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Haydale Graphene Industries Plc

Annual Report And Accounts

For the year ended 30 June 2017

Creating Material Change

Contents

Industry leader applying graphene and other advanced materials to enhance performance

Haydale

Creating material change

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Chairman's Statement

David Banks
Chairman

My task is to grow the business into a significant global advanced materials group

The year under review was a very busy one, with two strategic acquisitions, one in the USA and one in Thailand

I am delighted to present the Company's full year results to 30 June 2017 as your new Chairman, having taken over from John Knowles, who retired in July of this year. The Group thanks John for his major contribution to the Company, which he joined prior to the IPO in April 2014. My task is to build on his foundations and to move the business on from our early commercial wins to taking the current products we have developed, and together with the new ones in the pipeline, grow the business into being a significant global advanced materials group.

Haydale has been working for over 18 months on developing products in the Far East, a market which we see as ready adopters of graphene, and our other advanced materials, and a market that offers significant potential growth. I am therefore encouraged to see our strategic focus in the Far East is starting to pay off, with a dozen sales orders received across our three sites in the Far East since the beginning of August, where we have been particularly active in supplying our tailored graphene-based inks for screen printing sensors for the self-monitoring blood glucose ("SMBG") market. Whilst initially modest, it is the beginning of long-term repeat orders that we are looking to secure in this rapidly growing £11.54 billion market (US$15 billion). Furthermore, as previously announced, a number of our graphene-based inks that have received FDA regulatory approval to test in the SMBG sector where we believe the applications can be aimed at the US market. The longevity of these products is the crucial factor in our investment into this sector which, once established, are expected to deliver regular recurring sales orders to the Group.

In addition, Haydale's graphene has been designed into a new product range for a leading Far East cookware manufacturer who sell almost 400,000 units per month. We are in the final stages of independent testing of the product range which, if successful, is expected to be launched in the new year. The functionalised graphene material incorporated into the product was processed by our new Thai facility and has been shown to enhance the thermal response in a range of pots and pans. Once launched, our expectation is that the manufacturer will extend the graphene coating across a wider range of its cookware products. It is our firm intention to then seek other cookware manufacturers in other geographic territories to adopt this new product offering.

On the corporate front, the year under review was a very busy one, with two strategic acquisitions completed, one in the USA and one in Thailand. We now believe that we have a global presence in the world markets serving customers wanting our performance enhancing advanced materials to improve their own products. Post year end, we began operating out of Taiwan to meet demand for biomedical screen-printed sensors for the SMBG market. It is early stages but the customer engagements are looking very encouraging. We are now operating from six sites globally (two in the UK and one in each of the US, Thailand, South Korea and Taiwan), the sales from which are managed through two newly established strategic business units which began operating in July 2017 dealing with (i) resins, polymers and composites; and (ii) advanced materials, including functional inks, coatings and silicon carbide (SiC). Going forward, we will concentrate on growing our sales

Chairman's Statement continued

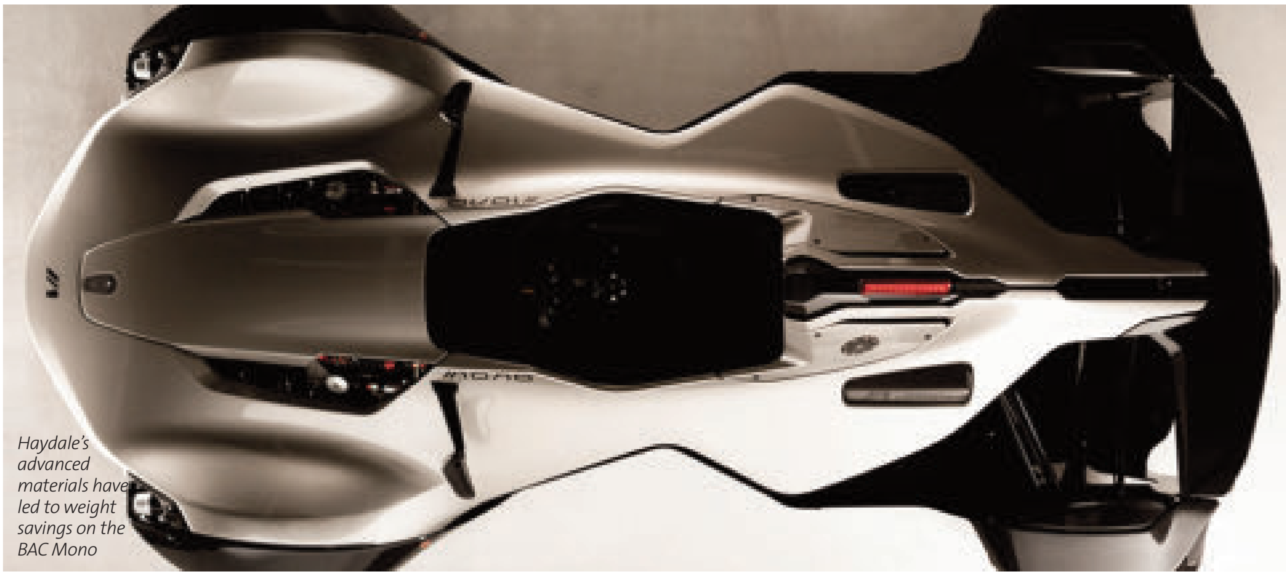
order book, which at the year end stood at £5.40 million and was increased post year end to approximately £6.00 million, bolstered by the new $4.48 (£3.45) million three-year-contract announced in early September with one of our existing SiC customers, Tateho Chemical Industry Co., Limited.

> We now believe that we have a global presence in the world markets serving customers wanting our performance enhancing advanced materials

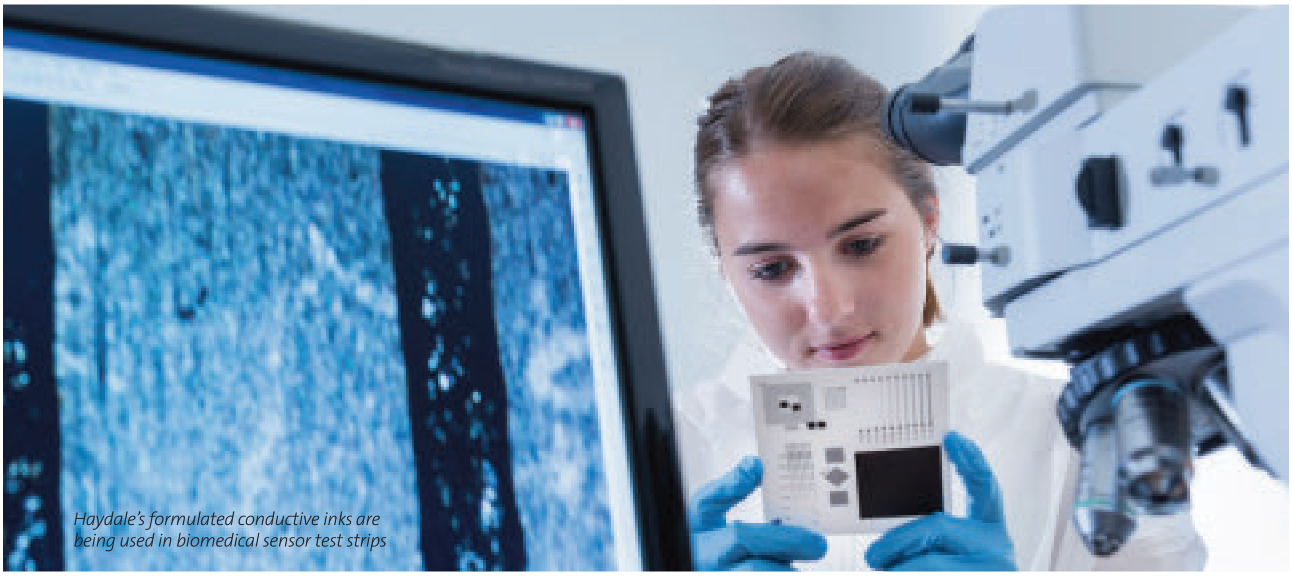
As part of Haydale's sales strategy we will continue to look to engage in focussed partnerships, collaborations, and other commercial arrangements with "best in class" companies across the globe in our chosen strategic market of composites, ceramics and functional inks/coatings, in order to introduce our products using these advanced materials.

I would like to thank the staff, our advisors and my fellow Board members for their hard work and dedication in positioning the Group for the next stage of its growth. I would also like to thank our shareholders for their continued support.

David Banks
Chairman
10 October 2017



Haydale's advanced materials have led to weight savings on the BAC Mono



Haydale's formulated conductive inks are being used in biomedical sensor test strips

Haydale's materials have helped overcome lightning strike on aircraft

Chief Executive's 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 owns ACM which manufactures and sells SiC whiskers and fibres and is 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.

6 Haydale Technologies, (Taiwan) Co Ltd ("HTW")

Kaohsiung, South Taiwan

Formulates, produces and sells bespoke smart conductive inks used in diagnostic biomedical sensors and other products

5 Haydale Technologies (Korea) Limited ("HTK")

Seoul, South Korea

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

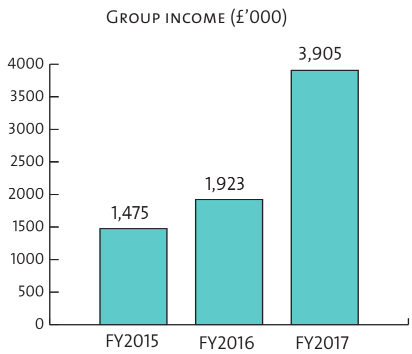
4 Haydale Technologies (Thailand) Company Limited ("HTT")

Bangkok, Thailand

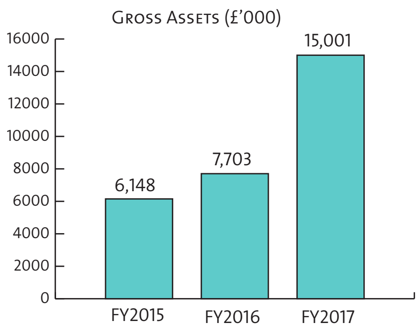
Provides a low cost R&D Centre of Excellence, servicing the APAC region and supporting HTK's and HTW's sales team.

Chief Executive's Review continued

Ray Gibbs
Chief Executive Officer



Total income increased more than 100% year on year



Investment in knowledge, know-how, products and building our global presence has led to an almost doubling of gross assets

Financial Highlights

Total income, comprising revenue of £3.00 million (2016: £1.17 million) and grant income of £0.90 million (2016: £0.75 million), for the year ended 30 June 2017 increased more than 100 per cent. year on year to £3.91 million (2016: £1.92 million), being generated from a mixture of silicon carbide sales (8½ month's contribution from ACM, acquired in mid-October 2016), advanced composite consulting contracts, reactor sales and grant income. The EBITDA (adjusted for share-based payment charges and profit/loss on disposal of property, plant and equipment) was a loss of £4.35 million (2016: £3.36 million). We continued to invest in increasing our know-how, knowledge and understanding of mixing and dispersion techniques alongside our industry leading collaboration partners as we expensed £0.91 million of R&D spend during the year (2016: £0.51 million) and capitalised £0.24 million (2016: £0.43 million). We ended the year with cash of £2.10 million (2016: £2.86 million).

Strategy

This year has seen the continued implementation of our strategy to promote Haydale as a pre-eminent solutions provider in the commercialisation of graphene and other advanced materials. We have increased Group income in this year by more than 100 per cent. to £3.91 million and are operational across 6 sites in the US, UK and the Far East. Critically, in our drive to grow sales further, we now have market ready products, principally in silicon carbide micro fibres ("SiC") from our US operation and screen printable graphene and speciality inks from our Far East businesses. Since we acquired the SiC business in October 2016, we have successfully secured additional long term orders of US$2.6 (£2.0 million) million from a new customer as announced in April this year, and recently a new contract from our key SiC customer, Tateho Chemical Company Co., Limited, worth $4.48 million (£3.45 million) over three years that extended the previous order value by $1.40 million (£1.08 million). These contracts, together with others across the Group, take the Group's total order book to £6.00 million today, which will be delivered over the next three and a half years.

As previously announced, Haydale has experienced unforeseen delays with our commercial collaboration partners, Flowtite Technology AS (owned Amiantit Company) and Huntsman Advanced Materials, albeit we remain confident of future revenues from both of these next generation product developments. In particular, the results from extensive testing with Flowtite on their glass reinforced plastic ("GRP") pipes produced in April this year incorporating our GNP material to improve impact resistance have been very encouraging and Flowtite has requested a repeat trial, set for early 2018, to corroborate these positive findings. During the course of our work with Huntsman, we have gained critical know-how and understanding of dispersion, mixing and processing of advanced nanomaterials which has assisted us in a number of related areas and significantly improved our commercial offering. Our ability to use advanced materials in a way that does not affect the downstream production process of customers has been a significant factor in gaining customer acceptance of our product offering. A key example here is Haydale's involvement in the recently announced Airbus aileron where our technology was independently verified to achieve over a 600 per cent. increase in electrical conductivity capable of defeating lightning strike impact on aircraft. Although a longer-term revenue opportunity, our work in this area, in collaboration with GKN and Cobham, has generated a product capable of immediate sales in the pre-impregnated carbon fibre composite field and opens up a range of near-term opportunities such as electro-magnetic shielding, leading-edge de-icing and anti-static applications.

Haydale's business model utilises the expertise of best in class industrial partners to process significant volumes of graphene under licence. The carrier material (e.g. resin, polymer or ink systems) which is impregnated with a concentrated tailored advanced material (such as graphene) is known as a masterbatch. We previously reported our important agreement with the Advanced Metallurgical Group N.V. ("AMG") culminating in the commissioning at its Hauzenburg site in Germany of two of our plasma reactors in November 2016. AMG's facility being established will be able to satisfy the requirements of our customers and joint development partners for graphene loaded masterbatch, principally in the thermoset composite market where volumes can be substantial. As part of our agreement with AMG, we now have access to their world-wide sales force to promote our other products, principally our functional inks. Ensuring we have strategically located, dedicated processing centres, close to customer bases with a secure, sustainable, consistent, quality material supply is at the heart of our commercialisation strategy.

Acquisitions

We continue to pursue a strategy to consider suitable acquisitions if they provide Haydale access to sales of complementary products in our primary target markets. In the year under review we have been particularly active and have acquired operations in the USA and Thailand, both key geographies that we consider prime markets for our products and technical skills.

In the USA, our SiC operation acquired in October 2016 is performing to plan and growing its order book. Having established its sales growth potential, in May 2017, we acquired the minority 13.5 per cent. of our US holding company subsidiary, Haydale Technologies Inc ("HTI"), that the Group did not previously own for approximately US$0.5 million (£0.41 million), satisfied out of internal cash resources.

> Haydale has ambitious plans for growth in the Far East following intensive customer evaluations, especially in South Korea, and our new facilities in Taiwan and Thailand

In Thailand, shortly after the acquisition in September 2016, we built out a high-class facility to house our patented plasma reactor technology and establish a graphene R&D centre in the prestigious Thailand Science Park capable of servicing our Far East sales effort. This facility officially was opened on 29 March 2017 by HRH Princess Maha Chakri Sirindhorn. Since then our Thai facility has supplied the functionalised graphene for our push into bio medical sensors and cookware and has secured its own funded research projects with leading Thai petrochemical processor, IRPC, and the Thailand Ministry of Energy. We have expectations that these projects will lead to follow on product sales in region. Further details of the two acquisitions are dealt with in the Strategic Report.

A major part of our sales expansion will be in China, one of the largest markets in the world for advanced composites applications. In February 2017, we secured a strategic financial partner in Everpower Holdings (a New York financial investment family office with direct access to China), to assist us in opening up this high growth market for us. We are encouraged by their commercial approach and business drive which we expect to translate into revenues to Haydale in the current financial year.

Strategic Business Units

From 1 July 2017, we created two strategic business units (SBU's) within the Group to focus on and deliver our anticipated sales growth:

1. Resins, Polymers and Composites; and
2. Advanced Materials (including SiC and inks)

Both SBU's have dedicated management teams with a focus on delivering sales growth and, in turn, operating profits. Each unit has a Managing Director, with Trevor Rudderham heading up Advanced Materials and Keith Broadbent running the Resins, Polymers and Composites SBU. Keith, who is based in the UK, joined Haydale in July 2017 having worked at Ultra Electronics and was previously head of production at luxury boat builders Sunseeker and Princess. Trevor, who is based in the US, has been with the Group since mid-2016 shortly before our acquisition of ACM in the Autumn of 2016.

> From 1 July 2017, we created two strategic business units within the Group to focus on sales

The SBU teams are challenged with growing sales of our SiC and inks products and on the conversion of our extensive research and product development in areas such as pre-preg composites into a sales pipeline and commercial revenues of graphene enhanced products. Haydale has ambitious plans for growth in the Far East following intensive customer evaluations, especially in Korea, and our new facilities in Taiwan and Thailand.

In North America, we have successfully relaunched and rebranded ACM, and our strategy is to take advantage of a fragmented and largely untapped graphene and advanced materials market. This operation has quality technical and now commercial management to deliver ambitious growth plans. In addition, we will seek to establish our plasma reactors in the USA to enhance the full technical delivery of our materials and products to a large market.

Chief Executive's Review continued

Haydale's patented functionalisation process

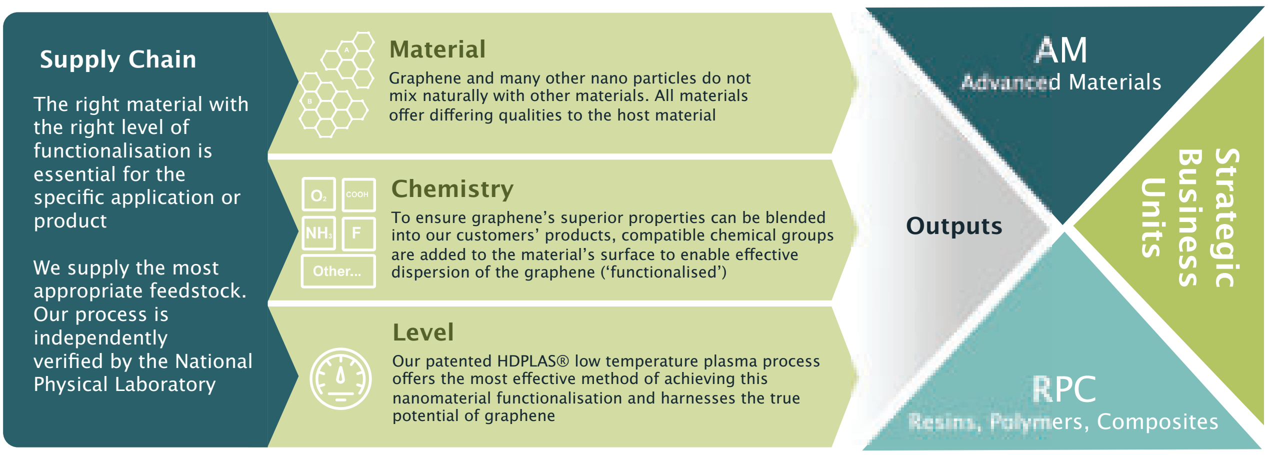
Outlook

The group has income visibility from its long-term grant awards, the ongoing advanced composite consulting services from the highly skilled team at Loughborough, and SiC sales orders from the US which, in aggregate, provided the Group with a record order book of £5.4 million at the year-end, that has since grown to approximately approx. £6.0 million as at the date of this report.

We see the rapidly growing self-diagnostic biomedical sensor market for diabetes monitoring as a major part of the inks sales in the current financial year through our newly opened Taiwan operation. The long-term repeatability of this market should add to our increasing sales visibility and provide a pathway for us to progress our other speciality functional ink products under development. We expect to enter into long-term supply agreements with the print houses with which we have had our conductive graphene-based ink product accepted and designed into the future sale of test strips for the SMBG market.

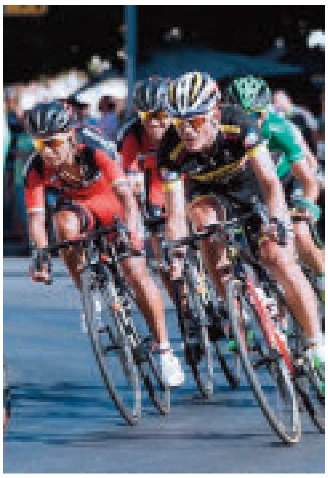
Haydale has evolved from an R&D focused business to a commercial entity with a real geographic presence. This past year, having grown total income by more than 100 per cent., and with the recent overseas investments and management actions highlighted in this statement and in the Strategic Report, we are expecting significant increases in product sales in the current financial year, which will build the foundations for Haydale to achieve our near and long-term growth objectives.

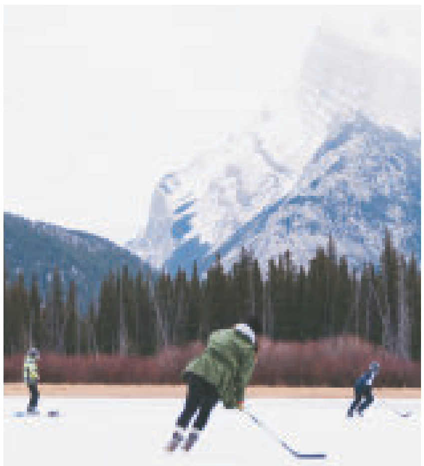
Ray Gibbs
Chief Executive Officer
10 October 2017



Industries such as healthcare and manufacture of jet engines use Haydale's advanced materials

Haydale's advanced materials have been incorporated into drones





Sporting goods is a key target sector for Haydale's advanced materials

Strategic Report

The directors present their Strategic Report for the year ended 30 June 2017.

PRINCIPAL ACTIVITIES

Haydale Graphene Industries Plc ("HGI", "Haydale" or the "Group") is the AIM listed group that uses tailored advanced materials, including graphene and silicon carbide (SiC), to enhance the quality and performance of its customers' products. In the USA, Haydale manufactures proprietary silicon carbide fibres and whiskers that strengthen ceramics and enable highly scratch and wear resistant coatings. Applications for SiC include scratch resistant cookware, corrosion barriers for oil and gas pipelines and cutting tools that fashion, for example, jet engine turbine blades from solid billets. The Group has developed regulatory approved proprietary graphene-based inks and coatings for the print and biomedical sensor markets, as well as enhanced resins for the pre-preg carbon fibre market. The Group has operational activities in its six chosen geographies worldwide. In summary, these are:

Haydale subsidiary	*Location*	*Principal activities*
Haydale Limited	Ammanford, Wales	R&D operation, supporting the resins, polymers and composites strategic business unit
Haydale Composite Solutions Limited ("HCS")	Loughborough, England	Advanced composites design, R&D and testing specialist, covering the full product development lifecycle
Haydale Technologies (Korea) Limited ("HTK")	Seoul, South Korea	Dedicated sales servicing the fast-moving Korean, Chinese and Japanese markets
Haydale Technologies (Thailand) Company Limited ("HTT")	Bangkok, Thailand	Provides low-cost and high-value R&D, servicing the APAC region and supporting the Far East sales teams. Acquired in September 2016
Haydale Technologies, Inc. ("HTI")	South Carolina, USA	ACM is HTI's wholly owned operating subsidiary acquired in October 2016 which produces and sells novel silicon carbide micro fibres and whiskers
Haydale Technologies Taiwan Ltd ("HTW")	Kaohsiung, Taiwan	Newly established in July 2017 as the production facility and technical centre for sales of bio medical regulatory approved screen printing and other speciality inks

During the year the Group made two acquisitions, in Thailand and in the USA, and secured a strategic investor as part of a desire for geographic coverage and product diversification in the key overseas markets of the USA and Far East, details of which are set out below.

USA

In October 2016, we completed the strategic 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 micro-fibre producer. We acquired the share capital of ACM for of $1.6 million (£1.31 million) and we assumed debts held by ACM of approximately $3.6 million (£2.96 million). $1.00 million (£0.82 million) of the consideration was settled via the issue of 415,618 new ordinary shares in Haydale and there remains approximately £0.46 million of consideration which is expected to be settled by the end of December 2017. There is also an agreed earn out formula that runs to mid-2020 that provides for further payments of up to $1.80 million (£1.39 million) to the vendors of ACM, based upon ACM achieving certain sales targets that are expected to be self-funded.

The acquisition of ACM was financed out of existing resources, new-long term banking facilities secured in the US and an oversubscribed placing and open offer that raised £2.59 million before expenses. We spent a considerable amount of time evaluating the North American market before deciding to acquire ACM and we concluded that the business offered us a strategic foothold in a substantial geographic territory offering significant growth potential and synergistic products, whilst also allowing for substantial cross-selling opportunities within the Group. In advance of its purchase, we recruited Trevor Rudderham as CEO of Haydale Technologies Inc ("HTI"), our US subsidiary that acquired ACM, to run the Group's North American operations. In May 2017, we acquired the minority 13.5 per cent. interest in HTI that the Group didn't previously own for $0.51 million (£0.41 million), paid out of existing cash resources.

We are pleased with ACM's performance under the Group's ownership and we have subsequently invested heavily in sales and marketing activities. Pleasingly, in March 2017 we secured a four-year sales contract to supply our SiC micro fibre to a new customer for tooling and wear resistant applications, principally in the manufacture of hard edged cutting tools used in the production of land based turbines and jet engine fan blades. The contract, worth $2.60 million (£2.0 million) over its four-year term, is expected to deliver approximately $0.65 million (£0.50 million) of annual revenues. Post year end, we secured a new replacement long-term contract for the supply of our SiC whiskers to our major Japanese customer, Tateho Chemical Industries Co., Limited ("Tateho"). This contract, worth $4.58 million (£3.52 million) over its three-year term, replaces the existing contract with Tateho which had less than two years to run and increased the Group's order book and income visibility by a further $1.40 million (£1.08 million).

ACM has predominately long-term contracts, some at highly attractive margins, providing us with excellent future revenue visibility.

The USA is a significant market for us which we estimate accounts for around 40 per cent. of the world's demand for our advanced materials and further investment into the region is likely to continue, particularly with regards to our patented plasma treatment process of advanced materials, such as graphene. HTI is reviewing a number of initiatives to add revenue and new products to its SiC portfolio. This will involve adding processes and equipment into the available space at our South Carolina facility. If successful, these new products are not expected to add any significant cost to direct labour or overheads.

Far East

Having opened a sales office in Seoul, South Korea in 2015, and established a collaboration in Taiwan for our inks in early 2016, we found that the pace of enquiries for functional materials and ink products challenging to our UK operations. It became apparent that we needed a local facility to service our Far East customers who constantly required rapid turnaround and ink reformulation services. In September 2016, we completed the acquisition of Bangkok-based Innophene Co. Ltd for £0.31 million, consideration for which was settled through the issue of 176,952 new ordinary shares in Haydale, representing approximately 1 per cent. of the Company's then issued share capital.

Innophene was subsequently renamed Haydale Technologies (Thailand) Limited, ("HTT") and now has a portfolio of ink products that we are starting to commercialise. These include a software driven anti-counterfeiting device that "reads" our unique ink when printed onto a product label, proving the authenticity (or otherwise) of the goods. We are exploring areas of interest from governments and producers seeking to protect brands and reduce the growing incidence of counterfeit goods. The specialist ink uses materials from our collaboration partner, Talga Resources, and has been developed over the last nine months.

HTT has quickly established itself as a technical and sales support service for our Korean and Taiwan activities. The first step was to set up a high-class facility in the prestigious Thailand Science Park in Bangkok to house one of our patented plasma HT60 reactors and establish the first graphene R&D centre in Thailand. This was achieved when HRH Princess Maha Chakri Sirindhorn officially opened the facility on 29 March 2017. Since then the operation has secured funded research projects with leading Thai petrochemical processor, IRPC, for functionalisation of some of its by-products, and the Thailand Ministry of Energy on graphene enabled super capacitors. All trial and product sales requiring functionalised graphene in the region have been processed and shipped from our Thai facility.

As further evidence of our focus on the Far East market, in February 2017, we announced that we had secured a £3.3 million strategic investment from USA-based, Everpower International Holdings Co ltd ("Everpower"), to be made through one of its Chinese subsidiaries. The investment was concluded in April 2017 and resulted in Everpower owning 9.9 per cent. of the Group and an agreement to exploit Haydale's current and future products in China. Everpower has purchased $0.20 million (£0.15 million) worth of products from us for delivery in the new year and we are currently working together to industrialise a number of our products, including our SiC, conductive inks and the advanced thermoset composite designs created by the Group.

The EU

In the UK, we have two operational facilities in Ammanford and Loughborough. Ammanford is primarily a 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. Ammanford is responsible for installing, commissioning and maintaining the plasma reactors used internally and for third parties. The aim is to provide the Group with sustainable commercially available graphene and other nanomaterials for both internal product development and third-party customers.

In Loughborough, we are focussed on producing applications engineering solutions in traditional thermoset composites and have been delivering masterbatch for the Huntsman research project where we have added graphene into Huntsman's high-end epoxy resin where their focus has now been to enhance the

Strategic Report continued

thermal conductivity (heat dissipation) of composite carbon fibre pre-preg. A second major research project was undertaken with leading water and sewerage pipe manufacturer, Flowtite, which incorporated graphene into Flowtite's next generation pipes with the aim of increasing their impact resistance and improving the pipe's impermeability. Our work with Huntsman and Flowtite has been mainly funded by the Group and, although there have been some delays in their commercial progress, we remain confident of significant revenue opportunities in the future. Although it is too early to be definitive as tests are ongoing, we have seen encouraging results in key metrics such as fracture toughness (impact resistance) in the glass reinforced plastic ("GRP") pipes.

In May 2016, we entered into a collaboration agreement with Graphit Kropfmuhl GmbH ("GK"), part of AMG Advanced Metallurgical Group N.V. ("AMG"), to develop new valued-added nanomaterial products using Haydale's HDPlas® functionalisation process. As part of the agreement, we supplied an HT60 R&D reactor and a larger capacity HT200 reactor to GK's purpose built facility in Germany. Commissioning of the reactors was completed in November 2016. It is expected that this facility will produce, under licence from Haydale, the graphene-based masterbatch expected to be purchased by the likes of Flowtite, once commercial quantities begin to be required.

Strategic Business Units

On 1 July 2017, the Group, which consisted of eight worldwide limited liability operating entities, undertook an internal reorganisation and created two Strategic Business Units ("SBU") in order to streamline its operations and instill a focus on sales and profits. The intention is to ensure that the Group is best positioned to realise its potential as a profitable commercial entity having evolved from being an R&D oriented business.

One SBU is focused on Resins, Polymers, and Composites ("RPC") and will concentrate on marketing and selling the newly developed graphene infused carbon fibre pre-impregnated materials (pre-preg). The second SBU is focused on selling our Advanced Materials ("AMAT"), including our silicon carbide ("SiC") whiskers and fibres and our newly developed functional inks and pastes initially targeting the US$15Bn (£11.54Bn) self-monitoring blood glucose device market.

Each SBU has its own managing director with full profit and loss responsibility and a principal focus on driving product delivery and sales. Supporting each managing director will be dedicated sales teams with technical support. Trevor Rudderham, our USA CEO, is heading up the AMAT SBU and has a dedicated sales team in the USA and Far East. Keith Broadbent has been appointed as the MD of the RPC SBU, which incorporates both of our UK facilities. Keith joined us July 2017 after many years at an operational director level with related businesses such as prestigious boat manufacturers, Sunseeker International and Princess Yachts. Going forward, the Group intends reporting the trading results of each SBU.

OPERATING REVIEW

The Group's key objective now is to accelerate the transition of the business from an R&D focussed operation into a sales and marketing organisation. We now have the strategic business units in place with quality management and the supply chain and collaboration partners with sales reach to commence commercial sales of products. One of the fundamental items of this strategy is to have a sustainable supply chain (with a second back-up source) secured for anticipated demand and multiple sites that answer the customers' requirements for a disaster recovery plan.

Funded and Private Venture projects

During the year under review, the Group has been busy progressing R&D programmes with important commercial partners where development of a commercially viable end products is a pre-requisite of securing each projects' funding. Examples of such projects include:

- Graphene composites evaluated in lightning strike:

  This Innovate UK project was designed to develop electrically conductive adhesives for aerospace applications and we were able to deliver independently verified increases in electrical conductivity on a carbon fibre Airbus Aileron. We are now investigating other ways of imparting lightning protection and electrical conductivity for electromagnetic interference (EMI) shielding and anti-static composite structures. The adhesives developed during the project are expected to have applications in other sectors, including large offshore wind turbines and marine, as well as applications in the oil and gas industry for static electricity dissipation in pipelines.

- Graphene additives on carbon/carbon composite materials.

  In conjunction with Meggitt Aircraft Braking Systems, a division of Meggitt plc, we are investigating the potential of graphene additives and SiC to develop carbon/carbon composites for friction and thermal management applications for a range of global end users, including aerospace, space and power generation.

- Hydrogen storage pressure vessels

  We are designing and developing a thermoplastic composite vessel and pipe for hydrogen storage and transfer applications at pressures of up to 700 bar. Such products will be fully recyclable, impact resistant and durable. The sectors targeted for these products include automotive and energy.

- De-icing

  We have successfully demonstrated the feasibility of forming multi-functional graphene-based surfaces capable of Joule heating for de-icing applications with additional functionality of ice sensing to form a 'smart surface'. Applications include de-icing for drones and other leading-edge structures such as wind turbine blades.

Operations and technical

Crucially, during the year under review we have invested in reducing the processing time of our advanced materials and hence increased our capacity. This has been successfully done for certain materials and consequently we now have an established processing and treatment facilities in the UK, Germany and Thailand capable of treating (known as "doping") 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. Our granted patent on processing nanomaterials with plasma offers not only the opportunity to exploit the graphene market but other non-carbon based 2D materials. We are aware that the Centre of Process and Innovation ("CPI") in the UK, who purchased one of our HT60 reactors last year, has successfully functionalised Boron Nitride, an insulating 2D material known as the "white graphite" with their HT60. During the year, the importance of mixing, processing and dispersing nanomaterials has become an area of equal importance to graphene for the future growth of Haydale. During the year, the plasma patent was also granted in Japan and has been allowed for grant in the USA.

> The Group's key objective now is to accelerate the transition of the business from an R&D focussed operation into a sales and marketing organisation.

In the year under review, the Group's headcount increased significantly from 46 to 70 at the year end as we delivered on internally and externally funded projects and begin to build up a sales force capable of capitalising on our existing and future products. We acknowledge that we have some way to go to perfect the sales cycle and we are still in need of more sales specialists, particularly in the pre-preg sector where we think there is considerable opportunity, especially in China. We lease all or our facilities and some, such as our facilities in Loughborough, are at or nearing capacity where we will be carefully evaluating their growth requirements during the current financial year. ACM in the US has substantial spare space in its 70,000 sq. ft. factory and offices and we have plans to utilise the space in the foreseeable future.

Patents, IP and Licensing

Our patents are process patents in key selected strategic territories where, as a blocking prior art tool, they are very useful. We are aware of one patent application where the examiner has thrown out their claims citing Haydale's patents as prior art. Our critical IP however, is our processing, mixing and dispersion knowledge and know-how derived from the many months work we have carried out in conjunction with Huntsman, together with the FDA approved ink formulations that have been developed in the Far East. We are in the process of documenting our knowledge and know-how IP, including ink recipes and masterbatching techniques.

In the USA, ACM has filed a patent for the production of its silicon carbide micro-fibre but our preference is to keep secret the production process of the even smaller "SiC whisker" material.

Key Performance Indicators ("KPIs")

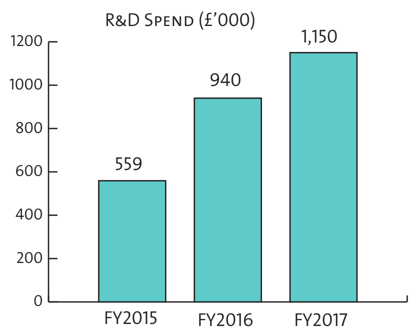
The Board consider there are a number of important KPIs which are non-financial, such as: the nature and size of development projects; the speed of response to inbound enquiries; product performance improvements of the host material once enhanced with our functionalised materials vs the control; the 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, the operating cash flows and the adjusted EBITDA (adjusted for share-based payment charges and profit/loss on disposal of property, plant and equipment). of the Group. Going forward, in addition, as revenues increase, an important KPI is the quantum of the order book and we have commenced reporting on this metric in the current year. The visibility on future sales gives some comfort on likely income streams, although predicting unit volumes of sales by a third party of their next generation product which incorporates our advanced material sometimes in new territories is not easy to do accurately. That said, the focus on functional inks in the Far East and the future potential for our FDA approved inks for the disposable self-diagnostic blood glucose sensor market is expected to provide us with repeatable monthly sales visibility, especially as the print houses to whom we supply will want long-term agreements. For the year ended 30 June 2017, the Group's income of £3.91 million was in line with management's expectation with cash and deposit balances amounting to £2.10 million at 30 June 2017 (2016: £2.06 million) is also in line with budgets. The net cash outflow from operating activities for the year ended 30 June 2017 of £4.29 million (2016: £3.36 million loss) which was also in line with the budgeted cashflows for the year. The Group's adjusted EBITDA for the year ended 30 June 2017 amounted to £4.20 million (2016: £3.29 million).

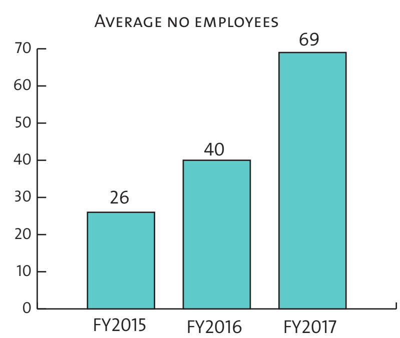
Strategic Report continued

Matt Wood
Finance Director

Total income for the year more than doubled to £3.9 million



At the year end the Group's order book stood at £5.4 million, which has since grown to £6.0 million



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 32 to 64. The financial statements of the Company continue to be prepared in accordance with International Financial Reporting Standards and are set out on pages 65 to 70.

Statement of Comprehensive Income

In the year under review, the Group's three principal areas of income were: (i) advanced composite consulting engineering services; (ii) sale of silicon carbide whiskers and fibres; and (iii) long-term grant funded projects.

During the year, our team in Loughborough built on the work of the previous financial year, specifically in improving the thermal, electrical and mechanical performance of certain thermoset epoxy resins in conjunction with collaboration partners, Huntsman and Flowtite. Significant investment was made to ensure that the Group retained all of the key IP, knowledge and know-how surrounding the development of these higher performing resins. This work has been crucial in the team being able to develop three new pre-preg carbon fibre products which are just now becoming available and able to demonstrate their performance improvements. As well as developing products for the longer term significant sales opportunity, the team at Loughborough has been delivering on long-term composite consulting contracts, recording revenues of £0.62 million in the year under review (2016: £0.54 million).

The team at Ammanford continues to deliver incremental improvements in reducing processing cycle times and increase load capacities in both plasma reactor models, the HT60 and HT200. In the year, revenues of £0.25 million were recorded in connection with the commissioning of the two plasma reactors sold to GK in the previous financial year.

The team at ACM delivered revenues of £2.05 million since it was acquired in mid-October 2016, in line with expectations. ACM has predominately long-term contracts with its customers, some of which are at highly attractive gross margins, providing us with excellent future revenue visibility.

Revenues from the Far East totaled £0.09 million, principally derived from R&D services provided by our Thailand operation acquired in September 2016.

£0.92 million of new grant funded projects were secured during the year, building upon awards obtained in prior years meaning that we recorded grant income of £0.90 million in the year under review (2016: £0.75 million). 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 each project.

The Group's total income for the year more than doubled year on year to £3.91 million (2016: £1.92 million). Pleasingly, at the year end, the Group's contracted order book stood at £5.40 million and since the year end, additional long term orders have been secured resulting in a current order book of £6.0 million to be delivered over the next 3.5 years.

Overall R&D spend for the year increased to £1.15 million (2016: £0.94 million), of which £0.9 million was expensed during the year (2016: £0.51 million), with the balance of £0.24 million being capitalized, (2016: £0.43 million). This internal funded development expenditure is expected to lead to sales of new products in future financial years. The Group's other administrative costs for the year totaled £8.14 million (2016: £5.09 million) including almost a full year of costs from Innophene, acquired in September 2016, and ACM, acquired in October 2016. Overall, the loss from operations for the year was £5.34 million (2016: £4.01 million loss), and included non-cash items of £1.14 million (2016: £0.76 million). The loss per share for the year increased marginally £0.28 (2016: £0.26 loss).

Statement of Financial Position and Cashflows

As at 30 June 2017, net assets amounted to £8.91 million (2016: £6.60 million), including cash balances of £2.10 million (2016: £2.86 million). Other current assets increased to £2.89 million at the year end (2016: £1.44 million), and current liabilities increased to £2.98 million as at 30 June 2017 (2016: £1.00 million). Current liabilities include £0.47 million of consideration payable for the acquisition of ACM which is expected to be settled in the current financial year. Net cash outflow from operating activities for the year was £4.29 million (2016: £3.28 million), the principal contributing factor being the loss from operations activities of £5.34 million (2016: £4.01 million). Expenditure on capital equipment again utilised a significant portion of cash during the year at £0.42 million (2016: £0.47 million). Additionally, in May 2017, the Company acquired the 13.5 per cent. minority interest in HTI, its US subsidiary, that it did not already own for £0.41 million.

Capital Structure and Funding

As at 30 June 2017, the Company had 19,597,713 ordinary shares in issue (2016: 15,236,946). During the year, the Company issued 4,360,767 new ordinary shares, 176,952 of which were for the acquisition of Innophene in September 2016, 2,035,305 of which were issued in connection with the Company's acquisition of ACM in October 2016 (1,619,687 in relation to the £2.6 million oversubscribed placing and open offer and 415,618 issued as consideration to the vendors of ACM). A further 2,109,010 ordinary shares were issued in connection with the £3.6 million strategic subscription, of which £3.3m was subscribed for by Everpower, which completed in April 2017 and the balance of 39,500 shares were issued in respect of option exercises.

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.

PRINCIPAL RISKS AND UNCERTAINTIES

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

Health and Safety

Many of the Group's products of advanced materials are nano in size and, although there is little actual evidence of any health risks associated with the handling of the Group's products, there is a theoretical risk that the Group's products could be a danger to health if an individual is exposed to and/or inhales/ingests some of the Group's products. The Group takes health and safety very seriously and manages the potential health and safety risk by regular staff training and restricting activities to only certain qualified individuals.

Acceptance of the Group's Products

The success of the Group will depend on the market's acceptance of, and attribution of value to, advanced materials 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.

Strategic Report continued

Notwithstanding the technical merits of the processes developed by the Group, and the extensive market and product research carried out by management to assess the likelihood of acceptance of the Group's products, 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

Ray Gibbs
Chief Executive Officer
10 October 2017

Board of Directors

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. David Doidge Richard Banks,
Non-executive Chairman

David Banks started in Stock Broking in Birmingham in 1979 with Harris, Allday, Lea and Brooks before moving to London and becoming an Institutional Salesman at Panmure Gordon where he was acclaimed in the Automotive, Engineering, Aerospace and Motor Distributors sectors. He subsequently became a Corporate Broker advising many companies on their Corporate Structure, Strategy, Messaging and Presentations. He also raised the Capital for many of these Companies both at IPO and in Secondary fund raises.

2. 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 £0.5 million to £500 million. He was a former CFO of Chemring Group Plc. Ray is a Board Member of the USA based National Graphene Association and is the UK Chairman of the UK and China Joint Working Group on Graphene Standardisation, organised by the BSI Group. Ray was part of the original Haydale Graphene Industries' management team that acquired Haydale Limited in 2010, becoming CEO in 2013, and leading the Group through its AIM IPO in 2014.

3. Matthew (Matt) Graham Wood BA (Hons) FCA,
Finance Director and Company Secretary

Matt Wood is a Chartered Accountant and experienced finance director and corporate finance professional with a background in advising quoted growth companies. A former nomad, since 2006, Matt has worked as a finance and non-executive director with a variety of companies and joined Haydale in early 2014 before its AIM IPO. Matt is also Managing Director and founder of ONE Advisory Group Ltd, a City-based corporate advisory firm. Matt holds a first-class degree in Economics.

Board of Directors continued

4. Roger Anthony Smith BSc (Hons),
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.

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

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 plc 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 com-panies including Ixico plc, NanoSight Limited and Blue Earth Diagnostics Limited. He currently acts as Finance Director at G-Volution Limited and OMass Technologies 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.

Directors' Report

The directors present their report and the audited financial statements for Haydale Graphene Industries Plc (the "Company"), a public company incorporated and registered in England and Wales under the Companies Act 2016 with company number 7228939, and its subsidiaries (together the "Group") for the year ended 30 June 2017.

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 21 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 2017, the Group invested £0.95 million (2016: £0.51 million) in research and development activities which were expensed during the year, together with a further £0.24 million (2016: £0.43 million) 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 2017, 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*
Everpower International Holdings Co. Ltd	1,958,451	9.99
Octopus Investments Nominees Ltd	1,369,619	6.99
Canaccord Genuity	1,197,756	6.11

Directors

The following directors have held office since 1 July 2016 and up to the date of signing the financial statements:

David Banks (Appointed 13 July 2017)
Anthony Belisario (resigned 15 December 2016)
Graham Eves
Raymond Gibbs
Roger Humm
John Knowles (retired 13 July 2017)
Roger Smith
Matthew Wood
Dr Christopher Spacie (resigned 31 July 2016)

Directors' Interests in Ordinary Shares

The directors, who held office at 30 June 2017, had the following interests in ordinary shares of the Company:

Director	*Number of Shares at 30 June 2017*	*% of Share Capital*
Ray Gibbs	486,353	2.48
Roger Smith	288,455	1.47
John Knowles	155,464	0.79
Roger Humm[1]	34,709	0.18
Matthew Wood	9,821	0.05

1. Includes 28,459 ordinary shares held by his wife, Wendy Humm.

Directors' Report continued

Between 30 June 2017 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 August 2017, the group announced the launch of its Taiwan operations, Haydale Technologies (Taiwan) Co., Ltd., ('HTW'), which will operate as a dedicated producer and sales outlet of graphene-based conductive inks and pastes, including other functional and specialty inks and pastes. HTW is located in Kaohsiung, Southern Taiwan.

The Group today intends to raise at least £6.0 million of new funds before costs via a placing of new ordinary shares in the Company with existing and new investors.

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 21, 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.

Statement by the Directors

The Directors consider the annual report and accounts, taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy.

By order of the Board

Ray Gibbs
Chief Executive Officer
10 October 2017

Corporate Governance Statement

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, banking, high technology and the petro-chemical industries.

At the date of this report, the Board consists of three executive directors, and three non-executive directors including the non-executive Chairman. Brief details about the directors are given on pages 17 and 18.

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, David Banks 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 2017, the Company held 11 board meetings, with each member's attendance as follows:

Director	*Number of Meetings Attended*
John Knowles	11
Anthony Belisario (resigned 13 December 2016)	5
Raymond Gibbs	11
Dr Christopher Spacie (resigned 31 July 2016)	1
Matthew Wood	11
Graham Eves	10
Roger Humm	10
Roger Smith	10

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, Graham Eves and David Banks, with Roger Humm as Chairman. John Knowles was a member of the audit committee during the year ended 30 June 2017, but has since retired He was replaced by David Banks. 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 audit committee monitors the scope, results and cost effectiveness of the audit. It has unrestricted access to the

Corporate Governance Statement continued

Group's auditors. In certain circumstances, it is permitted by the Board for the auditors to supply non-audit services (in the provision of tax advice, or non-specific projects where they can add value). The audit committee has approved and monitored the application of this policy in order to safeguard auditor objectivity and independence.

The Remuneration Committee comprises Graham Eves, Roger Humm and David Banks, with Graham Eves as Chairman. Tony Belisario was the chairman of the remuneration committee during the year ended 30 June 2017, until he stepped down in December 2016 and Roger Smith was also a member until he stepped down on 20 June 2017. 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.

Attendance at the Company's audit and remuneration committee meetings during the year was as follows:

Committee member	*Number of audit committee meetings attended*	*Number of remuneration committee meetings attended*
John Knowles	2	–
Graham Eves	2	2
Roger Humm	2	–
Tony Belisario	–	1
Roger Smith	–	2

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 the annual general meeting, the Company regularly communicates with shareholders via regular news releases, updates to the Company's website and via social media.

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

David Banks
Chairman
10 October 2017

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 Graham Eves (Chairman), Roger Humm and David Banks. There is no requirement for the Company to prepare a Directors' Remuneration Report under the AIM Rules, however the Directors have included this report voluntarily. Furthermore, the requirements of the 2006 Companies Act in respect of the Directors' Remuneration Report have only been applied to the extent necessary as there is no requirement to prepare a Directors' Remuneration Report under the Companies Act.

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 2017 is set out on page 26.

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. As at the year end, 80,000 of these options had been exercised, with 41,500 options remaining to be exercised or will 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 2017, a total of 215,581 share options were granted under the 2014 Option Scheme (2016: 190,627 options granted) as follows:

- 78,254 options on 14 October 2016 at an exercise price of 198.1p
- 137,327 options on 26 June 2017 at an exercise price of 178.5p

During the year ended 30 June 2017, no share options had lapsed (2016: 2,825) and 39,500 (2016: 40,500) share options were exercised at 92.59p. At 30 June 2017, there were 1,634,856 unexercised options outstanding.

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*
Dr Christopher Spacie*	30 Sept 2013	40,500	30 Sept 2016	92.5926p	30 Sept 2023

* Dr Spacie resigned as a director on 31 July 2016

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

No options were exercised by the directors during the year under review. Dr Spacie exercised 20,000 options under the 2013 Share Option Scheme in March 2017, having resigned as a director on 31 July 2016.

The mid-market price of the Company's ordinary shares at 30 June 2017 was 175.5p (2016: 161p). During the year to 30 June 2017, the mid-market price ranged from 148.5p to 206p (2016: 107p to 188p).

Directors' Remuneration Report continued

DIRECTORS' REMUNERATION

The aggregate remuneration received by directors who served during the years ended 30 June 2017 and 30 June 2016 was as follows:

			Year ended 30 June 2017			Year ended 30 June 2016		
£'000	Salary/Fee	Benefits	Total (excl. Pension)	Pension	Total (incl. pension)	Total (excl. pension)	Pension	Total (incl. pension)
Executive Directors								
R. Gibbs	150	12	162	9	171	170	11	181
C. Spacie*	9	1	10	1	11	113	8	121
M. Wood	83	6	89	5	94	65	3	68
Non-Executive Directors								
J. Knowles	41	–	41	–	41	41	–	41
A. Belisario **	14	–	14	–	14	27	–	27
G. Eves	28	–	28	–	28	27	–	27
R. Humm	28	–	28	–	28	27	–	27
R. Smith	28	–	28	–	28	27	–	27
	381	19	400	15	415	497	22	519

* resigned on 31 July 2016

** resigned on 13 December 2016

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

	to 30 June 2017 £'000	to 30 June 2016 £'000
Raymond Gibbs	**43**	47
Dr Christopher Spacie	**7**	43
Matthew Wood	**15**	16
John Knowles	**9**	12
Anthony Belisario	**5**	7
Graham Eves	**5**	7
Roger Humm	**5**	7
Roger Smith	**5**	7
	94	146

By order of the Board

Graham Eves
Chairman of the Remuneration Committee
10 October 2017

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 to be agreed today and scheduled to be received by the Company on or around 26 October 2017, 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
10 October 2017

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

Opinion

We have audited the financial statements of Haydale Graphene Industries PLC (the 'parent company') and its subsidiaries (the 'group') for the year ended 30 June 2017 which comprise the Consolidated Statement of Comprehensive Income, Consolidated Statement of Financial Position, Consolidated Statement of Changes in Equity, Consolidated Statement of Cash Flows, Parent Company's Balance Sheet and Parent Company Statement of Changes in Equity and notes to the financial statements, including a summary of significant accounting policies.

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 the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 101 Reduced Disclosure Framework (United Kingdom Generally Accepted Accounting Practice).

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 30 June 2017 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 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.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's or the parent company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Key Audit Matters

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

- Revenue recognition

The Group's revenue recognition policy is included within the accounting policies on page 39 and the components of revenue are set out in note 4.

Management exercises judgement in recognising revenue arising from the provision of services where contracts are ongoing at the year end. Revenues for such contracts are recorded on a percentage completion basis unless the contract outcome cannot be reliably determined, in which case, revenue is only recognised to the extent that incurred costs are recoverable.

In view of the judgements involved we considered that these matters gave rise to a significant risk of misstatement in the financial statements.

How We Addressed the Key Audit Matter in the Audit

We have assessed whether revenue recognition is in accordance with IAS 18 and the Group's accounting policies and, in respect of service contracts ongoing at the year end, we reviewed the basis of estimation for accrued and deferred income. This involved a review of the terms of a sample of underlying contracts and an assessment of the stage of completion with reference to evidence such as costs incurred, time recording records and budgets.

Our application of materiality

Group materiality 30 June 2017	*Group materiality 30 June 2016*	*Basis for materiality*
£400,000	£320,000	8% of losses before tax (2016: 8% of losses before tax) as the group is primarily research and development focussed

We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements. We consider materiality to be the magnitude by which misstatements, including omissions, could influence the economic decisions of reasonable users that are taken on the basis of the financial statements. In order to reduce to an appropriately low level the probability that any misstatements exceed materiality, we use a lower materiality level, performance materiality, to determine the extent of testing needed Importantly, misstatements below these levels will not necessarily be evaluated as immaterial as we also take account of the nature of identified misstatements, and the particular circumstances of their occurrence, when evaluating their effect on the financial statements as a whole.

Performance materiality was set at 70 per cent of the above materiality levels.

Where financial information from components was audited separately, component materiality levels were set for this purpose at lower levels varying from £25,000 to £200,000.

Our determination of materiality increased from 2016 with the increased losses experienced by the group. We consider losses before tax to be one of the principal considerations for members of the company in assessing the financial performance of the group.

We agreed with the audit committee that we would report to the committee all individual audit differences identified during the course of our audit in excess of £16,000 (2016: £9,600). We also agreed to report differences below these thresholds that, in our view, warranted reporting on qualitative grounds.

There were no misstatements identified during the course of our audit that were individually, or in aggregate, considered to be material in terms of their absolute monetary value or on qualitative grounds.

An overview of the scope of our audit

Our group audit scope focussed on the group's principal operating locations being Ammanford, Loughborough and South Carolina, each of which were subject to a full scope audit. Together with the parent company and its group consolidation, which was also subject to a full scope audit, these locations represent the principal business units of the group and account for 97% of the group's revenue, 94% of the group's loss before tax and 98% of the group's total assets. The remaining components of the group were considered non-significant and these components were principally subject to analytical review procedures.

Whilst materiality for the financial statements as a whole was £400,000, each component of the group was audited to a lower level of materiality.

Audits of the components were performed at a materiality level calculated by reference to a proportion of group materiality appropriate to the relative scale of the business concerned. These audits were all performed by BDO LLP with the exception of the South Carolina operations.

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

The Group audit team was actively involved in directing the audit strategy of the component auditor in South Carolina and a key member of the Group audit team visited local management and the auditors of the operations in South Carolina during the audit fieldwork. The Group audit team reviewed in detail the findings of work performed and considered the impact of these upon the Group audit opinion.

Other information

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

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

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the group and the parent company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the directors' report.

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

- adequate accounting records have not been kept, 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.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 27, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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.

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

Malcolm Thixton *(Senior Statutory Auditor)*
For and on behalf of BDO LLP, Statutory Auditor
Arcadia House
Maritime Walk – Ocean Village
Southampton SO14 3TL
UNITED KINGDOM
10 October 2017

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 2017

	Note	Year ended 30 June 2017 £'000	Year ended 30 June 2016 £'000
REVENUE	4	**3,004**	1,169
Cost of sales		**(894)**	(899)
Gross profit		**2,110**	270
Other income		**901**	754
Administrative expenses			
Research and development expenditure		**(908)**	(514)
Share based payment expense		**(351)**	(326)
Other administrative expenses		**(7,090)**	(4,193)
		(8,349)	(5,033)
LOSS FROM OPERATIONS		**(5,338)**	(4,009)
Finance costs		**(297)**	(14)
LOSS BEFORE TAXATION	5	**(5,635)**	(4,023)
Taxation	7	**883**	386
LOSS FOR THE YEAR FROM CONTINUING OPERATIONS		**(4,752)**	(3,637)
Other comprehensive income:			
Items that may be reclassified to profit or loss:			
Exchange differences on translation of foreign operations		**(74)**	(44)
Remeasurements of defined benefit pension schemes		**(36)**	–
TOTAL COMPREHENSIVE LOSS FOR THE YEAR FROM CONTINUING OPERATIONS		**(4,862)**	(3,681)
Loss for the year attributable to:			
Owners of the parent		**(4,862)**	(3,598)
Non-controlling interest		**–**	(39)
		(4,862)	(3,637)
Total comprehensive loss attributable to:			
Owners of the parent		**(4,862)**	(3,637)
Non-controlling interest		**–**	(44)
		(4,862)	(3,681)
Loss per share attributable to owners of the Parent			
Basic (£)	8	**(0.28)**	(0.26)
Diluted (£)	8	**(0.28)**	(0.26)

The notes from pages 36 to 64 form part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2017

Company Registration No. 07228939

	Note	30 June 2017 £'000	30 June 2016 £'000
ASSETS			
Non-current assets			
Goodwill	9	**2,115**	685
Intangible assets	9	**2,152**	1,141
Property, plant and equipment	10	**5,074**	1,576
Deferred tax asset	27	**679**	–
		10,020	3,402
Current assets			
Inventories	11	**1,212**	398
Trade receivables	12	**798**	49
Other receivables	13	**535**	613
Corporation tax	27	**345**	379
Cash and bank balances		**2,091**	2,862
		4,981	4,301
TOTAL ASSETS		**15,001**	7,703
LIABILITIES			
Non-current liabilities			
Bank loans	18	**911**	104
Deferred tax	27	**1,234**	–
Pension Obligation	26	**969**	–
		3,114	104
Current liabilities			
Bank loans	18	**359**	166
Trade and other payables	17	**2,305**	656
Deferred income	19	**253**	176
Corporation tax	27	**65**	–
		2,982	998
TOTAL LIABILITIES		**6,096**	1,102
TOTAL NET ASSETS		**8,905**	6,601
EQUITY			
Capital and reserves attributable to equity holders of the parent			
Share capital	14	**392**	305
Share premium account	14	**18,936**	11,840
Share-based payment reserve	15	**1,007**	656
Foreign exchange reserve		**(113)**	(39)
Retained earnings		**(11,317)**	(6,117)
Non-Controlling Interest		**–**	(44)
TOTAL EQUITY		**8,905**	6,601

LIABILITIES

The financial statements on pages 32 to 64 were approved and authorised for issue by the Board of directors on 10 October 2017 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 2017

	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 2015	229	6,254	329	–	(2,519)	4,293	–	4,293
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)	(6,116)	6,646	(44)	6,601
Comprehensive loss for the year	–	–	–	–	(4,752)	(4,752)	–	(4,752)
Other Comprehensive (loss)/Income	–	–	–	(74)	–	(74)	–	(74)
Retirement Benefit Obligations					(36)	(36)	–	(36)
Total Comprehensive loss for the year	–	–	–	(74)	(4,788)	(4,862)	–	(4,862)
Recognition of share-based payments	–	–	351	–	–	351	–	351
Issue of ordinary share capital	87	7,096	–	–	–	7,183	–	7,183
Repurchase of NCI	–	–	–	–	(413)	(413)	44	(369)
At 30 June 2017	**392**	**18,936**	**1,007**	**(113)**	**(11,317)**	**8,905**	**–**	**8,905**

CONSOLIDATED STATEMENT OF CASH FLOWS
For the year ended 30 June 2017

	Note	Year ended 30 June 2017 £'000	Year ended 30 June 2016 £'000
Cash flow from operating activities			
Loss before taxation		**(5,635)**	(4,023)
Adjustments for:-			
Amortisation of intangible assets	9	**157**	63
Capitalised loan costs written off		**77**	–
Depreciation of property, plant and equipment	10	**560**	370
Impairment on available for sale asset		**–**	117
Reduction in deferred consideration		**–**	(117)
(Profit)/Loss on disposal of property, plant and equipment		**–**	(107)
Share-based payment charge	15	**351**	327
Finance costs		**297**	14
Operating cash flow before working capital changes		**(4,193)**	(3,356)
Increase in inventories		**(12)**	(115)
Increase in trade and other receivables		**(596)**	(128)
Decrease in payables and deferred income		**260**	187
Cash used in operations		**(348)**	(56)
Income tax received		**412**	128
Net cash flow from operating activities		**(4,129)**	(3,284)
Cash flow used in investing activities			
Purchase of property, plant and equipment		**(415)**	(470)
Purchase of Intangible Assets		**(245)**	(429)
Proceeds from disposal of property, plant and equipment		**–**	207
Acquisition of subsidiary net of cash acquired	25	**4**	–
Settlement of deferred consideration			(350)
Purchase of non-controlling shareholding		**(413)**	–
Net cash flow in investing activities		**(1,069)**	(1,042)
Cash flow used in financing activities			
Finance costs		**(297)**	(14)
Proceeds from issue of share capital (net of share issue costs)		**6,058**	5,359
New bank loans raised		**1,408**	–
Repayments of borrowings		**(2,817)**	(162)
Net cash flow from financing activities		**4,352**	5,183
Effects of exchange rates changes		**75**	(44)
Net (decrease)/increase in cash and cash equivalents		**(771)**	813
Cash and cash equivalents at beginning of the financial year		**2,862**	2,049
Cash and cash equivalents at end of the financial year		**2,091**	2,862

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 30 June 2017

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 amounts.

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

The individual financial statements of Haydale Graphene Industries Plc are shown on pages 65 to 70.

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. 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 2017, amounts to £2.091 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 26 October 2017 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 (Annual Improvements to IFRSs 2012-2014 Cycle – Servicing contracts and applicability of offsetting amendments in condensed interim financial statements)
- IFRS 8 Operating segments (Amendments – aggregation of segments, reconciliation of segment assets)
- IFRS 10 Consolidated Financial Statements (Amendments – Investment Entities, Sale or Contribution of Assets)
- IAS 1 Presentation of financial statements (Amendments resulting from the disclosures initiative)
- IAS 16 Property, Plant and Equipment (Amendments – Acceptable Methods of Depreciation)
- IAS 27 Consolidated and Separate Financial Statements (Amended to provide an additional measurement option for investments in separate entity financial statements)
- IAS 32 Financial Instruments: Presentation (Amendments – Offsetting)
- IAS 34 Interim Financial Reporting (Amendments resulting from September 2014 Annual Improvements to IFRS)

- IAS 36 Impairment of Assets (Amendments – Recoverable Amount Disclosures)
- IAS 38 Intangible Assets (Amendments to clarify acceptable methods of amortisation)

The adoption of these pronouncements has not impacted the classification or measurement of the Group's assets and liabilities. The new standards and interpretations adopted did not have an effect on the previous reported results or any significant impact on the accounting policies.

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*
IFRS 15 – Revenue from Contracts with Customers	1 January 2018	The directors are in the process of assessing the impact of the new standard, which could have a material impact
IFRS 9 – Financial instruments (The standard includes requirements for recognition and measurement, impairment, derecognition and general hedge accounting.)	1 January 2018	The directors are in the process of assessing the impact of the new standard, which could have a material impact
IFRS 16 – Leases (yet to be endorsed by the EU)	1 January 2019	The directors are in the process of assessing the impact of the new standard, which are expected to have a material impact

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.

Share-based payment

The critical accounting estimates, assumptions and judgements underpinning the valuation of share options are disclosed in note 15.

Defined Benefit Pension Scheme

In determining the pension cost and the defined benefit obligation of the groups pension scheme, a number of assumptions are used in order to produce a valuation. The assumptions include an appropriate discount rate, the levels of salary increases, price inflations and mortality rates. Further details are included in note 26.

Impairment of non-financial assets

The carrying value of goodwill, and the cash-generating unit to which it relates, is reviewed at the end of each reporting period for impairment regardless of whether there is an indication that the asset may be impaired. Other non-financial assets are considered for indicators of impairment at each reporting date and full impairment reviews carried out if indicators of impairment exist. 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.

3. Summary of significant accounting policies (continued)

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.

Acquired Business Combinations

Consideration has been made in the measurements of the assets and liabilities acquired. Key judgements and assumptions have been made in respect of the fair value of intangible assets and goodwill figures. The acquisitions provide access to customer databases and future earnings which have been calculated based on estimated values of the present value of future cash flows.

The valuation of acquired plant and machinery at market value has been another significant estimate.

(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.

Historic 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, and, although the Group now has patents granted in other jurisdictions, the Directors believe that 20 years is appropriate. New projects will be reviewed on completion, to determine the useful economic life. 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 if the remeasurement occurs within a year of the transaction and relates to information that was available at the point of acquisition. Otherwise, any remeasurements of contingent consideration is reflected in the statement of comprehensive income. 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 allocated to cash generating units and reviewed for impairment at least annually. Impairment losses recognised in previous periods for an asset other than goodwill are reversed if there has been a change in estimates used to assess the asset's recoverable amount. The carrying amount of an asset shall not be increased above the amount that would have been determined had no loss been recognised in prior periods. Impairment losses recognised in relation to goodwill are not reversed.

(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 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.

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.

3. Summary of significant accounting policies (continued)

(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.

(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	10-20% per annum straight line
Plant and machinery	15-33% per annum straight line
Furniture and fittings	20-33% 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 deferred taxation.

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 and large company schemes, 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 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.

(iii) Defined Benefit Pension plans

The group has acquired a non-contributory defined benefit pension plan through the acquisition of ACM. The pension obligations are identified by the calculations performed by an actuary.

(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 15 to the Consolidated Financial Statements.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of 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.

3. Summary of significant accounting policies (continued)

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. Since the acquisition of ACM, the sale of silicon carbide based materials have been included within the provision of goods category.

Geographical information

All revenues of the Group are derived from its principal activity, the sale and distribution of nano-technology and silicon carbide products or the delivery of research projects into those nano materials. The Group's revenue from external customers by geographical location are detailed below.

	2017	2016
	£' 000	£' 000
By destination		
United Kingdom	**265**	397
Europe	**952**	743
North America	**131**	3
Rest of the World	**1,656**	26
	3,004	1,169

During 2017, 51% (2016: 35%) of the Group's revenue depended on a single customer. During 2017, 12% (2016: 27%) of the Group's revenue depended on a second single customer.

Revenue within Europe was predominantly split between Germany (19%) and Ireland (10%) (2016: Germany 57%, and Ireland 41%).

All amounts shown as other income within the Statement of Comprehensive Income are generated within and from the United Kingdom. These amounts include income earned as part of a number of grant funded projects and a government grant which is being released over a period of 5 years. The residual amount is reflected in deferred income.

Revenue from goods was £2,087,777 or 70% (2016: £626,000 or 54%) and revenue from services was £691,274 or 23% (2016: £543,000 or 46%).

	2017	2016
	£' 000	£' 000
Services	**691**	543
Reactors	**225**	591
Goods	**2,088**	35
	3,004	1,169

From 1 July 2017, the Group changed its internal reporting system to set up two profit-centric strategic business units ("SBUs") known as "RPC" and "AMAT". For the current financial year and beyond, the Group intends to report sales and profits under these two SBUs.

5. Loss before taxation

Loss before taxation is arrived at after charging:

	2017 £'000	2016 £'000
Research and development:		
– current period's expenditure	**908**	480
– amortisation of capitalised expenditure	**77**	34
– amortisation of other intangibles	**157**	29
Depreciation of property, plant and equipment	**560**	370
Loss on disposal of property, plant and equipment	**–**	(107)
Foreign Exchange	**(20)**	(118)
Inventories recognised as an expense	**252**	–
Operating lease rentals:		
– land and buildings	**447**	98
– plant and machinery	**7**	23

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

	2017 £'000	2016 £'000
Fees payable to the Company's auditor for the audit of the Group's financial statements	**49**	42
Fees payable to the Company's auditor for other services:		
– Taxation related compliance services	**14**	14
– Other non-audit services	**–**	5
	63	61

6. Employees

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

	2017 No.	2016 No.
Administration	**26**	11
Research, development and production	**43**	29
	69	40

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

	2017 £'000	2016 £'000
Wages and salaries	**2,989**	1,995
Social security costs	**391**	185
Pension costs	**142**	100
Share based payment expense	**321**	326
	3,843	2,606

An analysis of the remuneration of the directors is detailed within the Directors' Remuneration Report on pages 24 to 26. The total amount payable to the highest paid director in respect of emoluments was £171,000 (2016: £181,000), including pension costs of £9,000 (2016: £11,000).

7. Income tax

	2017 £'000	2016 £'000
Current tax credit		
Total income tax credits:		
– for the financial year	**280**	318
– under provision in the previous financial year	**33**	68
Total Current Tax	**313**	386
Deferred tax credit		
Original and reversal of temporary differences	**204**	–
Recognition of previously unrecognised deferred tax assets	**366**	–
	570	–
	883	386

The reason for the difference between the actual tax charge for the year and the standard rate of corporation tax in the United Kingdom applied to the losses for the year are as follows:

	2017 £'000	2016 £'000
Loss for the year	**(4,752)**	(3,637)
Income tax credit	**(883)**	(386)
Loss before income taxes	**(5,635)**	(4,023)
Tax using the Group's domestic tax rates of 19.75% (2016 – 20%)	**1,113**	805
Expenses not deductible for tax purposes	**(251)**	(158)
Different tax rates applied in overseas jurisdictions	**53**	–
R&D enhancement	**285**	331
Surrender for R&D tax credit	**(94)**	(201)
Unrecognised deferred tax assets	**(622)**	(459)
Adjustment for under/(over) provision in previous periods	**33**	68
Recognition of previously unrecognised deferred tax assets	**336**	–
Total tax credit	**883**	386

Changes in tax rates and factors affecting the future tax charge

The main rate of corporation tax for UK companies reduced from 20% to 19% from 1 April 2017. The Finance Bill 2016, which was substantively enacted in September 2016, announced a further reduction to the main rate of corporation tax. The rate will reduce to 17% from 1 April 2020.

The Group has tax losses that are available indefinitely for offset against future taxable profits of the companies approximately amounting to £12,629,000 (2016: £8,228,000) and £4,946,000 (2016: £1,030,000) of fixed asset timing differences. The group currently expects to be able to utilise its US tax losses in the foreseeable future and a deferred tax asset has been recognised in respect of these tax losses accordingly.

The main tax rate of corporation tax for UK companies reduced from 20% to 19% from 1 April 2017. The Finance Bill 2016, which was substantially enacted on 6 September 2016, announced a further reduction to the main rate of corporation tax. The rate will reduce to 17% from 1 April 2020. Deferred tax will therefore be calculated at a rate of 17%.

8. Loss per share

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

	2017 £'000	2016 £'000
Loss after tax attributable to owners of Haydale Graphene Industries Plc	**(4,862)**	(3,598)
Weighted average number of shares:		
– Basic and Diluted	**17,232,137**	13,713,757
Loss per share:		
Basic (£) and Diluted (£)	**(0.28)**	(0.26)

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 2017, there were 1,634,856 (2016: 1,458,775) options and warrants outstanding as detailed in note 15.

9. Intangible assets

	Customer relationships £'000	Development expenditure £'000	Goodwill £'000	Total £'000
Cost				
At 1 July 2015	285	700	685	1,670
Additions	–	429	–	429
At 1 July 2016	285	1,129	685	2,099
Additions	–	244	–	244
Additions from acquisitions	869	55	1,429	2,353
At 30 June 2017	**1,154**	**1,428**	**2,114**	**4,696**
Accumulated amortisation				
At 1 July 2015	29	181	–	210
Charge for the period	29	34	–	63
At 1 July 2016	58	215	–	273
Charge for the year	115	42	–	157
At 30 June 2017	**173**	**257**	**–**	**430**
Net book value				
At 30 June 2017	**981**	**1,171**	**2,114**	**4,266**
At 30 June 2016	227	914	685	1,826
At 30 June 2015	256	519	685	1,460

Goodwill

Goodwill arose on the acquisition of EPL Composite Solutions Ltd (now Haydale Composite Solutions Limited "HCS") on 1 November 2014 (£634,000), on the acquisition of Haydale Ltd on 21 May 2010 (£24,000) and of the acquisition of the trade and assets of Intelligent Nano Technology Ltd (£27,000) on 12 May 2010. On the 9 September 2016, goodwill of £327,151 arose on the acquisition of Innophene Co. Ltd (now Haydale Technologies Thailand). Goodwill arose on the acquisition of ACM on the 13th October 2016 of £1,102,620.

9. Intangible assets (continued)

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. Additions to the assets were brought in through the acquisition of ACM on the 13 October 2016 amounting to £868,676.

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. During the year the group acquired £54,831 due to the acquisition of Innophene.

Development expenditure of £245,369 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 with the exception of the amount pertaining to the acquisition of ACM which is being amortised over 5 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 acquisitions of HCS, ACM and Haydale Technologies (Thailand), the Group is operating a number of different CGUs and therefore HCS and ACM goodwill has been considered against the future forecast trading outcomes of ACM and HCS as separate CGU's. The remaining goodwill in the Group prior to the acquisitions is immaterial and has not been tested for impairment. The goodwill arising from the acquisition of Haydale Technologies (Thailand) is also 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:

	2017	2016	**2017**	2016
	%	%	**£'000**	£'000
Haydale Composite Solutions	**11%**	15%	**634**	634
Haydale Graphene Industries	**n/a**	n/a	**51**	51
ACM	**11%**	–	**1,103**	–
Haydale Technologies (Thailand)	**n/a**	–	**327**	–

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 11% (2016: 15%), and have been used to discount projected cash flows.

The calculations for HCS have been derived from the Board's approved forecast figures for the next year. The HCS forecasts assume that its turnover will grow in the current financial year and then by a further 33% per annum from the end of the current financial year across the course of the remaining four-years of the forecast and by 3% 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.

The calculations for ACM have been derived from the Board's approved forecast figures for the next year.

The ACM forecasts assume that its turnover will grow in the current financial year and then by a further 5% per annum from the end of the current financial year across the course of the remaining four-year forecasts and by 3% 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 ACM within those markets.

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

If the revenue growth in HCS dropped below 30% p.a. that would result in an impairment within its financial model although, in this scenario, the Board would take mitigating action to try to prevent such an impairment.

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 2015	259	1,830	91	2	2,182
Additions	188	273	8	–	469
Disposals	–	(99)	–	–	(99)
At 1 July 2016	447	2,004	99	2	2,552
Additions	17	364	34	–	415
Additions from acquisitions	11	3,544	283	32	3,870
FX on additions from acquisitions	(1)	(210)	(16)	–	(227)
At 30 June 2017	**474**	**5,702**	**400**	**34**	**6,610**
Accumulated depreciation					
At 1 July 2015	63	486	55	2	606
Charge for the year	28	323	19	–	370
At 1 July 2015	91	809	74	2	976
Charge for the year	47	467	41	5	560
At 30 June 2017	**138**	**1,276**	**115**	**7**	**1,536**
Net book value					
At 30 June 2017	**336**	**4,426**	**285**	**27**	**5,074**
At 30 June 2016	356	1,195	25	–	1,576
At 30 June 2015	196	1,344	36	–	1,576

Included within plant and machinery are assets under construction totalling £50,609 (2016: £15,000). Included within fixtures and fittings are assets under construction totalling £22,615 (2016: £0).

11. Inventories

	2017 £'000	2016 £'000
Raw materials	**274**	72
Work in progress	**296**	300
Finished goods	**642**	26
	1,212	398

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

12. Trade receivables

	2017 £'000	2016 £'000
Trade receivables	**798**	49
	798	49

13. Other receivables

	2017 £'000	2016 £'000
Other receivables	**127**	411
Prepayments and accrued income	**408**	202
	535	613

14. 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	5,586	5,662
At 30 June 2016	15,236,946	305	11,840	12,145
Issue of £0.02 ordinary shares	4,360,767	87	7,096	7,183
At 30 June 2017	**19,597,713**	**392**	**18,936**	**19,328**

During the year, the Company issued 4,360,767 new ordinary shares of 2p each as follows:

- In September 2016, 176,952 £0.02 ordinary shares were issued following the acquisition of Innophene Co Ltd;
- In October 2016, 1,619,687 shares were issued in connection with the Company's £2.59 million placing and open offer;
- In December 2016, 415,618 shares were issued following the acquisition of ACMC Holding;
- In April 2017 the Company received a strategic investment of £3.6 million (£3.3 million of which was from a subsidiary of Everpower Holdings) resulting in the issue of 2,109,010 shares; and
- 39,500 ordinary shares were issued were in respect of the exercise of options.

Issue costs amounting to £157,360 (2016: £376,372) have been charged to the share premium account in the year.

15. Share-based payment transactions

Options

The Company operates both an approved EMI share option scheme and an unapproved share option scheme for the benefit of employees and 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:

	Number of options No.	**2017 Weighted average exercise price Pence**	Number of options No.	2016 Weighted average exercise price Pence
Balance at beginning of year	**1,081,636**	**159**	934,334	154
Granted	**215,581**	**187**	190,627	172
Exercised	**(39,500)**	**93**	(40,500)	93
Lapsed	**–**	**–**	(2,825)	135
Balance at end of year	**1,257,717**	**166**	1,081,636	159

At 30 June 2017, there were options outstanding over 1,257,717 un-issued ordinary shares, equivalent to 6.4% 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	21,000	93.00p	23 May 2014	–	23 May 2023
30 September 2013	20,500	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
14 October 2016	52,084	198.14p	14 October 2019	–	14 October 2026
26 June 2017	133,344	178.5p	27 June 2020	–	27 June 2027
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
14 October 2016	26,170	198.14p	14 October 2019	–	14 October 2026
26 June 2017	3,983	178.5p	27 June 2020	–	27 June 2027
	1,257,717				

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.

15. Share-based payment transactions (continued)

	Type of award	Number of shares	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	21,000	93	53	10	1.75	30	None
30 September 2013	EMI	20,500	93	54	10	1.75	30	None
03 April 2014	EMI	329,241	210	94	10	1.75	30	None
03 April 2014	Unapproved	167,353	210	94	10	1.75	30	None
1 November 2014	EMI	130,000	62	38	10	1.75	50	Share price > 160p*
7 November 2014	EMI	60,000	62	38	10	1.75	50	Share price > 160p*
18 March 2015	EMI	54,565	135	82	10	1.75	50	None
18 March 2015	Unapproved	21,412	135	82	10	1.75	50	None
25 June 2015	EMI	47,438	121	74	10	1.75	50	None
3 November 2015	EMI	13,782	177	111	10	1.75	52	None
19 May 2016	Unapproved	29,387	172	101	10	0.62	51	None
19 May 2016	EMI	147,458	172	101	10	0.62	51	None
14 October 2016	Unapproved	52,084	198	113	10	0.50	49	None
14 October 2016	EMI	26,170	198	113	10	0.50	49	None
26 June 2017	EMI	133,334	179	179	10	0.50	34	None
26 June 2017	Unapproved	3,983	179	179	10	0.50	34	None
		1,257,717						

*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.

538,094 Options were exercisable as at 30 June 2017 (2016: 78,178).

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

	14 October 2016	**27 June 2017**
Share prices at grant date	172p	**179p**
Exercise prices	172p	**179p**
Expected volatility	48.5%	**33.92%**
Risk free rate	0.50%	**0.50%**
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 rate of 0.5 per cent., equating to the prevailing UK Gilts rate, was 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 2017 is 7.8 years (2016: 8.3 years). The charge for the year for share-based payment amounted to £292,720 (2016: £268,796).

Warrants

	Number of warrants No.	**2017 Weighted average exercise price Pence**	Number of warrants No.	2016 Weighted average exercise price Pence
Balance at beginning of year	**377,139**	**187**	397,321	183
Granted	**–**	**–**	58,818	225
Lapsed	**–**	**–**	(79,000)	160
Balance at end of year	**377,139**	**187**	377,139	187

No warrants were issued during the year under review. None of the warrants outstanding at 30 June 2017 are to employees or have performance conditions attached. The same pricing model was used for calculating the cost of warrants to the Group as was used for calculating the cost of the options to the Group.

The weighted average remaining contractual life of warrants outstanding at 30 June 2017 is 2.14 years (2016: 3.14 years). The charge for the year for share-based payment amounted to £58,610 (2016: £57,530).

16. 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.

Foreign Exchange

The foreign exchange reserve comprises of translation differences arising from the translation of the overseas subsidiary results. Revaluing those subsidiaries from their functional currency in to the group presentation currency.

17. Trade and other payables

	2017 £'000	2016 £'000
Trade payables	**380**	260
Tax and social security	**80**	67
Accruals and other creditors	**1,845**	329
	2,305	656

18. Bank loans

	2017	2016
	£'000	£'000
Bank loans	1,270	270
The borrowings are repayable as follows:		
– within one year	359	166
– in the second year	261	104
– in the third to fifth years inclusive	650	–
	1,270	270

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

	2017	2016
	%	%
Average interest rates paid	4	2

In December 2014 a three year bank loan of £500,000 was drawn by the Company 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.

In October 2016, a five year bank loan of $1,720,000 (equivalent to approximately £1.4 million at the time) was drawn by Haydale Technologies Inc ("HTI"), the Company's US holding company subsidiary, secured on the fixed assets of HTI and its newly acquired operating subsidiary, Advanced Composite Materials. This loan carries an interest rate of 4% and is repayable in equal instalments. In addition to this HTI has secured a working capital line of credit with a rate fixed at 5.25% on the remaining balance.

19. 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.

	2017	2016
	£'000	£'000
Grants	13	19
Commercial Deferred Income	240	157
	253	176

Commercial Deferred Income

As at 30 June 2017, deferred income £240,104 arose in relation to a sale where a cash receipt was received in advance for work to be carried out over the next six months.

20. 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'.

	2017	2016
	£'000	£'000
Short-term employee benefits and fees	400	497
Social security costs	46	52
Share-based payments	122	146
Post-retirement benefits	15	22
	583	717

During the year ended 30 June 2017, Mr G Eves, a director of the Company, earned fees through his company, Evesco International Business, totalling £11,293 (2016: £24,000) for corporate finance consultancy. At 30 June 2017, the balance owed to Evesco International Business was £0 (2016: £5,000).

Fees totalling £35,333 (2016: £59,000) were paid to the ONE Advisory Ltd, a company of which Mr M Wood, a director of the Company, is a director, during the year ended 30 June 2017 for financial, administration, compliance and support services. At 30 June 2017, the balance owed to ONE Advisory Ltd was £3,551 (2016: £2,000).

Fees totalling £64,427 (2016: £0) were paid to the ATL Consulting Ltd, a company of which Mr R Smith, a director of the Company, is a director, during the year ended 30 June 2017 for business development consultancy. At 30 June 2017, the balance owed to ATL Consulting Ltd was £11,387 (2016: £0).

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 £5,856 (2016: £14,000). The balance owed to ONE Legal Advisory Ltd at the end of the year was £0 (2016: £600).

Other transactions

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

	2017 £' 000	2016 £' 000
Services Received		
T M Mather – admin support	**7**	–
Arago Technology Limited	**21**	20
Thermocomp Limited	**–**	15
Tracey Enterprises Limited	**4**	45
PlanarTech	**110**	–
Services Provided		
Aqualiner Limited	**72**	30
Frangible Safety Posts Limited	**6**	16

Services received

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 2016, the investment in Argao was impaired in full. The net total amount of services purchased during the year was £21,277 (2016: £19,708). There were no balances outstanding due to Arago at 30 June 2017.

An amount of £7,079 was invoiced by Ms T M Mather to HCS during the year ended 30 June 2017 for the provision of administrative support. Ms T M Mather is the partner of Mr N Finney, a director of HCS. As at 30 June 2017, a balance of £3,023 was due to Ms T M Mather by HCS.

Accountancy and administration services were provided by Tracey Enterprises Ltd ("Tracey") to HCS during the year ended 30 June 2017 amounting to £3,555 (2016: £44,636). Mr R Tracey, a director of Tracey, was the company secretary of HCS during the year under review. There were no amounts outstanding due to Tracey at 30 June 2017.

During the year an amount of £328,887 was paid to QM Holdings in respect of property rent. QM Holding is owned by Tom Quantrille and Marvin Murrell who are officers of ACM, a wholly owned subsidiary of the group. Additional payments were made in the year in respect of the deferred consideration due to the vendors of ACM, Tom Quantrille and Marvin Murrell. Payments to Tom Quantrille made in the year amounted to £16,281 and £5,427 to Marvin Murrell. There were no amounts outstanding at the year end.

Services provided

In the year ended 30 June 2017, HCS provided services to Frangible Safety Posts Limited ("FSP"), a company of which Mr G S Boyce, a director of HCS, was a director. The amounts for the year under review were £6,186 (2016: £16,245). There were no amounts outstanding at the year end.

HCS made sales to Aqualiner Ltd ("Aqualiner") during the year ended 30 June 2017, 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 2017 were £72,429 (2016: £30,178). Amounts outstanding including VAT at the year end was £66,534

20. Related party disclosures (continued)

During the year, Haydale Limited procured business development services from PlanarTech, a company of which P Frantz, a director of Haydale Technologies Thailand Ltd, a subsidiary of the Company, is a director. The value of services provided by PlanarTech in the year was £110,356.

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

	2017	2016
	£' 000	£' 000
Aqualiner Limited	**67**	5
Thermocomp Limited	**(2)**	(2)
T M Mather	**(3)**	–
PlanarTech	**(18)**	–

21. 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**
2017			
Financial assets	**658**	**88**	**746**
Financial liabilities	**127**	**4**	**131**
2016			
Financial assets	113	688	801
Financial liabilities	–	–	–

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	**2017 Increase/ (decrease) £'000**	2016 Increase/ (decrease) £'000
United States Dollar:		
– strengthened by 10%	**58**	(1)
– weakened by 10%	**(50)**	1
Euro:		
– strengthened by 10%	**9**	76
– weakened by 10%	**(8)**	(62)

(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. The current loan and credit facilities maintain a fixed rate of interest.

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:

	2017 £'000	2016 £'000
United Kingdom	**132**	45
Europe	**16**	–
North America	**265**	–
Rest of the world	**385**	4
	798	49

21. Financial instruments (continued)

Maturity analysis

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

	2017	2016
	£'000	£'000
Not past due	699	20
Past due:		
– less than 3 months	99	6
– between 3 and 6 months	–	–
– more than 6 months	–	17
Gross amount	798	49

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, further on from this , this applies to any trade receivables held at year end which are not past due.

(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 18.

Maturity analysis

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

	2017	2016
	£'000	£'000
Due:		
– within one year	2,591	822
– within one to two years	261	104
– within two to five years	650	–
Gross amount	3,502	926

(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

	2017 £'000	2016 £'000
Financial assets		
Trade receivables	**798**	49
Other receivables	**222**	411
Cash and bank balances	**2,091**	2,864
	3,111	3,324
Financial liabilities		
Bank loans	**1,270**	270
Trade payables	**380**	260
Accruals and other creditors	**1,845**	329
Financial Liabilities (at amortised cost)	**2,895**	859
Provision for contingent consideration (fair value through profit and loss)	**–**	–
Total Financial Liabilities	**2,895**	859

(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.

22. Capital commitments

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

	2017 £'000	2016 £'000
Contracted but not provided for	**39**	22

23. 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.

24. Operating lease arrangements

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

	2017 Land and buildings £'000	2017 Plant and machinery £'000	2016 Land and buildings £'000	2016 Plant and machinery £'000
Operating leases which expire:				
– within one year	**547**	**7**	40	1
– within two to five years	**1,423**	**3**	–	–
Aggregate amounts payable	**1,970**	**10**	40	1

24. Operating lease arrangements (continued)

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

	2017 Land and buildings £'000	**2017 Plant and machinery £'000**	2016 Land and buildings £'000	2016 Plant and machinery £'000
Operating lease expense	**447**	**7**	98	23

Significant lease arrangements have been established during the year for the lease of the premises from which ACM and HTI operate in South Carolina, USA totalling £1.56 million (2016: nil). The lease expires on 31 December 2020. Other leases pertain to the office and unit contracts for the two UK facilities of in aggregate £0.3 million (2016: £0.04 million). Of the £0.3 million, certain leases are cancellable with three months' notice and others have break clauses 18 months after the date of these accounts.

The facility in Thailand is leased and, at the date of these results, will expire in 12 months. The cost is £0.09 million (2016: nil),

Within the minimum lease payments for plant and machinery is the cost relating the general office equipment.

25. Acquisitions

In September 2016, the Company agreed to acquire the entire issued voting share capital of Innophene Co Ltd (renamed Haydale Technologies (Thailand) Co Ltd ("HTT") for a maximum consideration of £311,665, settled through the issue of 176,972 new ordinary shares in Haydale to the vendors. It was acquired as an R&D and production facility for the Group's Far East operations.

The fair values of Innophene Co Ltd as at 9 September 2016 were as follows:

	£' 000
ASSETS	
Intangible assets	55
Property, plant and equipment	4
Other receivables	63
Trade receivables	9
Cash and bank balances	1
TOTAL ASSETS	132
LIABILITIES	
Trade and other payables	147
TOTAL LIABILITIES	147
NET LIABILITIES ACQUIRED	(15)
Consideration	
Consideration (176,792 new ordinary shares in the Company)	312
	312
Goodwill on acquisition	327
Effects within consolidated statement of cashflows	1

Since the acquisition date to 30 June 2017, HTT contributed £0.07 million to the Group's total income and generated a loss of £0.28 million.

In October 2016, the Company acquired the entire issued voting share capital of ACMC Holding, Inc ("ACM") for £1.31 million together with the repayment of borrowings of ACM of approximately £2.86 million. It was acquired to become the Group's US base from which it could expand its operations into the US market.

The fair values of ACMC Holdings as at 13 October 2016 were as follows:

	£' 000
ASSETS	
Intangible assets	869
Property, plant and equipment	3,867
Inventories	802
Other receivables	67
Trade receivables	1
Cash and bank balances	3
TOTAL ASSETS	5,609
LIABILITIES	
Trade and other payables	3,068
Pension Obligation	1,117
Deferred tax	1,217
TOTAL LIABILITIES	5,402
NET ASSETS ACQUIRED	207
Consideration	
Consideration – 415,618 ordinary shares in Haydale ($1.0 million)	819
Deferred cash of $600,000	491
	1,310
Goodwill on acquisition	1,103
Effect within consolidated statement of cashflows:	
Less: cash and bank balances acquired	(3)
	(3)

Since the acquisition date to 30 June 2017, ACM contributed £2.05 million to the Group's total income and generated a profit of £0.27 million. The terms of the acquisition include an agreed earn out formula that runs to mid-2020 that provides for payments of conditional consideration of up to $1.8 million to the vendors of ACM, based upon ACM achieving certain sales targets that are expected to be self-funded ("Earn Out"). The Earn Out amount does not form part of the consideration for the acquisition of ACM as the Earn Out is conditional upon the former owners remaining within the employment of ACM up to the point that any Earn Out is due. No amounts of contingent consideration have been recognised in the accounts during the year under review.

26. Defined Benefit Pension Scheme

ACM operated a defined benefit pension scheme, which is now closed for any new participants. The net periodic benefit cost is determined at the beginning of the year based on applicable assumptions at that time.

No contributions are expected to be made to the year ended 30 June 2018, the next payment of approximately £41,000 is expected to be paid in December 2018.

Included in the loss before tax since acquisition to the year ended 30 June 2017:

	£' 000
Interest payable	156

Included in other comprehensive income since acquisition to the year ended 30 June 2017:

	£' 000
Actuarial Movement	57
Deferred Tax	(21)
	36

The following table sets forth the pension plan's funded status as of 30 June 2017:

	£' 000
Accumulated benefit obligation	(3,939)
Projected Benefit obligation	(3,939)
Plan assets at fair value	2,970
Funded Status	(969)
Accrued Pension Cost	**(969)**

Net amount recognised in the consolidated balance sheet as of 30 June 2017, consisted of the following:

	£' 000
Non current Assets	2,970
Current Liabilities	(351)
Non current liabilities	(3,558)
	(969)

The discount rate is based on the yield curve of government bonds in the applicable region adjusted with a credit spread of one of the two highest ratings given by a recognized ratings agency. Future cash outflows of the plans are then related with the yield curve. The average is the discount rate. The weighted average assumptions used to develop the actuarial present value of benefit obligations and net periodic benefit costs for the pension plan are as follows for the year ended 30 June 2017:

Discount rate for periodic benefit costs	4.00%
Discount rate for benefit obligations	4.00%
Rate of increase in compensation levels	0.00%
Investment return rate	8.00%

Mortality Assumptions are as follows:

Pre-Retirement valuation assumptions – Investment Earnings	2015 430(h)(3)(A)-Optional Combined
Retirement valuation assumptions- Investment Earnings	2015 430(h)(3)(A)-Optional Combined
IRC417 (e) (3) Interest Assumption	Funding yield curve segmented rates
IRC417 (e) (3) Pre-retirement mortality	2015 417(e)(3) – Applicable Mortality Table
IRC417 (e) (3) Retirement mortality	2015 417(e)(3) – Applicable Mortality Table

Plan Assets

Pension assets are managed by an outside investment manager and are rebalanced periodically. The Company establishes policies and strategies and regularly monitors performance of the assets, including the selection of investment managers, setting long-term strategic targets, and monitoring asset allocations. Target allocation ranges are guidelines, not limitations, subject to variation from time-to-time or as circumstances warrant, and occasionally, the Company may approve allocations above or below a target range.

The pension plan's investment strategy with respect to pension assets is to invest the assets in accordance with ERISA and fiduciary standards. The long-term primary objective for the pension plan assets are to protect the assets from erosion of purchasing power and to provide a reasonable amount of long-term growth of capital, without undue exposure to risk. Currently, the strategic targets are 45% for equity securities, 50% for debt securities, and no more than 5% for other categories.

The fair value of the Company's pension plan assets which were acquired on 13 October through acquisition, valued at 30 June 2017, by asset category were as follows:

			Fair Value Measurements at 30 June 2017 using		
Description	**Total Carrying Amount (£)**	**Assets/ Liabilities Measured at Fair Value (£)**	**Level 1 Inputs (£)**	**Level 2 Inputs (£)**	**Level 3 Inputs (£)**
Cash	246,884	246,884	246,884	–	–
Corporate Equities	1,565,441	1,565,441	1,565,441	–	–
Fixed Income:					
US Government	270,629	270,629	–	270,629	–
Municipal	12,334	12,334	–	12,334	–
Corporate debt	393,965	393,965	–	393,965	–
Mutual Funds	423,256	423,256	423,256	–	–
Negotiable CD	57,636	57,636	57,636	–	–
	2,970,145	**2,970,145**	**2,293,217**	**676,928**	**–**

All corporate equities are quoted securities.

The changes in the fair value of the Company's pension plan assets for the year ending 30 June 2017, were as follows:

	£
On acquisition	2,913,631
Contributions	124,412
Distributions	(167,991)
Earnings	49,625
Net realised gain	11,424
Other income	103,912
Administrative expenses	(64,867)
Ending balance	**2,970,146**

Cash Flows

For current financial year, the Company expects contributions to be approximately £40,784. The Company expects benefits paid for the next five fiscal years and the five years thereafter as follows:

	£
2018	259,404
2019	261,961
2020	254,728
2021	251,831
2022	247,459
Thereafter	1,169,304
	2,444,687

26. Defined Benefit Pension Scheme (continued)

The company's pension plan asset allocations by asset category were as follows as of 30 June 2017:

Asset Category	
Cash	8%
Equities	53%
Fixed Income	39%

Plan Obligations

	£' 000
Benefit Obligation at acquisition	4,217
Foreign Exchange on translation	(254)
Interest Cost	156
Actuarial loss	(12)
Benefits paid	(168)
Benefit Obligation at acquisition	**3,939**
Fair Value of Plan Assets at acquisition	3,100
Foreign Exchange on translation	(186)
Actual Return on plan assets	100
Employer Contributions	124
Benefits paid	(168)
Fair Value of Plan Assets at the end of the year	**2,970**
Funded Status at the end of the year	**969**

Defined benefit obligation – sensitivity analysis.

The impact to the value of the defined benefit obligation of a reasonably possible change to one actuarial assumption, holding all other assumption constant, is presented in the table below:

	Reasonably	**Defined Benefit Obligation (£'000)**	
Actuarial Assumption	**Possible Change**	**Increase**	**Decrease**
Discount Rate	(+/- 0.25%)	(94)	97

The Company also has a retirement savings plan under Section 401(k) of the Internal Revenue Code which provides for voluntary participation. All employees who have completed one hour of service are eligible to participate in this plan beginning the first pay period of the month following the date an hour of service is first performed. Participants may contribute on a pre-tax basis from 1% to 60%, in 1% increments, of their annual base salary. Company contributions under the plan are required to be equal to 100% of that portion of participant contributions which do not exceed 6% of the participant's annual base compensation rate. Participants are immediately vested in their voluntary contributions plus actual earnings and Company contributions. The Company contributions for the year ended 30 June 2017, were £29,245.

27. Taxes

Deferred tax is calculated in full on temporary differences under the liability method. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The movement on the deferred tax account is as shown below:

	2017 £'000	2016 £'000
At 1 July	**–**	–
Tax credit recognised in profit and loss	**570**	–
	570	–
Arising on business combinations	**(1,217)**	–
Movement due to changes in tax rates	**92**	–
At 30 June	**(555)**	–

Deferred tax assets have been recognised in respect of tax losses and other temporary differences giving rise to deferred tax assets where the directors believe it is probable that these assets will be recovered.

Detail of the deferred tax liability, amounts recognised in profit and loss and amounts recognised in other comprehensive income are as follows:

	Asset 2017 £'000	**Liability 2017 £'000**	**Net 2017 £'000**	**(Charged)/ credited to profit or loss 2017 £'000**	**(Charged)/ credited to equity 2017 £'000**
Employee pension liabilities	**329**	**–**	**329**	**329**	**–**
Available losses	**350**	**–**	**350**	**350**	**–**
Business combinations	**–**	**(1,234)**	**(1,234)**	**(109)**	**–**
Net tax assets/(liabilities)	**679**	**(1,234)**	**(555)**	**570**	**–**

	Asset 2016 £'000	Liability 2016 £'000	Net 2016 £'000	(Charged)/ credited to profit or loss 2016 £'000	(Charged)/ credited to equity 2016 £'000
Employee pension liabilities	–	–	–	–	–
Available losses	–	–	–	–	–
Business combinations	–	–	–	–	–
Net tax assets/(liabilities)	–	–	–	–	–

A deferred tax asset has not been recognised for the following:

	2017 £'000	2016 £'000
Accelerated capital allowances	**(224)**	(206)
Deductible temporary differences	**–**	8
Unused tax losses	**1,972**	1,646
	1,748	1,448

The unused tax losses can be carried forward indefinitely.

28. Post Balance Sheet Events

From 1 July 2017, the Group changed its internal reporting system to set up two profit-centric strategic business units ("SBUs") known as "RPC" and "AMAT". For the current financial year and beyond, the Group intends to report sales and profits under these two SBUs.

On 9 August 2017, the Group announced the launch of its Taiwan operations, Haydale Technologies (Taiwan) Co Ltd ("HTW"). HTW is located in Kaoshing, South Taiwan. HTW will operate as a producer and sales outlet of graphene-based and other conductive inks and pastes.

The Group today intends to raise at least £6.0 million of new funds before costs via a placing of new ordinary shares in the Company with existing and new investors.

PARENT COMPANY BALANCE SHEET
As at 30 June 2017

Company Registration No. 07228939

	Note	2017 £'000	2016 £'000
Fixed assets			
Investments	5	**3,076**	2,197
		3,076	2,197
Current assets			
Debtors – within one year	6	**14,329**	9,172
– after more than one year	6	**–**	–
Cash at bank and in hand		**1,675**	1,983
		16,004	11,155
Creditors: amounts falling due within one year	7	**(732)**	(768)
NET CURRENT ASSETS		**15,272**	10,387
TOTAL ASSETS LESS CURRENT LIABILITIES		**18,348**	12,584
Creditors: amounts falling due after more than one year	8	**–**	(104)
NET ASSETS		**18,348**	12,480
Capital and reserves			
Called up share capital	9	**392**	305
Share premium account	9	**18,936**	11,840
Profit and loss account		**(980)**	335
SHAREHOLDER'S FUNDS		**18,348**	12,480

As permitted by section 408 of the Companies Act 2006, the Company's profit and loss account has not been included in these financial statements. The loss of the Company for the year ended 30 June 2017 was £1,666,959 (2016: £1,269,326).

The financial statements on pages 65 to 70 were approved and authorised for issue by the Board of directors on 10 October 2017 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 2017

	Share capital £' 000	Share Premium £' 000	Retained profits £' 000	Total Equity £' 000
At 1 July 2015	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 2015 and 1 July 2016	305	11,840	335	12,480
Loss for the year	–	–	(1,666)	(1,666)
Recognition of share-based payments	–	–	351	351
Issue of ordinary share capital	87	7,096	–	7,183
At 30 June 2017	**392**	**18,936**	**(980)**	**18,348**

NOTES TO THE PARENT COMPANY BALANCE SHEET
For the year ended 30 June 2017

1. Basis of preparation

The parent company financial statements of Haydale Graphene Industries Plc, a public company incorporated and registered in England and Wales under the Companies Act 2016 with company number 7228939 which is limited by shares, 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 consistently 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

2. Accounting policies (continued)

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.

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 Companies 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 2017 was £1,666,959 (2016: £1,269,326).

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 24 to 26, which are ascribed as forming part of these financial statements.

5. Fixed asset investments

	Investment in subsidiary undertakings £' 000	Capital contribution £' 000	Total £' 000
Cost			
At 1 July 2016	1,904	293	2,197
Additions	676	203	879
At 30 June 2017	**2,580**	**496**	**3,076**

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	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	100%	R&D, sales and distribution
Haydale Technologies Thailand Ltd	Thailand	100%	R&D, sales and distribution
ACMC Holdings	North America	100%	Sales and distribution

Subsidary	**Registered office**
Haydale Ltd	Clos Fferws, Parc Hendre, Capel Hendre, Ammanford, Carmarthenshire, SA18 3BL
Nano Hex (Sales) Ltd	Clos Fferws, Parc Hendre, Capel Hendre, Ammanford, Carmarthenshire, SA18 3BL
Haydale Resins Ltd	Clos Fferws, Parc Hendre, Capel Hendre, Ammanford, Carmarthenshire, SA18 3BL
Haydale Composites Ltd	Clos Fferws, Parc Hendre, Capel Hendre, Ammanford, Carmarthenshire, SA18 3BL
Nano Hex Ltd	Clos Fferws, Parc Hendre, Capel Hendre, Ammanford, Carmarthenshire, SA18 3BL
Intelligent Nano Technology Ltd	Clos Fferws, Parc Hendre, Capel Hendre, Ammanford, Carmarthenshire, SA18 3BL
Haydale Composite Solutions Limited	Unit 10 Charnwood Business Park, North Road, Loughborough, Leicestershire, LE11 1QJ
Haydale Technologies Korea Co., Ltd	16F, Gangnam Bldg. 396, Seocho-daero, Seocho-gu, Seoul 137-857, South Korea
Haydale Technologies Thailand Ltd	Room 510 – 515, Tower D, 5th Floor, Thailand Science Park Phahon Yothin Road, Luang District, Pathum Thani Province, 12120, Thailand
Haydale Technologies Incorporated	1446 South Buncombe Road, Greer, South Carolina. 29651, USA
ACMC Holdings	1446 South Buncombe Road, Greer, South Carolina. 29651, USA

6. Debtors

	2017	2016
	£'000	£'000
Amounts owed by group companies	**13,984**	8,873
Corporation tax	**190**	153
Other debtors	**116**	107
Prepayments and accrued income	**39**	39
	14,329	9,172

7. Creditors: amounts falling due within one year

	2017	2016
	£'000	£'000
Bank loan	**108**	166
Trade creditors	**64**	48
Other creditors including tax and social security	**477**	17
Accruals and deferred income	**83**	177
	732	768

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.

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

	2017	2016
	£'000	£'000
Bank loan	**–**	104

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. Share capital and share premium

	Number of shares No.	**Share capital £'000**	**Share premium £'000**	**Total £'000**
At 1 July 2016	15,236,946	305	11,840	12,145
Issue of £0.02 ordinary shares	4,360,767	87	7,253	7,340
Share Issue Costs	–	–	(157)	(157)
At 30 June 2017	**19,597,713**	**392**	**18,936**	**19,328**

9. Share capital and share premium (continued)

During the year, the Company issued 4,360,767 new ordinary shares of 2p each as follows:

- In September 2016, 176,952 £0.02 ordinary shares were issued following the acquisition of Innophene Co Ltd;
- In October 2016, 1,619,687 shares were issued in connection with the Company's £2.59 million placing and open offer;
- In December 2016, 415,618 shares were issued following the acquisition of ACMC Holding;
- In April 2017 the Company received a strategic investment of £3.6 million (of which £3.3 million was from a subsidiary of Everpower Holdings) resulting in the issue of 2,109,010 shares; and
- 39,500 ordinary shares were issued were in respect of the exercise of options.

Issue costs amounting to £157,360 (2016: £376,372) have been charged to the share premium account in the year.

10. 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

11. 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 20 of the consolidated financial statements.

Corporate Directory

Company Number	*7228939*
Directors	David Doidge Richard Banks Raymond John Gibbs Matthew Graham Wood Roger Anthony Smith Graham Dudley Eves Roger James Humm
Secretary	Matt Wood
Investor Relations Contact	Trevor Phillips trevor.phillips@haydale.com
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Nominated Advisor	Cairn Financial Advisers LLP Cheyne House, Crown Court, 62-63 Cheapside, London, EC2V 6AX
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Financial Public Relations	Buchanan Communications Limited 107 Cheapside, London, EC4V 6DN
Registrars	Share Registrars Limited The Courtyard, 17 West Street, Farnham, Surrey, GU9 7DR
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Intellectual Property Solicitors	Mewburn Ellis LLP 33 Gutter Lane, London, EC2V 8AS

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