

FROM PATENTS TO PRODUCTS

NANOCO
GROUP PLC

2014 Nanoco Group PLC
Annual Report and Accounts

We're big in the world of the very small.

Nanoco leads the world in the research, development and large-scale manufacture of heavy-metal free quantum dots and semiconductor nanoparticles for use in displays, lighting, solar energy and bio-imaging.

CFQD® QUANTUM DOTS

Strategic Review

- 1 Highlights
- 2 Nanoco at a Glance
- 4 Interview with Michael Edelman, CEO
- 8 Investment Case and Business Model
- 10 Industry Overview
- 14 Chairman's and Chief Executive Officer's Joint Review
- 18 Financial Review
- 20 Strategic Report

Corporate Governance

- 22 Board of Directors
- 24 Directors' Report
- 26 Directors' Remuneration Report
- 29 Corporate Governance Statement
- 33 Independent Auditor's Report

Financial Statements

- 34 Consolidated Statement of Comprehensive Income
- 35 Consolidated Statement of Changes in Equity
- 36 Company Statement of Changes in Equity
- 37 Statements of Financial Position
- 38 Cash Flow Statements
- 39 Notes to the Financial Statements

Other Information

- 61 Notice of Annual General Meeting
- 67 Investor Information

⊕ HIGHLIGHTS

- Excellent progress in the commercialisation of Nanoco's technology in the display industry in partnership with worldwide licensing partner The Dow Chemical Company ('Dow')
- Dow to begin construction of the world's first, large-scale cadmium-free manufacturing plant in South Korea using Nanoco's patented technology and with production to begin in H1 2015
- Dow to market Nanoco's technology using the brand TREVISTA™ Quantum Dots
- Considerable technical progress in other applications including solar, where the efficiency of our solar ink is approaching our target for producing a low cost, printable solar panel
- Signed further follow-on joint development agreement with Osram in October 2014 to advance CFQD® quantum dots in LED general lighting
- Strengthened the Nanoco Board with the appointment of Keith Wiggins as Chief Operating Officer and Robin Williams as a Non-executive Director
- Continuing to explore the move from AIM to a Premium Listing on the main market
- Cash and cash equivalents of £12.18 million at the year-end (31 January 2014: £14.50 million)



NANOCO AT A GLANCE

LEADING THE WORLD

Nanoco was founded in 2001 and is headquartered in Manchester, UK.

The company's manufacturing activities are based in Runcorn, where its laboratories hold world firsts in the production of commercial quantities of red and green CFQD[®] quantum dots.

Outside of the UK, Nanoco is focused primarily on business development and on serving existing customers. Asia is the centre of the global optoelectronics industry and Nanoco has a team of dedicated personnel in the region covering the key markets of Japan, Korea, China and Taiwan. Nanoco also has business development activities in the USA, where the Company is working with its partners in the next generation of consumer electronic products.

Nanoco's ability to innovate keeps it on the cutting edge of technology. Nanoco's large and growing patent portfolio keeps the Company as an industry front runner.

Nanoco's core Intellectual Property revolves around five key areas:

1. CFQD[®] quantum dot technology
2. Process for CFQD[®] quantum dot mass production
3. Surface chemistry
4. CFQD[®] quantum dot devices
5. Solar Cell





MARKETS SERVED

Our technology can be used in a wide range of applications. We are currently focused on the following areas:



DISPLAY

Nanoco's CFQD® quantum dots offer enhanced colour, energy efficiency, and seamless integration into existing LCD production processes



LIGHTING

Nanoco's CFQD® quantum dots enable tuneable, high-efficiency LED lighting



SOLAR

Nanoco's nanomaterials have the potential to produce highly efficient, low cost and lightweight solar cells



BIO-IMAGING

Nanoco's nanomaterials offer improved in-vivo and in-vitro biological imaging of cells for advanced diagnostic applications



+ INTERVIEW WITH MICHAEL EDELMAN, CEO

"The agreement with Dow is a huge endorsement of the robustness, commercial potential and competitive advantage of Nanoco's technology."

Michael Edelman, CEO

Q. How would you describe progress this year?

- A.** Another incredible year at Nanoco! The biggest recent development was the news that The Dow Chemical Company ('Dow'), our licensing partner in the display market, is beginning construction of a major manufacturing plant in South Korea in response to customer demand for our CFQD® quantum dots. This is a major development for Nanoco and puts us on the threshold of becoming a company with a recurring royalty income.

Our earlier-stage work in solar, general lighting and bio-imaging has also made progress during the year and, as our display activities move towards full commercialisation, we are preparing to drive this earlier-stage work forwards. To enable us to do this, we have been building up our management and technical teams so that we are well-positioned to manage the growth of our business.

Q. Tell me more about the plant in South Korea

- A.** The plant in South Korea is based on Nanoco's patented manufacturing process and is being built by Dow at an existing Dow site in Cheonan, at the centre of Asia's optoelectronics industry. Dow has already completed much of the preparatory work and it is expected that commercial production will begin at the plant in the first half of 2015.

The plant represents the world's first large-scale production facility for cadmium-free quantum dots and is testament to the scalability and commercial potential of our technology. It will be capable of supplying Nanoco CFQD® quantum dots for use in the manufacture of millions of TVs, tablets and other products with display interfaces. Dow will market the quantum dots under its brand name TREVISTA™ Quantum Dots.

Q. Why is there so much interest in quantum dots in displays?

- A. It's all about colour, or more specifically colour gamut – a measure of how realistically colours are reproduced by displays. The greater the colour gamut, the closer the display is to matching the same colours viewed directly by the eye. Currently the colour gamut of a display is about 70%, with the red part of the spectrum showing the least accurate colour reproduction.

Quantum dots solve this problem in that they allow bright, true colours. The compelling attraction of our quantum dots, and why we believe that they will become the industry standard, is that they provide vivid, authentic colours without the use of cadmium or other heavy metals.

Q. Why is cadmium-free so important?

- A. Cadmium, in common with other heavy metals, presents a serious threat to environmental and human health. As a known carcinogen, cadmium requires careful handling and disposal. As a result of its toxicity, cadmium is subject to the Restriction of the Use of Certain Hazardous Substances (RoHS) regulations in Europe and its use is also limited elsewhere.

Quantum dot manufacturers that use cadmium have been seeking the continuation of an exemption to allow them to market cadmium-containing products in Europe. With the large-scale cadmium-free quantum dot plant under construction in South Korea, it is our view that there is no need for the renewal of an exemption for cadmium-containing quantum dots.





INTERVIEW WITH MICHAEL EDELMAN, CEO

Q. Will the plant in South Korea manufacture for your other market sectors?

- A.** The South Korean plant is being built by Dow, our exclusive worldwide licensing partner for the manufacture and marketing of our CFQD® quantum dots for the display industry. The licensing agreement doesn't include other potential uses for our quantum dots. We signed the deal with Dow because of the huge amount of quantum dots needed to supply the display industry. Dow is our ideal partner in that they have the expertise and resources to manufacture on this scale and they also have existing customer relationships.

In general lighting we are yet to decide on the manufacturing strategy, which will in part depend on the final design solution for incorporating the quantum dots into the LEDs. Our bio-imaging work is at an early stage but we could certainly manufacture for this market as the number of quantum dots required is likely to be small.

Q. How close are you to commercialisation in general lighting?

- A.** Nanoco's core technology is our unique process to produce CFQD® quantum dots. We are also highly skilled in developing our quantum dots to modify them for use in a particular end product. In general lighting, we have been working to protect the quantum dots from the high temperatures experienced close to an LED. This encapsulation technology seems to be working well and we are optimistic about making further progress in the coming year. As with displays, there is an opportunity to use our quantum dots to solve the limitations of existing white LED lighting technology.

Again it is to do with colour. Whilst white LED lighting is becoming widespread in general lighting, homeowners and other users are having to compromise on the colour temperature and quality of their lights. Existing LEDs produce light that is either bright and overly blue or warm but dull. Our quantum dots can solve these problems and we are working with Osram, one of the world's largest lighting companies, to create a commercial LED product that offers bright, warm light.



“We have been building up our management and technical teams so that we are well-positioned to manage the growth of our business.”

Q. How about solar?

- A.** Our work in solar power is different to our other R&D work in that it doesn't use our proprietary quantum dot technology. Instead, we have developed a patent-protected nanomaterial-based solar ink, which, in common with our quantum dots, is cadmium free. As this work is still in the development stage, we haven't yet considered the manufacturing strategy in detail. However, for commercial use, bulk manufacturing would be required so it's likely that we would manufacture in collaboration with a partner.

Development work is proceeding well and we are very close to achieving our photovoltaic efficiency target for the development of a low cost solar panel. We are currently evaluating the best route for the commercialisation of this technology.

Q. What are you expecting from the year ahead?

- A.** There is a very exciting year ahead for Nanoco. The completion of Dow's manufacturing plant in South Korea; the start of volume production and the shipping of commercial orders for TREVISTA™ Quantum Dots will all be major milestones for Nanoco. We expect further details to emerge next year about the launch plans of consumer products that contain TREVISTA™ Quantum Dots, the first of which we would expect to be a large screen LCD TV.

With the imminent commercialisation of our technology in displays, I am also looking forward to increasing the focus on our earlier stage activities where our technology has the potential to change industries including solar, general lighting and bio-imaging. We will also explore some new areas for early stage work as one of the most exciting things about quantum dots is that they are a platform technology with the ability to transform multiple industries.

+ INVESTMENT CASE AND BUSINESS MODEL

GROWTH AND DEVELOPMENT

UNIQUE HEAVY METAL-FREE PRODUCT

Quantum dots are a true platform technology with applications in areas as diverse as flat screen displays to bio-imaging. Nanoco's CFQD® quantum dots are differentiated from other quantum dot technologies as they do not contain cadmium or other heavy metals.

This is particularly important considering the increased awareness of the harmful effects of such toxic heavy metals and their use in consumer electronics, for example, RoHS 2011/65/EU.

MASS PRODUCTION CAPABILITIES

Nanoco's patented molecular seeding process allows for production of uniform, high quality CFQD® quantum dots on a large scale.

In contrast to a common alternative production method of quantum dots referred to as "high temperature dual injection", Nanoco's process allows inherent control over each production step offering the ability to scale up for large-volume manufacturing.

To meet the increasing demand of customers Nanoco continues to expand its capacity.

GROWING PATENT PORTFOLIO

Nanoco actively seeks to protect its intellectual property in key territories across the globe. Its rapidly expanding patent portfolio comprises over 200 pending patent applications and 70 granted patents, with 29 patents being granted in the 12 months ending 31st July, 2014.



EXPERIENCED TEAM

Nanoco's team totals around 100 people, most of whom are highly qualified scientists recruited from countries all around the world.

A GROWING MARKET

Various market reports forecast that the market for quantum dots will grow at an Compound Annual Growth Rate (CAGR) of over 50% in the next five years. By 2022 the market is expected to be valued at \$7.48 billion. Markets&Markets 2012

Quantum dots for use in display and lighting will reach \$4.7 billion by 2022, making it the largest market segment followed by healthcare. Markets&Markets 2012

BUSINESS MODEL

Nanoco's business model is to work in close collaboration with companies developing quantum dot-based products and applications. In order to incorporate Nanoco's technology into the customer's products, Nanoco will normally enter into a joint development agreement (JDA).

The JDA will have specific revenue earning milestone targets against which Nanoco and the customer will work collaboratively to develop Nanoco's materials into the specific end use application. Once the JDA is complete, CFQD® quantum dot materials will then be supplied under a licensing agreement, for which Nanoco will receive royalty revenue or direct payments.



TECHNOLOGY

NANOCO DEVELOPS CFQD® QUANTUM DOT TECHNOLOGY

PARTNERSHIPS

DOW/NANOCO MANUFACTURES CFQD® QUANTUM DOTS IN POLYMER MATRIX

DEVELOPMENT

FILM PRODUCER MAKES CFQD® QUANTUM DOT FILMS FROM POLYMER MATRIX

REVENUE STREAMS

DISPLAY OEM ASSEMBLES CFQD® QUANTUM DOT FILM INTO LCD DISPLAY

INDUSTRY OVERVIEW

DISPLAY

Nanoco's CFQD[®] quantum dots offer enhanced colour, energy efficiency, and seamless integration into existing production processes

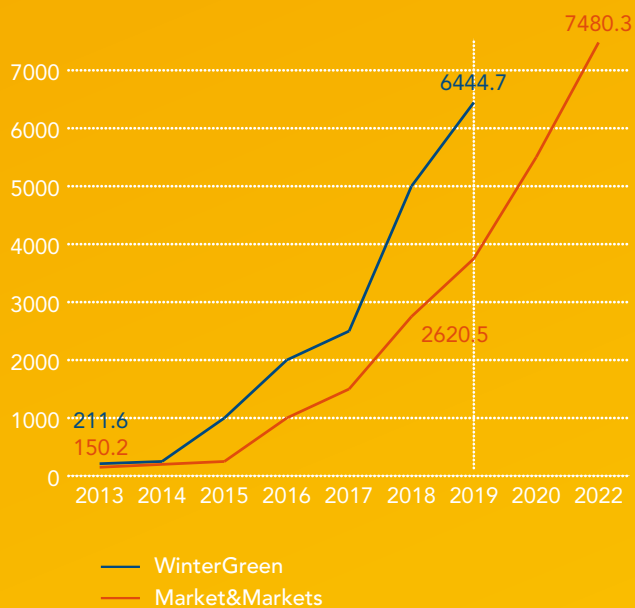
Nanoco's CFQD[®] quantum dot technology is particularly attractive not only for its ability to enhance the colours of LCD screens – allowing it to rival next generation OLED products – but also enabling the manufacturer to use their existing infrastructure to do so.

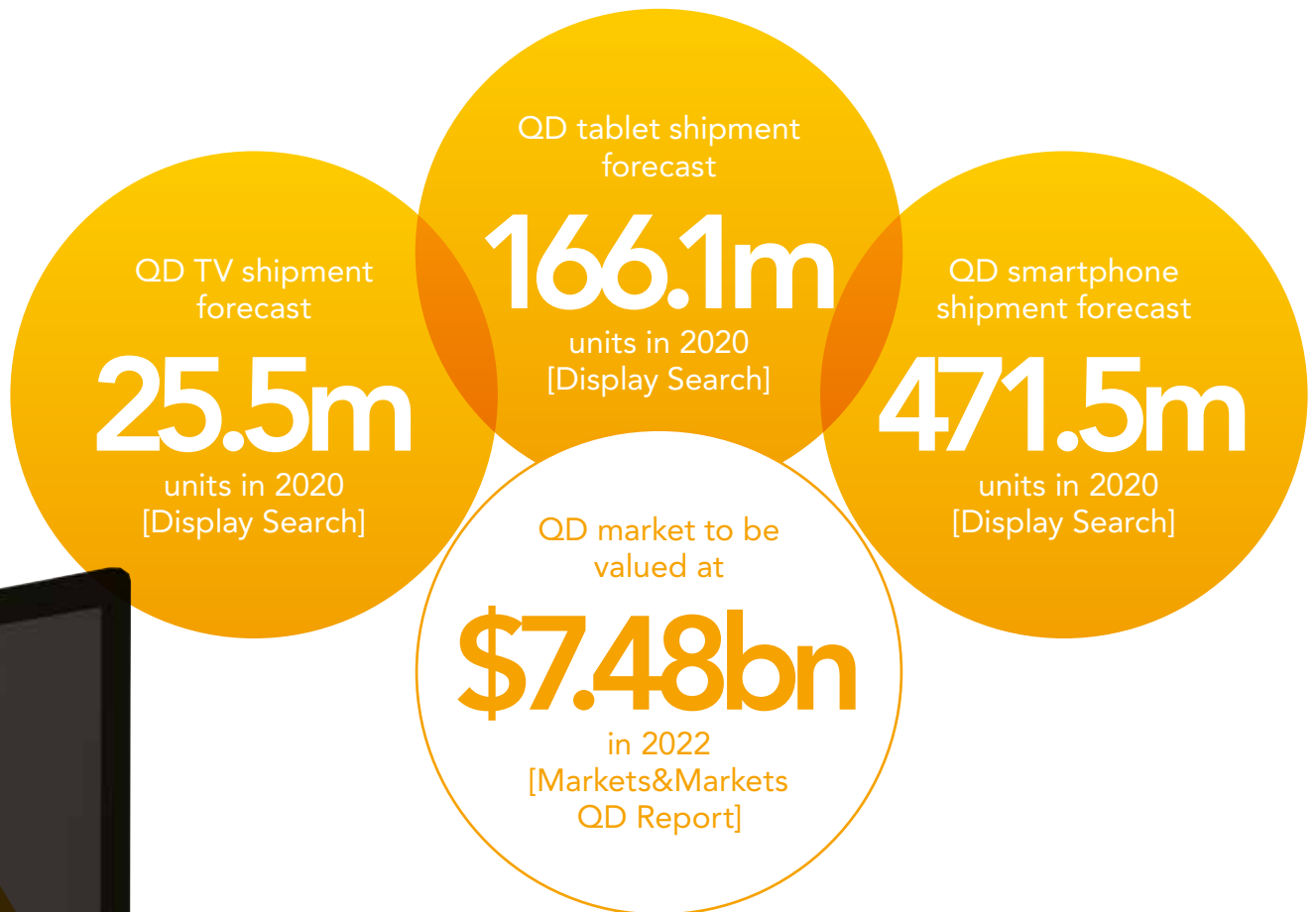
RICHER REDS, BRIGHTER GREENS

There are good reasons why LEDs have largely replaced fluorescent light tubes for backlighting in displays. They are both brighter and more efficient at converting energy into light. Unfortunately, the current backlighting technology using conventional white LEDs does not provide adequate emission of the red and green portions of the light spectrum. This limits the colours that can be achieved with conventional LED backlighting.

Nanoco's CFQD[®] quantum dots, incorporated into a film located in between the LED light source and the LCD panel, are 'excited' by light emitted from blue LEDs, transforming some of it into very pure green and red light. Due to this, the LCD panel receives a richer white light and expands the range of colour that the display can reproduce. To the viewer, the difference is significant: reds are deeper, greens are brighter, the entire colour palette is rendered with unprecedented vividness, bringing the imaged world vibrantly to life.

RAPIDLY GROWING MARKET





QUANTUM DOTS ARE EXTENDING LCD RUNWAY

Optimising the ability to use existing LCD manufacturing infrastructure will increase easy adoption of the technology as there is minimal process change.

POTENTIAL FOR LARGE VOLUME

Potentially requiring thousands of kilograms of CFQD® quantum dots.

WHY CADMIUM FREE?

Cadmium is highly toxic and accumulates in the body even when exposure is very low. It is regulated worldwide and in the EU it is restricted to <0.01% in electrical and electronic applications, 10x lower than is granted for lead or mercury.

💡 LIGHTING

Nanoco's CFQD® quantum dots enable tuneable, high-efficiency lighting.

As lighting technology has evolved, LED lighting which is bright, highly efficient and long-lasting is well placed to become the light source of the future.

However, in terms of colour performance, the best artificial light source remains the traditional incandescent bulb. Unfortunately, these bulbs only last 500 or so hours and are very inefficient: they normally convert 10% of the energy they receive into light. Fluorescent lights do better, lasting longer and converting 30% of energy into light. LEDs do better still with far higher conversion of energy into usable lumens and lifetimes of up to 50,000 hours.

Still, colour performances of current LED lights are much lower than traditional incandescent lights which can be measured using the Colour Rendering Index (CRI). CRI is a quantitative measure of a light's ability to reproduce colours of various objects faithfully and most current LED lighting technologies struggle to achieve a high CRI.

LIGHT PEOPLE LIKE

Nanoco's CFQD® quantum dots offer a simple and effective solution that can both tune the colour and improve the quality of light. Since the materials are heavy metal free, they can be used readily in lighting and device applications.



☀️ SOLAR

Nanoco's nanomaterials have the potential to produce highly efficient, low cost and lightweight solar cells.

Using Nanoco's expertise in the synthesis of nanoparticles, a variety of novel materials have been developed that can absorb a wide spectrum of the sun's energy.

These nanomaterials are being developed and used as printable inks, ideal for roll-to-roll manufacturing and low cost production of solar cells.

In the future, this technology will enable highly efficient, low cost and lightweight solar cells that could transform the economics of solar power.

Moreover, as with all other materials developed by Nanoco, these solar inks are free from toxic cadmium and heavy metals.

SUBSIDIES & SUNSHINE

Solar energy is a challenging market to break into, given that the price point of entry is ever-changing on account of government subsidies and tariffs. Despite the resulting volatility and uncertain future in solar investments, the world's demand for sustainable energy never falters, and solar technology remains the most viable option.

Costs, ultimately, are the key considerations for renewable energy and so the ability to combine a highly efficient photovoltaic cell with low-cost printing techniques is a holy grail for the solar industry.

🔬 BIO-IMAGING

As medical technology becomes ever more sophisticated, nanomaterials will have a crucial role to play.

Nanoco is at the forefront of putting CFQD® quantum dots to work in this high-value arena.

One aspect is diagnostics: the ability to identify the illness or disorder in a patient. Using quantum dots, diagnostic processes that use in vitro analysis, such as in a test tube, could potentially be undertaken more quickly, easily and less intrusively through in vivo analysis – within a living body.

Most quantum dots cannot be used in this way, owing to their toxic heavy metal content but Nanoco's CFQD® quantum dots, being soluble and cadmium-free, could potentially be introduced harmlessly. Similarly, they represent a significant improvement over the fluorescent dyes currently used by surgeons.



CHAIRMAN'S AND CHIEF EXECUTIVE OFFICER'S JOINT REVIEW

We continue to make major progress in the commercialisation of our technology, which has the major competitive advantage of being cadmium free.



Anthony Clinch
Non-executive Chairman

Michael Edelman
Chief Executive Officer

We are the only manufacturer currently able to produce large quantities of bespoke cadmium-free quantum dots.

"Dow's recent announcement that it would begin construction of the world's first large-scale cadmium-free quantum dot manufacturing plant using our technology marked a major milestone in the commercialisation of our quantum dots, which have the compelling competitive advantage of being cadmium-free. Commercialisation of our technology in the display market remains our primary focus but we also continue to make significant progress in all applications."

"We look forward with confidence to the year ahead, during which time we expect to announce further material progress."

Overview

The year to 31 July 2014 was another important year in the development of Nanoco. It was a year during which quantum dots became increasingly established as the technology of choice for achieving a step change in the colour performance of LCD displays.

It also marked the first full year of Nanoco's commercial relationship with The Dow Chemical Company ('Dow'), our worldwide licensing partner for the display industry. The transformational progress in the commercialisation of Nanoco's technology which is being made through this relationship was underlined last month when Dow announced that it would begin construction of the world's first large-scale, cadmium-free quantum dot manufacturing plant in South Korea.

The announcement was a landmark in the commercialisation of our technology. Dow stated that the plant, which is being built at one of Dow's existing sites in South Korea, will be capable of supporting the manufacture of "millions of cadmium-free quantum dot televisions and display applications".

Preparatory work for construction of the Dow site in South Korea is well advanced and production is expected to begin in mid-2015. Until this time, Dow and Nanoco intend to meet customer demand with quantum dots from Nanoco's facility in Runcorn.

Nanoco's technology is very clearly differentiated from the small number of other quantum dot manufacturers worldwide because our patent-protected manufacturing process enables us to produce quantum dots free of cadmium in commercial volumes. We remain convinced, as does Dow, that this ability to produce quantum dots without heavy metals means that our proprietary technology will become the industry standard.

European legislation on the Restriction of Hazardous Substances (RoHS), as well as regulatory codes operating in certain US states and in a number of other developed countries, severely restricts the use of cadmium-based quantum dots in electronic devices.

An existing RoHS exemption on the use of cadmium in certain electrical equipment was due to expire in June 2014. The European Commission continues to consider the views of Member States of the European Union on the extension of that exemption reflecting concern about the use of heavy metals.

During the past year, there has continued to be significant advances in LCD displays including the launch of 4K models. A further strength of Nanoco's technology is that it can be incorporated into any type of LCD display, including 4K, as the quantum dots sit in a film between the backlight and the screen. The display industry has invested billions of dollars in existing LCD manufacturing supply chains and is therefore keen to support the further development of LCD technology.

In addition to our work during the year in displays, we continued to make progress in LED general lighting, solar power and in our early stage work in bio-imaging.

In solar, we have steadily increased the efficiency of our nanoparticle based solar ink and have now achieved in excess of 15%. Our goal is to get as close to 20% as possible, approaching which level of efficiency we believe the solar ink could be used to produce low cost, printable solar cells. We are considering a number of options on how best to bring this exciting work to the market.

Nanoco's business is built on robust intellectual property and we continued to reinforce our patent estate during the year. Our patents are in four key areas: our proprietary process for the mass production of cadmium-free quantum dots; cadmium-free quantum dot materials; surface chemistry; and applications/devices incorporating our materials.

Commercial applications – displays

Nanoco is driving the commercialisation of its technology in the LCD display industry through its exclusive worldwide licensing deal with Dow, which was signed in January 2013. We have developed a close working relationship with Dow both on a technical level and in jointly marketing our quantum dot technology.

As mentioned above, on 24 September 2014 Dow announced that it was starting construction of a large-scale plant in Cheonan, South Korea, to produce Nanoco quantum dots. South Korea's position in the heart of the Asian opto-electronics industry makes it an ideal location for the first large-scale plant based on Nanoco's unique manufacturing process. Dow is marketing the quantum dots under the brand name TREVISTA™ Quantum Dots.

In March this year, at the time of our half year results, we announced that we had signed the third phase of a joint development agreement with a major South Korean electronics company in the display market. This agreement will run until the end of this month and it is anticipated that our work together will continue into the future. We are currently at various stages of the development process with a number of display makers from South Korea, Japan, USA, China and Taiwan in connection with products including TVs, monitors and tablets.

Post the period-end, a milestone payment from Dow has been generated, reflecting customer demand for Nanoco's technology.

Commercial applications – general lighting

LEDs are increasingly available on the high street for general lighting, and consumers are beginning to recognise their advantages over traditional lighting particularly in their long service life and reduced power consumption. The limiting factor to the widespread adoption of LEDs remains colour performance as existing products tend to offer either bright cold light or warm dull light neither of which is attractive in a home or office environment.

Nanoco's quantum dots have been shown to transform LEDs so they produce bright, warm light with a high colour rendering index without the loss of lumens. In addition, as Nanoco quantum dots are tuneable to any specific wavelength, any shade of light can be produced.

Nanoco has been working under joint development agreements with Osram, one of the world's largest lighting companies, since August 2011. We continue to make good progress and recently agreed a further follow-on agreement which continues this work through to September 2015.



The development work with Osram is focused on encapsulating our quantum dots to protect them from the relatively high temperatures they experience from proximity to an LED chip. This encapsulation is working well and we expect to further develop it during the coming year.

Nanoco is also working with a number of other lighting companies in Asia, the USA and Europe.

Commercial applications - solar

Nanoco's solar ink, developed from cadmium-free nanomaterials, has been designed to maximise the absorption of solar energy and to have physical characteristics such that it can be printed by low cost methods and annealed into a photovoltaic film. Our development work has been focused on increasing the efficiency of the conversion of light into electricity and we have now reached 15%. This is, we believe, close to the level that we anticipate will form the basis for low cost, printable solar panels.

We are currently considering how best to advance this application following the decision by our former development partner, Tokyo Electron, to merge with the US business Applied Materials Inc. to form a new company, Eteris™, as a consequence of which solar will not be a focus for them.

Nanoco's printable thin-film solar technology is based on copper, indium, gallium, selenium ("CIGS") materials and can be used in building integrated photo-voltaic applications due to its high performance, light weight and its potential ease of integration into different architectural form factors. A significant amount of intellectual property, both in patents and know how, has been built up which gives us a strong platform on which to commercialise this exciting technology in the coming years.

Other commercial applications

We have been careful to focus on our core areas, display, LED lighting and solar, but with the imminent commercialisation of our quantum dots in the display industry we remain alert to new opportunities where our technology could have significant commercial application.

We have been working since 2011 with University College London on the use of cadmium-free quantum dots in the in-vivo imaging of cancer. The fluorescence of Nanoco quantum dots is being used in this work to pinpoint malignant lymph nodes to guide surgeons in the removal of cancerous tissue. Other materials have already been used in this way in clinical practice but Nanoco quantum dots offer the major advantage of fluorescing for a longer period of time, giving surgeons more time to visualise the cancer which we believe will lead to a greater opportunity to remove cancer cells.

Nanoco has won a grant funded award from the UK's innovation agency, the Technology Strategy Board, totalling £308,000, in support of the current phase of this research work. This grant funded project commences in October 2014.

Production at Runcorn

During the first half of the year, we commissioned two new Semi-Tech lines giving us a total of four lines at The Heath Business and Technical Park in Runcorn. We use these production lines to produce large quantities of high quality sample materials for the display industry. We expect that initial commercial orders for Nanoco quantum dots will be manufactured and delivered from our Runcorn facility until Dow's commercial production plant comes on line in the first half of 2015.

Our technical team at Runcorn is focused on the continual improvement of production processes, reactor yields and quantum dot performance. At the year end, we had 15 people working in Runcorn and there is usually a technical team from Dow working alongside them.

Whilst we have planning permission to build Kilo Lab lines, which represent the next stage of production scale-up, our efforts are primarily focused on supporting Dow in building its manufacturing capacity in South Korea based on our Kilo Lab designs. In addition, we are finalising plans to increase capacity of our Semi-Tech lines to meet anticipated near-term demand.

People

We were delighted to welcome Robin Williams as an independent Non-executive Director shortly before the year end. Robin, who has broad corporate experience, is chair of the Company's Audit Committee. Michael Bretherton, who was Chief Financial Officer at the time that Nanoco joined AIM in 2009, stepped down as a Non-executive Director in April 2014 after making a major contribution to the development of the Company.

Recently we announced the appointment of Keith Wiggins as Chief Operating Officer of Nanoco. Keith has a wealth of experience operating at the most senior levels of global corporations, most recently Dow. Keith's appointment highlights how much Nanoco has developed over the recent years and how excited we are about our future growth prospects.

The Nanoco team, most of whom are based in Manchester, UK, had grown to 107 people at the year end, compared with 98 people a year earlier, with most of the increase being technical and scientific staff. In addition to staff at our Runcorn production facility we have a US subsidiary, Nanoco Inc., and business development executives in Japan, Korea, China and Taiwan.

We would like to offer our sincere thanks to all at Nanoco for their enthusiasm, commitment and achievement during the year.

Financial results

Our revenues in the year to 31 July 2014 were £1.43 million (2013: £3.93 million). Our loss before tax was £9.06 million (2013: loss of £5.04 million). This increase in the loss before tax primarily reflected the lower joint development revenues and higher payroll and other operational spend associated with commercialising our technology in the display market.

Cash, cash equivalents and deposits at the year-end were £12.18 million (31 July 2013: £9.94 million; 31 January 2014: £14.50 million).

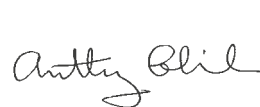
Capital markets strategy

At the time of our half year results we stated that we were considering a transition to the Official List of the London Stock Exchange. Given the momentum in the commercialisation of our technology we are actively exploring a move from AIM to a Premium Listing on the Official List of the London Stock Exchange.

Outlook

Dow's recent announcement that it would begin construction of the world's first large-scale cadmium-free quantum dot manufacturing plant using our technology marked a major milestone in the commercialisation of our quantum dots, which have the compelling competitive advantage of being cadmium-free. Commercialisation of our technology in the display market remains our primary focus but we also continue to make significant progress in all applications.

We look forward with confidence to the year ahead, during which time we expect to announce further material progress.



Anthony Clinch
Non-executive Chairman

13 October 2014



Michael Edelman
Chief Executive Officer

13 October 2014



FINANCIAL REVIEW

The Company raised gross proceeds of £10,000,000 from a placing on 15 October 2013

Results

Revenue for the year decreased by £2,495,000 to £1,433,000 (2013: £3,928,000). Part of this reduction is accounted for by the US\$1,000,000 (£634,000) received in 2013 from The Dow Chemical Company ('Dow') which was paid following the signing of the licence agreement in January 2013. The majority of the Group's revenue in both the current and prior year is earned through joint development agreements ('JDAs'), with revenue being recognised as agreed performance milestones are achieved. The year on year reduction in JDA revenue is a consequence of the completion of certain JDA contracts in 2013. Almost all JDA revenues in both the current and prior year were denominated in US Dollars and mostly originated from customers in the Far East.

Cost of sales, which includes all the raw material costs, consumable items and sub-contract testing and analysis, associated with developing and testing product formulations for JDA and non-JDA customers, increased by £270,000 to £1,563,000 (2013: £1,293,000). This increase reflected the incremental costs associated with the on-going development of CFQD® quantum dots to meet specific customer milestones as well as the production of larger quantities of customer samples.

Total payroll costs (before the charge for share-based payments) increased by £1,068,000 to £4,534,000 (2013: £3,466,000) and average staffing numbers increased by 24 heads from an average of 80 heads in 2013 to an average of 104 heads in 2014. The majority of the increases in staffing were technical roles associated with the on-going joint development programmes. Total research and development spend, which primarily includes the employment costs of technical staff, increased by £1,109,000 to £5,177,000 (2013: £4,068,000).

After deducting operating costs the adjusted operating loss* for the year ending 31 July 2014 was £8,676,000 (2013: adjusted operating loss* of £4,452,000).

The Group aims to incentivise and retain key staff through the use of equity-settled share awards. The IFRS2 (share-based payment) charge in respect of share schemes totalled £573,000 (2013: £870,000). This decrease in the charge reflects the reduction in the number of options awarded in the year, which totalled 444,000 (2013: 8,260,000), and some older awards having vested in the prior year. The total number of share options in issue as at 31 July 2014 were 13.4 million (31 July 2013: 13.1 million). Of these, 4.1 million (2013: 0.7 million) have met their performance criteria and are therefore capable of being exercised. During the year no options were exercised (2013:



Colin White
Chief Financial Officer

6.2 million) and 0.1 million (2013: 1.1 million) options lapsed or were forfeited. In addition to the options, a further 0.9 million (31 July 2013: 0.9 million) of shares are jointly owned by the Group's Employee Benefit Trust ('EBT') and certain senior management through a Jointly Owned Agreement ('JOA'). Under the JOA the employee beneficiaries have the option to acquire the trustee's shares at an agreed option price subject to meeting certain performance criteria. At 31 July 2014, all of the JOA shares had met their performance criteria and were capable of being acquired from the trustees. No JOA shares (2013: 3.4 million) were exercised during the year. Details on the various share schemes are provided in note 19 to the accounts.

With interest income (net of interest payments) of £189,000 (2013: £280,000), a decrease of £91,000, the loss before tax was £9,060,000 (2013: loss of £5,042,000).

The tax credit for the year is £1,249,000 (2013: £920,000). The Research and Development tax credit to be claimed, in respect of R&D spend, is £1,210,000 (2013: £870,000). There was also a £48,000 credit in respect of the prior year R&D tax claim (2013: £50,000 credit). Overseas corporation tax in respect of the US subsidiary, Nanoco US Inc, of £9,000 was paid during the year (2013: nil). There was no deferred tax credit or charge (2013: nil).

Adjusted basic loss per share* was 3.38 pence (2013: adjusted loss* of 1.58 pence). Basic loss per share was 3.65 pence (2013: loss of 2.00 pence).

No dividend has been proposed (2013: nil).

* adjusted figures are stated before the share-based payment charge.

Cash flow and balance sheet

During the year cash, cash equivalents, deposits and short-term investments increased by £2,238,000 to £12,182,000 (2013: £9,944,000).

The Company raised gross proceeds of £10,000,000 from a placing on 15 October 2013 through the issue of 6,369,427 new ordinary shares at an issue price of 157 pence per share. Issue costs associated with the placing totalled £263,000.

The Group reduced its capital spend in the year, to a total of £494,000 (2013: £1,775,000). Expenditure incurred in registering patents totalled £536,000 (2013: £340,000) during the year reflecting the Group's continued focus on developing and registering intellectual property. Capitalised patent spend is amortised over ten years in line with the Group's accounting policy.

Treasury activities and policies

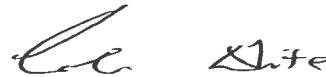
The Group manages its cash deposits prudently and invests its funds across a number of financial institutions which have investment grade credit ratings. The deposits range from instant access to 12 month term deposits and are regularly reviewed by the Board. Cash forecasts are updated monthly to ensure that there is sufficient cash available for foreseeable requirements. More details on the Group's treasury policies are provided in note 23 to the financial statements.

Credit risk

The Group only trades with recognised, creditworthy third parties. Receivable balances are monitored on an on-going basis and any late payments are promptly investigated to ensure that the Group's exposure to bad debts is not significant.

Foreign exchange management

The Group invoices most of its revenues in US Dollars. The Group is therefore exposed to movements in the US Dollar relative to Sterling. The Group uses forward currency contracts to fix the exchange rate on invoiced or confirmed foreign currency receipts. The Group does not take out forward contracts against uncertain or forecast income. There were no open forward contracts as at 31 July 2014 (2013: none). At the year end the Group had a net asset position of £135,000 (2013: net liability £8,000) in US Dollar cash, debtor, less creditor balances. The Group's net profit and its equity are exposed to movements in the value of Sterling relative to the US Dollar. The indicative impact of movements in the Sterling exchange rate on profits and equity based on the re-translation of the closing balance sheet are summarised in note 23 to the financial statements and were based on the year-end position. As US Dollar revenues increase so the exposure of the Group's profit and loss and equity to movements in the Sterling/US Dollar exchange rate will increase as well.



Colin White
 Chief Financial Officer

13 October 2014



STRATEGIC REPORT

Principal activity

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

Business model

A description of the Group's activities and how it seeks to add value are included in the Chairman's and Chief Executive Officer's Joint Review on pages 14 to 17.

Review of the business and future developments

A review of the Group's performance during the year, including key performance indicators and its future prospects are included in the Chairman's and Chief Executive Officer's ('CEO') Report and Financial Review on pages 14 to 19, which should be read in conjunction with this report.

Turnover for the Group decreased from £3,928,000 last year to £1,433,000 whilst losses after taxation for the year increased to £7,811,000 (2013: loss of £4,122,000).

Key performance indicators

The key indicators of performance for the business in its current stage of development are the completion of customer technical milestones and the winning of commercial contracts jointly with The Dow Chemical Company ('Dow'), which has the exclusive license to manufacture and sell cadmium-free quantum dots ('CFQD® quantum dots').

In addition the management and control of cash balances is a priority for the Group and these are budgeted and monitored closely to ensure that it maintains adequate liquid resources to meet financial commitments as they arise.

At this stage in its development, quantitative key performance indicators are not an effective way of measuring the Group's performance. However, a qualitative summary of performance in the period is provided in the Chairman's and CEO's Joint Review.

Principal risks and uncertainties

The Group has successfully managed to reduce the inherent risk for the business by partnering with Dow, through the licensing of CFQD® quantum dot materials to Dow for use in display applications, and through the continued improvement in its CFQD® quantum dot materials and scale-up processes achieved over the year. With the recent announcement by Dow that they are now proceeding to build their production facility in Korea the risks are further reduced.

The principal risks to achieving full commercialisation and to becoming cash generative are outlined as follows:

Technology

The Company believes that it has successfully addressed the majority of technical issues associated with providing CFQD® quantum dot materials that would be suitable for use in displays. In the light of Dow's announcement that they are now proceeding to build their production facility it is believed that the technology risks have been independently demonstrated as being significantly reduced.

However, in common with other technology businesses developing new and innovative technical applications for the display, lighting and solar industries, there remains an inherent risk that Nanoco's products might not meet specific customer requirements such as brightness, life expectancy and working temperature. The Group cannot guarantee in advance to meet all of its customers' technical specifications. The Group works closely with its customers' technical, production and business teams during the development process in order to help develop the most effective solutions for specific customer applications.

Production scale-up

Nanoco has demonstrated its capability to produce CFQD® quantum dots in 1kg batches and it opened its Semi-Tech facility in 2011, which is now capable of manufacturing up to ca.50kg per annum. To meet predicted commercial demand the manufacturing processes need to be further scaled up in order to be capable of producing commercial quantities. The Group has completed its design for the Kilo Lab, which is the next scale of production, and which is designed to produce up to 400kg pa. Nanoco signed an exclusive licensing and co-operation agreement with Dow in January 2013, which gave Dow the right to manufacture and sell CFQD® quantum dots to the global display market. Dow will therefore be responsible for building and operating the production facilities which will be based on the Kilo Lab modular design. Whilst Dow has announced that they are proceeding to build this facility, the facility has yet to be built and demonstrated to work effectively.

Customers

Nanoco's success is dependent upon how broadly the Group's materials are adopted by customers into their products and at a price that generates an economic return. Under the license agreement Dow is solely responsible for negotiating contracts and agreeing pricing for the sale of CFQD® quantum dot materials for the display market. Nanoco is working closely with Dow in marketing and developing CFQD® quantum dot materials for specific customer display applications. Nanoco also continues to work closely with customers in the lighting and solar industries, as well as intermediary component manufacturers making parts such as film or lighting optics.

Regulatory

European Union legislation on the Restriction of Hazardous Substances (RoHS), as well as regulatory codes operating in a number of other developed countries and in certain US States, severely restricts the use of cadmium-based quantum dots in electronic devices. An independent review of RoHS legislation was completed in April 2014 by consultants on behalf of the European Commission (EC). The review proposed a three-year exemption until June 2017 during which period cadmium quantum dots might be used in displays only (not lighting) and also re-defined the amount of cadmium that would be permitted. However, the EC has delayed the implementation of this proposal while it considers the views of Member States and the developing availability of cadmium-free alternative technologies. A final decision is expected before the end of 2014. In addition, many major electronics companies have expressed a great reluctance to use cadmium in their products because of the severe health and environmental risks associated with cadmium.

There is a risk that the three-year exemption may be adopted, although Dow's recent announcement to construct a large-scale, cadmium-free quantum dot manufacturing plant adds credence to the availability of alternative cadmium-free technologies.

Market and competition

Although alternative competing technologies could emerge that might displace the opportunity for CFQD® quantum dots in a given market, Nanoco is not reliant upon any single market opportunity in so far as its products are capable of being utilised in diverse markets such as displays, lighting, solar energy and bio-imaging.

Intellectual property

The success of Nanoco's technology depends in part upon the Group's ability to protect and defend its rights over current and future intellectual property in the form of technologies, processes or products.

The Group may be unable to adequately protect itself from intellectual property infringement or effectively enforce its rights in certain jurisdictions.

Nanoco has numerous patents either granted or pending, which cover the core technology related to its products, processes and applications. It has also purchased a number of patents in certain technology and geographic regions, so as to further strengthen its patent portfolio.

A US firm of specialist patent lawyers manage and co-ordinate Nanoco's patent registrations and handle patent related claims or counter-claims. This firm has also mapped the patent landscape for quantum dots and assessed the strength of Nanoco's patent presence across both geographic areas and technology sectors.

Attraction and retention of key employees

Attracting, retaining and motivating suitable, high-calibre personnel is critical to the long-term success of Nanoco's business. Nanoco aims to provide remuneration packages and working conditions that will attract and retain personnel of the required calibre. The Group awards share options to all key staff as a further way of retaining staff by allowing them to benefit from future improvements in the Group's share price.

Anthony Clinch

Anthony Clinch
Non-executive Chairman

Michael Edelman

Michael Edelman
Chief Executive Officer



BOARD OF DIRECTORS



Anthony Clinch
**Non-executive
Chairman**

Anthony Clinch is a member of the entrepreneurship assessment panel at Imperial College Business School and a member of the chemistry faculty advisory board at the same institution. He was until June 2014 chairman of the advisory board of CABB International GmbH, an international manufacturer of fine and intermediate chemicals, former chairman of the Valence Group an international specialist investment bank and senior advisor to CVC Capital Partners. He was managing director of CVC Capital Partners and an employee between 1987 and 2007 and was responsible for, and a non-executive director of a number of CVC Capital Partners' international investments. He previously worked for Citibank in several managerial roles in Corporate Banking. He is a chartered engineer and a member of the Institution of Engineering and Technology, having spent his early career with Rolls Royce Ltd. He holds an M.Sc. in Management Science and Operational Research and a BSc. in Aeronautical Engineering from Imperial College.



Dr Michael Edelman
**Chief Executive
Officer**

Nanoco is led by Michael Edelman. Michael joined Nanoco in 2004, led the initial fundraising and spun Nanoco out of the University of Manchester. Prior to Nanoco, Michael held a number of executive roles including responsibility for licensing the technology developed by GE/ Bayer joint venture, Exatec LLP, vice president and managing director at yet2.com, commercial director at Colloids Ltd and business manager at Brunner Mond & Co Ltd. Michael started his career with ICI, has a Ph.D. in organo-metallic chemistry from the University of Sussex, UK, and an 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 Nigel Pickett who is a co-founder of Nanoco 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 PhD in the field of main group organo-metallics. 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 precursors used in MOVPE. Nigel co-founded Nanoco Technologies in 2001.



Colin White
**Chief Financial
Officer**

Colin White is a chartered accountant with international experience of publicly quoted companies in the manufacturing, technology and professional services sectors. Prior to joining Nanoco, he held a position of group finance director of Driver Group PLC, where he was involved in implementing a range of strategic growth initiatives and setting up a number of overseas joint ventures. He has also held senior positions at Scapa Group PLC and TI Group PLC, where he worked for almost 10 years prior to its acquisition by Smiths Group PLC. During this time he held positions including finance director of the Dowty Aerospace Division, finance controller of Dowty North America and group investor relations manager. Colin, who graduated from Cambridge University in 1983 and qualified as a chartered accountant with Grant Thornton in 1987, joined Nanoco and its board in August 2010.



Keith Wiggins
Chief Operating Officer

Keith is a highly experienced chemicals industry executive. He began his career with ICI, working in R&D and manufacturing, before joining The Dow Chemical Company ('Dow') in 1989 as a sales manager in its London office.

He went on to lead progressively bigger and more complex specialty chemical businesses around the world, living in Germany, Switzerland and the USA. In 2006 Keith returned to the UK as Managing Director for Dow UK, Ireland & Nordic. He held this position until 2013 and, from 2006 to 2011, he was concurrently CEO-Global Business Director of Haltermann, a specialty chemicals subsidiary of Dow.

Keith, who graduated in chemistry at Imperial College, London, is an Honorary Fellow of the Royal Society of Chemistry. He has held a number of industry offices including President of the Chemical Industries Association between 2011 and 2013.

Dr Peter Rowley
Non-executive Director

Peter Rowley joined the Nanoco board in 2006 and was Non-executive Chairman until April 2013. 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. Peter has a PhD in organic chemistry from King's College London.

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 Limited (subsequently 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 Quoram PLC, which is also listed on AIM.

Robin Williams
Non-executive Director

Robin Williams was appointed to the Board on 9 July 2014 and will replace Michael Bretherton as Chairman of the audit committee. Robin has an engineering science degree from Oxford University and qualified as ACA. He spent the early part of his career in financial advisory, before co-founding Britton Group plc as CEO. He built this to a successful international packaging group which was sold to a US trade buyer in 1998. He then became an executive director of Hepworth plc, a substantial building products group, as managing director of one division, also as group director for strategy and rationalisation. After leading a non-core business disposal programme, he played a key part in the sale of the group to a German trade buyer. For the past ten years, he has been a non-executive director or Chairman in a wide variety of public, public sector and private companies and has been Chairman of two plc Audit Committees, currently at Xaar plc.

Note:

Michael Bretherton – Non-executive Director

Michael Bretherton resigned on 4 April 2014. The Board acknowledges Michael's major contribution to the early development of Nanoco, first as CFO and subsequently as a non-executive director and Chairman of the audit committee. His strategic, financial and corporate judgment were of great value and Board wish him well for the future.

⊕ DIRECTORS' REPORT

The directors present their report and the audited financial statements for the Group and Parent Company for the year ended 31 July 2014.

Financial instruments

Details of the Group's financial risk management objectives and policies are disclosed in note 23 to the financial statements.

Research and development

The principal activity of the Group is research and development, a review of which is included in the Chairman's and CEO's Joint Review on pages 14 to 17.

Total research and development spend was £5,177,000 (2013: £4,068,000). No development expenditure was capitalised in the period (2013: £nil) for the reasons provided in note 3(f) to the accounts.

Dividends

The directors do not recommend payment of an ordinary dividend (2013: £nil).

Share capital and funding

As at 31 July 2014 share capital comprised 216.5 million ordinary shares of 10p each (210.2 million as at 31 July 2013). There is only one class of share and all shares (with the exception of jointly owned shares issued to the EBT) are fully paid. Full details of the Group's and Company's share capital movements during the period are given in note 18 to the financial statements.

Details of shares under option are provided in note 19 to the financial statements.

Directors and their interests

The following directors held office throughout the year:

Anthony Clinch	
Dr Michael Edelman	
Dr Nigel Pickett	
Colin White	
Dr Peter Rowley	
Michael Bretherton	Resigned 4 April 2014
Gordon Hall	
Robin Williams	Appointed 9 July 2014
Keith Wiggins	Appointed 1 October 2014.

Biographies of the directors can be found on pages 22 to 23.

Details of directors' remuneration and interests in the share capital of the Company are shown in the Directors' Remuneration Report on pages 26 to 28.

No director had an interest in any contract that was significant in relation to the Company's business at any time during the period.

Directors are subject to re-election at intervals of not more than three years.

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. Such provision remains in force as at the date of approval of the Directors' Report.

Substantial shareholders

The Company is aware that the following had an interest in 3% or more of the issued ordinary share capital of the Company at 31 July 2014:

	Number of 10p ordinary shares at 31 July 2014	% of issued share capital
Baillie Gifford & Co	31,036,362	14.3
Henderson Global Investor	29,949,343	13.8
Richard Griffiths including Blake Holdings	28,263,833	13.0
Nigel Pickett	10,945,681	5.0
Universities Superannuation Scheme	10,776,893	5.0
William Blair Investment Mgmt.	8,614,732	4.0
Fidelity Investments International	8,477,615	3.9
Michael Edelman	6,988,640	3.2
Standard Life Investments	6,513,310	3.0

The following parties notified the Company that their shareholdings had changed since 31 July 2014 – Baillie Gifford & Co decrease to 13.5%, Henderson Global Investor increase to 14.7%, Richard Griffiths including Blake Holdings decrease to 12.9%, William Blair Investment Mgmt. decrease to below 3%, Fidelity Investments International increase to 5.9% and NFU Mutual Investment Mgrs increase to 3.1%. Apart from the above, there were no other notified significant changes in the holdings between the 31 July 2014 and the date the Annual Report and Accounts were signed.

Donations

No charitable or political donations were made in the year (2013: £nil).

Policy on payment of suppliers

It is the policy and normal practice of the Group to make payments due to suppliers, in accordance with agreed terms and conditions, with payments being made generally in the month following receipt of invoice.

Employment policies

The Group is committed to ensuring the health and safety of its employees in the workplace. This includes the provision of regular medical checks.

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

Corporate Governance Statement

The Group's statement on corporate governance can be found in the Corporate Governance Statement on pages 29 to 32.

Foreign branches

In July 2013 the Group established a subsidiary in the United States (note 12 to the financial statements).

Going concern

The Chairman's and Chief Executive Officer's Review on pages 14 to 17 outlines the business activities of the Group along with the factors which may affect its future development and performance. The Group's financial position is discussed in the Financial Review on pages 18 to 19 along with details of its cash flow and liquidity. Note 23 to the financial statements sets out the Group's financial risks and the management of those risks.

Having prepared management forecasts and made appropriate enquiries, the Directors are satisfied that the Group has adequate resources for the foreseeable future. Accordingly they have continued to adopt the going concern basis in preparing the Group and Company financial statements.

Disclosure of information to the auditor

The directors who held office at the date of approval of this Directors' Report confirm that:

- so far as they are each aware there is no relevant audit information of which the Group's auditor is unaware; and
- that each director has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the Group's auditor is aware of that information.

Auditor

Ernst and Young LLP has indicated its willingness to continue in office.

Ordinary resolutions to re-appoint Ernst & Young LLP as auditor and to authorise the directors to agree their audit fee, will be proposed at the forthcoming Annual General Meeting.

Annual General Meeting notice

The Annual General Meeting of the Company will be held on 11 December 2014, at 10.30am, at the Company's headquarters at 46 Grafton Street, Manchester, M13 9NT. The notice convening the AGM, together with an explanation of the resolutions to be proposed at the meeting, is contained in the Notice of Annual General meeting on pages 61 to 66 of the Annual Report and Accounts 2014.

On behalf of the Board



Michael Edelman
 Chief Executive Officer

13 October 2014

⊕ DIRECTORS' REMUNERATION REPORT

This report sets out the remuneration policy of Nanoco Group plc ('the Company' or 'the Group'). As a company listed on AIM, the Company is not required by the Companies Act 2006 to prepare a directors' remuneration report. The Board has, however, adopted many of the best practice provisions in connection with preparation of such reports and these are referred to in the report below.

Information not subject to audit

Remuneration Committee

The Remuneration Committee comprises Gordon Hall, who is Chairman of the Committee, Peter Rowley and Robin Williams who joined the Remuneration Committee during the year. The Committee may invite anyone it deems appropriate to attend and advise at meetings.

The Committee is responsible for establishing a formal and transparent procedure for developing policy on executive remuneration and to set the remuneration of the directors and certain senior management, as well as to review the performance of the executive directors of the Company.

The overall policy of the Board is to ensure that executive management are provided with appropriate incentives to encourage enhanced performance and are, in a fair and responsible manner, rewarded for their contribution to the success of the Group, including, where appropriate, bonuses, and the award of share options. The Remuneration Committee takes into account the remuneration practices adopted in similar businesses and best practice in other AIM listed businesses as well as in the general market. The Committee has appointed external consultants to help define overall remuneration policy.

There are three main elements to the remuneration packages for executive directors and senior management:

Basic annual salary

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 contributions and market salaries for comparable organisations.

The Company does not provide an occupational pension scheme for executive directors, nor does it make contributions into the private pension schemes of executives. However, certain executives elect to use a salary sacrifice scheme to make their own payments into private pension schemes. The salary sacrifice payments, together with any employer NIC saved, are paid into the private pension schemes and these total payments are separately disclosed in the table below.

Benefit in kind

Jointly owned EBT shares granted to Michael Edelman and Nigel Pickett on 7 April 2008 were granted on the basis that the EBT interest could be acquired for a total price of £1 and that no value would be paid for the shares themselves. When these EBT shares are exercised the difference between the market value at the date of issue (being 14.5 pence) and the price paid for the shares (being nil) is treated as a benefit in kind. The value of the benefit in the financial year is disclosed in the Directors' Remuneration Report in the section on directors' jointly owned benefit trust shares and share options (below).

The Company does not provide any other taxable benefits for executives.

Discretionary annual bonus

All executive directors and senior managers are eligible for a discretionary annual bonus. This takes into account individual contribution, business performance and technical and commercial progress, along with financial results.

Discretionary share schemes

All executive directors and senior managers are eligible for discretionary share scheme awards to be paid in accordance with the Company's long-term incentive plan. Details of the awards made under the scheme are provided in note 19 to the financial statements. This takes into account the need to motivate and retain key individuals, along with similar performance criteria to the discretionary bonus scheme. Details of share scheme awards made to directors are shown in the table below.

Remuneration policy for non-executive directors

Non-executives receive a fixed fee and do not receive any pension payments or other benefits, nor do they participate in bonus or share schemes.

Service contracts

Michael Edelman and Nigel Pickett both have contracts with an indefinite term providing for a maximum of 12 months' notice by either party. Colin White has an indefinite term contract which provides for a maximum of six months' notice by either party, which will increase to 12 months' notice in the event of a change of control of the Company. 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.

Second Spring LLP (previously St Gabrielle LLP) entered into a formal engagement with the Company, under which it agreed to supply the services of Anthony Clinch as its representative. This agreement was terminated on 31 July 2014. As from 1 August 2014 Anthony Clinch was employed on a letter of appointment which may be terminated on not less than six months' notice.

Directors' shareholdings

Directors' interests in the shares of the Company, including family and beneficial interests, at 31 July 2014 were:

	Ordinary shares of 10p each			
	31 July 2014 Number	31 July 2014 %	31 July 2013 Number	31 July 2013 %
Anthony Clinch	57,640	0.03	57,640	0.03
Dr Michael Edelman	6,988,640	3.22	6,988,640	3.33
Dr Nigel Pickett*	10,945,681	5.01	10,945,681	5.21
Colin White*	320,411	0.15	320,411	0.15
Dr Peter Rowley	1,571,820	0.73	1,571,820	0.75
Gordon Hall	100,000	0.11	100,000	0.11
Robin Williams	—	—	—	—

* Includes the jointly owned EBT shares referred to below

Information subject to audit

Directors' remuneration

The remuneration of the directors, who served on the Board of Nanoco Group PLC during the year to 31 July 2014, is as follows:

	Base salary & fees £000	Annual bonus £000	Pension costs £000	Benefits in kind £000	Share-based payments £000	Total 2014 £000	Total 2013 £000
Executive Directors:							
Dr Michael Edelman	179	64	—	64	52	359	736
Dr Nigel Pickett	79	48	65	—	43	235	204
Colin White	138	41	—	—	45	224	240
Non-executive Directors:							
Anthony Clinch	23	—	—	—	—	23	12
Dr Peter Rowley	15	—	—	—	—	15	12
Michael Bretherton	8	—	—	—	—	8	12
Gordon Hall	15	—	—	—	—	15	12
Robin Williams	—	—	—	—	—	—	—
	457	153	65	64	140	879	1,228

The remuneration of the directors for the year ended 31 July 2013 included a benefit in kind of £468,000 for Dr Michael Edelman in respect of the exercise of jointly owned EBT shares.

⊕ DIRECTORS' REMUNERATION REPORT CONTINUED

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 at 31 July 2014 were:

Share options:	Date granted	Exercise price	At 31 July 2013	Exercised during the year	Lapsed	Granted during the year	At 31 July 2014
Dr Michael Edelman	25 Nov 2011	50.00p	500,000	–	–	–	500,000
	22 Oct 2012	57.00p	1,000,000	–	–	–	1,000,000
Dr Nigel Pickett	25 Nov 2011	50.00p	500,000	–	–	–	500,000
	22 Oct 2012	57.00p	750,000	–	–	–	750,000
Colin White	9 Aug 2010	92.60p	129,589	–	–	–	129,589
	25 Nov 2011	50.00p	500,000	–	–	–	500,000
	22 Oct 2012	57.00p	750,000	–	–	–	750,000
Jointly owned EBT shares:							
Dr Nigel Pickett	7 April 2008	nil	530,089	–	–	–	530,089
Colin White	9 Aug 2010	92.60p	320,411	–	–	–	320,411

The options granted to Colin White on 9 August 2010 are exercisable between 9 August 2013 and 9 August 2020 and are not subject to performance conditions.

The options granted on 25 November 2011 and on 22 October 2012 were granted under the terms of the Nanoco Group PLC long-term incentive plan and are exercisable subject to commercial revenue targets being achieved over a three-year period from the date of grant.

The market price for Nanoco shares as at 31 July 2014 was 91 pence per share, the highest and lowest prices during the year were 184 pence and 89 pence respectively.

No options were granted during the year below market value. No options have been granted since the year end.

Details of share options and shares held in the EBT are set out in note 19 to the financial statements.

On behalf of the Board



Gordon Hall
Chairman of the Remuneration Committee

13 October 2014

⊕ CORPORATE GOVERNANCE STATEMENT

Nanoco Group PLC (the 'Company') and its subsidiaries (together the 'Group') are committed to high standards of corporate governance and the Board acknowledges the importance of the principles set out in the UK Corporate Governance Code published by the Financial Reporting Council in June 2010 (the 'Code').

Although the Code is not mandatory for companies admitted to AIM, the Company continues to establish a framework by adopting and implementing policies and procedures designed to comply with all of the requirements of the Code in a manner that is appropriate for a company of this size and complexity. The report below sets out how the principles in the Code have been applied during the year under review.

The Board

The Company is controlled through its Board of Directors. The Board's main roles are to provide overall strategy and direction for the Group and to ensure that the necessary financial and other resources are made available to enable those objectives to be met. It has a schedule of matters reserved for its approval, including but not limited to, decisions on strategy and risk management, approval of budgets, acquisitions and disposals, major capital expenditure, legal and insurance issues, board structure and the appointment of advisors. In some areas responsibility is delegated to committees of the Board within clearly defined terms of reference.

Once the strategic and financial objectives of the Company have been set by the Board it is the role of the Chief Executive Officer to ensure that through the day-to-day management of the Group's business they are achieved.

All directors are subject to election by the shareholders at the next general meeting following appointment to the Board and to re-election at intervals of not more than three years.

As at 31 July 2014, the Board comprised the Non-executive Chairman, three independent non-executive directors and three executive directors.

The names of the current directors together with their biographical details and any other directorships are set out on pages 22 to 23. All the directors served throughout the period under review.

The contracts of the non-executive directors are available for inspection by shareholders at the AGM.

The Board considers its independent non-executive directors to be independent in character and judgement. No non-executive director has been an employee of the Group; has had a material business relationship with the Group; receives remuneration other than a director's fee; has close family ties with any of the Group's advisors, directors or senior employees; or holds cross-directorships.

The non-executive directors constructively challenge and help develop proposals on strategy and bring strong, independent judgement, knowledge and experience to the Board's deliberations.

The directors are given access to independent professional advice at the Group's expense, when the directors deem it is necessary in order for them to carry out their responsibilities.

The Board meets at least eleven times a year and the Audit Committee and Remuneration Committee normally meet at least twice a year.

The Board receives appropriate and timely information prior to each meeting, with a formal agenda and Board and committee papers being distributed several days before meetings take place. Any director may challenge Group proposals, and decisions are taken democratically after discussion. Any director who feels that any concern remains unresolved after discussion may ask for that concern to be noted in the minutes of the meeting. Any specific actions arising from such meetings are agreed by the Board and then followed up by management.

The Group maintains, for its directors and officers, liability insurance for any claims against them in that capacity.

The Group has effective procedures in place to deal with conflicts of interest. The Board is aware of other commitments of its directors and changes to these commitments are reported to the Board.

⊕ CORPORATE GOVERNANCE STATEMENT

CONTINUED

The number of Board and committee meetings attended by each of the directors during the year are shown below.

	Full Board	Audit Committee	Remuneration Committee
Number of meetings in period	11	2	2
Attendance:			
Executive Directors			
Dr Michael Edelman	11	–	–
Dr Nigel Pickett	11	–	–
Colin White	11	–	–
Non-executive Directors:			
Anthony Clinch	11	–	–
Dr Peter Rowley	10	2	2
Michael Bretherton	7	2	–
Gordon Hall	11	–	2
Robin Williams	1	–	–

The roles of the Chairman and Chief Executive Officer

The division of responsibilities between the Chairman of the Board and the Chief Executive Officer is clearly defined. The Chairman leads the Board in the determination of its strategy and in the achievement of its objectives. The Chairman is responsible for organising the business of the Board, ensuring its effectiveness and setting its agenda. The Chairman is a non-executive director and has no involvement in the day-to-day business of the Group. The Chairman facilitates the effective contribution of non-executive directors and constructive relations between executive and non-executive directors, ensures directors receive accurate, timely and clear information and facilitates effective communication with shareholders.

The Chief Executive Officer has direct charge of the Group on a day-to-day basis and is accountable to the Board for the financial and operational performance of the Group.

Professional development

On appointment, each director takes part in an induction programme in which they receive comprehensive information about the Group, and the role of the Board and the matters reserved for its decision, the terms of reference and membership of the Board and committees and the powers delegated to those committees, the Group's corporate governance practices and procedures, including the powers reserved to the Group's most senior executives and the latest financial information about the Group. Throughout their period in office the directors are updated on the Group's business, the competitive environment in which it operates, corporate social responsibility matters and other changes affecting the Group and the industry it operates in as a whole.

Performance evaluation

The Board has established a formal process for the annual evaluation of the performance of the Executive Directors. This evaluation is based on a performance evaluation questionnaire completed by each executive director. The evaluation of the Chief Executive Officer is performed by the Chairman and the evaluation of the other executive directors is performed by the Chief Executive Officer.

Information

Board reports and papers are circulated to the directors in advance of the relevant Board or committee meeting. These papers are supplemented by information specifically requested by the directors from time to time. Minutes of Board and committee meetings are circulated to all Board members.

The non-executive directors receive monthly management accounts and regular management reports and information which enable them to scrutinise the Group's and management's performance against agreed objectives.

Director dealings in Company shares

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.

Investor relations

Meetings with analysts and institutional shareholders are held following the interim and preliminary results announcements and on an ad hoc basis. These are usually attended by the Chief Executive Officer and Chief Finance Officer. Feedback from these meetings and regular market updates is prepared by the Company's nomad and by the Company's external investor relations advisor and are presented to the Board. The Chairman and other non-executive directors are available to shareholders to discuss strategy and governance issues at a shareholder's request. In accordance with AIM Rule 26, there is an investors section on the Company's website, www.nanocotechnologies.com, which is kept up to date.

Annual General Meeting ('AGM')

At the AGM, separate resolutions will be proposed for each substantially different issue. The outcome of the voting on AGM resolutions is disclosed by means of an announcement on the London Stock Exchange.

Board committees:

Audit Committee

The Audit Committee comprises Robin Williams, Gordon Hall and Peter Rowley. Robin Williams is Chairman, and is deemed to have recent and relevant experience as he is a chartered accountant, has held senior financial management positions in listed companies and has chaired audit committees in a number of other listed companies. Robin's biography is included on page 23. Other directors and representatives of the external auditor attend by invitation.

The Audit Committee's primary responsibilities are to review and monitor:

- the annual report and accounts and preliminary and interim results and statements of the Company;
- the appropriateness of accounting policies and the critical judgements and estimates;
- the relevance of developments in accounting and reporting requirements;
- the effectiveness of internal controls and risk management systems;
- the auditor's plan for the year-end audit;
- the formal engagement terms, performance, objectivity and independence of the auditors including the extent of non-audit work undertaken by the auditors; and
- the audit and non-audit fees of the auditors. These are set out in note 5 to the financial statements.

The Audit Committee reports to the Board on its activities and recommendations.

The Committee has recommended to the Board that a resolution re-appointing Ernst and Young LLP as external auditors be put to the shareholders at the AGM.

Remuneration Committee

The Remuneration Committee comprises Gordon Hall, who is Chairman of the Committee, Peter Rowley and Robin Williams. The Committee is responsible for establishing a formal and transparent procedure for developing policy on executive remuneration and for setting the remuneration of individual directors. Full details of directors' remuneration and remuneration policy are set out on pages 26 to 28.

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 and risk management

The Board has overall responsibility for the Group's system of internal controls, including reviewing the effectiveness of these controls and the processes in place for risk management. The role of the executive directors is to implement the Board's policies on risk and control and provide assurance on compliance with these policies. The processes and procedures in place are designed to manage rather than eliminate risk and can therefore only provide a reasonable and not an absolute assurance against material misstatements or losses.

Executive directors have a close involvement with all day-to-day operations and also meet with staff on a regular basis to identify and review business risks, the controls needed to minimise those risks and the effectiveness of controls in place. Business risks are monitored and updated on a regular basis. Insurance is in place where appropriate.

Some key features of the internal control system are:

- i. Annual budgets and rolling forecasts reviewed and approved by the Board;
- ii. Monthly management accounts information compared and reconciled with budgets;
- iii. The Company has written operational, accounting and employment policies in place;
- iv. 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;
- v. The Company has well-established financial reporting and approval systems and procedures which cover all key transactional processes and Company commitments; and
- vi. The Company has a uniform system of investment appraisal.

The Company has quality assurance processes in place by virtue of its internal quality assurance department, which audits non-financial processes and procedures.

⊕ CORPORATE GOVERNANCE STATEMENT

CONTINUED

Risk management

Details of the technical, product, market and operational risks of the business are disclosed in the Strategic Report.

Details of the Group's financial risk management objectives and policies are disclosed in note 23 to the financial statements.

The directors do not consider that the business is, at this time, significantly exposed to credit or interest 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 cash, cash equivalent and deposit balances of £12.2 million as at 31 July 2014 (2013: £9.9 million). Cash deposits are spread across a range of financial institutions with 'investment grade' credit status. Deposits are invested in a mixture of fixed-term and notice accounts. The Board approves all financial institutions before deposits are placed and regularly reviews the level of funds allocated to each institution.

Statement of directors' responsibilities in relation to the Annual Report and financial statements

The directors are responsible for preparing the Annual Report and Accounts in accordance with the 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 Company has elected to prepare Group and Company financial statements in accordance with International Financial Reporting Standards, as adopted by the EU ('IFRS').

The Group and Company financial statements are required by law to present a true and fair view of the state of affairs of the Group and Company, the Group's performance and of the cash flows of the Group and Company for the period.

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.
- e. Present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- f. Provide additional disclosures when compliance with the specific requirements in IFRSs as adopted by the European Union is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's and Company's financial position and financial performance.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group and Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Group and Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website (www.nanocotechnologies.com). Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

⊕ INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF NANOCO GROUP PLC

for the year ended 31 July 2014

We have audited the financial statements of Nanoco Group plc for the year ended 31 July 2014 which comprise the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Changes in Equity, the Company Statement of Changes in Equity, the Statements of Financial Position, the Cash Flow Statements 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 and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

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

Respective responsibilities of directors and auditor

As explained more fully in the Statement of Directors' Responsibilities set out on page 32, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the 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. In addition, we read all the financial and non-financial information in this Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

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 2014 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 matter prescribed by the Companies Act 2006

In our opinion the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

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

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

Alastair John Richard Nuttall (Senior Statutory Auditor)

for and on behalf of Ernst & Young LLP Statutory Auditor
 Manchester

13 October 2014

Notes:

1. The maintenance and integrity of the Nanoco Group plc website is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.
2. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

⊕ CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 July 2014

	Notes	2014 £000	2013 £000
Revenue	4	1,433	3,928
Cost of sales		(1,563)	(1,293)
Gross (loss)/profit		(130)	2,635
Administrative expenses		(9,119)	(7,957)
Operating loss			
– before share-based payments		(8,676)	(4,452)
– share-based payments	19	(573)	(870)
	5	(9,249)	(5,322)
Finance income	7	194	286
Finance costs	7	(5)	(6)
Loss on ordinary activities before taxation		(9,060)	(5,042)
Taxation	8	1,249	920
Loss for the year and total comprehensive loss for the year		(7,811)	(4,122)
Loss per share			
Basic and diluted loss for the year	9	(3.65)p	(2.00)p

The loss for the year arises from the Group's continuing operations and is attributable to the equity holders of the parent.

There were no other items of comprehensive income for the year (2013: £nil) and therefore the loss for the year is also the total comprehensive loss for the year.

The basic and diluted loss per share are the same as the effect of share options is anti-dilutive.

The notes on pages 39 to 60 form an integral part of these financial statements.

⊕ CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 July 2014

	Issued equity capital £000	Share-based payment reserve £000	Merger reserve £000	Revenue reserve £000	Total £000
At 31 July 2012	27,475	851	(1,242)	(10,152)	16,932
Loss for the year and total comprehensive loss for the year	–	–	–	(4,122)	(4,122)
Issue of share capital	579	–	–	–	579
Issue of shares by EBT	–	(468)	–	603	135
Share-based payments	–	870	–	–	870
At 31 July 2013	28,054	1,253	(1,242)	(13,671)	14,394
Loss for the year and total comprehensive loss for the year	–	–	–	(7,811)	(7,811)
Issue of share capital	10,000	–	–	–	10,000
Expenses of placing	(263)	–	–	–	(263)
Share-based payments	–	573	–	–	573
At 31 July 2014	37,791	1,826	(1,242)	(21,482)	16,893

⊕ COMPANY STATEMENT OF CHANGES IN EQUITY

for the year ended 31 July 2014

	Issued equity capital £000	Share-based payment reserve £000	Capital redemption reserve £000	Revenue reserve £000	Total £000
At 31 July 2012	105,247	851	4,498	(26,409)	84,187
Profit for the year and total comprehensive profit for the year	–	–	–	96	96
Issue of share capital	675	–	(96)	–	579
Issue of shares by EBT	–	(468)	–	603	135
Share-based payments	–	870	–	–	870
At 31 July 2013	105,922	1,253	4,402	(25,710)	85,867
Profit for the year and total comprehensive profit for the year	–	–	–	39	39
Issue of share capital	10,000	–	–	–	10,000
Expenses of placing	(263)	–	–	–	(263)
Share-based payments	–	573	–	–	573
At 31 July 2014	115,659	1,826	4,402	(25,671)	96,216

⊕ STATEMENTS OF FINANCIAL POSITION

at 31 July 2014

Registered No. 05067291

	Notes	31 July 2014 Group £000	31 July 2014 Company £000	31 July 2013 Group £000	31 July 2013 Company £000
Assets					
Non-current assets					
Tangible fixed assets	10	2,783	–	3,470	–
Intangible assets	11	1,557	–	1,230	–
Investment in subsidiaries	12	–	65,433	–	64,860
		4,340	65,433	4,700	64,860
Current assets					
Inventories	13	134	–	120	–
Trade and other receivables	14	633	27,500	932	17,055
Income tax asset		1,210	–	870	–
Short-term investments and cash on deposit	15	5,791	–	6,176	1,500
Cash and cash equivalents	15	6,391	3,733	3,768	2,902
		14,159	31,233	11,866	21,457
Total assets		18,499	96,666	16,566	86,317
Liabilities					
Current liabilities					
Trade and other payables	16	1,448	–	1,951	–
Financial liabilities	17	63	–	63	–
		1,511	–	2,014	–
Non-current liabilities					
Financial liabilities	17	95	–	158	–
Other payables	16	–	450	–	450
		95	450	158	450
Total liabilities		1,606	450	2,172	450
Net assets		16,893	96,216	14,394	85,867
Capital and reserves					
Issued equity capital	18	37,791	115,659	28,054	105,922
Share-based payment reserve	19	1,826	1,826	1,253	1,253
Merger reserve	20	(1,242)	–	(1,242)	–
Capital redemption reserve	20	–	4,402	–	4,402
Revenue reserve	21	(21,482)	(25,671)	(13,671)	(25,710)
Total equity		16,893	96,216	14,394	85,867

Approved by the Board and authorised for issue on 13 October 2014.

The notes on pages 39 to 60 form an integral part of these financial statements.



Michael Edelman
Chief Executive Officer

13 October 2014

+ CASH FLOW STATEMENTS for the year ended 31 July 2014

	Notes	31 July 2014 Group £000	31 July 2014 Company £000	31 July 2013 Group £000	31 July 2013 Company £000
(Loss)/profit before interest and tax		(9,249)	(17)	(5,322)	15
Adjustments for:					
Depreciation of tangible fixed assets	10	1,181	–	901	–
Amortisation of intangible assets	11	209	–	152	–
Share-based payments	19	573	–	870	–
Changes in working capital:					
Increase in inventories		(14)	–	(41)	–
Decrease/(increase) in trade and other receivables		256	–	(130)	–
(Decrease)/increase in trade and other payables		(510)	–	384	–
Increase/(decrease) in deferred revenue		7	–	(1,823)	–
Cash (outflow)/inflow from operating activities		(7,547)	(17)	(5,009)	15
Research and development tax credit received		918	–	704	–
Overseas corporation tax paid		(9)	–	–	–
Net cash (outflow)/inflow from operating activities		(6,638)	(17)	(4,305)	15
Cash flows from investing activities					
Purchases of tangible fixed assets	10	(494)	–	(1,775)	–
Purchases of intangible fixed assets	11	(536)	–	(340)	–
Cash advance to subsidiary		–	(10,445)	–	(104)
Decrease in cash placed on deposit	15	385	1,500	4,943	500
Interest paid	7	(5)	–	(6)	–
Interest received		237	56	246	81
Net cash (outflow)/inflow from investing activities		(413)	(8,889)	3,068	477
Cash flows from financing activities					
Proceeds from issues of ordinary share capital		10,000	10,000	714	714
Expenses on issue of shares	18	(263)	(263)	–	–
Loan repayment		(63)	–	(64)	–
Net cash inflow from financing activities		9,674	9,737	650	714
Increase/(decrease) in cash and cash equivalents		2,623	831	(587)	1206
Cash and cash equivalents at the start of the year		3,768	2,902	4,355	1,696
Cash and cash equivalents at the end of the year		6,391	3,733	3,768	2,902
Monies placed on deposit at the end of the year		5,791	–	6,176	1,500
Cash, cash equivalents and deposits at the end of the year	15	12,182	3,733	9,944	4,402

The notes on pages 39 to 60 form an integral part of these financial statements.

⊕ NOTES TO THE FINANCIAL STATEMENTS

for the year ending 31 July 2014

1. Reporting entity

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

These Group financial statements consolidate those of the Company and its subsidiaries (together referred to as the 'Group' and individually as 'Group entities') for the year ended 31 July 2014.

The financial statements of Nanoco Group PLC and its subsidiaries (the 'Group') for the year ended 31 July 2014 were authorised for issue by the Board of Directors on 13 October 2014 and the Statement of Financial Position was signed on the Board's behalf by Dr Michael Edelman.

The Company has elected to take the exemption under section 408 of the Companies Act 2006 not to present the parent company's Statement of Comprehensive Income. The parent company's result for the period ended 31 July 2014 was a profit of £39,000 (2013: profit of £96,000).

The significant accounting policies adopted by the Group are set out in note 3.

2. Basis of preparation

(a) Statement of compliance

The Group'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 2014.

(b) Basis of measurement

The parent company and Group financial statements have been prepared on the historical cost basis except for all derivative contracts being carried at their fair value.

The methods used to measure fair values of assets and liabilities are discussed in the respective notes in note 3 below.

(c) Going concern

The Chairman's and Chief Executive Officer's Review on pages 14 to 17 outlines the business activities of the Group along with the factors which may affect its future development and performance. The Group's financial position is discussed in the Financial Review on pages 18–19 along with details of its cash flow and liquidity. Note 23 to the financial statements sets out the Group's financial risks and the management of those risks.

Having prepared management forecasts and made appropriate enquiries, the Directors are satisfied that the Group has adequate resources for the foreseeable future. Accordingly they have continued to adopt the going concern basis in preparing the Group and Company financial statements.

(d) Functional and presentational currency

These financial statements are presented in pounds sterling, which is the Company's functional currency. All financial information presented has been rounded to the nearest thousand.

(e) Use of estimates and judgements

The preparation of financial statements requires management to make estimates and judgements that affect the amounts reported for assets and liabilities as at the reporting 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 judgements 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 judgements are reasonable, by their nature they are uncertain and, as such, changes in estimates and judgements 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.

- **Equity-settled share-based payments**

The determination of share-based payment costs requires: the selection of an appropriate valuation method; consideration as to the inputs necessary for the valuation model chosen; judgement regarding when and if performance conditions will be met; and the estimation of the number of awards that will ultimately vest. Inputs required for this arise from judgements relating to the future volatility of the share price of Nanoco and 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. The share-based payment expense is most sensitive to vesting assumptions and to the future volatility of the future share price factor. Further information is included in note 3.

⊕ NOTES TO THE FINANCIAL STATEMENTS

CONTINUED

for the year ending 31 July 2014

2. Basis of preparation continued

(e) Use of estimates and judgements (continued)

• Taxation

Management judgement is required to determine the amount of tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with an assessment of the effect of future tax planning strategies. The carrying value of the unrecognised tax losses at 31 July 2014 was £3,070,000 (2013: £2,171,000). The value of the additional deferred tax asset not recognised at the year-end is £18,000 (2013: nil). Further information is included in note 8.

• Research and development

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 until such time as technical viability has been proven and commercial supply agreements are likely to be achieved. Judgements are based on the information available at each reporting 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. Further information is included in note 3.

• Revenue recognition

Judgements are required as to whether and when contractual milestones have been achieved and in turn the period over which development revenue should be recognised. Management judgements are similarly required to determine whether services or rights under licence agreements have been delivered so as to enable licence revenue to be recognised. Further information is included in note 3.

3. Significant accounting policies

The accounting policies set out below are consistent with those of the previous financial year and are applied consistently by Group entities.

The Group financial statements are presented in sterling and all values are rounded to the nearest thousand pounds except where otherwise indicated.

(a) 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.

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies. All Nanoco Group PLC's subsidiaries are 100% owned. 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 in the cost of acquisition below the fair value of identifiable net assets acquired (ie, discount on acquisition) is recognised directly in the Consolidated Statement of Comprehensive Income.

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.

(b) Foreign currency transactions

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 reporting date. All differences are taken to the Consolidated Statement of Comprehensive Income.

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.

(c) Segmental reporting

An operating segment is a component of an entity that engages in business activities from which it may earn revenues and incur expenses, whose operating results are regularly reviewed by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available. As at the reporting date the Company operated with only a single segment.

3. Significant accounting policies (continued)

(d) 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, material supply and licence agreements and revenue from the sale of CFQD® quantum dot products.

Revenues received in advance of work performed, from development programmes, are recognised on a straight-line basis over the period that the development work is being performed as measured by contractual milestones. Revenue is not recognised where there is uncertainty regarding the achievement of such milestones and where, either revenue has not been paid, or where the customer has the right to recoup advance payments.

Contractual payments received from licence agreements are recognised as revenue when goods, services or rights and entitlements are supplied or when contractual rights for the customer to recoup such payments have lapsed.

Revenue from the sale of products is recognised at the point of transfer of risks and rewards of ownership which is generally on shipment of product.

(e) 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 recognised as (rendering of services) revenue in the Consolidated Statement of Comprehensive Income 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.

(f) Research and development

Research costs are charged in the Consolidated Statement of Comprehensive Income as they are incurred. Development costs will be capitalised as intangible assets when it is probable that 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 will be reviewed for impairment at each reporting date based on the circumstances at the reporting date.

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.

Development costs are currently charged against income as incurred since the criteria for their recognition as an asset are not met.

(g) Lease payments

Rentals 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 Consolidated Statement of Comprehensive Income on a straight-line basis over the expected lease term.

Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

(h) Finance income and expense

Finance income comprises interest income on funds invested and changes in the fair value of financial assets at fair value through the Consolidated Statement of Comprehensive Income. Interest income is recognised as interest accrues using the effective interest rate method.

Finance expense comprises interest expense on borrowings, changes in the fair value of financial assets at fair value through the Consolidated Statement of Comprehensive Income, impairment losses recognised on financial assets and losses on hedging instruments that are recognised in the Consolidated Statement of Comprehensive Income. All borrowing costs are recognised using the effective interest method.

⊕ NOTES TO THE FINANCIAL STATEMENTS

CONTINUED

for the year ending 31 July 2014

3. Significant accounting policies (continued)

(i) Income tax

Income tax expense comprises current and deferred tax. Income tax expense is recognised in the Consolidated Statement of Comprehensive Income except to the extent that it relates to items recognised directly in equity or in other comprehensive income.

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 reporting date.

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 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 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.

(j) Tangible fixed assets

Tangible fixed assets are 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 costs 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 remainder of lease period
Fixtures and fittings	–	straight line over five years
Office equipment	–	straight line over three years
Plant and machinery	–	straight line over five years

The carrying values of tangible fixed assets are reviewed for impairment if events or changes in circumstances indicate that 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.

A tangible fixed asset item is de-recognised 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 de-recognition of the asset is included in the Consolidated Statement of Comprehensive Income in the period of de-recognition.

(k) 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. This includes the costs associated with acquiring and registering patents in respect of intellectual property rights.

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 10 years
---------	---	-----------------------------

(l) 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.

3. Significant accounting policies (continued)

(l) Impairment of assets (continued)

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 of disposal, 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 Consolidated Statement of Comprehensive Income in those expense categories consistent with the function of the impaired asset.

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 Consolidated Statement of Comprehensive Income unless the asset is carried at re-valued 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.

The carrying values of plant, equipment and intangible assets as at the reporting date have not been subjected to impairment charges.

(m) Investments in subsidiaries

Investments in subsidiaries are stated in the Company Statement of Financial Position at cost less provision for any impairment.

(n) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost based on latest contractual prices 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.

(o) 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 Consolidated Statement of Comprehensive Income within administrative expenses.

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

(p) Cash, cash equivalents and short-term investments

Cash and cash equivalents comprise cash at hand and deposits with maturities of three months or less. Short-term investments comprise deposits with maturities of more than three months, but no greater than 12 months.

(q) Trade and other payables

Trade and other payables are non-interest bearing and are initially recognised at fair value. They are subsequently measured at amortised cost using the effective interest rate method.

(r) Borrowings

Borrowings are recognised when the Group becomes party to 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 12 months after the reporting date.

Costs of borrowing funds are expensed in the period in which they occur.

⊕ NOTES TO THE FINANCIAL STATEMENTS

CONTINUED

for the year ending 31 July 2014

3. Significant accounting policies (continued)

(s) 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 Consolidated Statement of Comprehensive Income, 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.

There were no provisions at 31 July 2014 (2013: Nil).

(t) Financial assets and liabilities

Financial assets and liabilities are recognised when the Group becomes party to the contracts that give rise to them and are classified as financial assets and liabilities at fair value through the Consolidated Statement of Comprehensive Income. The Group determines the classification of its financial assets and liabilities at initial recognition and re-evaluates this designation at each financial year end.

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

At the year end, the Group had no financial assets or liabilities designated at fair value through the Consolidated Statement of Comprehensive Income (2013: £nil).

(u) Share capital

Proceeds on issue of shares are included in shareholders' equity, net of transaction costs. The carrying amount is not re-measured in subsequent years.

(v) Shares held by the Employee Benefit Trust

The Employee Benefit Trust is consolidated in the financial statements and the shares are reported as treasury shares in the Group's Statement of Financial Position. Shares are treated as though they had been cancelled when calculating earnings per share until such time that the shares are exercised. The Employee Benefit Trust is treated similarly in the financial statements of the parent company.

(w) Share-based payments

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 a suitable option pricing model.

At each reporting 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 reporting date is recognised in the Consolidated Statement of Comprehensive Income, 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 via the share-based payment reserve.

(x) Defined contribution pension scheme

The Group operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the Company in an independently administered fund. The amounts charged against profits represent the contributions payable to the scheme in respect of the accounting period.

3. Significant accounting policies (continued)

(y) New accounting standards and interpretations

The following new and amended IFRS, IAS and IFRIC interpretations were mandatory for accounting periods ending 31 July 2014 and thereafter, but have no material effect on the Group's financial statements.

- IFRS 1 Government Loans (Amendments)
- IFRS 7 Disclosures – Offsetting Financial Assets and Financial Liabilities (Amendments)
- IFRS 13 Fair Value Measurements
- Annual improvements to IFRSs 2009 to 2011 cycle

A number of new standards, amendments to standards and interpretations are effective for annual periods ending 31 July 2015 or thereafter and have not been applied in preparing these consolidated financial statements and those that are relevant to the Group are summarised below. None of these are expected to have a significant effect on the consolidated financial statements of the Group in the period of initial application.

The following standards and interpretations have an effective date after the date of these financial statements.

	Effective date
IFRS 10 Consolidated Financial Statements, IAS 27 Separate Financial Statements	1 January 2014
IFRS 11 Joint Arrangements, IAS 28 Investments in Associates and Joint Ventures	1 January 2014
IFRS 12 Disclosure of Interests in Other Entities	1 January 2014
IFRS 11 Accounting for Acquisitions of Interests in Joint Operations	1 January 2016
IFRS 15 Revenue from Contracts with Customers	1 January 2017
IFRS 9 Financial Instruments (issued in 2013)	1 January 2018
IAS 32 Offsetting Financial Assets and Financial Liabilities (Amendments)	1 January 2014
IAS 36 Recoverable Amount Disclosures for Non-Financial Assets (Amendments)	1 January 2014
IAS 39 Novation of Derivatives and Continuation of Hedge Accounting (Amendments)	1 January 2014
IAS 27 Equity Method in Separate Financial Statements (Amendments)	1 January 2016
IAS 16 and IAS 38 Clarification of Acceptable Methods of Depreciation and Amortisation	1 January 2016
Annual Improvements to IFRSs 2010 to 2012 Cycle	1 July 2014
Annual Improvements to IFRSs 2011 to 2013 Cycle	1 July 2014

* At the date of authorisation of these financial statements, these standards and interpretation have not yet been endorsed or adopted by the EU.

The effective dates stated above for IFRS 10, 11, 12, IAS 27 Separate Financial Statements and IAS 28 are based on the date of European Union (EU) adoption. As the Group prepares its financial statements in accordance with IFRS as adopted by the EU, 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.

+ NOTES TO THE FINANCIAL STATEMENTS

CONTINUED

for the year ending 31 July 2014

4. Segmental information

Operating segments

At 31 July 2014 the Group operated as one segment, being the provision of high performance nano-particles for research and development purposes. This is the level at which operating results are reviewed by the chief operating decision maker (the CEO) to make decisions about resources, and for which financial information is available. All revenues have been generated from continuing operations and are from external customers.

	31 July 2014 £000	31 July 2013 £000
Analysis of revenue		
Products sold	178	110
Rendering of services	1,255	2,116
Royalties and licences	–	1,702
	1,433	3,928

Included within rendering of services is revenue from one material customer amounting to £754,000 (2013: two material customers amounting to £1,573,000) and £184,000 (2013: £283,000) from government grants. During the year ended 31 July 2013 revenue from royalties and licences comprised two customers.

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

	31 July 2014 £000	31 July 2013 £000
Revenue		
UK	159	254
Europe (excluding UK)	26	42
Asia	1,139	2,854
USA	109	778
	1,433	3,928

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

5. Operating loss

	31 July 2014 £000	31 July 2013 £000
The Group		
Operating loss is stated after charging/(crediting):		
Depreciation of tangible fixed assets (see note 10)	1,181	901
Amortisation of intangible assets (see note 11)	209	152
Staff costs (see note 6)	5,107	4,336
Foreign exchange losses/(gains)	4	(13)
Research and development expense**	5,177	4,068
Cost of inventories recognised as an expense (included in cost of sales)	1,561	1,272
Operating lease rentals (see note 22):		
Land and buildings	674	614
Auditor's remuneration:		
Audit services:		
– Fees payable to Company auditor for the audit of the parent and the consolidated accounts	10	10
Fees payable to Company auditor for other services:		
– Auditing the accounts of subsidiaries pursuant to legislation	19	18
– Other services	2	3
Total auditor's remuneration	31	31

** Included within research and development expense are staff costs totalling £3,452,000 (2013: £2,666,000) also included in note 6.

6. Staff costs

	31 July 2014 £000	31 July 2013 £000
Wages and salaries	3,777	2,960
Social security costs	424	296
Pension contributions	333	210
Share-based payments	573	870
	5,107	4,336

Directors' remuneration (including benefits-in-kind) included in the aggregate remuneration above comprised:

Emoluments for qualifying services	879	1,228
------------------------------------	-----	-------

Directors' emoluments (excluding social security costs, but including benefits in kind) disclosed above include £359,000 paid to the highest paid director (2013: £736,000).

Aggregate gains made by directors during the year following the exercise of share options and jointly owned EBT shares were £nil (2013: £3,198,000).

An analysis of the highest paid director's remuneration is included in the Directors' Remuneration Report.

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

	31 July 2014 Number	31 July 2013 Number
The Group		
Directors	7	7
Laboratory and administrative staff	97	73
	104	80

7. Finance income and expense

	31 July 2014 £000	31 July 2013 £000
The Group		
Finance income:		
Bank interest receivable	194	286
Finance expense:		
Loan interest payable	(5)	(6)
	189	280

Bank interest receivable includes £25,000 (2013: £68,000) which is receivable after the year end.

⊕ NOTES TO THE FINANCIAL STATEMENTS

CONTINUED

for the year ending 31 July 2014

8. Income tax

The tax credit is made up as follows:

The Group	31 July 2014 £000	31 July 2013 £000
Current income tax:		
UK corporation tax losses in the year	–	–
Research and development income tax credit receivable	(1,210)	(870)
Adjustment in respect of prior years	(48)	(50)
Overseas corporation tax	9	–
Total current income tax	(1,249)	(920)

The tax assessed for the year varies from the standard rate of corporation tax as explained below:

The Group	31 July 2014 £000	31 July 2013 £000
Loss on ordinary activities before taxation	(9,060)	(5,042)
Tax at standard rate of 22.33% (2013: 23.67%)	(2,023)	(1,193)
Effects of:		
Expenses not deductible for tax purposes	43	207
Movement in unprovided deferred tax	–	(236)
Additional reduction for research and development expenditure	(1,390)	(1,121)
Surrender of research and development relief for repayable tax credit	2,471	1,972
Research and development tax credit receivable	(1,210)	(870)
Share options exercised (CTA 2009 Pt 12 deduction)	–	(509)
Overseas corporation tax paid	9	–
Tax losses carried forward	899	880
Adjustment in respect of prior years	(48)	(50)
Tax credit in income statement	(1,249)	(920)

Reductions of the main rate of corporation tax from 23% to 21% from 1 April 2014 and to 20% from 1 April 2015 were substantively enacted on 2 July 2013. The changes in tax rate are not considered to have had a material impact.

The Group has accumulated losses available to carry forward against future trading profits of £15.3m (2013: £12.0m).

The estimated value of the deferred tax asset, measured at a standard rate of 20% (2013: 20%) is £3,070,000 (2013: £2,391,000), of which £nil (2013: £220,000) has been recognised. Remaining tax losses have not been recognised as an asset as it is not probable that future taxable profits will be available against which the unused tax losses can be utilised.

The Group has a deferred tax asset for share-based payments, for which the tax, measured at a standard rate of 21% (2013: 21%) is £464,000 (2013: £361,000); a further £18,000 has not been recognised as an asset as the transfer of economic benefits in the future is uncertain (2013: nil).

The Group also has a deferred tax liability being accelerated capital allowances, for which the tax, measured at a standard rate of 20% (2013: 20%) is £464,000 (2013: £581,000).

9. Earnings per share

The Group	31 July 2014 £000	31 July 2013 £000
Loss for the financial year attributable to equity shareholders	(7,811)	(4,122)
Share-based payments	573	870
Loss for the financial year before share-based payments	(7,238)	(3,252)
Weighted average number of shares:		
Ordinary shares in issue	214,248,996	205,826,395
Adjusted loss per share before share-based payments (pence)	(3.38)	(1.58)
Basic loss per share (pence)	(3.65)	(2.00)

Diluted loss per share has not been presented above as the effect of share options issued is anti-dilutive.

10. Tangible fixed assets

The Group	Laboratory infrastructure £000	Office equipment, fixtures and fittings £000	Plant and machinery £000	Total £000
Cost:				
At 31 July 2012	2,029	343	2,689	5,061
Additions	402	71	1,302	1,775
Disposals	–	(24)	–	(24)
At 31 July 2013	2,431	390	3,991	6,812
Additions	70	35	389	494
Disposals	–	(117)	–	(117)
At 31 July 2014	2,501	308	4,380	7,189
Depreciation:				
At 31 July 2012	965	234	1,266	2,465
Provided during the year	309	61	531	901
Disposals	–	(24)	–	(24)
At 31 July 2013	1,274	271	1,797	3,342
Provided during the year	371	75	735	1,181
Eliminated on disposal	–	(117)	–	(117)
At 31 July 2014	1,645	229	2,532	4,406
Net book value:				
At 31 July 2014	856	79	1,848	2,783
At 31 July 2013	1,157	119	2,194	3,470

⊕ NOTES TO THE FINANCIAL STATEMENTS

CONTINUED

for the year ending 31 July 2014

11. Intangible assets

The Group	Patents £000
Cost:	
At 31 July 2012	1,394
Additions	340
At 31 July 2013	1,734
Additions	536
At 31 July 2014	2,270
Amortisation:	
At 31 July 2012	352
Provided during the year	152
At 31 July 2013	504
Provided during the year	209
At 31 July 2014	713
Net book value:	
At 31 July 2014	1,557
At 31 July 2013	1,230

Intangible assets are amortised on a straight-line basis over ten years. Amortisation provided during the period is recognised in administrative expenses. The Group does not believe that any of its patents in isolation is material to the business.

12. Investment in subsidiaries

The Company	Shares £000	Loans £000	Loan impairment £000	Total £000
At 31 July 2012	63,235	21,041	(20,286)	63,990
Increase in respect of share-based payments	–	870	–	870
At 31 July 2013	63,235	21,911	(20,286)	64,860
Increase in respect of share-based payments	–	573	–	573
At 31 July 2014	63,235	22,484	(20,286)	65,433
By subsidiary				
Nanoco Tech Limited	63,235	–	–	63,235
Nanoco Life Sciences Limited	–	20,286	(20,286)	–
Nanoco Technologies Limited	–	2,198	–	2,198
At 31 July 2014	63,235	22,484	(20,286)	65,433

Loans to subsidiary undertakings carry no interest and are repayable on demand. Further information in relation to these loans is given in note 24.

Subsidiary undertakings	Country of incorporation	Principal activity	Share of issued ordinary share capital	
			31 July 2014	31 July 2013
Nanoco Life Sciences Limited (formerly Evolutec Limited)	England and Wales	Research and development	100%	100%
Nanoco Tech Limited	England and Wales	Holding company	100%	100%
Nanoco Technologies Limited*	England and Wales	Research and develop nano particles	100%	100%
Nanoco US Inc**	USA	Management services	100%	100%

With the exception of the companies noted below all other shareholdings are owned by Nanoco Group PLC.

* Share capital is owned by Nanoco Tech Limited.

** Nanoco US Inc is a wholly-owned subsidiary of Nanoco Tech Limited. It was formed in July 2013 primarily in order to provide the services of US located staff to the rest of the Group.

13. Inventories

	31 July 2014 Group £000	31 July 2014 Company £000	31 July 2013 Group £000	31 July 2013 Company £000
Raw materials and consumables	134	–	120	–

14. Trade and other receivables

	31 July 2014 Group £000	31 July 2014 Company £000	31 July 2013 Group £000	31 July 2013 Company £000
Trade receivables	116	–	114	–
Prepayments	375	–	446	–
Inter-company short-term loan to subsidiary	–	27,500	–	17,055
Other receivables	142	–	372	–
	633	27,500	932	17,055

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

Trade receivables are denominated in the following currency:

	31 July 2014 Group £000	31 July 2014 Company £000	31 July 2013 Group £000	31 July 2013 Company £000
US Dollars	116	–	114	–

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

	Total £000	Neither past due nor impaired £000	Past due but not impaired >90 days £000	Past due but not impaired 120 to 150 days £000
2014	116	89	18	9
2013	114	114	–	–

15. Cash, cash equivalents and deposits

	31 July 2014 Group £000	31 July 2014 Company £000	31 July 2013 Group £000	31 July 2013 Company £000
Short-term investments and cash on deposit	5,791	–	6,176	1,500
Cash and cash equivalents	6,391	3,733	3,768	2,902
	12,182	3,733	9,944	4,402

Under IAS 7, cash held on long-term deposits (being deposits with maturity of greater than three months and no more than twelve months) that cannot readily be converted into cash has been classified as a short-term investment. The maturity on this investment was less than twelve months at the reporting date.

Cash and cash equivalents at 31 July 2014 include deposits with original maturity of three months or less of £6,391,000 (2013: £3,768,000).

An analysis of cash, cash equivalents and deposits by denominated currency is given in note 23.

⊕ NOTES TO THE FINANCIAL STATEMENTS

CONTINUED

for the year ending 31 July 2014

16. Trade and other payables

	31 July 2014 Group £000	31 July 2014 Company £000	31 July 2013 Group £000	31 July 2013 Company £000
Current				
Current payables	760	–	1,277	–
Other payables	98	–	109	–
Deferred revenue	119	–	112	–
Accruals	471	–	453	–
	1,448	–	1,951	–
Non-current				
Long-term loan from subsidiary	–	450	–	450
	–	450	–	450

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

17. Financial liabilities

	31 July 2014 Group £000	31 July 2014 Company £000	31 July 2013 Group £000	31 July 2013 Company £000
Other loan:				
Current	63	–	63	–
Non-current	95	–	158	–
	158	–	221	–

The directors consider that the carrying amount of financial liabilities approximate to their fair value, in so far as this is an arm's length transaction taken out at a market rate of interest.

The loan is unsecured, bears interest at 2% above base rate, is repayable in quarterly instalments and will be fully repaid in 2017.

18. Issued equity capital

The Group	Number	Share capital £000	Share premium £000	Reverse acquisition reserve £000	Total £000
Authorised ordinary shares of 10p:					
At 31 July 2012, 31 July 2013 and 31 July 2014	250,000,000	25,000	–	–	25,000
Allotted, called up and fully paid ordinary shares of 10p:					
As at 31 July 2012	207,384,167	20,738	84,509	(77,772)	27,475
Shares issued on exercise of options	2,776,842	278	397	(96)	579
As at 31 July 2013	210,161,009	21,016	84,906	(77,868)	28,054
Shares issued in placing	6,369,427	637	9,363	–	10,000
Expenses of placing	–	–	(263)	–	(263)
As at 31 July 2014	216,530,436	21,653	94,006	(77,868)	37,791

The balances classified as share capital and share premium include the total net proceeds (nominal value and share premium respectively) on issue of the Company's equity share capital, comprising 10 pence ordinary shares.

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 which was reported in the year ended 31 July 2009. 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.

18. Issued equity capital (continued)

Shares issued on exercise of options

No shares were issued on the exercise of options during the year (2013: 2,776,842 shares with an average exercise price of 20.86 pence were issued resulting in share proceeds of £579,000).

During the year ended 31 July 2013, options exercised included certain options which had an exercise price that was less than the nominal value of shares issued (see note 20).

The Company raised gross proceeds of £10,000,000 from a placing on 15 October 2013 through the issue of 6,369,427 new ordinary shares at an issue price of 157 pence per share. Issue costs associated with the placing totalled £263,000.

The Company	Number	Share capital £000	Share premium £000	Total £000
Authorised ordinary shares of 10p:				
At 31 July 2012, 31 July 2013 and 31 July 2014	250,000,000	25,000	–	25,000
Allotted, called up and fully paid ordinary shares of 10p:				
As at 31 July 2012	207,384,167	20,738	84,509	105,247
Shares issued on exercise of options	2,776,842	278	397	675
As at 31 July 2013	210,161,009	21,016	84,906	105,922
Shares issued in placing	6,369,427	637	9,363	10,000
Expenses of placing	–	–	(263)	(263)
As at 31 July 2014	216,530,436	21,653	94,006	115,659

19. Share-based payment reserve

The Group and Company	£000
At 31 July 2012	851
Share-based payments	870
Issue of shares by EBT	(468)
At 31 July 2013	1,253
Share-based payments	573
At 31 July 2014	1,826

The share-based payment reserve accumulates the corresponding credit entry in respect of share-based payment charges. Movements in the reserve are disclosed in the Consolidated Statement of Changes in Equity.

A charge of £573,000 has been recognised in the Statement of Comprehensive Income for the year (2013: £870,000).

Share option schemes

The Group operates the following share option schemes all of which are operated as Enterprise Management Incentive ('EMI') schemes in so far as the share options being issued meet the EMI criteria as defined by HM Revenue & Customs. Share options issued that do not meet EMI criteria are issued as unapproved share options, but are subject to the same exercise performance conditions.

Nanoco Tech Share Incentive Plan

Share options issued under the Nanoco Tech Share Incentive Plan had been issued to staff who were employed by Nanoco Tech Limited in the period from 1 September 2006 up to the date of the reverse take-over on 1 May 2009. These options were conditional on achievement of share price performance criteria and either a sale or listing of the Company. All of the relevant vesting conditions have been successfully met and options are capable of being exercised at any time from 1 August 2010 to 31 August 2016. Following the reverse take-over the number of share options in issue were increased in line with the terms of the reverse acquisition by a factor of 4.55 times and the exercise price decreased by 4.55 times. This was reflected as a reverse acquisition adjustment in the 2009 accounts.

Nanoco Group PLC Long Term Incentive Plan ('LTIP')

– Grant in November 2011

Share options were granted to staff and executive directors on 25 November 2011. The options granted to executive directors were subject to commercial revenue targets being achieved over a three-year period from the date of grant. The exercise price was set at 50 pence, being the average closing share price on the day preceding issue of the share options. The fair value benefit is measured using a binomial model, taking into account the terms and conditions upon which the share options were issued. Share options issued to staff vest over a three-year period from the date of grant but are not subject to performance conditions.

⊕ NOTES TO THE FINANCIAL STATEMENTS

CONTINUED

for the year ending 31 July 2014

19. Share-based payment reserve (continued)

– Grant in October 2012

Share options were granted to staff and executive directors on 22 October 2012. The options granted to executive directors were subject to commercial revenue targets being achieved over a three-year period from the date of grant. The exercise price was set at 57 pence, being the average closing share price on the day preceding issue of the share options. The fair value benefit is measured using a binomial model, taking into account the terms and conditions upon which the share options were issued. Share options issued to staff vest over a three-year period from the date of grant but are not subject to performance conditions.

– Grant in May 2014

Share options were granted to certain staff on 23 May 2014. The exercise price was set at 89 pence, being the average closing share price on the day preceding issue of the share options. The fair value benefit is measured using a binomial model, taking into account the terms and conditions upon which the share options were issued. The options vest at the end of three years from the date of grant and are exercisable until the tenth anniversary of the award. The awards are not subject to performance conditions. Exercise of the award is subject to the employee remaining a full-time member of staff at the point of exercise. No options were granted to executive directors.

– Other awards

Share options are awarded to management and key staff as a mechanism for attracting and retaining key members of staff. The options are issued at either market price on the day preceding grant or in the event of abnormal price movements at an average market price for the week preceding grant date. These options vest over a three-year period from the date of grant and are exercisable until the tenth anniversary of the award. Exercise of the award is subject to the employee remaining a full time member of staff at the point of exercise. The fair value benefit is measured using a binomial valuation model, taking into account the terms and conditions upon which the share options were issued.

Shares held in the Employee Benefit Trust ('EBT')

The Group 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 agreements ('JOA'). Subject to meeting the performance criteria conditions set out in the JOA, the employees are able to exercise an option to acquire the trustee's interests in the jointly owned EBT shares at the option price. The jointly owned EBT shares issued on 1 September 2006 had met the option conditions on 1 August 2010 and are capable of being exercised at any time until 31 August 2016.

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

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 and Company	Share options Number	EBT Number	2014 total Number	2013 total Number
Outstanding at 1 August	13,064,756	850,500	13,915,256	12,899,184
Granted during the year	444,000	–	444,000	8,260,000
Exercised during the year	–	–	–	(6,176,828)
Lapsed/cancelled	(135,000)	–	(135,000)	(1,067,100)
Outstanding at 31 July	13,373,756	850,500	14,224,256	13,915,256
Exercisable at 31 July	4,118,090	850,500	4,968,590	1,261,923

During the prior year ended 31 July 2013, options over 3,387,986 shares, jointly owned by the EBT and which had been issued at their original market value of £603,000, were exercised for an aggregate consideration of £135,000; the balance of £468,000 was charged to the share-based payment reserve.

Weighted average exercise price of options

The Group and Company	2014 Pence	2013 Pence
Outstanding at 1 August	56.8	34.3
Granted during the year	89.0	60.8
Exercised during the year	–	13.4
Forfeited/cancelled	113.2	95.6
Outstanding at 31 July	54.4	56.8

19. Share-based payment reserve (continued)

The weighted average fair value of options granted during the year to 31 July 2014 was 89 pence (2013: 61 pence). The range of exercise prices for options and jointly owned EBT shares outstanding at the end of the year was nil –146 pence, (2013: nil – 146 pence).

For the share options outstanding as at 31 July 2014, the weighted average remaining contractual life is 7.6 years (2013: 8.5 years).

No share options were exercised during the year (2013: the weighted average share price at the date of exercise for those share options exercised was 110 pence).

The following table lists the inputs to the models used for the years ended 31 July 2014 and 31 July 2013.

The Group and Company	Performance linked grants		Non-performance linked grants	
	2014	2013	2014	2013
Expected volatility (%)	n/a	50%–55%	56%	50%–55%
Risk-free interest rate (%)	n/a	0.8%	1.84%	0.7%–0.9%
Expected life of options (year's average)	n/a	2.5 years	3 years	2 years
Weighted average exercise price (pence)	n/a	61p	89.0	62.5p
Weighted average share price at date of grant (pence)	n/a	57p	89.0	62.5p
Model used	Binomial	Binomial	Binomial	Binomial

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 granted were incorporated into the measurement of fair value.

20. Merger reserve and capital redemption reserve

Merger reserve

The Group	£000
At 31 July 2012, 31 July 2013 and 31 July 2014	(1,242)

The merger reserve arises under section 612 of the Companies Act 2006 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.

Capital redemption reserve

The Company	£000
At 31 July 2012	4,498
Share options exercised at a discount to nominal value	(96)
At 31 July 2013	4,402
Share options exercised at a discount to nominal value	–
At 31 July 2014	4,402

The capital redemption reserve arises from the off-market purchase of deferred shares on 4 May 2005 and their subsequent cancellation.

Certain share options exercised during the year ended 31 July 2013 had an exercise price less than nominal value. The aggregate discount to nominal value on these options was £96,000 and was charged to the Company's capital redemption reserve and, on consolidation, to the Group's reverse acquisition reserve. The discount arose as a result of the formula agreed, at the time of the acquisition of Nanoco Tech Limited by the Company on 1 May 2009, for converting share options in Nanoco Tech Limited into equivalent share options in the Company. This accounting treatment was authorised at the AGM held on 16 December 2011.

⊕ NOTES TO THE FINANCIAL STATEMENTS

CONTINUED

for the year ending 31 July 2014

21. Movement in revenue reserve and treasury shares

The Group	Retained deficit £000	Treasury shares £000	Total revenue reserve £000
As at 31 July 2012	(9,155)	(997)	(10,152)
Issue of shares by EBT	–	603	603
Loss for the year	(4,122)	–	(4,122)
As at 31 July 2013	(13,277)	(394)	(13,671)
Loss for the year	(7,811)	–	(7,811)
As at 31 July 2014	(21,088)	(394)	(21,482)

No jointly owned EBT shares were granted during the year (2013: no shares).

No jointly owned EBT shares were exercised during the year. (2013: options over 3,387,986 shares, jointly owned by the EBT and which had been issued at their original market value of £603,000, were exercised for an aggregate consideration of £135,000; the balance of £468,000 is charged to the share-based payment reserve).

Retained deficit represents the cumulative loss attributable to the equity holders of the parent company.

Treasury shares include the value of Nanoco Group PLC shares issued as jointly-owned equity shares and held by the Nanoco Group sponsored Employee Benefit Trust ('EBT') jointly with a number of the Group's employees. At 31 July 2014 850,500 shares in the Company were held by the EBT (2013: 850,500). In addition there are 12,222 (2013: 12,222) treasury shares not held by the EBT.

The Company	Retained deficit £000	Treasury shares £000	Total revenue reserve £000
At 31 July 2012	(25,412)	(997)	(26,409)
Issue of shares by EBT	–	603	603
Profit for the year	96	–	96
At 31 July 2013	(25,316)	(394)	(25,710)
Profit for the year	39	–	39
At 31 July 2014	(25,277)	(394)	(25,671)

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 July 2014 Group £000	31 July 2013 Group £000
Land and buildings:		
Not later than one year	584	667
After one year but not more than five years	1,722	1,912
After five years	1,002	1,390
	3,308	3,969

23. Financial risk management

Overview

This note presents information about the Group's exposure to various kinds of financial risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital.

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The executive directors report regularly to the Board on Group risk management.

Capital risk management

The Company reviews its forecast capital requirements on a half-yearly basis 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, 19, 20 and 21 and in the Group Statement of Changes in Equity. Total equity was £16,893,000 at 31 July 2014 (£14,394,000 at 31 July 2013).

The Company is not subject to externally imposed capital requirements.

Liquidity risk

The Group's approach to managing liquidity is to ensure that, as far as possible, it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The Group manages all of its external bank relationships centrally in accordance with defined treasury policies. The policies include the minimum acceptable credit rating of relationship banks and financial transaction authority limits. Any material change to the Group's principal banking facility requires Board approval. The Group seeks to mitigate the risk of bank failure by ensuring that it maintains relationships with a number of investment grade banks.

At the reporting date the Group was cash positive with no outstanding borrowings, apart from a long-term loan which is being repaid on a quarterly basis in line with the terms of the loan agreement.

Categorisation of financial instruments

Financial assets/(liabilities)	Loans and receivables £000	Financial liabilities at amortised cost £000	Group £000	Company £000
31 July 2014				
Trade receivables	116	–	116	–
Inter-company short-term loan to subsidiary	–	–	–	27,500
Inter-company long-term loan from subsidiary	–	–	–	(450)
Cash, cash equivalents and deposits	12,182	–	12,182	3,733
Trade and other payables*	–	(858)	(858)	–
Financial liabilities	–	(158)	(158)	–
	12,298	(1,016)	11,282	30,783
31 July 2013				
Trade receivables	114	–	114	–
Inter-company short-term loan to subsidiary	–	–	–	17,055
Inter-company long-term loan from subsidiary	–	–	–	(450)
Cash, cash equivalents and deposits	9,944	–	9,944	4,402
Trade and other payables*	–	(1,386)	(1,386)	–
Financial liabilities	–	(221)	(221)	–
	10,058	(1,607)	8,451	21,007

* Excluding deferred revenue and accruals.

The values disclosed in the above table are carrying values. The Board considers that the carrying amount of financial assets and liabilities approximates to their fair value.

⊕ NOTES TO THE FINANCIAL STATEMENTS

CONTINUED

for the year ending 31 July 2014

23. Financial risk management (continued)

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 (note 17) are subject to interest at base rate plus 2%, however as the Group's cash deposits which attract interest at rates set for the period of the respective deposit, are of a greater amount, any increase in base rate and thus interest payable are more than offset by higher interest income.

Credit risk

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

The Group trades only with recognised, creditworthy third parties. Receivable balances are monitored on an on-going 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, which was neither past due nor impaired. All trade receivables are ultimately overseen by the Chief Financial Officer and are managed on a day-to-day basis by the UK credit control team. Credit limits are set as deemed appropriate for the customer.

The maximum exposure to credit risk in relation to cash, cash equivalents and deposits is the carrying value at the balance sheet date.

Foreign currency risk

The Group is exposed to currency risk on sales and purchases that are denominated in a currency other than the respective functional currency of the Company. These are primarily US Dollars (USD) and Euros. Transactions outside of these currencies are limited.

Almost all of the Company's revenue is denominated in USD. The Group purchases some raw materials, certain services and some assets in USD which partly offsets its USD revenue, thereby reducing net foreign exchange exposure.

The Group may use forward exchange contracts as an economic hedge against currency risk, where cash flow can be judged with reasonable certainty. Foreign exchange swaps and options may be used to hedge foreign currency receipts in the event that the timing of the receipt is less certain. There were no open forward contracts as at 31 July 2014 or at 31 July 2013.

The split of Group assets between Sterling and other currencies at the year-end is analysed as follows:

	31 July 2014			31 July 2013		
	GBP £000	USD £000	Total £000	GBP £000	USD £000	Total £000
The Group						
Cash, cash equivalents and deposits	12,032	150	12,182	9,813	131	9,944
Trade receivables	–	116	116	–	114	114
Trade payables	(629)	(131)	(760)	(1,024)	(253)	(1,277)
	11,403	135	11,538	8,789	(8)	8,781

Sensitivity analysis to movement in exchange rates

The following table demonstrates the sensitivity to a reasonably possible change in Sterling against the US Dollar exchange rate with all other variables held constant, on the Group's loss before tax (due to foreign exchange translation of monetary assets and liabilities) and the Group's equity.

Increase/(decrease) in Sterling vs. US Dollar rate %	Impact on loss before tax and Group equity 2014 £000	Impact on loss before tax and Group equity 2013 £000
10%	(12)	1
5%	(6)	1
(5)%	7	–
(10)%	15	(1)

23. Financial risk management (continued)

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:

	31 July 2014			31 July 2013		
	Fixed rate £000	Floating rate £000	Total £000	Fixed rate £000	Floating rate £000	Total £000
The Group						
Cash, cash equivalents and deposits	11,996	186	12,182	6,176	3,768	9,944
The Company						
Cash, cash equivalents and deposits	3,733	–	3,733	1,500	2,902	4,402

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

Maturity profile

Set out below is the maturity profile of the Group's financial liabilities at 31 July 2013 based on contractual undiscounted payments including contractual interest.

	Less than 1 year £000	1 to 5 years £000	Greater than 5 years £000	Total £000
2014				
Financial liabilities				
Trade and other payables*	858	–	–	858
Other loans (including contractual interest)	65	101	–	166
	923	101	–	1,024
2013				
Financial liabilities				
Trade and other payables*	1,386	–	–	1,386
Other loans (including contractual interest)	68	163	–	231
	1,454	163	–	1,617

* Excluding deferred revenue and accruals. Trade and other payables are due within three months.

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

As all financial assets are expected to mature within the next 12 months an aged analysis of financial assets has not been presented.

The Company's financial liability, a long-term loan from a subsidiary undertaking, is due after more than five years.

⊕ NOTES TO THE FINANCIAL STATEMENTS

CONTINUED

for the year ending 31 July 2014

24. Related party transactions**The Group:**

There were no sales to, purchases from, or at the year-end, balances with any related party.

The Company:

The following table summarises inter-company balances at the year-end between Nanoco Group PLC and subsidiary entities:

	Notes	31 July 2014 £000	31 July 2013 £000
Long-term loans owed to Nanoco Group PLC by:			
Nanoco Life Sciences Limited		20,286	20,286
Nanoco Technologies Limited*		2,198	1,625
	12	22,484	21,911
Less provision against debt owed by Nanoco Life Sciences Limited	12	(20,286)	(20,286)
		2,198	1,625
Short-term loan owed to Nanoco Group PLC by:			
Nanoco Technologies Limited**	14	27,500	17,055
Long-term loan owed by Nanoco Group PLC to:			
Nanoco Tech Limited	16	(450)	(450)

* The movement in the long-term loan due from Nanoco Technologies Limited relates to the recharge in respect of the expense for share-based payments for staff working for Nanoco Technologies Limited and is included in investments.

** The movement in the short-term loan due from Nanoco Technologies Limited relates to transfers of cash balances between the entities for the purposes of investing short-term funds and the funding of trading losses.

There are no formal terms of repayment in place for these loans and it has been confirmed by the directors that the long-term loans will not be recalled within the next 12 months.

None of the loans is interest bearing.

25. Compensation of key management personnel (including directors)

	2014 £000	2013 £000
Short-term employee benefits	624	549
Pension costs	204	97
Benefits in kind	64	468
Share-based payments	180	305
	1,072	1,419

⊕ NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the annual general meeting of Nanoco Group PLC will be held at The Core Technology Facility, 46 Grafton Street, Manchester, M13 9NT on 11 December 2014 at 10.30 a.m. for the purpose of considering and, if thought fit, passing the following resolutions, of which resolutions 1 to 9 will be proposed as ordinary resolutions and resolutions 10 and 11 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 2014, now laid before this meeting, be and are hereby approved.
2. That the Directors' Remuneration Report, on pages 26 to 28 of the Company's annual report, be and is hereby approved.
3. That Robin Williams, 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 Michael Edelman, who retires by rotation, be and is hereby re-elected as a director of the Company.
5. That Gordon Hall, who retires by rotation, be and is hereby re-elected as a director of the Company.
6. 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.
7. That the Board of directors be and is hereby authorised to agree the remuneration of the auditors.
8. That the aggregate limit on the fees paid to directors in any financial year be and is hereby increased to £250,000; this limit relates only to fees paid to directors for their services as directors, and not executive remuneration.
9. That in accordance with section 551 of the Companies Act 2006 (the '2006 Act'):
 - 9.1. 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 £7,217,681 (approximately one third of the Company's issued share capital at the date of this notice); and
 - 9.2. in addition to the authority granted pursuant to sub-paragraph 9.1, 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 £7,217,681 (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 treasury shares, 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 11 March 2016, 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, without prejudice to any allotments made pursuant to the terms of such authorities.

⊕ NOTICE OF ANNUAL GENERAL MEETING

CONTINUED

Special resolutions

10. That, conditionally upon the passing of resolution 9 above, in accordance with sections 570 and 573 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 9 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:
 - 10.1. 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 treasury shares, 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
 - 10.2. the allotment or sale of equity securities (otherwise than pursuant to sub-paragraph 10.1) for cash up to a maximum nominal value of £2,165,304 (approximately 10% of the Company's issued share capital at the date of this notice), and shall (unless previously revoked, varied or renewed) expire on the earlier of the date of the next annual general meeting and 11 March 2016, 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.
11. 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 of 10 pence provided that:
 - 11.1. the Company does not purchase more than 32,457,912.36 ordinary shares of 10 pence (approximately 14.99% of the Company's issued share capital at the date of this notice);
 - 11.2. the Company does not pay for any such ordinary share less than its nominal value at the time of purchase; and
 - 11.3. 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 of 10 pence 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 11 March 2016, save that the Company may before such expiry make a contract to purchase shares which will or may be executed wholly or partly after the expiry of such authority, and may make a purchase of shares in pursuance of any such contract, as if such authority had not expired.

By order of the Board

Colin White
Company Secretary
Registered office:
46 Grafton Street
Manchester
M13 9NT

13 October 2014

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 9 December 2014, 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 9 December 2014 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, Neville Registrars, Neville House, 18 Laurel Lane, Halesowen, B63 3DA; and
 - received by no later than 10.30 a.m. on 9 December 2014.

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 a 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, Neville Registrars, Neville House, 18 Laurel Lane, Halesowen, B63 3DA.

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 revoking your proxy appointment to the Company's registrars, Neville Registrars, Neville House, 18 Laurel Lane, Halesowen, B63 3DA. 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 no later than 24 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.

⊕ NOTICE OF ANNUAL GENERAL MEETING

CONTINUED

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: 7RA11) 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 Joss Little (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:
 - 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 2014. The full text of the report is contained on pages 26 to 28 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 5 – Re-election of directors

Although the Company is not bound to adhere to the UK Corporate Governance Code published by the Financial Reporting Council in June 2010 (the '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 Code as are appropriate to the size, nature and stage of development of the Company.

Therefore, in accordance with the 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 – Re-election of Robin Williams

Robin Williams, 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 his CV are on page 23 of the Company's annual report.

Resolutions 4 and 5 – Re-election of Michael Edelman and Gordon Hall

Each of Michael Edelman and Gordon Hall, retiring by rotation, offers himself for re-election, in accordance with the Company's articles of association. Details of their respective CV's are on pages 22 and 23 of the Company's annual report.

Resolution 6 – 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 7 – Remuneration of the auditors

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

Resolution 8 – Increase in cap on fees

The purpose of resolution 8 is to ask shareholders to approve an increase in the limit (applying under the articles of association of the Company) on the aggregate amount of fees to be paid to directors in any financial year from £150,000 to £250,000. This limit relates only to fees paid to directors for their services as directors, and not executive remuneration. The current limit was set in 2010 and the directors consider it necessary and appropriate to increase the limit to reflect the continuing development of the Company, the increased number of non-executive directors, and the need to recruit non-executive directors of appropriate experience and qualification and to remunerate them in line with current market practice.

Resolution 9 – Authority to allot shares

The purpose of resolution 9 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 9 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 10 pence each in the capital of the Company up to a maximum nominal amount of £7,217,681, being approximately one third of the nominal value of the ordinary shares in issue on 13 October 2014; and
- ii. in addition to the authority described above, to allot ordinary shares of 10 pence each in the capital of the Company up to a maximum nominal amount of £7,217,681 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 or 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. The directors have no present intention of allotting further shares, except in connection with the issue of shares under the Company's share option and long-term incentive plans.

Were the Company to use the relevant authorities and:

- the number of shares in issue increased, in aggregate, by more than one-third; and
- (as regards the use as a part of a rights issue) the proceeds of the relevant rights issue exceeded one-third (or the relevant specific proportion) of the pre-issue market capitalisation,

then those members of the Board wishing to remain in office would stand for re-election at the next annual general meeting.

⊕ NOTICE OF ANNUAL GENERAL MEETING

CONTINUED

Resolution 10 – 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 ordinary shares of 10 pence 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 10 pence each in the capital of the Company for cash up to a maximum aggregate nominal amount of £2,165,304 (representing approximately 10% of the nominal value of the ordinary shares in issue on 13 October 2014).

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 or 15 months after the date of the passing of the resolution.

The directors have no present intention of exercising the authority; they are seeking the authority, which is in accordance with current voting guidelines for AIM Companies issued by the National Association for Pension Funds, so as to be able to raise funds at short notice, where appropriate, from the issue of new share capital for the purpose of taking advantage of investment opportunities that may arise.

Resolution 11 – Purchase by the Company of its own Shares

The purpose of resolution 11 is to obtain the authority for the Company to make market purchases of 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 11 will be proposed as a special resolution to authorise the Company to purchase a maximum of 32,457,912.36 ordinary shares (equal to approximately 14.99% of the ordinary shares in issue on 13 October 2014) on AIM at a price per share of not less than 10 pence, 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 11) 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 or 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 admission to 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.

⊕ INVESTOR INFORMATION

Directors

Anthony Clinch	(Non-executive Chairman)
Dr Michael Edelman	(Chief Executive Officer)
Dr Nigel Pickett	(Chief Technology Officer)
Colin White	(Chief Financial Officer)
Keith Wiggins	(Chief Operating Officer)
Dr Peter Rowley	(Non-executive Director)
Gordon Hall	(Non-executive Director)
Robin Williams	(Non-executive Director)

Secretary

Colin White

Nominated Advisor and Joint Broker

Canaccord Genuity
 8th Floor
 88 Wood Street
 London EC2V 7QR

Joint Broker

Liberum Capital
 Ropemaker Place, level 12,
 25, Ropemaker Street
 London, EC2Y 9LY

Auditor

Ernst & Young LLP
 100 Barbirolli Square
 Manchester M2 3EY

Legal Adviser

Schofield Sweeney
 76 Wellington Street
 Leeds LS1 2AY

Investor Relations and PR Consultants

Buchanan Communications
 107 Cheapside
 London EC2V 6DN

Registrar

Neville Registrars
 Neville House
 18 Laurel Lane
 Halesowen B63 3DA

Registered Office

46 Grafton Street
 Manchester M13 9NT

Websites

www.nanocotechnologies.com
www.nanocogroup.com

NOTES



www.nanocotechnologies.com
www.nanocogroup.com