rent commitment of £17,185 on this lease. This lease expires on 18 October 2019. On the same date the Group entered into a five-year lease arrangement in respect of another property. The Group has an annual rent commitment of £25,487 on this lease. This lease also expires on 18 October 2019.

On 13 February 2015, the Group entered into an arrangement assigning to it a 10-year lease in respect of a property. The lease commenced on 2 April 2012 and expires on 1 April 2022. The Group has an annual rent commitment of £75,250 on this lease.

On 30 November 2017, the Group entered into a three-year lease arrangement in respect of a property. The Group has an annual rent commitment of \$246,668 on the lease. The lease expires on 31 December 2020. The lease contains an option which allows the Group to extend the lease term by five years.

In addition, the Group has operating lease commitments in respect of its premises in the USA for its subsidiary, Xeros Inc. These are short term rentals with an annual rent charge of approximately £150,000.

**XEROS TECHNOLOGY GROUP PLC**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2017**

**23) 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 | Deferred Annual Bonus plan | Total   |         |
| At 31 July 2015                | 4,115,863                 | 3,191,061          | 61,977                     | 7,368,901                                     | 0.411   |
| Granted in the period          | 109,890                   | 2,544,548          | 115,845                    | 2,770,283                                     | 1.924   |
| Exercised in the year          | (2,008,165)               | (609,756)          | -                          | (2,617,921)                                   | (0.101) |
| Forfeited/lapsed in the year   | (131,231)                 | (702,269)          | -                          | (833,500)                                     | (1.434) |
| At 31 December 2016            | 2,086,357                 | 4,423,584          | 177,822                    | 6,687,763                                     | 1.032   |
| Granted in the period          | -                         | 3,167,832          | 74,907                     | 3,242,739                                     | 2.223   |
| Exercised in the period        | (1,105,716)               | (950,139)          | (15,384)                   | (2,071,239)                                   | (0.273) |
| Forfeited/lapsed in the period | (4,220)                   | (196,897)          | -                          | (201,117)                                     | (1.956) |
| At 31 December 2017            | 976,421                   | 6,444,380          | 237,345                    | 7,658,146                                     | 1.719   |

There were 3,677,041 share options outstanding at 31 December 2017 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 December 2017. Options have a range of exercise prices from 0.15 pence per share to 310.0 pence per share and have a weighted average contractual life of 7.91 years (31 December 2016: 5.00 years).

| Options granted in the period             | Options granted in January 2017 | Options granted in August 2017 | Options granted in September 2017 |
|---|---------------------------------|--------------------------------|-----------------------------------|
| Dividend yield                            | 0%                              | 0%                             | 0%                                |
| Expected volatility*                      | 40.00%                          | 40.00%                         | 40.00%                            |
| Risk free interest rate (%)               | 1.50%                           | 1.50%                          | 1.50%                             |
| Expected vesting life of options (years)  | 10                              | 10                             | 10                                |
| Weighted average share price (pence)      | 210.0                           | 305.0                          | 305.0                             |
| Fair value of an option (pence per share) | 107.5                           | 156.2                          | 156.2                             |

\* Expected volatility is based upon the Company's historical share price.

**XEROS TECHNOLOGY GROUP PLC**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2017**

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

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

|               | <b>31 December<br/>2017<br/>£000</b> | <b>31 December<br/>2016<br/>£000</b> |
|---------------|--------------------------------------|--------------------------------------|
| Share options | <b>1,865</b>                         | <b>1,232</b>                         |

**24) 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 each period end with other related parties, are as follows:

| <b>Related party</b>               | <b>Relationship</b>   | <b>Purchases<br/>from related<br/>party<br/>31 December<br/>2017<br/>£000</b> | <b>Amounts<br/>owed to<br/>related party<br/>31 December<br/>2017<br/>£000</b> | <b>Purchases<br/>from related<br/>party<br/>31 December<br/>2016<br/>£000</b> | <b>Amounts<br/>owed to<br/>related party<br/>31 December<br/>2016<br/>£000</b> |
|------------------------------------|---|---|--|---|--|
| Enterprise Ventures Limited        | Fund manager for certain shareholders (note 1)              | 30  | -  | 28  | -  |
| Entrepreneurs' Fund Management LLP | Fund manager for a shareholder (note 2)                     | -   | -  | 4   | -  |
| Top Technology Ventures Limited    | Corporate finance advisor for certain shareholders (note 3) | 260   | 260  | -   | -  |

Note 1: Enterprise Ventures Limited provides the services of Julian Viggars as a director for the Company and invoiced the Group for associated director's fees.

Note 2: Entrepreneurs' Fund Management LLP provided the services of Dr Maciek Drozd, who was a director of the Company until 11 January 2016, and invoiced the Group for associated director's fees.

Note 3: Top Technology Ventures Limited provided corporate finance services on behalf of the IP Group shareholders for the new equity issue in December 2017.

**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.

**XEROS TECHNOLOGY GROUP PLC**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2017**

**Transactions with Key Management Personnel**

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

**Directors' remuneration:**

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

|  | <b>Year ended</b>  | <b>17 months ended</b> |
|--|--------------------|------------------------|
|  | <b>31 December</b> | <b>31 December</b>     |
|  | <b>2017</b>        | <b>2016</b>            |
|  | <b>£000</b>        | <b>£000</b>            |
| <b>Short-term employment benefits*</b> | <b>743</b>         | <b>1,209</b>           |

\*In addition, certain directors hold share options in the Company for which a fair value share based charge of £321,639 has been recognised in the consolidated statement of profit or loss and other comprehensive income (31 December 2016: £823,466).

During the year ended 31 December 2017, the Company entered into numerous transactions with its subsidiary company which net off on consolidation – these have not been shown above.

**25) ACQUISITION OF SUBSIDIARY**

During the year, the Group incorporated a new wholly-owned subsidiary in the USA, Xeros High Performance Workwear Inc. On 1 July 2017, Xeros High Performance Workwear Inc. acquired 100% of the trade and net assets of Marken PPE Restoration, a division of Marken Enterprises Inc., a company incorporated in the USA.

For the 6 months ended 31 December 2017, Xeros High Performance Workwear contributed revenue of £249,000 and a loss of £499,000. If the acquisition had taken place on 1 January 2017, management estimates that consolidated revenue would have been £2,455,000 and consolidated loss before taxation would have been £(31,944,000). In determining those amounts, management has assumed that the fair value adjustments that arose on the date of acquisition would have been the same as if the acquisition had occurred on 1 January 2017.

**Consideration transferred**

The following table summarises the acquisition date fair value of each major class of consideration transferred.

|  | <b>£000</b> |
|--|-------------|
| Cash                                   | 577         |
| Contingent consideration               | 192         |
| <b>Total consideration transferred</b> | <b>769</b>  |

**Contingent consideration**

The Group has agreed to pay the sellers additional consideration up to a maximum of \$250,000 (£192,000 at the date of acquisition) over a two-year period following acquisition. This is based on an earn-out calculation which requires the company to achieve sales revenue targets in each of the two years. The Group has included £185,000 in creditors at 31 December 2017, being \$250,000 translated at the year-end exchange rate.

**XEROS TECHNOLOGY GROUP PLC**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2017**

**Acquisition-related costs**

The Group incurred acquisition-related costs of £44,000 on legal fees and due diligence expenses. These costs have been included in administrative expenses in the consolidated statement of profit and loss and other comprehensive income

**Identifiable assets acquired and liabilities assumed**

The following table summarises the recognised amounts of assets acquired and liabilities assumed at the date of acquisition.

|   | £000       |
|---|------------|
| Property, plant and equipment                 | 38         |
| Intangible assets                             | 572        |
| Trade and other receivables                   | 26         |
| Trade and other payables                      | -          |
| <b>Total identifiable net assets acquired</b> | <b>636</b> |

**Measurement of fair values**

All assets and liabilities acquired are recognised at fair value. For trade and other receivables and trade and other payables, fair value was deemed to be equivalent to book value. Estimates were made in respect of property, plant and equipment and intangible assets based upon managements assessment of the value in use of the assets to the Xeros Group.

The intangible assets acquired with the trade and assets comprise £246,000 in relation to non-contractual customer relationships and £326,000 in relation to the MarKen PPE brand acquired.

**Goodwill**

Goodwill arising from the acquisition has been recognised as follows:

|                                       | £000       |
|---------------------------------------|------------|
| Consideration transferred             | 769        |
| Fair value of identifiable net assets | (636)      |
| <b>Goodwill</b>                       | <b>133</b> |

The goodwill arising from the acquisition consists largely of the synergies expected from combining the MarKen PPE business with the proprietary Xeros technology and the workforce acquired.

**26) EVENTS AFTER THE REPORTING PERIOD**

The Group entered into a key transaction after the reporting date of 31 December 2017.

On 22 March 2018, Xeros Technology Group plc purchased the trade and assets of Gloves Inc., a provider of cleaning, inspection and repair services for firefighter personal protection equipment with facilities in Atlanta and Miami, USA. The maximum total consideration for the Acquisition is \$1.1m, comprising an initial cash consideration of \$800,000 and a conditional deferred payment of up to \$0.3m. The conditional deferred payment is dependent on the future revenue performance of the trade and assets acquired from Gloves, Inc.

For the year ended 31 December 2017, the relevant trade and assets of Gloves Inc generated revenues of \$0.99m and EBITDA of \$0.36m.

Due to the proximity of the above business combination to the reporting date, the initial accounting for these transactions is still to be completed, and consequently details of the amounts of assets and liabilities acquired and fair value of contingent consideration are not disclosed within these financial statements.

**XEROS TECHNOLOGY GROUP PLC**  
**COMPANY STATEMENT OF CHANGES IN EQUITY**  
**FOR THE YEAR ENDED 31 DECEMBER 2017**

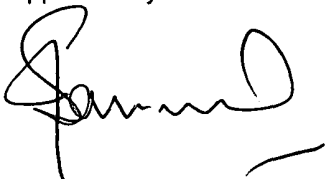
**Attributable to the equity holders of the Company**

|   | Share<br>capital<br>£000 | Share<br>premium<br>£000 | Merger<br>reserve<br>£000 | Retained<br>earnings<br>reserve<br>£000 | Total<br>£000 |
|---|--------------------------|--------------------------|---------------------------|---|---------------|
| <b>At 31 July 2015</b>  | <b>98</b>                | <b>28,178</b>            | <b>6,625</b>              | <b>557</b>                              | <b>35,458</b> |
| Total expense and other comprehensive loss for the period                             | -                        | -                        | -                         | (1,523)                                 | (1,523)       |
| Transactions with owners, recorded directly in equity:                                |                          |                          |                           |   |               |
| Issue of placing shares   | 27                       | 39,973                   | -                         | -                                       | 40,000        |
| Exercise of share options   | 4                        | 281                      | -                         | -                                       | 285           |
| Costs of share issues   | -                        | (2,152)                  | -                         | -                                       | (2,152)       |
| Share based payment expense   | -                        | -                        | -                         | 768                                     | 768           |
| Share based payment expense in respect of services provided to subsidiary undertaking | -                        | -                        | -                         | 464                                     | 464           |
| Total contributions by and distributions to owners                                    | 31                       | 38,102                   | -                         | 1,232                                   | 39,365        |
| <b>At 31 December 2016</b>  | <b>129</b>               | <b>66,280</b>            | <b>6,625</b>              | <b>266</b>                              | <b>73,300</b> |
| Total expense and other comprehensive loss for the period                             | -                        | -                        | -                         | (1,842)                                 | (1,842)       |
| Transactions with owners, recorded directly in equity:                                |                          |                          |                           |   |               |
| Issue of placing shares   | 17                       | 24,983                   | -                         | -                                       | 25,000        |
| Exercise of share options   | 3                        | 493                      | -                         | -                                       | 496           |
| Costs of share issues   | -                        | (1,374)                  | -                         | -                                       | (1,374)       |
| Share based payment expense   | -                        | -                        | -                         | 643                                     | 643           |
| Share based payment expense in respect of services provided to subsidiary undertaking | -                        | -                        | -                         | 1,222                                   | 1,222         |
| Total contributions by and distributions to owners                                    | 20                       | 24,102                   | -                         | 1,865                                   | 25,987        |
| <b>At 31 December 2017</b>  | <b>149</b>               | <b>90,382</b>            | <b>6,625</b>              | <b>289</b>                              | <b>97,445</b> |

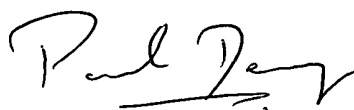
**XEROS TECHNOLOGY GROUP PLC**  
**COMPANY STATEMENT OF FINANCIAL POSITION**  
**FOR THE YEAR ENDED 31 DECEMBER 2017**

|                                 |       | At<br>31 December<br>2017<br>£000 | At<br>31 December<br>2016<br>£000 |
|---------------------------------|-------|-----------------------------------|-----------------------------------|
|                                 | Notes |                                   |                                   |
| <b>ASSETS</b>                   |       |                                   |                                   |
| <b>Non-current assets</b>       |       |                                   |                                   |
| Investments                     | C3    | 9,137                             | 7,915                             |
| <b>Total non-current assets</b> |       | <b>9,137</b>                      | <b>7,915</b>                      |
| <b>Current assets</b>           |       |                                   |                                   |
| Trade and other receivables     | C4    | 79                                | 61                                |
| Intercompany loan balance       | C5    | 65,021                            | 60,541                            |
| Cash and cash equivalents       |       | 23,849                            | 5,061                             |
| <b>Total current assets</b>     |       | <b>88,949</b>                     | <b>65,663</b>                     |
| <b>TOTAL ASSETS</b>             |       | <b>98,086</b>                     | <b>73,578</b>                     |
| <b>LIABILITIES</b>              |       |                                   |                                   |
| <b>Current liabilities</b>      |       |                                   |                                   |
| Trade and other payables        | C6    | (641)                             | (278)                             |
| <b>TOTAL LIABILITIES</b>        |       | <b>(641)</b>                      | <b>(278)</b>                      |
| <b>NET ASSETS</b>               |       | <b>97,445</b>                     | <b>73,300</b>                     |
| <b>EQUITY</b>                   |       |                                   |                                   |
| Share capital                   | 20    | 149                               | 129                               |
| Share premium                   | 20    | 90,382                            | 66,280                            |
| Merger reserve                  |       | 6,625                             | 6,625                             |
| Retained earnings               |       | 289                               | 266                               |
| <b>TOTAL EQUITY</b>             |       | <b>97,445</b>                     | <b>73,300</b>                     |

Approved by the Board of Directors and authorised for issue on 18 April 2018.



**John Samuel**  
Chairman



**Paul Denney**  
Chief Financial Officer

Company number: 08684474

**XEROS TECHNOLOGY GROUP PLC**  
**COMPANY STATEMENT OF CASH FLOWS**  
**AS AT 31 DECEMBER 2017**

|  |       | <b>Year<br/>ended<br/>31 December<br/>2017<br/>£000</b> | <b>17 months<br/>ended<br/>31 December<br/>2016<br/>£000</b> |
|--|-------|---|--|
|  | Notes |   |  |
| <b>Operating activities</b>                                |       |   |  |
| Loss before tax  |       | <b>(1,842)</b>  | <b>(1,523)</b>   |
| Adjustment for non-cash items:                             |       |   |  |
| Share based payment  |       | <b>643</b>  | <b>768</b>   |
| Increase in trade and other receivables                    | C4    | <b>(18)</b>   | <b>(17)</b>  |
| Increase in trade and other payables                       | C6    | <b>363</b>  | <b>141</b>   |
| <b>Net cash outflow from operations</b>                    |       | <b>(854)</b>  | <b>(631)</b>   |
| <b>INVESTING ACTIVITIES</b>                                |       |   |  |
| Increase in intercompany loans                             | C5    | <b>(4,480)</b>  | <b>(40,587)</b>  |
| <b>Net cash outflow from investing activities</b>          |       | <b>(4,480)</b>  | <b>(40,587)</b>  |
| <b>FINANCING ACTIVITIES</b>                                |       |   |  |
| Proceeds from issue of share capital, net of costs         |       | <b>24,122</b>   | <b>38,133</b>  |
| <b>Net cash inflow from financing activities</b>           |       | <b>24,122</b>   | <b>38,133</b>  |
| Increase/(decrease) in cash and cash equivalents           |       | <b>18,788</b>   | <b>(3,085)</b>   |
| Cash and cash equivalents at start of year/period          |       | <b>5,061</b>  | <b>8,146</b>   |
| <b>CASH AND CASH EQUIVALENTS AT END OF<br/>YEAR/PERIOD</b> |       | <b>23,849</b>   | <b>5,061</b>   |

**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.

**Critical accounting estimates and areas of judgement**

Estimates and judgements are continually evaluated and are based on historical experiences 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:

***Carrying value of investments and intercompany loan balances***

Xeros Technology Group has significant balances held as investments in subsidiaries and intercompany loan balances. The Directors consider the valuation and recoverability of these balances based on the potential future cashflows from utilisation of the Xeros technology. The Directors consider all available evidence in making their judgements on the recoverability of these balances, including internal forecasts and valuations performed by third parties. The Directors consider that there is no impairment of these amounts.

**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 year ended 31 December 2017 was a loss of £1,842,000 (period ended 31 December 2016: £1,523,000).

The audit fee for the company is set out in note 4 of the Group's financial statements.

**XEROS TECHNOLOGY GROUP PLC**  
**NOTES TO THE COMPANY INFORMATION**  
**FOR THE YEAR ENDED 31 DECEMBER 2017**

**C3. Investment in subsidiary companies**

At 31 December 2017, the Company held the following investments in subsidiaries;

| <b>Undertaking</b>                   | <b>Sector</b>   | <b>Share of issued capital and voting rights 2017</b> |
|--------------------------------------|---|---|
| Xeros Limited                        | Research, development and commercialisation of polymer technology alternatives to traditional aqueous based technologies                            | <b>100%</b>   |
| Xeros Inc*                           | Commercialisation of polymer technology alternatives to traditional aqueous based technologies  | <b>100%</b>   |
| Xeros High Performance Workwear Inc* | Commercialisation of polymer technology alternatives to traditional aqueous based technologies in cleaning specialist personal protective equipment | <b>100%</b>   |

\* Held through Xeros Limited

Xeros Limited, is incorporated in England and Wales as a private limited company under registered number 05933013. Its registered office is Unit 2, Evolution, Advanced Manufacturing Park, Whittle Way, Catcliffe, Rotherham, S60 5BL. Xeros Inc. is incorporated in Delaware, USA.

Xeros Inc's registered office is 250 Commercial Street, Suite 4002A, Manchester, New Hampshire, 03103, USA.

Xeros High Performance Workwear Inc's registered office is Corporation Trust Center, 1209 Orange Street, Wilmington, Delaware, 19801, USA.

| <b>Cost and net book value</b> | <b>£000</b>  |
|--------------------------------|--------------|
| At 31 July 2015                | 7,451        |
| Additions                      | 464          |
| <b>At 31 December 2016</b>     | <b>7,915</b> |
| Additions                      | 1,222        |
| <b>At 31 December 2017</b>     | <b>9,137</b> |

Additions comprise amounts 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**

|                                | <b>31 December 2017</b> | <b>31 December 2016</b> |
|--------------------------------|-------------------------|-------------------------|
|                                | <b>£000</b>             | <b>£000</b>             |
| Prepayments and accrued income | <b>42</b>               | 41                      |
| Other debtors                  | <b>37</b>               | 20                      |
|                                | <b>79</b>               | 61                      |

**XEROS TECHNOLOGY GROUP PLC**  
**NOTES TO THE COMPANY INFORMATION**  
**FOR THE YEAR ENDED 31 DECEMBER 2017**

**C5. Intercompany loans**

|                   | <b>31 December<br/>2017<br/>£000</b> | <b>31 December<br/>2016<br/>£000</b> |
|-------------------|--------------------------------------|--------------------------------------|
| Intercompany loan | <b>65,021</b>                        | 60,541                               |

Loans comprise a loan of £63,648,000 (31 December 2016: £59,422,000) to Xeros Limited and a loan of £1,373,000 (31 December 2016: £1,119,000) to Xeros Inc. No interest was payable on these loans. All intercompany loans are repayable on demand.

**C6. Trade and other payables**

|                                 | <b>31 December<br/>2017<br/>£000</b> | <b>31 December<br/>2016<br/>£000</b> |
|---------------------------------|--------------------------------------|--------------------------------------|
| Trade payables                  | -                                    | 44                                   |
| Social security and other taxes | <b>18</b>                            | 24                                   |
| Accruals                        | <b>623</b>                           | 210                                  |
|                                 | <b>641</b>                           | 278                                  |