Xeros Technology Group plc

Interim Report 2014

XEROS®
BEAD CLEANING

xeros®

The Power of Polymer Cleaning ®

www.xeroscleaning.com

CHAIRMAN'S STATEMENT

Introduction

I am delighted to present the Group's first results statement following its successful admission to AIM on 25 March 2014. The funds raised, £30m before expenses, will allow us to accelerate the development and commercialisation of the Group's patented polymer bead cleaning system.

Polymer bead cleaning

The Xeros system is characterised by replacing the majority of water used in existing conventional processes with reusable and recyclable polymer beads. Through enhanced mechanical action, attraction and absorption the beads provide superior performance whilst significantly reducing the consumption of water, energy and chemicals in the process.

Business Model and Strategy

Our intention is to become the world leader in polymer bead cleaning.

We have targeted the commercial laundry market as our first market and begun the roll-out of 25kg capacity washing machines, which use Xeros' patented 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 costs compared to conventional commercial laundry methods. The Xeros system also reduces the carbon footprint of the entire laundry process.

In addition to the commercial laundry market, the Group's technology has a range of potential applications in other industries including domestic laundry, leather processing, garment finishing and metal cleaning. The Group is currently in various stages of development and preparation for commercialisation of these applications, the most advanced of which is domestic laundry.

In our first market, commercial laundry, we will control deployment using a market approach called Xeros Sbeadycare™. This is a "one-stop-shop" service package of equipment, consumables and maintenance all under a single Xeros banner for which the customer pays a monthly fee and signs up for a minimum 5 year commitment. In other applications we intend to license the production, distribution and marketing of machines and detergents to partners. This will allow us to benefit from the expertise, scale and global reach of our partners, whilst continuing to supply beads into these systems as a branded ingredient.

Business development

Our focus in the financial year to date has been to put in place the infrastructure to support the growth of the business. This has included the establishment of robust systems and procedures to enable us to confidently expand the business from a firm foundation.

As part of the commencement of the roll out of our offering in commercial laundry, we have increased our inventory of Xeros machines and increased our investment in headcount within commercial laundry in both the UK and the US.

Our approach to people has always been to recruit ahead of need and in the year to date we have continued to do that, with key commercial laundry appointments in sales & marketing and supply chain management. We continue to invest in and add greater depth to the team in order to properly support customer engagement in commercial laundry whilst continuing our research and development operations.

The funds raised on admission to trading on AIM since the half year end allow us to continue to provide additional capital investment to fund growth and support the business going forward.

Intellectual property

Our proprietary technology is protected by a library of patents which form a comprehensive intellectual property portfolio.

The Xeros patent portfolio currently comprises 29 patent families, which cover bead cleaning technology in applications from commercial and domestic laundry through to leather and wool processing, as well as metal surface treatments.

As we grow and further develop this technology, and the products using it, we will continue to file patents to protect improvements in existing methods and also to file specific product patents.

Financial review

Revenue for the period was £86,195 (2013: £41,698) and includes the Group's first revenues, in December 2013, from the first five machines installed with customers signed up to Xeros Sbeadycare™ contracts of at least five years in length.

As was flagged at the time of the admission to AIM, the Group has continued to record a trading loss because of continuing investment in research and development and the early stage commercialisation of the commercial laundry offering.

The Group loss from operations increased from a loss of £1,373,915 in 2013 to a loss of £2,819,385 for the period ended 31 January 2014. This increase in losses reflects the investment in overheads including headcount and business infrastructure to support the anticipated future growth and development of the business.

Illustrative basic and diluted earnings per share were a loss of 6.1 pence (2013: loss of 6.3 pence). These calculations have been prepared on an illustrative basis in order to demonstrate the loss attributable to the ordinary shares of Xeros Technology Group plc as though the share for share exchange and subdivision referred to in note 6 had applied throughout each period.

Net cash used in operations was £2,895,636 (2013: £1,178,237). During the period net working capital utilised increased by £147,335 (2013: reduction of £142,772). This increase principally relates to the holding of stock in the commercial laundry supply chain reflecting the start of commercial activity in commercial laundry.

Net assets have increased to £6,105,289 (2013: £380,571), reflecting the benefit of the £10m private funding round completed on 4 March 2013, offset by the trading loss for the period.

Cash at bank, including cash held on deposit, at 31 January 2014 was £5,887,936 (2013: £414,739). The increase is attributable to the proceeds (net of costs) arising from the issue of shares on 4 March 2013. These proceeds have been placed on deposit with a range of financial institutions for time periods ranging between instant access and up to 6 months maturity.

These results represent a period during which the business was under private ownership before the successful fund raising and admission to AIM on 25 March 2014.

However, because Xeros Technology Group plc was not the parent undertaking of the group as at 31 January 2014, the interim condensed consolidated financial statements as at 31 January 2014 and for the six months then ended, and the comparative information, comprise Xeros Limited and its subsidiary undertaking.

Outlook

We have achieved much in the last year. Further, as a result of admission to AIM, the Group now enjoys a higher profile within its target markets and this is already generating increased customer and commercial partner engagement. There is still much to do but our plans are on track and I believe we have the necessary financial and human resources to drive the deployment of this disruptive technology to its maximum potential.

John Samuel
Chairman

30 April 2014

Interim condensed consolidated statement of comprehensive income

for the six months ended 31 January 2014

	Note	**Unaudited 6 months to 31 January 2014 £**	Unaudited 6 months to 31 January 2013 £	Unaudited Year ended 31 July 2013 £
Revenue		**86,195**	41,698	64,667
Cost of sales		**(81,121)**	(32,172)	(52,684)
Gross profit		**5,074**	9,526	11,983
Administrative expenses		**(2,824,459)**	(1,460,914)	(3,665,056)
Other operating income		**–**	77,473	190,734
Loss from operations		**(2,819,385)**	(1,373,915)	(3,462,339)
Finance income		**39,892**	9,906	52,684
Finance costs		**–**	(2)	(2)
Loss before taxation		**(2,779,493)**	(1,364,011)	(3,409,657)
Taxation credit	3	**283,673**	228	165,739
Loss for the period attributable to equity holders of the parent company		**(2,495,820)**	(1,363,783)	(3,243,918)
Other comprehensive income				
Items that are or maybe reclassified subsequently to profit and loss:				
Foreign currency translation differences		**19,312**	–	–
Total recognised income for the year		**(2,476,508)**	(1,363,783)	(3,243,918)
Illustrative loss per share (pence per share)				
Basic and diluted	5	**6.1p**	6.3p	11.1p

The following notes are an integral part of these interim condensed consolidated financial statements.

Interim condensed consolidated statement of financial position

as at 31 January 2014

	Note	**Unaudited 31 January 2014 £**	Unaudited 31 January 2013 £	Unaudited 31 July 2013 £
Assets				
Non-current assets				
Property, plant and equipment		**118,691**	101,988	113,493
Current assets				
Inventories		**413,715**	–	62,913
Trade and other receivables		**420,432**	273,729	327,247
Investments - deposits		**2,516,124**	–	6,005,182
Cash and cash equivalents		**3,371,812**	414,739	2,471,747
		6,722,083	688,468	8,867,089
Total assets		**6,840,774**	790,456	8,980,582
Liabilities				
Current liabilities				
Trade and other payables		**(718,538)**	(397,349)	(421,886)
Non-current liabilities				
Deferred tax		**(16,947)**	(12,536)	(16,482)
Total liabilities		**(735,485)**	(409,885)	(438,368)
Net assets		**6,105,289**	380,571	8,542,214
Equity attributable to shareholders of the parent				
Share capital		**24**	12	24
Share premium account		**15,509,710**	5,534,632	15,509,710
Profit and loss reserve		**(9,423,757)**	(5,154,073)	(6,967,520)
Translation reserve		**19,312**	–	–
Total equity		**6,105,289**	380,571	8,542,214

The following notes are an integral part of these interim condensed consolidated financial statements.

Interim condensed consolidated statement of changes in equity

for the six months ended 31 January 2014

	Share capital £	Share premium £	Profit and loss reserve £	Translation reserve £	Total equity £
As at 31 July 2012	12	5,534,632	(3,823,879)	–	1,710,765
Total comprehensive loss for the period	–	–	(1,363,783)	–	(1,363,783)
Transactions with owners of the parent					
IFRS 2 share-based payment charge	–	–	33,589	–	33,589
As at 31 January 2013	12	5,534,632	(5,154,073)	–	380,571
Total comprehensive loss for the period	–	–	(1,880,135)	–	(1,880,135)
Transactions with owners of the parent					
Issue of equity share capital	12	9,975,078	–	–	9,975,090
IFRS 2 share-based payment charge	–	–	66,688	–	66,688
As at 31 July 2013	24	15,509,710	(6,967,520)	–	8,542,214
Total comprehensive loss for the period	–	–	(2,495,820)	19,312	(2,476,508)
Transactions with owners of the parent					
IFRS 2 share-based payment charge	–	–	39,583	–	39,583
As at 31 January 2014	**24**	**15,509,710**	**(9,423,757)**	**19,312**	**6,105,289**

Interim condensed consolidated statement of cash flows

for the six months ended 31 January 2014

	Unaudited 6 months to 31 January 2014 £	Unaudited 6 months to 31 January 2013 £	Unaudited Year ended 31 July 2013 £
Cash flow from operating activities			
Loss before taxation	**(2,779,493)**	(1,364,011)	(3,409,657)
Adjustments for:			
Depreciation of property, plant and equipment	**31,501**	19,317	40,856
Share-based payment charge	**39,583**	33,589	100,277
Increase in inventories	**(350,802)**	–	(62,913)
Increase in trade and other receivables	**(93,185)**	(29,353)	(16,013)
Increase in trade and other payables	**296,652**	172,125	196,662
Finance income	**(39,892)**	(9,906)	(52,684)
Finance expenses	**–**	2	2
Cash used in operations	**(2,895,636)**	(1,178,237)	(3,203,470)
Tax credit received	**284,138**	–	169,457
Net cash used in operating activities	**(2,611,498)**	(1,178,237)	(3,034,013)
Investing activities			
Acquisition of property, plant and equipment	**(36,699)**	(10,126)	(43,170)
Cash from/placed on deposits with more than 3 months maturity	**3,489,058**	–	(6,005,182)
Finance income	**39,892**	9,906	52,684
Finance expenses	**–**	(2)	(2)
Net cash used in investing activities	**3,492,251**	(222)	(5,995,670)
Cash flow from financing activities			
Proceeds from the issue of shares	**–**	–	9,908,232
Net cash generated from financing activities	**–**	–	9,908,232
Net increase in cash and cash equivalents	**880,753**	(1,178,459)	878,549
Cash and cash equivalents at beginning of period	**2,471,747**	1,593,198	1,593,198
Effective of foreign exchange rate changes	**19,312**	–	–
Cash and cash equivalents at end of period	**3,371,812**	414,739	2,471,747

Notes to the interim condensed consolidated financial statements

1. General information

The principal activity of Xeros Technology Group plc ("the Company") and its subsidiary companies (together "Xeros" or the "Group") is the development and commercialisation of polymer bead cleaning alternatives to traditional aqueous based cleaning.

The Company was incorporated, as Hamsard 3323 Limited, on 10 September 2013 and on 17 March 2014 acquired Xeros Limited and its subsidiary undertaking and as a result became the parent undertaking for the continuing activities of the acquired subsidiaries. On 18 March 2014 Hamsard 3323 Limited was re-registered as a public limited company and changed its name to Xeros Technology Group plc.

Xeros Technology Group plc is domiciled in the UK and incorporated in England and Wales (registered number 8684474), and its registered office address is Unit 14, Evolution, Advanced Manufacturing Park, Whittle Way, Catcliffe, Rotherham, S60 5BL. The Company's principal activity is that of a holding company.

The interim condensed consolidated financial statements were approved for issue on 30 April 2014.

2. Basis of preparation

The interim condensed consolidated financial information has been prepared under the historical cost convention and in accordance with AIM Rules for Companies. However, because Xeros Technology Group plc was not the parent undertaking of the group as at 31 January 2014 the interim condensed consolidated financial statements as at 31 January 2014 and for the six months then ended comprise Xeros Limited and its subsidiary undertaking.

The interim condensed consolidated financial information has been prepared on a going concern basis and is presented in Sterling to the nearest £.

The accounting policies used in the preparation of the interim condensed consolidated financial information are consistent with those set out in the AIM admission document dated 19 March 2014. Further IFRS standards or interpretations may be issued that could apply to the Group's financial statements for the year ending July 2014. If any such amendments, new standards or interpretations are issued then these may require the financial information provided in this report to be changed. The Group will continue to review its accounting policies in the light of emerging industry consensus on the practical application of IFRS.

The preparation of financial information in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of the amount, event or actions, actual events ultimately may differ from those estimates.

The interim statement does not include all financial risk management information and disclosures required in annual financial statements; they should be read in conjunction with the financial information, as at 31 July 2013, summarised in the Admission Document dated 19 March 2014. There have been no significant changes in any risk management policies since 31 July 2013.

The interim condensed consolidated financial statements for the six months ended 31 January 2014 and for the six months ended 31 January 2013 do not constitute statutory accounts as defined in Section 434 of the Companies Act 2006 and are unaudited. The comparative figures for the year ended 31 July 2013 are audited and have been extracted from the AIM admission document dated 19 March 2014.

Notes to the interim condensed consolidated financial statements

Continued

3. Taxation

	Unaudited 6 months to 31 January 2014 £	Unaudited 6 months to 31 January 2013 £	Unaudited Year ended 31 July 2013 £
Current tax:			
R & D tax credit	**(284,138)**	–	(169,457)
Deferred tax charge/(credit)	**465**	(228)	3,718
Total tax credit	**(283,673)**	(228)	(165,739)

4. Segmental analysis

The Group currently has one operating segment. Revenue and losses arising from that segment are the same as presented on the face of the consolidated statement of comprehensive income.

5. Loss per share

Basic loss per share is calculated by dividing the loss attributable to equity holders by the weighted average number of shares in issue during the period. The Group was loss-making for the periods ended 31 January 2014 and 31 January 2013 and also for the year ended 31 July 2013. Therefore, the dilutive effect of share options has not been taken account of in the calculation of diluted earnings per share, since this would decrease the loss per share reported for each of the periods reported.

Illustrative loss per ordinary share is presented in order to demonstrate the loss attributable to the ordinary shares of Xeros Technology Group plc as though the share for share exchange and the subdivision referred to in note 6 had applied throughout each period. The calculation of illustrative basic and diluted loss per ordinary share is based on the loss for the period, as set out below.

	Loss for the period £	Weighted average number of shares in issue	Loss per share (pence)
Six months ended 31 January 2014	**(2,495,820)**	**40,663,640**	**(6.1)**
Six months ended 31 January 2013	(1,363,783)	21,525,654	(6.3)
Year ended 31 July 2013	(3,243,918)	29,191,287	(11.1)

Notes to the interim condensed consolidated financial statements

Continued

5. Loss per share (continued)

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

	Year to 31 July 2013	**6 months to 31 January 2014**
	Number of shares	**Number of shares**
Weighted average number of shares for 6 months ended 31 January 2013	21,525,654	**21,525,654**
Effect of shares issued on 4 March 2013	7,532,046	**18,450,988**
Effect of shares issued on 23 May 2013	133,587	**656,998**
Weighted average number of shares at period end	29,191,287	**40,633,640**

6. Details of events occurring after the reporting period

By a special resolution dated 17 March 2014, the Company adopted articles of association providing that the share capital of the Company be comprised of Ordinary Shares, A Ordinary Shares, B Ordinary Shares, C Ordinary Shares and C1 Ordinary Shares, and each share was subdivided into shares of 25p each.

On 17 March 2014, in accordance with the terms of a share for share exchange agreement, the Company issued 37,756 Ordinary Shares, 31,490 A Ordinary Shares, 64,144 B Ordinary Shares, 102,881 C Ordinary Shares and 7,825 C1 Ordinary Shares to the shareholders of Xeros Limited, fully paid, in consideration of the acquisition of the entire issued share capital of Xeros Limited, and the shareholders of Xeros Limited became shareholders, in the same percentages, of the Company with Xeros Limited becoming a 100 per cent. subsidiary.

On 18 March 2014, 8,148 C1 Ordinary Shares and 3,658 C Ordinary Shares were allotted to EIS and other investors at a price of £205 per share, raising £2,420,230 (before expenses). On the same day, the Company changed its name to Xeros Technology Group plc and was re-registered as a public limited company.

By a special resolution dated 18 March 2014, conditional upon and with effect from Admission, each Ordinary Share, A Ordinary Share, B Ordinary Share, C Ordinary Share and C1 Ordinary Share of 25p each in issue was re-designated as 166.6666667 Ordinary Shares of 0.15p each.

On 25 March 2014, 22,422,579 Ordinary Shares of 0.15p each were issued, at £1.23 per share, raising £27,579,772 (before expenses), following the admission of the Company to AIM.

Notes to the interim condensed consolidated financial statements

Continued

7. Availability of interim report

This interim report will be sent to shareholders on 8 May 2014. Electronic copies will also be available on Xeros' website at www.xeroscleaning.com.

Forward-looking statements

This announcement may include certain forward-looking statements, beliefs or opinions, including statements with respect to Xeros' business, financial condition and results of operations. These forward-looking statements can be identified by the use of forward-looking terminology, including the terms "believes", "estimates", "plans", "anticipates", "targets", "aims", "continues", "expects", "intends", "hopes", "may", "will", "would", "could" or "should" or, in each case, their negative or other various or comparable terminology. These statements are made by the Xeros Directors in good faith based on the information available to them at the date of this announcement and reflect the Xeros Directors' beliefs and expectations. By their nature these statements involve risk and uncertainty because they relate to events and depend on circumstances that may or may not occur in the future. A number of factors could cause actual results and developments to differ materially from those expressed or implied by the forward-looking statements, including, without limitation, developments in the global economy, changes in government policies, spending and procurement methodologies, and failure in health, safety or environmental policies.

No representation or warranty is made that any of these statements or forecasts will come to pass or that any forecast results will be achieved. Forward-looking statements speak only as at the date of this announcement and Xeros and its advisers expressly disclaim any obligations or undertaking to release any update of, or revisions to, any forward-looking statements in this announcement. No statement in the announcement is intended to be, or intended to be construed as, a profit forecast or to be interpreted to mean that earnings per Xeros share for the current or future financial years will necessarily match or exceed the historical earnings. As a result, you are cautioned not to place any undue reliance on such forward-looking statements.

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