

illuminating the future

Annual Report and Accounts 2009

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Nanoco Group PLC designs, develops and manufactures quantum dots in commercial quantities for major, established end-use markets.

Quantum dots enable reduced power consumption and increased efficiency.



**Commercial
contracts signed
with global
technology
companies**

Highlights of the Year

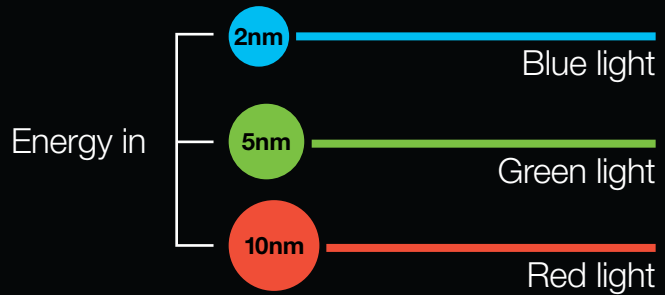
- Successful flotation on AIM
- Distribution agreement signed with Japan-based Kisco Ltd, a major electronics materials supplier in Asia
- Supply and licence agreement signed with major Japanese LED manufacturer from which a total of US\$10 million in milestone payments is expected by 31 December 2010
- Manufacturing scale-up progressing well
- Increase in cash and cash equivalents to £6.59 million at 31 July 2009 (2008: £2.53 million)

Nanoco at a Glance

What are quantum dots?

Quantum dots are fluorescent nano-particles of semiconductor material that have the ability to emit light in a specific colour dependent on the particle size.

Quantum dots are 80,000 times thinner than a human hair. They are highly versatile and energy efficient. They emit very bright, tuneable light when excited by energy in the form of electricity or UV light.



Our Technology →

Our technology solves the problem of manufacturing quantum dots in commercial quantities at economic pricing. Additionally, it allows the manufacture of quantum dots that do not include heavy metals. Our quantum dots can be made in an infinitely tuneable range of colours and can be incorporated into many different materials, such as water, glass and plastics. They can also be made to be printable, via conventional printing techniques.

Our Partnerships →

Nanoco works in close collaboration with companies to incorporate bespoke quantum dots into a company's end product. Nanoco receives revenues from these strategic partnerships from three sources: funded research, material sales and licence royalties gained from the sale of products incorporating Nanoco quantum dots.



Scale Up →

We are currently scaling up manufacture from development batches to large-scale production.

Quantum dot development

Today: 50 gram batch

(Small-scale development batches)



Scale up

1kg batch

(Nanoco's newly installed scale up reactors)



Commercial production

25kg batch

(Future large-scale production)

Our Markets →

Our focus is on four key markets, supplemented by a pipeline of further opportunities:

LED lighting

Highly efficient, high performance lighting. See page 08.

Displays

Brighter, thinner, cheaper displays. See page 11.

Solar cells

Multiple opportunities to increase efficiency and reduce cost. See page 12.

Bio-imaging

Heavy metal free for in vivo imaging. See page 15.

Strategy and Progress

Technological innovation has a key role to play in the reduction in global carbon emissions. Quantum dots are at the forefront of this innovation. They enable everyday products, such as lighting and computer screens, to use less power, to have longer life and to be manufactured easily from less material. Quantum dots also have the potential to be at the forefront of renewable energy by forming the basis of the first, highly efficient solar cells.

Our commercialisation strategy is based on a partnership model in which we work closely with global companies who are expert in their end markets. Our expertise is in developing and making quantum dots.

Through partnerships with major global end users we receive revenues during development phase, from manufacture and supply of quantum dots in addition to royalties on end-product sales.

Our objective is to manufacture industrial quantities of quantum dots for LED lighting, computer and mobile displays, solar cells and bio-imaging.



Heavy metal-free quantum dots are a prerequisite in the optoelectronics industry

2001

Nanoco founded and set up within University of Manchester School of Chemistry.

2005 July

Secures initial finance and "spins out" of University of Manchester.

2006 February

Signs first major Joint Development Agreement in Asia.

2006 April

Moves into purpose built development and manufacturing facility in Manchester.

2007 December

Signs second major Joint Development Agreement worth US\$1.2 million over 12 months.

2008 May

Signs distribution agreement with Japan's Kisco, a major electronics materials supplier.

2008 November

Signs follow-on US\$10 million milestone based Material Supply and Licence Agreement following successful completion of Joint Development Agreement.

2009 February

Signs Joint Development Agreement with Japan based Fine Polymers (100% owned by Kisco) to service the LED markets outside Japan.

2009 May

Began trading on AIM on 1 May 2009 after reverse takeover of a cash shell.

2009 September

Signs Joint Development Agreement in LED lighting for backlighting of LCD TVs.

Progress to date

Nanoco has grown rapidly. In just a few years it has signed commercial contracts with global companies and is poised to continue its pace of development.

Chairman's Statement



I am pleased to present Nanoco's maiden financial results as a quoted company, and to provide an introduction to our world-class technology and manufacturing capabilities. Our technology has multiple potential applications in many different industrial and consumer segments. To harness this diverse breadth of opportunities, we have chosen a partnering business model through which we already have revenue-generating relationships with global companies.

Before discussing our strategy and achievements, I would like to give a brief summary of our core technology, quantum dots, in which we have a strong global position.

Quantum dots are nano-sized particles of semiconductor material, each being around eighty thousandth of the width of a human hair. At this size, semiconductors develop a new property: the ability to emit intense light of a very specific colour, with the colour dependent on the size of the dot. These dots can be stimulated to fluoresce through excitation by light energy or by electricity and have the potential to make major improvements to some products and to revolutionise others.

The academic understanding of quantum dots is not new, nor is an awareness of their commercial potential. However, this potential has not yet been realised because of the overwhelming complexity of manufacturing quantum dots in commercial quantities. Nanoco's technology provides the solution to this problem, paving the way for quantum dots to be used in multiple large scale end user applications.

Nanoco has also overcome another key obstacle to the widespread use of quantum dots: the manufacture of dots that do not use heavy metals such as cadmium. This has key environmental benefits and also allows the dots to be used in humans for the next generation of bio-imaging.

We are focusing initially on four substantial markets for our quantum dots: LED lighting, computer and mobile displays, solar energy and bio-imaging. Each of these markets represents a very substantial opportunity for Nanoco.

Our strategy is to access these markets through partnerships with major global end users, under a business model in which we receive revenues during the development phase followed by revenues from the manufacture and supply of quantum dots and additionally from a royalty payment on end-product sales.

This business model is exemplified by our partnership with a major Japanese corporation active in the LCD display and general lighting markets. Following a successful joint development agreement with the corporation under which we received a total of US\$1.2 million, a supply and licence agreement was signed in November 2008, which included a US\$2 million upfront payment and from which a further US\$8 million in milestone payments is expected by 31 December 2010. A royalty of 5 per cent will be paid to Nanoco on the net sales of the corporation's resulting products.

The use of LEDs as the backlight for LCD displays and in general lighting allows a substantial reduction in the power consumed. Quantum dots also offer key advantages over the phosphors currently used to create white light from LEDs including superior colour performance and the potential market is very considerable.

Further details of our technology and target markets, and of the progress made in our commercial relationships, are included in the Chief Executive Officer's Business Review.

In way of background, Nanoco was founded in 2001 from technology developed at Manchester University and at Imperial College, London. It made significant technical and commercial progress as a private company, including the signing of distribution agreements with Kisco, a leading Asian electronics and trading company, and Sigma-Aldrich, the world's largest supplier of research chemicals.

Flotation on AIM, via the reverse takeover of a cash shell, was one of the Company's key milestones during the year to 31 July 2009. This transaction strengthened the Company's financial resources for use in the continued development of our quantum dot technology and in the formation of further strategic partnerships. Nanoco shares began trading on AIM on 1 May 2009.

Financial results

Our revenues in the year to 31 July 2009 were £1.99 million (2008: £1.08m), comprising primarily of milestone payments from strategic partners but including some income from the sale of products by our distribution partners. The loss before tax was £652,000 (2008: loss of £698,000). Cash, and cash equivalents, at the year end were £6.59 million (31 July 2008: £2.53m).

People

Nanoco has a team of 41 people, the great majority of which have PhDs in quantum physics or chemistry. As the scale-up towards the mass production of quantum dots progresses, we envisage employing further staff, particularly at the production technician level.

I would like to take this opportunity to thank all of the Nanoco team for their energy and hard work and for their commitment to making Nanoco a world-class company. I would also like to thank our strategic partners, distributors and advisers for their contribution to the development of the Company during the course of the financial year.

Outlook

The current financial year has started well, with a new joint development agreement with a major Japanese electronics company active in the LCD TV market being signed in Sept 2009.

We are making substantial progress in the scale-up of manufacturing and expect to produce our first 1kg batches of quantum dots in the coming months. Our strategic relationships are also progressing well, and we anticipate the receipt of further milestone payments during the current half.

We are currently at discussion stages with further potential commercial partners, and look forward to announcing additional signed agreements with companies active in LED and other markets in the near future.



P Rowley

Non-executive Chairman

Nanoco has the potential to dramatically improve LED lighting, allowing it to be used in a myriad of applications including backlighting for LCD TVs and general lighting for homes and offices.

**The LED market
is set to exceed
165 billion units
by 2012**

LED Lighting Market:

LED, or solid-state, lighting is expected to successively replace traditional light sources owing to its reduced power consumption, long life and compact size. LEDs are already used in niche applications such as torches, car lights and traffic signals.

Quantum dots, because of their highly tunable colours, offer superior colour performance, which means that any warmth and shade of white light can be created, which is essential for the adoption of LEDs in general domestic and office lighting. They also offer high consistency of colour, and much less material is used in a quantum dot LED.

The use of LEDs as the backlight for LCD TVs is expected to be the first, mass market lighting application of solid state lighting owing to dramatically reduced energy consumption.

Q&A with Michael Edelman



Q: What are the key problems Nanoco's technology addresses?

A: Nanoco's core technology solves the problem of mass production of quantum dots.

Q: What is Nanoco's business model?

A: To develop our materials into customers' applications through joint development agreements followed by material supply and licence contracts.

Q: How does the company make money?

A: Nanoco has three revenue streams. First, joint development where our partners help fund the development costs of incorporating our quantum dots into their products. Assuming development is successful we then sign a supply and licence agreement where Nanoco earns money from the supply of its quantum dots and also from a licence royalty on sales of products into which our materials have been incorporated.

Q: Why did you adopt the partnership approach to doing business?

A: To accelerate time to market. Quantum dots are new to industry and our success depends on these materials being adopted on a large scale by companies building products based on our materials. We are experts in modifying the quantum dots so they are fit for specific applications. Our customers are expert in building products such as TVs, lighting systems and solar cells. To give the product the best chance of success both we and our customers focus on what we are good at and combine that expertise in a partnership to accelerate time to market.

Q: What's your vision for Nanoco?

A: We are building a company that develops new materials and then manufactures and sells those materials for a profit. It is a challenge to scale up new materials and build ISO assured manufacturing processes and supply chains but we believe building and retaining control of development, manufacture and supply is a key strength of the business.

Q: Why not simply license your technology to third parties?

A: Because there is greater value in building a business that can manufacture and supply its own products.

Q: How did you choose your four key markets?

A: LED lighting, displays and solar cells all play to Nanoco's strength of being able to supply commercial quantities of heavy-metal free quantum dots at a price that industry can accept. The original market for quantum dots was bio-imaging, which only requires tiny amounts of material. We realised we could produce world demand in a day, so it was clear that we needed to find other outlets for all the material we can produce. LED lighting, display and solar cell markets are very large and will use huge quantities of quantum dots so their requirements fit nicely with Nanoco's strengths. Today, bio-imaging is our least developed market but with the success of our heavy-metal free materials we see a significant opportunity in this rapidly growing market.

Q: As a small, fast-growing company how do you retain focus when working across four different markets?

A: The quantum dots we produce are a true platform technology in that they share many of the same chemical characteristics but can be used in different applications in unrelated industries. Nanoco focuses on the material and tailoring our materials so they are fit for each application.

Q: Why is cadmium-free important?

A: Five years ago we realised that if we were going to sell large quantities of materials we needed to be developing in the electronics and opto-electronics industries which meant we needed to be working in Asia, specifically Japan. Very quickly we realised that Japanese electronics companies were not interested in producing quantum dot based electronic products using cadmium which is a regulated heavy metal. We took the strategic decision to develop away from cadmium and now have a world leading range of non-cadmium products.

Q: Why do you believe the quantum dot LED market will be the first to take off?

A: Because quantum dots allow the LCD TV and display manufacturers a way to significantly reduce the power consumed by the display panel. Legislation is being introduced that will restrict the amount of power new TVs can use. Nanoco's heavy metal free quantum dots help solve the problem of power consumption.

Q: What is Nanoco's strongest attribute?

A: Our people. Every Nanoco employee makes a difference.

CEO's Business Review

Nanoco's key strength is the world-class technology on which the company is based. This technology has multiple potential applications across diverse end-user markets, bringing a very substantial commercial opportunity. It is our responsibility as a management team to ensure that we commercialise this technology successfully for the benefit of all stakeholders.

Our technology, which is protected by an extensive patent portfolio, provides the solution to the challenging problem of manufacturing quantum dots in commercial quantities at economic pricing. This technology has positioned Nanoco as a world leader in the development and manufacture of quantum dots, with the additional benefit that the Company's manufacturing process allows quantum dots to be made from semiconductors that do not include heavy metals which present environmental issues.

Owing to the scale of the opportunity presented to us, we have adopted a partnership strategy focused initially on four target markets: LED lighting, displays, solar cells and bio-imaging.

Before discussing these markets in detail, I would like to provide a review of the rapid progress we have made since the formation of Nanoco in 2001 with focus on our partnership strategy and manufacturing scale-up.

Commercial agreements

Since the company was founded we have used our technology to manufacture small quantities of quantum dots of around 50 grams per batch. Whilst our objective is to manufacture industrial quantities of quantum dots, our small-scale manufacturing has allowed us to sign two revenue-generating distribution agreements and enter into partnership with global corporations interested in using quantum dots in end-use applications. The first distribution deal was signed in 2007 with US-based Sigma Aldrich Corporation, one of the world's largest suppliers of chemicals to the research market. The second distribution agreement was signed in 2008 with Japan-based Kisco Ltd, a major, privately owned electronic materials supplier to Asian markets.


Both of these distribution agreements contributed to Nanoco's revenues in the year to 31 July 2009 and have brought other benefits such as visibility in the nanomaterials industry, access to new application development programs and the business discipline of delivering products to fixed specifications.

Quantum dot development is one of the key strengths of Nanoco. Our scientists are able to design quantum dots of very specific size, which determines the wavelength of light they emit, and to modify their surface to allow the quantum dots to be incorporated into many different materials, such as water, glass and a variety of different polymers. They can also be developed into inks and printed using ink jet, screen and other conventional printing techniques.

Our business is to work with customer and potential customers in developing quantum dots to their bespoke specifications for the customers' particular end use. Our business model is to efficiently tailor the quantum dots to meet a specific customer's end use application need in a joint development where the customer covers a portion of the Nanoco development costs. Once the joint development is successful, a material supply and licence agreement is signed under which Nanoco receives payment for the manufacture and supply of quantum dots and receive a royalty on sales of the quantum dot containing product.

We are currently already working with customers or in initial discussions with multiple potential customers in our four key target markets. We also have a number of joint development agreements under way.

In November 2008 Nanoco signed a major supply and license agreement with a large Japanese corporation to develop our quantum dots onto their LEDs for use in the lighting and LCD backlight market. This agreement followed the successful completion of a joint development agreement signed in December 2007, worth US\$1.2 million to Nanoco. The new agreement gives Nanoco US\$10 million in upfront revenue based on hitting specific milestones. US\$2 million of the US\$10 million has already been paid and we expect to complete all milestones and receive a further US\$8 million by 31 December 2010. Amongst other targets, this agreement requires the commercial supply of 1 kilogram batches of heavy metal free quantum dots.



Quantum dots have the potential to form the next generation of ultra-thin electroluminescent displays for use in a wide range of products from computer and laptop screens to PDAs and mobile phones.

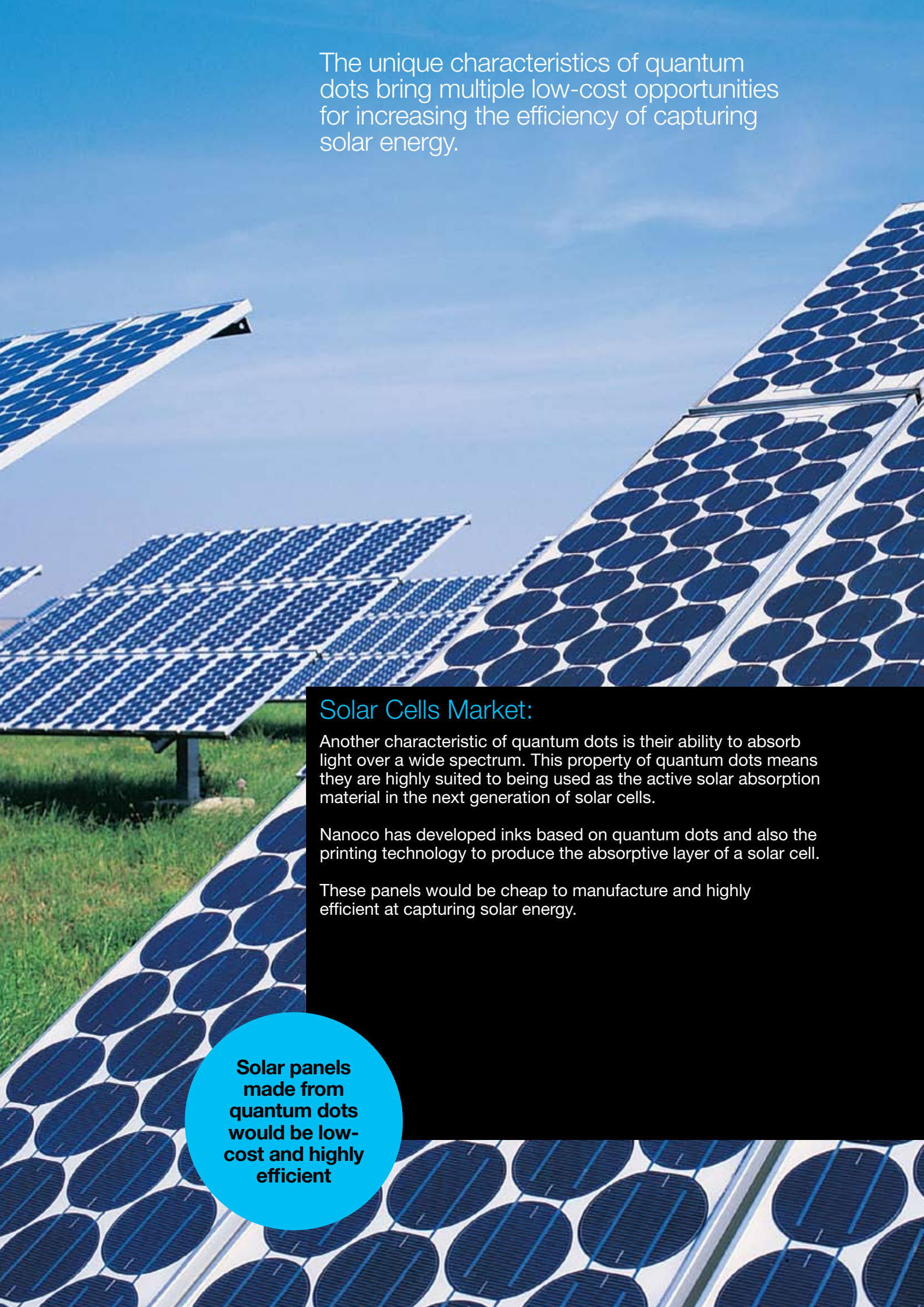
Displays Market:

Quantum dots, because of their ability to emit bright light of specific wavelengths, have the potential to form the pixels in novel inorganic electroluminescent displays.

Such displays would have significant advantages to LCD displays in terms of power consumption, compactness and cost of manufacture. Because quantum dots are printable, the pixels could be ink jet printed onto flexible polymer surfaces, which could be rolled up or folded when not in use.

It is expected that electroluminescent displays based on quantum dots would first be used in products with small-size screens, such as mobile phones and PDAs.

**Quantum dots
create the
opportunity for
next generation
displays printed
on flexible
surfaces**



The unique characteristics of quantum dots bring multiple low-cost opportunities for increasing the efficiency of capturing solar energy.

Solar Cells Market:

Another characteristic of quantum dots is their ability to absorb light over a wide spectrum. This property of quantum dots means they are highly suited to being used as the active solar absorption material in the next generation of solar cells.

Nanoco has developed inks based on quantum dots and also the printing technology to produce the absorptive layer of a solar cell.

These panels would be cheap to manufacture and highly efficient at capturing solar energy.

**Solar panels
made from
quantum dots
would be low-
cost and highly
efficient**

Business Review

continued

Major contracts signed with global electronics corporations

Once the products are commercialised, a royalty of 5% will be paid to Nanoco on the net sales of the corporation's products, which will comprise a light emitting diode (LED) chip, quantum dots and an encapsulant. The packaged LEDs will be sold by the corporation to TV and display makers and to solid state lighting manufacturers. The world market for these LEDs is expected to be 167 billion units by 2012 (DisplaySearch, report: "Display LEDs: Lighting up the World").

In the current financial year, we recently announced further agreements in a similar area.

Manufacturing scale-up

Nanoco's technology allows the industrial scale-up of the manufacture of quantum dots and is focused on producing quantum dots without heavy metals. This enables Nanoco's customers to comply with legislation that restricts hazardous heavy metals in electrical and electronic goods. Conforming to these regulations is a prerequisite for the large scale adoption of quantum dots into TVs and other electronic equipment.

During the financial year to 31 July 2009, and post the period end, we have made substantial progress in the scaling up of our manufacturing. Our flotation on AIM in May 2009 provided additional funds to support this growth.

The first of a suite of reactors capable of producing 1 kilogram batches of quantum dots was installed in our Manchester facility in September 2009 and is being commissioned on smaller batches of quantum dots today. Throughout this 2009/10 year we are working to scale up to 1 kilogram per batch and then on to 25 kilograms per batch. We do not anticipate inherent difficulties in scaling up to 25kg, which is a relatively small amount compared with many production processes, but intend to manage the scale-up carefully.

LED lighting

The use of quantum dots to produce white light from blue LEDs has significant advantages compared with currently used fluorescent lighting and phosphor technology. These advantages include superior colour performance, the ability to easily change the components which make up the white light leading to a higher colour quality and ultimately less energy used in future quantum dot products such as backlights for LCD TVs.

LEDs use less power than traditional light sources and also benefit from compact size and a very long service life. They have the potential to replace traditional light sources in many applications, including household and commercial lighting.

LEDs are particularly suited for use as the backlight in LCD TVs, owing to reduced power consumption. Legislation is being proposed in California forcing manufacturers to reduce the power consumed by their TV's by 33% from 2011.

Nanoco is working with a number of global companies involved in the LCD TV market and the first TVs to include Nanoco quantum dots could be on the market as early as end 2011, early 2012. We also anticipate signing further agreements with companies active in the LED market.

Displays

Quantum dots can be lit up electronically which makes them well suited for next generation displays used on mobile devices, computer and laptop screens and TV's.

The benefits would include low power consumption, high colour quality and simple manufacturing. These displays would be very thin, as there would be no requirement for a backlight, and they could be printed by an ink jet printer.

Nanoco is currently in discussions with a number of multinational companies with the objective of developing and commercialising quantum dots in electroluminescent displays.

Business Review

continued

Solar power

Quantum dots, owing to their ability to absorb light efficiently, have the potential to improve the efficiency of converting solar energy into electricity. Nanoco works with a range of quantum dot materials destined for different solar cell applications which could eventually improve efficiencies and reduce the cost per watt of solar energy produced.

Nanoco has developed quantum dots capable of capturing the full spectrum of wavelengths of light and which can be printed on to thin films by conventional printing technology.

We are working with a number of companies with relevant experience in this area and evaluation samples of quantum dots in thin films are under evaluation by potential partners.

Bio-imaging

The use of quantum dots for in vitro imaging of cells was the first market to develop for quantum dots as the application required only small quantities of materials. As Nanoco can produce large quantities our focus has been on higher volume applications such as electronics. With Nanoco's strategic focus on heavy metal free quantum dots there has been an increasing demand to use our quantum dots for in vivo imaging.

Other markets

Whilst we intend to maintain our focus on our four key target markets, there are many other potential areas of use for quantum dots. In some of these we already have patent protection, including the security and anti-counterfeiting markets. Other markets such as functional decoration and printing have shorter development cycles and the opportunity to enter commercial production quickly. Given suitable commercial partnerships we would consider pursuing these, and other, markets.

Summary

Nanoco made excellent progress in the year to 31 July 2009 in the development of its technology, commercial relationships and manufacturing. Through joining AIM in May 2009, we have strengthened our balance sheet and gained greater visibility as a world-leading company at the forefront of quantum dot commercialisation.


In the current financial year, we have already signed a significant joint development agreement with a Japanese electronics giant, and we are in multiple discussions with other potential partners across our chosen end-user markets.

The company will continue to move forward by focusing on execution of our manufacturing scale up plans and delivery of commercial product to our customers which will drive business growth.



M Edelman

Chief Executive Officer



Our ability to manufacture quantum dots free of heavy metals creates the opportunity for in vivo cell imaging for disease diagnosis.

**Quantum dots
are an ideal
visualisation tool
in cell imaging**

Bio-imaging Market:

The use of quantum dots for bio-imaging provides researchers and clinicians with a new and versatile solution to a range of biomedical challenges.

Quantum dots made from heavy metals are already in use in cell labelling and other in vitro applications where visualisation of cellular activity is required. Their bright light emission over a long period of time and their ability to bind to molecules and remain in place make them particularly suited to bio-imaging applications. However, heavy metals are toxic and such quantum dots are unsuitable for use in live tissue.

Developing quantum dots free of heavy metals creates the opportunity for in vivo imaging, bringing the benefits of quantum dots in imaging applications to living tissue.

Board of Directors

Dr Peter Rowley

Non-executive Chairman

Peter joined the board of Nanoco in 2006. Previously he led the management buyout of Victrex from ICI in 1993, followed by the successful listing of Victrex PLC on the London Stock Exchange in 1995. He joined ICI in 1968 and progressed through a number of positions in the organisation. In 1983 he became International Business Manager for the widely used polymer PTFE and in 1989 he was appointed General Manager for ICI Advanced Materials Asia Pacific.

Dr Michael Edelman

Chief Executive Officer

Nanoco is led by Dr Michael Edelman. Michael joined Nanoco in 2004, led the initial fund-raising and spun Nanoco out of the University of Manchester. Prior to Nanoco Michael was responsible for licensing the technology developed by GE/Bayer joint venture, Exatec LLP. As Vice President and managing director of yet2.com Michael set up, grew and ran yet2.com's European operation and was instrumental in successfully selling the business. He was main board director for Colloids Ltd, a manufacturer of colours and additives for plastics with responsibility for global sales, marketing and restructuring of the business. Michael started his career with ICI, has a Ph.D. in organo-metallic chemistry from the University of Sussex, UK, and undergraduate degree in classics and chemistry from Tufts University, Boston, MA, USA.

Dr Nigel Pickett

Chief Technology Officer

Nanoco's technology team is led by Dr Nigel Pickett who is a co-founder of Nanoco Tech and inventor of Nanoco's key quantum dot scale-up technology. Nigel graduated from Newcastle University in 1991 and chose to remain at Newcastle to pursue a Ph.D. in the field of main group organometallics.

After graduation in 1994 he undertook a postdoctoral fellowship at St. Andrews University, Scotland, in the field of precursor design for MOVPE growth and synthesis of nanoparticles using CVD techniques. In 1996 he won a Japan Society for the Promotion of Science (JSPS) fellowship and spent the following year working at Tokyo University of Agriculture and Technology, Japan. In 1998 he became a research fellow at Georgia Institute of Technology, USA, working on the design and evaluation of precursor used in MOVPE. Nigel co-founded Nanoco in 2001.

Michael Bretherton

Chief Financial Officer

Michael Bretherton graduated in Economics from the University of Leeds and then worked as an accountant and manager with PriceWaterhouse for 7 years in both London and the Middle East. Michael subsequently worked for The Plessey Company PLC before being appointed Finance Director of the fully listed Bridgend Group PLC in 1988 where he held the position for 12 years. More recently, he has worked at the property and services company, Mapeley Limited as Financial Operations Director and then at the entertainment software games developer, Lionhead Studios Limited, where he helped to complete a trade sale of the business to Microsoft in March 2006. Michael is currently also a director of Ora Capital Partners Limited and a number of other AIM listed companies.

Gordon Hall

Non-executive Director

After an early career in teaching, Gordon built up substantial international sales, management and development expertise with Rank Xerox and Abbott Laboratories. He became Chief Executive Officer of Shield Diagnostic Ltd (now Axis Shield PLC) in 1990 and was responsible for listing the company on the London Stock Exchange. More recently Gordon has been involved with a range of different companies and he is currently a Non-executive Director of International Brand Licensing PLC which is listed on AIM.

From left to right:
Michael Edelman,
Gordon Hall,
Nigel Pickett,
Michael Bretherton,
Peter Rowley.



Directors' Report

The Directors present their report and consolidated financial statements for the year ended 31 July 2009, and the financial statements for the parent company for the six months ended 31 July 2009.

Acquisition and re-admission to AIM

On 30 April 2009 Evolutech Group PLC completed the acquisition of Nanoco Tech PLC, at which time the Company also changed its name to Nanoco Group PLC, and was delisted and re-admitted to AIM on 1 May 2009.

As explained in Note 2, these financial statements for the year ended 31 July 2009 have been presented using reverse acquisition accounting under which the Group's activity has been presented as a continuation of that of the legal subsidiary, Nanoco Tech Limited (formerly Nanoco Tech PLC). Comparative Group information therefore also reflects the consolidated results of Nanoco Tech in the prior year.

The accounting period for the Company was subsequently changed from 31 December to 31 July to be co-terminous with the other Nanoco group companies. A short period of accounts is therefore included in these financial statements for the Company and the comparative period is for the year ended 31 December 2008, see Note 2 for further details.

Principal activity

The principal activity of the Group during the year was the research, development and manufacture of high performance semi-conducting nano particles, called quantum dots, for use in a range of potential commercial applications.

Review of the business and future developments

A review of the Group's performance and future projects, including research and development, is included in the Chairman's statement and Group Business Review reports on pages 6 to 15.

Key performance indicators

Key Group performance indicators are set out below:

	31 Jul 2009 £000	31 Jul 2008 £000
Revenue	1,994	1,078
Net assets	8,771	3,432
Loss attributable to equity holders	(540)	(551)
Cash and cash equivalents	6,589	2,528
Research and development spend	1,259	940

Results and dividends

Turnover for the Group increased from £1,078,000 last year to £1,994,000 whilst losses after taxation for the year reduced to £540,000 (2008: loss of £551,000).

The Directors do not recommend payment of an ordinary dividend (2008: nil).

Share capital and funding

Full details of the Group and Company's share capital movements during the period are given in Note 18 of the financial statements.

Directors and their interests

The following directors held office in the year.

Dr P Rowley	(appointed 30 April 2009)
Dr M Edelman	(appointed 30 April 2009)
Dr N Pickett	(appointed 30 April 2009)
Mr M Bretherton	(appointed 30 April 2009)
Mr G Hall	
Dr D Bloxham	(resigned 30 April 2009)
Mr G Hart	(resigned 30 April 2009)
Mr M Hawtin	(resigned 30 April 2009)

Details of Directors' interest are shown in the Directors' Remuneration Report on pages 20 and 21.

Directors' indemnity insurance

The Group has maintained insurance throughout the year for its directors and officers against the consequences of actions brought against them in relation to their duties for the Group.

Substantial shareholders

The Company is aware that the following have, at 23 October 2009 an interest in three per cent or more of the issued Ordinary Share capital of the Company:

	Number of 10p ordinary shares	Percentage of the issued share capital
ORA Capital Partners Limited*	69,739,348	37.88%
Gartmore	29,737,156	16.15%
Mitsubishi UFJ	11,872,888	6.45%
Paul O'Brien	9,921,843	5.39%
Kisco Ltd	6,026,615	3.27%
Nora Powell	5,997,723	3.26%

*Includes 2,870,260 (1.59%) held indirectly through a derivative financial instrument.

Donations

No charitable or political donations were made in the year (2008: nil).

Policy on payment of suppliers

The Group does not follow any code or standard payment practice. The Group's policy is to agree the terms of payment with key suppliers. For all other suppliers, terms are agreed for each transaction. The Group endeavours to abide by the terms of payment with suppliers.

The Group's trade creditor days as at 31 July 2009 were 31 (2008: 31 days).

Employment policies

The Group supports employment of disabled people where possible through recruitment, by retention of those who become disabled and generally through training, career development promotion.

The Group is committed to keeping employees as fully-informed as possible with regard to the Group's performance and prospects and seeks their views, wherever possible, on matters which affect them as employees.

Disclosure of information to the auditors

So far as each person who was a director at the date of approving this report is aware, there is no relevant audit information, being information needed by the auditor in connection with preparing its report, of which the auditor is unaware. Having made enquiries of fellow directors and the company's auditor, each director has taken all the steps that he is obliged to take as a director in order to make himself aware of any relevant audit information and to establish that the auditor is aware of that information.

Auditor

In accordance with section 485 of the Companies Act 2006, a resolution to reappoint Ernst & Young LLP as auditors will be put to the members at the Annual General Meeting.

On behalf of the board

M Bretherton

Director

27 October 2009

Directors' Remuneration Report

Companies with securities listed on AIM do not need to comply with either of the Directors' Remuneration Report Regulations 2002 or the UKLA Listing Rules and the provisions under section 7A of the Companies Act 1985. The Remuneration Committee is however committed to maintaining high standards of corporate governance and disclosure and has applied the guidelines as far as practical given the current size and development of the Company.

Remuneration Committee

The remuneration committee's primary responsibilities are to review the performance of the executive directors of the Company and to determine the broad policy and framework for their remuneration and the terms and conditions of their service and that of senior management (including the remuneration of and grant of options to such person under any share scheme adopted by the Company). The remuneration committee comprises Peter Rowley, who will act as Chairman of the committee, and the Non-executive Directors. The remuneration of Non-executive Directors shall be a matter for the Chairman and the executive members of the board of the Company.

There are three main elements of the remuneration packages for Executive Directors and senior management:

Basic annual salary (including directors' fees)

The base salary is reviewed annually at the beginning of each year. The review process is undertaken by the Remuneration Committee and takes into account several factors, including the current position and development of the Group, individual contribution and market salaries for comparable organisations.

Discretionary annual bonus

All Executive Directors and senior managers are eligible for a discretionary annual bonus which is paid in accordance with a bonus scheme developed by the Remuneration Committee. This takes into account individual contribution, business performance and technical and commercial progress, along with financial results.

Discretionary share option scheme

All Executive Directors and senior managers are eligible for discretionary share option awards to be paid in accordance with the option scheme. This takes into account the need to motivate and retain key individuals, along with similar performance criteria to the discretionary bonus scheme.

Remuneration Policy for Non-executive Directors

Remuneration for Non-executive Directors is set by the Board as a whole. Non-executives do not receive any pension payments or other benefits, nor do they participate in bonus schemes. Fees are based on a fixed fee plus an additional fee for chairmanship of a committee.

Directors' remuneration

The remuneration of the Directors, who served the Nanoco Group during the year to 31 July 2009, is as follows:

	Salary & fees £000	Bonus £000	Share based payments £000	Total 2009 £000	Total 2008 £000
Dr P Rowley	10	–	–	10	10
Dr M A Edelman	118	50	24	192	166
Dr N L Pickett	82	30	15	127	110
Mr M Bretherton	3	–	–	3	–
Mr G Hall	3	–	–	3	–
	216	80	39	335	286

It is the Company's policy that executive Directors should have contracts with an indefinite term providing for a maximum of twelve months notice, with the exception of M Bretherton who has a six month notice period. In the event of early termination, the Directors' contracts provide for compensation up to a maximum of basic salary for the notice period.

Non-executive Directors are employed on letters of appointment which may be terminated on not less than six months notice. The basic fee payable to the Non-executive Directors is £12,000 per annum.

Directors' shareholdings

Directors' interests in the shares of the Company, including family interests at 31 July 2009 were:

	31 Jul 2009	31 Jul 2009	Ordinary shares of 10p each	
			31 Dec 2008	31 Dec 2008
Dr P Rowley	1,571,820	0.85%	–	–
Dr M Edelman*	9,272,940	5.04%	–	–
Dr N Pickett*	10,451,931	5.68%	–	–
Mr M Bretherton	227,500	0.12%	–	–
Mr G Hall	100,000	0.05%	–	–
Dr D Bloxham	103,572	0.06%	103,572	0.4%
Mr G Hart	208,739	0.11%	208,739	0.8%
Mr M Hawtin	–	–	–	–

*Includes the jointly owned EBT shares referred to below.

Directors' jointly owned employee benefit trust shares and share options

Directors' interests in jointly owned employee benefit trust ("EBT") shares and in share options to acquire ordinary shares of 10 pence in the Company as 31 July 2009 were:

	Exercise price	At 1 Aug 2008	Granted during the year	Exercised during the year	Lapsed during the year	Adjustment on reverse acquisition	At 31 Jul 2009
Approved EMI scheme							
Dr M Edelman	3.52p	625,000	–	–	–	2,218,750	2,843,750
Dr N Pickett	3.52p	625,000	–	–	–	2,218,750	2,843,750
EBT scheme							
Dr M Edelman	3.52p	709,706	–	–	–	2,519,456	3,229,162
Dr N Pickett	3.52p	116,503	–	–	–	413,586	530,089

On 30 April the Company acquired 100 per cent of the issued share capital of Nanoco Tech Limited for consideration satisfied by the issue of 158,138,036 ordinary shares of 10 pence each in a ratio of 1:4.55. Consequentially the number of share options and shares held by the directors increased by 4.55 times and the exercise price has decreased by 4.55 times, see Note 23 for further details. None of the other terms and conditions of the options were affected by this change.

Exercise of the above options, which were granted on 1 September 2006, is conditional on achievement of share prices performance criteria and either a sale or listing of the Company. All of the relevant conditions had been successfully met by 31 July 2009 and the options are capable of being exercised at anytime from 31 October 2009 to 31 August 2016.

The market price at 31 July 2009 was 38 pence per share, the highest and lowest price during the year were 14.5 pence (66 pence for the old Nanoco Tech shares) and 59.50 pence respectively.

Details of share options and shares held in the employee benefit trust are set out in Note 19 to the financial statements.

On behalf of the Board

Peter Rowley

Chairman of the Remuneration Committee
27 October 2009

Corporate Governance Statement

The Directors recognise the importance of sound corporate governance and intend to ensure that, at all times, the Company continues to apply policies and procedures which reflect the principles of Good Governance and Code of Best Practice as published by the Committee on Corporate Governance (commonly, known as “the Combined Code”) as are appropriate to the size, nature and stage of development of the Company. The Directors endeavour to comply with the QCA Guidelines in such respects as are appropriate for a company of its size, nature and stage of development following Admission.

The Board

The Board currently comprises three executive and two Non-executive Directors.

Audit committee

The audit committee’s primary responsibilities are to monitor the integrity of the financial affairs and statements of the Company, to ensure that the financial performance of the Company and any subsidiary of the Company is properly measured and reported on, to review reports from the Company’s auditors relating to the accounting and internal controls and to make recommendations relating to the appointment of the external auditors.

The audit committee comprises the two Non-executive Directors, Gordon Hall and Peter Rowley, with Gordon as Chairman.

Remuneration committee

The remuneration committee’s primary responsibilities are to review the performance of the executive directors of the Company and to determine the broad policy and framework for their remuneration and the terms and conditions of their service and that of senior management (including the remuneration of and grant of options to such person under any share scheme adopted by the Company). The remuneration committee comprises Peter Rowley, who will act as Chairman of the committee, and the Non-executive Directors. The remuneration of Non-executive Directors shall be a matter for the Chairman and the executive members of the board of the Company.

Nominations committee

The Directors do not consider that, given the size of the Board, it is appropriate at this stage to have a nomination committee. However, this will be kept under regular review by the Board.

Internal controls

The Board is responsible for maintaining a sound system of internal control. The Board’s measures are designed to manage, not eliminate risk, and such a system provides reasonable but not absolute assurance against material misstatement or loss.

Some key features of the internal control system are:

- (i) Management accounts information, budgets, forecasts and business risk issues are regularly reviewed by the Board who meet at least six times per year;
- (ii) The Company has operational, accounting and employment policies in place;
- (iii) The Board actively identifies and evaluates the risks inherent in the business and ensures that appropriate controls and procedures are in place to manage these risks; and
- (iv) There is a clearly defined organisational structure and there are well-established financial reporting and control systems.

In addition, the Company has adopted a model code for directors’ dealings in securities of the Company which is appropriate for a company quoted on AIM. The Directors comply with Rule 21 of the AIM Rules relating to directors’ dealings and also take all reasonable steps to ensure compliance by the Group’s “applicable employees” as defined in the AIM Rules.

Going concern

The Directors confirm they are satisfied that the Group has adequate resources to continue in business for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

Risk management

Details of the Group’s financial risk management objectives and policies are disclosed in Note 24 to the financial statements.

The Directors consider that the principal risk facing the Group is the speed at which the Group’s products can be developed into final solutions by its partners.

The Group's strategy of working with a number of global partners in a wide variety of potential applications mitigates this risk.

The Directors do not consider that the business is, at this time, significantly exposed to credit, interest or currency risk and as such these risks are not considered to be material for an assessment of the assets, liabilities financial position and results.

The Group seeks to manage liquidity by ensuring funds are available to meet foreseeable needs and to invest cash assets safely and profitably. The Group had net cash and cash equivalent balances of £6.59 million as at 31 July 2009 (2008: £2.53 million).

Statement of Directors' responsibilities

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

UK Company law requires the Directors to prepare Group and Company financial statements for each financial year. Under that law the Directors are required to prepare Group financial statements in accordance with International Financial Reporting Standards, as adopted by the EU ("IFRS"), and have elected to prepare the Company financial statements in accordance with IFRS.

The Group financial statements are required by law and IFRS to present fairly the financial position and performance of the Group; the Companies Act 2006 provides in relation to such financial statements that references in the relevant part of that Act to financial statements giving a true and fair view are references to their achieving a fair presentation.

The Company financial statements are required by law to give a true and fair view of the state of affairs of the Company.

In preparing each of the Group and Company financial statements, the Directors are required to:

- a. Select suitable accounting policies and then apply them consistently;
- b. Make judgements and estimates that are reasonable and prudent;
- c. State whether they have been prepared in accordance with IFRS; and
- d. Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the Company will continue in business.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the requirements of the Companies Act 1985. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are also responsible for the maintenance and integrity of the company website, www.nanocotechnologies.com

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

Independent Auditors' Report

To the members of Nanoco Group PLC

We have audited the financial statements of Nanoco Group PLC for the year ended 31 July 2009 which comprise the Group and Parent Company Balance Sheets, the Group Income Statement, the Group and Parent Company Cash Flow Statements, the Group and Parent Company Statements of Changes in Equity and the related Notes 1 to 25. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

This report is made solely to the company's members, as a body, in accordance with Sections 495 and 496 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 23, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the group's and the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements.

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 July 2009 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 IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

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

Under the Companies Act 2006 we are required to report to you if, in our opinion:

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

Jan Gregory

for and on behalf of Ernst & Young LLP
Manchester
27 October 2009

Consolidated Income Statement

For the year ended 31 July 2009

	Notes	2009 £000	2008 £000
Revenue	4	1,994	1,078
Cost of sales		(161)	(118)
Gross profit		1,833	960
Administrative expenses		(2,450)	(1,745)
Cost of reverse acquisition	23	(195)	–
Operating loss	5	(812)	(785)
Finance income	7	57	122
Finance costs	7	(25)	(35)
Loss on ordinary activities before taxation		(780)	(698)
Tax on loss on ordinary activities	8	240	147
Loss on ordinary activities after taxation attributable to members of the parent entity		(540)	(551)
Loss per share:			
Basic loss for the year	9	(0.31)p	(0.37)p
Diluted loss for the year	9	(0.31)p	(0.36)p

The loss for the year arises from the Group's continuing operations.

Statements of Changes in Equity

For the year ended 31 July 2009

The Group

	Attributable to equity holders				Total £000
	Issued equity capital £000	Share based payment reserve £000	Merger reserve £000	Revenue reserve £000	
At 1 August 2007	4,839	42	(1,242)	(869)	2,770
Loss for the year	–	–	–	(551)	(551)
Issue of share capital	1,705	–	–	(545)	1,160
Share-based payments	–	53	–	–	53
At 31 July 2008	6,544	95	(1,242)	(1,965)	3,432
Loss for the year	–	–	–	(540)	(540)
Exercise of warrant	108	–	–	–	108
Share-based payments	–	72	–	–	72
Reallocation of reserves on reverse acquisition	6,154	–	–	–	6,154
Expenses on issue of shares	(455)	–	–	–	(455)
At 31 July 2009	12,351	167	(1,242)	(2,505)	8,771

The Company

	Attributable to equity holders				Total £000
	Issued equity capital £000	Share based payment reserve £000	Capital redemption reserve £000	Revenue reserve £000	
At 1 January and 31 December 2008	27,037	–	4,804	(26,050)	5,791
Treasury shares reclassified to EBT	(20)	–	–	20	–
Profit for the period	–	–	–	287	287
Share-based expense	–	167	–	–	167
Shares issued on acquisition of Nanoco Tech Limited (see Note 18)	63,255	–	–	–	63,255
Expenses on issue of shares	(455)	–	–	–	(455)
At 31 July 2009	89,817	167	4,804	(25,743)	69,045

Balance Sheets

As at 31 July 2009

	Notes	31 Jul 2009 Group £000	31 Jul 2009 Company £000	31 Jul 2008 Group £000	31 Dec 2008 Company £000
Assets					
Non-current assets					
Plant and equipment	10	2,127	–	1,150	–
Intangible assets	11	376	–	279	–
Investment in subsidiary	12	–	63,422	–	5,791
		2,503	63,422	1,429	5,791
Current assets					
Inventories	13	17	–	9	–
Trade and other receivables	14	378	–	236	–
Income tax asset		135	–	147	–
Cash and cash equivalents	15	6,589	5,939	2,528	–
		7,119	–	2,920	–
Total assets		9,622	69,361	4,349	5,791
Liabilities					
Current liabilities					
Trade and other payables	16	376	–	379	–
Short-term financial liabilities	17	63	–	63	–
		439	–	442	–
Non-current liabilities					
Long-term financial liabilities	17	412	(316)	475	–
Total liabilities		851	(316)	917	–
Net assets		8,771	69,045	3,432	5,791
Capital and reserves					
Issued equity capital	18	12,351	89,817	6,544	27,037
Share-based payment reserve	19	167	167	95	–
Merger reserve	20	(1,242)	–	(1,242)	–
Capital redemption reserve		–	4,804	–	4,804
Revenue reserve	21	(2,505)	(25,743)	(1,965)	(26,050)
Total equity		8,771	69,045	3,432	5,791

Approved by the board and authorised for issue on 27 October 2009.

Dr M A Edelman

Director

Cash Flow Statements

For the year ended 31 July 2009

	Notes	31 Jul 2009 Group £000	31 Jul 2009 Company £000	31 Jul 2008 Group £000	31 Dec 2008 Company £000
(Loss)/profit before interest and tax		(812)	287	(785)	–
Adjustments for:					
Depreciation	10	233	–	167	–
Amortisation of intangible assets	11	39	–	19	–
Cost of reverse acquisition	23	195	–	–	–
Movement in share payment reserve	19	72	–	53	–
Impairment of investment in subsidiary	12	–	5,338	–	–
Net reversal of provision for non-recovery of loan to subsidiary	12	–	(5,744)	–	–
Changes in working capital (excluding the effects of acquisition):					
Inventories		(8)	–	6	–
Decrease/(increase) in trade and other receivables		162	–	(92)	–
(Decrease)/increase in trade and other payables		(124)	312	(150)	–
Cash (out)/inflow from operating activities		(243)	193	(782)	–
Interest paid	7	(25)	–	(35)	–
Research and development tax credit received		136	–	135	–
Net cash (out)/inflow from operating activities		(132)	193	(682)	–
Cash flows from investing activities					
Purchases of plant and equipment	10	(1,242)	–	(312)	–
Related grant received	10	32	–	50	–
Net purchases of plant and equipment		(1,210)	–	(262)	–
Purchases of intellectual property	11	(136)	–	(145)	–
Loan repayment received from subsidiary	12	–	6,197	–	–
Interest received	7	57	4	103	–
Net cash (out)/inflow from investing activities		(1,289)	6,201	(304)	–
Cash flows from financing activities					
Cash acquired on reverse acquisition	23	5,892	–	–	–
Net proceeds from issues of ordinary share capital		108	–	1,160	–
Expenses on issue of shares	18	(455)	(455)	–	–
Loan repayment		(63)	–	(62)	–
Net cash in/(out)flow from financing activities		5,482	(455)	1,098	–
Increase in cash and equivalents		4,061	5,939	112	–
Cash and cash equivalents at the start of the period		2,528	–	2,416	–
Cash and cash equivalents at the end of the period	15	6,589	5,939	2,528	–

Notes to the Financial Statements

1. Authorisation of financial statements and statement of compliance with IFRSs

The financial statements of Nanoco Group PLC (formerly Evlutec Group PLC) and its subsidiaries (the “Group”) for the year ended 31 July 2009 were authorised for issue by the Board of Directors on 27 October 2009 and the balance sheet was signed on the board’s behalf by Dr M A Edelman.

Nanoco Group PLC (“the Company”) is an AIM listed company incorporated and domiciled in the UK.

The Company’s financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (“IFRS”) and International Financial Reporting Committee (“IFRIC”) interpretations as they apply to the financial statements of the Group for the period ended 31 July 2009.

The principal accounting policies adopted by the Group are set out in Note 2.

2. Accounting policies

Basis of preparation

These financial statements have been prepared in accordance with IFRS and IFRIC interpretations as they apply to the financial statements of the Group for the year ended 31 July 2009 and applied in accordance with the Companies Act 2006.

The accounting policies which follow set out those policies which apply in preparing the financial statements for the year.

The financial statements are prepared under the historical cost convention, except where otherwise stated.

The Company has elected to take the exemption under section 230 of the Companies Act 2006 not to present the parent company’s income statement. The parent company’s result for the period ended 31 July 2009 was a profit of £287,000 (year to 31 December 2008: £nil).

The Group financial statements are presented in Sterling and all values are rounded to the nearest thousand pounds (£000) except where otherwise indicated.

Basis of consolidation

The Group financial statements consolidate the financial statements of Nanoco Group PLC and the entities it controls (its subsidiaries) drawn up to 31 July each year.

Reverse acquisition of Evlutec Group PLC

On 30 April 2009, Evlutec Group PLC completed the acquisition of Nanoco Tech Limited (formerly Nanoco Tech PLC) in a share for share consideration exchange as detailed in Note 23, at which time the Company also changed its name to Nanoco Group PLC.

The combination has been accounted for as a reverse acquisition equity transaction as if Nanoco Tech Limited had issued new shares in exchange for Evlutec Group PLC’s cash and other assets. Although these Group financial statements have been issued in the name of the legal parent, the Group’s activity is in substance a continuation of that of the legal subsidiary, Nanoco Tech Limited, because after the transaction the former Board of Nanoco Tech Limited were deemed to have control of the Group and of the legal parent. The following accounting treatment has been applied in respect of the transaction.

- The retained loss and other equity balances recognised in the Group financial statements reflect the consolidated retained loss and other equity balances of Nanoco Tech Limited immediately before the transaction, and the consolidated results for the period from 1 August 2008 to the date of the transaction are those of Nanoco Tech Limited. However, the equity structure appearing in the Group financial statements reflects the equity structure of the legal parent, including the equity instruments issued under the share for share exchange to effect the transaction. The effect of using the equity structure of the legal parent gives rise to an adjustment to the Group’s issued equity capital (“the reverse acquisition reserve”), see Note 18.
- Comparative numbers presented in the Group financial statements are those reported in the consolidated financial statements of the legal subsidiary, Nanoco Tech Limited, for the year ended 31 July 2008.
- The fair value of the shares issued by Nanoco Group PLC has been determined from the perspective of Nanoco Tech Limited on the basis set out in Note 23.
- The Company’s financial statements and related notes are for the legal parent for the period from 1 January 2009 to 31 July 2009 and present comparative information for the year from 1 January 2008 to 31 December 2008.

2. Accounting policies continued

Pooling of interests method of consolidation

The purchase of Nanoco Technologies Limited by Nanoco Tech Limited on 27 June 2007 has been treated as a re-organisation using the pooling of interests method of accounting. It has therefore been presented as if the entities had always been combined. Therefore, on consolidation the assets and liabilities were reflected at carrying value rather than fair value. No goodwill arose on the combination, and the difference between the nominal value of shares issued by Nanoco Group PLC and the nominal value of the ordinary shares of Nanoco Technologies Limited, together with the capital and reserves of Nanoco Technologies Limited at the time of the pooling of interests, are shown as "merger reserve" in the consolidated financial statements.

Subsidiaries

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies, generally accompanying a shareholding of more than half of the voting rights. The existence and effects of potential voting rights are considered when assessing whether the Group controls the entity. Subsidiaries are fully consolidated from the date control passes.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The costs of an acquisition are measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are initially measured at fair value at acquisition date irrespective of the extent of any minority interest. The difference between the cost of acquisition of shares in subsidiaries and the fair value of the identifiable net assets acquired is capitalised as goodwill and reviewed annually for impairment. Any deficiency of the cost of acquisition below the fair value of identifiable net assets acquired (i.e. discount on acquisition) is recognised directly in the income statement.

All intra-group transactions, balances, and unrealised gains on transactions between group companies are eliminated on consolidation. Subsidiaries' accounting policies are amended where necessary to ensure consistency with the policies adopted by the Group. All financial statements are made up to 31 July 2009.

Foreign currency translation

Items included in the financial statements of each entity are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The financial statements are presented in sterling, being the Group's presentational currency.

Transactions in foreign currencies are initially recorded in the functional currency by applying the spot rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date. All differences are taken to the income statement.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or a service within a particular environment that are subject to risks and returns that are different from those segments operating in other economic environments.

Revenue recognition

Revenue is recognised to the extent that it is probable that economic benefits will flow to the group and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable for the sale of goods or services, excluding discounts, rebates, VAT and other sales taxes or duties.

The Group's revenues to date comprise amounts earned under joint development agreements and individual project development programmes, revenue from the sale of quantum dot products and grant income recognised. Revenues from development programmes are recognised following contractual entitlement. This typically comprises either time based fees, time and materials expended or time and technical milestones achieved, as agreed between the parties. Grant income is recognised as earned based on contractual conditions, generally as expenses are incurred.

Interest income

Interest income is recognised as interest accrues using the effective interest rate method.

Research and development

Research costs are charged against the statement of comprehensive income as they are incurred. Certain development costs will be capitalised as intangible assets when it is probable that the future economic benefits will flow to the Company. Such intangible assets will be amortised on a straight-line basis from the point at which the assets are ready for use over the period of the expected benefit, and are reviewed for impairment at each balance sheet date. Other development costs are charged against income as incurred since the criteria for their recognition as an asset are not met.

The criteria for recognising expenditure as an asset are:

- It is technically feasible to complete the product;
- Management intends to complete the product and use or sell it;
- There is an ability to use or sell the product;
- It can be demonstrated how the product will generate probable future economic benefits;
- Adequate technical, financial and other resources are available to complete the development, use and sale of the product; and
- Expenditure attributable to the product can be reliably measured.

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

Careful judgement by the Directors is applied when deciding whether the recognition requirements for development costs have been met. This is necessary as the economic success of any product development is uncertain and may be subject to future technical problems at the time of recognition. Judgements are based on the information available at each Balance Sheet date which includes the progress with testing and certification and progress on, for example, establishment of commercial arrangements with third parties. In addition, all internal activities related to research and development of new products are continuously monitored by the Directors.

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

Leases

Rental payable under operating leases, which are leases where the lessor retains a significant proportion of the risks and rewards of the underlying asset, are charged in the income statement on a straight line basis over the expected lease term.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

The expense relating to any provision is presented in the income statement, net of any expected reimbursement, but only where recoverability of such reimbursement is virtually certain.

Provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risk specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

Financial assets and liabilities

Financial assets are recognised when the Group becomes party to the contracts that give rise to them and are classified as financial assets at fair value through the profit and loss; loans and receivables; held-to-maturity investments; or as available-for-sale financial assets, as appropriate. The Group determines the classification of its financial assets at initial recognition and re-evaluates this designation at each financial year end.

At the year end, the Group had no financial assets or liabilities designated as at fair value through the profit and loss (2008: nil).

2. Accounting policies continued

Derecognition of financial assets and liabilities

A financial asset or liability is generally derecognised when the contract that gives rise to it is settled, sold, cancelled or expires.

Taxation

Current income tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the tax authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the balance sheet date.

Deferred income tax

Deferred income tax is recognised on all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements, except to the extent that the directors do not anticipate that the timing differences will crystallise in the foreseeable future, and with the following exceptions:

- Where the temporary difference arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination that at the time of the transaction affects neither accounting nor taxable profit nor loss; and
- In respect of taxable temporary differences associated with investments in subsidiaries where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets and liabilities are measured on an undiscounted basis using the tax rates and tax laws that have been enacted or substantially enacted by the balance sheet date and which are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profits will be available against which differences can be utilised. An asset is not recognised to the extent that the transfer or economic benefits in the future is uncertain.

Investments in subsidiaries

Investments in subsidiaries are stated in the Company balance sheet at cost less provision for any impairment.

Plant and equipment

Plant and equipment is recognised initially at cost. After initial recognition, these assets are carried at cost less any accumulated depreciation and any accumulated impairment losses. Cost comprises the aggregate amount paid and the fair value of any other consideration given to acquire the asset and includes cost directly attributable to making the asset capable of operating as intended.

Depreciation is computed by allocating the depreciable amount of an asset on a systematic basis over its useful life and is applied separately to each identifiable component.

The following bases and rates are used to depreciate classes of assets:

Laboratory infrastructure	–	straight line over ten years
Plant and machinery, fixtures and fittings	–	straight line over five years
Office equipment	–	straight line over three years

The carrying values of plant and equipment are reviewed for impairment if events or changes in circumstances indicate the carrying value may not be recoverable, and are written down immediately to their recoverable amount. Useful lives and residual values are reviewed annually and where adjustments are required these are made prospectively.

An item of plant and equipment is derecognised on disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the derecognition of the asset is included in the income statement in the period of derecognition.

Intangible assets

Intangible assets acquired either as part of a business combination or from contractual or other legal rights are recognised separately from goodwill provided they are separable and their fair value can be measured reliably.

Where intangible assets recognised have finite lives, after initial recognition their carrying value is amortised on a straight line basis over those lives. The nature of those intangibles recognised and their estimated useful lives are as follows:

Patents	–	straight line over ten years
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Impairment of assets

At each reporting date the Group reviews the carrying value of its plant, equipment and intangible assets to determine whether there is an indication that these assets have suffered an impairment loss. If any such indication exists, or when annual impairment testing for an asset is required, the company makes an assessment of the asset's recoverable amount.

An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying value of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used, these calculations corroborated by valuation multiples, or other available fair value indicators. Impairment losses on continuing operations are recognised in the income statement in those expense categories consistent with the function of the impaired assets.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the income statement unless the asset is carried at revalued amount, in which case the reversal is treated as a valuation increase. After such a reversal the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost includes all costs incurred in bringing each product to its present location and condition. Net realisable value is based on estimated selling price less any further costs expected to be incurred to disposal. Provision is made for slow moving or obsolete items.

Trade and other receivables

Trade receivables, which generally have 30 to 60 day terms, are recognised and carried at the lower of their original invoiced value and recoverable amount. The time value of money is not material.

Provision is made when there is objective evidence that the Group will not be able to recover balances in full. Significant financial difficulties faced by the customer, probability that the customer will enter bankruptcy or financial reorganisation and default in payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying value of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the income statement within administrative expenses.

When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables.

Government grants

Government grants are recognised when it is reasonable to expect that the grants will be received and that all related conditions are met, usually on submission of a valid claim for payment.

Government grants of a revenue nature are deferred and recognised in the income statement in line with the terms of the underlying grant agreement.

Government grants relating to capital expenditure are deducted in arriving at the carrying amount of the asset.

2. Accounting policies continued

Cash and cash equivalents

Cash and cash equivalents comprise cash at hand and deposits with an original term of not greater than 3 months.

Trade and other payables

Trade and other payables are not interest bearing and are initially recognised at fair value. They are subsequently measured at amortised cost using the effective interest rate method.

Borrowings

Borrowings are recognised when the Group becomes party to the related contracts and are measured initially at fair value, net of directly attributable transaction costs incurred. After initial recognition, borrowings are stated at amortised cost.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least twelve months after the balance sheet date.

Share capital

Proceeds on issue of shares are included in shareholder's equity, net of transaction costs. The carrying amount is not remeasured in subsequent years.

Shares held by Employee Benefit Trust

Where an employee acquires an interest in shares in the Company jointly with the Nanoco Tech Employee Share Trust, the fair value benefit of these attributable to the employee at the purchase date is recognised as a company expense, with a corresponding increase to equity share-based payments reserve, over the period to the earliest date on which the employee becomes entitled to exercise an option to acquire the Trustees interest in the jointly owned shares at the option price.

The fair value benefit is measured using the Black Scholes valuation model, taking into account the terms and conditions upon which the jointly owned shares were purchased.

Share-based payments

The Company undertakes equity settled share-based payment transactions with certain employees.

Equity settled share-based payment transactions are measured with reference to the fair value at the date of grant, recognised on a straight line basis over the vesting period, based on the company's estimate of shares that will eventually vest. Fair value is measured using the Black Scholes model.

At each balance sheet date before vesting, the cumulative expense is calculated, representing the extent to which the vesting period has expired and management's best estimate of the achievement or otherwise of non-market conditions and the number of equity instruments that will ultimately vest. The movement in cumulative expense since the previous balance sheet date is recognised in the income statement, with a corresponding entry in equity.

Where the terms of an equity-settled award are modified or a new award is designated as replacing a cancelled or settled award, the cost based on the original award terms continues to be recognised over the original vesting period. In addition, an expense is recognised over the remainder of the new vesting period for the incremental fair value of any modification, based on the difference between the fair value of the original award and the fair value of the modified award, both as measured on the date of the modification. No reduction is recognised if this difference is negative.

Where awards are granted to the employees of the subsidiary company, the fair value of the awards at grant date is recorded in the Company's financial statements as an increase in the value of the investment with a corresponding increase in equity as "other reserve".

Accounting standards and interpretations not applied

At the date of authorisation of these financial statements, the following Standards and Interpretations relevant to the operations of the Group that have not been applied in these financial statements were in issue but not yet effective or endorsed (unless otherwise stated).

The effective dates stated here are those given in the original IASB standards and interpretations. As the Group prepares its financial statements in accordance with IFRS, the application of new standards and interpretations will be subject to their having been endorsed for use in the EU via the EU Endorsement mechanism. In the majority of cases this will result in an effective date consistent with that given in the original standard or interpretation but the need for endorsement restricts the Group's discretion to early adopt standards:

		Effective date
IFRS 2	Share-based payment (amendments)	1 January 2009
IFRS 3	Business Combinations (revision)	1 July 2009
IFRS 7	Financial Instruments: Disclosures (amendments)	1 January 2009
IFRS 8	Operating Segments	1 January 2009
IFRS 8	Operating Segments (amendments)	1 January 2010
IAS 1	Presentation of Financial Statements (revision)	1 January 2009
IAS 1	Presentation of Financial Statements (amendments)	1 January 2009
IAS 7	Statement of Cash Flows (amendments)	1 January 2009
IAS 16	Property, plant and equipment (amendments)	1 January 2009
IAS 17	Leases (amendments)	1 January 2010
IAS 18	Revenue (amendments)	1 January 2009
IAS 19	Employee Benefits (amendments)	1 January 2009
IAS 20	Government Grants and Disclosure of Government Assistance (amendments)	1 January 2009
IAS 27	Consolidated and Separate Financial Statements (revision)	1 July 2009
IAS 27	Consolidated and Separate Financial Statements (amendments)	1 January 2009
IAS 32	Financial Instruments: Presentation (amendments)	1 January 2009
IAS 36	Impairment of Assets (amendments)	1 January 2009
IAS 38	Intangible Assets (amendments)	1 January 2009
IAS 39	Financial Instruments: Recognition and Measurement (amendments)	1 January 2009

The Directors anticipate that the adoption of these Standards and Interpretations in future periods will have no material impact on the financial statements of the Group.

3. Judgements and key sources of estimation uncertainty

The preparation of financial statements requires management to make estimates and assumptions that affect the amounts reported for assets and liabilities as at the balance sheet date and the amounts reported for revenues and expenses during the year. The nature of estimation means that actual amounts could differ from those estimates. Estimates and assumptions used in the preparation of the financial statements are continually reviewed and revised as necessary. While every effort is made to ensure that such estimates and assumptions are reasonable, by their nature they are uncertain and, as such, changes in estimates and assumptions may have a material impact on the financial statements.

The key sources of estimation uncertainty that have a significant risk of causing material adjustment to the carrying amount of assets and liabilities within the next financial year are discussed below.

Fair value of shares issued in reverse acquisition of Evolutech Group PLC

As described in Note 23, the shares that were deemed to have been issued as consideration for the assets of Evolutech Group PLC have been recorded at the directors' estimate of fair value at 30 April 2009. In estimating fair value, the directors concluded that the quoted market price of the Evolutech Group PLC shares at 30 April 2009 were not a reliable basis of measurement due to limited liquidity in the market for such shares. The directors have based their estimate of fair value on forecast financial information, supported by the terms on which the reverse acquisition was agreed with Evolutech Group PLC and approved by the Nanoco Tech shareholders.

Equity settled share-based payments

The estimation of share-based payment costs requires the selection of an appropriate valuation method, consideration as to the inputs necessary for the valuation model chosen and the estimation of the number of awards that will ultimately vest, inputs for which arise from judgements relating to the future volatility of the share price of comparable companies, the Company's expected dividend yields, risk free interest rates and expected lives of the options. The Directors draw on a variety of sources to aid in the determination of the appropriate data to use in such calculations.

Provisions for irrecoverable receivables

Provisions for irrecoverable receivables are based on extensive historical evidence, and the best available information in relation to specific issues, but are nevertheless inherently uncertain.

4. Segmental information

Primary reporting format – business segments

At 31 July 2009 the Group operated in one business segment, being the provision of high performance nano particles for research and development purposes. All revenues have been generated from continuing operations and are from external customers.

Secondary reporting format – geographical segments

The Group operates in four main geographic areas, although all are managed in the UK. The Group's revenue per geographical segment is as follows:

	31 Jul 2009 £000	31 Jul 2008 £000
Revenue		
UK	170	86
Europe (excluding UK)	63	15
Asia	1,697	946
USA	64	31
	1,994	1,078

All the Group's assets are held in the UK and all of its capital expenditure arises in the UK.

5. Operating loss

The Group	31 Jul 2009 £000	31 Jul 2008 £000
Operating loss is stated after charging/(crediting):		
Depreciation on plant and equipment (see Note 10)	233	167
Amortisation of intangible assets (see Note 11)	39	19
Staff costs (see Note 6)	981	875
Cost of reverse acquisition (see Note 23)	195	–
Foreign exchange (gains)/loss	(4)	5
Grants receivable	(168)	(84)
Operating lease rentals (see Note 22):		
Land and buildings	122	100
Auditor's remuneration:		
Audit services		
– Fees payable to company auditor for the audit of the parent and the consolidated accounts	11	15
Fees payable to company auditor for other services		
– Auditing the accounts of subsidiaries pursuant to legislation	14	–
– Other services*	28	31
Total auditor's remuneration	53	46

*In addition £65k of fees are payable to the company auditors in relation to their services in respect of the Company's re-admission to AIM.

6. Staff costs

The average number of employees during the year (including directors), was as follows:

The Group	31 Jul 2009 £000 number	31 Jul 2008 £000 number
Executive directors	2	2
Laboratory and administrative staff	24	16
	26	18
	31 Jul 2009 £000	31 Jul 2008 £000
Wages and salaries	828	740
Social security costs	81	82
Share-based payments	72	53
	981	875
Directors' remuneration included in the aggregate remuneration above comprised:		
Emoluments for qualifying services	335	286

Directors emoluments disclosed above include £192,000 paid to the highest directors (2008: £166,000).

7. Finance income/(cost)

The Group	31 Jul 2009 £000 number	31 Jul 2008 £000 number
Finance income		
Bank interest receivable	57	122
Finance cost		
Loan interest payable	(25)	(35)
	32	87

8. Taxation

The Group	31 Jul 2009 £000 number	31 Jul 2008 £000 number
Current tax:		
UK corporation tax losses in the year		
Research and development tax credit receivable	(254)	(147)
Prior year adjustment	14	–
Current deferred tax	–	–
Tax credit on loss on ordinary activities	(240)	(147)

The Group	31 Jul 2009 £000 number	31 Jul 2008 £000 number
Factors affecting tax charge for the year:		
The tax assessed for the year varies from the standard rate of corporation tax as explained below:		
Loss on ordinary activities before taxation	(780)	(698)
Tax at standard rate of 28.0% (2008: 29.3 %)	(218)	(205)
Effects of:		
Expenses not deductible for tax purposes	75	26
Capital allowances in excess of depreciation	(47)	(7)
Additional reduction for research and development expenditure	(190)	(90)
Surrender of research and development relief for repayable tax credit	380	269
Research and development tax credit receivable	(254)	(147)
Tax losses brought forward	–	7
Prior year adjustment	14	–
Current tax credit	(240)	(147)

The effective rate of tax in both the year end and the prior year takes account of the decrease in the standard rate of corporation tax in the UK to 28% from 30% from April 2008.

The Group has accumulated losses available to carry forward against future trading profits. No deferred tax asset has been recognised in respect of tax losses since it is uncertain at the balance sheet date as to whether future profits will be available against which the unused tax losses can be utilised. The estimated value of the deferred tax asset not recognised, measured at a standard rate of 28% (2008: 28%) is £270,000 (2008: £237,000).

The Group also has accelerated capital allowances of £258,000 for which no deferred tax liability has been provided (2008: £94,000).

9. Earnings per share

Basic

The Group	31 Jul 2009 £000 number	31 Jul 2008 £000 number
Loss attributable to the equity holders of the Company	(540)	(551)
	Number 000	Number 000
Weighted average number of shares		
Weighted average number of ordinary shares in issue during the period	171,646,252	149,367,039
Loss per share		
Basic on loss for the year	(0.31)p	(0.37)p

The weighted average number of shares for the year ended 31 July 2009 is based on the number of shares issued by Nanoco Group PLC to acquire Nanoco Tech Limited for the period up to acquisition (adjusted for the impact of shares issued by Nanoco Tech Limited in the year) and the weighted average number of shares in issue for the period since the acquisition. The weighted average number of shares for the year ended 31 July 2008 reflects the number of ordinary shares issued by Nanoco Group PLC to acquire Nanoco Tech Limited, adjusted for shares issued by Nanoco Tech Limited in that year.

Diluted

The Group	31 Jul 2009 £000 number	31 Jul 2008 £000 number
Loss attributable to the equity holders of the Company	(540)	(551)
	Number 000	Number 000
Weighted average number of shares		
Weighted average number of ordinary shares in issue during the period	171,646,252	149,367,039
Adjustments for:		
Share options	4,370,927	2,799,804
Weighted average number of ordinary shares for diluted earnings per share	176,017,179	152,166,843
Loss per share		
Diluted on loss for the year	(0.31)p	(0.36)p

Diluted loss per share is calculated by adjusting the weighted average number of ordinary shares in issue during the period to a assume conversion of all dilutive potential ordinary shares.

10. Plant and equipment

The Group	Laboratory infrastructure £000	Office equipment fixtures and fittings £000	Plant and machinery £000	Total £000
Cost				
At 1 August 2007	905	28	176	1,109
Additions	–	172	140	312
Grant received	(50)	–	–	(50)
At 31 July 2008	855	200	316	1,371
Additions	837	65	340	1,242
Grant received	(32)	–	–	(32)
Reclassification	–	(106)	106	–
At 31 July 2009	1,660	159	762	2,581
Depreciation				
At 1 August 2007	33	4	17	54
Provided during the year	87	37	43	167
At 31 July 2008	120	41	60	221
Provided during the year	94	68	71	233
Reclassification	–	(41)	41	–
At 31 July 2009	214	68	172	454
Net book value:				
At 31 July 2009	1,446	91	590	2,127
At 31 July 2008	735	159	256	1,150
At 31 July 2007	872	24	159	1,055

11. Intangible assets

The Group	Patents £000
Cost	
At 1 August 2007	178
Additions	145
At 31 July 2008	323
Additions	136
At 31 July 2009	459
Amortisation	
At 1 August 2007	25
Provided during the year	19
At 31 July 2008	44
Provided during the year	39
At 31 July 2009	83
Net book value:	
At 31 July 2009	376
At 31 July 2008	279
At 31 July 2007	153

12. Investment in subsidiaries

The Company	Shares £000	Loans £000	Loan provision £000	Total £000
At 1 January 2008 and 31 December 2008	5,338	26,483	(26,030)	5,791
Increase in respect of share-based payments	–	167	–	167
Impairment	(5,338)	–	–	(5,338)
Repayment of loan	–	(6,197)	6,197	–
Increase in loan provision	–	–	(453)	(453)
Acquisition of subsidiary	63,255	–	–	63,255
At 31 July 2009	63,255	20,453	(20,286)	63,422

On 30 April 2009 the Company acquired 100 per cent of the issued share capital of Nanoco Tech Limited for a consideration satisfied by the issue of 158,138,036 ordinary shares of 10p each credited as a fully paid at 40p each, being the quoted market price of the Company's shares on completion of the acquisition and re-admission to AIM (see Note 23).

Loans to subsidiary undertakings carry no interest and are repayable on demand and carry interest. Further information in relation to these loans is given in Note 25.

Subsidiary undertakings	Country of incorporation	Principal activity	Share of issued ordinary share capital	
			31 Jul 2009	31 Dec 2008
Nanoco Life Sciences Limited (formerly Evolutech Limited)	England and Wales	Research and development	100%	100%
Nanoco Tech Limited	England and Wales	Holding company	100%	–
Nanoco Technologies Limited*	England and Wales	Research and develop nano particles	100%	–

*Share capital is owned by Nanoco Tech Limited. All other shareholdings are owned by Nanoco Group PLC.

13. Inventories

	31 Jul 2009 Group £000	31 Jul 2009 Company £000	31 Jul 2008 Group £000	31 Dec 2008 Company £000
Raw materials and consumables	17	–	9	–

14. Trade and other receivables

	31 Jul 2009 Group £000	31 Jul 2009 Company £000	31 Jul 2008 Group £000	31 Dec 2008 Company £000
Trade receivables	101	–	12	–
Less: provision for doubtful debts	–	–	(5)	–
Net trade receivables	101	–	7	–
Prepayments	118	–	188	–
Other receivables	159	–	41	–
	378	–	236	–

The Directors consider that the carrying amount of trade and other receivables approximates to their fair value.

Trade receivables are denominated in the following currencies:

	31 Jul 2009 Group £000	31 Jul 2009 Company £000	31 Jul 2008 Group £000	31 Dec 2008 Company £000
Sterling	84	–	1	–
US dollars	17	–	6	–
	101	–	7	–

At 31 July the analysis of trade receivables that were past due but not impaired was as follows:

	Total £000	Neither past due or impaired £000	<30 days £000	Past due but not impaired 30 to 60 days £000
2009	101	101	–	–
2008	7	7	–	–

Movements in the provision for doubtful debts were as follows:

	31 Jul 2009 Group £000	31 Jul 2009 Company £000	31 Jul 2008 Group £000	31 Dec 2008 Company £000
At beginning of period	5	–	4	–
Amounts written off	–	–	(5)	–
Unused amounts reversed	(5)	–	6	–
At end of period	–	–	5	–

15. Cash and cash equivalents

	31 Jul 2009 Group £000	31 Jul 2009 Company £000	31 Jul 2008 Group £000	31 Dec 2008 Company £000
Cash at bank and on hand	6,589	5,939	2,528	–

An analysis of cash at bank and on hand by denominated currency is given in Note 24.

16. Trade and other payables

	31 Jul 2009 Group £000	31 Jul 2009 Company £000	31 Jul 2008 Group £000	31 Dec 2008 Company £000
Trade payables	144	–	149	–
Other payables	72	–	63	–
Accruals	160	–	167	–
	376	–	379	–

The Directors consider that the carrying amount of trade and other payables approximates to their fair value.

17. Financial liabilities

	31 Jul 2009 Group £000	31 Jul 2009 Company £000	31 Jul 2008 Group £000	31 Dec 2008 Company £000
Non-current				
Other loan	412	–	475	–
Loan from subsidiary	–	316	–	–
Current				
Other loan	63	–	63	–
	475	316	538	–

The Directors consider that the carrying amount of financial liabilities approximate to their fair value.

Loans from subsidiaries bear no interest and have no formal terms of repayment in place, see Note 25 for further details.

The other loan is unsecured, bears interest at 2 per cent above base rate and is repayable in quarterly instalments.

18. Issued equity capital

The Group	Number	Share capital £000	Share premium £000	Reverse acquisition reserve £000	Total £000
Authorised ordinary shares of 10p:					
Nanoco Tech Limited					
As at 31 July 2008 and 31 July 2007	100,000,000	10,000	–	–	10,000
Nanoco Group PLC					
As at 1 August 2008	77,000,000	7,700	–	–	7,700
Increase in authorised share capital	173,000,000	17,300	–	–	17,300
At 31 July 2009	250,000,000	25,000	–	–	25,000
Allotted, issued and fully paid ordinary shares of 10p:					
Nanoco Tech Limited					
As at 1 August 2007	31,551,983	3,151	1,688	–	4,839
Issue of shares	2,583,632	258	1,447	–	1,705
As at 31 July 2008	34,095,615	3,409	3,135	–	6,544
Nanoco Group PLC					
As at 1 August 2008	25,949,996	2,595	24,442	–	27,037
Share premium on treasury shares reclassified to EBT (see Note 21)	–	–	(20)	–	(20)
Shares issued to acquire Nanoco Tech Limited (see Note 12)	158,138,036	15,814	47,441	–	63,255
Arising on reverse acquisition of Nanoco Tech Limited	–	–	–	(77,466)	(77,466)
Expenses of issue of shares	–	–	(455)	–	(455)
At 31 July 2009	184,088,032	18,409	71,408	(77,466)	12,351

18. Issued equity capital continued

As outlined in Note 2, the retained loss and other equity balances recognised in the Group financial statements reflect the consolidated retained loss and other equity balances of Nanoco Tech Limited immediately before the business combination, and the consolidated results for the period from 1 August 2008 to the date of the acquisition by Nanoco Group PLC are those of Nanoco Tech Limited. However, the equity structure appearing in the Group financial statements reflects the equity structure of the legal parent, including the equity instruments issued under the share for share exchange to effect the transaction. The effect of using the equity structure of the legal parent gives rise to an adjustment to the Group's issued equity capital in the form of a reverse acquisition reserve.

On 30 April 2009 the authorised share capital was increased from £7,700,000 to £25,000,000 by the creation of 173,000,000 ordinary shares of 10p each. On 30 April 2009 the Company issued 158,138,036 ordinary shares of 10p each as consideration for the acquisition of Nanoco Tech Limited.

The Company	Number	Share Capital £000	Premium £000	Share total £000
Authorised ordinary shares of 10p:				
As at 1 January, 31 July and 31 December 2008	77,000,000	7,700	–	7,700
Increase in authorised share capital	173,000,000	17,300	–	17,300
At 31 July 2009	250,000,000	25,000	–	25,000
Allotted, issued and fully paid ordinary shares of 10p:				
As at 1 January, 31 July and 31 December 2008	25,949,996	2,595	24,442	27,037
Share premium on treasury shares reclassified to EBT (see Note 21)	–	–	(20)	(20)
Shares issued to acquire Nanoco Tech Limited (see Note 12)	158,138,036	15,814	47,441	63,255
Expenses of issue of shares	–	–	(455)	(455)
At 31 July 2009	184,088,032	18,409	71,408	89,817

19. Share-based payments

Share options and shares held in employee benefit trust ("EBT")

The Group operates an EMI scheme for the benefit of employees. Share options are granted to all employees. The exercise price of the options is equal to the estimated market price of the shares on the date of grant. The options vest 3 years from the date of grant. The options are accounted for as equity settled share-based payment transactions. Share options have also been granted to non-employees, these have been measured using the indirect method.

The Group also operates a jointly owned EBT share scheme for senior management under which the trustee of the Group sponsored EBT has acquired shares in the Company jointly with a number of employees. The shares were acquired pursuant to certain conditions, set out in Jointly Owned Equity agreements ("JOE's"). Subject to meeting the performance criteria conditions set out in the JOE's, the employees are able to exercise an option to acquire the trustee interests in the jointly owned EBT shares at the option price. All of the relevant conditions had been successfully met by 31 July 2009 and the option to acquire the trustee interests are capable of being exercised at anytime from 31 October 2009 to 31 August 2016. The fair value benefit is measured using the Black Scholes valuation model, taking into account the terms and conditions upon which the jointly owned shares were purchased.

The following tables illustrate the number and weighted average exercise prices of, and movements in, share options and jointly owned EBT shares during the year.

The Group	EMI number	2009 EBT number	Unapproved number	Total number	2008 Total number
Outstanding at 1 August	1,610,000	826,209	85,000	2,521,209	2,366,209
Granted during the year	163,000	–	–	163,000	185,000
Exercised during the year	(15,000)	–	–	(15,000)	–
Forfeited during the year	–	–	–	–	(30,000)
Adjustment on reverse acquisition	6,240,900	2,933,042	301,750	9,475,692	–
Outstanding at 31 July	7,998,900	3,759,251	386,750	12,144,901	2,521,209
Exercisable at 31 July	–	–	–	–	–

Weighted average exercise price of options

The Group	2009 pence	2008 pence
Outstanding at 1 August	20.8	17.9
Granted during the year	66.0	66.0
Exercised during the year	66.0	–
Adjustment on reverse acquisition	(18.5)	–
Outstanding at 31 July	5.2	20.8

On 30 April the Company acquired 100 per cent of the issued share capital of Nanoco Tech Limited for consideration satisfied by the issue of 158,138,036 ordinary shares of 10 pence each in a ratio of 1:4.55. Consequentially the number of share options and jointly owned shares held by the EBT has increased by 4.55 times, and the exercise price has decreased by 4.55 times and reflected as an adjustment on reverse acquisition, see Note 23 for further details.

The weighted average fair value of options granted during the year was 14.5p (66p pre-adjustment on reverse acquisition), (2008: 66p). The range of exercise prices for options and jointly owned EBT shares outstanding at the end of the year was 3.52p-14.5p (16p-66p pre-adjustment on reserve acquisition), (2008: 16p-66p).

For the share options outstanding as at 31 July 2009, the weighted average remaining contractual life is 170 days (2008: 535 days).

The fair value of equity-settled share options and jointly owned EBT shares granted is estimated as at the date of grant using the Black Scholes model, taking into account the terms and conditions upon which the options were granted.

A charge of £72,000 has been recognised in the income statement for the year (2008: £95,000).

The following table lists the inputs to the Black Scholes model used for the years ended 31 July 2009 and 31 July 2008.

The Group	Granted year to 31 Jul 2009	Granted year to 31 Jul 2008
Dividend yield	–	–
Expected volatility	50.0	50.0
Risk free interest rate	4.5	4.5
Expected vesting life of options (years)	3.0	3.0
Weighted average exercise price (pence)	66.0	66.0
Weighted average share price at date of grant (pence)	66.0	66.0

During the year no shares obtained under unapproved options were replaced by jointly owned shares transferred to the Employee Benefit Trust (2008: 826,209 shares were transferred, at 66p per share for a value of £545,000).

The expected life of the options is based on historical data and is not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

No other features of options grant were incorporated into the measurement of fair value.

20. Merger reserve

The Group	£000
At 1 August 2007	–
Arising on reorganisation (see Note 2)	1,242
At 31 July 2008 and 31 July 2009	1,242

As disclosed in Note 2, the merger reserve arises under section 131 of the Companies Act 1985 on the shares issued by Nanoco Tech Limited to acquire Nanoco Technologies Limited as part of a simple Group re-organisation on 27 June 2007.

21. Movement in revenue reserve and treasury shares

The Group	Retained deficit £000	Treasury shares £000	Revenue reserve £000
Ordinary shares of 10p:			
As at 1 August 2007	(869)	–	(869)
Loss for the year	(551)	–	(551)
Purchase of treasury shares	–	(545)	(545)
As at 31 July 2008	(1,420)	(545)	(1,965)
Loss for the year	(540)	–	(540)
Arising on reverse acquisition of Nanoco Tech Limited	20	(20)	–
At 31 July 2009	(1,940)	(565)	(2,505)

Shares in the Company that are held by the Group-sponsored Employee Benefit Trusts ("EBT") are included in the Group financial statements and classified as Treasury Shares. At 31 July 2009 3,771,473 shares in the Company were held by EBTs (31 July 2008: 826,209 shares).

The Company	Retained deficit £000	Treasury shares £000	Revenue reserve £000
Ordinary shares of 10p:			
Nanoco Group PLC			
As at 1 January 2008 and 31 December 2008	(26,030)	(20)	(26,050)
Treasury shares reclassified to EBT (see Note 18)	–	20	20
Profit for the period	287	–	287
At 31 July 2009	(25,743)	–	(25,743)

22. Commitments

Operating lease commitments

The Group leases premises under non-cancellable operating lease agreements. The future aggregate minimum lease and service charge payments under non-cancellable operating leases are as follows:

	31 Jul 2009 Group £000	31 Jul 2009 Company £000	31 Jul 2008 Group £000	31 Dec 2008 Company £000
Land and buildings:				
Not later than one year	134	–	100	–
After one year but not more than five years	400	–	400	–
After five years	367	–	467	–
	901	–	967	–

23. Acquisition of subsidiary undertaking

On 30 April 2009 the Company acquired 100 per cent of the issued share capital of Nanoco Tech Limited ("Nanoco Tech") for consideration satisfied by the issue of 158,138,036 ordinary shares of 10 pence each. The directly attributable costs of the transaction amounted to £455,000.

As described in Note 2, the transaction has been accounted for as a reverse acquisition equity transaction as if Nanoco Tech Limited had issued new shares in exchange for Evlutec Group PLC's cash and other assets. The substance of the transaction is that of a share issue fund raising under which Nanoco Tech received cash and bank balances of £5,892,000 representing 98.9 per cent of the value of the net assets of Evlutec Group PLC and the associated costs of the transaction have therefore been charged directly against equity share capital.

The fair value of the shares issued has been determined from the perspective of Nanoco Tech. The directors of Nanoco Tech negotiated the acquisition terms on the basis that Nanoco Tech had a total fair value worth of £37.5 million and that its shareholders would be diluted to 14.1 per cent in the enlarged Group. This gives an implied fair value of shares issued of £6,154,000 which is £195,000 higher than the value of the net assets deemed acquired as set out below:

Evlutec Group PLC £000	
Net assets acquired:	
Bank and cash	5,892
Trade and other receivables	308
Trade and other payables	(241)
	5,959
Cost of reverse acquisition	195
Fair value of reverse acquisition	6,154

The difference between the fair value of the transaction and the net assets acquired has been recorded as a cost of reverse acquisition in the income statement.

The fair value of the assets deemed to have been acquired has been assessed as the book value on the acquisition date.

As described in Note 2, the results of Evlutec Group PLC have been included in the consolidated financial statements from 30 April 2009. Evlutec Group PLC and its subsidiary, Evlutec Limited, did not contribute any material revenues or profits and losses since the date of acquisition. If Evlutec Group PLC had been a member of the Group from 1 August 2008 it would have likewise not contributed any material revenues or profits and losses.

Evlutec Group PLC changed its name to Nanoco Group PLC on completion of the acquisition on 30 April 2009 and was re-admitted to AIM on 1 May 2009.

24. Financial instruments

Capital risk management

The Company manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders.

The capital structure of the Group consists of equity attributable to equity holders of the parent, comprising issued share capital, reserves and retained earnings as disclosed in Notes 18, 20 and 21 and in the Group Statement of Changes in Equity.

The Group's principal financial liabilities comprise trade payables and loans given. The main purpose of these financial liabilities is to raise finance for the Group's operations. The Group has various financial assets such as trade receivables and cash and short-term deposits, which arise directly from its operations.

The Group does not currently enter into derivative transactions such as interest rate swaps and forward currency contracts.

24. Financial instruments continued

Categorisation of financial instruments

Financial assets/liabilities	Loans and receivables £000	Financial liabilities at amortised cost £000	Total £000
31 July 2009			
Trade and other receivables	101	–	101
Cash and cash equivalents	6,589	–	6,589
Trade and other payables	–	(376)	(376)
Financial liabilities	–	(475)	(475)
	6,690	(851)	5,839
31 July 2008			
Trade and other receivables	7	–	7
Cash and cash equivalents	2,528	–	2,528
Trade and other payables	–	(379)	(379)
Financial liabilities	–	(538)	(538)
	2,535	(917)	1,618

The main risks arising from the Group's financial instruments are credit risk and foreign currency risk. The Board of Directors reviews and agrees policies for managing each of these risks which are summarised below.

Other loans are subject to interest at base rate plus 2 per cent, however as the Group's cash deposits which attract interest at floating rates, are of a greater amount, any increase in base rate and thus interest payable would be more than offset by higher interest income.

Credit risk

The Group's principal financial assets are cash and cash equivalents. The Group seeks to limit the level of credit risk on the cash balances by only depositing surplus liquid funds with counterparty banks that have high credit ratings.

The company trades only with recognised, creditworthy third parties. Receivable balances are monitored on an ongoing basis with the result that the group's exposure to bad debts is not significant. The Group's maximum exposure is the carrying amount as disclosed in Note 14.

There are no significant concentrations of credit risk within the group.

Foreign currency risk

The company has transactional as well as translational currency exposures. Such exposure arises from sales or purchases in currencies other than the functional currency. There are no material sensitivities which require disclosure.

The Group	31 Jul 2009			31 Jul 2008		
	GBP £000	USD \$000	Total £000	GBP £000	USD \$000	Total £000
Cash and cash equivalents	6,566	23	6,589	2,268	260	2,528
Trade receivables	84	17	101	1	6	7
	6,650	40	6,690	2,269	266	2,535

Interest rate risk

As the Group has no significant borrowings the risk is limited to the reduction of interest received on cash surpluses held at bank which receive a floating rate of interest. The principal impact to the Group is the result of interest-bearing cash and cash equivalent balances held as set out below:

The Group	31 Jul 2009			31 Jul 2008		
	Fixed rate £000	Floating rate £000	Total £000	Fixed rate £000	Floating rate £000	Total £000
Cash and cash equivalents	5,896	693	6,589	2,169	359	2,528

As the majority of cash and cash equivalents are held on fixed deposit the exposure rate is immaterial.

Maturity profile

Set out below is the maturity profile of the Group's financial liabilities at 31 July 2009 based on contractual undiscounted payments.

	Less than 1 year £000	1 to 5 years £000	Greater than 5 years £000	Total £000
2009				
Financial liabilities				
Trade and other payables	376	–	–	376
Other loans	63	253	159	475
	439	253	159	851
	Less than 1 year £000	1 to 5 years £000	Greater than 5 years £000	Total £000
2008				
Financial liabilities				
Trade and other payables	379	–	–	379
Other loans	63	253	222	538
	442	253	222	917

The Directors consider that the carrying amount of the financial liabilities to approximates to their fair value.

The Group's policies in respect of managing liquidity risk are set out in the Directors' report.

As all financial assets are expected to mature within the next twelve months an aged analysis of financial assets has not been presented.

25. Related party transactions

Terms and conditions of transactions with related parties:

The Group:

There are no sales to related parties. Purchases from related parties are made at normal market prices. Outstanding balances at the year end are unsecured, interest free and settlement occurs in cash.

Included within borrowings is an amount of £475,000 (2008: £538,333) as set out in Note 17 that is owing to The University of Manchester, a substantial shareholder in Nanoco Group PLC. There is a formal interest-bearing loan agreement in place which confirms that the loan is wholly repayable by 2017.

During the year ended 31 July 2009, consultancy fees of £22,000 (2008: £36,000) have been charged through the income statement in respect of Paul O'Brien, a former director of Nanoco Tech Limited. The outstanding balance at 31 July 2009 was £1,000 (2008: Nil).

During the year ended 31 July 2009, no monitoring fees (2008: £16,867) have been charged through the income statement in respect of Ora Capital Partners Limited which is a substantial shareholder in Nanoco Group PLC.

During the year ended 31 July 2009, monitoring fees of £10,000 and arrangement fees of £25,000 (2008: £13,145 and £nil) have been charged through the income statement in respect of Aquarius Equity Partners Limited. The outstanding balance as at 31 July 2009 was nil (2008: £12,500). Aquarius Equity Partners Limited is the manager of a seed fund, which was a substantial shareholder in Nanoco Group PLC during the period.

25. Related party transactions continued

The Company:

As detailed in Note 12, there is an amount of £20,286,000 (2008: £26,483,000) owing from Nanoco Life Sciences Limited to Nanoco Group PLC. A write down provision of £20,286,000 (2008: £26,030,000) is held against this loan.

In addition, there is an amount owing from Nanoco Technologies Limited of £167,000 (2008: £nil).

There are no formal terms of repayment in place for either of the loans and it has been confirmed by the directors that the loans will not be recalled within the next twelve months.

In addition, an amount of £316,000 is owed to Nanoco Technologies Limited (2008: £nil). This amount is repayable within the next twelve months. The loan is non-interest bearing.

Directors' remuneration

The remuneration of the individual Directors is provided in the Directors' Remuneration Report and disclosed in Note 6 of the financial statements.

	Year ended 31 Jul 2009			Year ended 31 Dec 2008
	Total benefits £000	Employer's national insurance contribution £000	Total cost to Company £000	Total cost to Company £000
Short-term employment benefits				
Dr P Rowley	10	2	12	–
Dr M Edelman	192	20	212	182
Dr N Pickett	127	13	140	121
Mr M Bretherton	3	–	3	–
Mr G Hall	3	–	3	12

Notice of Annual General Meeting

Notice is hereby given that the fifth annual general meeting of Nanoco Group PLC will be held at The Core Technology Facility, 46 Grafton Street, Manchester M13 9NT on 18 December 2009 at 10.30 a.m. for the purpose of considering, and, if thought fit, passing the following resolutions, of which resolutions numbered 1 to 10 will be proposed as ordinary resolutions and resolutions 11 to 13 will be proposed as special resolutions:

Ordinary resolutions

- 1 That the Company's annual report and audited financial statements, and the reports of the directors and auditors, for the period ended 31 July 2009, now laid before this meeting, be and are hereby approved.
- 2 That the directors' remuneration report, on pages 20 and 21 of the Company's annual report, be and is hereby approved.
- 3 That Dr Peter Rowley, who retires in accordance with the articles of association of the Company, be and is hereby re-elected as a director of the Company.
- 4 That Dr Michael Edelman, who retires in accordance with the articles of association of the Company, be and is hereby re-elected as a director of the Company.
- 5 That Dr Nigel Pickett, who retires in accordance with the articles of association of the Company, be and is hereby re-elected as a director of the Company.
- 6 That Michael Bretherton, who retires in accordance with the articles of association of the Company, be and is hereby re-elected as a director of the Company.
- 7 That Gordon Hall, who retires by rotation, be and is hereby re-elected as a director of the Company.
- 8 That Ernst & Young LLP be and are hereby reappointed as auditors of the Company, to hold office until the conclusion of the next general meeting at which accounts are laid before the Company.
- 9 That the board of directors be and is hereby authorised to agree the remuneration of the auditors.
- 10 That in accordance with section 551 of the Companies Act 2006 (the "2006 Act"):
 - 10.1 the directors be and they are hereby generally and unconditionally authorised to exercise all the powers of the Company to allot equity securities (as defined in section 560 of the 2006 Act) up to an aggregate nominal value of £6,138,543 (approximately one third of the Company's issued share capital at the date of this notice); and
 - 10.2 in addition to the authority granted pursuant to sub-paragraph 10.1, the directors be and they are hereby generally and unconditionally authorised to exercise all the powers of the Company to allot equity securities up to an aggregate nominal value of £6,138,543 (approximately one third of the Company's issued share capital at the date of this notice) in connection with a rights issue offered to holders of equity securities and other persons who are entitled to participate, in proportion (as nearly as may be) to their then holdings of equity securities (or, as appropriate, the numbers of such securities which such other persons are for those purposes deemed to hold), subject only to such exclusions or other arrangements as the directors may feel necessary or expedient to deal with fractional entitlements or legal or practical problems under the laws of, or the requirements of any recognised regulatory body of, or any stock exchange in, any territory,provided that both such authorities shall (unless previously revoked, varied or renewed) expire on the earlier of the date of the next annual general meeting of the Company and 18 March 2011, save that, in respect of either authority, the Company may before such expiry make an offer or agreement which would or might require equity securities to be allotted after such expiry and the directors may allot equity securities in pursuance of such an offer or agreement as if the authority conferred hereby had not expired.

These authorities are in substitution for any and all authorities previously conferred upon the directors for the purposes of section 551 of the 2006 Act or section 80 of the Companies Act 1985, without prejudice to any allotments made pursuant to the terms of such authorities.

Special resolutions

- 11 That, conditionally upon the passing of resolution numbered 10 above, in accordance with section 570 of the 2006 Act, the directors be and they are hereby given power to allot equity securities (as defined in section 560 of the 2006 Act) pursuant to the authority conferred by resolution numbered 10 above, and to sell treasury shares, as if section 561 of the 2006 Act did not apply to such allotment or sale provided that this power shall be limited to:
 - 11.1 the allotment or sale of equity securities for cash in connection with or pursuant to an offer to the holders of equity securities and other persons entitled to participate, in proportion (as nearly as may be) to their then holdings of equity securities (or, as appropriate, the numbers of such securities which such other persons are for those purposes deemed to hold), subject only to such exclusions or other arrangements as the directors may feel necessary or expedient to deal with fractional entitlements or legal or practical problems under the laws of, or the requirements of any recognised regulatory body of, or any stock exchange in, any territory; and

- 11.2 the allotment or sale of equity securities (otherwise than pursuant to sub-paragraph 11.1) for cash up to a maximum nominal value of £1,841,563 (approximately 10% of the Company's issued share capital at the date of this notice), provided that the power granted by this resolution shall (unless previously revoked, varied or renewed) expire on the earlier of the date of the next annual general meeting and 18 March 2011, save that the Company may before such expiry make an offer or agreement which would or might require equity securities to be allotted or sold after such expiry and the directors may allot or sell equity securities in pursuance of such an offer or agreement as if the power conferred hereby had not expired.
- 12 That the Company be and is hereby generally authorised pursuant to section 701 of the 2006 Act to make market purchases (as defined in section 693(4) of the 2006 Act) of its ordinary shares provided that:
- 12.1 the Company does not purchase more than 27,605,027 ordinary shares (approximately 14.99% of the Company's issued share capital at the date of this notice);
- 12.2 the Company does not pay for any such ordinary share less than its nominal value at the time of purchase; and
- 12.3 the Company does not pay for any such ordinary share more than 5% above the average of the closing mid-market price for ordinary shares for the five business days immediately preceding the date on which the Company agrees to buy the shares concerned, based on the share prices published in the Daily Official List of the London Stock Exchange or the AIM supplement thereto.
- The authority conferred by this resolution shall (unless previously revoked, varied or renewed) expire on the earlier of the date of the next annual general meeting of the Company and 18 March 2011, save that the Company may before such expiry make a contract to purchase ordinary shares which will or may be executed wholly or partly after the expiry of such authority, and may make a purchase of ordinary shares in pursuance of any such contract, as if such authority had not expired.
- 13 That the articles of association of the Company be and are hereby amended:
- 13.1 by deleting all the provisions of the Company's memorandum of association which, by virtue of section 28 of the 2006 Act, are to be treated as provisions of the Company's articles of association; and
- 13.2 by deleting article 3 (authorised share capital), and inserting the following new article 3, ahead of the heading "SHARE CAPITAL":
- "3. The liability of the members is limited."

By order of the Board

M Sullivan

Secretary

Registered office:

46 Grafton Street

Manchester M13 9NT

20 November 2009

Notes to the Notice of Annual General Meeting:

- 1 As a member of the Company, you are entitled to appoint a proxy or proxies of your own choice to exercise all or any of your rights to attend, speak and vote on your behalf at the meeting and you should have received a proxy form. You can only appoint a proxy using the procedures set out in these notes and the notes to the proxy form.
- 2 A proxy does not need to be a member of the Company but must attend the meeting to represent you. Details of how to appoint the Chairman of the meeting or another person as your proxy using the proxy form are set out in the notes to the proxy form.
- 3 You may appoint more than one proxy provided each proxy is appointed to exercise rights attached to different shares. You may not appoint more than one proxy to exercise rights attached to any one share. To appoint more than one proxy you may photocopy the proxy form. Please indicate the proxy holder's name and the number of shares in relation to which they are authorised to act as your proxy. Please also indicate if the proxy instruction is one of multiple instructions being given. All forms must be signed and should be returned together in the same envelope.
- 4 If you do not give your proxy an indication of how to vote on any resolution, your proxy will vote (or abstain from voting) at his or her discretion. Your proxy will vote (or abstain from voting) as he or she thinks fit in relation to any other matter which is put before the meeting.

- 5 Pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001, the Company has specified that only those shareholders registered on the register of members of the Company at 6.00 p.m. on 16 December 2009, or if the meeting is adjourned, on the register of members at 6.00 p.m. on the day two days before the date fixed for the adjourned meeting (as the case may be), shall be entitled to attend and vote at the meeting in respect of the number of ordinary shares in the Company registered in their name at the relevant time. Changes to entries on the register of members after 6.00 p.m. on 16 December 2009 or, if the meeting is adjourned, on the register of members after 6.00 p.m. on the day two days before the date fixed for the adjourned meeting, will be disregarded in determining the right of any person to attend and vote at the meeting.

Appointment of proxy using hard copy proxy form

- 6 The notes to the proxy form explain how to direct your proxy on how to vote on each resolution or withhold their vote. To appoint a proxy using the proxy form, the form must be:
- completed and signed;
 - sent or delivered to the Company's registrars, Capita Registrars, Proxies Department, PO Box 25, Beckenham, Kent BR3 4BR; and
 - received by the Company no later than 10.30 a.m. on 16 December 2009.
- In the case of a member which is a company, the proxy form must be executed under its common seal or signed on its behalf by an officer of the company or an attorney for the company.

Any power of attorney or any other authority under which the proxy form is signed (or duly certified copy of such power of authority) must be included with the proxy form.

Changing your proxy instructions

- 7 To change your proxy instructions simply submit a new proxy appointment using the methods set out above. Note that the cut-off time for receipt of proxy appointments (see above) also applies in relation to amended instructions; any amended proxy appointment received after the relevant cut-off time will be disregarded.

Where you have appointed a proxy using the hard-copy proxy form and would like to change the instructions using another hard-copy proxy form, please contact the Company's registrars, Capita Registrars, Proxies Department, PO Box 25, Beckenham, Kent BR3 4BR.

If you submit more than one valid proxy appointment, the appointment received last before the latest time for the receipt of proxies will take precedence.

Termination of proxy appointments

- 8 In order to revoke a proxy instruction you will need to inform the Company by sending a signed hard copy notice clearly stating your intention to revoke your proxy appointment to the Company's registrars, Capita Registrars, Proxies Department, PO Box 25, Beckenham, Kent BR3 4BR. In the case of a member which is a company, the revocation notice must be executed under its common seal or signed on its behalf by an officer of the company or an attorney for the company. Any power of attorney or any other authority under which the revocation notice is signed (or a duly certified copy of such power of authority) must be included with the revocation notice.
- 9 The revocation notice must be received by the Company no later than 48 hours before the time and date scheduled for the meeting.
- 10 Appointment of a proxy does not preclude you from attending the meeting and voting in person. If you have appointed a proxy and attend the meeting in person, your proxy appointment will automatically be terminated.

Appointment of proxy using CREST electronic proxy appointment service

- 11 CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so for the annual general meeting and any adjournment(s) thereof by using the procedures described in the CREST Manual. CREST personal members or other CREST sponsored members and those CREST members who have appointed a voting service provider should refer to their CREST sponsor or voting service provider, who will be able to take the appropriate action on their behalf.
- 12 In order for a proxy appointment or instruction made using the CREST service to be valid, the appropriate CREST message (a "CREST Proxy Instruction") must be properly authenticated in accordance with Euroclear's specifications and must contain the information required for such instructions, as described in the CREST Manual. The message, regardless of whether it relates to the appointment of a proxy, the revocation of a proxy appointment or an amendment to the instruction given to a previously appointed proxy, must, in order to be valid, be transmitted so as to be received by the issuer's Agent (ID: RA10) by the latest time(s) for receipt of proxy appointments specified in this notice of meeting. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Applications Host) from which the issuer's Agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time, any change of instructions to a proxy appointed through CREST should be communicated to the appointee by other means.
- 13 CREST members and, where applicable, their CREST sponsors or voting service providers should note that Euroclear does not make available special procedures in CREST for any particular messages. Normal system timings and limitations will therefore apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member or sponsored member or has appointed a voting service provider, to procure that his CREST sponsor or voting service provider takes) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting service providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.
- 14 The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.

Communications

- 15 Except as provided above, members who have general queries about the annual general meeting should contact Michael Edelman (0161 603 7900; 46 Grafton Street, Manchester M13 9NT). No other methods of communication will be accepted.

Documents available for inspection

- 16 There are available for inspection at the registered office of the Company during usual business hours on any week day (Saturdays, Sundays and public holidays excepted), and there will be available for inspection at the place of the annual general meeting from at least fifteen minutes prior to and until the conclusion of the annual general meeting:
 - A copy of the proposed new articles of association of the Company, together with a copy of the existing articles of association of the Company marked to show the changes being proposed;
 - Copies of the service contracts of executive directors of the Company; and
 - Copies of the letters of appointment of the Non-executive Directors of the Company.

Explanatory Notes of Annual General Meeting

This explanatory note gives further information in relation to the resolutions listed in the enclosed notice of the Company's annual general meeting.

Resolution 1 – Receipt of accounts

The directors must lay the Company's accounts, the directors' report and the auditors' report before the shareholders at a general meeting. This is a legal requirement after the directors have approved the accounts and the directors' report, and the auditors have prepared their report.

Resolution 2 – Directors' remuneration report

This resolution approves the directors' remuneration report for the period ended 31 July 2009. The full text of the report is contained on pages 20 and 21 of the Company's annual report, and sets out the Company's policy towards, and gives details of, directors' remuneration and other relevant information.

Resolutions 3 to 7 – Re-election of directors

Although the Company is not bound to adhere to the Combined Code on Corporate Governance (the "Combined Code"), the directors recognise the importance of sound corporate governance and intend to ensure that the Company continues to comply with such principles of the Combined Code as are appropriate to the size, nature and stage of development of the Company.

Therefore, in accordance with the Combined Code and the provisions of the Company's articles of association, all directors of the Company who have been appointed since the Company's last annual general meeting, and all other directors on a regular basis as set out in the Company's articles of association, seek election (or re-election as the case may be) by the shareholders.

Resolution 3 to 6 – Re-election of Dr Peter Rowley, Dr Michael Edelman, Dr Nigel Pickett and Michael Bretherton

Each of the above, having been appointed since the Company's last annual general meeting, offers himself for re-election, in accordance with the Company's articles of association.

Details of their respective CV's are on page 16 of the Company's annual report.

Resolution 7 – Re-election of Gordon Hall

Gordon Hall, retiring by rotation, offers himself for re-election, in accordance with the Company's articles of association. Details of his CV are on page 16 of the Company's annual report.

Resolution 8 – Re-election of Ernst & Young LLP as auditors

The board of directors, on the recommendation of its audit committee, recommends the re-election of Ernst & Young LLP as auditors, to hold office until the next general meeting at which accounts are laid.

Resolution 9 – Remuneration of the auditors

This resolution authorises the board of directors to agree the remuneration of the auditors.

Resolution 10 – Authority to allot shares

The purpose of resolution 10 is to renew the directors' power to allot shares. Section 551 of the Companies Act 2006 provides that the board of directors may not allot new shares (other than for employee share schemes) without shareholder authority.

Accordingly, resolution 10 will be proposed as an ordinary resolution to authorise the directors (pursuant to Section 551 of the Companies Act 2006):

- (i) to allot ordinary shares of 10p each in the capital of the Company up to a maximum nominal amount of £6,138,543, being approximately one third of the nominal value of the ordinary shares in issue on 19 November 2009; and
- (ii) in addition to the authority described above, to allot ordinary shares of 10p each in the capital of the Company up to a maximum nominal amount of £6,138,543 pursuant to a rights issue in respect of which all shareholders are entitled to participate as nearly as possible in proportion to their holding of shares in the Company at the time.

This authority (unless previously revoked, varied or renewed) will expire on the earlier of the date of the next annual general meeting of the Company and 15 months after the date of the passing of the resolution.

The directors will exercise the authority to allot only when satisfied that it is in the interests of the Company to do so. They have no present intention of exercising the authority, except in connection with the issue of shares under the Company's share option and long-term incentive plans.

Resolution 11 – Disapplication of pre-emption rights

Section 561 of the Companies Act 2006 confers on shareholders rights of pre-emption in respect of the allotment of “equity securities” which are or are to be paid up in cash, otherwise than by way of allotment to employees under an employees’ share scheme. The provisions of section 561 apply to the authorised but unissued ordinary shares of 10p each of the Company, to the extent that they are not disapplied pursuant to section 570 of the Companies Act 2006. This provision also covers the sale of treasury shares (should the Company elect to hold any) for cash.

It is proposed that the disapplication of these statutory pre-emption rights be approved, as a special resolution, to give the directors power to allot shares without the application of these statutory pre-emption rights, first, in relation to rights issues and, secondly, in relation to the issue of ordinary shares of 10p each in the capital of the Company for cash up to a maximum aggregate nominal amount of £1,841,563 (representing approximately 10% of the nominal value of the ordinary shares in issue on 19 November 2009).

This authority (unless previously revoked, varied or renewed) will expire on the earlier of the date of the next annual general meeting of the Company and 15 months after the date of the passing of the resolution.

Resolution 12 – Purchase by the Company of its own Shares

The purpose of resolution 12 is to obtain the authority for the Company to purchase its ordinary shares. Under the Companies Act 2006 such an authority must first be sanctioned by an ordinary resolution of the Company in general meeting, but current institutional shareholder voting guidelines require that any such authority should be sanctioned by special resolution.

Accordingly, resolution 12 in will be proposed as a special resolution to authorise the Company to purchase a maximum of 27,605,027 ordinary shares (equal to approximately 14.99% of the Company’s present issued ordinary share capital) on AIM at a price per share of not less than 10p, and not more than 5% above the average of the middle market quotations for ordinary shares of the Company for the five business days immediately preceding the day of purchase. In order to maximise the benefit to be derived by the Company, it would be the directors’ intention that any purchases should be made at as low a price (within the limits specified in resolution 12) as they considered reasonably obtainable.

This authority (unless previously revoked, varied or renewed) will expire on the earlier of the date of the next annual general meeting of the Company and 15 months after the date of the passing of the resolution.

Pursuant to the Companies Act 2006, the Company can hold the shares which have been repurchased as treasury shares and either resell them for cash, cancel them (either immediately or at a point in the future) or use them for the purposes of its employee share schemes. The directors believe that it is desirable for the Company to have this choice and therefore currently envisage holding any shares purchased under this authority as treasury shares. Holding the repurchased shares as treasury shares will give the Company the ability to re-sell or transfer them in the future, and so provide the Company with additional flexibility in the management of its capital base. No dividends will be paid on, and no voting rights will be exercised in respect of, treasury shares.

Shares will only be repurchased if the directors consider such purchases to be in the best interests of shareholders generally and that they can be expected to result in an increase in earnings per share. The authority will only be used after careful consideration, taking into account market conditions prevailing at the time, other investment opportunities and the overall financial position of the Company. Shares held as treasury shares will not automatically be cancelled and will not be taken into account in future calculations of earnings per share (unless they are subsequently resold or transferred out of treasury).

If any shares repurchased by the Company are held in treasury and used for the purposes of its employee share schemes, so long as required under the guidelines of the Association of British Insurers Investment Committee, the Company will count those shares towards the limits on the number of new shares which may be issued under such schemes.

Purchases will not be made to the extent that they may affect the eligibility of the Company for continued listing on AIM and it is not the board of directors’ current intention that the Company should stand in the market for any particular period or until any specified number of shares has been acquired.

The purchase of shares by the Company pursuant to these proposals will be a market purchase and thus made through AIM. This means that any shareholder selling shares, even if those shares are subsequently acquired by the Company, will not be subject to different tax considerations from those normally applying to a sale of shares in the market provided that the purchase by the Company is made exclusively through a market maker acting as principal. In that event, for shareholders who held their shares as an investment, the sale proceeds will normally be treated as capital and the normal capital gains tax rules will apply to those sale shares. There will normally be no liability to tax on income unless the shareholder’s disposal is by way of trade.

Resolution 13 – Amendment of new articles of association

It is proposed in resolution 13 to amend the Company's articles of association in order to take account of the implementation of the final parts of the Companies Act 2006 with effect from 1 October 2009.

The amended articles of association, showing all the amendments, are available for inspection as noted in the notes to the notice of the annual general meeting.

Resolution 13.1 – The Company's objects

The provisions regulating the operations of the Company are currently set out in the Company's memorandum and articles of association. The Company's memorandum contains, among other things, the objects clause which sets out the scope of the activities the Company is authorised to undertake. This is drafted to give a wide scope.

The Companies Act 2006 significantly reduces the constitutional significance of a company's memorandum. The Companies Act 2006 provides that a memorandum will record only the names of subscribers and the number of shares each subscriber has agreed to take in the company. Under the Companies Act 2006 the objects clause and all other provisions which are currently contained in a company's memorandum, for existing companies at 1 October 2009, will be deemed to be contained in a company's articles of association but the company can remove these provisions by special resolution.

Further the Companies Act 2006 states that unless a company's articles provide otherwise, a company's objects are unrestricted. This removes the need for companies to have objects clauses. For this reason the Company is proposing to remove its objects clause together with all other provisions of its memorandum which, by virtue of the Companies Act 2006, are to be treated as forming part of the Company's articles of association as of 1 October 2009. Resolution 13.1 confirms the removal of these provisions for the Company. As the effect of this resolution will be to remove the statement, currently in the Company's memorandum of association regarding limited liability, resolution 13.2 operates to insert in the articles of association an express statement regarding the limited liability of shareholders.

Resolution 13.2 – Authorised share capital

The Companies Act 2006 abolishes the requirement for a company to have an authorised share capital and resolution 13.2 operates to delete reference to the authorised share capital. Directors will still be limited as to the number of shares they can allot because allotment authority continues to be required under the Companies Act 2006, save in respect of employee share schemes.

Investor Information

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Dr M Edelman (Chief Executive Officer)
Dr N Pickett (Chief Technical Officer)
Mr M Bretherton (Chief Financial Officer)
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