Differentiate.
Innovate.

HeiQ plc
Annual report and accounts 2020

SWISS
TECH
INSIDE

Who we are

HeiQ creates innovative technologies that add functionality, comfort, hygiene and sustainability to apparel, home textiles, technical textiles, medical textiles and devices, as well as functional consumer products.

Our purpose

To improve lives by innovating the materials people use every day.

Our vision

Heiqed materials that improve the lives of billions.

Our mission

To pioneer differentiating materials through co-creation.

SWISS TECH INSIDE

2020 highlights

Financial

Revenue | US$m

+80.3%

2020	50.4
2019	28.0
2018	26.2

Gross profit margin | US$m

+700bpt

2020	55.6
2019	48.6
2018	42.8

EBITDA (Adjusted) | US$m

+383.7%

2020	14.0
2019	2.9
2018	2.3

EPS (Diluted) | US$

+493.0%

2020	0.0421
2019	0.0071
N/A	

Operational

- Broadened business areas and product portfolio, entered into new high growth markets
- Rapid and deep innovation capability gave us a product highly relevant to help society during the Covid-19 pandemic and deliver during an adverse economic situation
- Unique go-to-market capability and adaptable marketing approach to launch product with completely new media mix (media presence +280% vs. 2019)
- Business of regular products unaffected by slowed economic activities

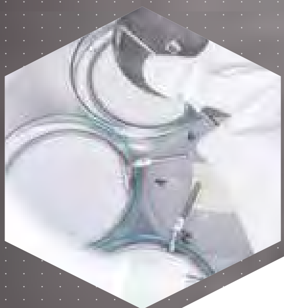
Contents

At a glance

HeiQ is a three-in-one company, focused on scientific research, specialty materials manufacturing and consumer ingredient branding. We further provide value-adding services to facilitate our partners in bringing innovations to market.

What we do

From ingredients to finished goods, the key products and services we provide to our brand partners can be summarized in four categories:



.01 Functional ingredients

We are an innovator, creating ingredients based on natural components or chemicals which are applied to textiles and other products to give the end user an enhanced experience. Our ingredients make products more functional, more comfortable and more sustainable. Functionalities provided by our ingredients include enhanced cooling, warming, moisture management, odor control, water and oil repellency, insect repellency, hygiene, antiviral, antibacterial and antifungal protection and microbial management. Our ingredients have been used to make cooling sportswear, air purifying curtains, antiviral mattresses and water-repellent trench coats, among many other applications.

.02 Functional materials

Our functional materials take our unique ingredient technologies and processes and apply them to textiles, fabrics, membranes, filters and more. Our functional materials have multiple applications. They can be used to make masks and gowns that are more resistant to microbes, winter jackets that maintain more heat, and in coastlines to preserve the maritime life and offset the negative environmental impact of oil spills.

.03 Finished goods

We use our functional materials to create functional consumer goods and medical devices that we market directly to the end users. Recent examples include functional garments that feature our technology. Since 2020, we produce masks, gloves and sprays featuring our HeiQ Viroblock technology. In collaboration with our brand customers, Coats, Sitip, Vagotex and NYGUARD (2A SpA), we also created a multi-functional travel jacket called Just5.

.04 Support services

We provide expertise in product development, testing, regulatory affairs and technical support as part of our full suite of solutions. We also support our brand partners by enabling them to communicate the benefits of HeiQ technologies to consumers through marketing and ingredient branding services.

Who we work with

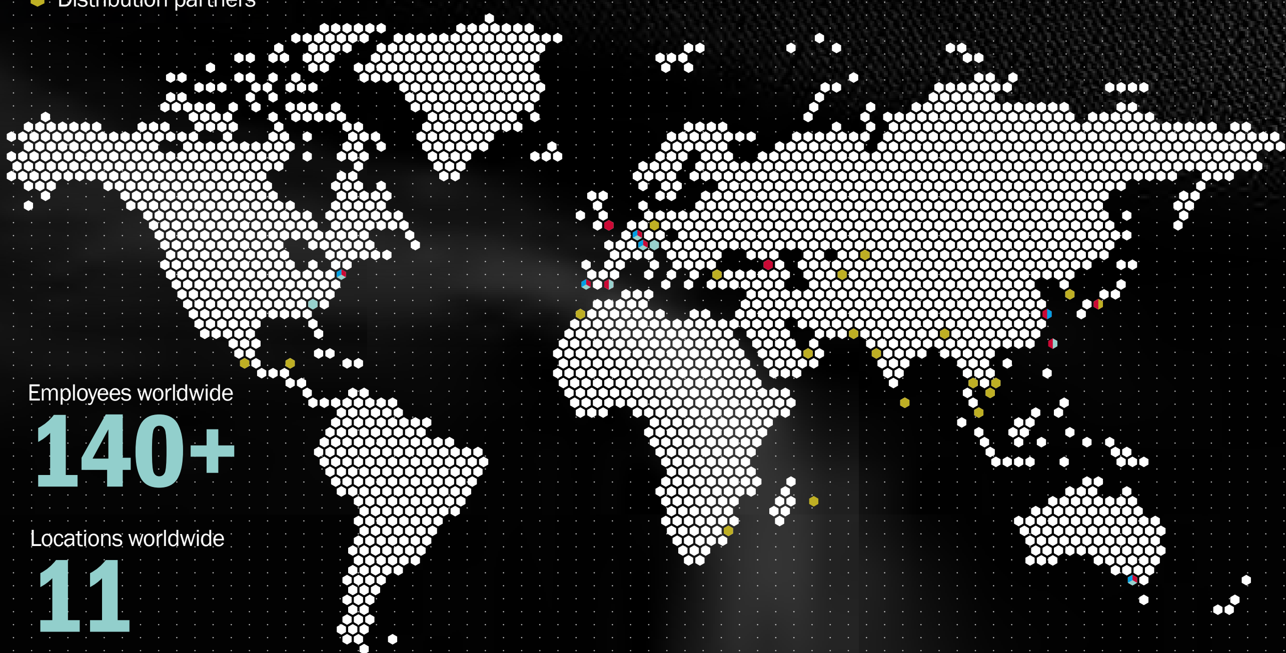
In our 16-year history, we have built long-standing relationships with clients all over the world. We typically work with brands in fashion, home textiles, sportswear and workwear. Recently, we have broadened the industries we work with to include water treatment, industrial laundry, detergent, paint, coating and packaging. To date, we have partnered with over 300 major brands and developed together with them many of our over 200 technologies.

Our global brand partners include:

Where we operate

Including our most recent acquisitions in 2021, we employ over 140 people, based in 11 offices, six R&D hubs and seven manufacturing facilities around the world. Over 20 distributors complete our global presence.

- Head Offices
- Innovation centers
- Manufacturing sites
- Distribution partners



Employees worldwide

140+

Locations worldwide

11

Q+A

with our co-founders
Carlo Centonze | CEO
Dr. Murray Height | CSO

HeiQ: Born on a hike

After a week of hiking in the Swiss Alps, our friends began to keep their distance from us because we had smelly shirts. So we thought:

We will use science to help brands manufacture clothes that smell fresh all week long!

Q

The idea for the company famously came during a hike in 2004; how did you meet before then?

A

Murray: After completing my PhD at the Massachusetts Institute of Technology (MIT) in 2003, I accepted a postdoctoral research position at ETH Zurich. When I moved to Switzerland, a mutual friend introduced me to Carlo and we soon became friends through running, hiking and sports.

Carlo Centonze
CEO

Dr. Murray Height
Chief Science Officer

HeiQ, pronounced ['haIkju], stands for the "hike" on which we came up with the HeiQ idea. It also stands for high-quality materials and for IQ.

Q

Why did you decide to start a company? What made you think you'd be a good team?

A

Carlo: We were curious whether our solutions could solve the problems at hand. I believe we make a great team because we have complementary capabilities. Murray has an amazing ability to access science, tech and its market viability, and my skills lie in assessing the market opportunity and delivering a go-to-market strategy.

Murray: We were both at a stage in our lives where we thought we could apply ourselves to building a company, with the sense that no matter what happened we could learn a lot by creating a new enterprise together.

Q

What was your original vision for the Company?

A

Murray: The initial vision was to be a producer of antimicrobial ingredients for use in textiles, coatings and medical implants. The thinking was to produce unique materials through scale-up of the patented flame spray pyrolysis manufacturing process and then sell the materials to the supply chain of a wide range of final products.

Carlo: We wanted to be the material innovation company that everyone knows. Recognized by brands and consumers for ingredients that provide unrivaled functionality, performance, quality and sustainability. Just like Gore-Tex, Bluetooth or Intel Inside.

Q

How has the Company's progress compared with your expectations?

A

Carlo: In some ways progress has been slower than we'd have liked. We have often had more arrows in our quiver than we've been able to shoot. One thing we are really proud of is to have successfully bridged the academic and commercial worlds, bringing research and innovation ideas from academia and finding market space for them.

Murray: While the Company has grown and developed in ways that we did not foresee at the beginning, there remain features and principles that we have had since the start – a focus on novel materials as a way to bring value to products and a strong curiosity to try new and better ways of doing things.

Q

What have been your proudest moments from the past 15 years?

A

Murray: Running our first pilot plant with our first employee to produce our first kilogram of product was a special moment. But being able to develop and deploy new technologies during times of crisis, like antiviral treatments and masks during the global pandemic and Oilguard nonwoven absorbers during the 2010 Gulf of Mexico oil disaster, are probably my proudest moments.

Carlo: Listing on the LSE was a long-desired moment. Agreeing our first large acquisition (Chem-Tex Laboratories Inc.) in 2017 to double the size of HeiQ and increase our capabilities, scope and business reach. Running a Board of Directors of seven industry veterans for over 100 high-net-worth investors for over a decade.

Q

Looking ahead, what are your plans for the Company over the next 15 years?

A

Carlo: To further establish a company that is second to none, which creates tech that improve people's lives and makes our planet more sustainable, and deploys its innovation to the market in an impactful way.

Murray: To re-double our focus on building products and technologies that have less environmental impact on the planet while delivering performance and value for people all over the world. To build upon HeiQ's model of innovation co-creation and boundless research network collaboration to achieve greater speed and impactful innovation.

Key milestones in our history

2020
IPO

We achieved a long-time ambition to go public by listing on the LSE's Main Market in December 2020 via a reverse takeover of SPAC Auctus Growth Plc.

2019
Global expansion

Our global footprint grew with the establishment of HeiQ Portugal, HeiQ Shanghai and HeiQ Taiwan, as well as a dozen new distributors.

2017
Acquisition of Chem-Tex Laboratories and Series C

The acquisition of Chem-Tex Laboratories Inc., USA doubled the size of the Company and enabled us to enter the world of mass manufacturing. We raised CHF 4 million from Kemin Industries (USA) and ten more investors.

HEIQ ChemTex

2010
Series B

We raised CHF 11.1 million from Credit Suisse, Zürcher Kantonalbank, OneLife and 30 more investors, to build up HeiQ Australia and create additional technology platforms.

2008
First recurring customers, acquisition of Tex-A-Tec and Series A

We gained our first recurring customer, Odlo, in January 2008 and raised CHF 6.4 million from Zürcher Kantonalbank and 20 more investors to conduct our first M&A of Tex-A-Tec in an up-round closed ten days after Lehman Brothers went bust.

2005
Company founded

Six months after the hike which inspired the idea, the Company was founded on March 21, 2005.

Investment case

Innovator + Differentiator.

HeiQ has built a reputation as a high intellectual capital company, with world-leading innovation, a global R&D and sales network, strong ESG credentials and an established presence in multiple high growth markets.

Strong financials

We are a cash-generative and high margin business, with a healthy balance sheet, diversified revenue and a track record of delivering financial growth. The £20 million raised in conjunction with the Company's reverse takeover in December 2020 has further strengthened our financial position, creating a meaningful cash balance to fund our growth initiatives.

£20m
raised at our IPO has further strengthened our financial position

Intellectual property

We have substantial IP, technology and regulatory permits which create strong barriers to entry for competitors. Our unique technologies, products, process methods and materials are protected by nine patent families with three more pending and over 180 trademarks. In addition to the directly owned patent portfolio, HeiQ also engages in patent licenses with technology partners and industry peers.

Substantial IP, technology and regulatory permits create strong barriers to entry

“

Strong brand equity enabling royalty and licensing revenue model

Experienced management

Our founders – CEO Carlo Centonze and Chief Science Officer Dr. Murray Height – have an impressive track record of creating innovations and successfully marketing them, generating value for every stakeholder. They are leading a fast-growing team, supported by diverse and knowledgeable global leadership, an experienced Board of Directors, and an Innovation Advisory Board with research experts in many different fields.

World-leading antimicrobial range

In the wake of the Covid-19 pandemic, there is significant global demand for our world-leading antimicrobial technology platform, HeiQ Viroblock. As a textile technology, it is already being used by 150 brands and applied on at least one billion textile and medical products; we also market products with this technology directly to consumers. Antimicrobial technology is expected to become a mainstream requirement in response to the pandemic. Further to antimicrobials, HeiQ has branched out to develop greener, non-biocidal microbial management technologies such as probiotics and synbiotics.

Strong innovation

HeiQ aims to achieve market differentiation through rapid and deep innovations. We have six key technology platforms. To date, we have developed over 200 technologies, many in partnership with major brands. New products (innovations launched in 2020) make up over 40% of revenue as of 2020. We also have a healthy R&D pipeline containing over 40 projects, including one with the potential to become a blockbuster in the medium term.

HeiQ's key technology platforms:

- Flame Spray Pyrolysis (FSP)
- Short Polymer Fibers (SPF)
- Chemical and physical vapor deposition (CVD)
- Synthesis and polymerization
- Textile finish formulation, dispersions, emulsions
- Probiotics and synbiotics

High growth markets

We are well established and expanding across multiple significant growth markets, including the US$24 billion textile chemicals market, the US$10 billion antimicrobial textiles market, the US$29 billion industrial filtration market and we are newly entering the US$50 billion probiotic market.

$50bn
probiotic market

$24bn
textile chemicals market

IPO enhances our advantage.

Esther Dale-Kolb
Chairwoman

Having known HeiQ and its founders for the last decade, I am delighted to be writing my first statement as Chairwoman of HeiQ plc, and the first as a constituent of the Main Market of the London Stock Exchange.

HeiQ wants to expand to better serve our customers and partners and to create more value for our stakeholders. After going public on the London Stock Exchange in December 2020, the Company raised £20 million (gross) to fuel our future growth and we are well placed to continue delivering on this mission.

Overview

I am pleased to report on a year which has seen HeiQ make significant progress towards our long-term objectives and deliver record results. HeiQ has long been a cash-generative and high margin business, with a healthy balance sheet, diversified revenue and a track record of delivering financial growth. In 2020, we took this further by generating revenues of US$50.4 million, almost doubling the previous year's figure.

The ability to rapidly adapt to a changing environment in a smart way and with innovative ideas is clearly one of HeiQ's core strengths. This has enabled us to become well established and a rapidly expanding company across multiple significant growth markets, including the US$24 billion textile chemicals market and the US$10 billion antimicrobial textiles market. During the last year, the market for sanitation and disinfection has grown enormously due to the Covid-19 pandemic. We seized the opportunity to contribute to combating the pandemic and expand our product assortment by launching HeiQ Viroblock and by establishing ourselves in the medical devices market, producing personal protective equipment (PPE) like antiviral face masks that are more protective than conventional ones. Both the outstanding success of HeiQ Viroblock and entering the PPE market have contributed strongly to our revenue growth. At the end of the year, HeiQ acquired a controlling stake in the Spanish medical device production plant MasFabEs in order to in-source medical device manufacturing knowhow for future R&D in the key strategic field of PPE.

It is noteworthy that this all took place whilst sustaining a healthy level of sales activities with the regular products. Despite the global economic headwinds that affected many of our industry peers severely, we were able to grow our revenue with the regular product range. New products and application ideas are continuously being developed by the HeiQ innovation hubs, in close cooperation with customers, as well as with over 20 universities around the world. As demonstrated by HeiQ Viroblock, HeiQ rapidly researches new solutions for partners, quickly delivers scale-up manufacturing from its sites across the world and helps partners market the product to end consumers – from lab to consumer in months. The continuous flow of our innovation pipeline is ingrained, and 2021 has commenced with a healthy, promising innovation pipeline.

After such a boost in growth and going public, other tasks like the refinement of our strategy, Company structure and corporate processes and systems are being enhanced to cope with the increased demands of the business, as well as from a governance perspective. These are in the process of being diligently implemented. We also decided to repay most current bank loans in December 2020 whilst retaining significant credit line facilities with the banks.

Dividend

In order to take advantage of the momentum created in 2020 and invest into the growth opportunities, the Board has decided not to pay a dividend from 2020 retained earnings.

Board

At the time of re-admission to trading on the London Stock Exchange, all Board Members of the former Auctus Growth Plc resigned and the new HeiQ plc Board was appointed. Of the five new directors, three were Board members of the former parent company of the Group (HeiQ Materials AG): Ben Bergo (NED), Carlo Centonze (Executive Director and Group CEO) and me (NED). In addition, Karen Brade (NED) and Xaver Hangartner (Executive Director and Group CFO) joined the Board. With a Board of five directors (of which three are non-executive), we believe we have a balanced, diversified and experienced team to lead the whole Group on behalf of the shareholders in an efficient and effective way. I have been impressed with the approach and achievements of the Board since we became a public company and look forward to working with this team and building the Group.

The Board meets frequently to challenge and support the dynamic management team. Audit, Remuneration and Nomination Committees have also been in place since Re-admission.

Governance

Upon admission to the London Stock Exchange's Main Market, HeiQ has chosen to adopt the QCA Corporate Governance Code (the 'Code') on a comply or explain basis. The Code is constructed around ten broad principles and how we have complied with each of these can be found in our Corporate Governance report contained within the Annual Report to be posted to shareholders shortly.

Outlook

The £20 million of new capital raised (before expenses) in December 2020 will support our ambitious expansion strategy to diversify beyond textiles to become a leader in materials innovation. HeiQ is investing in additional personnel, geographic expansion, strategic alliances, regulatory registrations, product development, technology platforms and M&A activities. We are in discussion with a number of targets which fit and complement our offerings for our partners and customers.

Since the start of the pandemic last year, we have all become much more aware of pathogens on the surfaces we touch and the health risks associated. This is driving increased market demand for material innovations that enable better microbial management on surfaces, such as packaging and other printed surfaces, as highlighted by some recent notable contract wins. We acquired 51% of Chrisal NV, a Belgium based company which offers expertise in probiotics/synbiotics in March 2021. This is a new technology platform for HeiQ and provides us with access to the US$50 billion global probiotic market.

We will also invest to develop existing and new technologies, and to better monetize them and expand into new markets. Although this will increase our cost base in the short term, it is expected to contribute to a healthy and profitable growth in the mid and long term.

I am extremely proud to chair and to be part of HeiQ. Its employees continually surprise me. Despite not having a lot of personal contact due to the workforce being spread all over the world under travel restrictions and home office requirements, they are nevertheless fulfilling their tasks with enthusiasm, team spirit and a big sense of responsibility.

On behalf of the Board, I would like to thank the whole HeiQ team which has performed in the most extraordinary way to achieve the impressive overall 2020 result. We have set ourselves ambitious goals for 2021 in an uncertain environment and I am confident that, through our dedication and effort, we will achieve them.

Esther Dale-Kolb
Chairwoman

Solutions for future unmet needs.

Our technology and solutions are created in response to megatrends and market needs. We identify, or even foresee, a problem and develop a science-based solution to solve it.

Anticipating future needs brought by global megatrends

Challenges facing the industries we operate in give us the opportunity to contribute and serve. A number of global, long-term trends are having a major impact on the planet. These sustainability challenges are driving change in both manufacturing processes and product development in the markets where we operate.

.01

Growing, urbanizing and migrating global population

Technological advancements and economic prosperity have enabled improvements in medicine, sanitation, food production and living conditions, resulting in lower mortality rates and a rapidly growing global population.

This growth has led to more people flooding into towns and cities in pursuit of increased quality of life, with cities and urban areas now home to over half of the world's population. This influx places huge strain on infrastructure such as transportation, sewage, housing and utilities in a limited space.

Population growth and urbanization result in increased air pollution, meaning a greater requirement for low emissions solutions and appropriate filtration to mitigate these risks. A denser populace also poses greater threats of disease and future pandemics due to more people living in close quarters, putting substantial emphasis on surface and air hygiene.

.02

Climate change and environmental degradation

The negative implications of earth's rising temperatures, increased CO_2 levels and biodiversity loss are profound. The scientific community has clearly stated the urgent need to keep global warming below a 1.5˚C increase to preserve stable living conditions. Despite this, emissions continue to rise, species are lost and forests are felled.

The detrimental effects of climate change include rising sea levels, extreme weather events and habitat loss, and will inevitably lead to resource scarcity and social and political unrest. Often the poorest in society are most severely impacted by these environmental changes, meaning the developed world has a heightened responsibility to address its production and consumption habits and the wider implications of these habits on poorer communities.

.03

Scarcity of and global competition for resources

Humanity uses approximately 1.6 planets' worth of resources to support its current activities and if drastic measures aren't taken, this will increase to two planets' worth by 2030[1]. In short, we need to halve our current activity levels to ensure we are able to live within our planetary boundaries.

We are already seeing the interconnected problems arising from the resource demands of a growing population coupled with the impacts of climate change on the availability of resources. These two unstoppable forces mean competition for limited resources is fierce and management and mitigation are vital to maintain a fair and balanced society and avoid conflict.

The manufacturing of products that use recycled materials and that are recyclable at the end of their usable life will preserve the raw material value throughout its lifecycle. Focusing on sustainable solutions for production practices will support the preservation of natural capital. Political intervention and global collaboration are essential to ensure sustainable development and the creation of closed-loop economies and fair access to natural resources.

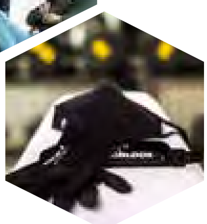
1. Source – www.footprintnetwork.org/

The market opportunity for HeiQ

Acting as a translator and connector between academic research and market need, we work with our global network of more than 20 academic partners and over 300 brands to understand how these megatrends are necessitating material and product innovation in terms of both process and output.

Our partners, direct customers and wider consumers are looking for two things from HeiQ: materials and products that allow them to minimize the negative impacts during manufacture and throughout the product's usable life, and modern functionality and performance of our products, which provide long-term sustainable benefits and even combat some of the effects of outlined trends. For instance, in 2019 we created HeiQ Fresh AIR, a technology that adds the ability to purify indoor air to home textiles.

The pandemic has led people to realize how much exposure to pathogens they have in their daily lives and to be much more aware of the surfaces they come into contact with. This will drive increased market demand for microbial management products, including coatings for packaging, paints and products that help maintain surface hygiene.



The markets we operate in

As an innovator in materials, there is scope for our technology to be used across many markets. We continue to consolidate our strong position in the textile industry and build up our medical device offer. New markets we will increasingly move into include, for instance, probiotics, through the acquisition of Chrisal NV in 2021, and technical filtration, batteries and electronics with our advanced R&D project in regard to a highly porous graphene membrane technology. The magnitude of the markets we operate in are as follows:

Antimicrobial textiles market

+$10bn

in 2019 | **CAGR 9.8%**

(Global Market Insights)

Textile chemicals market

+$24bn

in 2019 | **CAGR 4.5%**

(Grandview Research)

Industrial filtration market

+$29bn

in 2020 | **CAGR 6.9%**

(MarketsandMarkets™)

Probiotic market

+$50bn

in 2019 | **CAGR 6.9%**

(Grandview Research)

How we are responding to opportunities

Whether driven by a scientific development or a new consumer desire brought to us by a brand partner, we have the unique ability to respond to opportunities with rapid and deep innovation and turnkey solutions.

Sustainable manufacturing

We are responding to the need for more sustainable and efficient production by:

- Embracing circularity
- Improving process efficiency
- Increasing material efficiency
- Replacing dangerous goods with non-dangerous goods
- Replacing conventional ingredients with natural, bio-based and recycled alternatives
- Extending the useful lifetime of products by higher quality and less maintenance

Innovative and functional products

We are creating materials and products that:

- Allow for efficient production and help to reduce the environmental footprint of the manufacturing process
- Promote safety and wellbeing (microbial management, filtration, water treatment, thermo regulation)
- Are sustainable (recycled, recyclable, non-dangerous, durable)
- Help to reduce the footprint during the usable life of the products (clothes that require less washing, sheets that can be cleaned effectively with mild detergent and cold water, clothes that dry faster, etc.)

Please refer to the Sustainability Report on page 26 for more examples of how our innovations help our customers to create more sustainable products.

Business model

When partnering with a brand or manufacturer, we distinguish ourselves from competitors by offering end-to-end turnkey solutions, with experience and capabilities across the value-chain and project lifecycle. When manufacturing finished goods that we directly market, we combine our experience and capabilities to ensure excellent product quality and effective communication to the consumers.

What we do

There are **three key elements** to our partner offering. We are unrivaled in our overall blend of products and services, and also bring a unique range of strengths to each stage of the process.

.01 Scientific research

Our research is motivated by the problems our market partners bring to us. We solve problems following a three-step process.

Step 1: Define the problem and its single components.

Step 2: Create a hypothesis and proof of concept with our research partner network for each component.

Step 3: Develop and assemble market-ready products with our internal development tech support and consumer validation teams.

The HeiQ difference

Internally, 15% of our employees are highly skilled scientists and work in the area of research and development; externally, we have an extensive network of academic research partners. Through our co-creation approach, we share and diversify the risk of exploratory research projects with our partners, and we have experience navigating multiple global government funding processes.

.02 Specialty materials and ingredients manufacturing

After research and a successful proof of concept, projects move into a phase where the initial recipe or prototype is developed, refined and optimized to ensure it is scalable. The production protocol is documented and deployed to our production sites. Our manufacturing capacity also allows us to pursue large manufacturing projects in our industry.

The HeiQ difference

Our knowledge, facilities and IP enable us to manufacture ingredients, materials, consumer goods and medical devices in industrial volumes and bring to market at speed but with validation and quality control. We operate in markets that have medium to high barriers to entry, including increasingly complex regulatory, registration and compliance requirements.

.03 Consumer marketing and ingredient branding

For an innovation to be successful and benefit as many people as possible, it is crucial that we get the marketing and the message right and communicate through multi-media content. We work with our partners to develop marketing narratives and communication strategies together. We join launch events, make press releases and promote products. Often we also participate in training our customer's sales organization how to sell and capture the added value of the innovation. By helping our ingredient brand customers maximize the price premium and lowering their barrier to innovate, we foster innovation spirits in the industries in which we operate.

The HeiQ difference

We have a team of marketing and branding professionals with experience across a range of markets. We have strong knowledge and experience of consumer behavior and understand how to create branding materials that translate complex technical scientific knowledge into plain consumer language. We produce multi-media content and have expertise in all channels.

How we generate revenue

Our primary source of revenue is the production and the sales of functional ingredients, materials and finished goods. Other sources of revenues include research and development services as well as laboratory work. Because of the highly differentiating nature of the products, we generally adopt a value-based pricing strategy.

After we develop a production protocol, we manufacture the functional ingredients, materials or products ourselves or selectively license the IP to other manufacturers for a licensee or franchisee fee.

Some research projects are financed through grant funding or directly by customers, either in the form of a research partnership, or by their purchases of existing (off-the-shelf) technology.

The value we create

Partners and customers

Our brand partners and direct customers benefit from access to our differentiating technology. Our performance-enhancing materials improve their products. We provide end-to-end support and all the services required to bring innovations to market.

Consumers

Products featuring our technology offer tangible benefits for the end user, including innovative functionality, comfort, hygiene and sustainability features.

Employees

Our employees have the chance to work and develop in a meritocratic and diverse environment, being challenged and supported to help the Company deliver on its purpose and make a difference for a better world.

Investors

HeiQ is in a robust financial position with a healthy balance sheet and diversified revenue. We have been cash generative for many years, and our investors benefit from the ongoing growth of our business and our willingness to create disruptive innovation.

Suppliers

We develop strong and trusted partnerships with our suppliers. Our growth and momentum will lead to increased spending on raw materials in innovative product applications.

Society

By helping many brands and consumers to reduce their impact on the environment, we are indirectly improving the lives of billions more. Through our engagement with university research partnerships, we play a role in fostering the education of new generations of scientists and engineers.

Our strategy

Our growth strategy is built around five pillars, which will help us achieve our vision of delivering materials that improve the lives of billions.

Strategic pillar	Why we focus	Progress in 2020
.01 Growth markets	**Textiles** In the textile industry, low margins are a major barrier to take risks (innovate) and make change (new ways of doing things more sustainably). Our unique approach of innovation and differentiation is the key to overcoming this barrier and achieving above-average margins.	**Textiles** • Increased sales from US$28 million in 2019 to US$42 million in 2020 • Doubled the number of customers
	Medical devices Innovation in medical devices is slow because of a bureaucratic culture and long approval processes as well as large, entrenched players. However, the pandemic has demonstrated an urgent need to have better, more protective and safer medical devices.	**Medical devices** • Entered the medical device and consumer goods market, created direct-to-consumer sales channel • Achieved US$8 million sales
	Surface hygiene Increasing awareness of pathogens on surfaces and demand for sustainable solutions to maintain surface hygiene.	**Surface hygiene** • Ventured into this new market with our antimicrobial ingredients
	Other materials Any material can become better, more functional and more sustainable.	
.02 Innovation	Innovation is the process of creating value by doing things differently. Innovation is the only way to become more sustainable.	• The innovation pipeline featured over 40 projects in 2020 • Launch of HeiQ Viroblock NPJ03 antiviral textile treatment • Helped the fight against the pandemic with our antiviral textile technology, upgrading protection to one billion face masks
.03 Differentiation	Our innovations benefit consumers and the planet. However, the value we create needs to be understood by consumers, so that our customers are able to up-charge consumers for the added value and therefore are willing to pay us for our innovations. This is why we help our customers to differentiate towards consumers by explaining the value of our innovations and making them tangible.	• Successfully positioned HeiQ as the innovation leader for textiles and materials, gaining brand equity for HeiQ for future product launches and royalty business • Successful launch of HeiQ Viroblock brand • Started our direct-to-consumer business (webshop) and consumer goods business • HeiQ Smart Temp grew over 16% year-on-year thanks to years of cultivating this into the leading “cooling technology” brand

Strategic pillar	Why we focus	Progress in 2020
.04 **People and sustainability**	Innovation needs high intellectual capacity and human capital, and we are only as good as our people. Sustainability is not only ingrained in our DNA and drives us as a Group, but is also key to the long-term success of any corporation.	• Strengthened our human capital by expanding the workforce in the office and lab in China and lab and quality control center in Taiwan • Established a team and a new office and lab in Portugal • Acquired a team and facility for medical device manufacturing in Spain • Applied our in-depth knowledge in textiles and created a mask that is rated by consumers as “most comfortable”, to lessen discomfort and enhance protection to the users during the pandemic • Refer to the Sustainability Report (page 26) for some examples of how we are helping our customers become more sustainable as well
.05 **Digital**	Digital improvements can lead to process efficiency, greater innovation and an enhanced customer experience.	• Launched direct-to-consumer webshop for protective equipment and medical devices • Initiated the adaptation of several digital tools to enhance administration and collaboration across a multinational, decentralized organization to facilitate efficiency for prolonged home office or remote working

Rapid + deep innovation.

Case study

Creating the most comfortable mask in Switzerland

As the pandemic unfolded in early 2020, our teams quickly identified the added value of our textile technology for this crisis.

We realized masks would be a necessary part of life for the coming years, and that we had multiple technologies that could be brought together to create a highly effective and comfortable mask.

Major discomfort of face masks comes from the trapping of water vapor between the face and the mask. HeiQ rapidly lined up a supply chain to manufacture masks designed with multiple technologies: cooling and moisture wicking on the innermost layer, antiviral in the filter layer, odor control and water repellence on the outer layer. The team also quickly set up a direct-to-consumer channel to market these masks. To date, the HeiQ community mask is widely praised as **“the most comfortable mask in Switzerland”.**

+1 billion

face masks and an enormous amount of other textile and non-textile products have been treated with HeiQ Viroblock.

We thought it would take a while until a cure or a vaccine became globally available to solve this problem. While the pharmaceutical industry is doing its job, we as a leader in textile innovation should do our part too. We launched an antiviral textile technology to mitigate or stall the problem from getting worse too quickly.

Hoi Kwan Lam
Group Chief Marketing Officer

We are “glocal”.

Case study

Providing local support in Portugal, Shanghai and Taiwan

HeiQ is proud to be a lean, global organization, and our worldwide footprint proved to be beneficial when international travel was halted during 2020.

Nothing is more reassuring to customers at the time of a global crisis than having a local contact person to communicate with. Our new offices in Portugal, Shanghai and Taiwan, all set up in 2019, were able to provide local support to customers in the region, with local staff also present at the customers' facilities. Technology also enabled our technical staff, locked down outside of the manufacturing countries, to supervise product applications and trials.

Since their establishment, these three offices have continued to grow. Today, HeiQ Portugal runs an innovation laboratory and an administration, sales and logistics office, HeiQ Shanghai operates an administration, sales and logistics office, and a testing laboratory where customer products are validated and local product development projects take place. HeiQ Taiwan now has a sales office, a local warehouse and a laboratory and carries out the production of one of HeiQ's product lines.

Number of employees in Shanghai and Taiwan

23

Number of employees worldwide

140+

We set up HeiQ Shanghai and Taiwan offices in 2019 with the goal to provide customers in the Greater China region with best support. When the Covid-19 pandemic hit, countries were locked down and airline fleet all grounded, it became obvious that we had made the right decision. We are continuing to build a strong team here.

Celine Huang
CEO Greater China

Chief Executive Officer's Review

Improving the lives of billions.

Carlo Centonze
CEO

Sixteen years ago we started a venture, an unquenchable adventure named HeiQ. Conceived on a hike and born through Schlieren's first flame spray pyrolysis reactor, HeiQ today gives chase to the sun.

From New Zealand to Colorado, today over 140 HeiQans work closely and around the clock to innovate and differentiate in order to improve the lives of billions of people.

2020 has been a transformative and momentous year for HeiQ, characterized by fast growth. After having successfully built an agile business model that allows for rapid deep innovation, in March 2020 as the World Health Organization (WHO) declared the pandemic, HeiQ stepped up to deliver an innovative antiviral technology for the benefit of the society.

Over the years, we have developed over 200 high-performance textile technologies, many in partnership with major brands. Until recently, these have had a strong “lifestyle” focus – a T-shirt that cools you, a curtain that purifies the air in your home, or the lightest but warmest jacket for those climbing Mount Everest are just a few of hundreds of examples of our innovations. Our strategy has successfully positioned HeiQ as a global, cash-generative and IP-backed leader in the US$24 billion textile chemicals market.

We are known for creating some of the most effective, durable and high-performance technologies in the market. Our research network with over 20 universities, our seven manufacturing plants and our marketing and ingredient branding prowess allow us to be trusted by over 300 brands, including several Fortune 500 companies, as their innovation arm. Our skills and reputation have enabled sales of our core lifestyle range, HeiQ Smart Temp, which has seen a +16% year-on-year growth despite pandemic economic headwinds.

Our business is evolving at a time of a global emergency and we have shown our agility in rapidly shapeshifting and redeploying our innovation and production resources to deliver a best-in-class and Swiss Technology Award-winning technology, HeiQ Viroblock, to market, which has been hugely satisfying during the period. HeiQ is now known for another leading innovation: we turn textiles and other surfaces antiviral. The global health crisis became a tipping point for antimicrobial textiles. And over the past 12 months, we have been part of the creation of the antiviral textile market, which enlarges the US$10 billion antimicrobial fabrics market (9.8% CAGR) and positioned ourselves as technology leaders in this space. In doing so, we have demonstrated the rapid growth and value creation that we can deliver for our shareholders through fast, disruptive and eco-conscious innovation.

I am very proud of the can-do mentality, spirit and dedication shown by the entire HeiQ team in 2020. Our culture and teamwork allowed us to make a significant contribution to the fight against Covid-19, and it has been very rewarding for us all to know that our technology is protecting people around the world, allowing businesses to keep operating and retain jobs.

Another proud moment of 2020 was our listing on the Main Market of the London Stock Exchange. Going public has been a long-standing vision of the Founders and Board, and we have been preparing for it for several years. We were very pleased with the support for our listing, and the funds raised will enable HeiQ to build on the significant momentum achieved in 2020.

Operational and financial performance

2020 saw the Group achieve its best ever results in both financial terms and operational output. We manufactured an unprecedented quantity of products and, as a result, we almost doubled our revenue and delivered a strong EBITDA figure. In a year of home working, we managed to establish new teams and facilities and on-board new talents in all our locations.

Our excellent performance was driven by the tremendous success of HeiQ Viroblock, our world-leading antimicrobial technology. We quickly allocated our innovation resources to satisfy the pressing demand for this antiviral technology, and dedicated much of our manufacturing capacity to ramp up production. The team quickly built a solid business around antiviral medical devices, including creating a new direct-to-consumer business, which has strengthened brand awareness of HeiQ and will continue to do so going forward.

Since its launch, HeiQ Viroblock has been embraced by existing clients and attracted many new partners due to its ability to provide brands with a unique point of differentiation, which protects their customers when they need it most. Consequently, we have doubled our customer base.

Thanks partly to our IP-licensing and royalty model, which sees HeiQ Viroblock production licensed to third parties, we have been able to deploy this innovation very quickly to achieve a wide distribution of ingredient-branded products and increased consumer awareness of HeiQ. HeiQ Viroblock has already been used by over 150 brands and deployed in over a billion face masks worldwide. We continue to build relationships with the medical industry by delivering much needed PPE in the form of surgical face masks and gowns.

150

Number of brands using HeiQ Viroblock worldwide

Chief Executive Officer's Review continued

Despite the resource requirements of our rapidly expanding antimicrobial business, our fundamental innovations and sales have not been impacted. Many of our established products continued to grow in 2020, with demand following the growth rate of previous years despite dire conditions in the textile industry.

Delivering for stakeholders

The commitment and resilience of our team enabled us to scale up HeiQ Viroblock and protect many families across the globe. With brand partners we also made several mask donations to big and small hospitals and organizations such as the NHS (UK) or the Blue Cross in Como (Italy).

We are thankful for the ongoing trust and support of our customers. We believe that our unique approach to co-creation ensures that we can build strong and long-lasting relationships with our brand partners, and these have been beneficial for both sides during a challenging year.

Many of our manufacturing partners, suppliers and customers in textiles have been and still are severely affected by the pandemic, and we have engaged and supported them wherever possible.

Current trading and outlook

2020 was a tipping point for HeiQ and we continue to see strong demand for our technologies. Despite the global supply chain still being in distress, we are gearing up to sustain the momentum throughout 2021 and we will invest the capital in talents, capabilities and infrastructure to facilitate this. I am pleased that, despite Texas freezes, California shortages, Suez blockages and regional lockdowns, our first quarter performance is in line with our expectations for our antimicrobials and comfort technologies. Our just launched enhanced fluorine free water repellent performance range will have to prove its mettle in a year of unprecedented opportunity where, due to the ban of perfluorinated chemicals, market shares will be reallocated. Our medical devices manufacturing facility acquired in December 2020 will build its success on innovations that we are launching this May and beyond.

Our recent HeiQ Viroblock contract wins with leading industrial laundry, paint and packaging coating manufacturers attest to our vision to grow beyond textiles, as do the completed acquisitions in the medical device and industrial biotech arenas. Through our acquisition of a majority stake in Belgian industrial biotech company Chrisal NV, we now have access to the US$50 billion probiotic market. In the synbiotic and probiotic market our focus is on hospital hygiene and microbial management. Our strong pipeline of brand partners underpins our confidence that market demand for microbial management technologies will continue to be very strong going forward. We will work tirelessly to maintain our leading position, while entering new lucrative markets such as durable antimicrobial surface protection, synbiotic healthcare and homecare cleaning as well as synbiotic cosmetic ingredients.

Looking ahead, our focus lies in the innovation of more sustainable materials as well as increasing market penetration of our core technologies. HeiQ GrapheneX, our highly porous graphene membrane research project, remains an exciting potential value trigger and we look forward to building the pilot commercialization plant. We expect it to be the stepping stone for us to enter the US$29 billion technical filtrations and membranes market from a position of strength.

To ensure that we remain at the top of our game, we will be expanding our research, building our capabilities and diversifying our tech platforms into new markets and industries, both organically and through strategic M&A. HeiQ innovates systemically and our technology and solutions are created in response to megatrends and market needs. We identify, or even foresee, a problem and develop a science-based solution to solve it. It is solving the problems that customers bring to us with sustainable functional ingredients and materials that will guide the specific areas we target.

As a cash-generative, high margin company expanding across multiple significant growth markets, we have built a strong platform for future growth. While 2021 will remain a year of regional disruption and limitations for many businesses, for HeiQ it is a capability building and investment year that will see us enter new industries, launch new innovations and establish new revenue streams. This is an exciting time for HeiQ and I look forward to keeping the market abreast of our progress.

I wish all our stakeholders a healthy and prosperous year.

Carlo Centonze
CEO

Case study

Joining the fight against Covid-19

At the end of 2019, as we recognized the signs of a potential pandemic, we made the decision to play an active role in stemming the spread of the virus while the world waited for a vaccine or cure.

We identified the opportunity to relaunch an innovation we had developed for the Ebola crisis almost a decade ago. In 2013, HeiQ Viroblock masks were created with the vision of providing a mask that not only protected the wearer by filtering virus particles, but deactivated the virus particles as well. The textile finishing formulation was ultimately shelved as the crisis did not turn into a global pandemic and the demand for an antiviral textile technology receded.

In early 2020, we rapidly revalidated our antiviral textile technology, fine-tuned it and scaled up production. On March 16, 2020, two hours after the Swiss Government announced a state of emergency and mobilized the army, HeiQ Viroblock was relaunched with the mission to mitigate the transmission and help stop the state of affairs from rapidly deteriorating. The global response to HeiQ Viroblock has been way beyond our wildest expectations, and thanks to an agile team, we mobilized a global task force to prioritize and work relentlessly to serve this urgent need.

Nine months later, before any jabs of vaccine were administered, over one billion face masks and an enormous number of other textile and non-textile products have been treated with HeiQ Viroblock.

Key performance indicators

We use a number of key performance indicators (KPIs) to measure our performance over time. We select KPIs that demonstrate the financial and operational performance underpinning our strategic drivers.

.01 Finance

2020 performance

Revenue growth | US$m

+80.3%

2020	50.4
2019	28.0
2018	26.2

Why we measure

Sales growth is one of the most basic barometers of success for any business.

Gross profit margin | US$m

+700bpt

2020	55.6
2019	48.6
2018	42.8

This KPI gives insight into our operational profitability.

.02 Innovation

2020 performance

Number of new projects that made it into R&D process

12

2020	12
2019	10
2018	7

Why we measure

We never run out of creative ideas and there are countless opportunities to innovate. HeiQ's ability to qualify the ideas through "proof of concept" and market potential evaluation before bringing them into our R&D pipeline is key to ensure we have the market in mind before investing excessively into a project.

Number of launched innovations

5

2020	5
2019	3
2018	3

Innovations that made it to the market are ready to give return on the R&D investments.

.03

Differentiation

2020 performance

Total number of media mentions

7’610

2020	7’610
2019	2’000
2018	2’179

Royalties (number of enacted contracts)

8

2020	8
2019	1
2018	1

Why we measure

As a B2B, B2C and B2B2C ingredient brand, HeiQ is building its brand awareness across different target audience groups. Media mentions are “earned” media, which shows our ability to gain face time with the audience without having to invest heavily in media-buying.

A brand’s worth is indicated by the premium the buyers are willing to pay.

In our DNA + purpose.

Sustainability is deeply rooted in the DNA of the Company and anchored in its purpose.

We pursue sustainability initiatives that simultaneously create business value and address societal concerns. We strive to act in the interests of all stakeholders, including employees and communities.

Sustainability at HeiQ

As global problems worsen, business must take responsibility and show leadership. At HeiQ, sustainability comes from within, as a key mission of founders Carlo Centonze and Murray Height. Their purpose when they created the Company in 2005 is still alive today:

- to run a profitable business;
- to improve the lives of people by innovating the materials they use in their daily lives; and
- to achieve this by creating state-of-the-art, eco-friendly and sustainable technologies.

This triple bottom line goes beyond the acknowledgement that we have a corporate social responsibility; it is integrated into the core strategies of the Group. The acquisition of the industrial biotech company Chrisal NV, Belgium in 2021 proves that sustainability is already present in our investment logic as the extra technology platform that is acquired through this acquisition, probiotics, has the potential to become a more sustainable alternative to conventional antimicrobial technologies. We look at global sustainability problems as opportunities to drive innovation, collaboration and co-creation.

HeiQ is the second company I've founded. The first one, myclimate, is a market-leading NGO in carbon offsetting. I am a firm believer that by using innovation technology one can make a profitable business by reducing the ecological footprint of everyone that uses a service or buys products.

Carlo Centonze
CEO

HeiQ's triple bottom line

.01 Prosperity

To run a profitable business, creating value for all stakeholders, with respect for all partners in the value chain such as suppliers, industrial customers and consumers. Purpose-driven companies tend to outperform the market. People who identify with our purpose will also support our business.

.02 People

To improve the lives of billions by innovating the materials they use in their daily lives; to develop our own people, foster diversity, communicate our code of conduct transparently, to measure employee engagement; to empower our employees to make decisions and trust them with responsibilities; to provide them with an environment where they are encouraged to trial-and-error and learn from failure.

The safety and happiness of our people, of our customers and the health and safety of the consumers are always at our heart.

.03 Planet

HeiQ research is focused on functionality and sustainability. We strive to reduce the ecological impact of our industrial activity and inspire, convince and enable our partners in the value chain to do the same.

Developing our strategy

Sustainability is a process of continuous improvement, of getting better every day and securing this progress.

We are laying the foundations to build our sustainability strategy. We are consulting with our stakeholders to define materiality, to learn from industry and best practice and to establish a sustainability community inside and outside the Company.

Preparations are being made to deploy sustainability in all its aspects and to report these efforts following the guidelines of the Global Reporting Initiative (GRI) going forward. The transparent communication of these ongoing efforts to our stakeholders (investors, employees, customers, industries, governments, NGOs, regulators, communities and wider society) is an essential element in this process.

More than anything we are putting our brains to work on disruptive technologies, capable of dramatically reducing the ecological footprint humanity is having on our planet.

Culture and values

The success of our business is grounded in our culture – the way we think, behave and act towards each other and our key stakeholders. Our culture is reflected in our values, which ensure everyone understands and is aligned with the kind of business we strive to be and how we want to operate.

- Sustainability
- Entrepreneurship
- Empowerment
- Ownership
- Dedication
- Trust
- Respect
- Teamwork
- Continuous Improvement
- Excellence

Environmental

We are an environmentally conscious organization. We aim to ensure that, moving forward, we can grow sustainably and maximize the sustainability impacts and opportunities not just of our products, but also in how we operate. This is done in multiple ways:

- We develop bio-based products that replace synthetics.
- We promote upcycled, recycled and recyclable products (for example, Nylstar zero microplastic pollution fabric). An increased production volume of sustainable, renewable fibers and the development of recycled/recyclable fibers, suited for circularity, will solve the acute textile resource depletion problem.
- We enable a better efficiency in industrial processes. Do more with less energy, less water and fewer raw materials.
- We maximize the use of green, renewable energy.
- We replace bad or less safe ingredients with safer ingredients.
- We operate close to the markets to reduce shipping.
- We improve product durability and lifetime.
- We provide solutions that reduce leaching and pollution.
- We develop products that reduce the need of maintenance or the washing frequency.
- We encourage the consumer to buy fewer, and better quality products, making multi-purpose and multifunctional garments the preferred choice over fast fashion.

Streamlined Energy and Carbon Reporting (SECR)

The SECR disclosure is omitted in this report because it is not practical for our organization to obtain all the required energy and carbon information on 2020. SECR disclosures became mandatory for the Group only upon Re-admission to the LSE stock market on December 7 2020 as the Group did not include any legal entity based in the United Kingdom before that date. In the 2021 annual report, we will disclose the Group boundaries and report our 2021 energy usage and carbon emissions as requested by the SECR.

Throughout 2021 greenhouse gas emissions will be calculated using the industry standard conversion factor of each country where we operate. A HeiQ energy efficiency task force will analyze this first set of data and elaborate energy efficiency measures for the Group. These measures will be communicated in the 2021 annual report.

Social

Covid-19

When society faces major problems, like the current pandemic, HeiQ does what it can to help. In view of the severe shortage of medical personal protective equipment (PPE) in many countries, we mobilized our global team and network to help source these essentials to help hospitals, first responders, essential services, governments and businesses; our people worked day and night to deliver a technology that makes a huge difference in the prevention of the transmission of the disease.

By the end of 2020, before any Covid-19 vaccine has been officially given, our antiviral technology, HeiQ Viroblock, has been used on at least one billion face masks.

Musa Raibin
VP South Asia Brandforce

Our people

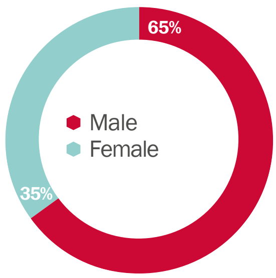
Although sustainability starts at the top, it involves all employees. We believe talent gravitates towards companies that make a difference, and the awareness that our Company is doing the right thing connects with our personal ethics and morality and is a strong motivator.

We currently employ over 140 people in 14 countries and are committed to a policy of equal opportunities in the recruitment, engagement, performance management and retention of employees.

Diversity

The diversity of our teams is a business requirement for the Company. We are committed to advancing collaboration, diversity, equity and inclusion because these differences enable us to create better solutions as we change the world of materials. We are proud to have more than 40% female leadership in the Company. Our employees represent over 20 different nationalities.

Overall gender split



Learning and development

We believe that the development of talent is important to achieve the long-term strategic goals of the business. We cultivate an open and outspoken culture where employees receive constant feedback on their performance and are encouraged to speak about their career aspirations and plans, so that their job is constantly adjusted to allow them to create the best value to the Company. We offer traineeship and internship opportunities for career starters.

Wellbeing

HeiQ hires people with enthusiasm and the right work ethic. We believe with modern technology, most jobs can be performed well regardless of location and working hours. Even long before the pandemic, our employees have been allowed to work flexible hours and had the freedom to work from the office or home for them to maintain the best work-life balance while choosing the best way to maximize their productivity. Therefore, lockdowns and social distancing measures have not affected HeiQ as much as a lot of other companies.

Having said that, during the pandemic we hosted regular online socializing activities, such as virtual coffee breaks and quarantine-style "happy-hour", at different times of the day to engage employees in different time zones and provide them the opportunity to chat outside of work interactions.

Working with our partners

Sustainability is not done alone, but in collaboration. We aim to build strong, mutually beneficial relationships with our brand partners, and through co-creation, we innovate for brands and help them become more sustainable.

Here are some examples of how we have made our partners more sustainable:

- In 2020, we "Viroblocked" more than one billion face masks, mostly through our brand partners' products.
- We launched the world's first air purifying curtain with the largest home furnishing retailer in 2019.
- Our founding customer, Odlo, asked us to develop an antimicrobial odor control treatment for its synthetic base layers. Twelve years later, it adopted a newer generation of the treatment that is even more sustainable. The durability of our first-generation innovation to date is still market leading – it lasts 100 washes – which also means it extends the usable life of the products.
- **Berger** in India has teamed up with us to make a paint which reduces the risk of contamination and transmission of virus from surfaces.
- **Burton** adopts several innovations by HeiQ to enhance the comfort and sustainability in its products. This includes HeiQ Eco Dry, a PFC-free water repellent, and HeiQ Fresh FFL, a bio-based, antimicrobial-free odor control solution.
- **Gap Old Navy** uses HeiQ Fresh FFL, our silver-free, antimicrobial-free odor control solution, which is fully bio-based.
- **The Meryl®** Skinlife Force zero-pollution textile of Nylstar is recycled and infinitely recyclable and it prevents the release of microplastics in the air and in the water through stronger molecular cohesion and natural elasticity of the yarn.
- **Patagonia** worked with HeiQ to convert several critical, high volume raw materials to PFC-free durable water repellency early in Patagonia's transition from conventional treatments.
- **The North Face** uses HeiQ XReflex, a radiant barrier technology, in certain of its styles that helps with insulation saving.
- **Zara**, part of the Inditex Group, used HeiQ XReflex in a jacket as part of its new Join Life sustainable collection.

Upon Re-admission in 2020, the Board formed a Nomination Committee, comprising Esther Dale-Kolb (Chairwoman), Benjamin Bergo and Karen Brade. The Board intends to constitute an Environmental, Occupation, Health and Safety Committee comprising Carlo Centonze (Chair), Karen Brade and Esther Dale-Kolb.

+41%
female leadership in the Company

Stakeholder engagement.

Section 172 Statement

The Directors of the Company, as those of all UK companies, must act in accordance with a set of general duties. These duties are detailed in section 172 of the UK Companies Act 2006, which is summarized as follows:

"A director of a company must act in the way they consider, in good faith, would be most likely to promote the success of the company for the benefit of the shareholders as a whole and, in doing so have regard (amongst other matters) to:

- the likely consequences of any decisions in the long term;
- the interests of the company's employees;
- the need to foster the company's business relationships with suppliers, customers and others;
- the impact of the company's operations on the community and environment;
- the desirability of the company maintaining a reputation for high standards of business conduct; and
- the need to act fairly as between members of the company."

The following paragraphs summarize how the Directors fulfill their duties:

Shareholders

HeiQ seeks to develop a broad investor base with those who share our values and are supportive of our strategy and mission. Engagement with shareholders is a key element to this objective and is achieved through various ways: besides engaging through the Company's AGM and through publication of full and half-year financial results, members of the executive team, supported by the Company's broker and Investor Relations advisors, will engage with investors directly, mainly through regulatory news, press releases and other publications, as well as presentations and investor talks. Investors and other stakeholders can also access information about the Company on our website.

Employees

The Group's staff are employed in various countries, mainly outside the United Kingdom. The Group maintains a decentralized leadership structure so that all staff are guided and supported closely in a way which allows them to grow and achieve their potential. The Group has a meritocratic culture, employs staff of different ethnicities and has a high female ratio in its management (41%). A global monthly newsletter ensures that all employees are aware of the important recent developments of the Group, including those of the headquarters as well as each local office. The Group has an informal culture and its employees are engaged in social activities organized by the headquarters or each local office. Such activities include team sports, group outings, yearly meetings and team-building activities, after-work drinks, an annual dinner and, particularly popular during the Covid-19 pandemic, virtual socializing events. As an innovation company, the Group encourages creativity and innovation ideas. With a centralized email address, every employee can submit their product innovation ideas for the R&D team to review and, if qualified, add to the R&D pipeline.

Customers

We can only be successful if our customers' needs are satisfied. Understanding our customers and even their customers and what matters to them is therefore of paramount importance to us. We listen and talk to them using all of the tools at our disposal. We collect product innovation ideas and learn about our customers' innovation needs through "innovation seminars." We serve our customers directly or, in certain regions, via our qualified agents and distributors. We run consumer polling to identify trends and evaluate product or marketing ideas. Our customers generally appreciate that we share our learning and consumer insights with them, as these help them make better informed business decisions.

Suppliers

We have long-standing, close relationships with our suppliers and are in regular contact with them. Fostering good business relationships with key stakeholders including suppliers is important to the Company's success and we are committed to acting ethically and with integrity in all business dealings and relationships.

Community and environment

We are proud to employ people in the communities in which we operate. We have product standards, policies and guidance covering the products we make to help ensure that they are manufactured safely, legally and to the required quality standards. Besides legally required standards, most HeiQ products are also certified for voluntary quality standards such as ZDHC (Zero Discharge for Hazardous Chemicals), bluesign® and OEKO-TEX®.

Business conduct

As more fully explained in the Corporate Governance section on page 45, values and culture are an integral part of our strategy and the Board strives to promote a culture based on high business conduct standards.

Acting fairly between members of the Company

Having assessed all necessary factors, and as supported by the processes described above, the Directors consider the best approach to delivering on the Company's strategy. This is done after assessing the impact on all stakeholders and is performed in such a manner so as to act fairly as between the Company's members.

Significant progress on our goals.

Xaver Hangartner
CFO

2020 was a game changing year for HeiQ. After a very strong start into the year with strong sales in the first months, HeiQ had been challenged from early spring when Covid-19 pandemic arrived in the western hemisphere.

Although our own sites did not cease operations at any point, we faced shutdowns of customer plants around March/April directly impacting existing product sales.

Thanks to the anticipation and our proven ability to innovate and launch a new product very quickly, we were able to bring HeiQ Viroblock, a treatment for textiles and other chemicals with an antiviral effect, to the market in only three months. Therefore, we could not only hedge our endangered business, but significantly grow our sales and become a brand known to a broader audience beyond the textile industry.

Results for the year

	Note	Year ended December 31, 2020 US$'000	Year ended December 31, 2019 US$'000	Growth
Revenue	8	**50'401**	27'954	80.3%
Cost of sales	9	**(22'402)**	(14'382)	
Gross profit		**27'999**	13'572	106.3%
Gross profit margin		**55.6%**	48.6%	
Other operating income	8	**4'744**	1'585	
Selling and general administrative expenses	9	**(16'117)**	(12'048)	
Other operating expenses		**(5'127)**	(1'687)	
Operating profit		**11'499**	1'422	708.6%
Deemed cost of listing	5	**(1'402)**	–	
Transaction costs	5	**(1'871)**	–	
Other income		**–**	24	
Other costs		**(69)**	–	
Finance income	22	**68**	8	
Finance costs	22	**(1'184)**	(428)	
Share of (losses)/profits of associates	7	**(15)**	3	
Income before taxation		**7'026**	1'029	582.8%
Taxation	10	**(2'112)**	(314)	
Income after taxation		**4'914**	715	587.3%
Earnings per share (cents) – basic	11	**4.41**	0.71	521.1%
Earnings per share (cents) – diluted	11	**4.21**	0.71	493.0%
Adjusted EBITDA		**13'970**	2'888	383.7%
EBITDA margin (adjusted)		**27.7%**	10.3%	

The steep growth in business required additional financing for working capital which was secured by extending short-term credit lines from banks.

Based on the strong momentum created by the significant growth (sales increased by +80.3% 2020 vs. 2019) and the again-proven capability to innovate and differentiate coupled with the huge attention from an audience outside our traditional industry, the Board of HeiQ Materials AG decided to execute the long-ambitioned listing. The listing was achieved through a reverse takeover of the SPAC (Special Purpose Acquisition Company) Auctus Growth Plc and the readmission of the renamed, enlarged group HeiQ plc to the Standard Segment of the Main Market at London Stock Exchange on December 7, 2020. In the course of the listing, HeiQ raised in total £60 million, comprising a £20 million new capital raise as well as £40 million in secondary transactions to realize value for certain selling shareholders at a valuation of £1.12 per HeiQ plc share. Since the listing on December 7, 2020 the share price increased by 61.6% to £1.81 as of December 31, 2020.

Revenues

Revenue increased in 2020 by US$22.4 million to US$50.4 million, an increase of +80.3% compared to 2019. This performance was driven on the one hand by new business generated from the launch of HeiQ Viroblock in March 2020 and the forward integration into functional materials, medical and personal protection devices like face mask and other finished goods. On the other hand, an existing product range comprised of innovative technologies and traditional ingredients provided us with a balanced revenue. The antimicrobial product family HeiQ Pure as well as the dynamic cooling range HeiQ Smart Temp product family both had their best year, more than offsetting the slowing down of auxiliary product sales, giving us an overall increase in revenue of the existing product range brought to the year under review from 2019 despite the challenge posted by the economic situation. This was an outstanding achievement considering the textile industry suffered significantly during the pandemic with many stores closed for a prolonged period in various markets.

Another highlight in 2020 is the fact that HeiQ was able to increase the number of licensing/royalties contracts significantly, although revenue contribution in 2020 was not yet material. This demonstrates the strengthening of our brand and the trust of the industry in our products. We believe that licensing and royalty-pricing models can become a significant contributor to both top and bottom line in the future though.

Gross profit

Our gross profit increased from US$13.6 million in 2019 to US$28.0 million in 2020 – an increase of 106.3%. This is reflected in an increased gross profit margin of 55.6% (2019: 48.6%). In general, we were able to maintain contribution margins of individual products at similar levels compared to 2019. As such the increase in gross profit margin is mainly derived from the favorable development of the product mix sold. The successful launch of HeiQ Viroblock added a new, high margin product to our range. Additionally, the other key driver of the sales growth (HeiQ Smart Temp and HeiQ Pure product families) typically achieved above-average contribution margins.

Cost of goods sold also include a major part of our logistic and warehousing costs. These costs significantly increased in 2020 compared to 2019. Faced with lockdowns around the globe and air traffic that dramatically decreased, transportation costs have in general considerably increased, and we had to rely more often than usual on air shipment to maintain a timely service for our customers. In view of increased uncertainty relating to transportation systems and the low forecast visibility due to moving demand, we strategically increased our stock of key raw materials and products, which led to increased warehousing costs.

Selling and general administration expenses (SG&A)

SG&A increased by US$4.1 million to US$16.1 million (2019 US$12.0 million) driven by the growth of the business. SG&A represent 32.0% of sales in 2020 vs. 43.1% in 2019. The increase in the nominal amount represents the growth of our organization (average monthly employees: +11 respectively or +12.8%) and, based on the very successful business performance, higher accruals for variable compensation components and commissions. The rapid growth also required higher expenses for marketing and professional fees, including consulting in regard to regulatory matters. Other increased cost items like insurance costs and audit costs were mainly driven by the fact that we became a listed company in 2020.

Other income and expenses

The other operating income and expenses are mostly related to foreign exchange impacts on operating assets and liabilities. The net foreign exchange expenses amounts to US$1.1 million compared to overall net other operating expenses of US$0.4 million.

Costs related to the reverse takeover of Auctus Growth Plc by HeiQ Materials AG

- **Deemed cost of listing:** The deemed cost of listing represents the difference between the notional consideration paid by HeiQ plc for HeiQ Materials AG of (US$28.1 million) and the HeiQ plc net assets acquired of £20.4 million (US$26.7 million). It has been charged to the Consolidated Statement of Comprehensive Income as a deemed cost of listing amounting to £1.1 million (equivalent to US$1.4 million) with a corresponding entry to the merger reserve.

  The notional consideration paid represents the fair value of the notional number of equity instruments that the legal subsidiary would have had to have issued to the legal parent to give the owners of the legal parent the same percentage ownership in the combined entity which was 15.2% of the market value of the shares after issues (£141 million or US$184 million).
- **Transaction costs:** Costs directly attributable to the transaction amounted to US$1.9 million and are charged to the statement of comprehensive income directly.

Adjusted EBITDA

The significant growth in sales coupled with increased gross profit margins and decreasing SG&A ratio is reflected in the Adjusted EBITDA which increased by 384% from US$2.9 million in 2019 to US$14.0 million in 2020.

HeiQ adjusts EBITDA for share options and rights granted to Directors and employees.

Finance costs

Finance costs mainly include foreign exchange rate impacts on non-operating assets of in total US$0.7 million. Actual interest paid on borrowings amount to US$0.1 million.

Income after tax

Income after taxation amounted to US$4.9 million, an increase of +587% compared to 2019 (US$0.7 million). Diluted earnings per share increased from US$0.0071 (2019) to US$0.0421 per share – an increase of +493%.

Adjusted EBITDA

US$'000	**2020**	2019
Operating profit	**11'499**	1'422
Depreciation	**1'144**	1'116
Amortization	**110**	149
Share options and rights granted to Directors and employees	**1'217**	201
Adjusted EBITDA	**13'970**	2'888

Statement of financial position

Assets

Non-current assets increased by US$2.7 million (+23.3%) from US$11.6 million to US$14.3 million in 2020. The increase is driven by the acquisition of HeiQ Medica in December 2020, adding Machinery and Equipment of in total US$1.2 million. Further additions of US$0.6 million represent capitalizations related to internally developed intangible assets. Deferred tax assets also saw a significant increase by US$0.4 million owing to tax losses assessed to be recoverable in the years to come.

Current assets increased by US$38.8 million and amount to US$55.1 million as of December 31, 2020 (2019: US$16.3 million). The main increase relates to cash and cash equivalents as the Group raised £20 million (gross amount) of new capital in December 2020.

Inventories increase significantly as well and amount to US$13.3 million as of December 2020 (2019: US$3.2 million). The increase in inventory reflects the overall growth of the business as well as the fact that the Group increased its minimum stock for key materials in order to guarantee supply to customers globally despite the challenging circumstances owed to the Covid-19 pandemic.

Liabilities

Non-current liabilities increased from US$5.4 million (2019) to US$8.0 million as of December 2020 as the newly acquired participation in HeiQ Medica has a long-term loan received from banks (US$1.4 million). Other than the loan acquired with HeiQ Medica, no long-term bank loans are outstanding as of December 2020. There was also a US$0.6 million in deferred tax liabilities which arose from temporary differences in the reporting for tax purposes. Other non-current liabilities have increased due to higher defined benefit obligations as per IAS 19 for the Swiss pension plan (US$ +1.4 million) and reduced deferred consideration liabilities related to the Chem-Tex acquisition (US$–0.7 million).

Current liabilities increased by US$2.9 million. The increased business in 2020 brought a US$3.9 million increase in trade and other payables as well as a US$1.5 million rise in tax liabilities offsetting the US$2.3 million repayment of borrowings.

Cash flow

Cash generated from operating activities amounts to US$1.1 million (2019: US$3.0 million) after increasing the working capital by US$10.5 million related to the strong growth of business.

The cash from investing activities of US$24.2 million reflects the reverse takeover of HeiQ plc (formerly Auctus Growth Plc) and therefore includes the raised capital of £20 million (gross).

Financing activities of US$3.5 million mainly related to US$2.7 million repayments of borrowings.

Mergers & acquisitions

On December 11, 2020, HeiQ closed the acquisition of a controlling-stake in MasFabEs – renamed HeiQ Medica upon closing. HeiQ Medica operates a surgical mask production site in Spain enabling HeiQ to further growth into the medical device business and bring new innovations in this field to market quickly. HeiQ Medica was established in Coin, Spain on May 18, 2020 building up a production site and achieving medical industry certifications in October 2020. Commercial activities only started just before the year end. HeiQ Medica is fully consolidated into HeiQ Group as of date of acquisition. Based on the fact that the acquisition was only closed shortly before year end, it had no material impact on the consolidated comprehensive income of HeiQ Group.

In March 2021, the Group executed the acquisition of a controlling stake of 51% in Chrisal NV, Belgium to strengthen its position in the strategic field of probiotics and hygiene technologies.

Xaver Hangartner
CFO

Integral to our business.

Corporate risk management is an integral part of running a company, particularly a public company. A company's ability to manage risk can also greatly impact its sustainability.

We strive to work in the interests of all stakeholders. As a comprehensive risk management strategy is an essential part of a truly sustainable business, HeiQ has adopted a systematic method of identifying, analyzing, evaluating, treating, monitoring and communicating risks in a way that will enable us to minimize losses and maximize opportunities.

Risk management will not be able to eliminate risks entirely, but it will enable us to identify, prioritize and manage risks and opportunities in a way that a possible impact can be absorbed by the organization. The heat map appears on the leadership team's agenda quarterly, and a risk report will also be reviewed and discussed in Board meetings at least twice a year.

As risks can arise from many different angles, they need to be identified top down and bottom up. Having said that, while it is necessary to have a formal risk management system in place throughout the organization, managing risk is also the responsibility of each employee.

Risk management does not only focus on preventing erosion of value and addressing and minimizing risk to an acceptable level, but it can be a tool to set strategies and identify business opportunities to create and maintain value. HeiQ has demonstrated this in the past year clearly. With our diverse range of products and specialized knowledge in material science, we were able to quickly identify one innovation that could be of high demand for the situation. We were able to validate and launch the innovation quickly, and adjust our operations as the pandemic unfolded. By responding to the new global situation, we were able to build new businesses around it very quickly.

.01

Identification of risks

We use five main risk categories under which our key risks are listed, as follows:

- **Environmental and hazard risks**
  Natural disasters like fires, earthquakes, flooding as well as accidents and injuries
- **Operational risks**
  Loss of personnel (talent, key people), supply chain interruptions, IT infrastructure or systems breakdown, cyber-attacks, management errors
- **Financial risks**
  Economic recession, currency risk, fraud, liquidity, lack of growth in revenue, tax
- **Strategic risks**
  Increased competition, regulatory changes and governmental restrictions regarding products and production. Brand and corporate reputation, theft of intellectual property
- **Legal risks**
  Compliance of our products and claims, compliance with capital market rules

.02

Measure the risk

The risks must be identified and assessed individually and should be measured against the likelihood of them occurring and the foreseeable impact if they do occur. See our heat map for our analysis of our principal risks.

.03

Examine solutions

What are the various solutions to manage the risks and what is considered to be the optimal balance between cost and effectiveness? Organizations usually have the option to accept, avoid, control or transfer a risk.

.04

Manage the risk – decision regarding solution and its implementation

Once the solutions are listed and prioritized, resources and personnel including senior management, possibly with external expertise, have to be allocated. A process should be established to implement the solution and actively manage the risk.

.05

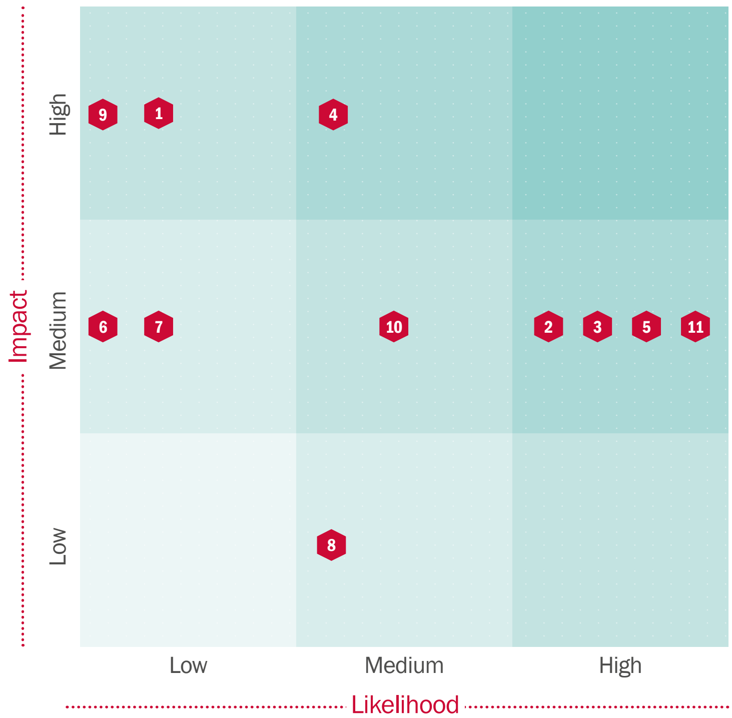
Monitor results

Since the organization, the environment and potential risks are constantly changing, risk management is a continuous process which needs to be monitored regularly. A formalized process ensures a more complete picture of the organization which enables more informed decision-making.

Risk heat map

This risk heat map demonstrates how we consider the likelihood and impact of our principal risks. It provides a reliable basis for comparison and classification of risks and allows management to focus on the potential risks which need the most urgent attention, while not losing sight of all the other types of risk.

1. Delivery of growth strategy/ growth rates not sustainable
2. IP protection and first-mover advantage
3. Increase in competition
4. Innovation pipeline
5. Regulatory risks
6. Supply chain issues
7. Product liability
8. Geographical risks
9. Reputational risk/brand equity
10. Personnel
11. Currency risks



Principal risks and uncertainties

Principal Risk	Description and Impact	Controls/Mitigation	Trend
.01 Delivery of growth strategy/growth rates not sustainable	If the Group does not successfully implement its growth strategy for a high margin business, this could have a material adverse effect on its business, financial condition and operating results.	Clear strategy communication and alignment throughout the organization with an Executive Board (Lead Circle) sponsoring each of the defined strategic initiatives. Leadership culture based on objectives and key results (OKR) that all are aligned with the strategy.	Stable
.02 IP protection and first-mover advantage	Any failure to substantiate or successfully assert HeiQ's intellectual property rights could make it less competitive and may have a material adverse effect on net revenue. HeiQ may face challenges to its intellectual property rights from third parties. If HeiQ is unable to successfully defend against allegations of infringement, it may face various sanctions, including injunctions, monetary sanctions, product recalls and alterations to its products and/or packaging, which could result in significant expense and negative publicity.	HeiQ's business relies on protecting its brands and claims to a combination of intellectual property rights, unique market positioning, trade secrets and freedom to operate strategies and not only on intellectual property rights alone. It is key to the Group's intellectual property protection strategy to constantly innovate and further develop its existing product portfolio to maintain a first-mover advantage.	Stable
.03 Increase in competition	As competing products come to market in direct competition to HeiQ's products, particularly from large global companies, this may result in a reduction in sales and therefore in revenues and associated profit margins. HeiQ faces substantial competition throughout its business from international and domestic companies.	HeiQ's innovations typically open up new markets and thus the Group enjoys a first-mover advantage before competitors start to follow. HeiQ, with its three-in-one approach (innovation, production and marketing), positions itself as a partner to brands over the entire lifecycle of a technology which provides a lock-in effect.	Stable to increase
.04 Innovation pipeline	Bringing innovations to market at high speed and high pace is key to the Group's growth strategy and market positioning. Failure to launch innovations at a high pace might have a material adverse impact on the Group's growth and operating results.	HeiQ has a broad source for innovation ideas and a clear, lean process for assessing and developing these ideas into product offerings. The Innovation Advisory Board prioritizes innovation projects based on technical feasibility and market potential; the Group's network of research partners allows it to access knowledge needed for each individual project.	Stable

Principal Risk	Description and Impact	Controls/Mitigation	Trend
.05 **Regulatory risks**	The manufacturing and marketing of chemicals and medical devices are subject to medical, biocidal, chemical and environmental regulations and permits. Such regulations change constantly and require HeiQ to invest in its regulatory portfolio in order to maintain access to the markets and licenses to operate. Failure to do so may result in restricted market access or prevent HeiQ from manufacturing its products in the relevant plants. Regulators in different jurisdictions might restrict use of certain ingredients that are included in HeiQ products and disallow marketing of respective products in different markets.	HeiQ follows closely developments in the regulatory environment and actively manages its product portfolio and innovation pipeline based on regulatory trends. It is an integral part of HeiQ's strategy to innovate and replace today's solution on the market with "greener", future-proof technologies. HeiQ engages actively in regulatory discussions in industries where it operates.	Increase
.06 **Supply chain issues**	HeiQ faces the risk of interruptions to its supply chain and disruptions in its production facilities, which could materially and adversely affect the results of operations. Significant disruptions to HeiQ's suppliers' or HeiQ's own operations, such as those resulting from natural catastrophes, outbreaks of diseases, acts of war or terrorism may affect HeiQ's ability to source raw materials and negatively impact its costs. The failure of suppliers to fulfill their contractual obligations in a timely manner may result in delays or disruptions to HeiQ's business. Replacing suppliers may require a new supplier to be qualified under industry, governmental or HeiQ's own internal standards, which may take time. In addition, a number of HeiQ's facilities are critical to its business. Major or prolonged disruption at those facilities, whether due to accidents, sabotage, strikes, closure by government agencies or otherwise, could materially and adversely affect operations. Moreover, manufacturing sites are subject to supervision by regulatory agencies, on both an ongoing and ad hoc basis. If the Group is unable to obtain or produce sufficient quantities of a particular product, at specifically approved facilities, whether due to disruption to, or failure of, manufacturing processes, or otherwise, it may fail to meet customer demand on a timely basis, which could undermine sales and result in customer dissatisfaction and damage to reputation.	HeiQ sources raw and packaging materials and finished goods from a wide variety of international chemical and packaging companies and co-producers. HeiQ sources key (raw) materials whenever possible from at least two different suppliers. HeiQ periodically assesses potential for backward integration for materials which allow either a cost advantage or strategic advantage including supply security.	Increase

Principal risks and uncertainties continued

Principal Risk	Description and Impact	Controls/Mitigation	Trend
.07 Product liability	As a product manufacturer, HeiQ is subject, from time to time, to certain legal proceedings and claims arising out of its products, including as a result of unanticipated side effects or issues that become evident only after products are widely introduced into the marketplace. HeiQ may be required in the future to pay compensation for losses or injuries that are allegedly caused by its products. Product liability claims may arise, among other things, from claims that products are defective, contain contaminants, provide inadequate warnings or instructions, or cause personal injury to persons or damage to property. Product liability claims, if resolved unfavorably, or if settled, could result in injunctions and/or may require HeiQ to pay substantial damages and related costs, including punitive damages, as well as result in the imposition of civil and criminal sanctions. If one of HeiQ's products is found to be generally defective, HeiQ could be required to recall the product, and/or may be required to alter trademarks, labels or packaging, which could result in adverse publicity, significant expenses, potential disruptions in the supply chain and loss of revenue.	HeiQ operates with defined quality control procedures integrated in production to ensure that products sold are within specifications defined and agreed with customers.	Stable
.08 Geographical risks	HeiQ operates in a variety of countries which have different laws, taxes and different levels of maturity together with a range of competitors and customer expectations. HeiQ's business and results of operations are affected by changes in both global economic conditions and the individual markets in which it operates. Terrorist acts, civil unrest and other similar disturbances, as well as natural catastrophes, can impact economic conditions and consumer confidence, degrade infrastructure, disrupt supply chains and otherwise result in business interruption. A variety of factors may adversely affect results of operations and financial conditions during periods of economic uncertainty or instability, social or labor unrest or political upheaval in the markets in which it operates.	HeiQ's strategy includes building up a global footprint for innovation and manufacturing as well as sales and distribution channels. This includes own presences as well as cooperation with, for example, distributors. This ensures that the Group is able to serve one market through different channels both from inside and outside the respective geographical area. HeiQ is building up local presence in key markets to ensure the local market and regulatory framework (including laws, taxes, etc.) is well understood and addressed properly.	Stable

Principal Risk	Description and Impact	Controls/Mitigation	Trend
.09 Reputational risk/ brand equity	Substantial harm to HeiQ's reputation may materially adversely affect its business. Various factors may adversely impact HeiQ's reputation, including product quality inconsistencies. Product defects may occur due to human error or equipment failure, among other things, which may be outside of the direct control of HeiQ. Reputational risks may also arise with respect to the methods and practices of third parties that are part of HeiQ's supply chain, including labor standards, health, safety and environmental standards, and raw material sourcing. HeiQ may also be the victim of product tampering. Moreover, third parties have sold or may sell products that are counterfeit or unauthorized versions of HeiQ's products or inferior "lookalike" products that resemble HeiQ's. Consumers may confuse HeiQ's genuine products with such unauthorized products, which may adversely affect HeiQ's reputation.	HeiQ has a clear strategy and policy in regard to communication, both in terms of product marketing as well as on a corporate level. HeiQ actively manages claims that are allowed in different jurisdictions for different products which is also reflected in trademark license agreements with our customers. HeiQ actively follows and manages communication both off and online to ensure potential issues can be addressed in a timely and appropriate way.	Increase
.10 Personnel	HeiQ's business depends, in part, on the ability of executive officers and senior management to provide uninterrupted leadership and direction for its business, and, in particular, on the ability to recruit, train and maintain qualified personnel for product research and development. This need is all the more acute in the context of a growing business and in the strategic internal reorganizations and resource planning programs to promote and manage such growth. HeiQ's ability to attract and retain key management and other personnel is dependent on a number of factors, including prevailing market conditions, attractiveness of competitors as potential employers, working conditions and culture and the ability to offer attractive compensation packages.	HeiQ has a structured hiring process to ensure the cultural fit of new hires. HeiQ offers key senior management and talent participation via its share option plan to align incentives of individual employee to that of the Group. HeiQ supports employees' growth based on professional and personal development. HeiQ fosters an inclusive, meritocratic work atmosphere where employees can contribute and participate and offers flexible work models allowing alignment of work with private and family life.	Stable
.11 Currency risks	HeiQ Group operates mainly in CHF, EUR, CNY, TWD and US$ and reports in US$. Consequently, changes in the GBP, CHF, EUR, CNY, TWD and US$ exchange rates will impact on the earnings of the Company. The exchange rates are affected by numerous factors beyond the control of the Group, including international markets, interest rates, inflation and the general economic outlook and, as such, the Group may not be able to adequately manage these risks in some circumstances.	The Group, as far as possible, aligns operational cash inflows and outflows in the respective currencies to achieve a natural hedge. Remaining short or long positions are monitored centrally and subject to hedging where appropriate.	Increase

The Strategic Report was approved by the Board of Directors and signed on its behalf by:

Carlo Centonze
Director
April 23, 2021

The Board

Esther Dale-Kolb
Chairwoman
Non-executive Director

Committees

Esther was Chief Executive Officer of Dr. W. Kolb Holding AG (Kolb), a Swiss specialty chemicals company. From 1991 until 2007 Esther was CEO of the Kolb Group, with over 200 employees, producing in Holland and Switzerland as an internationally operating specialty chemicals company. Esther managed the change from a pioneer-driven family company to a process-orientated modern business with cooperative management style, contributing to substantial growth in production capacity, revenue and EBIT. She then successfully concluded the trade sale of the Kolb Group to Kuala Lumpur Kepong Berhad, KLK Malaysia and remained on the board for a further 18 months. Before leading Kolb, Esther worked as a product manager in paper chemicals and started her career as a laboratory technician at Dow Chemical. She completed her apprenticeship at the Swiss Federal Institute of Technology, ETH Zurich, and received her Bachelor of Science degree at King's College London. Esther was active as a member of the board of the Swisscross Foundation, a Swiss charitable foundation. Esther is the Chairwoman of HeiQ.

Carlo Centonze
Co-founder and CEO
Executive Director

Committees

Carlo studied Environmental Sciences and Forest Engineering (MSc) at the Swiss Federal Institute of Technology, ETH Zurich. He earned his Executive MBA at the University of St. Gallen (HSG). After his service as an army pilot, he started his professional career as co-founder of the ETH spin-off, myclimate, a non-profit organization and prominent provider of carbon offsetting measures. Since 2004, Carlo has served HeiQ as co-founder and CEO, developing the firm from a two-employee company to an over 140-employee company. He also serves as chairman of ECSA Group, a 108-year-old Swiss chemical and energy distributor with an annual consolidated turnover of over US$300 million and is a member of the executive board of Science Industries, the Swiss association of the pharmaceutical, biotech and chemical industries.

Xaver Hangartner
CFO
Executive Director

Committees

Xaver started his career in finance in 2005 after obtaining a bachelor's degree in Business Administration from the University of St. Gallen (HSG). At the beginning of his professional career, he worked with EY Switzerland as an auditor for industrial clients and graduated as a Swiss Certified Public Accountant in 2009. He later worked in various finance positions and led the global finance and accounting team of a listed Korean specialty chemical producer before joining HeiQ in 2018 as Head of Controlling. He was appointed Group Chief Financial Officer in October 2019.

Benjamin Bergo
Non-executive Director

Committees

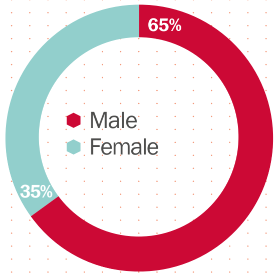
Ben brings a wealth of experience in high growth technology operations and venture capital. He currently serves as President and CEO of Visus Therapeutics, Inc., an ophthalmic drug development company. He also serves as a non-executive director at Lumos Diagnostics Holdings Pty Ltd, a leading full-service provider of point-of-care diagnostic solutions. Ben previously served as a non-executive director of Planet Innovation Holdings Limited, a healthtech innovation and commercialization company, and led investments into life sciences transactions at a seed stage venture fund between 2007 and 2011. Prior to this, Ben held management roles at Vision BioSystems, until the sale of Vision Systems Limited to Danaher Corporation in 2006.

Karen Brade
Non-executive Director

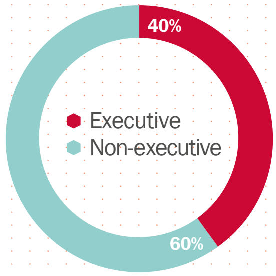
Committees

Karen has extensive experience of project finance, private equity and asset management. She started her career at Citibank working on multinational project finance transactions. Karen worked at CDC (Commonwealth Development Corporation), the UK Government's development finance institution, where she held positions in equity and debt investing, portfolio management, fund raising and investor development. Karen has been an advisor to hedge funds, family offices and private equity houses. She currently serves as chair of Aberdeen Japan Investment Trust plc; chair of Keystone Positive Change Investment Trust plc; non-executive director and chair of audit at Augmentum Fintech plc and is an external panel member of the Albion Capital VCT investment committee.

Overall gender split



Board structure



Key: Committee membership
- Audit Committee
- Nomination Committee
- Remuneration Committee

Corporate Governance Statement

Esther Dale-Kolb
Chairwoman

Chair's Introduction

Dear Shareholder

I have pleasure in introducing HeiQ's Corporate Governance Report, our first since the Re-admission of the Company's securities on the London Stock Exchange in December 2020 ("Re-admission"). As we stated at that time, the Board is committed to the principles underpinning good corporate governance. We aim to apply these in a manner which is most suited to the Company, and best addresses the Board's accountability to shareholders and other stakeholders. The Company, therefore, voluntarily observes the requirements of the QCA Corporate Governance Code (the "Code") as the Board feels that this Code is more appropriate for the Company's size and stage of development than the more prescriptive UK Corporate Governance Code.

During the period under review the Company has complied with the QCA Corporate Governance Code with the exception of, inter alia, the expectation that each member of the Remuneration Committee be independent and each independent non-executive director be re-elected on an annual basis. The Company will keep these matters and its governance framework under review as it continues to grow and develop.

In this report, we have set out how we have applied the ten principles of the Code in the year ended December 31, 2020.

Esther Dale-Kolb
Chairwoman

Delivering growth

Strategy and business model

Principle one of the Code requires that companies establish a strategy and business model which promotes the long-term value for shareholders. Our strategy, and the key challenges we face in executing the strategy, are set out in the Strategic Report on pages 14 to 15. HeiQ's leadership team meets regularly and focuses on the delivery of the Group's strategic plan which is set by the Board. The Chief Executive Officer reports to the Board on progress, and the Board supports and challenges the leadership team. Employees are kept informed of strategy and progress through regular employee briefings and newsletters.

Shareholder relations

Under principle two of the Code, we are required to seek to understand and meet the needs and expectations of our shareholders. In order to achieve this, we plan to make our Executive Directors available to shareholders through regular meetings throughout the year along with investor roadshows around the time of our financial results announcements.

Stakeholder engagement

Principle three of the Code requires us to take into account wider stakeholder and social responsibilities and their implications for long-term success. We consider our key stakeholders, in addition to our shareholders, to be our employees, our partners, our customers, our suppliers, our bankers and our lenders, the local communities in which we operate and the environment. More information on our engagement with our key stakeholders can be found in our s172 Statement on pages 30 to 31 of this report.

Risk management

Principle four of the Code requires the Company to embed effective risk management, considering both opportunities and threats, throughout the organization. The Company's significant risks and uncertainties are set out on pages 38 to 41 of this report together with a summary of how risk management is executed within the Group.

Maintaining a dynamic management framework

The Board

Principle five of the Code calls for the maintenance of the Board as a well-functioning, balanced team led by the Chair.

The Board is led by Esther Dale-Kolb, who is the non-executive Chairwoman. The Board also includes two non-executive Directors who both have extensive experience with international and/or UK listed companies, and two Executive Directors. All Directors, including the Chairwoman, hold shares in the Company. The two Executive Directors and the Chairwoman are not considered independent, while the two non-executive Directors are considered independent.

There are three Board Committees: the Audit Committee, the Remuneration Committee and the Nomination Committee. A fourth Committee – the Environmental, Occupation, Health and Safety Committee (EOHSC) – is intended to be established in the course of 2021. More information on the Audit, Nomination and Remuneration Committees can be found on pages 47 to 53.

There has been one Board meeting since the Re-admission until December 31, 2020 and all Directors attended.

Directors are expected to attend all Board meetings and the meetings of the Committees on which they sit. They are also required to devote sufficient time to the Company to enable them to fulfill their duties as Directors. The time commitment expected of the non-executive Directors is set out in their letters of appointment.

The Board's skills and capabilities

Principle six of the Code requires that the Company ensures that, between them, the Directors have the necessary up-to-date experience, skills and capabilities. The Board comprises five individuals with a mix of skills and experience that is most appropriate for the Company at this stage in its development. More information on the background and skills of the individual Directors can be found on pages 42 to 43. The Board's gender balance is good, being two female and three male Directors.

The Board's training and development needs will be met by implementing appropriate periodical training during the course of 2021. The Company Secretary tables a report at each Board meeting which covers any significant developments in corporate governance.

Board performance and evaluation

The seventh Code principle requires the Board to evaluate its performance based on clear and relevant objectives, seeking continuous improvement. The Directors feel that it is too early to have conducted a Board evaluation but have committed to running an internal evaluation in the latter part of 2021.

Succession planning will be addressed by the Nomination Committee which will make recommendations to the Board.

Corporate culture

Principle eight of the Code requires that the Company promotes a corporate culture that is based on ethical values and behaviors. At HeiQ, we strive to ensure that our business success is in accordance with the best environmental, ethical and social standards. We aim to provide diligent product stewardship and deliver value to all our stakeholders. We have an entrepreneurial culture where disciplined execution is key. We expect all our employees to work hard and with determination and in return we care for our people who respect each other. We pride ourselves on being customer-focused thinkers who act with integrity, honesty and trust. Sustainability is our guiding star in all our actions, processes and products.

The Board will monitor and promote a healthy corporate culture by conducting an annual employee survey with the aim to capture strategic alignment, the level of satisfaction, as well as suggested improvements.

Governance structure

Principle nine of the Code requires the Company to maintain governance structures and processes that are fit for purpose and support decision-making by the Board. The Board meets at least four times a year and the Audit and Remuneration Committees meet at least two and one times a year respectively. The Nomination Committee meets at least once a year and more if circumstances require it.

The Board provides strategic leadership and sets the culture and practices that should be followed throughout the business. The Board maintains a schedule of matters reserved for its decision and these include:

Management structure and appointments:

- senior management responsibilities;
- Board and other senior management appointments or removals;
- Board and senior management succession, training, development and appraisal;
- appointment or removal of the Company Secretary;
- appointment or removal of the internal auditor;
- remuneration, contracts, grants of options and incentive arrangements for senior management;
- delegation of the Board's powers;
- agreeing to membership and terms of reference of Board Committees and task forces;
- establishment of managerial authority limits for smaller transactions; and
- matters referred to the Board by the Board Committees.

Strategic/policy considerations:

- business strategy;
- diversification/retrenchment policy;
- specific risk management policies including insurance, hedging, borrowing limits and corporate security;
- agreement of codes of ethics and business practices;
- receipt and review of regular reports on internal controls;
- annual assessment of significant risks and effectiveness of internal controls;
- calling of shareholders' meetings; and
- avoidance of wrongful or fraudulent trading.

Corporate Governance Statement continued

Transactions:
- acquisitions and disposals of subsidiaries or other assets over 10% of net assets/profits;
- investment and other capital projects over a similar level;
- substantial commitments including:
  - pension funding;
  - material contracts in excess of one year's duration; and
  - giving securities over significant Group assets (including mortgages and charges over the Group's property);
- contracts not in the ordinary course of business;
- actions or transactions where there may be doubt over property;
- approval of certain announcements, prospectuses, circulars and similar documents;
- disclosure of Directors' interests; and
- transactions with Directors or other related parties.

Finance:
- raising new capital and confirmation of major financing facilities;
- treasury policies including foreign currency and interest rate exposure;
- discussion of any proposed qualification to the accounts;
- final approval of annual and interim reports and accounts and accounting policies;
- appointment/proposal of auditors;
- material charitable donations;
- approval and recommendation of dividends; and
- approval before each year starts of operating budgets for the year and periodic review during the year.

Liaison with investees:
- liaison with investees regarding the Group's financial commitments; and
- liaison with investees regarding the Group's working and net revenue interests.

General:
- governance of Company pension schemes and appointment of Company nominees as trustee; and
- allotment, calls or forfeiture of shares.

The Board has approved terms of reference for each of the Board Committees to which certain responsibilities are delegated. The chair of each Committee reports to the Board on the activities of that Committee. Further information on the Committees can be found on pages 47 to 53 of this report.

The Chair is responsible for the leadership of the Board, ensuring its effectiveness on all aspects of its role and the setting of its agenda. She ensures the Directors receive accurate, timely and clear information and she is responsible for ensuring the Board's effective communication with shareholders. In leading Board meetings, the chair facilitates the effective contribution of non-executive Directors and ensures constructive relations between Executive and non-executive Directors.

The Chief Executive Officer is responsible for the leadership and management of the Company, and the implementation of objectives and strategies agreed by the Board.

Build trust

Stakeholder communication

Principle ten of the Code requires the Company to communicate how the Company is governed and is performing by maintaining a dialogue with shareholders and other relevant stakeholders.

During the period under review we have had over 30 interactions with shareholders, have conducted several audits by regulatory counterparts and interacted with our 10,000 consumer strong customer base. Further information on our engagement with shareholders can be found on page 31 of this report.

Audit Committee Report

Karen Brade
Chair

On behalf of the Committee, I am pleased to present the Audit Committee Report for the year ended December 31, 2020.

There are two members of the Audit Committee. I chair the Committee and the other member is Benjamin Bergo. Our biographies setting out our skills and qualifications can be found on page 43 of this report. We are both non-executive Directors. It is intended that the Audit Committee meets at least twice a year and the Committee is responsible for ensuring that the Group's financial performance is properly monitored, controlled and reported. I report to the Board after each Committee meeting and I will attend each Annual General Meeting of the Company.

In the period between Re-admission on December 7, 2020 and December 31, 2020, the Committee has met once, with both its members in attendance.

Duties of the Audit Committee

Internal control and risk assessment

The Committee assists the Board in discharging its duty to ensure that the financial statements presented by the Company to its shareholders conform with all legal requirements and that the Company and its subsidiaries' financial reporting and internal control policies and procedures for the identification, assessment and reporting of risks are adequate, by keeping such matters under review and making appropriate recommendations to the Board. The Committee also considers the major findings of internal investigations and responses of service providers and reviews its own performance, constitution and terms of reference.

External audit

The Committee considers and makes recommendations to the Board regarding the appointment and reappointment of the Company's external auditor, as well as any questions relating to their resignation or removal. The Committee oversees the relationship with the external auditor, including, but not limited to, the approval of their remuneration and terms of engagement, whether in relation to audit or non-audit services, and annually assesses the auditor's independence, objectivity, qualifications, expertise, resources and effectiveness. The Audit Committee meets the external auditor at least twice a year and reviews the findings of the audit.

Financial statements

The Committee monitors the integrity of the financial statements of the Company, including the annual and interim reports, preliminary results announcements and any other formal announcement relating to its financial performance. It reviews any significant financial reporting issues and judgments, and challenges, where necessary, the Company's financial statements before submission to the Board. The Committee keeps under review the consistency of accounting policies and practices on a year-to-year basis, and across the Company.

The Company has implemented control procedures designed to ensure complete and accurate accounting for financial transactions and to limit the exposure to loss of assets and fraud. Measures taken include segregation of duties and reviews by management.

Audit Committee Report continued

Reporting responsibilities

The Committee meets formally with the Board at least once a year to discuss matters such as the annual report and the relationship with the external auditor and also makes whatever recommendations to the Board it deems appropriate.

Internal audit and review of third-party service providers

At present, the Company does not have an internal audit function. The decision of whether or not to set up an internal audit function will be made by the Board, on the recommendation of the Audit Committee, based on the growth of the Company, the scale, diversity and complexity of the Company's activities and the number of employees, as well as cost and benefit considerations.

Work of the Audit Committee

For the period since establishment of the Committee on December 7, 2020 the Audit Committee discharged its responsibilities by considering the following matters:

Significant issues in relation to the financial statements

When considering the financial statements, the Committee considered among others the issues set out in the table below.

External auditor

The Committee considered the independence and effectiveness of the external auditor. The annual report 2020 is the first year Crowe U.K. LLP has been auditing and Ian Weeks has been the audit partner for the same period. The Committee was satisfied with the service provided by Crowe U.K. LLP and recommended that the Board should propose their reappointment at the forthcoming Annual General Meeting. When assessing the independence of the external auditor the Committee took into account the fees paid to Crowe U.K. LLP for non-audit services. The auditor has not provided any non-audit services to the Company since readmission on December 7, 2020.

Whistleblowing

The Company has a whistleblowing policy in place which sets out the formal process by which an employee of the Group may, in confidence, raise concerns about possible improprieties in financial reporting or other matters. As the Committee has been established only upon Re-admission on December 7, 2020, no review of the policy and its effectiveness has taken place yet.

Anti-bribery

The Company has an anti-bribery and anti-corruption policy which sets out its zero-tolerance position and provides information and guidance to employees on how to recognize and deal with bribery and corruption issues. As the Committee has been established only upon Re-admission on December 7, 2020, no review of the policy and its effectiveness has taken place yet.

Assessment of the effectiveness of the Committee

The Committee members feel that it is too early to have conducted a Committee evaluation but intends to take part in the Board and Committee internal evaluations planned for the latter part of 2021.

Karen Brade
Chair
April 23, 2021

Issue	How this was addressed
Annual Report and Accounts	The Committee was required to provide advice to the Board on whether the Annual Report and Accounts, taken as a whole, provide a fair, balanced and understandable assessment of the Company's financial position and future prospects and provide all information necessary to a shareholder to assess the Group's performance, business model and strategy. The assessment was assisted by an internal verification of the factual content by management and a comprehensive review by the senior management team and the external auditors. Following its review, the Committee was of the opinion that the Annual Report and Accounts 2020 were representative of the year and present a fair, balanced and understandable overview, providing the necessary information for shareholders to assess the Group's position and performance, business model and strategy.
Financial Reporting	The Committee reviewed whether suitable accounting policies had been adopted, and whether management had made the appropriate estimates and judgments. In addition, support and assessment were sought from the external auditor. To do so, the Committee received presentations from the CFO and also received reports from the external auditor covering the key risk areas addressed during the year end audit, and the auditors' view of key judgments made by management. Specific issues addressed by the Committee for the period ended December 31, 2020 included revenue recognition for take of pay contracts and provisions for expected credit losses. Based upon the business assurance process and discussions with management and the external auditor, the Committee was satisfied that the accounting disclosures and assumptions were reasonable and appropriate for a business of the Group's size and complexity, that the external auditor had fulfilled its responsibilities in scrutinising the financial statements for any material misstatements and that the disclosures were satisfactory.

Nomination Committee Report

Esther Dale-Kolb
Chair

On behalf of the Committee, I am pleased to present the Nomination Committee Report for the year ended December 31, 2020.

There are three members of the Nomination Committee. I chair the Committee and the other members are Karen Brade and Benjamin Bergo. We are all non-executive Directors. The Committee meets at least annually, close to the end of each financial year, and at such other times as the Nomination Committee requires.

In the period between Re-admission on December 7, 2020 and December 31, 2020, the Committee has not held any meetings.

Duties of the Nomination Committee

Regular reviews

The Committee reviews regularly, and at least annually, the time required from a non-executive Director and whether each non-executive Director is spending enough time to fulfill his or her duties. The Committee reviews the structure, size, composition, skills, knowledge and experience of the Board and the leadership needs of the Group to ensure that the Group continues to compete effectively in its marketplace. The Committee undertakes to consider its own performance, constitution and terms of reference and makes recommendations to the Board about any matters arising.

Board appointments

The Committee is responsible for identifying and nominating, for the approval of the Board, candidates taken from a wide range of backgrounds to fill Board vacancies as and when they arise for any reason, including retirement by rotation. It evaluates, before making an appointment, the balance of skills, knowledge and experience on the Board and, in the light of this evaluation, prepares a description of the role and capabilities required for particular appointments. The Committee is required to give full consideration to succession planning in the course of its work, taking into account the challenges and opportunities facing the Group and the skills and expertise that will be needed on the Board in the future. The Committee ensures that, on appointment to the Board, non-executive Directors receive a contract setting out clearly what is expected of them in terms of time commitments, Committee service and involvement outside of Board meetings.

Recommendations to the Board

The Committee undertakes to make recommendations to the Board about plans for an orderly succession of the Chairman and non-executive Directors and a formal, rigorous and transparent procedure to be used by them. The Committee also considers and recommends, if appropriate, the reappointment of any non-executive Director at the conclusion of their specified term of office or under the retirement by rotation provisions in the Company's Articles of Association. The Committee considers and makes recommendations on the membership of the Audit Committee, the Nomination Committee and the Remuneration Committee in consultation with the Chairmen/Chairwomen of those Committees. The Committee may also, at any time, recommend to the Board the appointment of additional non-executive Directors and any Executive Directors (if such are considered to be appropriate).

Assessment of the effectiveness of the Committee

The Committee members feel that it is too early to have conducted a Committee evaluation but intends to take part in the Board and Committee internal evaluations planned for the latter part of 2021.

Esther M. Dale-Kolb
Chair
April 23, 2020

Remuneration Committee Report

Benjamin Bergo
Chair

Overview

The Remuneration Committee was established upon Re-admission of trading of the enlarged Group as of December 7, 2020. The Committee comprises two non-executive Directors, Benjamin Bergo (Chair) and Esther Dale-Kolb, and one Executive Director, Carlo Centonze.

In the remaining period to December 31, 2020, no meetings of the Remuneration Committee were held. Going forward, the Remuneration Committee will meet at least annually, and the Committee Chair shall attend each Annual General Meeting of the Company. No one shall be present during the discussion of, or vote on, matters regarding her/his own position. The Chairwoman of the Board shall not chair the Committee meeting when it is dealing with the appointment of her successor.

Summary of the Committee's responsibilities

The Committee's responsibilities include the following:

- Regular reviews – to regularly review: the time required from a non-executive Director and whether each non-executive Director is spending enough time fulfilling his or her duties; comparable Company data to ensure that the Board is being adequately remunerated and to a level which will allow the Company to attract new Directors, the Remuneration Committee's own performance, constitution and terms of reference and remuneration to ensure it is aligned to the implementation of the Company strategy and effective risk management, taking into account the views of shareholders and consultants as required.
- Recommendations to the Board – to make recommendations about matters arising from the Remuneration Committee's regular reviews and the annual review of fees paid to the Board and any changes to the current levels of remuneration.
- Option Scheme awards – to make all decisions relating to awards to be made to Executive Directors under the Option Scheme.
- Other matters – to make a statement in the annual report, to keep up to date and fully informed about strategic issues and commercial changes affecting the Company and the market in which it operates and to ensure an annual review of the Board and its operations is undertaken.

Chair's statement

The Directors are pleased to present their annual report on remuneration for 2020. The aim of the Remuneration Committee is to set clear objectives for each individual Executive Director and executive management team member relating to the Company's KPIs plus individual and strategic targets taking into account where an individual has particular influence and responsibility. As the Remuneration Committee was only established upon Re-admission on December 7, 2020, targets for Executive Directors and management had not been defined by the Remuneration Committee itself. All five Directors of the Company, both executive and non-executive, are shareholders of the Group. During the year, the two Executive Directors were granted share options upon Re-admission to trading of the enlarged Group.

Directors' remuneration policy

The Company's policy is to maintain levels of remuneration sufficient to attract, motivate and retain senior executives of the highest caliber who can deliver growth in shareholder value. Executive Directors' remuneration currently consists of basic salary, benefits (including pensions allowance), performance-related bonus and participation in a share option plan.

The Company continues to seek to strike an appropriate balance between fixed and performance-related rewards, reinforcing a clear link between pay and performance. The performance targets for staff, senior executives and the Executive Directors continue to be aligned to the key drivers of the business strategy, thereby creating a strong alignment of interest between staff, Executive Directors and shareholders. The Remuneration Committee will continue to review the Company's remuneration policy and make amendments, as and when necessary, to ensure it remains fit for purpose and continues to drive high levels of executive performance and remains both affordable and competitive in the market.

The policy is subject to shareholder approval through the votes cast at the upcoming AGM to be held on June 25, 2021.

Benjamin Bergo
Chair

Policy table

Base salary

Purpose and link to strategy	To provide fixed remuneration to: • help recruit and retain key individuals; and • reflect the individual's experience, role, rank and contribution within the Company.	
Operation	The Remuneration Committee takes into account a number of factors when setting salaries, including: • the scope and complexity of the role; • the skills and experience of the individual; • salary levels for similar roles within the industry; • pay elsewhere in the Company.	Salaries are reviewed, but not necessarily increased, annually with any increase usually taking effect in Q1.
Performance conditions	None	
Maximum opportunity	The current base salaries of the Directors can be found in the Directors' Remuneration section.	The Board retains discretion to make higher increases in certain circumstances, for example, following an increase in the scope and/or responsibility of the role or the development of the individual in the role or by benchmarking.

Other benefits

Purpose and link to strategy	To provide a basic benefits package, in order to help recruit and retain key individuals.	
Operation	The Group may provide Directors and management as well as employees with accident insurance, pension insurance and similar benefits in line with legal requirements in the jurisdiction of employment of the respective employee.	
Performance conditions	None	
Maximum opportunity	Maximum opportunity will be the expense of providing the benefit.	

Annual bonus

Purpose and link to strategy	To incentivize and reward the achievement of annual financial, operational and individual objectives which are key to the delivery of the Company's short-term strategy.	
Operation	Executive Directors and staff are eligible to participate in a discretionary bonus plan. • Maximum bonus levels and the proportion payable for on-target performance are considered in the light of market bonus levels for similar roles among the industry sector. • From 2021 objectives will be set annually to ensure that they remain targeted and focused on the delivery of the Company's short-term goals, which will usually be based on the annual budget. • The Remuneration Committee sets targets which require appropriate levels of performance, taking into account internal and external expectations of performance.	As soon as practicable after the year end, the Remuneration Committee meets to review performance against objectives and determines payout levels.
Performance conditions	At least 60% of the award will be assessed against Company metrics including operational, financial and non-financial performance. The remainder of the award will be based on performance against individual objectives.	A sliding scale of between 0% and 100% of the maximum award is paid dependent on the level of performance.
Maximum opportunity	The maximum potential bonus entitlement for Executive Directors under the plan is up to 100% of base salary.	

Remuneration Committee Report continued

Share Option Plan

Purpose and link to strategy	• To incentivize and reward the creation of long-term shareholder value. • To align the interests of the eligible employees with those of shareholders. • To help recruit and retain key individuals.	
Operation	Under the terms of the share option plan (the "Share Option Plan"), the Remuneration Committee may issue options over shares up to 10% of the issued share capital of the Company from time to time. Executive Directors and employees are eligible for awards.	The exercise of options may be subject to the satisfaction of such performance conditions, if any, as may be specified and subsequently varied and/or waived by the Remuneration Committee.
Performance conditions	Vesting of the awards is dependent on financial, operational and/or share price measures, as set by the Remuneration Committee, which are aligned with the long-term strategic objectives of the Company.	The relevant performance conditions will be set by the Remuneration Committee on the award of each grant.

Annual report on Directors' remuneration (audited)

All current Directors have taken office upon Re-admission of the enlarged Group for trading on December 7, 2020. The Executive Directors are employed under a service agreement, which is capable of termination by either party giving 12 months' notice in writing. The non-executive Directors are employed under service agreements with notice periods of three months. The non-executive Directors are required to retire and seek re-election by the shareholders at the next AGM, which is expected to take place on June 25, 2021, and at any subsequent AGM as required by the Articles or as the Board resolves. The Articles require all Directors to retire and seek re-election at the second AGM or general meeting (as the case may be) at which he or she was previously appointed.

The Executive Directors have – in addition to the Director's service agreement – entered into employment contracts with HeiQ Materials AG with aligned terms in regard to notification periods. The disclosed emoluments include the total compensation under both agreements.

Directors' emoluments for the year were as follows:

	Currency of payment	Salary/Fee		Pension benefits		Cash bonus payments		Total	
		2020	2019	**2020**	2019	**2020**	2019	**2020**	2019
Carlo Centonze	CHF	**208'800.00**	208'800.00	**16'070.00**	16'328.00	**17'400.00**	–	**242'270.00**	225'128.00
	GBP	**2'397.26**	–	**–**	–	**–**	–	**2'397.26**	
Xaver Hangartner	CHF	**162'400.00**	141'850.00	**7'928.00**	6'955.00	**27'066.70**	–	**197'394.70**	148'805.00
	GBP	**2'397.26**	–	**–**	–	**–**	–	**2'397.26**	
Esther Dale-Kolb	CHF	**–**	–	**–**	–	**–**	–	**–**	–
	GBP	**4'794.52**	–	**–**	–	**–**	–	**4'794.52**	–
Karen Brade	CHF	**–**	–	**–**	–	**–**	–	**–**	–
	GBP	**12'739.73**	–	**–**	–	**–**	–	**12'739.73**	–
Benjamin Bergo	CHF	**–**	–	**–**	–	**–**	–	**–**	–
	GBP	**2'739.73**	–	**–**	–	**–**	–	**2'739.73**	–

Before the reverse takeover of Auctus Growth Plc and the respective Re-admission to trading of the enlarged Group, the HeiQ Materials AG compensation structure for Board of Directors members and key employees included share-based payments with HeiQ Materials AG shares. Since Re-admission however, this share-based compensation is no longer in place. The number of shares and the value accounted for in the financial statements of the enlarged Group are as follows:

Share-based payment (HeiQ Materials AG shares)

	Year	Number of shares allocated	Value included in the financial statements (CHF)
Carlo Centonze	2020	3'600	234'000.00
	2019	1'000	65'000.00
Xaver Hangartner	2020	2'000	130'000.00
	2019	600	39'000.00
Esther Dale-Kolb	2020	250	16'250.00
	2019	–	–
Karen Brade	2020	–	–
	2019	–	–
Benjamin Bergo	2020	500	32'500.00
	2019	250	16'250.00

The Directors' interests for disclosure purposes are as follows (audited):

	Numbers of shares held as of Re-admission December 7, 2020	Number of options granted as of Re-admission December 7, 2020	Total beneficial interest as of December 7, 2020	Shares purchased/ sold on market December 7 – 31, 2020	Total beneficial interest as of December 31, 2020	% shares and options held of total shares in issue as at December 31, 2020
Carlo Centonze[1]	14'523'362	1'120'000	15'643'362	–	15'643'362	12.43%
Xaver Hangartner	493'746	1'120'000	1'613'746	–	1'613'746	1.28%
Esther Dale-Kolb	902'986	–	902'986	–	902'986	0.72%
Karen Brade	–	–	–	7'976	7'976	0.01%
Benjamin Bergo	284'853	–	284'853	–	284'853	0.23%

1. Including shares owned by close relatives and controlled entities.

Share options issued in 2020 are subject to the following conditions:

Exercise price	£1.23 per option share
Employment period	Three years
Performance conditions	• 65% of the options are conditional upon sales growth targets • 35% of the options are conditional upon annual operating margin targets
Changes of conditions compared to prior year/since grant date	None

Share options awarded to Executive Directors in the year are as follows:

	2020	2019
Carlo Centonze	**1'120'000**	–
Xaver Hangartner	**1'120'000**	–

No share options have been awarded to non-executive Directors.

Payments to past Directors (audited)

Ross Ainger, former director of Auctus Growth Plc until December 7, 2020, was paid a director's fee of £20'000 for his services during 2020. In addition, consultancy fees amounting to £40'000 relating to work undertaken on the reverse takeover of HeiQ Materials AG were paid by Auctus Growth Plc to RFA Consulting Limited, a company of which Ross Ainger is a director.

Payments for loss of office (audited)

No payments were made to Directors for loss of office in the year.

Directors' Report

The Directors' Report for the year ended December 31, 2020 comprises pages 54 to 55 of this report, together with the sections of the annual report incorporated by reference.

Directors

The names and biographical details of the current Directors are shown on pages 42 to 43 of this report.

Changes during the year/period under review are as follows:

Name	Date of appointment	Date of resignation
Benjamin Bergo	December 7, 2020	
Karen Brade	December 7, 2020	
Carlo Centonze	December 7, 2020	
Esther Dale-Kolb	December 7, 2020	
Xaver Hangartner	December 7, 2020	
Ross Ainger	January 10, 2020	December 7, 2020
Michael Burne		December 7, 2020
Charles Cannon-Brookes		January 10, 2020
Nathan Steinberg		December 7, 2020

Particulars of the Directors' emoluments and their beneficial and non-beneficial interests in the shares of the Company are shown on pages 52 to 53.

Powers of the Directors

The Directors manage the business under the powers set out in the Company's Articles of Association. These powers include the ability to issue or buy back shares.

Shareholders' authority to empower the Directors to buy back up to 10% of the Company's issued share capital will be sought at the Annual General Meeting. The Company's Articles of Association can only be amended, or new Articles adopted, by a resolution passed by shareholders in a general meeting by at least three-quarters of the votes cast.

Directors' indemnity provisions

Throughout the year/period under review the Company has maintained directors' and officers' liability insurance cover in respect of the acts or omissions of its Directors and continues to do so. Details of the policy are provided to new Directors on appointment. In common with other companies, the Group has made qualifying third-party indemnity provisions for the benefit of its Directors against liabilities incurred in the execution of their duties.

Political donations

The Company made no political donations and incurred no political expenditure during the year/period under review.

Dividend

The Directors have declared that no dividend would be paid in year 2021.

Post balance sheet events

In March 2021 the Company acquired 51% of Belgian industrial biotech company Chrisal NV, which is active in the research, development and manufacturing of products with probiotics and symbiotic ingredients.

Substantial interests

Information provided to the Company pursuant to the Financial Conduct Authority's (FCA) Disclosure Guidance and Transparency Rules (DTRs) is published on a Regulatory Information Service and on the Company's website. As at April 23, 2021, the following information has been received, in accordance with DTR 5, from holders of notifiable interests in the Company's issued share capital.

Notifiable interest	Voting rights	% of capital disclosed	Nature of holding
Amati Global Investors Limited	11,607,000	9.14%	Ordinary shares
Carlo Centonze	8,667,909	6.83%	Ordinary shares
Dr. Murray Height	8,018,063	6.31%	Ordinary shares
Premier Miton Group plc	6,827,500	5.38%	Ordinary shares
Bombyx Growth Fund SC	6,407,120	5.05%	Ordinary shares
FIL Limited	5,357,000	4.22%	Ordinary shares
Cortegrande AG[1]	5,186,237	4.08%	Ordinary shares
Darren Morcombe	5,019,486	3.95%	Ordinary shares
Mike Smith	4,268,628	3.36%	Ordinary shares

1. A company wholly owned by Carlo Centonze and of which he is the sole director.

Other information relevant to this Directors' Report can be found on the following pages of this report:

Annual General Meeting

The Company's Annual General Meeting will be held at Ruetistrasse 12, 8952 Schlieren (Zurich) Switzerland, with a satellite meeting place at the offices of Charles Russell Speechlys LLP, 5 Fleet Place, London EC4M 7RD on Friday 25 June 2021 at 11.00 a.m. Swiss time/10.00 a.m. London time. The AGM is being held at the Company's offices in Zurich to ensure that the Executive Directors and the Chair are able to attend the AGM in person, given the current ever-changing travel restrictions imposed by governments and the potential that further restrictions may come into force before the date of the Meeting.

Disclosure of information to the auditors

The Directors, who were in office on the date of the approval of this report, confirm that, so far as they are aware, there is no relevant audit information of which the Company's auditor is unaware and that they have taken all reasonable steps to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Statement of Directors' responsibilities in respect of the annual report and financial statements

The Directors are responsible for preparing the annual report and the Consolidated Financial Statements in accordance with applicable law and regulations.

The Directors of the Company are responsible for preparing the financial information in accordance with International Financial Reporting Standards (IFRSs).

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 of the profit or loss of the Group for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRSs; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company 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 UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Directors' responsibilities pursuant to DTR4

The Directors confirm to the best of their knowledge:

- the financial statements have been prepared in accordance with IFRSs and Article 4 of the IAS regulation and give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group; and
- the management report includes a fair review of the development and performance of the business and the financial position of the Group, together with a description of the principal risks and uncertainties that they face.

Ross Ainger
Company Secretary
April 23, 2020

Independent Auditor's Report to the Members of HeiQ plc

Opinion

We have audited the financial statements of HeiQ plc (the "Parent Company") and its subsidiaries (together the "Group") for the period ended December 31, 2020 which comprise:

- the Consolidated Statement of Comprehensive Income for the year ended December 31, 2020;
- the Consolidated and Company Statements of Financial Position as at December 31, 2020;
- the Consolidated and Company Statements of Cash Flows for the year then ended
- the Consolidated Statement and Company Statements of Changes in Equity for the year then ended; and
- the notes to the financial statements, including a summary of significant accounting policies.

The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

In our opinion the financial statements:

- give a true and fair view of the state of affairs of the Group and of the Parent Company as at December 31, 2020 and of the Group's profit for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards in conformity with the requirements of the Companies Act 2006 and international financial reporting standards adopted pursuant to Regulation (EC) No.1606/2002 as it applies to the European Union;
- have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Group and the Parent Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Group and Parent Company's ability to continue as a going concern for 12 months from the date the Annual Report and accounts are signed.

Overview of our audit approach

Materiality

In planning and performing our audit we applied the concept of materiality. An item is considered material if it could reasonably be expected to change the economic decisions of a user of the financial statements. We apply the concept of materiality both in planning and performing our audit to evaluate the results arising from undertaking our planned testing procedures and the impact of any unadjusted misstatements arising therefrom. Importantly, misstatements below the assessed level of materiality will not necessarily be evaluated as immaterial as we also take account of the nature of identified misstatements, and the particular circumstances of their occurrence, when evaluating their effect on the financial statements as a whole.

Materiality for the Group was set at US$445'000 and was based upon approximately 5% of profit before tax. We applied this benchmark as we believe it represents the key measure by which the Group's performance is evaluated. Materiality for the Parent Company financial statements was set at US$400'000, determined with reference to a benchmark of Parent Company total assets. It represents 2% of total assets, a key metric given the investment held in its subsidiary.

We use a different level of materiality ("performance materiality") to determine the extent of our testing for the audit of the financial statements. Performance materiality is set based on the financial statement materiality as adjusted for the judgments made as to the entity risk and our evaluation of the specific risk of each audit area having regard to the internal control environment. On the basis of our risk assessment of the Group's overall control environment, our judgment was that Group performance materiality was 75% of our planning materiality, namely US$333'750 (2019: not reported). Parent Company performance materiality was set at US$300'000 (2019: not reported). Where considered appropriate, performance materiality may be reduced to a lower level, such as for related party transactions and Directors' remuneration.

We agreed with the Audit Committee to report to it all identified errors in excess of US$20'000 (2019: not reported). Errors below that threshold would also be reported to it if, in our opinion as auditor, disclosure was required on qualitative grounds.

Where comparative materiality figures are referred to, these were set by the previous auditor.

Overview of the scope of our audit

Our audit approach was developed by obtaining an understanding of the Group structure, the activities of each entity, the jurisdiction and regulatory environment in which each entity operates.

Through this understanding we identified the following key audit components:
- HeiQ plc, the Parent Company;
- HeiQ Materials AG, a Swiss corporation based in Zurich that manufactures and develops specialist textiles and acts as holding company for the rest of the Group; and,
- HeiQ ChemTex Inc, a US corporation specializing in carpet research and development, production and trading.

These components account for 96% of income receivable and 98% of net assets as represented within the Group financial statements.

A full scope audit for Group purposes was applied to all Group entities and was performed by the audit engagement team. Due to Covid-19 related travel restrictions we were unable to conduct physical site visits from the UK. We accessed supporting documentation via document sharing platforms and arranged for local members of the Crowe Global International network to attend physical stock counts.

We gained an understanding of:
- the nature of the activities;
- the nature, scale, complexity and level of judgment of the transactions and balances of the Group; and
- the overall control environment and the level of oversight of the Board in respect of outsourced activities.

Based on this understanding we assessed those aspects of the Group and Parent Company's transactions and balances which were most likely to give rise to a material misstatement and were most susceptible to irregularities including fraud or error. Specifically, we identified what we considered to be key audit matters and planned our audit approach accordingly.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Independent Auditor's Report to the Members of HeiQ plc continued

The key audit matters we identified and how the scope of our audit responded to these is set out below. The following table is limited to key audit matters and is not a complete list of all risks identified by our audit.

Key audit matter	How the scope of our audit addressed the key audit matter
Revenue recognition The Group has a number of sources of income. Its main income is derived by the sale of functional chemicals and functional consumer goods. Revenue for the sale of goods is generally recognized on despatch, but as some 'take or pay' arrangements exist, judgment is required in determining accrued income. The Group also has service income including product development agreements which cover multiple periods. Judgment is required to determine stage of completion under these agreements.	We gained an understanding of: • the principal terms and conditions relating to each income stream; and • the controls and review procedures applied by the Group to identify the right to and recognition of income. Based on that understanding we: • evaluated and tested the operation of the key controls; • performed analytical review procedures to determine whether movements are consistent with our knowledge of the business and results for the year. Investigated reasons for any deviations from expectation corroborating explanations provided; • reviewed the basis for recognising accrued income focusing on non-standard arrangements including 'take or pay', product development and grant income; and • agreed a sample of transactions to supporting documentation. We have no adverse findings to report from our testing of revenue.
Carrying value of intangible assets may be overstated The Group has both internally generated development assets and acquired intangible assets arising on the acquisition of some of its subsidiaries. Judgment is required in determining whether a need for an impairment provision arises.	We reviewed the Board's assessment of the carrying value of the intangible assets. We split our work between intangibles arising from acquisitions and those that were internally generated. For internally generated development expenditure we: • evaluated and tested the operation of the key controls implemented to assess the development projects; • discussed with key operational staff and scientists the technical feasibility of the projects on a sample basis; and • obtained current and budgeted profitability of a sample of the products under development to assess their commercial viability. For acquired intangible assets we: • evaluated and tested the operation of the key controls implemented to identify potential impairments; • obtained the Board's impairment review calculation and confirmed its arithmetical accuracy; and • challenged the basis for key assumptions and agreed them to supporting evidence. We have no adverse findings to report from our testing of intangible assets.
Inventory existence and valuation The Group has material levels of inventory in multiple locations. A risk exists that profit is manipulated by overstating inventory either by overstating physical quantities or by overvaluing individual inventory items.	We gained an understanding of: • the nature and location of the Group's inventory holdings; • the basis of valuation of inventory; and • the controls applied by the Group to ensure that inventory is accurately recorded in the accounting records. Based on that understanding we: • evaluated and tested the operation of the key controls; • obtained and agreed year-end inventory reconciliations to the accounting records; • performed in-person inventory sample counts in the Swiss entity and remote sample counts for the US and Spanish entities via video link to confirm existence; • obtained direct confirmation of inventory held by third parties; • agreed a sample of inventory items to purchase invoices to confirm cost and to subsequent sales invoices to confirm that cost was not greater than net realisable value; and • reviewed the inventory ageing reports for potentially unsaleable items and compared this to inventory provisions. We have no adverse findings to report from our testing of inventory.

Our audit procedures in relation to these matters were designed in the context of our audit opinion as a whole. They were not designed to enable us to express an opinion on these matters individually and we express no such opinion.

Other information

The Directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, the part of the Directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.
In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements;
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the Group and the Parent Company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report or the Directors' Report.

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

- adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Parent Company financial statements and the part of the Directors' remuneration report to be audited 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.

Responsibilities of directors

As explained more fully in the Directors' responsibilities statement set out on page 55, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Group's and the Parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or the Parent Company or to cease operations, or have no realistic alternative but to do so.

Independent Auditor's Report to the Members of HeiQ plc continued

Auditor's responsibilities for the audit of the financial statements

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

Extent to which the audit is capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the Parent Company and management.

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, our procedures included the following:

- enquiring of the Company Secretary and the Audit Committee, including obtaining and reviewing supporting documentation, concerning the Group's policies and procedures relating to:
  - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
  - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud; and
  - the internal controls established to mitigate risks related to fraud or non-compliance with laws and regulations.
- discussing among the engagement team on how and where fraud might occur in the financial statements and any potential indicators of fraud. As part of this discussion, we identified potential for fraud in the valuation of intangible assets, valuation and existence of inventory and recognition of income; and
- obtaining an understanding of the legal and regulatory frameworks that the Group operates in, focusing on those laws and regulations that had a direct effect on the financial statements or that had a fundamental effect on the operations of the Group. The key laws and regulations we considered in this context included the UK Companies Act and the Listing Rules.

Audit response to risks identified

As a result of performing the above, we identified valuation of intangibles, recognition of income and inventory existence and valuation as key audit matters and our response to this risk is set out on the following page.

In addition to the above, our procedures to respond to risks identified included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with relevant laws and regulations discussed above;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- reading minutes of meetings of those charged with governance and reviewing correspondence with HMRC; and
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgments made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

We gained an understanding of the legal and regulatory framework applicable to the Group and the industry in which it operates, and considered the risk of acts by the Group which were contrary to applicable laws and regulations, including fraud. These included but were not limited to compliance with Companies Act 2006, the FCA Listing Rules, the principles of the QCA Code and International Financial Reporting Standards.

We designed audit procedures to respond to the risk, recognising that the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery, misrepresentations or through collusion.

We focused on laws and regulations that could give rise to a material misstatement in the Group's financial statements. Our tests included, but were not limited to:

- agreement of the financial statement disclosures to underlying supporting documentation;
- enquiries of management;
- review of minutes of Board meetings throughout the period; and
- considering the effectiveness of the control environment in monitoring compliance with laws and regulations.

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

Other matters which we are required to address

We were appointed by the Audit Committee on December 15, 2020. The period of total uninterrupted engagement is less than a year, covering the year ended December 31, 2020.

The non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the Parent Company and we remain independent of the Group and the Parent Company in conducting our audit.

Our audit opinion is consistent with the additional report to the Audit Committee.

Use of our report

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

Ian Weekes
Senior Statutory Auditor
April 23, 2021

For and on behalf of
Crowe U.K. LLP
55 Ludgate Hill
London
EC4M 7JW

Consolidated Statement of Comprehensive Income

For the year ended December 31, 2020

	Note	Year ended December 31, 2020 US$'000	Year ended December 31, 2019 US$'000
Revenue	8	**50'401**	27'954
Cost of sales	9	**(22'402)**	(14'382)
Gross profit		**27'999**	13'572
Other operating income	8	**4'744**	1'585
Selling and general administrative expenses	9	**(16'117)**	(12'048)
Other operating expenses	9	**(5'127)**	(1'687)
Operating profit		**11'499**	1'422
Deemed cost of listing	5	**(1'402)**	–
Transaction costs of relisting	5	**(1'871)**	–
Other income		**–**	24
Other costs		**(69)**	–
Finance income	22	**68**	8
Finance costs	22	**(1'184)**	(428)
Share of (losses)/profits of associates	7	**(15)**	3
Income before taxation		**7'026**	1'029
Taxation	10	**(2'112)**	(314)
Income after taxation		**4'914**	715
Earnings per share (cents) – basic	11	**4.41**	0.71
Earnings per share (cents) – diluted	11	**4.21**	0.71
Other comprehensive income:			
Exchange differences on translation of foreign operations		**2'469**	53
Items that may be reclassified to profit or loss in subsequent periods		**2'469**	53
Actuarial losses from defined benefit pension plans		**(731)**	(205)
Items that will not be reclassified to profit or loss in subsequent periods		**(731)**	(205)
Total comprehensive income for the year		**6'652**	563
Income attributable to:			
Equity holders of HeiQ		**4'991**	726
Non-controlling interests		**(77)**	(11)
		4'914	715
Comprehensive income/(loss) attributable to:			
Equity holders of the Company		**6'729**	574
Non-controlling interests		**(77)**	(11)
		6'652	563

Consolidated Statements of Financial Position

As at December 31, 2020

	Note	**As at December 31, 2020 US$'000**	As at December 31, 2019 US$'000
ASSETS			
Intangible assets	12	**5'264**	4'522
Property, plant and equipment	13	**5'467**	3'884
Right-of-use assets	14	**2'564**	2'714
Investments	6,7	**–**	44
Deferred tax assets	10	**826**	380
Other non-current assets	15	**206**	73
Non-current assets		**14'327**	11'617
Inventories	16	**13'328**	3'202
Trade receivables	17	**13'437**	9'175
Other receivables and prepayments	17	**2'609**	342
Cash and cash equivalents		**25'695**	3'603
Current assets		**55'069**	16'322
Total assets		**69'396**	27'939
EQUITY AND LIABILITIES			
Share capital	18	**49'559**	2'696
Capital reserve	18	**134'537**	25'168
Other reserve	19	**(2'043)**	(1'312)
Share-based payment reserve	19	**50**	–
Merger reserve	5	**(126'912)**	–
Currency translation reserve	19	**2'937**	467
Retained deficit	19	**(8'711)**	(13'702)
Equity attributable to owners of the parent		**49'417**	13'317
Non-controlling interests		**(20)**	23
Total equity		**49'397**	13'340
Lease liabilities	14	**2'304**	2'445
Deferred tax liability	10	**857**	216
Long-term borrowings	22	**1'400**	–
Other non-current liabilities	21	**3'425**	2'780
Total non-current liabilities		**7'986**	5'441
Trade and other payables		**5'815**	1'830
Accrued liabilities		**3'214**	3'113
Income tax liability	10	**1'495**	101
Deferred revenue		**–**	50
Short-term borrowings	22	**173**	2'478
Lease liabilities	14	**349**	339
Other current liabilities	23	**967**	1'247
Total current liabilities		**12'013**	9'158
Total liabilities		**19'999**	14'599
Total liabilities and equity		**69'396**	27'939

The Notes on pages 66 to 97 form an integral part of these Consolidated Financial Statements. The Financial Statements on pages 62 to 65 were approved and authorized for issue by the Board of Directors on April 23, 2021 and signed on its behalf by:

Xaver Hangartner
Chief Financial Officer
April 23, 2021

Consolidated Statement of Changes in Shareholders' Equity

For the year ended December 31, 2020

	Note	Share capital US$'000	Capital reserve US$'000	Other reserve US$'000	Share-based payment reserve US$'000	Merger reserve US$'000	Currency translation reserve US$'000	Retained deficit US$'000	Non-controlling interests US$'000	Total equity US$'000
Balance on January 1, 2019		**2'664**	**24'921**	**(1'107)**	**–**	**–**	**414**	**(14'428)**	**–**	**12'464**
Income after taxation		–	–	–	–	–	–	726	(11)	715
Other comprehensive (loss)/income		–	–	(205)	–	–	53	–	–	(152)
Total comprehensive (loss)/income for the year		–	–	(205)	–	–	53	726	(11)	563
Issuance of shares	19	32	396	–	–	–	–	–	–	428
Dividends paid from capital contributions	19	–	(149)	–	–	–	–	–	–	(149)
Capital contributions from non-controlling interests		–	–	–	–	–	–	–	34	34
Transactions with owners		32	247	–	–	–	–	–	34	313
Balance on December 31, 2019		**2'696**	**25'168**	**(1'312)**	**–**	**–**	**467**	**(13'702)**	**23**	**13'340**
Income after taxation		**–**	**–**		**–**	**–**	**–**	**4'991**	**(77)**	**4'914**
Other comprehensive (loss)/income		**–**	**–**	**(731)**	**–**	**–**	**2'469**	**–**	**–**	**1'738**
Total comprehensive (loss)/income for the year		**–**	**–**	**(731)**	**–**	**–**	**2'469**	**4'991**	**(77)**	**6'652**
Reverse acquisition adjustment		**39'587**	**89'866**	**–**	**–**	**(126'912)**	**–**	**–**	**–**	**2'542**
Issuance of shares	19	**7'276**	**20'763**	**–**	**–**	**–**	**–**	**–**	**–**	**28'039**
Cost of share issues		**–**	**(1'260)**	**–**	**–**	**–**	**–**	**–**	**–**	**(1'260)**
Share-based payment charges		**–**	**–**	**–**	**50**	**–**	**–**	**–**	**–**	**50**
Capital contributions from non-controlling interests		**–**	**–**	**–**	**–**	**–**	**–**	**–**	**34**	**34**
Transactions with owners		**7'276**	**19'503**	**–**	**50**	**–**	**–**	**–**	**34**	**26'863**
Balance on December 31, 2020		**49'559**	**134'537**	**(2'043)**	**50**	**(126'912)**	**2'937**	**(8'711)**	**(20)**	**49'397**

Consolidated Statement of Cash Flows

For the year ended December 31, 2020

Cash flows from operating activities	**Year ended December 31, 2020 US$'000**	Year ended December 31, 2019 US$'000
Income before taxation	**7'026**	1'029
Cash flow from operations reconciliation:		
Depreciation and amortization	**1'254**	1'267
Loss on disposal of property, plant and equipment	**46**	2
Loss on disposal of investments	**22**	–
Finance costs	**399**	428
Finance income	**(68)**	(8)
Expected credit loss on trade receivables	**377**	–
Pension expense	**176**	–
Non-cash equity compensation	**1'217**	428
Share of loss/(profit) of associates	**15**	(3)
Deemed cost of listing	**1'402**	–
Foreign exchange differences	**(164)**	(40)
Working capital adjustments:		
(Increase)/decrease in inventories	**(8'161)**	696
(Increase) in trade and other receivables	**(5'165)**	(2'044)
Increase in trade and other payables	**2'777**	1'412
Cash generated from operations	**1'153**	3'167
Taxes paid	**(48)**	(178)
Net cash generated from operating activities	**1'105**	2'989
Cash flows from investing activities		
Consideration for acquisitions of businesses (Note 26)	**(1'424)**	(1'290)
Cash assumed on acquisitions of businesses (Note 26)	**27'111**	–
Purchase of property, plant and equipment	**(932)**	(370)
Proceeds from the disposal of property, plant and equipment	**10**	4
Development of intangible assets	**(635)**	(118)
Investment in associated company	**–**	(15)
Proceeds from the disposal of associated company	**7**	–
Finance income	**68**	8
Net cash from/(used in) investing activities	**24'205**	(1'781)
Cash flows from financing activities		
Finance costs	**(399)**	(182)
Repayment of leases	**(354)**	(386)
Proceeds from borrowings	**2**	929
Repayment of borrowings	**(2'737)**	–
Dividends paid from capital contributions	**–**	(149)
Net cash (used in)/from financing activities	**(3'488)**	212
Net increase in cash and cash equivalents	**21'822**	1'420
Cash and cash equivalents – beginning of the year	**3'603**	2'163
Effects of exchange rate changes on the balance of cash held in foreign currencies	**270**	20
Cash and cash equivalents – end of the year	**25'695**	3'603

Note: Non-cash transactions: Certain shares were issued during the year for a non-cash consideration as described in Note 19.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2020

1. General information

HeiQ plc ("the Company'') and its subsidiaries (together, "the Group'') is an established global brand in materials and textile innovation which operates in high-growth markets, creating some of the most effective, durable and high-performance textile effects available worldwide. The principal activity of the Company is that of a holding company for the Group, as well as performing all administrative, corporate finance, strategic and governance functions of the Group.

The Company was incorporated on May 14, 2014 as Auctus Growth Limited, in England and Wales under the Companies Act 2006 with company number 09040064, with an investment strategy to undertake an acquisition of a target company or business. The Company was re-registered as a public company on July 24, 2014. On December 4, 2020, the Company's name was changed to HeiQ plc. The Company's registered office is 5th Floor, 15 Whitehall, London, SW1A 2DD.

The Company was admitted to listing on the Official List by way of a Standard Listing in accordance with Chapter 14 of the Listing Rules and to trading on the London Stock Exchange's Main Market for listed securities on August 22, 2014.

Following the reverse takeover by the Company of HeiQ Materials AG ("HeiQ"), an established global brand in materials and textile innovation, the Company's enlarged share capital was admitted to the standard segment of the Official List and initiation of trading on the London Stock Exchange's Main Market commenced on December 7, 2020 under the ticker 'HEIQ'. The ISIN of the Ordinary Shares is GB00BN2CJ299 and the SEDOL Code is BN2CJ29.

2. Basis of preparation and measurement

a. Basis of preparation

The Consolidated Financial Statements have been prepared in accordance with IFRS, issued by the International Accounting Standards Board, including interpretations issued by the International Financial Reporting Interpretations Committee, applicable to companies reporting under IFRS, and the Companies Act 2006 applicable to companies reporting under IFRS.

Unless otherwise stated, the Consolidated Financial Statements are presented in United States Dollars (US$) which is the presentational currency of the Group, and all values are rounded to the nearest thousand dollars except where otherwise indicated.

The individual entities' functional currencies are listed below:

Entity:	Functional currency
HeiQ plc	GBP
HeiQ Materials AG	CHF
HeiQ ChemTex Inc.	USD
HeiQ Pty Ltd	AUD
HeiQ Australia Pty Ltd	AUD
HeiQ GrapheneX AG	CHF
HeiQ Company Limited	TWD (Taiwan Dollar)
HX Company Limited	TWD
HeiQ Medica S.L.	EUR
HeiQ Iberia Unipessoal Lda	EUR

On a single entity level, transactions in foreign currencies are translated into the functional currency at the rate of exchange ruling on the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the exchange rate ruling at the reporting date. The resulting gain or loss is reflected in the Consolidated Statement of Comprehensive Income within operating income or operating expense if the account in the Statement of Financial Position is of an operating nature – e.g., trade and other receivables/payables and within either "Finance income" or "Finance costs" if the account is of a non-operating nature – e.g., cash and cash equivalents, loans receivable, payable.

Single entities with a functional currency other than US$ are translated into US$ as part of the consolidation where assets and liabilities are translated at closing rate and profit and loss items are translated at an average rate for the year. Equity transactions are translated at the historic rate. The residual value flows into the currency translation reserve.

The Consolidated Financial Statements have been prepared under the historical cost convention except for certain financial and equity instruments that have been measured at fair value.

The Consolidated Financial Statements have been prepared on the going concern basis, which contemplates the continuity of normal business activity and the realization of assets and the settlement of liabilities in the normal course of business. The Directors have reviewed the Group's overall position and outlook and are of the opinion that the Group is sufficiently well funded to be able to operate as a going concern for at least the next twelve months from the date of signing these financial statements.

The preparation of Financial Statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment and complexity, or areas where assumptions and estimates are significant to the Consolidated Financial Statements, are disclosed in Note 3.

Transaction costs of equity transactions relating to the issue and re-admission of the Company's shares are accounted for as a deduction from equity where they relate to the issue of new shares and listing costs are charged to the Statement of Comprehensive Income.

b. Basis of consolidation

The Consolidated Financial Statements comprise the financial statements of the Company and its subsidiaries listed in Note 6 "Subsidiaries" to the Consolidated Financial Statements.

The basis of consolidation of the acquisition of HeiQ Materials AG by the Company in December 2020 is described in the basis of preparation above in Note 2(a).

Business combinations other than reverse acquisitions as described in Note 5 are accounted for under the acquisition method.

A subsidiary is defined as an entity over which the Company has control. The Company controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

Intra-group transactions, balances and unrealized gains on transactions are eliminated; unrealized losses are also eliminated unless the cost cannot be recovered. Where necessary, adjustments are made to the financial statements of subsidiaries to ensure consistency of accounting policies with those of the Group.

The total comprehensive income of non-wholly owned subsidiaries is attributed to owners of the parent and to the non-controlling interests in proportion to their relative ownership interests.

c. Investment in associates

The Group has applied IFRS 11 "Joint Arrangements" to its investment in associates. Under IFRS 11 "Joint Arrangements", investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations of each investor. The Directors have assessed the nature of the Company's joint arrangements and determined them to be that of an associated company, accounted for using the equity method.

Under the equity method of accounting, interests in associated companies are initially recognized at cost and adjusted thereafter to recognize the Group's share of the post-acquisition profits or losses and movements in other comprehensive income. When the Group's share of losses in an associated company equals or exceeds its interests in the associated company, the Group does not recognize further losses, unless it has incurred obligations or made payments on behalf of the associated company.

d. New standards, interpretations and amendments effective for the current period

Adopted

- Amendments to IFRS 3: Definition of a Business
- Amendments to IFRS 9, IAS 39 and IFRS 7: Interest Rate Benchmark Reform
- Amendments to IFRS 16: COVID-19-Related Rent Concessions
- Amendments to IAS 1 and IAS 8: Disclosure Initiative – Definition of Materiality

The Group has considered the above new standards, interpretations and amendments and has concluded that they are either not relevant to the Group or they do not have a significant impact on the Group's consolidated financial statements.

New standards, interpretations and amendments not yet effective for the current period

There are a number of standards, amendments to standards, and interpretations which have been issued by the IASB that are effective in future accounting periods that the Group has decided not to adopt early. The most significant of these are as follows:

- Amendments to IAS 37 Onerous Contracts – Cost of Fulfilling a Contract
- Amendments to IAS 16 Property, Plant and Equipment: Proceeds before Intended Use
- Amendments to IFRS 3 References to Conceptual Framework

Management is currently assessing the impact of these new standards on the Group.

3. Significant accounting policies

The preparation of the Consolidated Financial Statements in compliance with IFRS requires the Directors to exercise judgment in applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the Consolidated Financial Statements are disclosed in Note 4 "Significant accounting judgments, estimates and assumptions" to the Consolidated Financial Statements.

a. Foreign currency transactions and translation

The Consolidated Financial Statements are presented in US Dollars (US$), which is the Group's principal functional currency.

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

- assets and liabilities are translated at the closing rate at the date of the Statement of Financial Position;
- income and expenses are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- all resulting exchange differences are recognized in other comprehensive income.

On consolidation, the Group recognizes in other comprehensive income the exchange differences arising from the translation of the net investment in foreign entities, and of monetary items receivable from foreign subsidiaries for which settlement is neither planned nor likely to occur in the foreseeable future.

b. Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses, if any. The cost of an item of property, plant and equipment initially recognized includes its purchase price and any cost that is directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by the Group.

Property, plant and equipment are generally depreciated on a straight-line basis over their estimated useful lives:

Furniture and fixtures	5–7 years
Motor vehicles	5 years
Machinery and equipment	5–15 years
Computers and software	5 years

Property, plant and equipment held under leases are depreciated over the shorter of the lease term and estimated useful life.

c. Research and development expenditure

Research expenditure is recognized as an expense when it is incurred.

Development expenditure is recognized as an expense except those costs incurred on development projects are capitalized as long-term assets to the extent that such expenditure is expected to generate future economic benefits. Development expenditure is capitalized if, and only if, an entity can demonstrate all of the following:

- its ability to measure reliably the expenditure attributable to the asset under development;
- the product or process is technically and commercially feasible;
- its future economic benefits are probable;
- its ability to use or sell the developed asset; and
- the availability of adequate technical, financial and other resources to complete the asset under development.

Capitalized development expenditure is measured at cost less accumulated amortization and impairment losses, if any. Certain internal salary costs are included where the above criteria are met. These internal costs are capitalized when they are incurred in respect of products developed for sale. Development expenditure initially recognized as an expense is not recognized as assets in subsequent periods.

Capitalized development expenditure in respect of such products is amortized on a straight-line method over a period of five to ten years when the products or services are ready for sale or use. In the event that it is no longer probable that the expected future economic benefits will be recovered, the development expenditure is written down to its recoverable amount.

d. Intangible assets

All intangible assets, except goodwill, are stated at cost less accumulated amortization and any accumulated impairment losses.

The estimated useful lives are as follows:

Patents and trademarks	5–10 years
Internally developed assets	5–10 years

Goodwill
Goodwill represents the amount by which the fair value of the cost of a business combination exceeds the fair value of the net assets acquired. Goodwill is not amortized and is stated at cost less any accumulated impairment losses.

The recoverable amount of goodwill is tested for impairment annually or when events or changes in circumstance indicate that it might be impaired. Impairment charges are deducted from the carrying value and recognized immediately in the income statement. For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units expected to benefit from the synergies of the combination. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognized for goodwill is not reversed in a subsequent period.

Acquisition-related intangible assets
Net assets acquired as part of a business combination includes an assessment of the fair value of separately identifiable acquisition-related intangible assets, in addition to other assets, liabilities and contingent liabilities purchased. These acquisition-related intangible assets are amortized on a straight-line basis over their useful lives which are individually assessed.

The estimated useful lives are as follows:

Patents and trademarks	10 years
Brand names	10 years

e. Impairment of financial assets
The expected credit loss model defined in IFRS 9 "Financial Instruments" requires the Group to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition of the financial assets. The credit event does not have to occur before credit losses are recognized. IFRS 9 "Financial Instruments" allows for a simplified approach for measuring the loss allowance at an amount equal to lifetime expected credit losses for trade receivables and contract assets.

The Group has one type of financial asset subject to the expected credit loss model: trade receivables.

The expected loss rates are based on the Group's historical credit losses experienced over the three-year period prior to the period end. The historical loss rates are then adjusted for current and forward-looking information on macroeconomic factors affecting the Group's customers.

f. Impairment of non-financial assets
At each reporting date, the Directors assess whether indications exist that an asset may be impaired. If indications do exist, or when annual impairment testing for an asset is required, the Directors estimate the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value-in-use, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset or cash-generating unit exceeds its recoverable amount, the Directors consider the asset impaired and write the subject asset down to its recoverable amount. In assessing value-in-use, the Directors discount the estimated future cash flows 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. In determining fair value less costs to sell, the Directors consider recent market transactions, if available. If no such transactions can be identified, the Directors utilize an appropriate valuation model.

When applicable, the Group recognizes impairment losses of continuing operations in the Statements of Comprehensive Income in those expense categories consistent with the function of the impaired asset.

g. Right-of-use assets
A right-of-use asset is recognized at the commencement date of a lease. The right-of-use asset is measured at cost, which comprises the initial amount of the lease liability, adjusted for, as applicable, any lease payments made at or before the commencement date net of any lease incentives received, any initial direct costs incurred, and an estimate of costs expected to be incurred for dismantling and removing the underlying asset, and restoring the site or asset.

3. Significant accounting policies continued

Right-of-use assets are depreciated on a straight-line basis over the unexpired period of the lease or the estimated useful life of the asset, whichever is the shorter. Right-of-use assets are subject to impairment or adjusted for any re-measurement of lease liabilities.

The Group has elected not to recognize a right-of-use asset and corresponding lease liability for short-term leases with terms of 12 months or less and leases of low-value assets. Lease payments on these assets are expensed to profit or loss as incurred.

h. Leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at inception date; whether fulfillment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset.

Identifying leases

The Group accounts for a contract, or a portion of a contract, as a lease when it conveys the right to use an asset for a period of time in exchange for consideration. Leases are those contracts that satisfy the following criteria:
- there is an identified asset;
- the Group obtains substantially all the economic benefits from use of the asset; and
- the Group has the right to direct use of the asset.

The Group considers whether the supplier has substantive substitution rights. If the supplier does have those rights, the contract is not identified as giving rise to a lease.

In determining whether the Group obtains substantially all the economic benefits that arise from use of the asset, the Group considers only the economic benefits that arise from use of the asset, not those incidentals to legal ownership or other potential benefits.

In determining whether the Group has the right to direct use of the asset, the Directors consider whether the Group directs how and for what purpose the asset is used throughout the period of use. If there are no significant decisions to be made because they are pre-determined due to the nature of the asset, the Directors consider whether the Group was involved in the design of the asset in a way that predetermines how and for what purpose the asset will be used throughout the period of use. If the contract or portion of a contract does not satisfy these criteria, the Group applies other applicable IFRSs rather than IFRS 16 “Leases”.

Lease liabilities are measured at the present value of the contractual payments due to the lessor over the lease term, with the discount rate determined by reference to the rate inherent in the lease unless (as is typically the case) this is not readily determinable, in which case the Group’s incremental borrowing rate on commencement of the lease is used, which the Directors have assessed to be between 1.75% and 5%, depending on the nature of the asset and location.

Variable lease payments are only included in the measurement of the lease liability if they depend on an index or rate. In such cases, the initial measurement of the lease liability assumes the variable element will remain unchanged throughout the lease term. Other variable lease payments are expensed in the period to which they relate.

On initial recognition, the carrying value of the lease liability also includes:
- amounts expected to be payable under any residual value guarantee;
- the exercise price of any purchase option granted in favor of the Group if it is reasonably certain to assess that option; and
- any penalties payable for terminating the lease, if the term of the lease has been estimated on the basis of termination option being exercised.

Right-of-use assets are initially measured at the amount of the lease liability, reduced for any lease incentives received, and increased for:
- lease payments made at or before commencement of the lease;
- initial direct costs incurred; and
- the amount of any provision recognized where the Group is contractually required to dismantle, remove or restore the leased asset.

Subsequent to initial measurement lease liabilities increase as a result of interest charged at a constant rate on the balance outstanding and are reduced for lease payments made. Right-of-use assets are amortized on a straight-line basis over the remaining term of the lease or over the remaining economic life of the asset if, rarely, this is judged to be shorter than the lease term.

When the Group revises its estimate of the term of any lease (because, for example, it re-assesses the probability of a lessee extension or termination option being exercised), it adjusts the carrying amount of the lease liability to reflect the payments to make over the revised term, which are discounted at the same discount rate that applied on lease commencement. The carrying value of lease liabilities is similarly revised when the variable element of future lease payments dependent on a rate or index is revised. In both cases an equivalent adjustment is made to the carrying value of the right-of-use asset, with the revised carrying amount being amortized over the remaining (revised) lease term.

i. Taxation

Deferred taxation

Deferred tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the Consolidated Financial Statements. Deferred tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the reporting date and expected to apply when the related deferred tax is realized, or the deferred liability is settled.

Deferred tax assets are recognized to the extent that it is probable that the future taxable profit will be available against which the temporary differences can be utilized.

Income taxation

Current income tax assets and liabilities are measured at the amount to be recovered from, or paid to, the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the reporting date in the jurisdictions where the Group operates and generates taxable income.

j. Revenue from contracts with customers and other income

The Group's revenue represents the fair value of the consideration received or receivable for the sale of functional ingredients (including chemicals), materials or finished goods directly to retail or wholesale customers and the rendering of services, net of value added tax and other similar sales-based taxes, rebates and discounts after eliminating intercompany sales.

For fixed-price contracts, the customer pays the fixed amount based on a payment schedule. If the value of services rendered by the Group exceed the payment received, an amount recoverable on contracts asset is recognized. Conversely, if the payments exceed the value of services rendered, a liability is recognized. If the contract is time-and-materials based and includes an hourly fee, revenue is recognized over time in the amount to which the Group has the right to invoice.

Take or pay arrangements

Certain customers have agreed, under a “take or pay” contract, to purchase a specified minimum quantity of a range of particular products over a specified period of time. However, the customer has to pay for the full quantity stated in the contract, irrespective of whether the customer takes delivery of the minimum quantity to which they are entitled. Upon payment of the full amount, the contract allows customers to defer its unexercised rights and to consume the remaining units to a later date, although there is no compulsion to do so. If the Group expects to benefit from such future exercise by the customer, it recognizes the expected amount as revenue in proportion to the pattern of rights exercised by the customer (by comparing the goods delivered to date with those expected to be delivered overall).

The Directors have therefore considered likely future customer behavior and thus estimated the proportion of revenues to be recognized under such contracts.

Framework agreements

For services revenue from framework agreements, the stage of completion is determined based on the proportion of contract costs incurred compared to total estimated contract costs. The outcome of a development project can be determined with reasonable certainty when a project budget is agreed which sets out milestones and costs for all project deliverables. Staff and contractors record their actual time and external costs spent on each project which is regularly reviewed against budget.

In making their estimation as to the amounts recoverable on contracts, the Directors consider estimates of anticipated revenues and costs from each contract and monitor the need for any provisions for losses arising from adjustments to underlying assumptions if this indicates it is appropriate.

3. Significant accounting policies continued

Contract work in progress is stated at costs incurred, less those amounts transferred to profit or loss, after deducting foreseeable losses and payments on account not matched with revenue. Amounts recoverable on contracts are included in current assets and represent revenue recognized in excess of payments on account.

The revenue recognized and deferred from such agreements was as follows:

Revenue from framework agreements	**Year ended December 31, 2020 US$'000**	Year ended December 31, 2019 US$'000
Amounts invoiced	**–**	–
Amounts recognized	**50**	300
Amount recognized in revenue	**50**	300

Deferred revenue	**As at December 31, 2020 US$'000**	As at December 31, 2019 US$'000
Amount brought forward	**50**	350
Recognized as income	**(50)**	(300)
Amount carried forward to be recognized in future periods	**–**	50

k. Share-based payments

The Group accounts for share-based payments under IFRS 2 "Share-based Payment". All of the Group's share-based awards are equity settled.

Equity-settled share-based payments to employees are measured at the fair value of the equity instruments at the grant date. Equity-settled share-based payments to non-employees are measured at the fair value of services received, or if this cannot be measured, at the fair value of the equity instruments granted at the date that the Group obtains the goods or counterparty renders the service. The fair value of such shares issued has been estimated by reference to the cash consideration received for shares issued or material third-party transactions at or close to the dates for such non-cash issues.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Directors' estimate of equity instruments that will eventually vest, with a corresponding increase in equity. Where the conditions are non-vesting, the expense and equity reserve arising from share-based payment transactions is recognized in full immediately on grant.

At the end of each reporting period, the Directors revise their estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognized in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to other reserves.

l. Employee benefits

Short-term benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognized for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

Long-term benefits

Defined benefit plans

The Group operates a defined benefit pension plan in Switzerland, which requires contributions to be made to a separately administered fund. The cost of providing benefits under the defined benefit plan is determined using the projected unit credit method.

Re-measurements, comprising of actuarial gains and losses, the effect of the asset ceiling, excluding amounts included in net interest on the net defined benefit liability and the return on plan assets (excluding amounts included in net interest on the net defined benefit liability), are recognized immediately in the statement of financial position with a corresponding debit or credit to retained earnings through other comprehensive income in the period in which they occur. Re-measurements are not reclassified to profit or loss in subsequent periods.

Past-service costs are recognized in profit or loss on the earlier of:

- the date of the plan amendment or curtailment; and
- the date that the Group recognizes related restructuring costs.

Net interest is calculated by applying the discount rate to the net defined benefit liability or asset. The Group recognizes the following changes in the net defined benefit obligation under "cost of sales", "administration expenses" and "selling and distribution expenses" in the Consolidated Statement of Profit or Loss (by function):

- service costs comprising current service costs, past-service costs, gains and losses on curtailments and non-routine settlements; and
- net interest expense or income.

Defined contribution plans

The income statement expense for the defined contribution pension plans operated represents the contributions payable for the year.

m. Finance income and expenses

Finance expenses comprise interest payable, lease expenses recognized in profit or loss using the effective interest method, unwinding of the discount on provisions, and net foreign exchange losses that are recognized in the income statement.

Finance income comprises interest receivable on cash deposits and net foreign exchange gains.

Interest income and interest payable are recognized in profit or loss as it accrues, using the effective interest method.

Foreign currency gains and losses are reported on a net basis.

n. Cash and cash equivalents

For the purpose of presentation in the Consolidated Statement of Cash Flows, cash and cash equivalents include cash on hand, deposits held at call with financial institutions, other short-term highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts.

o. Trade and other receivables

Trade receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment.

p. Inventories

Inventories are stated at the lower of cost and net realizable value. Cost is based on the weighted average principle and includes expenditure incurred in acquiring the inventories and other costs in bringing them to their existing location and condition.

q. Provisions

A provision is recognized when the Group has a present obligation, legal or constructive, as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made. Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of economic resources will be required to settle the obligation, the provision is reversed. Where the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognized as an interest expense.

r. Contingent liabilities

Contingent liabilities are possible obligations whose existence depends on the outcome of uncertain future events or present obligations where the outflow of resources is uncertain or cannot be measured reliably. Contingent liabilities are not recognized in the Consolidated Financial Statements but are disclosed unless they are remote.

s. Segmental reporting

The Directors consider that the Group has one reportable segment, that of textile innovation focused on scientific research, specialty materials manufacturing and consumer ingredient branding. Accordingly, all revenues, operating results, assets and liabilities are allocated to this activity.

The Group also analyses and measures its performance into geographic regions, specifically Europe, North & South America and Asia.

4. Significant accounting judgments, estimates and assumptions

The Directors have made the following judgments which may have a significant effect on the amounts recognized in the Consolidated Financial Statements:

a. Basis of consolidation

The Directors consider that the share-for-share exchange between Auctus Growth Plc and HeiQ Materials AG to be a reverse acquisition as HeiQ Materials AG is considered to be the acquirer. Further details of the basis of consolidation and how the Directors developed the most appropriate accounting policy are outlined in the basis of consolidation within accounting policy Note 2(b). The difference between the consideration shares transferred in the combination (“Consideration Shares”) and the fair value of the net assets acquired has been charged to the Consolidated Statement of Income as a deemed cost of listing.

b. Revenue from take or pay arrangements

Certain customers have agreed, under a “take or pay” contract, to purchase a specified minimum quantity of a range of particular products over a specified period of time. However, the customer has to pay for the full quantity stated in the contract, irrespective of whether the customer takes delivery of the minimum quantity to which they are entitled. Upon payment of the full amount, the contract allows the customer to defer its unexercised rights and to consume the remaining units to a later date, although there is no compulsion to do so. If the Group expects to benefit from such future exercise by the customer, it recognizes the expected amount as revenue in proportion to the pattern of rights exercised by the customer (by comparing the goods delivered to date with those expected to be delivered overall).

The Directors have therefore considered likely future customer behavior and thus estimated the proportion of revenues to be recognized under such contracts. Any changes to such estimates would not have a material impact on the amount of revenue recognized in each year.

c. Impairment of non-financial assets

IFRS requires the Directors to undertake an annual test for impairment of indefinite lived assets and, for finite lived assets, to test for impairment if events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable.

Impairment testing is an area involving judgment in determining estimates, requiring assessment as to whether the carrying value of assets can be supported by the net present value of future cash flows derived from such assets using cash flow projections which have been discounted at an appropriate rate. In calculating the net present value of the future cash flows, certain assumptions are required to be made in respect of highly uncertain matters, including management’s expectations of:

- growth in EBITDA, calculated as adjusted operating profit before depreciation and amortization;
- the level of capital expenditure to support long-term growth; and
- the selection of discount rates to reflect the risks involved.

The Directors prepare and approve cash flow projections which are used in the fair value calculations. Changing the assumptions selected by the Directors, in particular the discount rate and growth rate assumptions used in the cash flow projections, could significantly affect their impairment evaluation and hence the Group’s results.

Goodwill of £3.4 million relating to the acquisition of the Chem-Tex Assets in 2017 was allocated to the Chem-Tex business and represents a group of cash-generating units and tested for impairment as of the reporting date. The carrying value of the Chem-Tex Assets was tested for impairment on the basis of value-in-use, including a gross margin of 47.5%, capital expenditure of US$400’000 and a discount rate of 16% based on the rate that would be used by a market participant. The impairment test indicated that no impairment loss is required.

The sensitivity of impairment tests to changes to underlying assumptions is summarized below. Impairment would result from the following changes to assumptions:

- An increase in the discount rate to 23%
- A gross margin of 41% or below
- Capital expenditure of US$1’100’000 per annum or higher.

d. Defined benefit plans (pension benefits)

The costs of the Group’s defined benefit pension plan and other post-employment medical benefits and the present value of the pension obligation are determined using actuarial valuations. An actuarial valuation involves making various assumptions that may differ from actual developments in the future. These include the determination of the discount rate, future salary increases, mortality rates and future pension increases. Due to the complexities involved in the valuation and its long-term nature, a defined benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date.

Further details about pension obligations are provided in Note 20 “Pensions and other post-employment benefit plans”.

5. Business combinations

Reverse acquisition

On December 7, 2020, HeiQ plc became the legal parent of HeiQ Materials AG by way of reverse acquisition. The cost of the acquisition is deemed to have been incurred by HeiQ Materials AG, the legal subsidiary, in the form of equity instruments issued to the owners of the legal parent. This acquisition has been accounted for as a reverse acquisition.

This transaction is deemed outside the scope of IFRS 3 and not considered a business combination because the Directors have made a judgment that, prior to the transaction, Auctus Growth Plc was not a business under the definition of IFRS 3 Appendix A and the application guidance in IFRS 3.B7- B12 due to Auctus Growth Plc being a shell company that had no processes or capability for outputs (IFRS 3.B7).

On this basis, the Directors have developed an accounting policy for this transaction, applying the principles set out in IAS 8.10-12, in that the policy adopted:
- is relevant to the users of the financial statements;
- is more representative of the financial position, performance and cash flows of the Group;
- reflects the economic substance of the transaction, not merely the legal form; and
- is free from bias, prudent and complete in all material aspects.

The accounting policy adopted by the Directors applies the principles of IFRS 3 in identifying the accounting acquirer and the presentation of the Consolidated Financial Statements of the legal parent (HeiQ plc) as a continuation of the accounting acquirer's Financial Statements (HeiQ Materials AG). This policy reflects the commercial substance of this transaction as the original shareholders of the subsidiary undertakings were the most significant shareholders post transaction, owning 84.8% of the enlarged issued share capital of the Company.

Accordingly, the following accounting treatment and terminology was applied in respect of the reverse acquisition:
- the assets and liabilities of the legal subsidiary, HeiQ Materials AG, are recognized and measured in the Group Financial Statements at the pre-combination carrying amounts, without reinstatement to fair value;
- the retained earnings and other equity balances recognized in the Group Financial Statements reflect the retained earnings and other equity balances of HeiQ Materials AG and its subsidiaries immediately before the business combination, and the results of the year from January 1, 2020 to the date of the business combination are those of HeiQ Materials AG. However, the equity structure appearing in the Consolidated Financial Statements reflects the equity structure of the legal parent (Auctus Growth Plc), including the equity instruments issued under the share-for-share exchange to effect the business combination; the cost of the combination has been determined from the perspective of HeiQ Materials AG.

The fair value of the shares in HeiQ Materials AG has been determined from the admission price of the HeiQ plc shares on Re-admission to trading on the London Stock Exchange's Main Market of £1.12 per share. The value of the consideration shares was £119'571'088 (equivalent to US$156'889'584). The fair value of the notional number of equity instruments that the legal subsidiary would have had to have issued to the legal parent to give the owners of the legal parent the same percentage ownership in the combined entity was 15.2% of the market value of the shares after issues, being £21'428'000 (US$28'124'000). The difference between the notional consideration paid by HeiQ plc for HeiQ Materials AG and the HeiQ plc net assets acquired of £20'360'000 (US$26'722'000) has been charged to the Consolidated Statement of Comprehensive Income as a deemed cost of listing amounting to £1'068'000 (equivalent to US$1'402'000) with a corresponding entry to the merger reserve.

The transaction costs associated with the reverse acquisition and readmission totaled $1'871'000 and have been charged to profit and loss.

Details of net assets acquired and the deemed cost of listing are as follows:

	US$'000
Consideration effectively transferred	**28'124**
Net assets acquired:	
Cash and cash equivalents	27'105
Trade and other receivables	163
Trade and other payables	(546)
Net assets acquired	**26'722**
Deemed cost of listing	**1'402**

5. Business combinations continued

The amounts transferred to the merger reserve were as follows:

	US$'000
HeiQ equity capital pre-combination	29'095
Deemed cost of acquisition	1'402
Consideration shares issued on acquisition	(156'894)
Retained losses of Company at combination	(515)
Merger reserve as at December 31, 2020	**(126'912)**

Acquisition of MasFabEs

On December 15, 2020, the Group completed the acquisition of a 50.01% interest in a leading Spanish mask manufacturer MasFabEs S.L. for a consideration of €132'751 (equivalent to US$156'570). The company was renamed HeiQ Medica S.L. and will manufacture medical devices with the Group's cutting-edge textile technologies.

The following table summarizes the consideration paid for the goodwill, the fair value of assets acquired, liabilities assumed and non-controlling interests at the acquisition date:

	US$'000
Fair value of consideration	**157**
Net assets acquired:	
Property, plant and equipment	1'195
Inventories	1'152
Cash	6
Net working capital	(886)
Deferred tax asset	112
Borrowings	(1'512)
Total identifiable net assets acquired at fair value	**67**
Non-controlling interests	(33)
Goodwill recognized on acquisition	**123**

6. Subsidiaries

Details of the Company's subsidiaries as at December 31, 2020 are as follows:

Company	Country of registration or incorporation	Registered office	Principal activity	Percentage of Ordinary Shares held
HeiQ Materials AG	Switzerland	Rütistrasse 12, 8952 Schlieren Zurich	Development, production and sale of chemicals	100%
HeiQ ChemTex Inc.	United States	2725 Armentrout Dr Concord, NC 28025	Development, production and sale of chemicals	100%
HeiQ Pty Ltd[1]	Australia	Level 20/181 William Street Melbourne, VIC 3000	Research and development	100%
HeiQ GrapheneX AG	Switzerland	Rütistrasse 12, 8952 Schlieren Zurich	Inactive	100%
HeiQ Company Limited	Taiwan	No. 14 & 16, Ln. 50, Wufu 1st Rd. Luzhu District, Taoyuan City 33850	Distribution	100%
HX Company Limited	Taiwan	No. 14 & 16, Ln. 50, Wufu 1st Rd. Luzhu District, Taoyuan City 33850	Trading and production	66.7%
HeiQ Medica S.L.	Spain	Plaza de la Estación s/n, 29560 Pizarra	Manufacture of medical devices	50%
HeiQ Iberia Unipessoal Lda	Portugal	Rua Engº Frederico Ulrich, nº 2650, 4470-605 Maia	Sales agency company	100%

With the exception of HeiQ Materials AG, all subsidiaries are held indirectly.

1. The HeiQ Group held a 50% interest up until May 2017, when it acquired the remaining 50%. HeiQ Pty Ltd comprised HeiQ Pty Ltd and its wholly owned subsidiary, HeiQ Australia Pty Ltd, until HeiQ Australia Pty Ltd filed for voluntary deregistration on July 17, 2020 as part of a consolidation of the local businesses into a single entity. Subsequently, the business name "HeiQ Australia" was registered on July 20, 2020 by HeiQ Pty Ltd to be used for trading purposes and on October 4, 2020, trading as a single entity commenced. The official registered address for HeiQ Pty Ltd (and the business name HeiQ Australia) is as above.

HeiQ operates a sales representative office in the People's Republic of China registered as HeiQ Materials Company Limited at Room 2011, Xuhui Commercial Mansion, No. 168 Yude Road, Shanghai, China.

7. Associated companies

Details of the Group's investments in associated companies are as follows:

Company	Country of registration or incorporation	Registered office	Principal activity	Percentage of Ordinary Shares held by HeiQ
HeiQ-RAS GmbH	Germany	An der Irler Höhe 3a, 93055 Regensburg	Regulatory services	50%

	As at December 31, 2020 US$'000	As at December 31, 2019 US$'000
HeiQ-RAS GmbH	–	15
Microbe Investigations AG	–	29
Carrying value	–	44

HeiQ-RAS GmbH ("HeiQ Germany")

In June 2019, the Group incorporated HeiQ Germany with a paid-in capital of €25'000 and, upon incorporation, agreed to sell a 50% interest to RAS AG, Germany for consideration of €12'500, equivalent to approximately US$15'000.

7. Associated companies continued

The investment has been accounted for using the equity method of accounting whereby the investment is initially recognized at cost and the carrying value is increased or decreased to recognize the Group's share of the profit or loss of the associate after the date of acquisition.

As at December 31, 2020, the carrying value of the investment is summarized as follows:

	As at December 31, 2020 US$'000	As at December 31, 2019 US$'000
Balance brought forward	**15**	–
Consideration paid	**–**	15
Group's share of post-acquisition losses	**(15)**	–
Carrying value	**–**	15

Summarized financial information

Set out below is summarized financial information for HeiQ Germany which is accounted for using the equity method. The information reflects the amounts presented in the financial information of HeiQ Germany, adjusted for differences in accounting policies between the Group and the associated company where appropriate, and not the Group's share of those amounts.

Summarized statement of comprehensive income	**Year ended December 31, 2020 US$'000**	Year ended December 31, 2019 US$'000
Revenue	**–**	–
Loss from continuing operations	**(42)**	–
Tax	**–**	–
Loss after tax	**(42)**	–
Total comprehensive income for the year	**(42)**	–

Microbe Investigations AG

On June 7, 2012, HeiQ subscribed for a 49% interest in Microbe Investigations AG for a total consideration of CHF 24'500 (US$25'634).

The investment was accounted for using the equity method of accounting, as summarized below:

	As at December 31, 2020 US$'000	As at December 31, 2019 US$'000
Balance brought forward	**29**	23
Group's share of post-acquisition results	**–**	6
Proceeds received on disposal	**(7)**	–
Loss on disposal	**(22)**	–
Carrying value	**–**	29

On October 23, 2020, the Group disposed of its interest in Microbe Investigations AG for a consideration of CHF 6'000 (approximately US$7'000).

8. Revenue and other operating income

The Group's activities are materials innovation which focuses on scientific research, manufacturing and consumer ingredient branding. The primary source of revenue is the production and sale of functional ingredients, materials and finished goods. Other sources of revenues include research and development services as well as laboratory work. Revenues were mainly generated in the regions of Europe, North & South America and Asia.

The following table reconciles HeiQ Group's revenue for the periods presented:

Revenue split by product type	**Year ended December 31, 2020 US$'000**	Year ended December 31, 2019 US$'000
Functional ingredients sales	**42'023**	27'526
Functional materials sales	**764**	42
Finished goods sales	**7'444**	–
Other third-party revenues	**170**	386
Total revenue	**50'401**	27'954

Revenue split by region	**Year ended December 31, 2020 US$'000**	Year ended December 31, 2019 US$'000
North & South America	**19'813**	17'218
Asia	**19'887**	7'098
Europe	**10'429**	3'513
Others	**272**	125
Total revenue	**50'401**	27'954

During the year ended December 31, 2020, no customers individually totaled more than 10% of total revenues (2019: two customers totaling more than 10% at 12% and 11% respectively).

Other operating income	**Year ended December 31, 2020 US$'000**	Year ended December 31, 2019 US$'000
Foreign exchange gains	**3'986**	1'401
Other	**758**	184
Total other operating income	**4'744**	1'585

9. Expenses by nature

Cost of goods sold	Year ended December 31, 2020 US$'000	Year ended December 31, 2019 US$'000
Material expenses	17'586	11'016
Personnel expenses	1'279	1'285
Depreciation of property, plant and equipment	382	395
Other costs of goods	3'155	1'686
Total cost of goods sold	**22'402**	14'382

Selling and general administration expense	Year ended December 31, 2020 US$'000	Year ended December 31, 2019 US$'000
Personnel expenses	9'091	6'783
Commissions	1'133	1'117
Audit expense	108	(9)
Depreciation of property, plant and equipment	394	317
Amortization	110	149
Depreciation of right-of-use assets	368	404
Other	4'913	3'287
Total selling and general administration expense	**16'117**	12'048

Personnel expenses	Year ended December 31, 2020 US$'000	Year ended December 31, 2019 US$'000
Wages and salaries	8'290	7'496
Social security and other payroll taxes	415	283
Pension costs	448	89
Share-based payments	1'217	201
Total personnel expenses	**10'370**	8'069
The average monthly number of employees was as follows:	97	86

Other operating expenses	Year ended December 31, 2020 US$'000	Year ended December 31, 2019 US$'000
Foreign exchange losses	5'124	1'687
Other	3	–
Total other operating expenses	**5'127**	1'687

10. Taxation

For the year ending December 31, 2020, the Group had a tax expense of US$2'112'000 (2019: US$314'000). The effective tax rate was 28.8% (2019: 30.5%). The effective tax rate was primarily impacted by non-deductible expenditure.

The components of the provision for taxation on income included in the Statement of Profit or Loss and Other Comprehensive Income are summarized below:

Current income tax expense	**Year ended December 31, 2020 US$'000**	Year ended December 31, 2019 US$'000
Swiss corporate income taxes	**304**	46
United States state and federal taxes	**1'112**	147
Taiwan corporate income taxes	**161**	35
Total current income tax expense	**1'577**	228
Deferred income tax expense		
Switzerland	**588**	86
Portugal	**(28)**	–
Taiwan	**(25)**	–
Total deferred income tax expense	**535**	86
Total income tax expense	**2'112**	314

Tax liability	**Year ended December 31, 2020 US$'000**	Year ended December 31, 2019 US$'000
Opening balance – (Prepaid taxes)	**(42)**	(92)
Income tax expense for the year	**1'577**	228
Taxes paid	**(48)**	(178)
Foreign currency movements	**8**	–
Closing balance	**1'495**	(42)

The differences between the statutory income tax rate and the effective tax rates are summarized as follows:

	US$'000	**Year ended December 31, 2020**
Expected tax at statutory Swiss income tax rate of 20%	**1'469**	**20.0%**
Increase/(decrease) in tax resulting from:		
Effect of different tax rates in foreign jurisdictions	**175**	**2.4%**
Tax credits	**(60)**	**(0.8%)**
Net recognized tax losses	**(329)**	**(4.5%)**
Non-deductible expenditure	**567**	**7.7%**
Other – net	**290**	**4.0%**
Total income tax expense	**2'112**	**28.8%**

	US$'000	Year ended December 31, 2019
Expected tax at statutory Swiss income tax rate of 20%	206	20.0%
Increase/(decrease) in tax resulting from:		
Effect of different tax rates in foreign jurisdictions	(19)	(1.8%)
Net unrecognized tax losses	100	9.7%
Capital allowances less depreciation	(6)	(0.6%)
Other – net	33	3.2%
Total income tax expense	314	30.5%

10. Taxation continued

The Group had net deferred tax liabilities of US$31'000 at December 31, 2020 (2019: Net deferred tax assets of US$164'000). The deferred tax assets relate to taxable temporary differences.

The components of the net deferred income tax assets included in non-current assets are as follows:

	Year ended December 31, 2020 US$'000	Year ended December 31, 2019 US$'000
Deferred tax assets		
Pension fund obligations	**655**	370
Tax losses recognized	**171**	–
Deferred revenue	**–**	10
Total deferred tax assets	**826**	380
Deferred tax liabilities		
Capital allowances and depreciation	**(857)**	(216)
Deferred tax liabilities	**(857)**	(216)
Net deferred tax assets (liabilities)	**(31)**	164

As at December 31, 2020, the Group had approximately US$171'000 of tax losses available to be carried forward against future profits (2019: US$2.2 million). Approximately US$1.5 million of the losses brought forward expired in 2020.

In applying judgment in recognizing deferred tax assets, management has critically assessed all available information, including future business profit projections and the track record of meeting forecasts. Management expects the deferred tax asset to be substantially recovered in 2021.

11. Earnings per share

The calculation of earnings per share is based on the following earnings and number of shares:

	Year ended December 31, 2020 US$'000	Year ended December 31, 2019 US$'000
Profit after tax attributable to owners of the Company	**4'991**	726
Basic earnings per share (cents)	**4.41**	0.71
Diluted earnings per share (cents)	**4.21**	0.71
Basic weighted average number of shares in issue	**113'143'731**	102'959'511
Diluted weighted average number of shares in issue	**118'666'601**	102'959'511

Basic earnings per share is calculated by dividing the profit/loss after tax attributable to the equity holders of the Company by the weighted average number of shares in issue during the year.

Diluted earnings per share is calculated by dividing the profit/loss attributable to the equity holders of the Company by the weighted average number of Ordinary Shares outstanding during the year plus the weighted average number of Ordinary Shares that would be issued on conversion of all the dilutive potential Ordinary Shares into Ordinary Shares.

In calculating the weighted average number of Ordinary Shares outstanding (the denominator of the earnings per share calculation) during the period in which the reverse occurs:
(a) the number of Ordinary Shares outstanding from the beginning of that period to the acquisition date shall be computed on the basis of the weighted average number of Ordinary Shares of the legal acquiree (accounting acquirer) outstanding during the period multiplied by the exchange ratio established in the merger agreement; and
(b) the number of Ordinary Shares outstanding from the acquisition date to the end of that period shall be the actual number of Ordinary Shares of the legal acquirer (the accounting acquiree) outstanding during that period.

The basic earnings per share for each comparative period before the acquisition date presented in the Consolidated Financial Statements following a reverse acquisition shall be calculated by dividing;
(a) the profit or loss of the legal acquiree attributable to Ordinary Shareholders in each of those periods; by
(b) the legal acquiree's historical weighted average number of Ordinary Shares outstanding multiplied by the exchange ratio established in the acquisition agreement.

12. Intangible assets

Cost	Goodwill US$'000	Trademarks and patents US$'000	Internally developed assets US$'000	Brands US$'000	Total US$'000
As at January 1, 2019	3'393	378	1'030	295	5'096
Additions arising from internal development	–	39	79	–	118
Currency translation differences	–	–	19	–	19
As at December 31, 2019	**3'393**	**417**	**1'128**	**295**	**5'233**
Additions through business combinations	123	–	–	–	123
Additions arising from internal development	–	33	602	–	635
Currency translation differences	–	41	121	–	162
As at December 31, 2020	**3'516**	**491**	**1'851**	**295**	**6'153**
Amortization					
As at January 1, 2019	–	170	336	48	554
Amortization for the year	–	78	41	30	149
Currency translation differences	–	1	7	–	8
As at December 31, 2019	**–**	**249**	**384**	**78**	**711**
Amortization for the year	–	70	11	29	110
Currency translation differences	–	31	37	–	68
As at December 31, 2020	**–**	**350**	**432**	**107**	**889**
Net book value					
As at December 31, 2020	**3'516**	**141**	**1'419**	**188**	**5'264**
As at December 31, 2019	**3'393**	**168**	**744**	**217**	**4'522**

Goodwill, brands and certain trademarks were recognized in earlier years arising from the acquisition of certain assets (the "Chem-Tex Assets'') through a newly established subsidiary, HeiQ USA, in April 2017.

Additional goodwill was recognized on the acquisition of MasFabEs S.L. in December 2020 as described in Note 5 above.

Goodwill acquired in a business combination is allocated, at acquisition, to the cash generating unit ('CGU') that is expected to benefit from that business combination. Management considers that the goodwill is attributable to the textile innovation CGU, because that is where the benefits are expected to arise from expansion opportunities and synergies of the business. The Directors consider that the Group has one reportable segment, that of textile innovation focused on scientific research, specialty materials manufacturing and consumer ingredient branding.

The Group tests goodwill annually for impairment or more frequently if there are indications that these assets might be impaired. The recoverable amounts of the CGU are determined from fair value less costs to sale. The value of the goodwill comes from the future potential of the assets rather than using the assets as they are (i.e., there is assumed expansionary capex which supports growth in revenues and the value of the business and therefore goodwill).

The key assumptions for the fair value less costs to sale approach are those regarding sales prices, margins and a discount rate.

The Group monitors its pre-tax Weighted Average Cost of Capital and those of its competitors using market data. In considering the discount rate applying to the CGU, the Directors have considered the relative size and risks of its CGU.

The impairment review uses a discount rate adjusted for post-tax cash flows. The Group prepares cash flow forecasts derived from the most recent financial plan approved by the Board and extrapolates revenues, net margins and cash flows for the following five years based on forecast growth rates of the CGU. Cash flows beyond this period are also considered in assessing the need for any impairment provisions. A discount rate of 16% and expenditure of US$2'000'000 to maintain the assets in their current use over the five years has been assumed. The terminal growth rate used for the fair value calculation thereafter is 1%. The directors consider these assumptions are consistent with that which a market participant would use in determining fair value.

12. Intangible assets continued

The Company tested goodwill for impairment and determined that the recoverable amount relating to the acquisition of the Chem-Tex Assets in excess of its carrying amount and therefore no impairment is considered necessary.

In calculating the net present value of the future cash flows, certain key input assumptions were used, including:
- Long-term revenue growth of 1% per annum
- A gross margin of 47.5%
- Capital expenditure of US$400'000 per annum
- A discount rate of 16%

Goodwill in respect of MasFabEs S.L. was not tested as the business was acquired in December 2020 and the net assets recognized at their estimated fair value at this time.

Internally developed assets and other intangibles

Internally generated assets represent expenditure incurred on development projects.

The Group tests internally developed assets and other intangibles for impairment only if there are indications that these assets might be impaired. The Company has not identified any impairment indicators and accordingly, has concluded that no impairment is necessary.

13. Property, plant and equipment

Cost	Machinery and equipment US$'000	Motor vehicles US$'000	Computers and software US$'000	Furniture and fixtures US$'000	Total US$'000
As at January 1, 2019	4'811	332	641	100	5'884
Additions	348	10	12	–	370
Disposals	(7)	–	–	–	(7)
Currency translation differences	37	1	12	–	50
As at December 31, 2019	**5'189**	**343**	**665**	**100**	**6'297**
Acquisition on business combination	1'224	–	1	12	1'237
Additions	629	191	77	35	932
Disposals	(628)	(46)	(2)	(18)	(694)
Currency translation differences	365	4	69	3	441
As at December 31, 2020	**6'779**	**492**	**810**	**132**	**8'213**
Depreciation					
As at January 1, 2019	1'393	109	150	21	1'673
Charge for the year	504	71	127	10	712
Disposals	(1)	–	–	–	(1)
Currency translation differences	21	–	8	–	29
As at December 31, 2019	**1'917**	**180**	**285**	**31**	**2'413**
Acquisition on business combination	42	–	–	–	42
Charge for the year	538	84	142	12	776
Eliminated on disposal	(607)	(24)	–	(7)	(638)
Currency translation differences	112	2	37	2	153
As at December 31, 2020	**2'002**	**242**	**464**	**38**	**2'746**
Net book value					
As at December 31, 2020	**4'777**	**250**	**346**	**93**	**5'467**
As at December 31, 2019	**3'272**	**163**	**380**	**69**	**3'884**

14. Right-of-use assets

Cost	Land and buildings US$'000	Motor vehicles US$'000	Office equipment US$'000	Total US$'000
As at January 1, 2019	3'748	111	22	3'881
Additions	9	–	–	9
As at December 31, 2019	**3'757**	**111**	**22**	**3'890**
Additions	76	-	32	108
Disposals due to expiry of lease	(306)	(43)	(14)	(363)
Currency translation differences	174	8	1	183
As at December 31, 2020	**3'701**	**76**	**41**	**3'818**
Depreciation				
As at January 1, 2019	698	61	13	772
Depreciation for the year	379	19	6	404
As at December 31, 2019	**1'077**	**80**	**19**	**1'176**
Depreciation for the year	345	16	7	368
Disposals due to expiry of lease	(306)	(43)	(14)	(363)
Currency translation differences	66	7	0	73
As at December 31, 2020	**1'182**	**60**	**12**	**1'254**
Net book value				
As at December 31, 2020	**2'519**	**16**	**29**	**2'564**
As at December 31, 2019	**2'680**	**31**	**3**	**2'714**

Future minimum lease payments associated with these leases were as follows:

	As at December 31, 2020 US$'000	As at December 31, 2019 US$'000
Not later than one year	**385**	390
Later than one year and not later than five years	**1'346**	1'265
Later than five years	**1'162**	1'413
Total minimum lease payments	**2'893**	3'068
Less: Future finance charges	**(240)**	(284)
Present value of minimum lease payments	**2'653**	2'784
Current liability	**349**	339
Non-current liability	**2'304**	2'445
Present value of minimum lease payments	**2'653**	2'784

15. Other non-current assets

	As at December 31, 2020 US$'000	As at December 31, 2019 US$'000
Deposits	**55**	57
Amounts due from third parties	**151**	16
Other non-current assets	**206**	73

16. Inventories

	As at December 31, 2020 US$'000	As at December 31, 2019 US$'000
Raw materials	7'951	1'045
Semi-finished goods	2'692	956
Finished goods	2'685	1'201
Total inventories	**13'328**	3'202

17. Trade and other receivables

The majority of trade receivables are current, and the Directors believe these receivables are collectible. The Directors consistently assess the collectability of these receivables. As at December 31, 2020, the Directors considered a portion of these receivables uncollectible and recorded a provision in the amount of US$551'000 (2019: US$174'000).

Trade receivables	As at December 31, 2020 US$'000	As at December 31, 2019 US$'000
Not past due	3'975	6'113
<30 days	1'304	860
31–60 days	763	191
61–90 days	115	9
91–120 days	482	–
>120 days	7'349	2'176
Total trade receivables	**13'988**	9'349
Provision for expected credit loss	(551)	(174)
Total trade receivables	**13'437**	9'175

The Group uses a simplified approach to recognize lifetime expected losses on trade and other receivables. Expected losses consider payment performance history, external information available regarding credit ratings as well as future expected credit losses.

The provision for expected loss rates is based on the Group's historical credit losses experienced over the three-year period prior to the period end. Most significantly, in the case of take-or-pay contracts, the rate of provision is 5% for amounts more than one year past due, 20% for amounts more than two years past due and 25% for amounts more than three years past due. The historical loss rates are then adjusted for current and forward-looking information on macroeconomic factors affecting the Group's customers. The Directors have identified the gross domestic product, unemployment rate and inflation rate as the key macroeconomic factors in the countries in which the Group operates.

Other receivables and prepayments	As at December 31, 2020 US$'000	As at December 31, 2019 US$'000
Other receivables – from tax authorities	1'372	262
Prepayments and other receivables	1'237	80
Total other receivables and prepayments	**2'609**	342

18. Share capital and share options

Movements in the Company's share capital were as follows:

	Note	Number of shares No.	Share capital US$'000	Share premium US$'000	Totals US$'000
Balance as of January 1, 2019 and December 31, 2019		2'668'999	350	1'305	1'655
Consolidation of shares	(i)	(1'779'346)	–	–	–
Placing of shares	(ii)	11'789'142	4'641	12'684	17'325
Subscription for shares	(iii)	6'068'000	2'389	6'529	8'918
Issue of shares to acquire HeiQ Materials AG	(iv)	106'759'900	42'027	114'865	156'892
Shares issued in lieu of fees	(v)	385'209	152	414	566
Costs of share issues	(vi)	–	–	(1'260)	(1'260)
Balance as at December 31, 2020		**125'891'904**	**49'559**	**134'537**	**184'096**

The par value of all shares is £0.30. All shares in issue were allotted, called up and fully paid.

i. On December 4, 2020, the Company's share capital was reorganized such that every three existing Ordinary Shares of £0.10 each were consolidated into one new Ordinary Share of £0.30 each.
ii. On the same date, the Company completed a conditional placing of 11'789'142 new Ordinary Shares in the capital of the Company at £1.12 per Ordinary Share, raising £13'203'839 (equivalent to US$17'325'158).
iii. A conditional subscription to raise gross proceeds of £6'796'160 (US$8'917'448), through the issue of 6'068'000 new Ordinary Shares at £1.12 per share was also completed on the same date.
iv. On December 4' 2020, the Company announced that it had agreed to acquire the entire issued and to be issued share capital of HeiQ Materials AG, the consideration for which was £119'571'088 (equivalent to US$156'892'850), satisfied by the issue and allotment to the HeiQ Shareholders of 106'759'900 Consideration Shares at a deemed issue price of £1.12 per Ordinary Share. The Acquisition constituted a reverse takeover under the Listing Rules as it resulted in a fundamental change in the business and management of the Company.
v. On the same date, the Company issued a further 385'209 new Ordinary Shares at £1.12 per Ordinary Share to satisfy the payment of certain fees amounting to £431'434 (US$566'098) in connection with the acquisition.
vi. Costs directly associated with the raising of equity funds totaling £960'500 (US$1'260'275) were expensed against share premium.

For the purposes of the financial statements, each of the share transactions have been translated to US Dollars at £1:US$1.312.

Share Option Scheme

The Company has adopted the HeiQ plc Option Scheme.

Under the Option Scheme, awards may be made only to employees and Executive Directors. The Board will administer the Option Scheme with all decisions relating to awards made to Executive Directors taken by the Remuneration Committee.

Awards under the plan will be market value options, but participants resident in jurisdictions where local securities laws or other regulations are considered problematic may be awarded cash-based equivalents. Any awards made are not pensionable.

All awards made will be subject to one or more performance conditions at the discretion of the Board. Ordinary Shares received on exercise of any options awarded under the Option Scheme may be required to be held for a period of time before they can be disposed of (other than disposals to satisfy any tax payable on exercise).

The total number of Ordinary Shares which can be issued under the Option Scheme (together with any other employees' share scheme operated by the Company) may not exceed 10% of the Company's Ordinary Share capital from time to time.

A total of 6'260'000 awards were made under the Option Scheme pursuant to Re-admission on December 7, 2020.

The key performance indicators attaching to these awards relate to targets for sales growth (65% of the award) and operating margin (35% of the award) over a period of three years.

18. Share capital and share options continued

An option-holder has no voting or dividend rights in the Company before the exercise of a share option.

The weighted average share price of options granted at grant date was £1.12 and the estimated fair value of each share option granted was £0.269. This estimated fair value was calculated by applying a Black-Scholes option pricing model. A 0.25% risk-free interest rate and an expected volatility of the Company's share price has been used in these calculations. The weighted average exercise price of options granted during the year was £1.23.

The expense and equity reserve arising from these share-based payment transactions recognized in the year ended December 31, 2020 was US$50'000 (year ended December 31, 2019: nil).

Other share-based transactions

During the year ended December 31, 2020, HeiQ Materials AG issued 18'000 shares (2019: 9'000 shares) to employees in respect of contractual obligations for a total consideration of US$1'167'000 (2019: US$428'000).

19. Reserves

The share-based payment reserve arises from the requirement to value share options in existence at the year end at fair value. Further details of share options are included in Note 18.

The currency translation reserve represents cumulative foreign exchange differences arising from the translation of the financial statements of foreign subsidiaries and is not distributable by way of dividends.

The share premium account represents the amount received on the issue of Ordinary Shares by the Company in excess of their nominal value and is non-distributable.

The other reserve comprises the cumulative re-measurement of defined benefit obligations and plan assets to fair value and which are recognized as a component of other comprehensive income. Such actuarial gains and losses from defined benefit pension plans are not reclassified to profit or loss in subsequent periods.

The retained deficit comprises all other net gains and losses and transactions with owners not recognized elsewhere.

The merger reserve was created in accordance with IFRS3 'Business Combinations'. The merger reserve arises due to the elimination of the Company's investment in HeiQ Materials AG. Since the shareholders of HeiQ Materials AG became the majority shareholders of the enlarged Group, the acquisition is accounted for as though there is a continuation of the legal subsidiary's financial statements. In reverse acquisition accounting, the business combination's costs are deemed to have been incurred by the legal subsidiary.

20. Pensions and other post-employment benefit plans

The Group operates a defined benefit pension plan in Switzerland, which requires contributions to be made to a separately administered fund. The cost of providing benefits under the defined benefit plan is determined using the projected unit credit method.

Correspondingly, the value of the defined benefit obligation at valuation date is equal to the present value of the accrued pro-rated service considering expected salary at eligibility date and the future pension increase.

The pension scheme is with Swisscanto pension fund ("Swisscanto Sammelstiftung").

Pension plan description

The pension plans grant disability and death benefits which are defined as a percentage of the salary insured. Upon reaching retirement age, the savings capital will be converted with a fixed conversion rate into an old age pension. In the event that an employee leaves employment prior to reaching pensionable age, the cumulative balance of the savings account is withdrawn from the pension plan and invested into the pension plan of the employee's new employer.

Regulatory framework

Pension plan legal structure

HeiQ Materials AG is affiliated to a collective foundation. The collective foundation operates one defined benefit pension plan for HeiQ Materials AG. Under Swiss law, all employees are required to be a member of the pension plan. There are minimum benefits requested by law (for old age, disability, death and termination). The pension plans cover more than legally requested. Each affiliated company has a pension plan committee. The committee is represented by 50% of employer representatives and the remaining 50% are employee representatives.

Responsibilities of the board of trustees (and/or the employer on the board of trustees)

The highest corporate body of the collective foundation is the board of trustees. The board of trustees is elected out of the affiliated companies and is also represented by 50% of employee and employer representatives (on the level of the collective foundation). This board handles the general management of the pension scheme, ensures compliance with the statutory requirements, defines the strategic objectives and policies of the pension scheme and identifies the resources for their implementation. This board decides also on the asset allocation and is responsible to the authorities for the correct administration of the collective foundation.

Special situation

The pension scheme has no minimum funding requirement (when the pension fund is in a surplus position), although the pension scheme has a minimum contribution requirement as specified below. Under local requirements, where a pension fund is operated in a surplus position, limited restrictions apply in term of the trustee's ability to apply benefits to the members of the locally determined "free reserves". In instances where the pension fund enters into an underfunded status as per statutory valuation (which follows different valuation principles than IFRS and is not to be compared with the funding status per IFRS mentioned above), the active members, along with the employer, are required to make additional contributions until such time the pension fund is in a fully funded position.

Funding arrangements that affect future contributions

Swiss law provides for minimum pension obligations on retirement. Swiss law also prescribes minimum annual funding requirements. An employer may provide or contribute a higher amount than as specified under Swiss law – such amounts are specified under the terms and conditions of each of the Swiss employee's individual terms and conditions of employment.

In addition, employers are able to make one-off contributions or prepayments to these funds. Although these contributions cannot be withdrawn, they are available to the company to offset its future employer cash contributions to the plan. Although a surplus can exist in the fund, Swiss law requires minimum annual funding requirements to continue.

For the active members of the pension plan, annual contributions are required by both the employer and employee. The employer contributions must be at least equal to the employee contributions, but may be higher, separately mentioned in the constitution of the pension plan.

Minimum annual contribution obligations are determined with reference to an employee's age and current salary; however, as indicated above these can be increased under the employee's terms and conditions of employment.

In the event of the winding up of HeiQ Materials AG, or the pension fund, HeiQ Materials AG has no right to any refund of any surplus in the pension fund. Any surplus balance is allocated to the members (active and pensioners).

General risk

The Group faces the risk that its equity ratio can be affected by a poor performance of the assets of the pension fund or change of assumptions. Therefore, sensitivities of the main assumptions have been calculated and disclosed (see below).

The following tables summarize the components of net benefit expense recognized in the Statement of Comprehensive Income and the funded status and amounts recognized in the Statement of Financial Position for the plan:

20. Pensions and other post-employment benefit plans continued

Net benefit obligations

The components of the net defined benefits obligations included in non-current liabilities are as follows:

	As at December 31, 2020 US$'000	As at December 31, 2019 US$'000
Fair value of plan assets	**6'311**	4'454
Defined benefit obligation	**(9'587)**	(6'374)
Funded status (net liability)	**(3'276)**	(1'920)
Duration (years)	**18.9**	19.0
Expected benefits payable in following year	**(269)**	(194)

Development of obligations and assets	**Year ended December 31, 2020 US$'000**	Year ended December 31, 2019 US$'000
Present value of funded obligations, beginning of year	**(6'374)**	(6'178)
Employer service cost	**(391)**	(356)
Employee contributions	**(237)**	(213)
Past service cost	**–**	301
Interest cost	**(21)**	(53)
Benefits (paid)/refunded	**(1'044)**	784
Actuarial (loss)/gain on benefit obligation	**(809)**	(544)
Currency (loss)/gain	**(711)**	(115)
Present value of funded obligations, end of year	**(9'587)**	(6'374)
Defined benefit obligation participants	**(8'942)**	(5'775)
Defined benefit obligation pensioners	**(645)**	(599)
Defined benefit obligation, end of year	**(9'587)**	(6'374)
Fair value of plan assets, beginning of year	**4'454**	4'420
Expected return on plan assets	**14**	38
Employer's contributions	**237**	213
Employees' contributions	**237**	213
Benefits (paid)/refunded	**1'044**	(784)
Admin expense	**(15)**	(14)
Actuarial gain/(loss) on plan assets	**(141)**	289
Currency gain	**481**	79
Fair value of plan assets, end of year	**6'311**	4'454

Movements in net liability recognized in statement of financial position:

	Year ended December 31, 2020 US$'000	Year ended December 31, 2019 US$'000
Net liability, beginning of year	**(1'920)**	(1'758)
Expense recognized in profit and loss	**(413)**	(85)
Employer's contributions (following year expected contributions)	**237**	213
Prepaid/(accrued) pension cost:	**176**	(129)
– operating income/(expense)	**(169)**	144
– finance expense	**(7)**	(15)
Total gains recognized within other comprehensive income	**(950)**	(256)
Currency loss	**(230)**	(34)
Net liability, end of year	**(3'276)**	(1'920)
Actual return on plan assets	**–2.37%**	7.50%
Expected employer's cash contributions for following year	**295**	212

Asset allocation	As at December 31, 2020	As at December 31, 2019
Cash	**0.5%**	0.6%
Bonds	**24.5%**	24.5%
Equities	**34.5%**	34.6%
Property (incl. mortgages)	**24.2%**	18.8%
Other	**16.3%**	21.5%
Total	**100.0%**	100.0%

Amounts recognized in other comprehensive income	Year ended December 31, 2020 US$'000	Year ended December 31, 2019 US$'000
Actuarial (losses)/gains arising from plan experience	**(553)**	177
Actuarial gains/(losses) arising from financial assumptions	**(256)**	(722)
Re-measurement of defined benefit obligations	**(809)**	(544)
Re-measurement of assets	**(141)**	289
Deferred tax asset recognized	**286**	51
Other	**(96)**	–
Total recognized in OCI	**(760)**	(204)

Principal actuarial assumptions (beginning of year)
The principal assumptions used in determining pension and post-employment benefit obligations for the plan are shown below:

	As at December 31, 2020	As at December 31, 2019
Discount rate	**0.30%**	0.90%
Interest credit rate	**1.00%**	1.00%
Expected net return on plan assets	**0.30%**	0.90%
Average future salary increases	**1.50%**	1.50%
Future pension increases	**0.00%**	0.00%
Mortality tables used	**BVG 2015 GT**	BVG 2015 GT
Average retirement age	**65/64**	65/64
Expected life expectation at regular retirement age (male/female)	**22.83/25.85**	22.61/25.64

Sensitivities

A quantitative sensitivity analysis for significant assumptions is as follows:

Sensitivities

Impact on defined benefit obligation	As at December 31, 2020 US$'000	As at December 31, 2019 US$'000
Discount rate + 0.25%	**(401)**	(293)
Discount rate – 0.25%	**432**	315
Salary increase + 0.25%	**61**	49
Salary decrease – 0.25%	**(59)**	(48)
Pension increase + 0.25%	**216**	156
Pension decrease – 0.25% (not lower than 0%)	**–**	–

A negative value corresponds to a reduction of the defined benefit obligation, a positive value to an increase of the defined benefit obligation.

The sensitivity analyses above have been determined based on a method that extrapolates the impact on the defined benefit obligation as a result of reasonable changes in key assumptions occurring at the end of the reporting period. The sensitivity analyses are based on a change in a significant assumption, keeping all other assumptions constant. The sensitivity analyses may not be representative of an actual change in the defined benefit obligation as it is unlikely that changes in assumptions would occur in isolation from one another.

21. Other non-current liabilities

	As at December 31, 2020 US$'000	As at December 31, 2019 US$'000
Defined benefit obligation IAS 19 (Note 20)	**3'276**	1'920
Deferred consideration in relation to the acquisition of the Chem-Tex Assets (see below)	**149**	856
Other non-current liabilities	**–**	4
Other non-current liabilities	**3'425**	2'780

Deferred consideration pertains to the acquisition of assets from Chem-Tex Inc. in 2017 and is payable other than in a short timeframe. The fair value of the deferred consideration has been discounted using an imputed interest rate of 6% (being the Group's estimated cost of debt) to take into account the time value of money.

The deferred consideration and related financing expense are summarized below:

	As at December 31, 2020 US$'000	As at December 31, 2019 US$'000
Consideration:		
Balance brought forward	**2'103**	3'102
Amortization of fair value discount	**245**	245
Consideration settled in cash	**(1'267)**	(1'290)
Foreign exchange differences	**35**	46
Deferred consideration carried forward	**1'116**	2'103
Current liability	**967**	1'247
Non-current liability	**149**	856
Total	**1'116**	2'103

The maturity profile of other non-current liabilities is shown in paragraph (g) "Liquidity risk" of Note 25 "Financial risk management" to the Consolidated Financial Statements.

22. Borrowings

As at December 31, 2020, the Group's borrowings consist primarily of:

- a bank loan taken out in October 2020 which incurs interest at 2.25% and which is secured on property owned by a company which is controlled by a minority shareholder of HeiQ Medica. It is repayable in equal monthly instalments of €8'000 (US$9'500) over eight years up to September 2028. As at December 31, 2020, €777'000 (US$951'000) is outstanding – the short-term portion being €93'000 (US$114'000) and the long-term portion being €684'000 (US$838'000);
- a loan of €459'000 (US$562'000) payable to a company controlled by a minority shareholder of HeiQ Medica. The loan is repayable by December 31, 2022 and does not incur any interest; and
- a short-term bank loan of €45'000 (US$55'000) which was repaid in January 2021 and did not incur any interest.

In 2019, the Group's borrowings consisted of a short-term revolving credit facility which incurred interest at Libor plus a margin of 0.8%. This loan was repaid during 2020.

The following table provides a reconciliation of the Group's future maturities of its total borrowings for each year presented:

	As at December 31, 2020 US$'000	As at December 31, 2019 US$'000
Not later than one year	**173**	2'478
Later than one year but less than five years	**1'043**	–
After more than five years	**357**	–
Total borrowings	**1'573**	2'478

The following table represents the Group's finance costs for each year presented:

	Year ended December 31, 2020 US$'000	Year ended December 31, 2019 US$'000
Amortization of deferred finance costs – acquisition costs	**245**	245
Lease finance expense	**52**	58
Interest on borrowings	**108**	88
Bank fees	**46**	33
Loss on foreign currency transactions	**733**	4
Total finance costs	**1'184**	428

23. Other current liabilities

	As at December 31, 2020 US$'000	As at December 31, 2019 US$'000
Deferred consideration in relation to the acquisition of the Chem-Tex Assets (Note 21)	**967**	1'247
Other current liabilities	**967**	1'247

24. Fair value and financial instruments

a. Fair value

The fair value of an asset or liability is the price that would be received to sell that asset or paid to transfer that liability in an orderly transaction occurring in the principal market (or most advantageous market in the absence of a principal market) for such asset or liability. In estimating fair value, the Directors utilize valuation techniques that are consistent with the market approach, the income approach and/or the cost approach. Such valuation techniques are consistently applied. Inputs to valuation techniques include the assumptions that market participants would use in pricing an asset or liability. IFRS 13 "Fair Value Measurement" establishes a fair value hierarchy for valuation inputs that gives the highest priority to quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The fair value hierarchy is defined as follows:

Level 1: Inputs are unadjusted, quoted prices in active markets for identical assets at the measurement date.

Level 2: Inputs (other than quoted prices included in Level 1) can include the following:
- observable prices in active markets for similar assets;
- prices for identical assets in markets that are not active;
- directly observable market inputs for substantially the full term of the asset; and
- market inputs that are not directly observable but are derived from or corroborated by observable market data.

Level 3: Unobservable inputs which reflect the Directors' best estimates of what market participants would use in pricing the asset at the measurement date.

All financial instruments measured at fair value use Level 2 valuation techniques for the each of the years ended December 31, 2019 and December 31, 2020.

24. Fair value and financial instruments continued

Level 2 fair value measurements are those including inputs other than quoted prices included within Level 1 that are observable for the asset or liability directly or indirectly.

There were no transfers between fair value levels during the year ended December 31, 2020 (2019: none).

b. Financial instruments

For trade receivables, the Group applies the simplified approach permitted by IFRS 9 "Financial Instruments", which requires expected lifetime losses to be recognized from initial recognition of the receivables.

Financial liabilities are initially measured at fair value and subsequently measured at amortized cost.

The Group is not a financial institution. The Group does not apply hedge accounting and its customers are considered creditworthy and pay consistently within agreed payments terms.

A classification of the Group's financial instruments is included in the table below:

	As at December 31, 2020 US$'000	As at December 31, 2019 US$'000
Cash and cash equivalents held at amortized cost	**25'695**	3'603
Trade receivables and accrued income held at amortized cost	**13'437**	9'175
Financial assets at amortized cost	**2'815**	415
Financial liabilities at amortized cost	**(14'820)**	(9'070)
Borrowings and leases	**(4'225)**	(5'262)
Total	**22'902**	(1'139)

25. Financial risk management

For the purposes of capital management, capital includes issued capital and all other equity reserves attributable to the equity holders of the Company. The primary objective of the Directors' capital management is to ensure that the Group maintains a strong credit rating and healthy capital ratios in order to support its business and maximize shareholder value.

To maintain or adjust the capital structure, the Directors may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the year.

The Directors manage the Group's capital structure and adjust it in light of changes in economic conditions and the requirements of the financial covenants. The Group includes in its net debt, interest-bearing loans and borrowings, trade and other payables, less cash and short-term deposits.

The Group's principal financial liabilities comprise borrowings and trade and other payables, which it uses primarily to finance and financially guarantee its operations.

The Group's principal financial assets include cash and cash equivalents and trade and other receivables derived from its operations.

a. Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates, will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the returns.

b. Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. As the Group's borrowings are either on fixed interest terms or interest-free, the Group is not subject to interest rate risk.

c. Credit risk

Credit risk is the risk that a customer or counterparty to a financial instrument will not meet its obligations under a contract and arises primarily from the Group's cash in banks and trade receivables.

d. Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of an exposure will fluctuate due to changes in foreign exchange rates. The Group's exposure to the risk of changes in foreign exchange rates relates primarily to its financing activities (when financial liabilities and cash are denominated other than in a company's functional currency).

Most of the Group's transactions are carried out in US Dollars (US$). Foreign currency risk is monitored closely on an ongoing basis to ensure that the net exposure is at an acceptable level.

The Group maintains a natural hedge whenever possible, by matching the cash inflows (revenue stream) and cash outflows used for purposes such as capital and operational expenditure in the respective currencies. The Group's net exposure to foreign exchange risk was as follows:

	Functional currency					
As at December 31, 2020	**CNY US$'000**	**EUR US$'000**	**GBP US$'000**	**US$ US$'000**	**Others US$'000**	**Total US$'000**
Financial assets denominated in US$	**248**	**2'145**	**717**	**17'190**	**5**	**20'305**
Financial liabilities denominated in US$	**(102)**	**(268)**	**(475)**	**(129)**	**23**	**(951)**
Net foreign currency exposure	**146**	**1'877**	**242**	**17'061**	**28**	**19'354**

	Functional currency					
As at December 31, 2019	CNY US$'000	EUR US$'000	GBP US$'000	US$ US$'000	Others US$'000	Total US$'000
Financial assets denominated in US$	2'030	2'253	8	7'093	2	11'386
Financial liabilities denominated in US$	–	(200)	(96)	(7)	21	(282)
Net foreign currency exposure	**2'030**	**2'053**	**(88)**	**7'086**	**23**	**11'104**

Foreign currency sensitivity analysis:

The following tables demonstrate the sensitivity to a reasonably possible change in foreign currency exchange rates, with all other variables held constant.

The impact on the Group's profit before tax is due to changes in the fair value of monetary assets and liabilities. The Group's exposure to foreign currency changes for all other currencies is not material.

A 10% movement in each of the Chinese Yuan (CNY), Euro (EUR), British Pound (GBP) and US Dollar (US$) would increase/(decrease) net assets by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant.

As at December 31, 2020	**CNY US$'000**	**EUR US$'000**	**GBP US$'000**	**US$ US$'000**	**Others US$'000**
Effect on net assets:					
Strengthened by 10%	**15**	**188**	**24**	**1'706**	**3**
Weakened by 10%	**(15)**	**(188)**	**(24)**	**(1'706)**	**(3)**

As at December 31, 2019	CNY US$'000	EUR US$'000	GBP US$'000	US$ US$'000	Others US$'000
Effect on net assets:					
Strengthened by 10%	203	205	(9)	709	2
Weakened by 10%	(203)	(205)	9	(709)	(2)

e. Cash and cash equivalents

The credit risk from its cash and cash equivalents is limited because the counterparties are banks with high credit ratings and have not experienced any losses in such accounts.

25. Financial risk management continued

f. Trade receivables

Trade receivables are due from customers and collectability is dependent on the financial condition of each individual company as well as the general economic conditions of the industry. The Directors review the financial condition of customers prior to extending credit and generally does not require collateral in support of the Group's trade receivables. The majority of trade receivables are current and the Directors believe these receivables are collectible. As at December 31, 2020, the Group had two customers that individually accounted for more than 10% of total receivables, totaling 38% of total trade receivables (2019: two customers that individually accounted for more than 10% of total receivables, totaling 65%).

g. Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they are due. The Directors manage this risk by:

- maintaining adequate cash reserves through the use of the Group's cash from operations and bank borrowings; and
- continuously monitoring projected and actual cash flows to ensure the Group maintains an appropriate amount of liquidity.

The table below summarizes the maturity profile of the Group's financial liabilities, based on contractual undiscounted payments:

Year ended December 31, 2020	Less than 1 year US$'000	2 to 5 years US$'000	> 5 years US$'000	Total US$'000
Trade and other payables	5'815	–	–	5'815
Borrowings	1'573	–	–	1'573
Leases (gross cash flows)	385	1'346	1'162	2'893
Other liabilities	4'283	5'675	–	9'958
Retirement obligations	–	–	3'276	3'276
As at December 31, 2020	**12'056**	**7'021**	**4'438**	**23'515**

Year ended December 31, 2019	Less than 1 year US$'000	2 to 5 years US$'000	> 5 years US$'000	Total US$'000
Trade and other payables	1'930	–	–	1'930
Borrowings	2'478	–	–	2'478
Leases (gross cash flows)	390	1'265	1'413	3'068
Other liabilities	4'360	2'780	–	7'140
Retirement obligations	–	–	1'920	1'920
As at December 31, 2019	**9'158**	**4'045**	**3'333**	**16'536**

26. Notes to the statements of cash flows

Net debt reconciliation:

Year ended December 31, 2020	Opening balances US$'000	New agreements US$'000	Assumed on acquisition of subsidiaries US$'000	Cash movements US$'000	Foreign exchange differences US$'000	Closing balances US$'000
Cash and cash equivalents	3'603	–	–	21'822	270	25'695
Leases	(2'784)	(222)	–	354	–	(2'652)
Borrowings	(2'478)	(61)	(1'512)	2'735	(257)	(1'573)
Totals	**(1'659)**	**(283)**	**(1'512)**	**24'911**	**13**	**21'470**

Year ended December 31, 2019	Opening balances US$'000	New agreements US$'000	Cash movements US$'000	Foreign exchange differences US$'000	Closing balances US$'000
Cash and cash equivalents	2'163	–	1'420	20	3'603
Leases	(3'162)	(8)	386	–	(2'784)
Borrowings	(1'522)	–	(929)	(27)	(2'478)
Totals	**(2'521)**	**(8)**	**877**	**(7)**	**(1'659)**

Reconciliation of cash on business combinations:

Cash assumed on reverse acquisition of HeiQ plc	27'105
Cash assumed on acquisition of HeiQ Medica	6
Cash assumed on acquisitions of businesses	**27'111**
Consideration payment for acquisition of Chem-Tex	(1'267)
Consideration payment for acquisition of HeiQ Medica	(157)
Consideration payment for acquisitions of businesses	**(1'424)**

27. Contingencies and provisions

The Directors are not aware of any contingencies or other provisions which might impact on the Group's operations or financial position.

28. Related party transactions

Two companies controlled by a director of HeiQ USA are the landlord for two buildings in the United States which are leased to HeiQ USA. These leases have been capitalized as right-of-use assets in accordance with IFRS 16 "Leases". The total amount paid during the year ended December 31, 2020 was US$160'000 (2019: US$160'000).

A company controlled by a director of HeiQ Materials AG supplied materials and services totaling US$145'000 in the year ended December 31, 2020 (2019: US$48'000).

As at December 31, 2020, the Group has a balance receivable from its associated company, HeiQ-RAS GmbH, of US$17'000 (2019: US$nil).

A bank loan of €800'000 (US$950'000) is secured on property owned by a company which is controlled by a minority shareholder of HeiQ Medica.

A loan of €459'000 (US$562'000) is payable to a company controlled by minority shareholders of HeiQ Medica. See note 22 for further details.

Details of the remuneration of the directors are contained in the Remuneration Committee Report on pages 50 to 53.

29. Material subsequent events

On March 9, 2021, HeiQ Iberia Unipessoal Lda acquired 51% of the share capital and voting rights of Chrisal NV, a company incorporated in Belgium, to be renamed HeiQ Chrisal. Chrisal NV is a biotechnology company and a leader in innovative ingredients and consumer products that incorporate the benefits of probiotics and synbiotics. It has three technology platforms, all with the purpose of creating healthy and sustainable microbial ecosystems. The application of its proprietary technology includes cosmetics, personal care, textiles, wound dressings, water purification, air treatment and cleaning products. The company has its office, manufacturing site and bottling facility in Lommel, Belgium.

The purchase consideration was payable partly in cash (€5'000'000) and partly by the issue of 1'101'928 new ordinary shares for €2'500'000.

The acquisition is part of the Group's strategy of becoming a global leader in materials innovation and allows access to the broader market of microbial surface management and a bio-based green complementary technology platform to its successful antimicrobials.

30. Ultimate controlling party

As at December 31, 2020, the Company did not have any single identifiable controlling party.

Company Statement of Financial Position (registered company number: 09040064)

As at December 31, 2020

	Note	As at December 31, 2020 £'000	As at December 31, 2019 £'000
ASSETS			
Non-current assets			
Investments	4	**119'571**	–
Amounts due from subsidiaries	5	**18'000**	–
		137'571	–
Current assets			
Trade and other receivables	7	**191**	15
Cash and bank balances	6	**1'554**	859
		1'745	874
TOTAL ASSETS		**139'316**	874
LIABILITIES			
Current liabilities			
Trade and other payables	8	**(483)**	(18)
		(483)	(18)
NET ASSETS		**138'833**	856
EQUITY			
Share capital	9	**37'767**	267
Share premium account	9	**102'536**	994
Share-based payment reserve	10	**38**	–
Accumulated losses		**(1'508)**	(405)
TOTAL EQUITY		**138'833**	856

The Company has taken advantage of Section 408 of the Companies Act 2006 and has not included a Profit and Loss account in these separate financial statements. The loss attributable to members of the Company for the year ended December 31, 2020 is £1'103'000 (year ended December 31, 2019: loss of £57'000).

The notes on pages 101 to 106 form an integral part of these Financial Statements. The Financial Statements on pages 98 to 100 were authorized for issue by the board of Directors on April 23, 2021 and were signed on its behalf by:

Xaver Hangartner
Director

Company Statement of Changes in Equity

For the year ended December 31, 2020

	Share capital £'000	Share premium account £'000	Share-based payment reserve £'000	Accumulated losses £'000	Total £'000
For the year ended December 31, 2019:					
Balance as at January 1, 2019	267	994	–	(348)	913
Loss for the year	–	–	–	(57)	(57)
Balance as at December 31, 2019	**267**	**994**	**–**	**(405)**	**856**
For the year ended December 31, 2020:					
Loss for the year	**–**	**–**	**–**	**(1'103)**	**(1'103)**
Issue of shares	**37'500**	**102'502**	**–**	**–**	**140'002**
Cost of issuing shares	**–**	**(960)**	**–**	**–**	**(960)**
Share-based payment charges	**–**	**–**	**38**	**–**	**38**
Transactions with owners	**37'500**	**101'542**	**38**	**–**	**139'080**
Balance as at December 31, 2020	**37'767**	**102'536**	**38**	**(1'508)**	**138'833**

The Notes on pages 101 to 106 are an integral part of these financial statements.

Company Statement of Cash Flows

For the year ended December 31, 2020

Cash flows from operating activities	**Year ended December 31, 2020 £'000**	Year ended December 31, 2019 £'000
Loss before taxation	**(1'103)**	(57)
Cash flow from operations reconciliation:		
Finance income	**(21)**	–
Share-based payment charges	**38**	–
Transaction costs settled in shares	**431**	–
Working capital adjustments:		
(Increase) in trade and other receivables	**(180)**	(4)
Increase in trade and other payables	**469**	–
Cash used in operations	**(366)**	(61)
Taxes paid	**–**	–
Net cash used in operating activities	**(366)**	(61)
Cash flows from investing activities		
Finance income	**21**	–
Amounts advanced to subsidiaries	**(18'000)**	–
Net cash used in investing activities	**(17'979)**	–
Cash flows from financing activities		
Proceeds from equity issuance	**20'000**	–
Costs of share issues	**(960)**	–
Net cash from financing activities	**19'040**	–
Net increase/(decrease) in cash and cash equivalents	**695**	(61)
Cash and cash equivalents – beginning of the year	**859**	920
Cash and cash equivalents – end of the year	**1'554**	859

Notes to the Company Financial Statements

For the year ended December 31, 2020

1. General information

The Company was incorporated on May 14, 2014 as Auctus Growth Limited, in England and Wales under the Companies Act 2006 with company number 09040064, with an investment strategy to undertake an acquisition of a target company or business. The Company was re-registered as a public company on July 24, 2014. On December 4, 2020, the Company's name was changed to HeiQ plc. The Company's registered office is 5th Floor, 15 Whitehall, London, SW1A 2DD.

The Company was admitted to listing on the Official List by way of a Standard Listing in accordance with Chapter 14 of the Listing Rules and to trading on the London Stock Exchange's Main Market for listed securities on August 22, 2014.

Following the reverse takeover by the Company of HeiQ Materials AG ("HeiQ"), an established global brand in materials and textile innovation, the Company's enlarged share capital was admitted to the standard segment of the Official List and initiation of trading on the London Stock Exchange's Main Market commenced on December 7, 2020 under the ticker 'HEIQ'. The ISIN of the Ordinary Shares is GB00BN2CJ299 and the SEDOL Code is BN2CJ29.

The principal activity of the Company is that of a holding company for the Group, as well as performing all administrative, corporate finance, strategic and governance functions of the Group.

The Company's financial statements are prepared in Pounds Sterling, which is the presentational currency for the financial statements.

2. Summary of significant accounting policies

(a) Basis of preparation

These financial statements have been prepared in accordance with IFRS, issued by the International Accounting Standards Board, including interpretations issued by the International Financial Reporting Interpretations Committee, applicable to companies reporting under IFRS, and the Companies Act 2006 applicable to companies reporting under IFRS.

These financial statements are prepared under the historical cost convention. Historical cost is generally based on the fair value of the consideration given in exchange of assets. The principal accounting policies are set out below.

The Company produces consolidated accounts which include the results of the Company.

The financial statements have been prepared on a going concern basis which contemplates the continuity of normal business activities and the realization of assets and the settlement of liabilities in the ordinary course of business.

The Directors have assessed the Company's ability to continue in operational existence for the foreseeable future in accordance with the Financial Reporting Council's Guidance on the going concern basis of accounting and reporting on solvency and liquidity risks issued in April 2016.

The Company has prepared forecasts and projections which reflect the expected trading performance of the Company and the Group on the basis of best estimates of management using current knowledge and expectations of trading performance.

As at December 31, 2020, the Company had £1'554'000 (2019: £859'000) in cash, which is considered sufficient for its present needs.

Based on the above, the Directors consider there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable, as well as to fund the Company's future operating expenses. The going concern basis preparation is therefore considered to be appropriate in preparing these financial statements.

(b) Investments

Investments are carried at cost less, where appropriate, any provision for impairment.

2. Summary of significant accounting policies continued

(c) Loans to subsidiaries
Loans to subsidiaries are measured at the present value of the future cash payments discounted at a market rate of interest for a similar debt instrument unless such amounts are repayable on demand. The present value of loans that are repayable on demand is equal to the undiscounted cash amount payable reflecting the Company's right to demand immediate repayment.

(d) Foreign currencies
Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated using the contracted rate or the rate of exchange ruling at the statement of financial position date and the gains or losses on translation are included in the profit and loss account.

(e) Cash and cash equivalents
Cash and cash equivalents comprise cash in hand, bank balances, deposits with financial institutions and short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

(f) Trade and other receivables
Trade and other receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment.

(g) Income taxes
The charge for taxation is based on the profit/loss for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes.

Deferred tax is provided on timing differences which arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognized in the financial statements. The following timing differences are not provided for: differences between accumulated depreciation and tax allowances for the cost of a fixed asset if and when all conditions for retaining the tax allowances have been met; and differences relating to investments in subsidiaries, to the extent that it is not probable that they will reverse in the foreseeable future and the reporting entity is able to control the reversal of the timing difference. Deferred tax is not recognized on permanent differences arising because certain types of income or expense are non-taxable or are disallowable for tax or because certain tax charges or allowances are greater or smaller than the corresponding income or expense.

(h) Share-based payment arrangements
Equity-settled share-based payments to employees are measured at the fair value of the equity instruments at the grant date. Equity-settled share-based payments to non-employees are measured at the fair value of services received, or if this cannot be measured, at the fair value of the equity instruments granted at the date that the Company obtains the goods or counterparty renders the service. Details regarding the determination of the fair value of equity-settled share-based transactions are set out in Note 18 to the Consolidated Financial Statements.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest, with a corresponding increase in equity. Where the conditions are non-vesting, the expense and equity reserve arising from share-based payment transactions is recognized in full immediately on grant.

At the end of each reporting period, the Group revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognized in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to other reserves.

(i) Trade and other payables
Trade and other payables are initially recognized at fair value and thereafter stated at amortized cost using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost.

(j) Share capital
Proceeds from issuance of Ordinary Shares are classified as equity. Incremental costs directly attributable to the issuance of new Ordinary Shares or options are shown in equity as a deduction from the proceeds.

(k) Financial instruments

Financial instruments are recognized in the statements of financial position when the Company has become a party to the contractual provisions of the instruments.

Financial instruments are classified as liabilities or equity in accordance with the substance of the contractual arrangement. Interest, dividends, gains and losses relating to a financial instrument classified as a liability are reported as an expense or income. Distributions to holders of financial instruments classified as equity are charged directly to equity.

Financial instruments are offset when the Company has a legally enforceable right to offset and intends to settle either on a net basis or to realize the asset and settle the liability simultaneously.

A financial instrument is recognized initially at its fair value plus, in the case of a financial instrument not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial instrument.

Financial instruments recognized in the statements of financial position are disclosed in the individual policy statement associated with each item.

(i) Financial liabilities

Financial liabilities are recognized when, and only when, the Company becomes a party to the contractual provisions of the financial instrument.

All financial liabilities are recognized initially at fair value plus directly attributable transaction costs and subsequently measured at amortized cost using the effective interest method other than those categorized as fair value through profit or loss.

Fair value through profit or loss category comprises financial liabilities that are either held for trading or are designated to eliminate or significantly reduce a measurement or recognition inconsistency that would otherwise arise. Derivatives are also classified as held for trading unless they are designated as hedges. There were no financial liabilities classified under this category.

A financial liability is derecognized when the obligation under the liability is discharged, cancelled or expires. When an existing financial liability is replaced by another from the same party on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the profit or loss.

(ii) Equity instruments

Ordinary Shares are classified as equity. Dividends on Ordinary Shares are recognized as liabilities when approved for appropriation.

(iii) Other financial instruments

Other financial instruments not meeting the definition of basic financial instruments are recognized initially at fair value. Subsequent to initial recognition, other financial instruments are measured at fair value with changes recognized in profit or loss except investments in equity instruments that are not publicly traded and whose fair value cannot otherwise be measured reliably shall be measured at cost less impairment.

3. Critical accounting judgments and key sources of estimation uncertainty

In the application of the Company's accounting policies, which are described in Note 2, management is required to make judgments, estimates and assumptions about the carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and underlying assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

The key sources of judgment that have a significant effect on the amounts recognized in the financial statements are described below.

Impairment of investments and amounts due from subsidiaries

As described in Note 2 to the financial statements, investments are stated at the lower of cost less provision for impairment. The present value of loans to subsidiaries that are repayable on demand is equal to the undiscounted cash amount payable reflecting the Company's right to demand immediate repayment.

At each reporting date investments and loans made to subsidiaries are reviewed to determine whether there is any indication that those assets have suffered an impairment loss. If there is an indication of possible impairment, the recoverable amount of any affected asset is estimated and compared with its carrying amount. If the estimated recoverable amount is lower, the carrying amount is reduced to its estimated recoverable amount, and an impairment loss is recognized immediately in profit or loss. The Directors have carried out an impairment test on the value of the loans due from subsidiaries and have concluded that no impairment provision is necessary.

The investments in and loans to subsidiaries are supported by the intangible assets in the subsidiaries, tangible fixed assets, cash and receivables.

The Company tests investments in and loans receivable from subsidiaries for impairment only if there are indications that these assets might be impaired. The Company considers that there are no such indications of impairment and impairment testing has not been performed. Accordingly, the Company considers that the value of investments in and loans to subsidiaries are not impaired.

4. Investments

Investments in subsidiary undertakings	**As at December 31, 2020 £'000**	As at December 31, 2019 £'000
Balance brought forward	**–**	–
Additions	**119'571**	–
Balance at end of year	**119'571**	–

Details of the Company's subsidiaries as at December 31, 2020 are set out in Note 6 to the Consolidated Financial Statements.

5. Amounts due from subsidiaries

	As at December 31, 2020 £'000	As at December 31, 2019 £'000
Balance brought forward at beginning of year	**–**	–
Amounts advanced	**18'000**	–
Balance at end of year	**18'000**	–

The amounts owing from subsidiaries are unsecured, interest-free and are to be settled in cash. The present value of amounts that are repayable on demand is equal to the undiscounted cash amount payable, reflecting the Company's right to demand immediate repayment.

6. Cash and cash equivalents

	As at December 31, 2020 £'000	As at December 31, 2019 £'000
Bank balances	**1'554**	859
Cash and cash equivalents	**1'554**	859

7. Trade and other receivables

	As at December 31, 2020 £'000	As at December 31, 2019 £'000
Prepayments	**88**	11
VAT receivable	**67**	–
Other receivables	**36**	4
Trade and other receivables	**191**	15

8. Trade and other payables

	As at December 31, 2020 £'000	As at December 31, 2019 £'000
Trade payables	**226**	–
Accruals	**230**	18
Taxes and social security	**7**	–
Other payables	**20**	–
Trade and other payables	**483**	18

The Directors consider that the carrying amounts of amounts falling due within one year approximate to their fair values.

9. Share capital and share options

Share capital

Details of the Company's allotted, called-up and fully paid share capital are set out in Note 18 to the Consolidated Financial Statements.

Movements in the Company's share capital were as follows:

	Number of shares No.	Share capital £'000	Share premium £'000	Totals £'000
Balance as of January 1, 2019 and December 31, 2019	2'668'999	267	994	1'261
Consolidation of shares	(1'779'346)	–	–	–
Placing of shares	11'789'142	3'537	9'667	13'204
Subscription for shares	6'068'000	1'820	4'976	6'796
Issue of shares to acquire HeiQ Materials AG	106'759'900	32'028	87'543	119'571
Shares issued in lieu of fees	385'209	115	316	431
Costs of share issues	–	–	(960)	(960)
Balance as at December 31, 2020	**125'891'904**	**37'767**	**102'536**	**140'303**

The par value of all shares is £0.30. All shares in issue were allotted, called up and fully paid. The Ordinary Shares of the Company carry one vote per share and an equal right to any dividends declared.

Share options

Details of the Company's share option scheme and options issued during the year are set out in Note 18 to the Consolidated Financial Statements.

Notes to the Company Financial Statements continued

For the year ended December 31, 2020

10. Reserves

The share premium account represents the amount received on the issue of Ordinary Shares by the Company in excess of their nominal value and is non-distributable.

The share-based payment reserve arises from the requirement to value share options in existence at the year end at fair value (see Note 18 to the Consolidated Financial Statements).

11. Share-based payments

Details of the Company's share options and related expense are contained in Note 18 to the Consolidated Financial Statements.

12. Segment information

Operating segments are identified on the basis of internal reports about components of the Company that are regularly reviewed by the Board. Until its acquisition of HeiQ Materials AG on December 7, 2020, the Company was an investing company and did not trade. On completion of the acquisition of HeiQ Materials AG and its subsidiaries, the Company became the holding company of the Group.

The Company has one segment, namely that of a parent company to its subsidiaries. Accordingly, no segmental analysis has been provided in these financial statements.

13. Employees

The number of employees including Directors was as follows:

	Year ended December 31, 2020 No.	Year ended December 31, 2019 No.
Directors	**5**	3
Total	**5**	3

14. Related party transactions

The only key management personnel of the Company are the Directors. Details of their remuneration are contained in the Remuneration Committee report on pages 50 to 53.

Details of amounts due between the Company and its subsidiaries are shown in Note 5 above.

15. Subsequent events

Disclosures in relation to events subsequent to December 31, 2020 are shown in Note 29 to the Consolidated Financial Statements.

16. Ultimate controlling party

As at December 31, 2020, no one entity owns greater than 50% of the issued share capital. Therefore, the Company does not have an ultimate controlling party.

Company information

Directors
Carlo Centonze, Chief Executive Officer
Xaver Hangartner, Chief Financial Officer
Esther Dale-Kolb, non-executive Chairwoman
Karen Brade, non-executive Director
Benjamin Bergo, non-executive Director

Company Secretary
Ross Ainger

Company number
09040064

Registered address
5th Floor, 15 Whitehall
London
SW1A 2DD

Independent auditors
Crowe U.K. LLP
55 Ludgate Hill
London
EC4M 7JW

Financial advisor and joint broker
Arlington Group Asset Management Limited
15 Whitehall
London
SW1A 2DD

Joint broker
Cenkos Securities plc
6 7 8 Tokenhouse Yard
London
EC2R 7AS

Registrars
Computershare Investor Services PLC
The Pavilions
Bridgwater Road
Bristol
BS13 8AE

UNITED KINGDOM (Ultimate parent)
HeiQ plc
1st floor 47/48 Piccadilly
London
W1J 0DT

SWITZERLAND (Operational headquarters)
HeiQ Materials AG
Ruetistrasse 12
8952 Schlieren (Zurich)

AUSTRALIA
HeiQ PTY
c/ Deakin ManuFutures
75 Pidgons Rd
Waurn Ponds VIC 3216

BELGIUM
HeiQ Chrisal NV
Priester Daensstraat 9
3920 Lommel

GREATER CHINA
Representative Office
Room 2501
Xuhui Commercial Mansion
No. 168 Yude Road
Shanghai

HeiQ Company Ltd / HX Company Ltd
No. 14 & 16, Ln. 50, Wufu 1st Rd.
Luzhu District
Taoyuan City 33850
Taiwan

JAPAN
Representative Office
NIU Bldg 2F
2-1-17 Nihonbashi
Chuo-ku
Tokyo, 103-0027

PORTUGAL
HeiQ Iberia Unipessoal Lda
Tecmaia
Rua Engº Frederico Ulrich, nº 2650
4470-605 Maia

SPAIN
HeiQ Medica SL
Plaza de la Estación s/n
29560 Pizarra (Málaga)

USA
HeiQ ChemTex Inc.
180 Gee Rd NE
Calhoun GA 30701

2725 Armentrout Drive
Concord NC 28025

Designed and produced by **emperor**
Visit us at **emperor.works**

HEIQ

www.heiq.com