Haydale Graphene Industries Plc

Annual Report And Accounts

For the year ended 30 June 2016

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Graphene is set to change the way we interact with the world around us

haydale

Haydale

The Advanced Materials Group

Chairman's Statement

John Knowles
Chairman

Our global footprint is now established in Europe, the US and the Far East

We've selected *"Best in Class"* collaboration partners, including Huntsman and Amiantit

We've built a robust supply chain to deliver on expected significant demand

I am very pleased to present the Company's full year results to 30 June 2016. This period has seen the continued implementation of our strategy to promote Haydale as the pre-eminent solutions provider in the commercialisation of graphene and other advanced nanomaterials. In order to introduce products using these advanced materials we continue to engage in partnerships, collaborations and other commercial arrangements with "best in class" companies in our chosen market sectors. A prime example of this is our agreement with Huntsman Advanced Materials who, with global sales of over $10 billion, are one of the world's leading advanced materials suppliers. Another example is the Amiantit Company who are one of the world's largest glass fibre reinforced plastic ("GRP") pipe companies. We expect to commence generating commercial revenues from these current collaborations in the 2017 calendar year.

These two organisations alone will require a secure and robust supply chain and that is why our agreement with AMG Advanced Metallurgical Group N.V. ("AMG") announced in May 2016 is so important. This agreement secures a partner capable of "industrialising" our products and becoming our European "Centre of Excellence". AMG are committing significant resources in setting up a new facility at their subsidiary, Graphit Kropfmühl ("GK"), in Hauzenburg, Bavaria. This facility will be able to satisfy the requirements of our customers and joint development partners. On top of this we have access to a substantial range of graphitic materials from AMG which as a starter material are crucial in delivering the required future expected volumes. Ensuring we have strategically located, dedicated processing centres with a secure, sustainable, consistent, quality material supply is at the heart of our commercialisation strategy.

Fundraising and corporate activity

In November 2015 we announced the successful placing and open offer that raised £6.0 million (before costs) required to fund the ongoing working capital, investment in people, additional plasma reactors and accelerate the product development work on graphene enhanced resins for composites. Additionally, the funding allowed us to continue our global expansion strategy, particularly in Asia, where the culture of doing business is significantly different from that in the Western world. The Asian market demands extensive proof of capability before engaging in commercial discussions. They also demand rapid service and turnaround which requires dedicated local support.

I reported last year that part of our strategy was to consider suitable acquisitions where these provide access to sales with complementary products in our primary target markets of inks and coatings, and composites. We have successfully completed the integration of our first acquisition, UK based Haydale Composite Solutions Limited ("HCS") (formerly EPL Composite Solutions Limited) which was based on a formula of a cash and share payment for the target vendors over a 2 year earn out. This formula worked well and we have repeated the structure on the announcement today of the acquisition of ACMC Holding, Inc., and its wholly owned trading subsidiary, Advanced Composites Materials, LLC. (together "ACM"), a profitable, high quality USA based silicon carbide producer, for a maximum consideration of up to $7.0 million (approximately £5.2 million) payable over the next 3.5 years. Having spent over a year evaluating the North American market, we concluded that the best way to secure a strategic foothold is to acquire a complementary business offering significant growth potential and synergistic products, whilst also allowing for substantial cross selling opportunities within the Haydale Group.

I am delighted to report that we have also appointed Trevor Rudderham as CEO of Haydale Technologies Inc, our US subsidiary that is acquiring ACM, to run the Group's North American operations. We have ambitious sales targets for our North American operations and we estimate the USA represents around 40% of the world market for our advanced

Chairman's Statement continued

materials. We believe that the acquisition of ACM, which will become the Group's North American "Centre of Excellence", is our low risk entry point into the US market where increasing ACM's existing $3.8 million of annual sales of silicon carbide nanomaterials, in both the US and across our other geographic territories, is our initial focus. We will then look to increase sales of our graphene enhanced products to US customers. The strategic report covers the acquisition of ACM in more detail.

Post year end, we also acquired Innophene Co., Ltd ("Innophene"), based in Bangkok, Thailand, which will become our Far Eastern Centre of Excellence. Innophene allows us to rapidly respond to customers' needs in the region and provides us with high quality R&D expertise to accelerate our product development. Now we have this extra capability we expect to see increased sales activity in this territory over the coming months.

We've acquired US nanomaterials business, ACM, as the base from which to grow into North America

Sales and Marketing

I am particularly proud of the progress made transitioning the Group from research and development to a sales focussed operation. As our suite of products become market ready we will be utilising the existing significant sales and marketing capabilities of Huntsman and our collaboration partner, AMG. Our newly announced graphene loaded polylactic acid (PLA) 3D printing filament will be promoted through distributors in Europe. In Asia we have secured a quality distributor in Taiwan, set up sales and marketing infrastructure in Korea and in Innophene, an operational foothold from which a new centre of excellence will be established to serve the region.

There still remains today a lack of market understanding over the performance of and use of graphene and other new advanced materials such as emerging 2D and 3D nanomaterials. Our work has however confirmed that combining one or more nanomaterials with graphene produces outstanding performance enhancements. We continue to obtain third party verification of our claims in the performance improvements we can make to, for example, epoxy and polyester resins together with glass and carbon fibre structures. Our aim continues to be to demonstrate the significant performance improvements obtained in the tailored addition of graphene and other nanomaterials by commercialising them as quickly and effectively as possible.

The market continues to stress that there is eager anticipation of the first substantive application that capitalises on the outstanding properties of graphene. We expect substantial take up in the graphene 3D PLA printing filament to be launched at the end of September 2016. Our patented process granted by the European Patent Office has already been extended to China and Australia whilst other territories are expected to follow. Our patents and know how provide the novel enabling technology which delivers materials improvements required for commercialisation. We are well placed in the nanomarket where we have access to a multitude of sustainable materials, coupled with a variety of chemical functionalisation that when used with the developed know how of mixing and processing techniques, provides a powerful combination to deliver the performance improvements industry seeks.

As is normal with a new technology, gaining market acceptance is often a long and difficult task and there are many challenges to meet. We now have the tools to overcome these barriers to entry. We have increased our technical team, substantially increased our production capability, obtained a proven supply chain and invested in overseas sales representation to open markets in the Far East and North America. This progress is further outlined in the Strategic Report.

We're transitioning from R&D to a sales focussed operation

Financial results

Income for the year ended 30 June 2016 increased 30 per cent. year on year to £1.92 million (2015: £1.48 million), being generated from a mixture of reactor sales, grant income and HCS's traditional composite consulting business. Adjusted EBITDA (EBITDA adjusted for share-based payment charges and profit/loss on disposal of property, plant and equipment of £0.22 million (2015: £0.26 million)) was a loss of £3.36 million (2015: £2.38 million). Our cash outflow from operating activities was £3.28 million (2015: £2.73 million) and we continued to invest in our reactor and processing capacity during the year, which totalled £0.47 million (2015: £1.18 million). We ended the year with cash of £2.86 million (2015: £2.05 million).

Operational highlights

During the year under review, the operational highlights for the Group can be summarised as follows:

- Announcement of a collaboration agreement with a world leading resin company, Huntsman Advanced Materials. The agreement specified a joint development of "graphene" enhanced resins such as Huntsman's market leader epoxy resin Araldite® in key composite markets, focussing initially on thermal conductivity. This work is the platform for development of a range of new graphene enhanced Araldite® resins which will be targeted at the industrial composites, automotive and aerospace markets;

- Confirmation of granted patent by the European Patent Office of the Haydale Plasma functionalisation process for, crucially, carbon and other nanoparticles, plus granted patents in China and Australia;
- Delivery, commissioning and installation of a HT60 R&D reactor to UK based, Centre of Process and Innovation ("CPI");
- Grant funded development projects secured totalling over £0.8 million;
- Announcement of a joint development agreement with Lincoln based SHD Composites Limited to launch graphene loaded resin impregnated woven fabrics (known as "pre preg"). The target markets include aerospace, automotive and sporting goods, together with the $1.25 billion "out of autoclave" car-bon fibre curing resin industrial tooling market;
- Set up and commissioning of composite pipe testing facility at Haydale Composite Solutions ("HCS") to enable the development and approval of graphene enhanced polymer pipes for the oil and gas industry;
- Our focus on conductive ink has culminated in a second patent application from the Swansea University pipeline agreement, this time in wearable heated apparel aimed at high performance material for elite sports. We have strengthened our ink capability through a commercial tie up with Taiwan specialist ink manufacturer Dowton Electronic Materials Co., Ltd., for the development, production, sales and market-ing of a Haydale-branded graphene enhanced screen printable ink which will be aimed initially at the bio-medical market;
- Joint development agreement between HCS and Flowtite Technology AS, the wholly owned GRP pipe technology and R&D Centre of The Saudi Arabian Amiantit Company, one of the world's largest glass fibre reinforced plastic ("GRP") pipe companies. The programme is to develop the next generation GRP pipe systems for water and sewerage applications; and
- Collaboration agreement between Haydale and GK, part of AMG Advanced Metallurgical Group N.V., focusing on the development of new value added nano-material products using Haydale's functionalisation process and certain GK graphitic feedstock material, primarily from its mine in Sri Lanka. Under the agreement Haydale supplies, under licence, one R&D reactor (HT60) and one larger capacity reactor (HT200) at commercial rates to GK for use in new R&D programs and the commencement of processing commercial volumes.

Outlook

This year's results are consistent with our projections and market expectations. The current financial year is entirely focussed on the conversion of our extensive research and product development into a sales pipeline and commercial revenues of graphene enhanced products. We have income visibility from our long term grant awards, the ongoing traditional composite consulting services at HCS, advanced leads for the sale of additional reactors into strategic locations and we now have material recurring revenues from ACM's sales of advanced silicon carbide whiskers and fibres.

We have ambitious plans for growth in the Far East following intensive customer evaluations, especially in Korea, Taiwan and our new "Centre of Excellence" in Thailand. The acquisition of Innophene, which completed in early September 2016, is another significant strategic move in the geographic expansion and creation of appropriate operations to service the local markets. We have quality, experienced local management to deliver on our growth plans, which include the supplying, installing and commissioning of an HT60 plasma reactor into Innophene's facility in Bangkok to satisfy locally the processing requirements of demanding Korean and Taiwanese customers seeking rapid materials evaluation and treatment.

We've acquired R&D capabilities in Thailand to service our Far Eastern customers

The announcement today of the acquisition of ACM provides Haydale with an established base in North America which will be the first US "Centre of Excellence", situated in the high growth tech region of South Carolina. Our strategy is to take advantage of a fragmented and largely untapped graphene and nano technology market. This operation has quality technical and now commercial management to deliver aggressive growth plans. In addition to ACM, we are currently in preliminary discussions with two strategically important parties in the US regarding acquiring Haydale plasma reactors.

We are now set with capability and planned facilities in the key geographic and strategic territories allowing us to promote our technological solution and value add products to a significant and expectant market. Our supply partners provide a sustainable material source and the reactors are capable of scaling to meet initial demand.

Chairman's Statement continued

Haydale's newly launched graphene enhanced 3D printing filament

These initiatives, together with other development opportunities under consideration, lead the Board to believe that the Group is in a strong position to grow its operations, both at home and overseas, and to deliver its business plan for the benefit of all shareholders. In support of these strategic aims we have, since the year end:

- Announced we will be launching graphene enhanced PLA filaments for 3D printing at the TCT show in Birmingham on 28 and 29 September 2016;
- Completed the acquisition of Innophene on 9 September 2016; and
- Today announced the conditional acquisition of ACM.

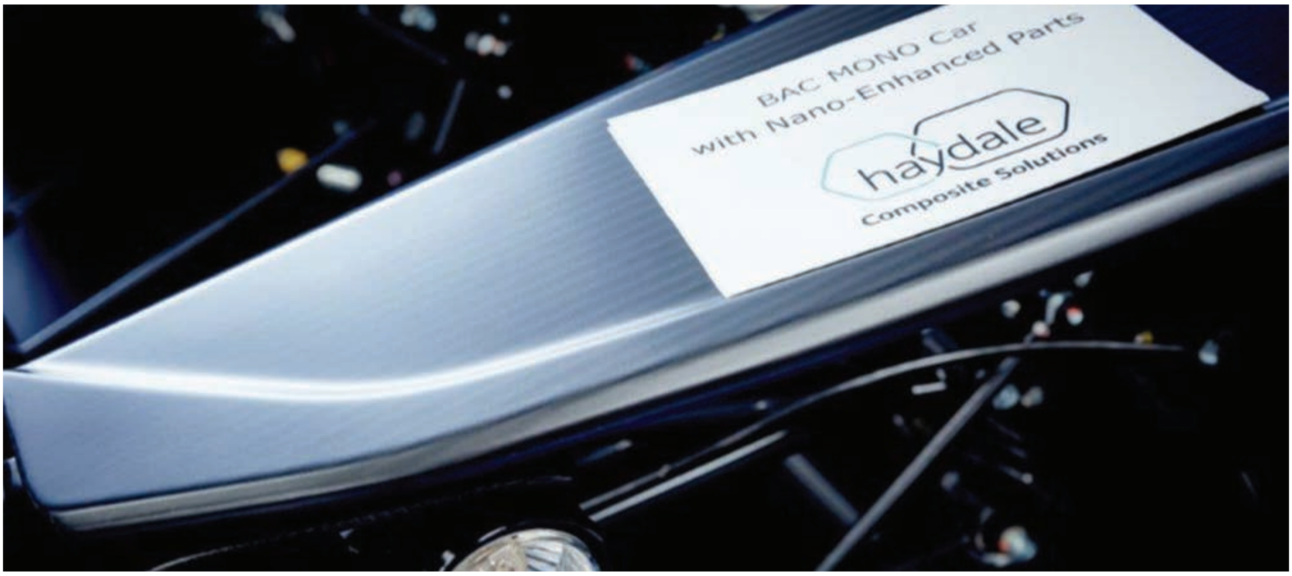
We announced in July that Dr Chris Spacie was stepping down as a plc director to concentrate principally on delivering capacity and processing improvements on the plasma reactors. I would like to thank him for the valuable contribution he has made to the Board over the years and the impact on processing controls and plasma reactor improvements since 2013.

When I joined the Board in November 2013, my intended tenure was to be for at least a 2 year period. Having now served almost 3 years, I believe now to be the right time to step aside and let a new Chairman preside over the next phase of Haydale's growth. The business has moved on considerably since I joined, and the admission to AIM in April 2014 has provided access to capital and the platform to propel Haydale forward and grow. It is very pleasing to see that we now have geographic coverage in the strategic territories the Board considers our major business opportunities exist. I am also proud to have led the Company during a period of so many collaborations with major multinationals being entered into and the endorsement of our products, service and technical offering to date by these partners. Our partners provide the means to generate sales and we remain confident that our growing product portfolio will generate increased revenue in 2017. I will continue the Chairman role for the present, but intend to step aside once a suitable candidate has been found to navigate the business through commercialisation, the natural evolution and next phase of the Company's life.

Finally, I would therefore like to thank the staff, my fellow Board members and the Group's external advisers for their hard work and dedication in positioning the Group for its next stage of development; sales growth. This year is the period when we seek to generate significant sales increase and given the recent overseas investment, the ongoing equipment, new staff and promotion we have the platform to achieve our objectives.

John Knowles
Chairman
23 September 2016

BAC Mono with Haydale nano-enhanced parts



Operating Review

2 | Haydale Limited
Ammanford, Wales

Main R&D operation which also sources, handles, functionalises and processes nanomaterials.

1 | Haydale Technologies, Inc. (“HTI”)
South Carolina, USA

HTI acquired ACM which provides new premises suitable for establishing the Group’s US Centre of Excellence.

3 Haydale Composite Solutions Limited ("HCS")
Loughborough, England

Composites design, R&D and testing specialist, covering the full product development lifecycle.

5 Haydale Technologies (Korea) Limited ("HTK")
Seoul, South Korea

Dedicated sales servicing the fast moving Korean, Chinese and Japanese markets.

4 Haydale Technologies (Thailand) Company Limited ("HTT")
Bangkok, Thailand

Provides a low cost R&D Centre of Excellence, servicing the APAC region and supporting HTK's sales team.

Operating Review continued

Ray Gibbs
Chief Executive Officer

"We look forward to extending our relationship further with Haydale to maximise the commercial potential of this exciting new technology"

Dr David Hatrick,
European Technology Director,
Huntsman Advanced Materials

The directors present their Strategic Report for the year ended 30 June 2016.

PRINCIPAL ACTIVITIES

Haydale Graphene Industries Plc ("HGI", "Haydale" or the "Group") is the AIM listed group that has developed a patented scalable plasma process to functionalise graphene and other nanomaterials which, together with extensive mixing and dispersion know-how, allows graphene and other nanomaterials to be incorporated into existing products to provide industry with value added commercial products. The Group has evolved considerably in the last 2½ years and now has subsidiaries and a physical presence in its chosen key markets and geographies worldwide. In summary, these subsidiaries on the previous page are:

Haydale Limited is the main R&D operation which also sources, handles, functionalises and processes nanomaterials using a suite of prototyping and analytical equipment, as well as its own patented plasma reactors, to facilitate the commercial application of graphene and other nanomaterials for both internal product development and third party customers worldwide. Haydale Limited's facility has the capability to produce carbon based conductive inks and has mixing equipment for preparing thermoset masterbatch samples with high loadings of functionalised nanomaterials.

Haydale Limited has also entered into a collaboration agreement with Graphit Kropfmühl GmbH ("GK"), part of AMG Advanced Metallurgical Group N.V. ("AMG") to develop new valued added nanomaterial products using Haydale's HDPlas® functionalisation process and Haydale Limited will supply an HT60 R&D reactor and a larger capacity HT200 reactor to a purpose built GH facility in Germany, creating the Group's European Centre of Excellence.

HCS is a recognised composite, design, R&D and testing house, that spans the complete product development lifecycle. Historic customers included significant corporations such as National Grid, SSE, Eirgrid, Chevron, Anglian Water, Severn Trent Water, Yorkshire Water and 3M. More recently HCS has been developing next generation products using Haydale's functionalised nanomaterials with leading epoxy resin producer Huntsman Advanced Materials ("Huntsman"), the owners of the Araldite® brand, and Flowtite Technology AS, the wholly owned GRP Pipe technology and R&D centre of The Saudi Arabian Amiantit Company ("Amiantit").

HCS has developed a reputation for delivering innovative solutions in the commercial applications of advanced polymer composite materials working with global companies for more than 20 years, primarily in the thermoset market. There are, on average, over 7 million tonnes of thermoset resin produced globally each year. Historically, HCS's business has focused on a range of market sectors where thermoset resins have tended to dominate, including the oil, gas and water industries, infrastructure for electricity and energy sectors plus the marine and transportation markets. HCS also works with OEMs and end-users to develop and provide composite solutions with demonstrable clear technical, economic and environmental benefits over existing structures currently manufactured in traditional materials such as steel, aluminium, wood or concrete.

Following its acquisition by HGI in 2014, HCS's focus has expanded into developing products which incorporate graphene and other nanomaterials (principally Carbon Nano Tubes ("CNTs")) using both thermoset and thermoplastic resins in order to enhance specific properties of the resulting composite structure, including thermal conductivity, electrical conductivity and mechanical or physical characteristics (such as strength, stiffness and fracture toughness).

In anticipation of being able to serve a global market, the Group now has operations in the Far East, through HTK, its subsidiary in South Korea, and its newly acquired business in Thailand, Innophene Co., Ltd, ("Innophene"). HTK has a sales office in Seoul and employs a sales and marketing person dedicated to serving the Korean, Chinese and Japanese markets. Innophene, to be renamed Haydale Technologies (Thailand) Company Limited ("HTT"), has sales personnel as well as an R&D team capable of serving the fast moving Far Eastern markets.

HTI, the Group's US subsidiary and the entity which has today conditionally acquired ACMC Holding, Inc., and its wholly owned trading subsidiary, ACM, has previously contracted with a sales and marketing agent but has now appointed Trevor Rudderham as CEO and hired a salesman tasked with increasing sales at ACM and introducing Haydale graphene products into the US.

Commercialising Graphene and the performance conundrum

Having the ability and knowledge to incorporate the most appropriate nanomaterials in a (hybrid) combination is something which the Haydale management feels is unique in the market today opening up a range of opportunities to position the company as the solution based enabling technology to commercialise graphene and other nanomaterials. Now strategically well positioned geographically, Haydale can source the most appropriate graphene and other nanomaterials feedstock from suppliers that, in conjunction with its unique patented plasma treatment (known as functionalisation), and its extensive knowledge based mixing and processing capability, can provide a tailored customer focussed solution. The Group's technology and know-how enables nanoparticles to be dispersed uniformly into the target host material where, most importantly, homogeneous dispersion is essential in enabling the well documented significant properties of graphene and other nanomaterials to be realised.

Our functionalisation process is protected by granted patents

The Group's management continues to promote the real benefits of graphene and other nanomaterials rather than the lab based, highly technical and specialised potential which has the tendency to generate significant amounts of hype. Through its work on the resins program for Huntsman we have developed considerable know how and in house knowledge on the mixing and processing techniques required to properly disperse graphene and other nanomaterials into a thermoset or thermoplastic resin. What has become abundantly clear from our work is that adding a second nanomaterial alongside graphene into a concentrated masterbatch can have significant effects on performance, over and above that from mixing graphene alone. This process, which we term "material hybridisation" is where we see the future for the commercialisation of many composite materials and indeed inks.

Followers of the graphene story will know that it has many vaunted properties (e.g. increasing strength and stiffness, high conductivity, impermeability to gases, to name but a few) but as an inert substance it does not mix readily with other materials. Furthermore, producing a consistent, commercially available single layer of graphene (where 3 million sheets stacked together are only 1 millimetre thick) is proving a significant technical challenge and which general observers may perceive as not currently commercially viable. Yet almost every day, new possible applications are announced as potential new uses. There has been a significant amount of hype generated by this material, often arising from passionate researchers excited by its properties, which can have a positive effect if used in the correct way. The challenge is how to translate these properties measured in the laboratory into commercial applications. This is Haydale's key differentiator; with its unique plasma functionalisation technology incorporating the recently developed materials hybridisation know-how.

We sold three plasma reactors in the financial year under review

Haydale is focussed not on the technically challenging single sheet graphene but stacks of graphene layers in the range of 5 to 100 sheets, generally acknowledged, depending on the number of sheets, as few layered graphene ("FLGs") or graphene nanoplatelets ("GNPs"). Both FLGs and GNPs are generally produced in different ways by a number of manufacturers from a carbon feedstock of either mined organic graphite or a hydrocarbon vapour/gas. The FLGs and GNPs can be produced by a "top down" production method, involving the exfoliation of mined graphite to produce flakes which often involves multi stage production. Alternatively, they can be produced by a "bottom up" method, such as chemical vapour deposition from a carbon source such as methane. The bottom up (synthetic) process generally uses an energy consumptive hot reactor (900 degrees Celsius or more), that needs post production cleaning processes and hence a cost structure which generally means, without significant economies of scale, the material cannot compete on price with the GNPs from mined graphite. Hence the need for the synthetically produced material to find applications that are not competing with the mined organic GNPs.

With so many different nanomaterials on the market being described as "graphene" and no industry standardisation, we believe the buyer can easily get confused where prices of similarly labelled products can range from $50 to over $2,000 per kg. The temptation is to plump for the cheapest one available, but often this is not the best option. Haydale has years of experience evaluating the market place where all materials are different and vary in performance as well as price. Understanding the price/performance matrix is critical in evaluating the material that best suits the application whilst being

Operating Review continued

economically viable. Moreover, we know which suppliers can produce scalable, consistent quality product; the key to commercialising these carbon based materials.

The fact that Haydale is not a manufacturer of raw graphene is sometimes lost on the general market and we spend considerable time and effort in educating potential users of that fact and our differentiated position as a solutions provider allows us to produce the right material (hybrid or not) for end product improvement. We have a patented enabling technology coupled with new in house mixing and processing know how that sets us apart in the market today. We have the capability now to source and use organic or synthetically produced flake graphene together with CNTs, and to modify their surface with specific chemical functional groups tailored to the requirements of the end user's application when mixed together as a hybrid masterbatch.

Our market focus is targeted on sectors where we consider early adoption of new innovative materials is commonplace. Often, take up of a new material is hampered by conservatism coupled with the perceived need to invest significant sums in new plant and equipment and discard the existing machinery. We consider that our focussed markets of composites, inks and coatings have less inbuilt inertia to change and are early adopters of such new materials. Their processing does not normally require capital equipment change. Critically our focus is to develop every day applications in non-regulated markets as adoption generally does not need long term testing certification. This approach should enable HCS especially to quickly get GNP-loaded intermediate products into the market, initially with the imminent launch of graphene enhanced 3D printing PLA filaments.

OPERATING REVIEW

In the year under review, and in the three months' post year-end, the Company has made significant progress in building its human resources, production and sales capability. Crucially we have made two strategic acquisitions post year end that now completes our required geographic coverage in the key territories of The Far East, UK, Europe and the USA. The objective now is to accelerate the transition of the business from an R&D focussed operation into a sales and marketing organisation. We have the business units in place with quality management, the supply chain and collaboration partners with sales reach to commence commercial sales of products. The objective has been to underpin the strategic markets we are focussed on to deliver the growth required to move to an operating profit as highlighted in the Chairman's Statement. One of the fundamental items of this strategy is to have a sustainable supply chain secured for anticipated demand and multiple sites that answer the customers' requirements for a disaster recovery plan.

R&D Reactors, Materials and the Supply Chain

Access to the right sustainable nanomaterials is crucial in being able to offer the ultimate customer focussed solution in a global market over the long term. In May 2016, the Group concluded a collaboration agreement with Graphit Kropfmühl GmbH ("GK"), part of AMG Advanced Metallurgical Group N.V., focusing on the development of new value added nanomaterial products using Haydale's functionalisation process and certain GK graphitic feedstock material, primarily from its mine in Sri Lanka. Under the agreement, Haydale has supplied, under licence, two plasma reactors, an R&D reactor (HT60) and a larger capacity reactor (HT200) at commercial rates to GK for use in new R&D programmes and the commencement of processing commercial volumes.

Following a successful public tender in November 2015, Haydale supplied, installed and commissioned a HT60 reactor to the UK based, Centre of Process and Innovation ("CPI"). The CPI collaborates with universities, SMEs and large corporates to help overcome innovation challenges and develop the next generation of products and processes. It is an excellent "shop window" for our technology and we understand it is performing well and functionalising not only carbon based materials but also Boron Nitride, known as the "white graphene". Pleasingly, other academic and renowned research institutes have enquired on the availability of HT60s for their own R&D requirements.

We have evaluated and qualified many different suppliers to provide us with a broad range of materials to ensure we provide what best suits the end users' application. This is an ongoing process and we have a dedicated team to conduct the review as there are increasing numbers of new materials being made available, although a significant portion have yet to be qualified at a commercial level. All of our accredited suppliers have to be able to demonstrate continuity of supply and consistency of product which are critical components in the supply chain.

Composites and 3D Printing

An advanced composite typically consists of 50% long fibre reinforcement and 50% polymer resin. The role of the long fibres is to provide the strength, stiffness and impact resistance in the structure while the polymer resin is to provide environmental resistance and to transfer external loads into the fibres. Traditionally, the polymer resin is usually discounted when determining the strength and stiffness of a composite material, being largely seen as the glue that binds the fibres together and gives the material its shape. The composite market is growing rapidly, and at over $90 billion p.a., is significant and remains one of our most substantial sales opportunities.

We believe that, for the first time, with the advent of Haydale's functionalised GNPs and hybrid materials, HCS has the ability to change and influence the polymer resin properties by the addition of functionalised graphene. It has been demonstrated that, by adding functionalised graphene and other nano fillers, HCS can dramatically improve the resin properties of mechanical, thermal conductivity, electrical conductivity and physical properties. This offers improved polymer resins and hence improvements in the composite. There is more work to be done in this area but we are extremely encouraged by initial indicative results, especially in the surface finish and thermal properties of the composite material.

Through our collaboration with one of the world's leading resin companies, Huntsman, we anticipate that their ready formed sales and distribution network will be the sales channel for the next generation of performance resins developed by them and enhanced with our GNPs. We already know that the graphene based additives we use significantly improves the thermal conductivity of Huntsman's Araldite® epoxy resin. A resin which can be heated up and cooled down quicker has many applications in the composite tooling market as well as in the automotive industry.

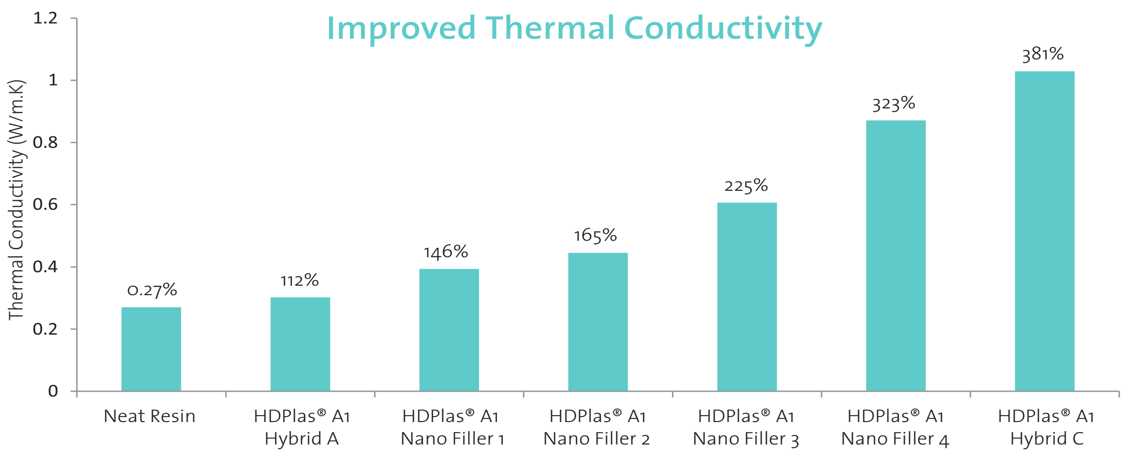
We have invested heavily during the last 18 months in developing our knowledge and know how around the introduction of graphenes and other nanomaterials into thermoset and thermoplastic resins. Whilst this significant internal investment has diverted some resources from securing more of HCS's traditional third party composite consultancy contracts, we anticipate recovering a significant proportion of our investment during the current financial year, with material sales at high margins expected in future years.

We have researched the unregulated high growth 3D printing market and its products for some 18 months. The culmination of this programme was us utilising our mixing and dispersion knowledge and know how that enabled us to successfully add under 1 per cent. of our functionalised GNPs into PLA (Polylactic Acid) and produce a graphene loaded 3D printing PLA filament. PLA is a standard 3D printing medium in global use currently. We have announced the launch of this product following successful trials and distributor feedback confirming product demand, and so we will demonstrate our PLA at the TCT Show in Birmingham on 28/29 September. This unregulated market offers significant near term sales with high margins and with additional materials being evaluated, (such as Nylon 6, ABS and Polypropylene), we consider that the 3D additive manufacturing market will be an important revenue driver for the Group. In addition, Innophene has developed a "non-black" 3D PLA derived from their transparent conductive ink which will increase Haydale's product range through the use of added pigment colouration to the PLA. In time, we will also make the ink products available from Innophene and the UK for sale in the USA through our sales and marketing resource in country. The USA is a significant market for our ink products and with our footprint now firmly established at ACM, we expect sales to commence in the first half of 2017.

Inks and Coatings

Our work on inks to date focussed on grant funded projects primarily in bio-medical sensors. We have made, in conjunction with our project partners, workable bio-medical sensors. Notably the work we have been doing with Fraunhofer and our other partners on a general pathogen reel-to-reel bio-medical sensor is proving extremely positive. Here, BioChips that have been used primarily in medical research can, due to advances in printing technology, be manufactured at considerably lower cost enabling them to now be suitable for industrial applications such as drug development to combat viral infections. Additionally, applications in the field of comprehensive water monitoring are now conceivable. The projected completion date of this collaborative research project is in 2017 and we are optimistic of delivering a commercial product from this work when it completes in approximately 15 months' time. We have previously reported on our ink production capabilities but have recently been focussing on developing the patent applied for pressure sensor where we have been receiving numerous and potentially significant enquiries for this novel product.

During the year under review, we have announced a collaboration with Taiwan based Dowton, where the market is receptive to screen based printable conductive ink, again in the conductive sensor market. We have now repeat sampled a range of distributors and printers, where the application appears to be specifically suitable for the bio-medical sensors market. Whilst the lead time is potentially long for the required medical approvals, we continue to look for other market opportunities for the range of inks that we now have in areas such as wearable technology and sports apparel.



Operating Review continued

Other markets

Energy Harvesting

In a massively crowded market the area where we have chosen to focus is supercapacitors, which require a rapid delivery of concentrated energy. The work is showing promise particularly in improved capacitance achieved by adding FLG loaded pastes. Ongoing work is required before we consider an approach to one of the battery companies specialising in supercapacitors.

Elastomers

We have over the past year been investigating the use of certain functionalised nanomaterials into natural rubber with a view to increasing (again) the thermal, electrical and mechanical performance of materials aimed at the Elastomers market. Initial work has been very encouraging and we have commenced discussions with certain compounders and distributors to accessing what we view as a potentially very significant market given elastomers are used extensively in the automotive industry and in every day products from sealing rings, to coatings and even rubber gloves.

Sales strategy

As part of the sales process we have worked hard on promoting Haydale and its capabilities. Raising awareness and demonstrating that our materials enhance real products in the everyday world has been a key pillar of our strategy. We have, in the past few months, announced a series of promotional and marketing initiatives such as:

- Sponsorship of the Manchester Science Museum Graphene exhibition which has raised our profile both in the UK and internationally. To coincide with the opening, we demonstrated the BAC Mono supercar which incorporated our graphene loaded carbon fibre body panels live on BBC News to provide visual evidence of the work being done to improve performance of certain of the vehicle's composite parts;
- A collaboration agreement with the National Graphene Institute in Manchester (that has already lead to new potential project opportunities); and
- Added graphene into a composite wing of a "drone" built by the University of Lancaster and flown at the Farnborough Air Show in July, to much acclaim by the pilot in terms of improved handling and control.

Sales in the Territories

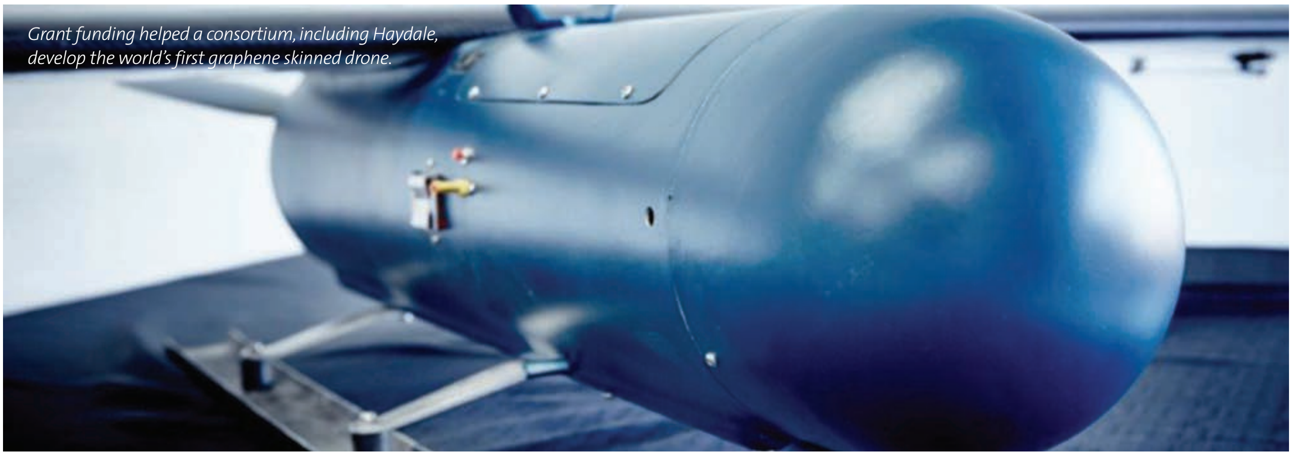
Korea is becoming a key market for Haydale. Since opening an office in Seoul in 2015, we have developed at least 10 key potential commercial customers, a number of whom supply to the two dominant electronics giants in South Korea. Sales of functionalised materials have been made with encouraging feedback although as yet no significant commercial orders have been received. Nevertheless, the ability to utilise our existing knowledge and know-how learnt at HCS in improving thermal and electrical properties of thermoplastic and thermoset based composites gives us considerable confidence that commercial orders will be received in due course. The market continues to move quickly and having a physical presence in country assists us in trying to meet those needs. With the addition of the newly acquired Innophene, we expect the speed of response from our new operation to meet that expected by the Korean customers. In a demonstration of the cross selling opportunities available in our enlarged group structure, our Korean sales and marketing manager has already introduced the silicon carbide product offering of ACM into a significant Korean customer and evaluation is underway.

The North American market appears generally untapped and of equal importance to both Europe and the Far East. The decision to employ a full time staff member and acquire ACM is a game changing moment for our US operation. We have reviewed our position in the US and decided we needed a business to establish a foothold in America. Haydale Technologies Inc., having acquired ACM, will operate from Greenville, South Carolina, with ACM's facility being capable of housing our plasma reactors and we expect to place one there in 2017. We expect the new acquisition to open sales and collaboration opportunities in what we perceive as a fragmented market offering significant revenue opportunities.

The sale of one of our HT60 reactors, through a competitive tender process, to the CPI in Sedgefield was achieved before the grant of Haydale's process patent and the establishment of a second UK processing base was an important milestone for the Group. The CPI has acknowledged that our reactor has bridged a technology gap in their offering which we consider to be a significant endorsement of our process. Feedback from the CPI has been very positive with the machine performing well and functionalising a number of new and novel materials, including the "white graphene" Boron Nitride.

Funded and Private Venture projects

Sampling of functionalised materials continues as a means to engage with industrial corporations and manufacturers and to enter collaborations and consortia on dedicated projects. Some of these are grant funded projects while others are important in their own right and hence financed through our own resources. During the year under review, we have secured focussed and important grant funded work from which our future income is expected be over £0.8m. We will continue to seek this important source of funded work especially as the outcome is always to demonstrate a commercial product application. The projects we are now undertaking include UV visible bruisable composites (in conjunction with Alex Thomson Racing), carbon/carbon brake pads for the aircraft industry, heated composite structures for de-icing applications and hydrogen pressure vessels for hydrogen powered fuel cell vehicles. Included in the awards were two collaborative 18-month research projects managed by the National Aerospace Technology Exploitation Programme ("NATEP") for aircraft lightning strike protection utilising graphene enhanced composites, and conductive adhesives. These projects are being managed by Haydale's recently formed



Grant funding helped a consortium, including Haydale, develop the world's first graphene skinned drone.

Aerospace and Defence division run by Ebby Shahidi, who joined us during the year, having been the former Technology Director of Cytec Industrial Materials.

Operations and technical

One of our key drivers has been the ability to increase the plasma reactor capacity by reducing processing time and yet increasing the batch volume. This has been successfully done for certain materials and consequently we now have an established processing and treatment facility in Ammanford capable of processing tonnes of nanomaterials per year into an intermediate product to the customers' specification. The processing capacity depends on a range of factors, in particular the nature of the nanomaterial being processed and the graphene loading required. The plasma process patent granted to Haydale offers not only the opportunity to exploit the graphene market but other non-carbon based 2D materials. During the year the importance of processing nanomaterials has become an area of equal importance to graphene for the future growth of Haydale. The plasma patent was also granted in Australia, and crucially the significant market of China.

In the year under review, the Group's headcount increased from 32 to 46 as we tackle internal and externally funded projects. Following our two recently announced acquisitions, Innophene and ACM, we anticipate that this will increase to over 60 by the end of 2016. The Group has experienced a significant transformation since our IPO a little over two years ago when we had only 11 employees and operated from one site. We now rely considerably less on consultants for discrete projects, preferring to have the skills developed internally and using their specialist experience in specific areas and in some cases opening sales avenues. To ensure we convert the high levels of enquiries we receive into targeted sales opportunities, we would like to add to our development and product personnel, including an experienced Sales and Marketing Director. However, there is no present intention to increase the Group's headcount materially above 60 in the near future.

To accommodate the growth in personnel in Ammanford, staff are now housed in three units with a combined floor space of 10,000 sq. ft. HCS's facilities in Loughborough are approaching capacity and we will be carefully evaluating its growth requirements during 2017.

Patents, IP and Licensing

This will become an increasingly important part of the Group's revenue mix in the coming years as Haydale's strategy is not to be a volume producer of the functionalised nanomaterials or masterbatch. We intend, however, to produce sufficient volumes to meet pre-production trials before handing over to our licensed industrial partners. We know that multinational organisations such as Huntsman demand a robust and quality supply chain, as well as suitable disaster recovery plans. Accordingly and in anticipation of requiring increased volumes of functionalised materials, we entered into the collaboration agreement with GK in May 2016 which included the supply to GK of an HT60 and HT200 plasma reactor. To fully exploit our granted process patent we believe that there is a need to create centres of excellence in our key geographic markets of the UK, Europe, the Far East and the USA. These centres will, under licence, service and supply their local markets with intermediate products (such as inks and resins) and it is anticipated that each centre will, over time, operate both an HT60 and HT200 plasma reactor.

In Europe, the granting of our European patent on the plasma functionalisation process by the European Patent Office in November 2015 strengthens our licensing capability and protects our technology. This assisted in licensing the technology to GK, our GNP supply partner, and they are a key channel for European sales and processing of volume related sales from their site in Hauzenburg, Bavaria. In May 2016, we signed a joint collaboration agreement that will establish a European centre of excellence in that region to service mainland Europe's demand for functionalised nanomaterials. GK has agreed to help establish key accounts across Europe especially as they have significant customer reach through sales of their existing graphitic materials.

Operating Review continued

Key Performance Indicators ("KPIs")

The Board consider there are a number of important KPIs which are non-financial, such as: the nature and size of development projects; the speed of response to inbound enquiries; product performance improvements of the host material once enhanced with our functionalised materials vs the control; the ability to convert non-disclosure agreements and letters of intent for collaborations to development project discussions and binding commercial contracts. Performance against these non-financial KPIs is in line with the Board's expectations for the year under review.

The important financial KPIs are the income, cash position and the operating cash flows of the Group. In addition, as revenues increase, an important KPI will be the quantum of the order book and we have commenced internal reporting on this metric. For the year ended 30 June 2016, the Group's income of £1.92 million was in line with management's expectation with cash and deposit balances amounting to £2.86 million at 30 June 2016 (2015: £2.05 million), again in line with budgets. The operating cash outflow for the year ended 30 June 2016 of £3.36 million (2015: £2.38 million loss) was also in line with the budgeted cashflow for the year.

Acquisitions

After the year end we announced two acquisitions to cement the geographic expansion of our business and now have the capability to exploit our targeted four major markets of the UK, Europe, USA and the Far East.

Innophene

On 9 September 2016 we completed the acquisition of Bangkok based Innophene. Consideration for the acquisition was the issue of 176,952 new ordinary shares in Haydale ("Haydale Shares"), representing approximately 1% of the Company's issued share capital.

Innophene's portfolio of ink products and its PLA "non-black" 3D printing resin will extend the Group's products available for sale. Innophene's access to The Thailand Science Park in Bangkok, with its extensive analytical and processing capabilities, provides a platform for it to become the Group's Far East Centre of Excellence.

Crucially, the acquisition will also provide Haydale with research and development capability for current and potential Far East customers. This will require the delivery, under licence, of an HT60 plasma reactor to Innophene's site on the Thailand Science Park to provide low cost processing and treatment services. A second reactor (HT200) is likely to follow in 2017 to meet anticipated demand in the region.

ACM

The announcement today of the conditional acquisition of ACM in South Carolina for an initial consideration of approximately $5.0 million finally establishes our USA base from which we will start to expand our graphene capabilities in the North American market and cross sell ACM's nanomaterials through our other territories.

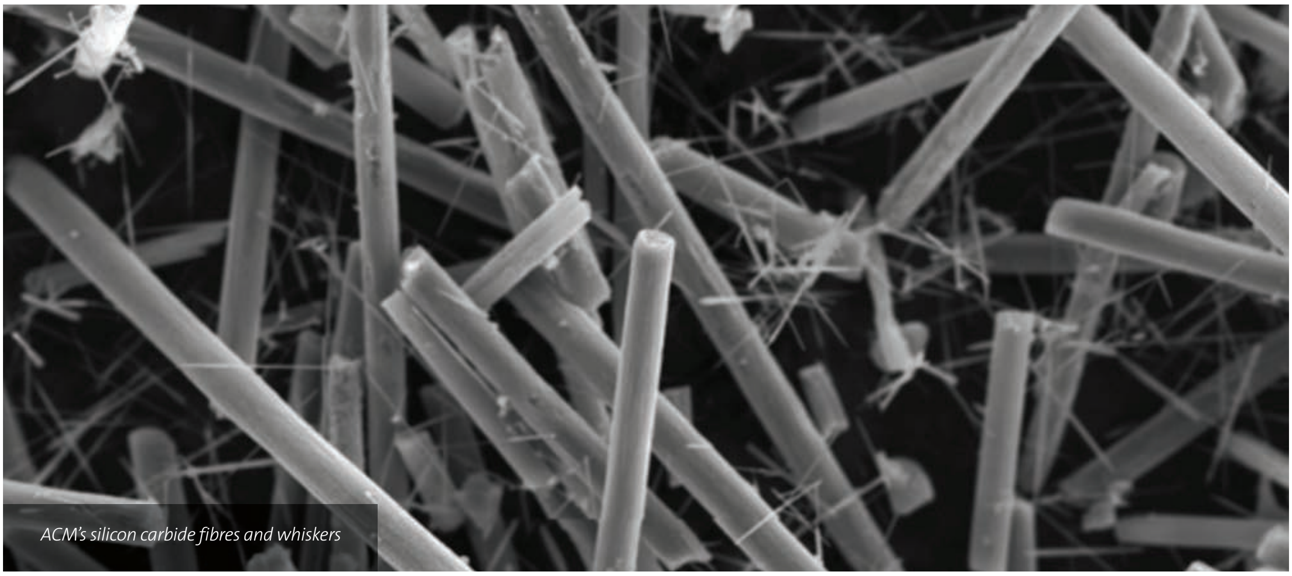
The acquisition of ACM will be funded through a mixture of cash and the issuance of new Haydale Shares, with the cash element being satisfied from an agreed new $1.7 million bank facility with ACM's existing bankers, United Community Bank (secured on the ACM fixed assets), and a placing and open offer of new Haydale Shares with existing and new investors to raise up to £2.5 million announced today. ACM's existing management (who are also the vendors) and technical team are keen to stay and assist in growing the US business, where they have the opportunity to increase their consideration by up to $2.0 million dependent on agreed sales growth at ACM over the next 3-4 years.

ACM reported audited revenues of approximately $3.8 million in the year ended 31 December 2015 and has an existing order book in excess of $4.5 million. ACM's annual sales are underpinned by a recently renewed 3-year contract with a Japanese customer who accounted for approximately $2.0 million of ACM's revenue in 2015.

There are substantial cross selling opportunities to increase ACM's existing profits through targeted sales of their silicon carbide products and we have already introduced a Korean client to ACM who requires an enhanced scratch resistant cookware coating that ACM has previously supplied another user. Pleasingly, following a rapid response by ACM to the inbound enquiry, the coating is now under evaluation in Korea with encouraging results.

By order of the Board
Ray Gibbs
Chief Executive Officer
23 September 2016

Haydale Technologies Inc's premises in Greer, South Carolina, home of ACM



ACM's silicon carbide fibres and whiskers

SI-TUFF ™, ACM's branded Silicon Carbide

Financial Review

Matt Wood
Finance Director

FINANCIAL REVIEW

The Financial Review should be read in conjunction with the consolidated financial statements of the Group and the notes thereto. The consolidated financial statements are presented under International Financial Reporting Standards as adopted by the European Union and are set out on pages 30 to 57. The financial statements of the Company continue to be prepared in accordance with International Financial Reporting Standards and are set out on pages 58 to 63.

Statement of Comprehensive Income

In the year under review, the Group's three key areas of focus were: (i) the development of novel graphene and other nanomaterial enhanced products; (ii) continuing the scale up of its patented plasma reactors for both internal capacity needs and third party sales opportunities; and (iii) securing new grant funded projects as well as delivering on the existing projects.

During the period, HCS in Loughborough built on the work it started during the previous financial year, specifically in improving the thermal, electrical and mechanical performance of certain thermoset epoxy resins. In particular, significant investment was made in new highly skilled personnel, in new processes and new test equipment to ensure that the Group retained all of the key IP, knowledge and know-how in the development surrounding these higher performing resins. Work at Ammanford also continued in improving our graphene enhanced inks, primarily for the Far East markets.

The team at Ammanford continues to invest and deliver incremental improvements in reducing processing cycle times and increase load capacities in both plasma reactor models, the HT60 and HT200. Importantly, sales of an HT60 reactor to the CPI in the UK as well as an HT60 and HT200 to GK in Germany demonstrated the Group's advancement in capacity scale up.

£0.80 million of new grant funded projects were secured during the year, building upon the £0.83 million of projects awarded in the previous year. Grant funded projects are extremely important to the Group in that they are typically longer term (12-24 months) contributors to our fixed overhead base. They allow us work alongside world renowned businesses in their particular field of expertise and they are expected to lead to the development of a commercial product at the end of the project.

Group income

Turnover £1.92 million

2015: £1.48 million

The Group's income for the year increased 30 per cent. year on year to £1.92 million (2015: £1.48 million), £0.59 million of which was sale of reactors. Importantly, the Group has £0.16 million of deferred income at the year end to release during the current financial year in respect of reactor sales made in the year under review. The provision of composite consultancy services by HCS to third parties was, as budgeted, £0.54 million during the year ended 30 June 2016, a planned reduction on prior years due to the focus on internally generated novel products and their surrounding IP and know-how. In the year to 30 June 2016, the Group's income generated from grant funded projects totaled £0.75 million (2015: £0.83 million) and arose where a consortium of, often world renowned and strategically important international companies collaborate to develop new products with viable market needs.

Overall R&D spend for the year increased by almost two-thirds to £0.94 million (2015: £0.56 million), of which £0.51 million was expensed during the year, with the balance of £0.43 million being capitalised and is expected to be amortised over 20 years. This planned increase in internal development is expected to deliver material levels of sales of new products in the current and future financial years. The Group's other administrative costs for the year totaled £5.09 million (2015: £3.66 million) and included a full year of costs from HCS acquired in November 2014. Included within administrative costs were the Group's IP and patent costs, which doubled to £0.10 million from £0.06 million in the prior year. Overall, the loss from operations for the year was £4.01 million (2015: £3.01 million loss), and included non-cash items of £0.76 million (2015: £0.61 million). The loss per share was similar to that recorded last year at £0.26 (2015: £0.25 loss).

Statement of Financial Position and Cashflows

As at 30 June 2016, net assets amounted to £6.60 million (2015: £4.29 million), including cash balances of £2.86 million (2015: £2.05 million). Other current assets increased to £1.44 million at the year end (2015: £0.95 million) complementing a reduction in current liabilities to £1.00 million as at 30 June 2016 (2015: £1.33 million). Expenditure on capital equipment again utilised a significant portion of cash during the year at £0.47 million (2015: £1.18 million). In November 2015, the Company settled the entire deferred contingent consideration due on its acquisition of HCS in November 2014 of £0.77 million.

Financial Position

Net asset £6.60 million

2015: £4.29 million

Net cash outflow from operating activities for the year was £3.28 million (2015: £2.73 million), the principal contributing factor being the loss from operations loss of £4.01 million (2015: £3.01 million).

Capital Structure and Funding

As at 30 June 2016, the Company had 15,236,946 ordinary shares in issue (2015: 11,446,446). During the year, the Company issued 3,790,500 new ordinary shares, 3,750,000 of which were issued in connection with the Company's £6.0 million oversubscribed placing and open offer in November 2015. The balance of 40,500 shares issued were in respect of option exercises. Since the year end, on 9 September, the Company issued 176,952 new ordinary shares as consideration for the acquisition of Innophene such that as at the date of this report, the Company has 15,413,898 ordinary shares in issue.

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide return to equity holders of the Company and benefits to other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. The Group manages this objective through tight control of its cash resources to meet its forecast future cash requirements.

By order of the Board
Matt Wood
Finance Director
23 September 2016

Principal Risks and Uncertainties

PRINCIPAL RISKS AND UNCERTAINTIES

The Board considers that the principal risks and uncertainties facing the Group may be summarised as follows:

Acceptance of the Group's Products

The success of the Group will depend on the market's acceptance of, and attribution of value to, its plasma technology developed by the Group based on converting principally raw, mined graphite and other synthetically produced graphenes into high quality functionalised GNPs, using a dry and low energy process, without using wet chemicals or acids.

Notwithstanding the technical merits of the processes developed by the Group, there can be no guarantee that its targeted customer base for the processes will ultimately purchase the Group's products.

Intellectual Property Risk

The Group's success will depend in part on its ability to maintain adequate protection of its IP portfolio, covering its manufacturing process, additional processes, products and applications, including in relation to the development of specific functionalisation of graphene and other types of carbon-based nanomaterials for use in particular applications. The IP on which the Group's business is based is a combination of granted patents, patent applications and confidential know-how.

The Group aims to mitigate any risk that any of the Group's patents will not be held valid if challenged, or that third parties will claim rights in, or ownership of, the patents and other proprietary rights held by the Group through general vigilance, regular international IP searches as well as monitoring activities and regulations for developments in copyright/intellectual property law and enforcement.

Growth Risk

Expansion of the business of the Group may place additional demands on the Group's management administrative and technological resources and marketing capabilities, and may require additional capital expenditure. The Group monitors the additional demands on resources on a regular basis and strengthens resources as necessary. If the Group is unable to manage any such expansion effectively, then this may adversely impact the business, development, financial condition, results of operations, prospects, profits, cash flow and reputation of the Group.

Competition Risk

The Group's current and potential competitors include companies and academic institutions, many of whom have significantly greater financial resources than the Group and management regularly reviews the competitive landscape. There can be no assurance that competitors will not succeed in developing products that are more effective or economic than any developed by the Group or which would render the Group's products non-competitive or obsolete.

Dependence on Key Personnel

The Group's business, development and prospects are dependent upon the continued services and performance of its Directors. The experience of the Group's personnel helps provide the Group with a competitive advantage. The Directors believe that the loss of services of any existing key executives, for any reason, or failure to attract and retain necessary additional personnel, could adversely impact on the business, development, financial condition, results of operations and prospects of the Group.

The Group aims to mitigate this risk by providing well-structured and competitive reward and benefit packages that ensure our ability to attract and retain key employees.

By order of the Board
Matt Wood
Finance Director
23 September 2016

Board of Directors

1 2 3 4

The Haydale board consists of experienced commercial directors from a range of industries that include engineering, retail, finance and accounting, high technology and the petro-chemical industries. Brief biographies of each of the directors are set out below.

1. John Knowles BSc Eng (Hons),
Non-executive Chairman

John Knowles has significant nanotechnology experience. He was formerly chairman of NanoSight Limited (sold to Spectris plc), chairman of the Nanotechnology KTN Advisory Board and a member of UK Government's Nanotechnology Strategy Forum. His 30 years' experience includes 2 years as MD of a Morgan Crucible subsidiary and chairman/director of several successful technology companies including Stratophase Ltd and Michelson Diagnostics Ltd.

2. Anthony (Tony) Alfredo Belisario B Tech (Hons),
Deputy Chairman & Chair of the Remuneration Committee

Tony Belisario is a chartered engineer who has spent most of his working life in management of manufacturing businesses using diverse technologies operating in global markets. In addition, Tony also managed businesses backed by private equity and has led an MBO. As well as being part-time deputy chairman of the Company, he also serves on the Council of Brunel University. Tony was part of the original Haydale Graphene Industries' management team that acquired Haydale Limited in 2010.

3. Raymond (Ray) John Gibbs BA (Hons) FCA,
Chief Executive Officer

Ray Gibbs is a Chartered Accountant, and former Deloitte audit and corporate finance partner for 9 years. He has spent the last 21 years in industry as CFO or commercial director of high technology and fast moving consumer goods businesses both in the quoted and private arenas with sales ranging from £500,000 to £500 million. He was a former CFO of Chemring Group Plc. Ray was part of the original Haydale Graphene Industries' management team that acquired Haydale Limited in 2010.

4. Matthew (Matt) Graham Wood BA (Hons) FCA,
Finance Director & Company Secretary

Matt Wood is a Chartered Accountant and experienced finance director and corporate finance professional with a background in advising growth companies. Matt has worked as a finance and non-executive director with a variety of companies for more than 10 years. Matt is a founder of ONE Advisory Group Ltd, a City-based corporate advisory firm. Matt holds a first class degree in Economics.

5. Graham Dudley Eves MA,
Non-Executive Director

Graham Eves joined GKN plc in 1967 where he spent 13 years operating across multiple overseas jurisdictions including, for the last 5 years, setting up and running a special operation for GKN plc's head office in Switzerland. He returned to the UK in 1980 to work in venture capital and establish his own international business consultancy. His main activities covered advising a range of German, North American and Japanese automotive component/technology suppliers and he co-founded and was chairman of an automotive technology company, Mechadyne (now part of KolbenschmidtPierburg AG). Graham is a non-executive director of AB Dynamics plc. He was on the AIM advisory committee of the London Stock Exchange for 6 years and has a Master of Arts degree in Modern and Medieval Languages from the University of Cambridge.

6. Roger James Humm MBA BSc (Hons) FCA,
Non-Executive Director & Chair of the Audit Committee

Roger Humm is an experienced Commercial and Finance Director with extensive knowledge of high-growth technology companies. He held corporate, financial and senior management roles with Oxford Instruments both in the UK and USA including responsibility for corporate development, intellectual property and establishing a corporate venturing portfolio. More recently he has worked with a number of public and private companies including Ixico plc, NanoSight Limited and Blue Earth Diagnostics Limited. He currently acts as Finance Director at G-Volution plc, OMass Technologies Limited, Oxford Nanoimaging Limited and Vallis Commodities Limited and is a Trustee Director of the Oxford Instruments pension scheme. Roger gained his BSc in microbiology and virology from Warwick University before qualifying as a chartered accountant with Grant Thornton. He has an MBA from the University of Bath.

7. Roger Anthony Smith BSc (Hons),
Non-Executive Director

Roger Smith graduated with a degree in physics and has worked in the global oil and gas sector for the past 30 years. He has set up and invested in businesses in Europe, Middle East and North America. Roger has started up, managed and subsequently sold 2 successful consulting businesses and in doing so has worked with venture capital and private equity houses. He has also held the post of commercial director with Bureau Veritas and Senior Vice President with Petrofac Plc. Roger was part of the original Haydale Graphene Industries' management team that acquired Haydale Limited in 2010.

Directors' Report

The directors present their report and the audited financial statements for Haydale Graphene Industries Plc (the "Company") and its subsidiaries (together the "Group") for the year ended 30 June 2016.

There are a number of items required to be included in the Directors' Report which are covered elsewhere in the annual report. Details of directors' remuneration and share options are given in the Directors' Remuneration Report, details of the use of financial instruments and financial risk management objectives and policies are given in note 23 of the financial statements and the following are covered in the Strategic Report:

- Principal Activities
- Review of the Business and Future Developments
- Key Performance Indicators
- Principal Risks and Uncertainties

Research and development

During the year ended 30 June 2016, the Group invested £0.51 million (2015: £0.56 million) in research and development activities which were expensed during the year, together with a further £0.43 million (2015: £ nil) of development expenditure which has been capitalised. A review of this expenditure is included in the Strategic Report.

Dividends

The directors do not propose the payment of a dividend.

Substantial Shareholdings

As at 30 June 2016, the Company had been advised of the following shareholders, other than the directors, with interests of 3% or more in its ordinary share capital:

Name of Shareholder	*Number of Ordinary Shares*	*% of Share Capital*
Octopus Investments Nominees Ltd	1,370,198	8.99
Hargreave Hale Ltd	846,465	5.57
Nick John	462,119	4.04

Directors

The following directors have held office since 1 July 2015 and up to the date of signing the financial statements:

John Knowles
Anthony Belisario
Raymond Gibbs
Dr Christopher Spacie (resigned 31 July 2016)
Matthew Wood
Graham Eves
Roger Smith
Roger Humm

Directors' Interests in Ordinary Shares

The directors, who held office at 30 June 2016, had the following interests in ordinary shares of the Company:

Director	*Number of Shares at 30 June 2016*	*% of Share Capital*
Ray Gibbs	476,000	3.12
Anthony Belisario	379,050	2.49
Roger Smith	288,455	1.89
John Knowles	149,214	0.98
Dr. Christopher Spacie[1]	35,463	0.23
Roger Humm[2]	28,459	0.19
Matthew Wood	3,571	0.02

1. Includes 10,854 ordinary shares held by his wife, Susan Spacie.
2. Includes 28,459 ordinary shares held by his wife, Wendy Humm.

Between 30 June 2016 and the date of this report there has been no change in the beneficial interests of directors in shares or share options as disclosed in this report.

Directors' and Officers' Liability Insurance

Qualifying indemnity insurance cover has been arranged in respect of the personal liabilities which may be incurred by directors and officers of the Group during the course of their service with the Group. This insurance has been in place during the year and on the date of this report.

Post Balance Sheet Events

On 9 September 2016, the Group announced the completion of the acquisition of Innophene Co., Ltd, a business focussed on the production of graphene enhanced conductive ink and composites, based on the Thailand Science Park, Bangkok, consideration for which was settled by the issue of 176,952 new ordinary shares in Haydale to the vendors.

The Group today announced the conditional acquisition of US based ACMC Holding, Inc., and its wholly owned trading subsidiary, Advanced Composite Materials, LLC for up to $7.0 million, consideration for which is to be funded by an issue of new equity via a placing and open offer to raise up to £2.5 million and the issue of $1.0 million of new ordinary shares in Haydale to the vendors.

At the date of authorisation of these financial statements, a detailed assessment of the fair value of the identifiable net assets of these companies has not been completed.

Political Donations

During the year ended 30 June 2016, the Group made no political donations (2015: £nil).

Foreign Currency, Interest Rate, Credit and Liquidity Risk

The directors do not consider any of these potential risks to pose a significant risk to the Group or its operations over the coming year. See note 23, Financial Instruments, for further details.

Disclosure of information to auditors

All of the current directors have taken all the steps that they ought to have taken to make themselves aware of any information needed by the Company's auditors for the purposes of their audit and to establish that the auditors are aware of that information. The directors are not aware of any relevant audit information of which the auditors are unaware.

Independent auditors

The auditors, BDO LLP have expressed their willingness to continue in office and a resolution concerning their re-appointment will be proposed at the annual general meeting.

By order of the Board

Ray Gibbs
Chief Executive Officer
23 September 2016

Corporate Governance

The Board is accountable to the Company's shareholders for good corporate governance and it is the objective of the Board to attain a good standard of corporate governance by taking into account the requirements of the Corporate Governance Code for Small and Mid-Size Quoted Companies 2013 published by the QCA to the extent that they consider it appropriate having regard to the Company's size, board structure, stage of development and resources.

Board

The Board retains full and effective control of the Group. The role of the Board, inter alia, is to provide entrepreneurial leadership of the Company within a framework of prudent and effective controls which enable risks to be managed and assessed, set the Company's strategic aims and ensure that the necessary financial and human resources are in place for the Company to meet its objectives and set the Company's values and standards. The directors are responsible for formulating, reviewing and approving the Company's strategy, budget and major items of capital expenditure. The board includes directors from a range of industries including the engineering, retail, accounting and finance, high technology and the petro chemical industries.

At the date of this report, the Board consists of two executive directors, the Chief Executive Officer and the Finance Director, and five non-executive directors including the non-executive Chairman and Deputy Chairman. Brief details about the directors are given on pages 18 and 19.

The roles of Chairman and Chief Executive are clearly divided. The Chairman is responsible for overseeing the running of the Board, ensuring that no individual or group dominates the Board's decision making and ensuring that the Non-Executive Directors are properly briefed. The Chief Executive Officer has responsibility for implementing the strategy of the Board and managing the day-to-day business activities of the Group. The non-executive directors bring relevant experience from different backgrounds and receive a fixed fee for their services and reimbursement of reasonable expenses incurred in attending meetings. Of the non-executive directors, John Knowles and Roger Humm are considered by the Board to be independent.

The Company holds regular board meetings. Prior to each board meeting, directors are sent an agenda and Board papers as appropriate for matters to be discussed. Additional information is provided when requested by the Board or individual directors. Corporate Governance issues are discussed at these board meetings. All directors have access to independent professional advice, if required.

During the year ended 30 June 2016, the Company held 11 board meetings, with each member's attendance as follows:

Director	*Number of Meetings Attended*
John Knowles	11
Anthony Belisario	11
Raymond Gibbs	11
Dr Christopher Spacie (resigned 31 July 2016)	11
Matthew Wood	11
Graham Eves	11
Roger Humm	11
Roger Smith	11

Board Committees

The directors have established an Audit Committee and a Remuneration Committee with formally delegated roles, terms of reference and responsibilities. Each of these committees meet as and when appropriate and at least twice a year. All committee members hold non-executive roles with the Company.

The Audit Committee comprises Roger Humm as chair with Graham Eves and John Knowles. The Audit Committee is responsible for, inter alia, determining and examining matters relating to the financial affairs of the Company including the terms of engagement of the Company's auditors and, in consultation with the auditors, the scope of the audit. It receives and reviews reports from management and the Company's auditors relating to the half yearly and annual accounts and the accounting and the internal control systems in use throughout the group. The Board does not consider it necessary at present to have an internal audit function.

The Remuneration Committee comprises Tony Belisario as chair with Roger Smith and Graham Eves. The Remuneration Committee is responsible for reviewing and making recommendations in respect of directors' remuneration and benefits packages, including share options and the terms of appointment. The remuneration committee will also make recommendations to the board concerning the allocation of share options to employees under the Company's share option schemes.

The board does not currently consider a nominations committee to be necessary and the board as a whole are responsible for board and senior management nominations, but this will be kept under review.

Shareholder Engagement

Shareholders have the opportunity to meet members of the Board at the annual general meeting where the Board members are happy to respond to questions. The Board also responds to written queries made by shareholders during the course of the year and may also meet with major shareholders, if so requested.

Directors are required to attend the Annual General Meeting of the Company unless unable to do so for personal reasons or due to pressing commercial commitments. Shareholders are given the opportunity to vote on each separate issue. Proxy voting results are announced at the relevant shareholder meeting.

As well as the standard communications with shareholders, such as regular news releases, updates to the Company's website and at the annual general meeting, in July 2016 (as the Company did in June 2015), the Company hosted an open day at the facility of Haydale Composite Solutions in Loughborough to enable shareholders to meet the directors and staff, to view the facilities and have the opportunity to see the Group's composite expertise in practice. The Board was delighted with the response to the open day and welcomed more than 50 shareholders, analysts, advisers and other interested parties to the day.

Internal Control

The directors are responsible for establishing and maintaining the Group's system of internal control and reviewing its effectiveness. The system of internal control is designed to manage, rather than eliminate, the risk of failure to achieve business objectives and can only provide reasonable but not absolute assurance against material misstatement or loss.

The main features of the internal control system are as follows:

- Close management of the business by the executive directors. There are clearly delineated approval limits throughout the Group and a well-defined organisational structure. Controls are monitored at the appropriate level;
- Monthly management accounts are prepared and reviewed by the board, including reviewing variances against prior months and against budgets;
- Clear segregation of duties within the Group's finance function help ensure the Group's assets are safeguarded and that proper financial records are maintained; and
- A list of matters is reserved for the approval of the board.

Matt Wood is the Company Secretary (as well as the FD) and is responsible for ensuring that the Company's registers and filings are properly maintained and up to date. Mr Wood is a qualified chartered accountant and is qualified to hold the role of Company Secretary. At this stage of its development, the Board does not feel it is necessary for the Company to have a full time or external company secretary. This will be kept under review.

The Company has adopted a share dealing code for the Directors and certain employees, which is appropriate for a company whose shares are admitted to trading on AIM (particularly relating to dealing during close periods in accordance with Rule 21 of the AIM Rules) and the Company will take all reasonable steps to ensure compliance by the Directors and any relevant employees.

Market Abuse Regime

Following the introduction of the Market Abuse Regime on 3 July 2016 ("MAR"), the Company has adopted and implemented the following new/updated policies in order to comply with MAR:

- Share dealing policy;
- Market Soundings policy;
- Inside Information and delayed disclosure policy; and

Corporate Governance continued

- New Registers and records for the following:
    - o Insider List (permanent);
    - o Insider List (specific matters);
    - o Market Soundings – Recipients Record;
    - o No Soundings List;
    - o Delayed Disclosure Record;
    - o Share Dealing Code Record; and
    - o PDMR and PCA list.

The Company's directors and directors of its subsidiaries have been deemed to be PDMRs and also to be permanently inside in respect of information on the Group. Mr Wood, company secretary, is primarily responsible for ensuring that the Group and its directors and employees are compliant with MAR.

By order of the Board

John Knowles
Chairman
23 September 2016

Directors' Remuneration Report

REMUNERATION COMMITTEE

The Company's remuneration policy is the responsibility of the Remuneration Committee which was established at the time of Admission. The terms of reference of the Remuneration Committee are outlined below and in the Corporate Governance Statement on page 22. The members of the Remuneration Committee are Roger Smith, Graham Eves and Anthony Belisario (Chairman).

The Remuneration Committee is required to meet at least twice per year and is responsible for considering executive remuneration. Executives may be invited to attend to assist the Remuneration Committee but no director or manager of the Company may be involved in any decisions as to their own remuneration.

The terms of reference of the Committee do not encompass decisions to employ or dismiss Executives. The Committee does not have responsibilities for nominations to the Board.

Under the terms of reference of the Remuneration Committee, the remuneration of the Company's non-executive directors (including the chairman of the Board if a non-executive) is a matter for the chairman of the Board (if executive) and the Company's executive directors.

Directors' remuneration for the year to 30 June 2016 is set out on page 25.

The Remuneration Committee terms of reference require it to establish remuneration policy on the basis of various outcomes including developing remuneration packages needed to attract, retain and motivate executives of the quality required (but to avoid paying more than is necessary for this purpose) and to ensure that performance-related elements of remuneration form a significant proportion of the total remuneration package of executives and that such elements be designed to align executives' interests with those of shareholders and to give such executives incentives to perform at the highest levels.

Equity Based Incentive Schemes

The Remuneration Committee believes that equity-based incentive schemes provide a strong incentive for retaining and attracting high calibre individuals.

The Company currently has two equity-based incentive schemes in place.

a) 2013 Share Option Scheme

In May 2013, the Company adopted an EMI share option plan ("2013 Share Option Scheme"). During 2013, the Company granted options to executive directors and senior management over a total of 121,500 ordinary shares under the 2013 Share Option Scheme. No further grants have been made under this scheme or are anticipated to be made in the future. The exercise price under the 2013 Option Scheme is 92.592p per ordinary share. There are no performance conditions attached to the exercise of these options although in the ordinary course (and subject to some exceptions), grantees will be required to remain employed in the Group at the date of exercise. 81,000 of these options became exercisable on 23 May 2014 and the remaining 40,500 become exercisable on 30 September 2016. 40,500 options were exercised on 1 December 2015. The remaining 81,000 options lapse on the earlier of 12 months after death of the grantee, leaving employment with the Group in certain circumstances and on the tenth anniversary of grant.

b) 2014 Option Scheme

In April 2014, the Company adopted a new share option scheme pursuant to which it may grant both EMI approved options and unapproved options ("2014 Option Scheme"). EMI approved options are subject to individual and overall limits. Potential grantees are employees and officers of the Company and members of the Group.

During the year ended 30 June 2016, a total of 190,627 share options were granted under the 2014 Option Scheme (2015: 316,240 options granted) as follows:

- 13,782 options on 3 November 2015 at an exercise price of 177.0p
- 176,845 options on 19 May 2016 at an exercise price of 171.5p

In addition, during the year ended 30 June 2016, 2,825 (2015: 65,800) share options with an exercise price of 134.50p lapsed and 40,500 (2015: nil) share options were exercised at 92.59p. At 30 June 2016, there were 1,081,636 unexercised options outstanding.

Directors' Remuneration Report continued

The 2014 Share Option Scheme sets a limit of 10% of the issued share capital at the time of grant that can be used by the Company for share options. Options granted under this scheme may typically be exercised between the third and tenth anniversaries of grant provided the option holder remains an employee of a member of the Group. In certain circumstances, options may be exercised outside this window, for example in the event of death of the option holder or a change of control of the Company. Options can be granted under the scheme within 42 days of release of the annual and interim results and at other times in exceptional circumstances by resolution of the Board. No further options may be issued after the tenth anniversary of the date of adoption of the scheme. It is intended that options shall not be granted with an exercise price lower than the prevailing market value of an ordinary share at the time of grant. There are no individual or company performance targets to be met in order to be able to exercise the options.

DIRECTORS' INTERESTS IN SHARE OPTIONS

The interests of directors in share options over ordinary shares during the year were as follows:

2013 Share Option Scheme

Director	*Date of Grant*	*Number of Options*	*First Exercise Date*	*Exercise Price*	*Latest Expiry Date*
Raymond Gibbs	23 May 2013	40,500*	23 May 2014	92.5926p	23 May 2023
Dr Christopher Spacie	30 Sept 2013	40,500	30 Sept 2016	92.5926p	30 Sept 2023

* R Gibbs exercised 40,500 share options on 1 December 2015

2014 Share Option Scheme

Director	*Date of Grant*	*Number of EMI Options*	*Number of Unapproved Options*	*First Exercise Date*	*Exercise Price*	*Expiry Date*
Raymond Gibbs	3 April 2014	101,190	39,408	3 April 2017	210p	3 April 2024
	18 March 2015	–	14,275	18 March 2018	134.5p	18 March 2025
	19 May 2016	–	20,991	19 May 2019	171.5p	19 May 2026
Dr Christopher Spacie	3 April 2014	75,923	–	3 April 2017	210p	3 April 2024
	18 March 2015	11,895	–	18 March 2018	134.5p	18 March 2025
	19 May 2016	15,393	–	19 May 2019	171.5p	19 May 2026
Matthew Wood	3 April 2014	–	32,337	3 April 2017	210p	3 April 2024
	18 March 2015	–	7,137	18 March 2018	134.5p	18 March 2025
	19 May 2016	–	8,396	19 May 2019	171.5p	19 May 2026
John Knowles	3 April 2014	–	28,120	3 April 2017	210p	3 April 2024
Antony Belisario	3 April 2014	–	16,872	3 April 2017	210p	3 April 2024
Graham Eves	3 April 2014	–	16,872	3 April 2017	210p	3 April 2024
Roger Humm	3 April 2014	–	16,872	3 April 2017	210p	3 April 2024
Roger Smith	3 April 2014	–	16,872	3 April 2017	210p	3 April 2024

The mid-market price of the Company's ordinary shares at 30 June 2016 was 161p (2015: 115.5p). During the year to 30 June 2016, the mid-market price ranged from 107p to 188p (2015: 39p to 150p).

DIRECTORS' REMUNERATION

The aggregate remuneration received by directors who served during the years ended 30 June 2016 and 30 June 2015 was as follows:

			Year ended 30 June 2016			Year ended 30 June 2015		
£'000	*Salary/Fee*	*Benefits*	*Total (excl. Pension)*	*Pension*	*Total (incl. pension)*	*Total (excl. pension)*	*Pension*	*Total (incl. pension)*
Executive Directors								
R. Gibbs	163	7	170	11	181	123	3	126
C. Spacie	106	7	113	8	121	93	4	97
M. Wood	65	–	65	3	68	36	1	37
Non-Executive Directors								
J. Knowles	41	–	41	–	41	40	–	40
A. Belisario	27	–	27	–	27	27	–	27
G. Eves	27	–	27	–	27	27	–	27
R. Humm	27	–	27	–	27	27	–	27
R. Smith	27	–	27	–	27	27	–	27
	483	14	497	22	519	400	8	408

In addition to the amounts shown above, the share-based payment charge for the period was:

	to 30 June 2016 £'000	*to 30 June 2015 £'000*
Raymond Gibbs	**47**	46
Dr Christopher Spacie	**43**	33
Matthew Wood	**16**	11
John Knowles	**12**	9
Anthony Belisario	**7**	6
Graham Eves	**7**	6
Roger Humm	**7**	6
Roger Smith	**7**	6
	146	123

By order of the Board

Tony Belisario
Chairman of the Remuneration Committee
23 September 2016

Statement of Directors' Responsibilities

The directors are responsible for preparing the strategic report, the annual report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law, the directors have elected to prepare the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and the Company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law, the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Company and of the profit or loss for the Group for that period. The directors are also required to prepare financial statements in accordance with the rules of the London Stock Exchange for companies trading securities on the AIM market.

In preparing these financial statements, the directors are required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgements and accounting estimates that are reasonable and prudent;
- State whether they have been prepared in accordance with IFRSs as adopted by the European Union, subject to any material departures disclosed and explained in the financial statements; 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 and enable them to ensure that the financial statements comply with the requirements of the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Website Publication

The directors are responsible for ensuring that the annual report and financial statements are made available on a website. Financial statements are published on the Group's website, www.haydale.com, in accordance with the AIM Rules for Companies published by the London Stock Exchange and legislation in the United Kingdom governing the preparation and dissemination of financial statements, which may vary from legislation in other jurisdictions. The maintenance and integrity of the Group's website is the responsibility of the directors. The directors' responsibility also extends to the ongoing integrity of the financial statements contained therein.

Going Concern

The directors have prepared and reviewed financial forecasts. After due consideration of these forecasts, current cash resources and the net proceeds of the fundraising agreed today and scheduled to be received by the Company on or around 12 October 2016, the directors consider that the Company and the Group have adequate financial resources to continue in operational existence for the foreseeable future (being a period of at least 12 months from the date of this report), and for this reason the financial statements have been prepared on the going concern basis.

By order of the Board

Matt Wood
Finance Director and Company Secretary
23 September 2016

Independent Auditor's Report to the members of Haydale Graphene Industries Plc

We have audited the financial statements of Haydale Graphene Industries plc for the year ended 30 June 2016 which comprise the Consolidated Statement of Comprehensive Income, Consolidated Statement of Financial Position, Consolidated Statement of Changes in Equity, Consolidated Statement of Cashflows, Parent Company's Balance Sheet and Statement of Changes in Equity and the related notes. The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union. The financial reporting framework that has been applied in preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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

Respective responsibilities of directors and auditors

As explained more fully in the statement of directors' responsibilities, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Financial Reporting Council's (FRC's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the group's and the parent company's affairs as at 30 June 2016 and of the group's loss for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company's financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the strategic report and directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

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

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

Malcolm Thixton *(senior statutory auditor)*
For and on behalf of BDO LLP, statutory auditor
Southampton
23 September 2016

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the year ended 30 June 2016

	Note	**Year ended 30 June 2016 £'000**	Year ended 30 June 2015 £'000
REVENUE	4	**1,169**	644
Other income		**754**	831
TOTAL INCOME		**1,923**	1,475
Administrative expenses			
Research and development expenditure		**(514)**	(559)
Share based payment expense		**(326)**	(258)
Other administrative expenses		**(5,092)**	(3,663)
		(5,932)	(4,480)
LOSS FROM OPERATIONS		**(4,009)**	(3,005)
Finance costs		**(14)**	(24)
LOSS BEFORE TAXATION	5	**(4,023)**	(3,029)
Taxation	7	**386**	140
LOSS FOR THE YEAR FROM CONTINUING OPERATIONS		**(3,637)**	(2,889)
Other comprehensive income:			
Items that may be reclassified to profit or loss:			
Exchange differences on translation of foreign operations		**(44)**	–
TOTAL COMPREHENSIVE LOSS FOR THE YEAR FROM CONTINUING OPERATIONS		**(3,681)**	(2,889)
Loss for the year attributable to:			
Owners of the parent		**(3,598)**	(2,889)
Non-controlling interest		**(39)**	–
		(3,637)	(2,889)
Total comprehensive loss attributable to:			
Owners of the parent		**(3,637)**	(2,889)
Non-controlling interest		**(44)**	–
		(3,681)	(2,889)
Loss per share attributable to owners of the Parent			
Basic (£)	8	**(0.26)**	(0.25)
Diluted (£)	8	**(0.26)**	(0.25)

The notes from pages 34 to 63 form part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2016

Company Registration No. 07228939

	Note	30 June 2016 £' 000	30 June 2015 £' 000
ASSETS			
Non-current assets			
Goodwill	9	**685**	685
Intangible assets	9	**1,141**	775
Property, plant and equipment	10	**1,576**	1,576
Investments	11	**–**	117
		3,402	3,153
Current assets			
Inventories	12	**398**	283
Trade receivables	13	**49**	257
Other receivables	14	**613**	277
Corporation tax		**379**	129
Cash and bank balances		**2,862**	2,049
		4,301	2,995
TOTAL ASSETS		**7,703**	6,148
LIABILITIES			
Non-current liabilities			
Provision for contingent consideration	26	**–**	260
Bank loans	19	**104**	270
		104	530
Current liabilities	26		
Provision for contingent consideration	19	**–**	510
Bank loans	18	**166**	162
Trade and other payables	20	**656**	619
Deferred income		**176**	26
Corporation tax		**–**	8
		998	1,325
TOTAL LIABILITIES		**1,102**	1,855
TOTAL NET ASSETS		**6,601**	4,293
EQUITY			
Capital and reserves attributable to equity holders of the parent	15		
Share capital	15	**305**	229
Share premium account	16	**11,840**	6,254
Share-based payment reserve		**656**	329
Foreign exchange reserve		**(39)**	–
Retained earnings		**(6,117)**	(2,519)
Non-Controlling Interest		**(44)**	–
TOTAL EQUITY		**6,601**	4,293

The financial statements on pages 30 to 63 were approved and authorised for issue by the Board of directors on 23 September 2016 and signed on its behalf by:-

Ray Gibbs
Chief Executive Officer

Matt Wood
Finance Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the year ended 30 June 2016

	Share capital £'000	Share premium £'000	Share-based payment reserve £'000	Foreign Exchange Reserve £'000	Retained profits £'000	Total attributable to equity holders of parent £'000	Non-Controlling Interest £'000	Total Equity £'000
At 1 July 2014	225	6,134	71	–	370	6,800	–	6,800
Total comprehensive loss for the year	–	–	–	–	(2,889)	(2,889)	–	(2,889)
Recognition of share-based payments	–	–	258	–	–	258	–	258
Issue of ordinary share capital	4	120	–	–	–	124	–	124
At 30 June 2015	229	6,254	329	–	(2,519)	4,293	–	4,293
Comprehensive loss for the year	–	–	–	–	(3,598)	(3,598)	(39)	(3,637)
Other Comprehensive loss	–	–	–	(39)	–	(39)	(5)	(44)
Total Comprehensive loss for the year	–	–	–	(39)	(3,598)	(3,637)	(44)	(3,681)
Recognition of share-based payments	–	–	327	–	–	327	–	327
Issue of ordinary share capital	76	5,586	–	–	–	5,662	–	5,662
At 30 June 2016	**305**	**11,840**	**656**	**(39)**	**(6,117)**	**6,646**	**(44)**	**6,601**

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 30 June 2016

	Note	Year ended 30 June 2016 £' 000	Year ended 30 June 2015 £' 000
Cash flow from operating activities			
Loss before taxation		**(4,023)**	(3,029)
Adjustments for:-			
Amortisation of intangible assets		**63**	64
Depreciation of property, plant and equipment		**370**	288
Impairment on available for sale asset		**117**	–
Reduction in deferred consideration		**(117)**	–
(Profit)/Loss on disposal of property, plant and equipment		**(107)**	19
Share-based payment charge		**327**	258
Finance costs		**14**	24
Operating cash flow before working capital changes		**(3,356)**	(2,376)
Increase in inventories		**(115)**	(98)
Increase in trade and other receivables		**(128)**	(126)
Decrease in payables and deferred income		**187**	(210)
Cash used in operations		**(56)**	(434)
Income tax received		**128**	76
Net cash flow from operating activities		**(3,284)**	(2,734)
Cash flow used in investing activities			
Purchase of property, plant and equipment		**(470)**	(1,182)
Purchase of Intangible Assets		**(429)**	
Proceeds from disposal of property, plant and equipment		**207**	–
Acquisition of subsidiary	26	**–**	(244)
Settlement of deferred consideration		**(350)**	–
Net cash flow in investing activities		**(1,042)**	(1,426)
Cash flow used in financing activities			
Finance costs		**(14)**	(24)
Proceeds from issue of share capital (net of share issue costs)		**5,359**	124
New bank loans raised		**–**	500
Repayments of borrowings		**(162)**	(68)
Net cash flow from financing activities		**5,183**	532
Effects of exchange rates changes		**(44)**	–
Net increase/(decrease) in cash and cash equivalents		**813**	(3,628)
Cash and cash equivalents at beginning of the financial year		**2,049**	5,677
Cash and cash equivalents at end of the financial year		**2,862**	2,049

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 30 June 2016

1. Accounting policies
Basis of preparation
The Group consolidated financial statements have been prepared in accordance with International Financial Reporting Standards, International Accounting Standards and Interpretations (collectively "IFRSs") as adopted by the European Union (' Adopted IFRSs') and with those parts of the Companies Act 2006 applicable to companies preparing their financial statements under adopted IFRS.

The Group' s financial statements have been prepared under the historical cost convention and in accordance with IFRS.

The consolidated financial statements are presented in sterling, which is also the Group' s functional currency.

Amounts are rounded to the nearest thousands, unless otherwise stated.

The individual financial statements of Haydale Graphene Industries Plc are shown on pages 58 to 63.

Basis of consolidation
The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company made up to the reporting date. The Company controls an investee if all three of the following elements are present: power over the investee, exposure to variable returns over the investee, and the ability of the investee to use its power to affect the variable returns. Control is reassessed whenever facts and circumstances indicate that there may be a change in any of these elements of control. All intra-group transactions, balances, income and expenditure are eliminated on consolidation. Business combinations that took place prior to 1 July 2012, the effective date of transition to IFRS, have not been restated as permitted by IFRS1 "First-time Adoption of International Financial Reporting". The consolidated financial statements have been prepared using the acquisition method of accounting.

Under the acquisition method, the results of the subsidiaries acquired or disposed of are included from the date of acquisition or up to the date of disposal. At the date of acquisition the fair values of the subsidiaries' net assets are determined and these values are reflected in the Consolidated Financial Information. The cost of acquisitions is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Haydale Graphene Industries Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. Any excess of the purchase consideration of the business combination over the fair value of the identifiable assets and liabilities acquired is recognised as goodwill. Goodwill, if any, is not amortised, but reviewed for impairment at least annually. If the consideration is less than the fair value of assets and liabilities acquired, the difference is recognised directly in the statement of comprehensive income. Acquisition-related costs are expensed as incurred.

Going concern
The Group consolidated financial statements are prepared on a going concern basis which the Directors believe continues to be appropriate. The Group meets its day-to-day working capital requirements through existing cash resources which at 30 June 2016, amounts to £2.9 million. The Directors have prepared cash flow projections for the period ending no less than 12 months from the date of their approval of these financial statements. On the basis of those projections, which take into account the net proceeds of the fundraising approved today and scheduled to be received by the Company on or around 12 October 2016 and current cash resources, the Directors believe that the Group will be able to continue to trade for the foreseeable future.

2. Future accounting developments
The following amendments to standards and IFRIC interpretation have been adopted and are effective for the current year:

- IFRS 2 Share-based payment – Annual Improvements to IFRSs 2010-2012 Cycle
- IFRS 3 Business Combinations
- IFRS 7 Financial Instruments Disclosures
- IFRS 8 Operating segments (Amendments – aggregation of segments, reconciliation of segment assets)
- IFRS 10 Consolidated Financial Statements (Amendments – Investment Entities)
- IFRS 11 Joint arrangements
- IFRS 12 Disclosure of interests in other entities
- IFRS 13 Fair Value Measurement (Amendments – Scope of portfolio exception in paragraph 52)

- IAS 24 Related Party Disclosures (Amendments - Management entities)
- IAS 32 Financial Instruments: Presentation (Amendments – Offsetting)
- IAS 36 Impairment of Assets (Amendments – Recoverable Amount Disclosures)

The adoption of these pronouncements has not impacted the classification or measurement of the Group's assets and liabilities.

New standards and interpretations not applied

IASB and IFRIC have issued the following relevant standards and interpretations with an effective date for periods commencing after 1 January 2016:

Title	*Implementation*	*Anticipated effect on the Group*
IAS 1 – Presentation of financial statements (Amendments resulting from the disclosures initiative)	1 January 2016	No significant impact
IFRS 7 – Financial Instruments: Disclosures (Annual Improvements to IFRSs 2012-2014 Cycle – Servicing contracts and applicability of offsetting amendments in condensed interim financial statements)	1 January 2016	No significant impact
IFRS 10 – Consolidated Financial Statements (Amendments – Sale or Contribution of Assets)	1 January 2016	No significant impact
IAS 16 – Property, Plant and Equipment (Amendments – Acceptable Methods of Depreciation)	1 January 2016	No significant impact
IAS 27 – Consolidated and Separate Financial Statements (Amended to provide an additional measurement option for investments in separate entity financial statements)	1 January 2016	No significant impact
IAS 34 – Interim Financial Reporting (Amendments resulting from September 2014 Annual Improvements to IFRS)	1 January 2016	No significant impact
IAS 38 – Intangible Assets (Amendments to clarify acceptable methods of amortisation)	1 January 2016	No significant impact
IFRS 15 – Revenue from Contracts with Customers (yet to be endorsed by the EU)	1 January 2018	Assessment yet to be done and impact is currently unknown
IFRS 9 – Financial instruments (The standard includes requirements for recognition and measurement, impairment, derecognition and general hedge accounting yet to be endorsed by the EU.)	1 January 2018	Assessment yet to be done and impact is currently unknown
IFRS 16 – Leases (yet to be endorsed by the EU)	1 January 2019	Assessment yet to be done and impact is currently unknown

3. Summary of significant accounting policies

(a) Critical accounting estimates and judgements

The preparation of financial information in conformity with IFRSs requires the use of certain critical accounting estimates. It also requires the directors of the Haydale Graphene Industries Plc Group (the "Group") to exercise their judgement in the process of applying the accounting policies which are detailed below. These judgements are continually evaluated by the directors and management and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The key estimates and underlying assumptions concerning the future and other key sources of estimation uncertainty at the statement of financial position date, that have a significant risk of causing material adjustment to the carrying amounts of assets and liabilities within the next financial period are reviewed on an ongoing basis. Revision to accounting estimates are recognised 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.

3. Summary of significant accounting policies (continued)

Share-based payment

The critical accounting estimates, assumptions and judgements underpinning the valuation of share options are disclosed in note 17.

Impairment

(i) Impairment of financial assets

All financial assets are assessed at the end of each reporting period as to whether there is any objective evidence of impairment as a result of one or more events having an impact on the estimated future cash flows of the asset.

An impairment loss in respect of loans and receivables financial assets is recognised in profit or loss and is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

In a subsequent period, if the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

(ii) Impairment of non-financial assets

The carrying values of assets, other than those to which IAS 36 – 'Impairment of Assets' does not apply, are reviewed at the end of each reporting period for impairment regardless of whether there is an indication that the assets might be impaired. Impairment is measured by comparing the carrying values of the assets with their recoverable amounts. The recoverable amount of the assets is the higher of the assets' fair value less costs to sell and their value-in-use, which is measured by reference to discounted future cash flow. An impairment loss is recognised in administrative expenses within the Statement of Comprehensive Income immediately it is identified. Goodwill is tested for impairment annually regardless of whether there are any indicators.

In respect of assets other than goodwill, and when there is a change in the estimates used to determine the recoverable amount, a subsequent increase in the recoverable amount of an asset is treated as a reversal of the previous impairment loss and is recognised to the extent of the carrying amount of the asset that would have been determined (net of amortisation and depreciation) had no impairment loss been recognised. The reversal is recognised in profit or loss immediately.

(b) Intangible assets

Research and development expenditure

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

Development expenditure is recognised as an expense except that costs incurred on development projects are capitalised as intangible assets to the extent that such expenditure is expected to generate future economic benefits. Development expenditure is capitalised if, and only if an entity within the Group can demonstrate all of the following:-

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

Capitalised development expenditure is measured at cost less accumulated amortisation and impairment losses, if any. Development expenditure initially recognised as an expense will not be restated as an asset in a subsequent period. In the prior year, development expenditure was not capitalised, as future economic benefits were not deemed probable.

Capitalised development expenditure is amortised on a straight-line basis over a period of 20 years when the products or services are ready for sale or use. The 20 years amortisation period is based on European Patents being 20 years from the date of filing of the application, under Article 60 of the European Patent Convention. 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. Amortisation is included within administrative expenses.

Acquired intangible assets

An intangible resource acquired with a subsidiary undertaking is recognised as an intangible asset if it is separable from the acquired business or arises from contractual or legal rights, is expected to generate future economic benefits and its fair value can be measured reliably. Acquired intangible assets (excluding development expenditure which is in line with the above policy), including customer relationships, are amortised through the Consolidated Statement of Comprehensive Income on a straight-line basis over their estimated economic lives of between three and ten years.

Goodwill

Business combination are accounted for by applying the purchase method. The cost of a business combination is a fair value of the consideration given, liabilities incurred or assumed and of equity instrument issued plus the cost directly attributable to business combination. Where control is achieved in stages the cost is a consideration at the date of each transaction.

Contingent consideration is initially recognised at estimated amount where the consideration is probable and can be measured reliably. Where (i) the contingent consideration is not considered probable or cannot be reliably measured but subsequently becomes probable or (ii) contingent consideration previously measured is adjusted, the amounts are recognised as an adjustment to the cost of the business combination. Transaction fees associated with the business combination are capitalised as part of the investment.

On acquisition of a business, fair values are attributed to the identifiable assets, liabilities and contingent liabilities unless the fair value cannot be measured reliably, in which case the value is incorporated in goodwill. Where the fair value of contingent liabilities cannot be reliably measured they are disclosed on the same basis as other contingent liabilities.

Goodwill recognised represent the excess of the fair value and directly attributable costs of the purchase consideration over the fair value to the Group' s interest in the identifiable net assets, liabilities and contingent liabilities acquired.

Goodwill is assessed for impairment when there are indicators of impairment and any impairment is charged to the income statement. Reversals of impairment are recognised when the reasons for the impairment no longer apply.

(c) Revenue and interest income

(i) Goods

Revenue represents sales to external customers at invoiced amounts less value added tax or local taxes on sales. Revenue is recognised generally on delivery, or customer acceptance for where customer acknowledges the transfer of risk and reward of ownership and are liable for insuring the goods.

(ii) Services

Engineering design and research revenue is recognised on the percentage of completion method unless the outcome of the contract cannot be reliably determined, in which case contract revenue is only recognised to the extent of contract costs incurred that are recoverable. Foreseeable losses, if any, are provided for in full as and when it can be reasonably ascertained that the contract will result in a loss.

The stage of completion is determined based on the proportion of contract costs incurred compared to total estimated contract costs.

(iii) Interest income

Interest income is recognised as finance income on an accruals basis using the effective interest rate method.

(d) Financial instruments

Financial instruments are recognised in the statements of financial position when the Group 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 Group has a legally enforceable right to offset and intends to settle either on a net basis or to realise the asset and settle the liability simultaneously.

A financial instrument is recognised 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.

3. Summary of significant accounting policies (continued)

The accounting policy for financial instruments recognised in the statements of financial position are disclosed in the individual policy statement associated with each item.

Financial assets are derecognised when the contractual rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

(i) Financial assets

The group currently only holds financial assets classed as loans and receivables.

- *Loans and receivables*

  Trade receivables and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as loans and receivables financial assets. Loans and receivables financial assets are measured at amortised cost using the effective interest method, less any impairment loss. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

(ii) Financial liabilities

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

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires.

(iii) Equity instruments

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from proceeds.

Dividends on ordinary shares are recognised as liabilities when approved for appropriation.

(e) 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 recognised 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 management.

Depreciation is calculated under the straight-line method to write off the depreciable amount of the assets over their estimated useful lives. The principal annual rates used for this purpose are:-

Leasehold improvements	10% per annum straight line
Plant and machinery	15-33% per annum straight line
Furniture and fittings	33% per annum straight line
Motor vehicles	33% per annum straight line

The depreciation method, useful lives and residual values are reviewed, and adjusted if appropriate, at the end of each reporting period to ensure that the amounts, method and periods of depreciation are consistent with previous estimates and the expected pattern of consumption of the future economic benefits embodied in the items of the property, plant and equipment.

Subsequent costs are included in the asset' s carrying amount or recognised as a separate asset, as appropriate, only when the cost is incurred and it is probable that the future economic benefits associated with the asset will flow to the Group and the cost of the asset can be measured reliably. The carrying amount of parts that are replaced is derecognised. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred. Cost also comprises the initial estimate of dismantling and removing the asset and restoring the site on which it is located for which the Group is obligated to incur when the asset is acquired, if applicable.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. The gain or loss on retirement or disposal is determined as the difference between any sales proceeds and the carrying amounts of the asset and is recognised in the income statement within "other income / (expenses)".

(f) Income taxes

The charge for taxation is based on the loss for the period and takes into account taxation deferred.

Current tax is measured at amounts expected to be paid using the tax rates and laws that have been enacted by the balance sheet date. Substantively enacted rate has been used for deferred tax balances, which are recognised in respect of all timing differences that have been originated but not reversed by the reporting date, except that the recognition of deferred tax assets is limited to the extent that the Company anticipates making sufficient taxable profits in the future to absorb the reversal of the underlying timing differences.

The Group receives research and development tax credits for the work it performs in the field of nano-technology. Using the SME scheme, these credits generate cash reimbursement in exchange for the sacrifice of applicable losses, such receipts are recognised in income tax within the Statement of Comprehensive Income.

(g) 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, are subject to an insignificant risk of changes in value and have maturities of 3 months or less from inception.

(h) Inventories

Inventories are recorded at the lower of cost and net realisable value. Cost represents materials, direct labour, other direct costs and related production overheads, and is determined on the First-In-First-Out (FIFO) method. Net realisable value is based on estimated selling price, less further costs expected to be incurred to completion and disposal. Provision is made for slow-moving, obsolete and defective inventories where appropriate.

The value of inventories used in the fulfilment of commercial or developmental programmes are charged to the in Statement of Comprehensive Income.

(i) Employee benefits

(i) Short-term benefits

Wages, salaries, paid annual leave and sick leave, bonuses and non-monetary benefits are accrued in the period in which the associated services are rendered by employees of the Group.

(ii) Defined contribution plans

The Group' s contributions to defined contribution plans are recognised in profit or loss in the period to which they relate. Once the contributions have been paid, the Group has no further liability in respect of the defined contribution plans.

(j) Provisions

Provisions are recognised when the Group has a present or constructive obligation as a result of past events, when it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and when a reliable estimate of the amount can be made. Provisions are reviewed at the end of each financial reporting period and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, the provision is the present value of the estimated expenditure required to settle the obligation.

(k) Government grants

Government grants are not recognised until there is a reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received. Government grants are treated as deferred income and released to the income statement on the achievement of the relevant performance criteria. When grant income is received for capital expenditure, it is held as deferred income on the balance sheet and released on a straight line basis over the useful economic life of the asset to which it relates. All income relating to government grants is included as' other income' within the Statement of Comprehensive Income.

(l) Share-based payment arrangements

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date. Details regarding the determination of the fair value of equity-settled share-based transactions are set out in note 17 to the Consolidated Financial Statements.

3. Summary of significant accounting policies (continued)

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 the number of equity instruments that will eventually vest, with a corresponding increase in equity. 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 recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to other reserves.

(m) Leases

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

(n) Transactions and balances in foreign currencies

Transactions in foreign currencies are converted into the respective functional currencies on initial recognition, using the exchange rates approximating those ruling at the transaction dates. Monetary assets and liabilities at the end of the reporting period are translated at the rates ruling as of that date. Non-monetary assets and liabilities are translated using exchange rates that existed when the values were determined. All exchange differences are recognised in profit or loss.

Overseas operations which have a functional currency different to the group presentation currency have been translated using the monthly average exchange rate for consolidation in to the statement of comprehensive income. The amounts included in the group statement of financial position, have been translated at the exchange rate ruling at the statement date. All resulting exchange differences are reported in other comprehensive income.

(o) Non-controlling interest

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

4. Segment analysis

IFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker (which takes the form of the board of directors of Haydale Graphene Industries Plc) as defined in IFRS 8, in order to allocate resources to the segment and to assess its performance.

The directors of the Group consider the principal activity of the Group to be the sale and distribution of specialist research and development materials in the field of nano-technology, and therefore consider this currently to be the sole operating and reportable segment. Overseas sales relate to the fulfilment of sales generated outside the UK but actioned within the UK.

Geographical information

All revenues of the Group are derived from its principal activity, the sale and distribution of nano-technology products or the delivery of research projects into those same materials. All assets are located within the United Kingdom and all losses are generated in that territory. The Group' s revenue from external customers by geographical location are detailed below.

	2016	2015
	£' 000	£' 000
By destination		
United Kingdom	**397**	409
Europe	**743**	222
North America	**3**	11
Rest of the World	**26**	2
	1,169	644

During 2016, 35% (2015: 32%) of the Group' s revenue depended on a single customer. During 2016, 27% (2015: 25%) of the Group' s revenue depended on a second single customer.

Revenue within Europe was predominantly split between Germany (57%) and Ireland (41%) (2015: Ireland 93%).

All amounts shown as other income within the Statement of Comprehensive Income are generated within and from the United Kingdom.

Revenue from goods was £626,000 or 54% (2015: £56,000 or 9%) and revenue from services was £543,000 or 46% (2015: £588,000 or 91%).

	2016	2015
	£'000	£'000
Services	**543**	588
Reactors	**591**	–
Goods	**35**	56
	1,169	644

5. Loss before taxation

Loss before taxation is arrived at after charging:

	2016	2015
	£'000	£'000
Research and development:		
– current period's expenditure	**480**	524
– amortisation of capitalised expenditure	**34**	35
– amortisation of other intangibles	**29**	29
Depreciation of property, plant and equipment	**370**	288
Loss on disposal of property, plant and equipment	**(107)**	19
Foreign Exchange	**(118)**	41
Operating lease rentals:		
– land and buildings	**98**	93
– plant and machinery	**23**	17

The fees of the Group's auditor, BDO LLP, for services provided are analysed below:

	2016	2015
	£'000	£'000
Fees payable to the Company's auditor for the audit of the Group's financial statements	**42**	41
Fees payable to the Company's auditor for other services:		
– Taxation related compliance services	**14**	52
– Other non-audit services	**5**	2
	61	95

6. Employees

The average number of employees during the year, including executive directors, was:

	2016	2015
	No.	No.
Administration	**11**	8
Research, development and production	**29**	18
	40	26

6. Employees (continued)

Staff costs for all employees, including executive directors, consist of:

	2016 £'000	2015 £'000
Wages and salaries	**1,995**	985
Social security costs	**185**	104
Pension costs	**100**	18
Share based payment expense	**326**	258
	2,606	1,365

An analysis of the remuneration of the directors is detailed within the Directors' Remuneration Report on pages 25 to 27. The total amount payable to the highest paid director in respect of emoluments was £181,000 (2015: £126,000), including pension costs of £11,000 (2015: £3,000).

7. Income tax

	2016 £'000	2015 £'000
Total income tax credits:		
– for the financial year	**326**	128
– under provision in the previous financial year	**68**	12
	386	140

A reconciliation of income tax expense applicable to the loss before taxation at the statutory tax rate to the income tax release at the effective tax rate of the Group is as follows:

	2016 £'000	2015 £'000
Loss before taxation	**(4,023)**	(3,029)
Tax at the applicable statutory tax rates of 20% (2015 – 20%)	**805**	606
Tax effects of:		
– non-deductible expenses	**(158)**	(70)
– capital allowances and other short term differences not recognised for tax purposes	**15**	61
– R&D enhancement	**331**	107
– Surrender for R&D tax credit	**(201)**	(49)
– Unrealised tax losses carried forward	**(474)**	(527)
– Adjustment to tax credit in respect of previous years	**68**	12
Income tax release for the financial year	**386**	140

The Group has tax losses that are available indefinitely for offset against future taxable profits of the companies amounting to £8,228,000 (2015: £6,214,000) and £1,030,000 (2015: £838,000) of fixed asset timing differences. A deferred tax asset in respect of losses has not been recognised due to the uncertainty over the timing of future profits and gains.

The deferred tax asset not recognised in the Group statement of financial position is as follows:

	2016 £'000	2015 £'000
Unrecognised deferred tax asset at the start of the year	**1,158**	631
Capital Allowances and short term differences	**(24)**	–
Tax losses unrecognised in the year	**474**	527
Movement due to changes in tax rates	**(160)**	–
Unrecognised deferred tax asset at the end of the year	**1,448**	1,158

Changes in the tax rates and factors affecting the future tax charge

The main tax rate of corporation tax for UK companies reduced from 21% to 20% from 1 April 2015. Finance bill 2015, which was substantially enacted on 26 October 2015, announced further reductions to the main rate of corporation tax. The rate will reduce to 19% from 1 April 2017 and by a further 1% to 18% from 1 April 2020. Deferred tax will therefore be calculated at a rate of 18%.

8. Loss per share

The calculations of loss per share are based on the following losses and number of shares:

	2016	2015
	£'000	£'000
Loss after tax attributable to owners of the Haydale Graphene Industries Plc Group	**(3,598)**	(2,889)
Weighted average number of shares:		
– Basic and Diluted	**13,713,757**	11,376,248
Loss per share:		
– Basic (£) and Diluted (£)	**(0.26)**	(0.25)

The loss attributable to ordinary shareholders and weighted average number of ordinary shares for the purpose of calculating the diluted earnings per ordinary share are identical to those used for basic earnings per share. This is because the exercise of share options would have the effect of reducing the loss per ordinary share and is therefore not dilutive under the terms of IAS 33. At 30 June 2016, there were 1,458,775 (2015: 1,321,655) options and warrants outstanding as detailed in note 17.

9. Intangible assets

	Customer Relationships £'000	**Development expenditure £'000**	**Goodwill £'000**	**Total £'000**
Cost				
At 1 July 2014	–	700	51	751
Additions	285	–	634	919
At 1 July 2015	285	700	685	1,670
Additions	–	429	–	429
At 30 June 2016	**285**	**1,129**	**685**	**2,099**
Accumulated amortisation				
At 1 July 2014	–	146	–	146
Charge for the period	29	35	–	64
At 1 July 2015	29	181	–	210
Charge for the year	29	34	–	63
At 30 June 2016	**58**	**215**	**–**	**273**
Net book value				
At 30 June 2016	**227**	**914**	**685**	**1,826**
At 30 June 2015	256	519	685	1,460
At 30 June 2014	–	554	51	605

9. Intangible assets (continued)

Goodwill

Goodwill arose on the acquisition of EPL Composite Solutions Ltd (now Haydale Composite Solutions Limited "HCS") on 1 November 2014 (£634,000), Haydale Ltd on 21 May 2010 (£24,000) and of the trade and assets of Intelligent Nano Technology Ltd (£27,000) on 12 May 2010.

Customer Relationships

The Customer relationships intangible asset arose on the fair value of assets on the acquisition of EPL Composite Solutions Ltd (now Haydale Composite Solutions Limited) on 1 November 2014.

Development costs

Development costs brought forward arose on the fair value of assets on the acquisition of Haydale Ltd on 21 May 2010 for development of nano-technology projects, where it is anticipated that the costs will be recovered through future commercial activity.

Development expenditure of £429,000 was capitalised during the year in accordance with IAS 38 in connection with the Group's expenditure with the development of graphene enhanced epoxy resins, where the Directors believe that future economic benefit is probable. Capitalised development expenditure is not amortised until the products or services are ready for sale or use.

Amortisation

Capitalised development costs are amortised over the estimated useful life of 20 years. The amortisation charge is recognised in administrative expenses.

The Customer relationships intangible is amortised over the estimated useful life of 10 years. The amortisation charge is recognised in administrative expenses.

Goodwill impairment

Goodwill acquired in a business combination is allocated at acquisition to the cash generating units ("CGUs") that are expected to benefit from that business combination. Following the acquisition of HCS, the Group is operating two CGUs and therefore HCS goodwill has been considered against the future forecast trading outcomes of HCS as a CGU. The remaining goodwill in the Group prior to the acquisition of HCS is immaterial and has not been tested for impairment. An analysis of the pre-tax discount rates used and the goodwill balance as at the year end by principal CGU's is shown below:

	2016	2015	**2016**	2015
	%	%	**£'000**	£'000
Haydale Composite Solutions	**15**	12	**634**	634
Haydale Graphene Industries	**15**	12	**51**	51

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

The recoverable amounts of the CGUs are determined from value-in-use calculations. The key assumptions for the value-in-use are those regarding the discount rates, the growth rates and expected changes to cash flows during the period for which management have detailed plans. The Directors estimate discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the CGUs.

Pre-tax discount rates, derived from the Group's post-tax weighted average cost of capital of 15% (2015: 12%), and have been used to discount projected cash flows.

The calculation has used the HCS's Board-approved forecast figures for the next year. HCS's forecasts assume that its turnover will grow significantly in the current financial year and then by a further 0.6% per annum from the end of its 2017 financial year across the course of the remaining four year forecasts and by 0.6% per annum beyond five years. The growth rates used are based on management's internally estimated growth forecasts for the market, together with the expected market share of HCS within those markets. The Group applies sensitivities to the projections to determine whether there is sufficient head-room in positive cash flows to support the carrying value of the underlying assets of the CGUs.

Following this review, the Directors have determined that there is no impairment charge which should be recognised against the intangible assets of the Group, nor has any such impairment been required to be recognised in any of the periods covered by this report.

Sensitivity to changes in assumptions

Management believes that no reasonable potential change in any of the above key assumptions would cause the carrying value of any unit to exceed its recoverable amount.

10. Property, plant and equipment

	Leasehold improvements £'000	Plant and machinery £'000	Fixtures and fittings £'000	Motor vehicles £'000	Total £'000
Cost					
At 1 July 2014	198	605	56	2	861
Acquired on acquisition of Subsidiary	–	174	–	–	174
Additions	61	1,086	35	–	1,182
Disposals	–	(35)	–	–	(35)
At 1 July 2015	259	1,830	91	2	2,182
Additions	188	273	8	–	469
Disposals	–	(99)	–	–	(99)
At 30 June 2016	**447**	**2,004**	**99**	**2**	**2,552**
Accumulated depreciation					
At 1 July 2014	39	261	33	1	334
Charge for the year	24	241	22	1	288
Disposals	–	(16)	–	–	(16)
At 1 July 2015	63	486	55	2	606
Charge for the year	28	323	19	–	370
At 30 June 2016	**91**	**809**	**74**	**2**	**976**
Net book value					
At 30 June 2016	**356**	**1,195**	**25**	**–**	**1,576**
At 30 June 2015	196	1,344	36	0	1,576
At 30 June 2014	159	344	23	1	527

Included within plant and machinery are assets under construction totalling £15,000 (2015: £192,000).

11. Subsidiaries

The list of subsidiaries can be seen in the parent company accounts under note 6.

12. Investments

	2016 £'000	2015 £'000
Available-for-sale investments	**–**	117

As at 30 June 2016, the Group held 117,263 non-voting £1 preference shares in Arago Technology Limited ("Arago"), a private company to which Haydale Composite Solutions ("HCS") has provided services. The preference shares were received by HCS in settlement for services provided by HCS to Arago before HCS was acquired by the Company in November 2014. The Directors have provided in full against the carrying value of the investment in Arago at the year-end due to uncertainties surrounding the short term recoverability of the investment and a corresponding reduction in the deferred contingent consideration due to the vendors of HCS has also been made.

13. Inventories

	2016 £'000	2015 £'000
Raw materials	**72**	42
Work in progress	**300**	229
Finished goods	**26**	12
	398	283

Raw materials and finished goods comprise functionalised carbon, chemicals and associated raw materials. Work in progress comprises recoverable costs on long-term contracts.

14. Trade receivables

	2016 £'000	2015 £'000
Trade receivables	**49**	257
	49	257

15. Other receivables

	2016 £'000	2015 £'000
Other receivables	**411**	166
Prepayments and accrued income	**202**	111
	613	277

16. Share capital and share premium

	Number of shares No.	Share capital £'000	Share premium £'000	Total £'000
At 1 July 2014	11,247,823	225	6,134	6,359
Issue of £0.02 ordinary shares	198,623	4	120	124
At 30 June 2015	11,446,446	229	6,254	6,483
Issue of £0.02 ordinary shares	3,790,500	76	5,586	5,662
At 30 June 2016	**15,236,946**	**305**	**11,840**	**12,145**

During the year, the Company issued 3,790,500 new ordinary shares of 2p each, 3,750,000 of which were issued at £1.60 in connection with the Company's £6.0 million placing and open offer in November 2015, with the balance of 40,500 ordinary shares issued were in respect of the exercise of options.

In November 2014, 198,623 £0.02 ordinary shares were issued at a price of £0.6225 per share following the acquisition of EPL Composite Solutions Ltd (now Haydale Composite Solutions Ltd), whereby the company repaid the directors' loans of the acquired entity.

Issue costs amounting to £376,372 (2015: £nil) have been charged to the share premium account in the year.

17. Share-based payment transactions

Options

The Company operates both an approved EMI share option scheme for the benefit of all employees and an unapproved share option scheme for directors of the Company. The exercise price of the options is equal to the mid-market price of the shares on the date of grant. The options vest either one year or three years from the date of grant. The options are accounted for as equity settled share based payment transactions.

The following table which illustrates the number and weighted average exercise prices (WAEP) of, and movements in, share options during the year:

	2016 Number of options No.	**2016 Weighted average exercise price Pence**	2015 Number of options No.	2015 Weighted average exercise price Pence
Balance at beginning of year	**934,334**	**154**	683,894	189
Granted	**190,627**	**172**	316,240	89
Exercised	**(40,500)**	**93**	–	–
Lapsed	**(2,825)**	**135**	(65,800)	210
Balance at end of year	**1,081,636**	**159**	934,334	154

At 30 June 2016, there were options outstanding over 1,081,636 un-issued ordinary shares, equivalent to 7.1% of the issued share capital as follows:

	Number of shares	**Exercise price**	**Earliest exercise date**	**Performance criteria**	**Latest exercise date**
Approved EMI scheme					
23 May 2013	40,500	93.00p	23 May 2014	–	23 May 2023
30 September 2013	40,500	93.00p	30 September 2016	–	30 September 2023
03 April 2014	329,241	210.00p	03 April 2017	–	03 April 2024
1 November 2014	130,000	62.25p	1 November 2017	Share price > 160p	1 November 2024
7 November 2014	60,000	61.50p	7 November 2017	Share price > 160p	7 November 2024
18 March 2015	54,565	134.50p	18 March 2018	–	18 March 2025
25 June 2015	47,438	121.00p	25 June 2018	–	25 June 2025
3 November 2015	13,782	177.00p	3 November 2018	–	3 November 2025
19 May 2016	147,458	171.50p	19 May 2019	–	19 May 2026
Unapproved schemes					
03 April 2014	167,353	210.00p	03 April 2017	–	03 April 2024
18 March 2015	21,412	134.50p	18 March 2018	–	18 March 2025
19 May 2016	29,387	171.50p	19 May 2019	–	19 May 2026
	1,081,636				

The exercise prices for options granted prior to 03 April 2014 have been adjusted to reflect the 80-for-1 bonus issue made on that date.

The estimated fair value was calculated by applying a Black-Scholes option pricing model.

17. Share-based payment transactions (continued)

	Type of award	Number of shares	Exercise price (p)	Share price at date of grant (p)	Fair value per option (p)	Award life (years)	Risk free rate (%)	Expected volatility rate (%)	Performance conditions
23 May 2013	EMI	40,500	93	93	53	10	1.75	30	None
30 September 2013	EMI	40,500	93	93	54	10	1.75	30	None
03 April 2014	EMI	329,241	210	210	94	10	1.75	30	None
03 April 2014	Unapproved	167,353	210	210	94	10	1.75	30	None
1 November 2014	EMI	130,000	62	62	38	10	1.75	50	Share price > 160p*
7 November 2014	EMI	60,000	62	62	38	10	1.75	50	Share price > 160p*
18 March 2015	EMI	54,565	135	135	82	10	1.75	50	None
18 March 2015	Unapproved	21,412	135	135	82	10	1.75	50	None
25 June 2015	EMI	47,438	121	121	74	10	1.75	50	None
3 November 2015	EMI	13,782	177	177	111	10	1.75	52	None
19 May 2016	Unapproved	29,387	172	172	101	10	0.62	51	None
19 May 2016	EMI	147,458	172	172	101	10	0.62	51	None
		1,081,636							

*Share price >160p. These performance conditions are for share options issued to Employees only; there are no performance conditions for share options issued to Directors.

78,175 Options were exercisable as at 30 June 2016 (2015: 121,500).

The model inputs for share options granted in the year were:

	3 November 2015	**19 May 2016**
Share prices at grant date	177p	**172p**
Exercise prices	177p	**172p**
Expected volatility	52.3%	**50.1%**
Risk free rate	0.62%	**0.62%**
Contractual life	10 years	**10 years**

- No dividends are anticipated in the life of model, consistent with the Directors' view that the Group's model is to generate value through capital growth rather than the payment of dividends;
- Risk-free interest rates of both 1.75 per cent. and 0.62 per cent., equating to the prevailing UK Gilts rate, were used for the most recent option grants, which most closely matches the expected term of the grant; and
- The volatility has been adjusted to reflect market based performance criteria where appropriate.

The weighted average remaining contractual life of share options outstanding at 30 June 2016 is 8.3 years (2015: 8.9 years). The charge for the year for share-based payment amounted to £268,796 (2015: £194,000).

Warrants

	Number of warrants No. 2016	Weighted average exercise price Pence 2016	Number of warrants No. 2015	Weighted average exercise price Pence 2015
Balance at beginning of year	**397,321**	**183**	277,321	187
Granted	**58,818**	**225**	120,000	172
Lapsed	**(79,000)**	**160**	–	–
Balance at end of year	**377,139**	**187**	397,321	183

Of the 58,818 warrants granted during the year, 30,000 were granted to Swansea University on 3 February 2016 and 28,818 were granted to Vespasian Partners Limited on 3 March 2016. None of the warrants outstanding at 30 June 2016 are to employees or have performance conditions attached.

The same pricing model is used for calculating the cost of warrants to the Group. The model inputs for each of the warrant issues were:

	3 February 2016	**3 March 2016**
Share prices at grant date	178p	171p
Exercise prices	274p	174p
Expected volatility	49.3%	49.2%
Contractual life	5 years	5 years

The weighted average remaining contractual life of share options outstanding at 30 June 2016 is 3.14 years (2015: 3.6 years). The charge for the year for share-based payment amounted to £57,530 (2015: £65,000).

18. Reserves

Share capital

The share capital represents the nominal value of the equity shares in issue.

Share premium account

The share premium account represents the amount received on the issue of ordinary shares in excess of their nominal value and is non-distributable.

Share-based payment reserve

The share-based payment reserve comprises the cumulative expense representing the extent to which the vesting period of share options has passed and management's best estimate of the achievement or otherwise of non-market conditions and the number of equity instruments that will ultimately vest.

Retained earnings

The retained profits and losses reserves comprise the cumulative effect of all other net gains, losses and transactions with owners (e.g. dividends) not recognised elsewhere.

19. Trade and other payables

	2016 £'000	2015 £'000
Trade payables	**260**	273
Tax and social security	**67**	81
Accruals and other creditors	**329**	265
	656	619

20. Bank loans

	2016	2015
	£'000	£'000
Bank loans	**270**	432

The borrowings are repayable as follows:-		
– within one year	**166**	162
– in the second year	**104**	162
– in the third to fifth years inclusive	**–**	108
	270	432

All borrowings are denominated in pounds sterling. The directors consider that there is no material difference between the fair value and carrying value of the Group's borrowings.

	2016	2015
	%	%
Average interest rates paid	**2**	2

In December 2014 a bank loan of £500,000 was drawn during the year and securitised by cash deposits. The loan accrues interest at 1.5% above the Bank of England base rate and is repayable in equal monthly instalments until February 2018.

21. Deferred income

Deferred income is recognised for both capital and revenue grants from governments and other funding parties, and released as income in accordance with the relevant conditions of the grant concerned.

	2016	2015
	£'000	£'000
Grants	**19**	26
Commercial Deferred Income	**157**	–
	176	26

Grants

In the year ended 30 June 2015, Haydale Limited received a business innovation grant totalling £33,000, which is being credited to the statement of comprehensive income in line with the depreciation of the associated acquired machinery. The amount credited to the statement of comprehensive income during the year was £6,521.88.

Commercial Deferred Income

As at 30 June 2016, deferred income £157,315 arose in relation to a sale where a cash receipt was received in advance (£146,315) and a provision for potential warranty claims (£11,000), which will expire by 31 May 2017.

22. Related party disclosures

Balances and transactions between Haydale Graphene Industries Plc and its subsidiaries are eliminated on consolidation and are not disclosed in this note. Balances and transactions between the Group and other related parties are disclosed below.

Remuneration of directors and key management personnel

The remuneration of the senior Executive Management Committee members, who are the key management personnel of the Group, is set out below in aggregate for each of the categories specified in IAS 24 ' Related Party Disclosures' .

	2016	2015
	£' 000	£' 000
Short-term employee benefits and fees	**497**	357
Social security costs	**52**	39
Share-based payments	**146**	123
Post-retirement benefits	**22**	8
	717	527

During the year ended 30 June 2016, Mr G Eves, a director of the Company, earned fees through his company, Evesco International Business, totalling £24,000 (2015: £17,000) for corporate finance consultancy. At 30 June 2016, the balance owed to Evesco International Business was £5,000 (2015: £6,000).

During the year under review, fees were paid to Roger Humm Ltd, a company of which Mr R Humm, a director of the Company, is a director, totalling £1,000 (2015: £0) for corporate finance consultancy. At 30 June 2016, the balance owed to Roger Humm Ltd was £0 (2015: £0).

Fees totalling £59,000 (2015: £109,000) were paid to ONE Advisory Ltd, a company of which Mr M Wood, a director of the Company, is a director during the year ended 30 June 2016 for financial, administration, compliance and support services. At 30 June 2016, the balance owed to ONE Advisory Ltd was £2,000 (2015: £9,000).

During the year under review, legal services were provided to the Group by ONE Legal Advisory Ltd, a company of which Mr M Wood is a director amounting to £14,000 (2015: £0). The balance owed to ONE Legal Advisory Ltd at the end of the year was £600 (2015: £0).

Other transactions

Other related party transactions during the year under review are shown in the table below:

	2016	2015
	£' 000	£' 000
Services Received		
D Gibbs – consultancy	**–**	9
Arago Technology Limited	**20**	32
Thermocomp Limited	**15**	4
Tracey Enterprises Limited	**45**	66
Services Provided		
Aqualiner Limited	**30**	48
Arago Technology Limited	**–**	117
Frangible Safety Posts Limited	**16**	9

Services received

D Gibbs, son of R J Gibbs, a director of the Company, provided consultancy services to Haydale Limited, prior to joining as an employee during the year ended 30 June 2015.

During the year under review, Haydale Composite Solutions Ltd ("HCS"), a wholly owned subsidiary of the Company, purchased technical consultancy from Arago Technology Limited ("Arago"), a company in which HCS owns 117,263 preference shares. During the year, the investment in Argao was impaired in full. The net total amount of services purchased during the year was £19,708 (2015: £31,520). There were no balances outstanding due to Arago at 30 June 2016.

22. Related party disclosures (continued)

A net amount of £15,000 (2015: £3,750) was invoiced by Thermocomp Limited ("Thermocomp") to HCS during the year ended 30 June 2016 for the use by HCS of Thermocomp's equipment. Thermocomp is a company of which Mr G S Boyce, a director of HCS, is a director. As at 30 June 2016, a balance of £18,000 (including VAT) was due to Thermocomp by HCS. In addition, as at 30 June 2016, HCS was owed £15,530 (including VAT) from Thermocomp for services provided to HCS in prior years.

Accountancy and administration services were provided by Tracey Enterprises Ltd ("Tracey") to HCS during the year ended 30 June 2016 amounting to £44,636 (2015: £65,985). Roger Tracey, a director of Tracey, was the company secretary HCS. There were no amounts outstanding due to Tracey at 30 June 2016.

Services provided

In the year ended 30 June 2016, HCS provided services to Frangible Safety Posts Limited ("FSP"), a company of which Mr G S Boyce was a director. The amounts for the year under review were £16,245 (2015: £8,614). There were no amounts outstanding at the year end.

HCS made sales to Aqualiner Ltd ("Aqualiner") during the year ended 30 June 2016, a company in which Mr N Weatherby and Mr G S Boyce, both directors of HCS, are directors. The net sales for the year ended 30 June 2016 was £30,178 (2015: £47,968). Amounts outstanding including VAT at the year end was £5,769.

The balances outstanding (due to) / from related parties at each year ended 30 June were as follows:-

	2016	2015
	£'000	£'000
Aqualiner Limited	**5**	24
Thermocomp Limited	**(2)**	11
Frangible Safety Posts Limited	**–**	1

23. Financial instruments

The Group's activities are exposed to a variety of market risk (including foreign currency risk and interest rate risk), credit risk and liquidity risk. The Group's overall financial risk management policy focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

(a) Financial risk management policies

The Group's policies in respect of the major areas of treasury activity are as follows:

(i) Market risk

(i) Foreign currency risk

The Group is exposed to foreign currency risk on transactions and balances that are denominated in currencies other than Pounds Sterling. The currencies giving rise to this risk are primarily the United States Dollar and the Euro. Foreign currency risk is monitored closely on an ongoing basis to ensure that the net exposure is at an acceptable level. The Group maintains the ability to provide a natural hedge wherever possible by matching the cash inflows (revenue stream) and cash outflows used for purposes such as operational expenditure in the respective currencies.

The carrying amounts of the Group's foreign currency denominated monetary assets and liabilities at the end of each reporting period were as follows:

	United States Dollar	**Euro**	**Total**
	£'000	**£'000**	**£'000**
2016			
Financial assets	**113**	**688**	**801**
Financial liabilities	**–**	**–**	**–**
2015			
Financial assets	16	132	148
Financial liabilities	2	–	2

Foreign currency sensitivity analysis

The following table details the sensitivity analysis to possible changes in the relative values of foreign currencies to which the Group is exposed as at the end of the respective financial periods, with all other variables held constant:

Effects on loss after taxation / equity	**2016 Increase/ (decrease) £'000**	2015 Increase/ (decrease) £'000
United States Dollar:		
– strengthened by 10%	(1)	2
– weakened by 10%	1	(1)
Euro:		
– strengthened by 10%	76	14
– weakened by 10%	(62)	(12)

(ii) *Interest rate risk*

The Group's exposure to interest rate risk arises mainly from interest-bearing financial assets. The Group's policy is to obtain the most favourable interest rates available, while ensuring no risk to capital. Any surplus funds will be placed with licensed financial institutions to generate interest income.

Interest rate risk sensitivity analysis

A 100 basis points strengthening or weakening of the interest rate as at the end of each financial period would have an immaterial impact on loss after taxation and / or equity. This assumes that all other variables remain constant.

(ii) Credit risk

The Group's exposure to credit risk, or the risk of third parties defaulting, arises mainly from trade and other receivables. The Group manages its exposure to credit risk by the application of credit approvals, credit limits and monitoring procedures on an ongoing basis. For other financial assets (including cash and bank equivalents), the Group minimises credit risk by dealing exclusively with high credit rating financial institutions.

The Group establishes an allowance for impairment that represents its estimate of incurred losses in respect of the trade and other receivables as appropriate. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loss component established for groups of similar assets in respect of losses that have been incurred but not yet identified. Impairment is estimated by management based on prior experience, current market and third party intelligence while considering the current economic environment.

Credit risk concentration profile

To date, modest sales have meant that the credit risk profile of the Group has tended to focus on a handful of customers only. As such, no meaningful analysis can be drawn from the customer profile of the receivables outstanding at each period end under review.

Exposure to credit risk

As the Group does not hold any collateral, the maximum exposure to credit risk is represented by the carrying amount of the financial assets at the end of each financial period.

The exposure of credit risk for trade receivables by geographical region as at the year end is as follows:

	2016 £'000	2015 £'000
United Kingdom	**45**	186
Europe	**–**	67
North America	**–**	4
Rest of the world	**4**	–
	49	257

23. Financial instruments (continued)

Maturity analysis

The ageing analysis of the Group's trade receivables as at the year end is as follows:

	2016	2015
	£'000	£'000
Not past due	**20**	98
Past due:		
– less than 3 months	**6**	122
– between 3 and 6 months	**0**	37
– more than 6 months	**17**	–
Gross amount	**49**	257

At the end of each financial period, trade receivables that are individually impaired were those in significant financial difficulties and have defaulted on payments. These receivables are not secured by any collateral or credit enhancement.

Collective impairment allowances, are determined based on estimated irrecoverable amount from the sale of goods and services, determined by reference to past default experience.

Trade receivables that are past due but not impaired

The Haydale Graphene Industries Group believes that no impairment allowance is necessary in respect of these trade receivables. They are substantially companies with good collection track record and no recent history of default.

(iii) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group exposure to liquidity risk arises primarily from mismatches of the maturity of financial assets and liabilities.

The Group maintains a level of cash and cash equivalents and bank facilities deemed adequate by management to ensure as far as possible, that it will have sufficient liquidity to meet its liabilities when they fall due.

All of the financial liabilities of the Group are due within one year, with the exception of certain long term bank loans – see note 20.

Maturity analysis

The ageing analysis of the Group's non-derivative financial liabilities as at the year end is as follows:

	2016	2015
	£'000	£'000
Due:		
– within one year	**822**	1,217
– within one to two years	**104**	426
– within two to five years	**–**	108
Gross amount	**926**	1,751

(b) Capital risk management

The Group defines capital as the total equity of the Group. The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, Haydale Graphene Industries PLC may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt. Haydale Graphene Industries PLC ensures that the distributions to shareholders do not exceed working capital requirements.

(c) Classification of financial instruments

	2016 £'000	2015 £'000
Financial assets		
Investments	–	117
Trade receivables	49	257
Other receivables	411	166
Cash and bank balances	2,864	2,049
	3,324	2,589
Financial liabilities		
Bank loans	270	432
Trade payables	260	273
Accruals and other creditors	329	265
Financial Liabilities (at amortised cost)	859	970
Provision for contingent consideration (fair value through profit and loss)	–	770
Total Financial Liabilities	859	1,740

(d) Fair value of financial instruments

All financial assets and liabilities approximate their fair values due to the relatively short-term nature of the financial instruments.

The Group has no financial assets or liabilities carried at fair values at the end of each reporting date, with the exception of the contingent consideration.

24. Capital commitments

The Group had the following capital commitments in the respective years:

	2016 £'000	2015 £'000
Contracted but not provided for	22	125

25. Ultimate controlling party

The Directors do not consider any one shareholder, individually or acting in consort with others, to have ultimate control of the Group.

26. Operating lease arrangements

The amounts of minimum lease payments under non-cancellable operating leases are as follows:

	2016 Land and buildings £'000	2016 Plant and machinery £'000	2015 Land and buildings £'000	2015 Plant and machinery £'000
Operating leases which expire:				
– within one year	40	1	9	16
– within two to five years	–	–	55	2
Aggregate amounts payable	40	1	64	18

26. Operating lease arrangements (continued)

Payments recognised as an expense under these operating leases were as follows:

	2016 Land and buildings £' 000	**2016 Plant and machinery £' 000**	2015 Land and buildings £' 000	2015 Plant and machinery £' 000
Operating lease expense	**98**	**23**	93	17

27. Acquisition

On 1 November 2014, the Company reached agreement to acquire the entire issued share capital of EPL Composites Solutions Ltd (now Haydale Composite Solutions Ltd ("HCS")) for a maximum consideration of £1.19 million. As at 30 June 2015, deferred contingent consideration of £0.77 million remained outstanding. During the year under review, the Company settled £0.35 million of the consideration in cash, £0.30 was reinvested in shares with the balance of £0.12 million being waived.

The fair values of Haydale Composite Solutions as at 30 June 2015 were as follows:-

	£' 000
ASSETS	
Intangible assets	285
Property, plant and equipment	174
Inventories	163
Trade and other receivables	274
Cash and bank balances	163
TOTAL ASSETS	1,059
LIABILITIES	
Trade and other payables	509
Corporation tax	7
TOTAL LIABILITIES	516
NET ASSETS ACQUIRED	543
Consideration	
Cash consideration	407
Contingent consideration discounted to present value	770
	1,177
Goodwill on acquisition	634
Effect within consolidated statement of cashflows:-	
Cash consideration	407
Less: cash and bank balances acquired	(163)
	244

Other than the intangible assets, there were no differences between book values and fair values on acquisition. The carrying value of Goodwill is based on the highly skilled assembled workforce of HCS.

Since the acquisition date to 30 June 2015, Haydale Composite Solutions Limited contributed £1,181,000 to group total income and £133,000 to group profit. Should the acquisition have occurred on 1 July 2014, total group income for the year would have been £1,889,000 and group loss for the year ended 30 June 2015 would have been £2,935,000.

28. Post balance sheet events

On 9 September 2016, the Group announced the completion of the acquisition of Innophene Co., Ltd ("Innophene"), a business focussed on the production of graphene enhanced conductive ink and composites, based on the Thailand Science Park, Bangkok, consideration for which was settled by the issue of 176,952 new ordinary shares in Haydale to the vendors.

The Group today announced the conditional acquisition of US based ACMC Holding, Inc., and its wholly owned trading subsidiary, Advanced Composite Materials, LLC ("ACM") for up to $7.0 million, consideration for which is to be funded by an issue of new equity via a placing an open offer to raise up to £2.5 million and the issue of $1.0 million of new ordinary shares in Haydale to the vendors.

At the date of authorisation of these financial statements, a detailed assessment of the fair value of the identifiable net assets of both Innophene and ACM has not been completed.

PARENT COMPANY BALANCE SHEET
As at 30 June 2016

Company Registration No. 07228939

	Note	2016 £'000	2015 £'000
Fixed assets			
Tangible fixed assets	5	**–**	–
Investments	6	**2,197**	2,005
		2,197	2,005
Current assets			
Debtors – within one year	7	**9,172**	538
– after more than one year	7	**–**	4,783
Cash at bank and in hand		**1,983**	1,798
		11,155	7,119
Creditors: amounts falling due within one year	8	**(768)**	(833)
NET CURRENT ASSETS		**10,387**	6,286
TOTAL ASSETS LESS CURRENT LIABILITIES		**12,584**	8,291
Creditors: amounts falling due after more than one year	9	**(104)**	(530)
NET ASSETS		**12,480**	7,761
Capital and reserves			
Called up share capital	10	**305**	229
Share premium account	10	**11,840**	6,254
Profit and loss account		**335**	1,278
SHAREHOLDER'S FUNDS		**12,480**	7,761

The financial statements on pages 58 to 63 were approved and authorised for issue by the Board of directors on 23 September 2016 and signed on its behalf by:-

Ray Gibbs
Chief Executive Officer

Matt Wood
Finance Director

PARENT COMPANY STATEMENT OF CHANGES IN EQUITY
As at 30 June 2016

	Share capital £' 000	Share Premium £' 000	Retained profits £' 000	Total Equity £' 000
At 1 July 2014	225	6,134	2,412	8,771
Loss for the year	–	–	(1,392)	(1,392)
Recognition of share-based payments	–	–	258	258
Issue of ordinary share capital	4	120	–	124
At 30 June 2015 and 1 July 2014	229	6,254	1,278	7,761
Loss for the year	–	–	(1,269)	(1,269)
Recognition of share-based payments	–	–	326	326
Issue of ordinary share capital	76	5,586	–	5,662
At 30 June 2016	**305**	**11,840**	**335**	**12,480**

NOTES TO THE PARENT COMPANY BALANCE SHEET
For the year ended 30 June 2016

1. Basis of preparation
Haydale Graphene Industries Plc's parent company financial statements have been prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework. The principal accounting policies adopted in the preparation of the financial statements are set out below. The policies have been consi stently applied to the years presented, unless otherwise stated.

The financial statements have been prepared on a historical cost basis. The presentation currency used is sterling and amounts have been presented in round ("£000's").

Disclosure exemptions adopted
In preparing these financial statements the company has taken advantage of all disclosure exemptions conferred by FRS101. Therefore these financial statements do not include:

- certain comparative information as otherwise required by EU endorsed IFRS;
- certain disclosures regarding the company's capital;
- a statement of cash flows;
- the effect of future accounting standards not yet adopted;
- the disclosure of the remuneration of key management personnel; and
- disclosure of related party transactions with other wholly owned members of the group headed by Haydale Graphene Industries Plc.

In addition, all in accordance with FRS 101, further disclosure exemptions have been adopted because equivalent disclosures are included in the consolidated financial statements of Haydale Graphene Industries Plc. These financial statements do not include certain disclosures in respect of:

- Share based payments;
- Business combinations;
- Financial Instruments (other than certain disclosures required as a result of recording financial instruments at fair value); and
- Fair value measurement (other than certain disclosures required as a result of recording financial instruments at fair value).

2. Accounting policies
The following accounting policies have been applied consistently in dealing with items which are considered material to the company' s financial statements:

Investment in subsidiary undertakings
Where the company has control over an investee, it is classified as a subsidiary. The company controls an investee if all three of the following elements are present: power over the investee, exposure to variable returns from the investee, and the ability of the investor to use its power to affect those variable returns. Control is reassessed whenever facts and circumstances indicate that there may be a change in any of these elements of control.

Investments in subsidiary understandings where the company has control are stated at cost less any provision for impairment.

Share-based payments
When the company grants options over equity instruments directly to the employees of a subsidiary undertaking, the effect of the share-based payment is capitalised as part of the investment in the subsidiary as a capital contribution, with a corresponding increase in equity.

Depreciation
Depreciation is provided to write off cost, less estimated residual values, of all tangible fixed assets, evenly over their expected useful lives. It is calculated at the following rates:

Furniture and fittings	33% per annum straight line

Impairment
The need for any fixed asset impairment write-down is assessed by comparison of the carrying value of the asset against the higher of realisable value and value in use.

Research and development
Research expenditure is recognised as an expense when it is incurred.

Development expenditure is recognised as an expense except that costs incurred on development projects are capitalised as intangible assets to the extent that such expenditure is expected to generate future economic benefits. Development expenditure is capitalised if, and only if an entity within the group can demonstrate all of the following:-

i) its ability to measure reliably the expenditure attributable to the asset under development;

ii) the product or process is technically and commercially feasible;

iii) its future economic benefits are probable;

iv) its ability to use or sell the developed asset; and

v) the availability of adequate technical, financial and other resources to complete the asset under development.

vi) its intention to use or sell the developed asset

Capitalised development expenditure is measured at cost less accumulated amortisation and impairment losses, if any. Development expenditure initially recognised as an expense cannot be recognised as an asset in a subsequent period.

Capitalised development expenditure is amortised on a straight-line basis over a period of 20 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. Amortisation is included within administrative expenses.

Taxation
The charge for taxation is based on the loss for the period and takes into account taxation deferred.

Current tax is measured at amounts expected to be paid using the tax rates and laws that have been enacted by the balance sheet date. Substantively enacted rate has been used for deferred tax balances, which are recognised in respect of all timing differences that have been originated but not reversed by the reporting date, except that the recognition of deferred tax assets is limited to the extent that the Company anticipates making sufficient taxable profits in the future to absorb the reversal of the underlying timing differences.

Foreign Currency
Foreign currency transactions are translated at the rates ruling when they occurred. Foreign currency monetary assets and liabilities are translated at the rate of exchange ruling at the balance sheet date. Any differences are taken to the profit and loss account.

3. Loss attributable to members of the Parent Company

It' s permitted by section 408 of the company' s act 2006; the company' s profit and loss account has not been included in these financial statements. The loss dealt with in the financial statements of the parent company for the year ended 30 June 2016 was £1,269,326 (2015: £1,205,000)

4. Directors' remuneration

The only employees of the Company are the directors. In respect of directors' remuneration, the disclosures required by Schedule 5 to the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 are included in the detailed disclosures in the audited section of the Directors' Remuneration Report on pages 25 to 27, which are ascribed as forming part of these financial statements.

5. Tangible fixed assets

	Fixtures and fittings £'000
Cost	
At 1 June 2015 and 30 June 2016	**3**
Accumulated depreciation	
At 1 June 2015 and 30 June 2016	**3**
Net book value	
At 30 June 2015 and 30 June 2016	–

6. Fixed asset investments

	Investment in subsidiary undertakings £'000	Capital contribution £'000	Total £'000
Cost			
At 1 July 2015	1,904	101	2,005
Additions	–	192	192
At 30 June 2016	**1,904**	**293**	**2,197**

The undertakings in which the company's interest at the period end is 20% or more are as follows:

Name of subsidiary company	Country of incorporation or registration	Proportion of ordinary share capital held	Nature of business
Haydale Ltd	England & Wales	100%	R&D, sales and distribution
Haydale Composite Solutions Limited (formerly EPL Composite Solutions Ltd)	England & Wales	100%	R&D, sales and distribution
Nano Hex (Sales) Ltd	England & Wales	100%	Sales and distribution
Haydale Resins Ltd	England & Wales	100%	Dormant
Haydale Composites Ltd	England & Wales	100%	Dormant
Nano Hex Ltd	England & Wales	100%	Dormant
Intelligent Nano Technology Ltd	England & Wales	100%	Dormant
Haydale Technologies Korea Co., Ltd	South Korea	100%	Sales and distribution
Haydale Technologies Incorporated	North America	88%	R&D, sales and distribution

7. Debtors

	2016 £'000	2015 £'000
Amounts owed by group companies	**8,873**	5,049
Corporation tax	**153**	129
Other debtors	**107**	97
Prepayments and accrued income	**39**	46
	9,172	5,321

Of the amounts owed by group companies, £nil (2015: £4,783,000) is due after more than one year. All other balances within debtors are due within one year.

8. Creditors: amounts falling due within one year

	2016	2015
	£'000	£'000
Bank loan	**166**	162
Trade creditors	**48**	75
Other creditors including tax and social security	**17**	13
Accruals and deferred income	**177**	73
Provision for contingent consideration	**–**	510
	768	833

The bank loan is securitised by an equal balance held on deposit and accrues interest at 1.5% above the Bank of England base rate.

9. Creditors: amounts falling due after more than one year

	2016	2015
	£'000	£'000
Bank loan	**104**	270
Provision for contingent consideration	**–**	260

The bank loan is securitised by an equal balance held on deposit and accrues interest at 1.5% above the Bank of England base rate.

10. Share capital and share premium

	Number of shares No.	**Share capital £'000**	**Share premium £'000**	**Total £'000**
At 1 July 2015	11,446,446	229	6,254	6,483
Issue of £0.02 ordinary shares	3,790,500	76	5,962	6,038
Share Issue Costs	–	–	(376)	(376)
At 30 June 2016	**15,236,946**	**305**	**11,840**	**12,145**

During the year, the Company issued 3,790,500 new ordinary shares of 2p each, 3,750,000 of which were issued at £1.60 in connection with the Company's £6.0 million placing and open offer in November 2015, with the balance of 40,500 ordinary shares issued were in respect of the exercise of options. Issue costs amounting to £376,372 (2015: £nil) have been charged to the share premium account in the year.

Details of the Company's share options schemes can be found in note 17 to the Group accounts on pages 47 to 49.

11. Ultimate controlling party

The Directors do not consider any one shareholder, individually or acting in consort with others, to have ultimate control of the Company.

12. Related party transactions

The Company is exempt from disclosing transactions with wholly owned subsidiaries within the Group. Other related party transactions are included within those given in note 22 of the consolidated financial statements.

13. First time adoption of FRS 101 Reduced Disclosure Framework

This is the first time that the Company has adopted FRS 101 having previously applied applicable UK accounting standards. The date of transition to FRS 101 was 1 July 2013. In applying FRS 101 for the first time the Company has made the election to retain the carrying amounts of fixed assets at the previous carrying amounts under applicable UK accounting standards.

Other than the adoption of the reduced disclosures there were no material effects of applying FRS 101 for the first time, and there are no differences in the numbers reports as a result of the transition to FRS 101. The disclosure exemptions adopted are included in note 1 of the Company financial statements.

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the 2016 Annual General Meeting of Haydale Graphene Industries plc (the "**Company**") will be held on 15 December 2016 at 2:00 p.m. at the offices of Fieldfisher LLP, 9th Floor, Riverbank House 2 Swan Lane, London EC4R 3TT to consider and, if thought fit, to pass the following resolutions, of which Resolutions 1 to 6 (inclusive) will be proposed as Ordinary Resolutions and Resolution 7 will be proposed as a Special Resolution:

ORDINARY RESOLUTIONS

1. To receive and adopt the audited financial statements of the Company for the period 1 July 2015 to 30 June 2016 and the reports of the Directors and Auditors thereon.
2. To re-appoint, as a Director of the Company, Roger Humm, who retires and offers himself for re-appointment.
3. To re-appoint, as a Director of the Company, John Knowles, who retires and offers himself for re-appointment.
4. To re-appoint, as a Director of the Company, Roger Smith, who retires and offers himself for re-appointment.
5. To re-appoint BDO LLP as Auditors of the Company and to authorise the Directors to determine their remuneration.
6. THAT the Directors be and they are hereby generally and unconditionally authorised pursuant to Section 551 of the Companies Act 2006 (the "**Act**"), in substitution for all previous powers granted to them, to exercise all the powers of the Company to allot shares in the Company or grant rights to subscribe for or convert any security into shares in the Company ("**Rights**") up to an aggregate nominal amount of £113,557.23 and such authority shall, unless previously revoked or varied by the Company in general meeting, expire at the conclusion of the annual general meeting of the Company to be held in 2017 provided that the Company may, at any time before such expiry, make an offer or enter into an agreement which would or might require shares to be allotted or Rights to be granted after such expiry and the Directors may allot shares or grant Rights pursuant to any such offer or agreement as if the authority conferred hereby had not expired.

SPECIAL RESOLUTION

7. THAT subject to and conditional upon the passing of resolution 6 the Directors be empowered, pursuant to section 570 of the Act, to allot equity securities (within the meaning of section 560 of the Act) for cash pursuant to the authority conferred by resolution 6 and/or where the allotment constitutes an allotment of equity securities by virtue of section 560(2) of the Act, in each case:
   (a) in connection with an offer of such securities by way of a rights issue (as defined below); and
   (b) (otherwise than pursuant to (a) above) up to an aggregate nominal amount of £68,134.34,

   as if section 561(1) of the Act did not apply to any such allotment, such authority to expire at the conclusion of the annual general meeting of the Company to be held in 2017 save that the Company may, before such expiry, make an offer or agreement which would or might require equity securities to be allotted after such expiry and the Directors may allot equity securities in pursuance of such an offer or agreement as if this power had not expired.

"**rights issue**" means an offer to:

(i) holders of ordinary shares in the capital of the Company in proportion (as nearly as may be practicable) to the respective number of ordinary shares held by them; and

(ii) holders of other equity securities if this is required by the rights of those securities or, if the Directors consider it necessary, as permitted by the rights of those securities,

(iii) to subscribe for further securities by means of the issue of a renounceable letter (or other negotiable document) which may be traded for a period before payment for the securities is due, but subject in both cases to such exclusions or other arrangements as the Directors may deem necessary or expedient in relation to treasury shares, fractional entitlements, record dates or legal, regulatory or practical problems in, or under the laws of, any territory or any other matter.

BY ORDER OF THE BOARD:
Matt Wood,
Company Secretary
21 November 2016

Registered Office
Clos Fferws Parc Hendre
Capel Hendre
Ammanford
Carmarthenshire
SA18 3BL

Explanatory Notes

Notes to the Notice of AGM

Entitlement to attend, speak and vote

1. Pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001 and paragraph 18 (c) The Companies Act 2006 (Consequential Amendments) (Uncertificated Securities) Order 2009, the Company has specified that only those members entered on the register of members at 2:00 p.m. on 13 December 2016 (or in the event that this meeting is adjourned, on the register of members 48 hours before the time of any adjourned meeting excluding non-business days) shall be entitled to attend, speak and vote at the meeting in respect of the number of ordinary shares in the capital of the Company held in their name at that time. Changes to the register after 2:00p.m. on 13 December 2016 shall be disregarded in determining the rights of any person to attend, speak and vote at the meeting.

Appointment of proxies

2. Members are entitled to appoint a proxy or proxies to exercise all or any of their rights to attend, speak and vote at the meeting. A proxy need not be a shareholder of the Company. A shareholder may appoint more than one proxy in relation to the Annual General Meeting provided that each proxy is appointed to exercise the rights attached to a different share or shares held by that shareholder. Please see the instructions on the enclosed Form of Proxy.
3. The completion and return of a Form of Proxy whether in hard copy form or in CREST will not preclude a member from attending in person at the meeting and voting should they wish to do so.

Appointment of proxy using the hardcopy proxy form

4. Please indicate the proxy holder' s name and the number of shares in relation to which they are authorised to act as your proxy (which, in aggregate, should not exceed the number of shares held by you) in the boxes indicated on the form. Please also indicate if the proxy instruction is one of multiple instructions being given. To appoint more than one proxy please see the instructions on the enclosed Form of Proxy. All forms must be signed and should be returned together in the same envelope.
5. To be valid, the Form of Proxy and the power of attorney or other authority (if any) under which it is signed or a certified copy of such power or authority must be lodged at the offices of the Company' s registrars, Share Registrars Limited ("Share Registrars"), Share Registrars Limited, The Courtyard, 17 West Street, Farnham, Surrey GU9 7DR by hand, by e-mail to proxies@shareregistrars.uk.com, by fax to 01252 719232 or sent by post, so as to be received not less than 48 hours excluding non-business days before the time fixed for the holding of the meeting or any adjournment thereof (as the case may be).

Appointment of proxy through CREST

6. CREST members who wish to appoint a proxy or proxies for the Annual General Meeting, including any adjournments thereof, through the CREST electronic proxy appointment service may do so by using the procedures described in the CREST Manual (available via www.euroclear.com). CREST Personal Members or other CREST sponsored members, and those CREST members who have appointed a voting service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.
7. In order for a proxy appointment or instruction made using the CREST service to be valid, the appropriate CREST message (a "CREST Proxy Instruction") must be properly authenticated in accordance with Euroclear UK & Ireland Limited' s specifications and must contain the information required for such instruction as described in the CREST Manual. The message, regardless of whether it relates to the appointment of a proxy or is an amendment to the instruction given to a previously appointed proxy must, in order to be valid, be transmitted so as to be received by Registrar (ID 7RA36) by not less than 48 hours excluding non business days before the time fixed for the holding of the meeting or any adjournment thereof (as the case may be). For this purpose, the time of receipt will be taken to be the time (as determined by the time stamp applied to the message by the CREST Applications Host) from which Share Registrars is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means.
8. CREST members and, where applicable, their CREST sponsors, or voting service provider(s) should note that Euroclear UK & Ireland Limited does not make available special procedures in CREST for any particular messages. Normal system timings and limitations will therefore apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST Personal Member or sponsored member or has appointed a voting service provider(s), to procure that his CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting system providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.

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

Appointment of proxy by joint holders

10. In the case of joint holders, where more than one of the joint holders purports to appoint a proxy, only the appointment submitted by the most senior holder will be accepted. Seniority is determined by the order in which the names of the joint holders appear in the Company's register of members in respect of the joint holding (the first name being the most senior).

Changing proxy instructions

11. To change your proxy instructions, simply submit a new proxy appointment using the methods set out above. Note that the cut-off time for receipt of proxy appointments also apply in relation to amended instructions; any amended proxy appointment received after the relevant cut-off time will be disregarded. If you submit more than one valid proxy appointment, the appointment received last before the latest time for receipt of proxies will take precedence.

Termination of proxy appointments

12. In order to revoke a proxy appointment you must send a hard copy notice clearly stating your intention to revoke your proxy appointment to the offices of the Company's registrars, Share Registrars, Share Registrars Limited, The Courtyard, 17 West Street, Farnham, Surrey GU9 7DR by hand, by e-mail to proxies@shareregistrars.uk.com, by fax to 01252 719232 or sent by post, so as to be received not less than 48 hours excluding non business days before the time fixed for the holding of the meeting or any adjournment thereof (as the case may be). Appointment of a proxy does not preclude you from attending the meeting and voting in person. If you have appointed a proxy and attend the meeting in person, your proxy appointment will automatically be terminated.

Corporate representatives

13. A corporation which is a member can appoint one or more corporate representatives who may exercise, on its behalf, all its powers as a member provided that no more than one corporate representative exercises powers over the same share.

Issued shares and total voting rights

14. As at 6.00 p.m. on 21 November 2016, the Company's issued share capital comprised 17,033,585 ordinary shares of 2 pence each fully paid. Each ordinary share carries the right to one vote at a general meeting of the Company and, therefore, the total number of voting rights in the Company as at 6.00 p.m. on 21 November 2016 is 17,033,585. The Company does not hold any shares in treasury.

Questions at the meeting

15. The Company will answer any question you ask relating to the business being dealt with at the meeting, unless:
    - answering the question would interfere unduly with the preparation for the meeting or involve the disclosure of confidential information;
    - the answer has already been given on a website in the form of an answer to a question; or
    - it is undesirable in the interests of the Company or the good order of the meeting that the question be answered.

Communication

16. Members who have general queries about the Annual General Meeting should use the following means of communication (no other methods of communication will be accepted):
    - calling the Share Registrars telephone number on 01252 821390. Lines are open 9.00 a.m. to 5.30 p.m., Monday to Friday; or
    - in writing to the Company by fax to 01269 831062.

You may not use any electronic address provided either:

- in this Notice of AGM; or
- any related documents (including the Form of Proxy),

to communicate with the Company for any purposes other than those expressly stated.

Documents on display

17. The following documents will be available at the registered office of the Company on any weekday (except Saturdays, Sundays and public holidays) during normal business hours from the date of this notice until the date of the Annual General Meeting:
    - a copy of the service agreements for the executive Directors;
    - a copy of the letters of appointment for the non-executive Directors; and
    - a copy of the directors' and auditor's reports and the financial statements for the period from 1 July 2015 to 30 June 2016.

Corporate Directory

Company Number	7228939
Directors	John Knowles Anthony Alfredo Belisario Raymond John Gibbs Matthew Graham Wood Graham Dudley Eves Roger James Humm Roger Anthony Smith
Secretary	Matt Wood
Investor Relations Contact	Trevor Phillips trevor.phillips@haydale.com
Head Office and Registered Office	Clos Fferws, Parc Hendre, Capel Hendre, Ammanford, Carmarthenshire, Wales, SA18 3BL
Website	www.haydale.com
E-mail	info@haydale.com
Telephone	+44 (0)1269 842946
Advisers	
Independent Auditor	BDO LLP Arcadia House, Maritime Walk, Ocean Village, Southampton, SO14 3TL
Nominated Advisor	Cairn Financial Advisers LLP 61 Cheapside, London, EC2V 6AX
Broker	Cantor Fitzgerald Europe One Churchill Place, 20th Floor, Canary Wharf , London, E14 5RB
Financial Public Relations	Hermes Financial Public Relations Limited 5 Cornfield Terrace, Eastbourne, East Sussex, BN21 4NN
Registrars	Share Registrars Limited Suite E, First Floor, 9 Lion and Lamb Yard, Farnham, Surrey, GU9 7LL
Solicitors	Field Fisher LLP Riverbank House, 2 Swan Lane, London EC4R 3TT
Intellectual Property Solicitors	Mewburn Ellis LLP 33 Gutter Lane, London, EC2V 8AS

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