Xeros Technology Group plc

Annual Report

For the year ended 31 July 2015

Chad Hanson, VP Operations at Witham Family Hotels, a franchisee of Choice Hotels International with Xeros VP of Field Operations Jim Basler and Stefano Vio, Chief Engineer for Witham's property located in Danvers, Massachusetts. In total the property has installed 3 Xeros washing systems and 2 Xeros dryers.

The Power of Polymer Cleaning®

Operational Highlights

- Significant progress made in Commercial Laundry
  - Increasing US market take up with 46% of machine sales from either repeat or affiliated buyers
  - Seven of the 10 largest US hotel chains now customers
  - Team of seasoned industry professionals recruited and forward channel partner network established
  - At end of September 2015:
    - 103 machines installed in US – further 39 committed to be installed
    - 20 machines installed in Europe – further 15 committed to be installed
- Leather Processing – accelerated progress towards scale validation
  - Phase 2 covering full scale trials started mid-October 2015, due for completion by the end of H1 2016
- Domestic laundry – market potential greatly in excess of commercial laundry
  - Significant activities planned to develop the opportunity
- Proposed placing to raise £40m before expenses to enable the Group to maintain the momentum seen since IPO as it seeks to:
  - accelerate the roll out strategy of the Commercial Laundry business in the Americas and Europe;
  - continue the development of technologies for the Domestic Laundry and Leather Processing markets; and
  - increase the scope and scale of the polymer science and engineering platforms in order to capitalise on additional opportunities to apply polymer bead innovations

Financial Highlights

- Group earned income increased by 52% to £480k (2014: £315k), largely driven by progress in the US
- As at 31 July 2015, contracted future revenues of £1.6m (2014: £0.8m)
- Net cash outflow from operations increased to £11.8m (2014: £7.2m) reflecting continued investment in research & development programmes alongside Commercial Laundry working capital and expansion costs
- At 31 July 2015, cash resources of £17.5m (2014: £29.5m) and the Group remains debt free. Proposed placing of shares to raise £40m, before expenses, increases cash resources at 31 July 2015 on a pro-forma basis to £57.5m

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CHAIRMAN'S STATEMENT

"We have made significant advances in our disruptive technology platform and are increasingly confident of its potential in a number of industries. We plan to continue to invest in the development of the commercial laundry business and also to accelerate the development of other applications of this technology."

John Samuel
Chairman

Overview

I am very pleased with the progress we have made in the year to 31 July 2015 and believe that we are well placed to capitalise upon that progress in the current year. We have made significant advances in our disruptive technology platform and are increasingly confident of its potential in a number of industries.

In Commercial Laundry we have increased the number of installations of our current machine and are scaling up our network of forward channel partners in anticipation of further growth. In Leather Processing, our development agreement with LANXESS is moving faster than our original expectations and is showing great promise. We also have a prototype domestic machine, which is attracting interest from a number of industry leading manufacturers. There will be further development of this machine using our new generation of beads and we will be progressing discussions with both manufacturers and detergent companies in this financial year.

In mid-2016 we will be launching a concept Laundromat store in Boston (USA), which will showcase both our current 25kg commercial machine and our new 15kg version. The 8kg domestic sized prototype will also be involved in this programme.

We plan to continue to invest in the development of the commercial laundry business but also to accelerate the development of other applications of this technology.

Strategy

We have a disruptive technology, which radically reduces water consumption, energy usage and effluent output across a number of industries. Commercial laundry is our first application and in this application we have clearly demonstrated that we use up to 80% less water, up to 50% less energy and up to 50% less detergent. We also produce a superior cleaning performance.

We believe these benefits can be made available across a number of industries and intend to invest in developing the platform.

Fundraising

We announced today our intention to raise £40m before costs via a placing with institutional shareholders. The proceeds will be used to continue the expansion of commercial laundry in the USA and other countries; to provide funding for the exploitation of our Leather Processing application and to provide capital for our plans to explore broadening the applications for this technology.

The Board

Mark Nichols was appointed Chief Executive Officer on 14 September 2015. He has more than 20 years' experience at senior levels in business development, operational and financial roles in both multinational and technology start-up businesses.

Financial accounts

We will be changing our financial year end to 31 December and plan to introduce a more detailed segmental reporting analysis in future reports.

Outlook

In the short term we are focused on driving the commercial laundry business to meet growing demand. In the medium term we will capitalise on the progress and momentum we have with leather processing and in domestic laundry. In the longer term we will be evaluating the value of this platform technology in other applications.

Thanks to the effort, commitment and enthusiasm of our team I have confidence that this will be another exciting year of progress.

John Samuel
Chairman

11 November 2015

CHIEF EXECUTIVE OFFICER'S REVIEW

"In the short term, we are focusing on driving our commercial laundry business to meet the growing demand, particularly in the US, for our energy and water efficient solutions with superior cleaning performance."

Mark Nichols
Chief Executive Officer

Strategic Overview

Since my appointment as Chief Executive in September 2015, I have spent time getting to know each aspect of the business and I am very excited by the prospects for the Group. My reviews have provided me with confidence that the business has the potential to evolve new, additional revenue streams.

The excellent progress in Commercial Laundry and the successful trials in Leather Processing provide me with this confidence. There is also increasing evidence that Xeros' polymer bead science is becoming a platform technology, which can be successfully applied across a number of water intensive domestic and commercial processes.

Our aim is to use our patented polymer bead inventions to reduce consumption of both water and energy in these processes whilst simultaneously improving the quality of their outcomes. In so doing, derive high margin revenues for the Group, based upon the savings and performance improvements delivered.

Applications of our technologies are being developed across three horizons. Firstly, Commercial Laundry which is now growing rapidly. Secondly, Leather Processing and Domestic Laundry which are currently being developed actively for commercialisation, and thirdly, additional attractive applications which we are in the process of reviewing for inclusion in our development pipeline. Such potential future applications include garment finishing, elements of which are analogous with those found in commercial laundry. Our bead technologies are disruptive in each of these areas and we will continue to be open minded as to the business models and commercial arrangements we deploy to capture the value we create.

Fund raising

The funds raised from the proposed Placing announced today, will enable us to accelerate our roll out strategy in the Commercial Laundry business in the Americas and Europe; to continue our development of technologies for the domestic laundry and leather processing markets and to increase the scope and scale of our polymer science and engineering platforms in order to capitalise on additional opportunities to apply our polymer bead innovations.

Excellent progress in Commercial Laundry

Commercial Laundry, the first market in which we chose to commercialise our bead technology, has made significant progress during the year. In April 2015, we established the global Commercial Laundry business led by Jonathan Benjamin, based in the US. Jonathan has responsibility for product development, sales, marketing, and operations on a worldwide basis.

Recent senior appointments include a General Manager for North America, a Vice President of Operational Excellence and a North American Director of Sales. These appointments, when combined with the balance of senior management, result in a leadership team with an average of 20 years of relevant experience with which to implement our Commercial Laundry business plan.

In addition, the business has grown its sales team with the recruitment of regional sales heads for the West Coast, South East and Mid-Atlantic. A Senior Vice President of Information Technology has also joined to lead initiatives in this area including the development and commercialisation of our remote machine monitoring systems. The Commercial Laundry business now has a total number of 41 employees worldwide with 30 based in the US.

Hyatt Resort Virginia 25kg Machines

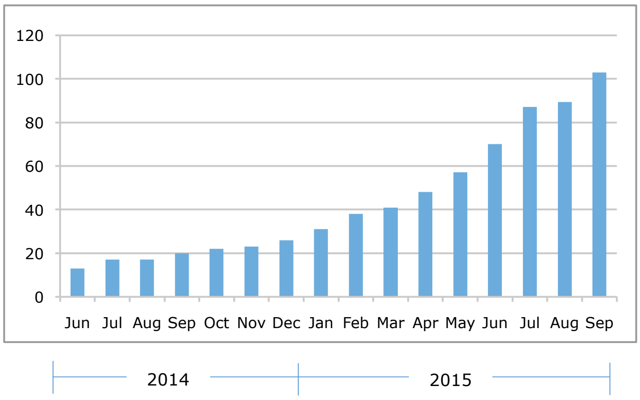
Our Commercial Laundry business currently targets the commercial and industrial laundry equipment segments within the "On-Premise Laundry" (OPL) market. The business model is founded on offering customers an integrated washing machine purchase and service package, known as Xeros Sbeadycare®.

Our growth in these target segments has accelerated significantly. When the Group announced its results for the last financial year in October 2014, the Commercial Laundry business had 37 installed and committed machines in the US and counted four out of the five largest hotel groups as customers with machines either installed or committed to be installed in the US.

As at the end of September 2015, there were 103 machines installed at US customers' premises with commitments to install a further 39. In addition, there were a further 20 machines installed with European customers with further commitments to install of 15. In the US, 46% of sales of machines have been from repeat or affiliated buyers and seven out of the 10 largest hotel chains are now customers.

Julian Ramirez, Owner of Inverrary Resorts, Fort Lauderdale, Florida has installed 2 Xeros washing machines and 1 Xeros branded dryer at this location.

Cumulative US Installs*

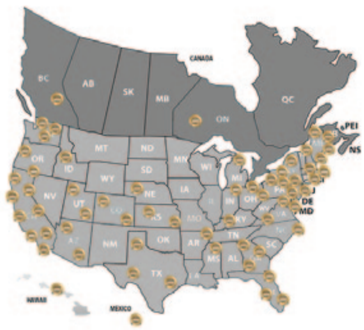


**20 machine installs in Europe as at 30 September 2015*

The current US customer base is now comprised of Hotel and Lodging with 59%, Retail Laundry with 35%, Industrial Laundry with 3% and others with 3%. Progress to date in the US is against a potential addressable replacement market size of circa 10,000 machines per annum with an estimated machine useful lifetime of 10 years.

In the US, Xeros machines are now installed with customers in 26 of the 50 States with multiple installations in a number of states including Georgia, Rhode Island, Missouri and California where high energy and water costs or water scarcity are particular features.

Growth in the US has been achieved by our highly experienced management team working in partnership with our Forward Channel Partners ("FCPs"), a large number of whom were brought on board in April 2015 following Xeros' exhibiting at the biennial Clean Show in Atlanta, Georgia. In combination, these resources are now providing customers with increasing numbers of Xeros machines and the high quality Xeros Sbeadycare® service.



Forward Channel Partners

Following the announcement in August 2015 of the recruitment of FCPs serving areas of Canada, Mexico and the Caribbean, the Commercial Laundry business intends to extend its model into additional countries during 2016 focussing on those with market structures and needs which make entry attractive.

In response to customer feedback, the Commercial Laundry business also simplified and restructured its US commercial arrangements. Customers now pay the same price for Xeros machines as they would for a conventional machine of the same size and can either buy them outright under the "Perform" contract or through a leasing arrangement, the "Complete" contract.

Integrated supply, service and support

Utility measurement and rebate optimisation

Laundry system optimisation

The benefits of reduced costs of water, effluent, energy, maintenance and chemicals that the Xeros machines and Sbeadycare® service deliver are now also being calculated and communicated to customers using our "Global Controller" machine management system and our signal processing and transmission technology, Sbeadycare® Pulse. These two technologies, which work together in an integrated manner, enable remote monitoring, analysis and diagnostics with the information received used to improve the customer's laundry performance, schedule maintenance and validate savings. The ability to provide this evidence to customers is expected to further enhance adoption rates.

The business has continued to respond to water scarcity and energy conservation being an increasing focus for government, municipal authorities and utility companies in the US. By way of example, the business continues to run targeted promotions and campaigns in California with the result that eight FCPs now serve the state and four utility companies provide incentives for the use of Xeros technology. Across the US, 19 utility companies now offer incentives to Xeros customers in 24 states and in one province in Canada.

In 2015, we commenced development of a 15kg (35lb) machine as a complement to our 25kg (55lb) machine in order to broaden the offering within targeted OPL market segments. This smaller size also fits well within the Laundromat market which is the largest commercial laundry segment in the US. This addition, combined with Xeros-branded dryers added to the range during 2015, will position the Commercial Laundry business to be capable of accessing a wide customer base. This increase in market reach will be further supported by the planned opening of a Xeros-branded laundromat concept store in Boston in mid-2016.

In June 2015, our Chinese machine supplier, Sea-lion, opened a new 300,000 sq. ft. facility, in Zhangjiagang City within which the increasing levels of production required by Xeros will be manufactured. Following which, a Joint Development Agreement was signed with Sea-Lion in September 2015 to complete the development and subsequent production of the aforementioned 15kg (35lb) machine.

Domestic Laundry

Discussions continue with major machine manufacturers on three continents as we determine a suitable route and business model through which to generate an appropriate return on our intellectual property. In support of our ambitions in this market, independent, nationwide research amongst US consumers has yielded positive results when comparing the Xeros machine and technology to a leading conventional brand.

The laundromat concept store in the US will enable additional consumer engagement and feedback on Xeros' latest domestic prototypes, their performance, control systems and operability. We also intend to use the store as a marketing tool to create a widespread awareness and create broad consumer interest and demand for our polymer bead cleaning technology. This, in turn, is expected to increase momentum with manufacturers, retailers and distributors, as well as create further interest from other stakeholders such as regional and national governments.

Leather Processing

Since the establishment by Xeros of a facility at The Institute of Creative Leather Technologies ("ICLT") at The University of Northampton, we have successfully completed a number of feasibility studies using polymer bead technology instead of conventional processes in the preparation, tanning and dyeing of leather. The Group has filed six patents covering the use of its polymer bead technology in leather processing; a market which is estimated to have an annual chemical demand in the region of $2.5 billion.

On 28 April 2015, we entered into a multi-phase Joint Development Agreement with LANXESS which aimed to demonstrate that the Group's patented technology could be viably deployed in large scale tanneries. LANXESS is a DAX listed specialty chemicals business headquartered in Germany with sales of €8.3bn and is a leading supplier of specialty chemicals to the leather industry on a worldwide basis.

Small scale trials were successfully completed under Phase 1 of the agreement one month early in July 2015. The Phase 2 scale-up validation stage agreement was signed in September 2015, covering progressive full scale production trials in a tannery with completion planned by the end of the first half of 2016.

We are planning to increase our resources to support broad market penetration and to work with tanneries to assist them in adopting our bead technology. We are also working hard to identify the value Xeros brings to leather processing and to develop a commercial strategy whereby we materially benefit from the value our technology creates.

"In the medium term, we plan to capitalise on the excellent progress we continue to make with our application in leather processing. We are also developing the opportunity in the global domestic laundry market".

Mark Nichols
Chief Executive Officer

Polymer bead development

The Group continues to develop and enhance its polymer bead technology for use across a range of applications. The physical design of "Gen 1" beads (i.e. their shape, size and density) for application in laundry has enabled excellent cleaning outcomes. Further development work on "Gen 2" beads is being undertaken as part of our Development Agreement with BASF as well as research conducted independently within the Group, and in collaboration with academic institutions. The design of "Gen 2" bead enables the incorporation of chemistry to improve laundry outcomes yet further still. We anticipate that the development and introduction of beads with this active chemistry for enhanced effects will further increase the appeal and demand for Xeros' technology.

In conjunction with ICLT, the Group has finalised the physical design of a bead for application in leather processing. The design is now being used in the Phase 2 scale-up trials with LANXESS.

Xeros Polymer beads in the Leather tanning and dyeing industry

"In the longer term, we have the opportunity to commercialise a number of further applications in parallel".

Mark Nichols
Chief Executive Officer

Further applications development

In addition to Laundry and Leather Processing, the Group sees further significant opportunities for the beneficial application of its technology within other industrial and domestic aqueous processes. We plan to undertake the assessment and determination of additional potential applications in the first half of 2016 and select particularly attractive applications for further development. Such potential applications include garment finishing, which has physical production processes analogous with those found in commercial laundry.

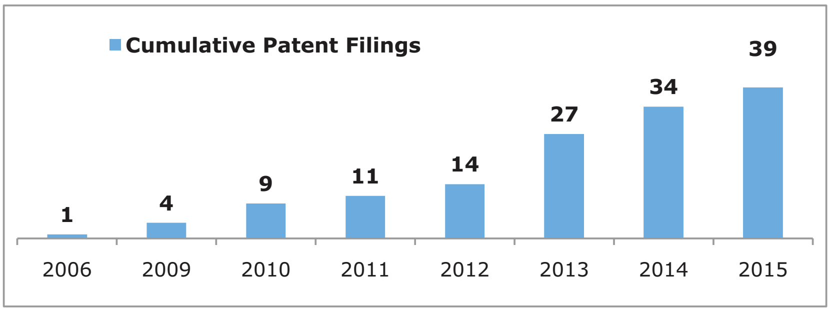
To meet the increasing development demands, we will continue to grow the scope and scale of our polymer science and engineering capabilities. These teams which have grown, in aggregate, to the present level of 29 are now housed in the Xeros Technology Centre, a specially designed 11,000 sq. ft. facility opened in August 2015.

Investment in our polymer science and applications engineering teams will be used to complete the commercial laundry product range, support potential entry into the domestic laundry market and to speed up the commercialisation of the technology in leather processing.

Intellectual Property protection

The Group's proprietary technologies are protected by a library of patents, which in aggregate, form a comprehensive intellectual property portfolio and present a substantial barrier to entry for potential competitors.

During the year, the Group expanded its patent portfolio and now comprises 39 patent families 'pending' and 'granted' whose coverage includes bead technologies in commercial and domestic laundry, leather processing, metal surface treatment and garment finishing. The grant of two patents covering the Group's core process in March/April of 2015 now means that this coverage has now been achieved in each of our targeted major markets.



Financial review

Group earned income was generated as follows:

	Audited Year ended 31 July 2015 £'000	Audited Year ended 31 July 2014 £'000
Machine sales	**289**	284
Service income	**177**	28
Lease interest income	**14**	3
Total earned income	**480**	315

Group earned income increased by 52% to £480,000 in the year ended 31 July 2015 when compared to the prior year (2014: £315,000).

Notably service income from the installed base of Commercial Laundry machines has increased significantly during the year ended 31 July 2015, to more than six times the service income generated in the previous year.

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 year are as follows:

	Year ended 31 July 2015 No.	Year ended 31 July 2014 No.
Machines sold – revenue and costs taken to P&L statement	**16**	17
Machines commissioned and generating service revenue, but machine sale revenues and costs not yet recognised	**32**	–
Machines installed but not yet commissioned	**34**	–
Machines installed in the year	**82**	17

As at 31 July 2015, contracted future revenues amount to £1.6m (2014: £0.8m) and average contract length is 74 months (2014: 76 months).

Adjusted gross margin improved to £81,000 (17%) from £21,000 (7%) in the year ended 31 July 2014.

The Group has continued to invest in its R&D programme. The Group spent £3.6m on R&D including staff and patent costs (2014: £3.0m) alongside the Commercial Laundry working capital and start-up costs, in line with the Board's expectations. This has resulted in an Adjusted EBITDA loss of £9.9m (2014: loss £6.3m).

The recent strength of the US$ means that working capital and start-up costs in the US Commercial Laundry business are proportionally more expensive when translated into Sterling, the Group's functional currency. However a strong US$ will benefit the Group financial statements as the US business grows to generate cash and become profitable.

The Group reported a loss after tax of £10.2m (2014: £6.4m). The loss per share increased from 12.9p in 2014 to 15.6p in 2015.

The Group expects cash utilisation to continue to accelerate over the coming years, as we continue to fund our R&D programmes alongside the roll-out in Commercial Laundry. The increase in net cash outflow from operations to £11.8m (£7.2m: 2014) for the 12 months to 31 July 2015 reflects these activities and was in line with the Board's expectations. The Group had existing cash resources as at 31 July 2015 of £17.5m (2014: £29.5m) and remains debt free.

The Group has tax losses of approximately £19.8m to offset against future taxable profits (31 July 2014: £11.2m).

Accounting reference date change

Historically the Group was predominantly a research and development business with strong university and academic links. A 31 July year end was therefore consistent with the business as it then was. The Group has decided to change its accounting reference date to 31 December, primarily to bring it into line with a more conventional commercial company reporting timeframe, consistent with the development of its commercial operations, in order to provide ease of reference for investors, customers, managers and employees.

The effect of the change to the accounting reference date is to extend the next accounting period to 31 December 2016, a period of more than 15 months. In accordance with Rule 18 of the AIM Rules, therefore, the Company will prepare and notify a second half-yearly report and will have the following reporting dates:

- Unaudited results for the five months to 31 December 2015 – to be announced by 31 March 2016
- Unaudited results for the six months to 30 June 2016 – to be announced by 30 September 2016
- Audited results for the 17 month period to 31 December 2016 – to be announced no later than 18 May 2017

The Group will subsequently publish its half-yearly reports to 30 June and annual audited accounts to 31 December in accordance with the AIM Rules for Companies.

The future

Looking ahead, we have a number of opportunities in our current and future growth horizons.

By 30 September 2015, the Group had 123 machines installed with commercial laundry customers in the Americas and Europe with 54 further commitments for installations in the coming months. 103 of these installations were in the US where it is the Group's ambition for the Commercial Laundry business to achieve significant market share over the next five years in its areas of focus within the US OPL machine replacement market.

The Group anticipates taking measured growth steps in Commercial Laundry which, whilst stretching, is predicated on the requirement to continually deliver the highest levels of customer service. The resultant customer satisfaction should help to broaden and deepen market acceptance as customers' positive experiences endorse the cost and performance benefits of our Commercial Laundry business' full service offering. The next phase of growth over the coming 12 months will be enabled by the continued training and accreditation of the first wave of FCPs, following their recruitment in April 2015. Further growth is anticipated with further additions to our FCP network.

"The fundraising announced today will support the execution of our strategies. We look forward to the future with confidence."

Mark Nichols
Chief Executive Officer

We seek to continue the progress in the Leather Processing market at a pace similar to that experienced over the last year and to progress our strategy for participation in Domestic Laundry by increasing engagement with machine and detergent suppliers.

We also look forward to concluding our appraisal of further viable applications and building our teams to deliver them.

Mark Nichols
Chief Executive Officer

11 November 2015

Principal activity

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

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 and Chief Executive Officer's review on pages 3 to 12.

Business review and results

A review of the Group's performance and future prospects is included in the Chairman's statement and Chief Executive Officer's review on pages 3 to 12. The loss for the year attributable to equity holders was £10,205,000 (2014: £6,379,000). The directors do not recommend the payment of a dividend (2014: nil).

Key performance indicators

As the Group is in the process of development and commercialisation, the director's consider the key quantitative performance indicator to be the level of cash and deposits held in the business of £17,452,000 (2014: £29,525,000). 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.

Future developments

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

On behalf of the Board

Mark Nichols
Chief Executive Officer
11 November 2015

DIRECTORS' REPORT

The Directors hereby present their annual report and audited consolidated and parent company financial statements for the year ended 31 July 2015.

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 year and up to the date of signing this report:

John Samuel	
Bill Westwater	resigned 15 September 2015
Mark Nichols	appointed 14 September 2015
Chris Hanson	
Dr Steve Jenkins	
Julian Viggars	
Dr Maciek Drozdz	
Dr Richard Ellis	appointed 22 October 2014

Directors' interests in the shares of the Company, including family interests are included in the Directors' Remuneration Report on pages 18 to 20.

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.

Mark Nichols, Chief Executive Officer
Mark Joined Xeros as Chief Executive Office in September 2015. Mark's early career was with global corporates including Total Oil and BOC. Since 2010 Mark has held leadership positions in venture capital start-ups in the cleantech sector. Mark qualified as a Chartered Certified Accountant in 1987.

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

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

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

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

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

Substantial shareholders

As at 30 October 2015, shareholders holding more than 3% of the share capital of Xeros Technology Group plc were:

Name of shareholder	Number of shares	% of voting rights
Invesco Asset Management Limited	17,620,365	26.9
IP Group plc*	12,093,360	18.5
Entrepreneurs Fund LP	7,350,345	11.2
Woodford Investment Management	5,521,645	8.4
Baillie Gifford & Co	3,939,817	6.0
RisingStars Growth Fund II	2,798,999	4.3
Finance Yorkshire Seedcorn LP	2,249,665	3.4
Parkwalk Advisors Funds	2,106,040	3.2

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

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.

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.

Mark Nichols
Chief Executive Officer
11 November 2015

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

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 and Richard Ellis.

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 took place early in 2015 following confirmation of bonuses for the calendar year 2014.

Share incentive schemes

The Group operates share option plans, under which certain directors' and senior management have been granted options to subscribe for ordinary shares. All options are equity settled. The options are subject to service and performance conditions, have an exercise price of between 0.15 pence and 164.5 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 their appointment to 31 July 2015 was:

	Salary & fees £000	**Bonus £000**	**Benefits £000**	**Total 2015 £000**	Total 2014 £000
John Samuel	**61**	**–**	**–**	**61**	44
Bill Westwater (notes 1&2)	**236**	**70**	**–**	**306**	234
Chris Hanson (note 1)	**150**	**45**	**–**	**195**	156
Dr Steve Jenkins (notes 1&2)	**141**	**35**	**1**	**177**	152
Julian Viggars	**10**	**–**	**–**	**10**	10
Dr Maciek Drozdz	**10**	**–**	**–**	**10**	8
Dr Richard Ellis (note 3)	**16**	**–**	**–**	**16**	–
Charles Winward (note 4)	**–**	**–**	**–**	**–**	9
Total	**624**	**150**	**1**	**775**	613

Note 1: In addition certain directors hold employee share scheme interests in the company. Fair value share based payment charges recognised in the consolidated statement of profit or loss and other comprehensive income attributable to these directors are: John Samuel £31,800 (2014: £8,000), Bill Westwater £242,600 (2014: £75,000), Chris Hanson £162,600 (2014: £56,000), Dr Steve Jenkins £129,470 (2014: £40,000)

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

Note 3: Dr Richard Ellis was appointed to the Company on 22 October 2014

Note 4: Charles Winward resigned from the Company on 6 June 2014

Note 5: Mark Nichols was appointed as a director after 31 July 2015 and consequently received no remuneration during the year.

Directors' shareholdings

The interests of the Directors holding office at 31 July 2015 in the shares of the Company, including family interests were:

	Ordinary shares of 0.15p each	
	2015 Number	2015 %
John Samuel	**1,454,966**	2.2
Bill Westwater	**689,332**	1.1
Chris Hanson (note 1)	**376,498**	0.6
Dr Steve Jenkins	**50,833**	0.1
Julian Viggars	**–**	–
Dr Maciek Drozdz	**–**	–
Dr Richard Ellis	**–**	–

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

Directors' interests in share options

Directors' interests in share options, granted under either the Xeros Technology Group plc Enterprise Management Incentive Share Option Scheme or the Xeros Technology Group plc Unapproved Share Option Scheme, to acquire ordinary shares of 0.15 pence each in the Company at 31 July 2015 were:

	At 1 August 2014	Exercised during year	Lapsed during year	Granted during year	At 31 July 2015	Exercise price	
Bill Westwater (note 1)	366,166	–	–	–	366,166	10.80	pence
Bill Westwater (note 2)	588,500	–	–	–	588,500	12.00	pence
Bill Westwater (note 3)	713,166	–	–	–	713,166	16.20	pence
Bill Westwater (note 4)	609,756	–	–	–	609,756	0.15	pence
Bill Westwater (note 7)	–	–	–	17,626	17,626	160.50	pence
Chris Hanson (note 2)	891,500	–	–	–	891,500	12.00	pence
Chris Hanson (note 4)	406,504	–	–	–	406,504	0.15	pence
Chris Hanson (note 7)	–	–	–	11,495	11,495	160.50	pence
Dr Steve Jenkins (note 5)	300,333	–	–	–	300,333	10.80	pence
Dr Steve Jenkins (note 2)	284,666	–	–	–	284,666	12.00	pence
Dr Steve Jenkins (note 6)	427,832	–	–	–	427,832	16.20	pence
Dr Steve Jenkins (note 4)	325,204	–	–	–	325,204	0.15	pence
Dr Steve Jenkins (note 7)	–	–	–	10,729	10,729	160.50	pence
John Samuel (note 4)	81,300	–	–	–	81,300	0.15	pence

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

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

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

Note 4. There were employment period and performance conditions in relation to the 1,422,764 options granted on 25 March 2014 which allowed for vesting in three equal proportions on or after the 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 5. There were employment conditions in relation to the 300,333 options granted on 13 May 2010 which allowed for vesting in nine instalments between the date of grant and 9 March 2012.

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

Note 7. There were employment conditions in relation to 39,850 options granted on 30 January 2015 which allowed for vesting in 16 instalments between the date of grant and 30 January 2019.

On behalf of the Board

John Samuel
Chairman of the Remuneration Committee
11 November 2015

CORPORATE GOVERNANCE STATEMENT

Corporate governance

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

The Board

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

Audit Committee

The Audit Committee 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 auditors and, in consultation with the auditors, the scope of the audit. It will receive and review reports from management and the Company's auditors relating to the half yearly and 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, Maciek Drozdz 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 July 2015, the Group had £15,913,000 of cash and cash equivalents available to it, along with £1,539,000 of cash held in term deposit accounts.

At this stage in its development the Company 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 November 2016. These forecasts indicate that the company is able to settle its liabilities as they fall due in the forecast period.

Accordingly the directors consider that this should enable the company 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 3 to this financial information includes the company'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.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

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

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

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the parent Company and of their profit or loss for that period. In preparing each of the Group and the parent Company financial statements, the Directors are required to:

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

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

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

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

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

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

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

We have audited the financial statements of Xeros Technology Group plc for the year ended 31 July 2015 set out on pages 24 to 54. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

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

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 22, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 July 2015 and of the group's loss for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the EU;
- the parent company's financial statements have been properly prepared in accordance with IFRSs as adopted by the EU and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

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

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

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

11 November 2015

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the year ended 31 July 2015

	Notes	**2015 £000**	2014 £000
Earned income		**480**	315
Less: lease interest income	9	**(14)**	(3)
REVENUE	4	**466**	312
Cost of sales		**(399)**	(294)
GROSS PROFIT		**67**	18
Lease interest income	9	**14**	3
Adjusted gross margin		**81**	21
Administrative expenses	7	**(11,102)**	(6,793)
Other operating income	8	**174**	–
Adjusted EBITDA*		**(9,868)**	(6,335)
Share based payment expense	23	**(916)**	(210)
Non operating exceptional costs	7	**–**	(163)
Depreciation of tangible fixed assets	12	**(77)**	(67)
OPERATING LOSS		**(10,861)**	(6,775)
Finance income	9	**192**	113
LOSS BEFORE TAXATION		**(10,669)**	(6,662)
Taxation	10	**464**	283
LOSS AFTER TAX		**(10,205)**	(6,379)
OTHER COMPREHENSIVE INCOME:			
Items that are or may be reclassified to profit or loss:			
Foreign currency translation differences – foreign operations		**16**	(38)
TOTAL COMPREHENSIVE EXPENSE FOR THE YEAR		**(10,189)**	(6,417)
LOSS PER SHARE			
Basic and diluted on loss from continuing operations	11	**(15.62)p**	(12.92)p

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 July 2015

	Share capital £000	Share premium £000	Merger reserve £000	Foreign currency translation reserve £000	Retained earnings deficit £000	Total £000
At 31 July 2013	61	–	15,449	–	(6,968)	8,542
Loss for the year	–	–	–	–	(6,379)	(6,379)
Other comprehensive expense	–	–	–	(38)	–	(38)
Loss and total comprehensive expense for the year	–	–	–	(38)	(6,379)	(6,417)
Transactions with owners, recorded directly in equity:						
Issue of shares	37	29,963	–	–	–	30,000
Costs of share issues	–	(1,842)	(6)	–	–	(1,848)
Exercise of share options	–	11	–	–	–	11
Share based payment expense	–	–	–	–	210	210
Total contributions by and distributions to owners	37	28,132	(6)	–	210	28,373
At 31 July 2014	**98**	**28,132**	**15,443**	**(38)**	**(13,137)**	**30,498**
Loss for the year	–	–	–	–	(10,205)	(10,205)
Other comprehensive expense	–	–	–	16	–	16
Loss and total comprehensive expense for the year	–	–	–	16	(10,205)	(10,189)
Transactions with owners, recorded directly in equity:						
Issue of shares	–	46	–	–	–	46
Exercise of share options	–	–	–	–	–	–
Share based payment expense	–	–	–	–	916	916
Total contributions by and distributions to owners	–	46	–	–	916	962
At 31 July 2015	**98**	**28,178**	**15,443**	**(22)**	**(22,426)**	**21,271**

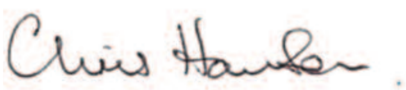
CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as at 31 July 2015

	Notes	**2015 £000**	2014 £000
ASSETS			
Non-current assets			
Property, plant and equipment	12	**577**	121
Trade and other receivables	14	**363**	177
TOTAL NON-CURRENT ASSETS		**940**	298
Current assets			
Inventories	13	**2,909**	747
Trade and other receivables	14	**578**	654
Current tax asset	10	**477**	–
Investments – bank deposits	15	**1,539**	1,526
Cash and cash equivalents	16	**15,913**	27,999
TOTAL CURRENT ASSETS		**21,416**	30,926
TOTAL ASSETS		**22,356**	31,224
LIABILITIES			
Non-current liabilities			
Deferred tax	19	**(22)**	(17)
TOTAL NON-CURRENT LIABILITIES		**(22)**	(17)
Current liabilities			
Trade and other payables	18	**(1,063)**	(709)
TOTAL CURRENT LIABILITIES		**(1,063)**	(709)
TOTAL LIABILITIES		**(1,085)**	(726)
NET ASSETS		**21,271**	30,498
EQUITY			
Share capital	20	**98**	98
Share premium	20	**28,178**	28,132
Merger reserve	20	**15,443**	15,443
Foreign currency translation reserve	21	**(22)**	(38)
Accumulated losses	21	**(22,426)**	(13,137)
TOTAL EQUITY		**21,271**	30,498

Approved by the Board of Directors and authorised for issue on 11 November 2015.

John Samuel
Chairman



Chris Hanson
Chief Financial Officer

Company number: 08684474

CONSOLIDATED STATEMENT OF CASH FLOWS

for the year ended 31 July 2015

	Notes	2015 £000	2014 £000
Operating activities			
Loss before tax		**(10,669)**	(6,662)
Adjustment for non-cash items:			
Depreciation of property, plant and equipment	12	**77**	67
Share based payment	23	**916**	210
Increase in inventories		**(2,110)**	(876)
Increase in trade and other receivables		**(90)**	(312)
Increase in trade and other payables		**288**	251
Finance income		**(192)**	(113)
Cash used in operations		**(11,780)**	(7,435)
Taxes (paid)/refunded		**(8)**	284
Net cash outflow from operations		**(11,788)**	(7,151)
INVESTING ACTIVITIES			
Finance income		**192**	113
Cash (placed on)/withdrawn from deposits with more than 3 months maturity		**(13)**	4,479
Purchases of property, plant and equipment	12	**(532)**	(75)
Net cash (outflow)/inflow from investing activities		**(353)**	4,517
FINANCING ACTIVITIES			
Proceeds from issue of share capital, net of costs	20	**46**	28,163
Net cash inflow from financing activities		**46**	28,163
(Decrease)/increase in cash and cash equivalents		**(12,095)**	25,529
Cash and cash equivalents at start of year		**27,999**	2,472
Effect of exchange rate fluctuations on cash held		**9**	(2)
CASH AND CASH EQUIVALENTS AT END OF YEAR	16	**15,913**	27,999

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 July 2015

(1) BASIS OF PREPARATION

Xeros Technology Group plc is a public limited company domiciled in the United Kingdom. The financial statements of Xeros Technology Group plc are audited consolidated financial statements for the year to 31 July 2015. These include comparatives for the year to 31 July 2014. 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.

Business combinations and basis of consolidation

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

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

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

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

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

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

Going Concern

At this stage in its development the company 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 November 2016. These forecasts indicate that the company is able to settle its liabilities as they fall due in the forecast period.

Accordingly the directors consider that this should enable the company 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 3 to this financial information includes the company'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.

(2) SIGNIFICANT ACCOUNTING POLICIES

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

The principal accounting policies applied are set out below.

REVENUE RECOGNITION

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

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

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

FOREIGN CURRENCIES

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

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

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

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

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

(2) SIGNIFICANT ACCOUNTING POLICIES continued

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:

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

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

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

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

As a lessor

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

(2) SIGNIFICANT ACCOUNTING POLICIES continued

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 per cent. on cost on a straight line basis
Fixtures and fittings	– 20 per cent. on cost on a straight line basis
Computer equipment	– 33 per cent. 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.

IMPAIRMENT OF PROPERTY, PLANT AND EQUIPMENT

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

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

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

INVENTORIES

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

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

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

SHARE BASED PAYMENTS

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

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

(2) SIGNIFICANT ACCOUNTING POLICIES continued

SHARE BASED PAYMENTS continued

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.

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.

(2) SIGNIFICANT ACCOUNTING POLICIES continued

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 have been accounted for on either a cash receipts basis or an accruals basis depending on the level of certainty regarding repayments of the claims made.

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.

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.

(2) SIGNIFICANT ACCOUNTING POLICIES continued

Equity settled share-based payments

The estimation of share-based payment costs requires the selection of an appropriate valuation method, consideration as to the inputs necessary for the valuation model chosen and the estimation of the number of awards that will ultimately vest. Inputs subject to judgement relate to the future volatility of the share price of comparable companies, the Group's expected dividend yields, risk free interest rates and expected lives of the options. The Directors draw on a variety of sources to aid in the determination of the appropriate data to use in such calculations. The share based payment charge for the year was £916,000 (31 July 2014: £210,000)

Research and development costs

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

Recoverability of deferred tax assets

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

NEW ACCOUNTING STANDARDS AND INTERPRETATIONS APPLIED IN THE YEAR

The following new and amended IFRS and IFRIC interpretations are mandatory as of 1 August 2014 unless otherwise stated and the impact of adoption is described below. There are no other changes to IFRS effective in the year which have a material impact on the Group.

- IFRS 13 Fair Value Measurement: IFRS 13 does not affect when fair value is used, but rather describes how to measure fair value where fair value is required or permitted by IFRS. There was no impact on the Group from the adoption of IFRS 13.
- IAS 19 Employee Benefits (Revised): The revised standard includes a number of amendments that range from fundamental changes to simple clarifications and re-wording. There was no impact on the Group from the adoption of IAS 19 (Revised).
- IAS 1 (Amendment): The amendment to IAS 1 concerns presentation of items of Other Comprehensive Income. There is no impact from the adoption of the amendment.

(2) SIGNIFICANT ACCOUNTING POLICIES continued

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:

- IAS 1: Disclosure Initiative (effective date 1 January 2016);
- IAS 16 and IAS 38: Clarification of acceptable methods of depreciation and amortisation (effective date 1 January 2016);
- AIP IFRS 7: Applicability of the offsetting disclosures to condensed interim financial statements (effective 1 January 2016);
- AIP IAS 19: Discount rate: Regional market issue (effective 1 January 2016);
- AIP IAS 34: Disclosure of information 'elsewhere in the interim financial report' (effective 1 January 2016);
- IFRS 15: Revenue from contracts with customers (effective 1 January 2017); and
- IFRS 9: Financial Instruments (effective 1 January 2018)

(3) FINANCIAL RISK MANAGEMENT

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

The Group is exposed to the following financial risks:

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

To the extent that financial instruments are not carried at fair value in the consolidated statement of financial position, book value approximates to fair value at 31 July 2013, 31 July 2014 and 31 July 2015.

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

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

(3) FINANCIAL RISK MANAGEMENT continued

Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Group is potentially exposed to credit risk from credit sales, but the Directors consider this to be a low risk. At 31 July 2015, the Group had trade receivables outstanding of £42,000 (2014: £20,000).

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

The Directors are not aware of any factors affecting the recoverability of outstanding balances at 31 July 2015 and consequently no provisions have been made for bad and doubtful debts.

The Group is potentially exposed to credit risk in respect of its bank deposits in the event of failure of the respective banks. The Group attempts to mitigate this risk by spreading its cash deposits across a number of different banks and through ongoing monitoring of the credit ratings of those banks. Further details are set out in note 16. At 31 July 2015 the Directors were not aware of any factors affecting the recoverability of the Group's bank balances.

Liquidity risk

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

Market risk

Market risk is the risk that changes in market prices, such as interest rates or foreign exchange rates will affect the Group's income. The objective of market risk management is to manage and control market risk exposures within acceptable parameters. Market interest rate risk arises from the Group's holding of cash and cash equivalent balances and from cash held on term deposit accounts (see notes 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.

Based on the Group's cash balances at 31 July 2015, 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 year of approximately £1,175,000 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 year would be an increase in the loss for the year of £178,000 with a corresponding decrease in the Group's net assets.

Foreign currency risk

The Group is exposed to currency risk on sales and purchase transactions and cash held on deposit accounts that are denominated in a currency other than the respective functional currencies of group entities, primarily Pound Sterling (GBP), the US Dollars (USD) and the Euro (EUR). In respect of other monetary assets and liabilities denominated in foreign currencies, the Group's policy is to ensure that its net exposure is kept to an acceptable level by buying foreign currencies at spot rates when necessary to meet working capital requirements in each of the Group's entities.

(3) FINANCIAL RISK MANAGEMENT continued

Capital risk management

The Group's capital is made up of share capital, share premium and retained losses, totalling £5,850,000 at 31 July 2015 (31 July 2014: £15,093,000).

The Group's objectives when managing capital are:

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

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

(4) SEGMENTAL REPORTING

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

The single operating segment includes revenue by category as follows:

	Year to 31 July 2015 £000	Year to 31 July 2014 £000
Sale of goods	**289**	284
Rendering of services	**177**	28
	466	312

During the year ended 31 July 2015 the Group had no customers who individually generated more than 10 per cent. of total revenue.

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

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

	Year to 31 July 2015 £000	Year to 31 July 2014 £000
Europe	**88**	55
North America	**378**	257
	466	312

(4) SEGMENTAL REPORTING continued

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

	Year to 31 July 2015 £000	Year to 31 July 2014 £000
Europe	**517**	130
North America	**423**	168
	940	298

(5) LOSS FROM OPERATIONS

	Year to 31 July 2015 £000	Year to 31 July 2014 £000
Loss from operations is stated after crediting:		
Grant income	**74**	–
Foreign exchange gains	**174**	–
Loss from operations is stated after charging to administrative expenses:		
Depreciation of plant and equipment (see note 12)	**77**	67
Operating lease rentals – land and buildings	**104**	42
Staff costs (excluding share based payment charge)	**4,334**	2,534
Research and development (excluding staff and patent costs)	**1,401**	1,324

Auditors remuneration:		
- Audit of these financial statements	**8**	8
- Audit of financial statements of subsidiaries of the company	**12**	7
- all other services	**6**	154
Total auditor's remuneration	**26**	169

Other services in the prior year related to transaction services in relation to the IPO.

(6) STAFF COSTS

	Year to 31 July 2015 Number	Year to 31 July 2014 Number
The average monthly number of persons (including directors) employed by the Group during the year was:		
Directors	**7**	7
Operational staff	**58**	36
	65	43

(6) STAFF COSTS continued

	Year to 31 July 2015 £000	Year to 31 July 2014 £000
The aggregate remuneration, including directors, comprised:		
Wages and salaries	**3,952**	2,286
Share based expense (see note 23)	**916**	210
Social security costs	**382**	248
	5,250	2,744
Directors' remuneration comprised:		
Emoluments for qualifying services	**775**	613

Directors' emoluments disclosed above include £306,000 paid to the highest paid director (2014: £234,000). There are no pension benefits for directors. Please see Directors' Remuneration Report on pages 18 to 20 for further information on directors' emoluments.

(7) EXPENSES BY NATURE

The administrative expenses charge by nature is as follows:

	Year to 31 July 2015 £000	Year to 31 July 2014 £000
Staff costs, recruitment and other HR	**4,647**	2,717
Share-based payment expense	**916**	210
Premises and establishment costs	**222**	73
Research and development costs	**1,401**	1,324
Patent and IP costs	**655**	423
Legal, professional and consultancy fees	**1,196**	700
IT, telecoms and office costs	**203**	151
Depreciation charge	**77**	67
Travelling, subsistence and entertaining	**950**	482
Advertising, conferences and exhibitions	**637**	376
Foreign exchange (gains)/losses	**–**	(21)
Other expenses	**263**	128
Less: grants receivable	**(65)**	–
Total operating administrative expenses	**11,102**	6,630
Non operating administrative exceptional items:		
AIM flotation costs	**–**	163
Total administrative expenses	**11,102**	6,793

Staff costs, recruitment and other HR include £1,588,000 (2014: £1,275,000) that is deemed to be directly related to research and development activity.

(8) OTHER OPERATING INCOME

	Year to 31 July 2015 £000	Year to 31 July 2014 £000
Foreign exchange gains	**174**	–
	174	–

(9) FINANCE INCOME

	Year to 31 July 2015 £000	Year to 31 July 2014 £000
Bank interest receivable	**178**	110
Finance income from lease receivables	**14**	3
	192	113

(10) TAXATION

Tax on loss on ordinary activities

	Year to 31 July 2015 £000	Year to 31 July 2014 £000
Current tax:		
UK Tax credits received in respect of prior periods	**(477)**	(284)
Foreign taxes paid	**8**	–
	(469)	(284)
Deferred tax:		
Origination and reversal of temporary timing differences	**5**	1
Tax credit on loss on ordinary activities	**(464)**	(283)

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

(10) TAXATION continued

Factors affecting the current tax charges

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

	Year to 31 July 2015 £000	Year to 31 July 2014 £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	**(10,669)**	(6,662)
Tax at the standard rate of corporation tax 20% (2014: 20%)	**(2,134)**	(1,332)
Effects of:		
Expenses not deductable for tax purposes	**202**	55
Research and development tax credits receivable	**(477)**	(283)
Unutilised tax losses	**1,937**	1,277
Foreign taxes paid	**8**	–
Tax credit for the year	**(464)**	(283)

At 31 July 2015 the group had an amount of £477,000 (2014: £nil) receivable from HM Revenue and Customs in respect of Research and Development tax credits. This is included as a current tax asset in the Consolidated Statement of Financial Position.

(11) LOSS PER SHARE (BASIC AND DILUTED)

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

	Year to 31 July 2015 £000	Year to 31 July 2014 £000
Total loss attributable to the equity holders of the parent	**(10,205)**	(6,379)
	No.	No.
Weighted average number of ordinary shares in issue during the year	**65,336,459**	49,360,625
Loss per share		
Basic and diluted on loss for the year	**(15.62)p**	(12.92)p

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

	£000	£000
Basic earnings	**(10,205)**	(6,379)
Non operating exceptional costs	**–**	163
Adjusted earnings	**(10,205)**	(6,216)
Adjusted loss per share		
Basic and diluted on loss for the year	**(15.62)p**	(12.59)p

(11) LOSS PER SHARE (BASIC AND DILUTED) continued

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

	Year to 31 July 2015	Year to 31 July 2014
Issued ordinary shares at 1 August *	**65,173,549**	40,683,333
Effect of shares issued for cash	**162,910**	8,677,292
Weighted average number of shares at 31 July	**65,336,459**	49,360,625

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

The Company has issued employee options over 7,368,901 (2014: 6,232,589) ordinary shares which are potentially dilutive. There is however, no dilutive effect of these issued options as there is a loss for each of the years concerned.

(12) PROPERTY, PLANT AND EQUIPMENT

	Assets under construction £000	Leasehold improvements £000	Plant and equipment £000	Computer equipment £000	Fixtures and fittings £000	Total £000
Cost						
At 31 July 2013	**–**	**66**	**74**	**28**	**41**	**209**
Additions	–	25	18	29	3	75
At 31 July 2014	**–**	**91**	**92**	**57**	**44**	**284**
Additions	360	39	59	27	47	532
Foreign currency differences	–	–	–	1	–	1
At 31 July 2015	**360**	**130**	**151**	**85**	**91**	**817**
Depreciation						
At 31 July 2013	**–**	**32**	**26**	**12**	**26**	**96**
Charge for the year	–	31	15	12	9	67
At 31 July 2014	**–**	**63**	**41**	**24**	**35**	**163**
Charge for the year	–	24	24	20	9	77
At 31 July 2015	**–**	**87**	**65**	**44**	**44**	**240**
Net book value						
At 31 July 2015	**360**	**43**	**86**	**41**	**47**	**577**
At 31 July 2014	**–**	**28**	**51**	**33**	**9**	**121**
At 31 July 2013	**–**	**34**	**48**	**16**	**15**	**113**

Assets under construction consist of leasehold improvements at the Company's new Technology Centre at the Advanced Manufacturing Park. The new premises were not completed until August 2015

(13) INVENTORIES

	31 July 2015 £000	31 July 2014 £000
Finished goods	**2,909**	747

In the year end 31 July 2015, changes in finished goods recognised as cost of sales amounted to £345,000 (2014: £273,000).

(14) TRADE AND OTHER RECEIVABLES

	31 July 2015 £000	31 July 2014 £000
Due within 12 months		
Trade debtors	**42**	20
Other receivables	**159**	269
Prepayments and accrued income	**377**	365
	578	654
Due after more than 12 months		
Other receivables	**363**	177

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

The minimum lease payment is receivable as follows:

	31 July 2015 £000	31 July 2014 £000
Not later than one year	**50**	23
Later than one year not later than five years	**218**	100
Later than five years	**145**	77
	413	200

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

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

Other receivables of £363,000 (2014: £177,000) due after more than one year comprise the long term portion of finance leases where the Group acts as lessor.

(15) INVESTMENTS – BANK DEPOS ITS

	31 July 2015 £000	31 July 2014 £000
Bank deposits maturing between 3 and 12 months	**1,539**	1,526

At 31 July 2015 the company held £1,539,000 (2014: £1,526,000) in a 95 day deposit account. This balance is denominated in UK Sterling (£). The Directors consider that the carrying value of cash and cash equivalents approximates to their fair value. For details of credit risk management policies, refer to note 3.

(16) CASH AND CASH EQUIVALENTS

	31 July 2015 £000	31 July 2014 £000
A	**14,200**	27,999
BBB+	**1,713**	–
Cash and cash equivalents	**15,913**	27,999

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 July 2015 are at floating interest rates. Balances are denominated in UK Sterling (£), US Dollars ($) and Euros as follows:

	31 July 2015 £000	31 July 2014 £000
Denominated in Pound Sterling	**15,537**	25,719
Denominated in US Dollars	**316**	2,255
Denominated in Euros	**60**	25
Cash and cash equivalents	**15,913**	27,999

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

(17) FINANCIAL INSTRUMENTS

Non-derivative financial assets

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

	31 July 2015 £000	31 July 2014 £000
Due within 3 months		
Cash and cash equivalents	**15,913**	27,999
Trade receivables	**42**	20
Other receivables	**536**	634
Income tax receivable	**477**	–
	16,968	28,653

(17) FINANCIAL INSTRUMENTS continued

	31 July 2015 £000	31 July 2014 £000
Due between 3 months and 12 months		
Investments: fixed rate bonds and cash deposits	**1,539**	1,526

Due after more than 12 months		
Other receivables	**363**	177

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

	31 July 2015 £000	31 July 2014 £000
United Kingdom	**453**	568
United States of America	**125**	86
	578	654

Non-derivative financial liabilities

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

	31 July 2015 £000	31 July 2014 £000
Due within 3 months		
Trade payables	**287**	379
Other payables	**776**	330
	1,063	709

Interest rate sensitivity

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

	31 July 2015		
	Fixed rate £000	**Floating rate £000**	**Total £000**
Cash and cash equivalents	**–**	**15,913**	**15,913**
Investments: Cash deposits	**–**	**1,539**	**1,539**

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

Based on the Group's above balances at 31 July 2015, 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 year of approximately £1,175,000 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 year would be an increase in the loss for the year of £178,000 with a corresponding decrease in the Group's net assets.

(17) FINANCIAL INSTRUMENTS continued

Market risk – foreign currency risk

The Group's exposure to foreign currency risk as at 31 July 2015 is as follows. This is based on the carrying amount for monetary financial instruments.

	Sterling £000	US Dollar £000	Euro £000	Total £000
Inventories	500	2,409	–	2,909
Cash and cash equivalents	15,537	316	60	15,913
Investments: Cash deposits	1,539	–	–	1,539
Trade and other receivables	453	125	–	578
Trade and other payables	(765)	(284)	(14)	(1,063)
Balance sheet exposure	17,264	2,566	46	19,876

(18) TRADE AND OTHER PAYABLES

	31 July 2015 £000	31 July 2014 £000
Trade payables	**287**	379
Taxes and social security	**79**	68
Other creditors	**26**	34
Accruals and deferred income	**671**	228
	1,063	709

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

	31 July 2015 £000	31 July 2014 £000
Sterling	**216**	257
US Dollars	**56**	115
Euros	**15**	7
Trade payables	**287**	379

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

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

(19) DEFERRED TAX

	31 July 2015 £000	31 July 2014 £000
Accelerated depreciation for tax purposes	**22**	17
Deferred tax expense	**5**	1

	31 July 2015 £000	31 July 2014 £000
At beginning of year	**17**	16
Tax expense	**5**	1
At end of year	**22**	17

As at 31 July 2015, the Group had unrecognised deferred tax assets totalling approximately £4,014,000 (31 July 2014: £2,319,000), 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.

(20) SHARE CAPITAL

	Number	Share capital £000	Share premium £000	Merger reserve £000	Total £000
Total Ordinary shares of 0.15p each as at 10 September 2013 (date of incorporation)	**–**	**–**	**–**	**–**	**–**
Issue of ordinary shares	65,073,549	98	29,963	15,449	45,510
Issue of ordinary shares on exercise of share options	100,000	–	11	–	11
Costs of share issues	–	–	(1,842)	(6)	(1,848)
Total Ordinary shares of 0.15p each as at 31 July 2014	**65,173,549**	**98**	**28,132**	**15,443**	**43,673**
Issue of ordinary shares on exercise of share options	331,330	–	46	–	46
Total Ordinary shares of 0.15p each as at 31 July 2015	**65,504,879**	**98**	**28,178**	**15,443**	**43,719**

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 year ended 31 July 2015:

(a) On 28 January 2015, 183,332 Ordinary Shares were allotted at a price of 12 pence per share, for total cash consideration of £22,000, upon the exercise of share options granted in the Company's EMI share option scheme.

(b) On 30 January 2015, 132,999 Ordinary Shares were allotted at a price of 16.2 pence per share, for total cash consideration of £21,546, upon the exercise of share options granted in the Company's EMI and Unapproved share option schemes.

(c) Between 11 May 2015 and 15 May 2015, 14,999 Ordinary Shares were allotted at a price of 16.2 pence per share, for total cash consideration of £2,430, upon the exercise of share options granted in the Company's EMI share option scheme.

At 31 July 2015, the Company had only one class of share, being Ordinary Shares of 0.15p each.

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

	Accumulated losses £000	Foreign currency translation reserve £000
At 31 July 2013	**(6,968)**	**–**
Loss for the year	(6,379)	–
Other comprehensive income/(expenses) – Foreign currency translation differences – foreign operation	–	(38)
Shared based payment charge	210	–
At 31 July 2014	**(13,137)**	**(38)**
Loss for the year	(10,205)	–
Other comprehensive income/(expenses) – Foreign currency translation differences – foreign operation	–	16
Shared based payment charge	916	–
At 31 July 2015	**(22,426)**	**(22)**

(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 July 2015 £000	31 July 2014 £000
Land and buildings:		
Amounts due within one year	**93**	4
Amounts due between one and five years	**171**	6
	264	10

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

On 13 February 2015 the company entered into an arrangement assigning to it a 10 year lease in respect of a property. The lease commenced on 2 April 2012, expires on 1 April 2022 and contains a break clause allowing termination of the lease after 5 years. The company has an annual rent commitment of £50,160 on this lease.

Other commitments

Under the terms of a manufacturing agreement between Xeros Limited and Jiangsu Sea-lion Machinery Group, Xeros Limited is committed to acquire machines at a total cost of approximately $1.1 million by the end of 2015.

(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 2013	**3,861,493**	**221,333**	**–**	**4,082,826**	**0.134**
Exercised in the year	–	(100,000)	–	(100,000)	(0.108)
Issued in the year	555,036	1,694,727	–	2,249,763	0.045
At 31 July 2014	**4,416,529**	**1,816,060**	**–**	**6,232,589**	**0.102**
Exercised in the year	(209,999)	(121,333)	–	(331,332)	(0.139)
Lapsed in the year	(183,332)	–	–	(183,332)	(0.120)
Issued in the year	92,665	1,496,334	61,977	1,650,976	1.490
At 31 July 2015	**4,115,863**	**3,191,061**	**61,977**	**7,368,901**	**0.411**

There were 5,980,343 share options outstanding at 31 July 2015 which were eligible to be exercised. The remaining options were not eligible to be exercised as these are subject to employment period and market based vesting conditions, some of which had not been met at 31 July 2015. Options have a range of exercise prices from 0.15 pence per share to 164.5 pence per share and have a weighted contractual life of 7.78 years (2014: 8.32 years).

	Options granted on 17 December 2014	Options granted on 30 January 2015	Options granted on 4 February 2015
Dividend yield	0%	0%	0%
Expected volatility*	40.00%	40.00%	40.00%
Risk free interest rate (%)	2.02%	2.02%	2.02%
Expected vesting life of options (years)	6	6	6
Weighted average share price (£)	1.300	1.605	1.645

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

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 year as follows:

	Year to 31 July 2015 £000	Year to 31 July 2014 £000
Share options	**916**	210

(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 31 July with other related parties, are as follows:

	Relationship	**Purchases from related party 2015 £000**	**Amounts owed to related party 2015 £000**	Purchases from related party 2014 £000	Amounts owed to related party 2014 £000
Related party:					
IP2IPO Limited	Shareholder (note 1)	**–**	**–**	9	–
Top Technology Ventures Limited	Connected to IP2IPO Limited	**–**	**–**	1	–
Enterprise Ventures Limited	Fund manager for certain shareholders (note 2)	**10**	**–**	10	–
Entrepreneurs' Fund Management LLP	Fund manager for a shareholder (note 3)	**10**	**–**	10	–

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

Note 2: 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 3: Entrepreneurs' Fund Management LLP provides the services of Dr Maciek Drozdz a director for the Company and invoiced the Group for associated director's fees.

Terms and conditions of transactions with related parties

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

Transactions with Key Management Personnel

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

Directors' remuneration:

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

	Year to 31 July 2015 £000	Year to 31 July 2014 £000
Short-term employment benefits*	**775**	613

*In addition, certain directors hold share options in the Company for which a fair value share based charge of £566,470 has been recognised in the consolidated statement of profit or loss and other comprehensive income (2014: £179,000).

During the year ended 31 July 2015, the Company entered into numerous transactions with its subsidiary company which net off on consolidation – these have not been shown above.

COMPANY STATEMENT OF CHANGES IN EQUITY

for the period ended 31 July 2015

	Attributable to the equity holders of the Company				
	Share Capital £000	Share Premium £000	Merger reserve £000	Retained Earnings Reserve £000	Total £000
At 10 September 2013 (date of incorporation)	**–**	**–**	**–**	**–**	**–**
Total expense and other comprehensive loss for the period	–	–	–	(134)	(134)
Transactions with owners, recorded directly in equity:					
Share capital issued	37	29,963	–	–	30,000
Arising on acquisition	61	–	6,625	–	6,686
Costs of share issues	–	(1,842)	–	–	(1,842)
Exercise of share options	–	11	–	–	11
Share based payment expense in respect of services provided to subsidiary undertaking	–	–	–	165	165
Total contributions by and distributions to owners	98	28,132	6,625	165	35,020
At 31 July 2014	**98**	**28,132**	**6,625**	**31**	**34,886**
Total expense and other comprehensive loss for the period	–	–	–	(390)	(390)
Transactions with owners, recorded directly in equity:					
Exercise of share options	–	46	–	–	46
Share based payment expense	–	–	–	316	316
Share based payment expense in respect of services provided to subsidiary undertaking	–	–	–	600	600
Total contributions by and distributions to owners	–	46	–	916	962
At 31 July 2015	**98**	**28,178**	**6,625**	**557**	**35,458**

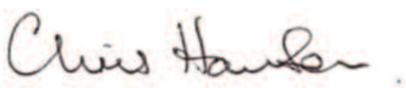
COMPANY STATEMENT OF FINANCIAL POSITION

as at 31 July 2015

	Notes	**2015 £000**	2014 £000
ASSETS			
Non-current assets			
Investments	C3	**7,451**	6,851
Total non-current assets		**7,451**	6,851
Current assets			
Trade and other receivables	C4	**44**	91
Intercompany loan balance	C5	**19,954**	19,880
Cash and cash equivalents		**8,146**	8,101
Total current assets		**28,144**	28,072
TOTAL ASSETS		**35,595**	34,923
LIABILITIES			
Current liabilities			
Trade and other payables	C6	**(137)**	(37)
TOTAL LIABILITIES		**(137)**	(37)
NET ASSETS		**35,458**	34,886
EQUITY			
Share capital	20	**98**	98
Share premium	20	**28,178**	28,132
Merger reserve		**6,625**	6,625
Retained earnings		**557**	31
TOTAL EQUITY		**35,458**	34,886

Approved by the Board of Directors and authorised for issue on 11 November 2015.

John Samuel
Chairman



Chris Hanson
Chief Financial Officer

Company number: 08684474

NOTES TO THE COMPANY INFORMATION

for the period ended 31 July 2015

C1. Principal accounting policies

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

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

C2. Company results

The Company has elected to take the exemption under section 408 of the Companies Act 2006 not to present the parent company's statement of profit or loss and other comprehensive income. The parent company's result for the period ended 31 July 2015 was a loss of £390,000 (2014: £134,000).

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

C3. Investment in subsidiary companies

At 31 July 2015, the Company held the following investments in subsidiaries;

Undertaking	Sector	Share of issued capital and voting rights 2015
Xeros Limited	Research, development and commercialisation of polymer bead alternatives to traditional aqueous based technologies	**100%**
Xeros Inc*	Commercialisation of polymer bead alternatives to traditional aqueous based technologies	**100%**

* Held through Xeros Limited

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

Cost	**£000**
At 10 September 2013 (date of incorporation)	–
Additions	6,851
At 31 July 2014	**6,851**
Additions	600
At 31 July 2015	**7,451**
Impairment	
At 10 September 2013 (date of incorporation)	–
At 31 July 2014 and 31 July 2015	**–**
Net book value	
At 31 July 2015	**7,451**
At 31 July 2014	6,851

Included within additions of £600,000 (2014: £6,851,000) is an amount of £600,000 (2014: £165,000) in respect of the IFRS 2 share based payment contribution relating to options granted to employees of the Company's subsidiaries.

C4. Trade and other receivables

	31 July 2015 £000	31 July 2014 £000
Prepayments and accrued income	**22**	12
Other debtors	**22**	79
	44	91

C5. Current assets

	31 July 2015 £000	31 July 2014 £000
Intercompany loan	**19,954**	19,880

Loans comprise a loan of £19,600,000 (2014: £19,855,000) to Xeros Limited and a loan of £354,000 (2014: £25,000) to Xeros Inc. No interest was payable on these loans. All intercompany loans are repayable on demand.

C6. Trade and other payables

	31 July 2015 £000	31 July 2014 £000
Trade payables	**32**	–
Social security and other taxes	**15**	13
Accruals	**90**	2
	137	37

NOTICE OF ANNUAL GENERAL MEETING

Notice is given that the 2015 annual general meeting of Xeros Technology Group plc ("the Company") will be held at the offices of Squire Patton Boggs (UK) LLP, 7 Devonshire Square, London EC2M 4YH on 11 December 2015 at 10am for the following purposes:

To consider and, if thought fit, to pass the following resolutions as ordinary resolutions:

1. To receive the Company's annual accounts, strategic report and directors' and auditors' reports for the year ended 31 July 2015.
2. To elect as a Director, Mark Nichols, who was appointed to the Board on 14 September 2015
3. To re-elect as a Director, Chris Hanson who retires from the Board in accordance with the Company's Articles
4. To re-elect as a Director, Steve Jenkins who retires from the Board in accordance with the Company's Articles
5. To re-elect as a Director, Julian Viggars who retires from the Board in accordance with the Company's Articles
6. To appoint KPMG LLP as auditors of the Company.
7. To authorise the directors to determine the remuneration of the auditors.
8. That, pursuant to section 551 of the Companies Act 2006 ("Act"), the directors be and are generally and unconditionally authorised to exercise all powers of the Company to allot Relevant Securities:

    8.1 comprising equity securities (as defined in section 560(1) of the Act) up to an aggregate nominal amount of £83,000 (such amount to be reduced by the aggregate nominal amount of Relevant Securities allotted pursuant to paragraph 8.2 of this resolution) in connection with a rights issue:

    8.1.1 to holders of ordinary shares in the capital of the Company in proportion (as nearly as practicable) to the respective numbers of ordinary shares held by them; and

    8.1.2 to holders of other equity securities in the capital of the Company, as required by the rights of those securities or, subject to such rights, as the directors otherwise consider necessary,

    but subject to such exclusions or other arrangements as the directors may deem necessary or expedient in relation to treasury shares, fractional entitlements, record dates or any legal or practical problems under the laws of any territory or the requirements of any regulatory body or stock exchange; and

    8.2 otherwise than pursuant to paragraph 8.1 of this resolution, up to an aggregate nominal amount of £41,500 (such amount to be reduced by the aggregate nominal amount of Relevant Securities allotted pursuant to paragraph 8.1 of this resolution in excess of £41,500),

    provided that (unless previously revoked, varied or renewed) these authorities shall expire at the conclusion of the next annual general meeting of the Company after the passing of this resolution or on 30 June 2017 (whichever is the earlier), save that, in each case, the Company may make an offer or agreement before the authority expires which would or might require Relevant Securities to be allotted after the authority expires and the directors may allot Relevant Securities pursuant to any such offer or agreement as if the authority had not expired.

    In this resolution, "**Relevant Securities**" means shares in the Company or rights to subscribe for or to convert any security into shares in the Company; a reference to the allotment of Relevant Securities includes the grant of such a right; and a reference to the nominal amount of a Relevant Security which is a right to subscribe for or to convert any security into shares in the Company is to the nominal amount of the shares which may be allotted pursuant to that right.

These authorities are in substitution for all existing authorities under section 551 of the Act (which, to the extent unused at the date of this resolution, are revoked with immediate effect).

To consider and, if thought fit, to pass the following resolutions as special resolutions:

9. That, subject to the passing of resolution 8 and pursuant to section 570 of the Act, the directors be and are generally empowered to allot equity securities (within the meaning of section 560 of the Act) for cash pursuant to the authorities granted by resolution 8 as if section 561(1) of the Act did not apply to any such allotment, provided that this power shall be limited to:

   9.1 the allotment of equity securities in connection with an offer of equity securities (whether by way of a rights issue, open offer or otherwise, but, in the case of an allotment pursuant to the authority granted by paragraph 8.1 of resolution 8, such power shall be limited to the allotment of equity securities in connection with a rights issue):

   9.1.1 to holders of ordinary shares in the capital of the Company in proportion (as nearly as practicable) to the respective numbers of ordinary shares held by them; and

   9.1.2 to holders of other equity securities in the capital of the Company, as required by the rights of those securities or, subject to such rights, as the directors otherwise consider necessary,

   but subject to such exclusions or other arrangements as the directors may deem necessary or expedient in relation to treasury shares, fractional entitlements, record dates or any legal or practical problems under the laws of any territory or the requirements of any regulatory body or stock exchange; and

   9.2 the allotment of equity securities pursuant to the authority granted by paragraph 8.2 of resolution 8 (otherwise than pursuant to paragraph 9.1 of this resolution) up to an aggregate nominal amount of £6,250,

   and (unless previously revoked, varied or renewed) this power shall expire at the conclusion of the next annual general meeting of the Company after the passing of this resolution or on 30 June 2017 (whichever is the earlier), save that the Company may make an offer or agreement before this power expires which would or might require equity securities to be allotted for cash after this power expires and the directors may allot equity securities for cash pursuant to any such offer or agreement as if this power had not expired.

   This power is in substitution for all existing powers under section 570 of the Act (which, to the extent unused at the date of this resolution, are revoked with immediate effect).

By order of the board

……..................................

Chris Hanson
Company Secretary

11 November 2015

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

Registered in England and Wales No. 08684474

NOTES

Entitlement to attend and vote

1. The right to vote at the meeting is determined by reference to the register of members. Only those shareholders registered in the register of members of the Company as at 6.00pm on 9 December 2015 (or, if the meeting is adjourned, 6.00pm on the date which is two working days before the date of the adjourned meeting) shall be entitled to attend and vote at the meeting in respect of the number of shares registered in their name at that time. Changes to entries in the register of members after that time shall be disregarded in determining the rights of any person to attend or vote (and the number of votes they may cast) at the meeting.

Proxies

2. A shareholder is entitled to appoint another person as his or her proxy to exercise all or any of his or her rights to attend and to speak and vote at the meeting. A proxy need not be a shareholder of the Company.

   A shareholder may appoint more than one proxy in relation to the meeting, provided that each proxy is appointed to exercise the rights attached to a different share or shares held by that shareholder. Failure to specify the number of shares each proxy appointment relates to or specifying a number which when taken together with the numbers of shares set out in the other proxy appointments is in excess of the number of shares held by the shareholder may result in the proxy appointment being invalid.

   A proxy may only be appointed in accordance with the procedures set out in notes 3 and 4 below and the notes to the proxy form.

   The appointment of a proxy will not preclude a shareholder from attending and voting in person at the meeting.

3. A form of proxy is enclosed. When appointing more than one proxy, complete a separate proxy form in relation to each appointment. Additional proxy forms may be obtained by contacting the Company's registrar on 0121 585 1131. State clearly on each proxy form the number of shares in relation to which the proxy is appointed.

   To be valid, a proxy form must be received by post or (during normal business hours only) by hand at the offices of the Company's registrar, Neville Registrars Limited, Neville House, 18 Laurel Lane, Halesowen, West Midlands B63 3DA, no later than 10am on 9 December 2015 (or, if the meeting is adjourned, no later than 48 hours before the time of any adjourned meeting).

4. CREST members who wish to appoint a proxy or proxies for the meeting (or any adjournment of it) through the CREST electronic proxy appointment service may do so by using the procedures described in the CREST Manual. CREST personal members or other CREST sponsored members, and those CREST members who have appointed a voting service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.

   In order for a proxy appointment or instruction made using the CREST service to be valid, the appropriate CREST message (a "CREST Proxy Instruction") must be properly authenticated in accordance with Euroclear UK & Ireland Limited's specifications and must contain the information required for such instructions, as described in the CREST Manual. The message, regardless of whether it constitutes the appointment of a proxy or is an amendment to the instruction given to a previously appointed proxy, must, in order to be valid, be transmitted so as to be received by Neville Registrars (ID 7RA11) no later than 10am on 9 December 2015 (or, if the meeting is adjourned, no later than 48 hours before the time of any adjourned meeting). For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Applications Host) from which Neville Registrars is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time, any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means.

CREST members and, where applicable, their CREST sponsors or voting service providers should note that Euroclear UK & Ireland Limited does not make available special procedures in CREST for any particular messages. Normal system timings and limitations will therefore apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member or sponsored member or has appointed a voting service provider(s), to procure that his or her CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting service providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.

The Company may treat a CREST Proxy Instruction as invalid in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.

Corporate representatives

5. A shareholder which is a corporation may authorise one or more persons to act as its representative(s) at the meeting. Each such representative may exercise (on behalf of the corporation) the same powers as the corporation could exercise if it were an individual shareholder, provided that (where there is more than one representative and the vote is otherwise than on a show of hands) they do not do so in relation to the same shares.

Documents available for inspection

6. The following documents will be available for inspection during normal business hours at the registered office of the Company from the date of this notice until the time of the meeting. They will also be available for inspection at the place of the meeting from at least 15 minutes before the meeting until it ends.

   a. Copies of the service contracts of the executive directors.

   b. Copies of the letters of appointment of the non executive directors.

Biographical details of directors

7. Biographical details of all those directors who are offering themselves for reappointment at the meeting are set out on pages 16 and 17 of the enclosed annual report and accounts.

DIRECTORS

John Samuel	(Chairman)
Mark Nichols	(Chief Executive Officer)
Chris Hanson	(Chief Financial Officer)
Dr Steve Jenkins	(Chief Science Officer)
Julian Viggars	(Non-Executive Director)
Dr Maciek Drozdz	(Non-Executive Director)
Dr Richard Ellis	(Non-Executive Director)

COMPANY SECRETARY

Chris Hanson

COMPANY WEBSITE

www.xeroscleaning.com

COMPANY NUMBER

08684474 (England and Wales)

REGISTERED OFFICE

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

REGISTRAR

Neville Registrars Limited
Neville House
18 Laurel Lane
Halesowen
B63 3DA

AUDITOR

KPMG LLP
1 Sovereign Square
Sovereign Street
Leeds
LS1 4DA

LEGAL ADVISER

Squire Patton Boggs (UK) LLP
7 Devonshire Square
London
EC2M 4YH

NOMINATED ADVISER AND BROKER

Jefferies International Ltd
Vintners Place
68 Upper Thames Street
London
EC4V 3BJ

Xeros® Technology Group plc
Unit 2, Evolution
Advanced Manufacturing Park
Whittle Way
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www.xeroscleaning.com