

Focused on delivery

NANOCO  
GROUP PLC

Annual Report and Accounts 2010

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

### Highlights of the Year

- Joint development agreement signed with major Japanese electronics company for LED backlighting of televisions
- Joint development agreement signed with Tokyo Electron for a photovoltaic film, marking our first agreement in the solar power sector
- Achievement of milestone payments in all our agreements, including a US\$2 million payment from a Japanese LED producer
- Significant progress towards mass production with new scale-up reactors commissioned in Manchester producing quality material
- Procurement of a new production facility in Runcorn, Cheshire
- Colin White appointed as new Chief Financial Officer
- Cash, cash equivalents and deposits of £5.68 million at 31 July 2010 (31 July 2009: £6.59 million)

# Contents

## Review of the Year

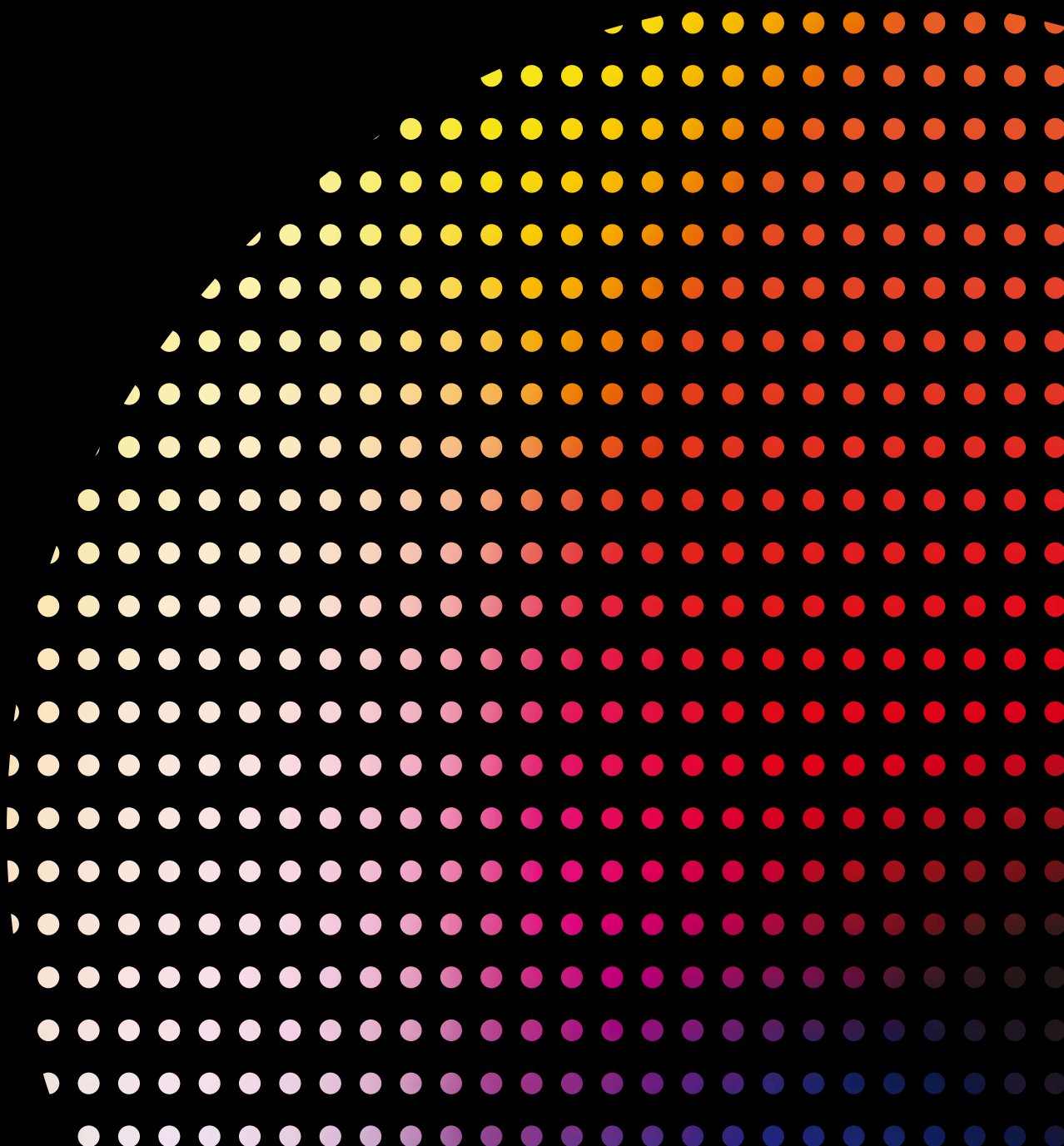
<b>IFC</b>	Highlights of the Year
<b>02</b>	Strategic Management
<b>04</b>	Chairman's Statement
<b>06</b>	Core Technology
<b>08</b>	Key Markets
<b>10</b>	CEO's Review of Operations
<b>12</b>	Financial Review
<b>14</b>	Delivering Production
<b>16</b>	Entering the Next Phase of Scale-up
<b>18</b>	Board of Directors

## Corporate Governance

<b>20</b>	Directors' Report
<b>22</b>	Directors' Remuneration Report
<b>24</b>	Corporate Governance Statement
<b>26</b>	Independent Auditors' Report

## Financial Statements

<b>27</b>	Consolidated Statement of Comprehensive Income
<b>28</b>	Consolidated Statement of Changes in Equity
<b>29</b>	Company Statement of Changes in Equity
<b>30</b>	Statement of Financial Position
<b>31</b>	Cash Flow Statements
<b>32</b>	Notes to the Financial Statements
<b>56</b>	Notice of Annual General Meeting
<b>IBC</b>	Investor Information



---

## Strategic Management

---

Technology innovation has a key role to play in the reduction in global carbon emissions and quantum dots are at the forefront of this innovation. Today the market for quantum dots is small but expected to grow rapidly to \$1bn by 2015.

---

### Focused on Delivery

---

---

## Vision

Our vision is to be the world's leading developer, manufacturer and supplier of quantum dots.

---

## Strategy

Our strategy is to work in close collaboration with corporations across the world to incorporate our quantum dots into their products.

---

## Objectives

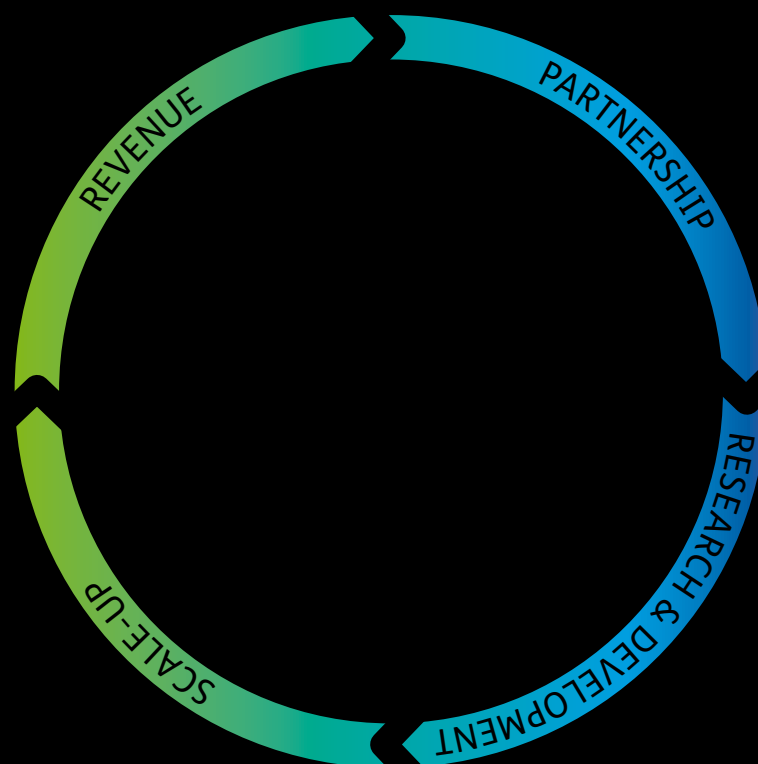
Our key objective is to utilise our unique ability to mass produce quantum dots free of heavy metals to meet the needs of our customers' end products.

---

## Priorities

Our highest priority is to commission our first large scale manufacturing facility to supply customers with high quality, heavy metal free quantum dots.

---



## Our Business Model

### 1. Partnership

Nanoco’s business is based on forming and maintaining strong partnerships with our customers. This involves fully understanding how our customers wish to use quantum dots in their products, the advantages that the quantum dots will bring to the product and initial ideas on how best to incorporate the quantum dots into the final product.

### 2. Research & Development

Nanoco invests significant research and development resource in the development and mass production of high quality quantum dots. These quantum dots are tuned to work with maximum efficiency in our customers’ products.

### 3. Scale-up

Following the successful development of the quantum dots, which conform to specific customer specifications, the materials move into the scale-up phase of manufacture. During scale-up the quantum dot manufacturing process is optimised and automated in order that they can be mass produced on large scale production reactors. Ensuring the materials are produced consistently with high production yields is critical to Nanoco’s success.

### 4. Revenue

Nanoco’s revenue comes from three sources: joint development where customers contribute to the modification of the quantum dots to their specific needs; materials sales; and finally licence royalties.

“The rapid progress at Nanoco since joining AIM in May 2009 has continued into the current year, which has started well. We are making substantial progress in developing our business, particularly in our manufacturing scale-up and in delivering on our commercial contracts.”



I am delighted to report that Nanoco's first full year as a publicly quoted company has been one of excellent progress across our business. It was a year during which we made significant headway in our commercial collaborations, in our manufacturing scale-up and in strengthening our management team.

Nanoco's key asset is its world-class patent-protected technology for the design, development and commercial manufacture of quantum dots and other nanomaterials, avoiding the use of heavy metals. Our intellectual property position has continued to strengthen during the year, with multiple patent filings to protect our core technology, innovative new materials and novel devices.

During the year we signed our first agreement in the solar power sector, with the major Japanese semiconductor production equipment supplier Tokyo Electron. Under this agreement we are using our nanomaterial technology to develop a highly efficient solar ink which will be printed to create a photovoltaic nanomaterial film.

Light-emitting diodes (LEDs), for use in televisions and in general lighting, remain the first market from which we expect commercial revenues. The television backlighting market moved significantly in our favour during the year. All of the major television manufacturers are now focusing on LEDs for television backlighting, in part because of the decision by California – the world's eighth largest economy – to introduce legislation demanding that television makers reduce the power consumption of televisions by 49% by 2013. LEDs with our quantum dots have the potential to achieve this target.

During the year we announced a second agreement, with another major Japanese company, in the LED sector and this has progressed very well with significant milestones already achieved. Good progress was also made with the first LED agreement signed in November 2008, with further milestones reached and we are on track to deliver our first commercial quantities early next calendar year. In parallel with the progress in our commercial collaborations we are pressing forward with scaling-up our production capability, both in Manchester and in a new facility in Runcorn.

### Financials

Our revenues in the year to 31 July 2010 were £2.94 million (2009: £1.99 million). Our loss before tax was £1.37 million (2009: £0.78 million). Cash, cash equivalents and deposits at the year-end were £5.68 million (31 July 2009: £6.59 million).

### People

The Nanoco team, most of whom are highly qualified scientists, grew to 49 people at the year end, reflecting the increased activity with existing and potential commercial partners and progress in manufacturing scale-up. The Board was strengthened with the appointment of Anthony Clinch, a highly experienced industrialist and financier, as a Non-Executive\*. Andrew Gooda, an experienced production engineer, was appointed as Manufacturing Director. Post the year end, we welcomed Colin White to the full-time role of Chief Financial Officer and, at the same time, Michael Bretherton, formerly part-time Chief Financial Officer, became a Non-Executive Director.

I would like to offer sincere thanks to all at Nanoco for their dedication and commitment throughout the year and to all our commercial partners for their contribution to the development of the Company.

### Outlook

The rapid progress at Nanoco since joining AIM in May 2009 has continued into the current year, which has started well. We are making substantial progress in developing our business, particularly in our manufacturing scale-up and in delivering on our commercial contracts. We expect to continue to meet key milestones and are moving close to achieving our first kilogram delivery of quantum dots. We therefore view the future with confidence.



### Peter Rowley

Non-Executive Chairman  
15 October 2010

\* Anthony Clinch is the representative of St Gabrielle LLP, Non-Executive Director.

## Core Technology

Nanoco's core intellectual property (IP) is our patented technique for producing high quality, heavy metal free quantum dots, consistently and cost effectively, on an industrial scale.

Our process which is more commonly referred to as the "seeding process" provides fine control over the size and resulting emission wavelength of any given batch of quantum dots.

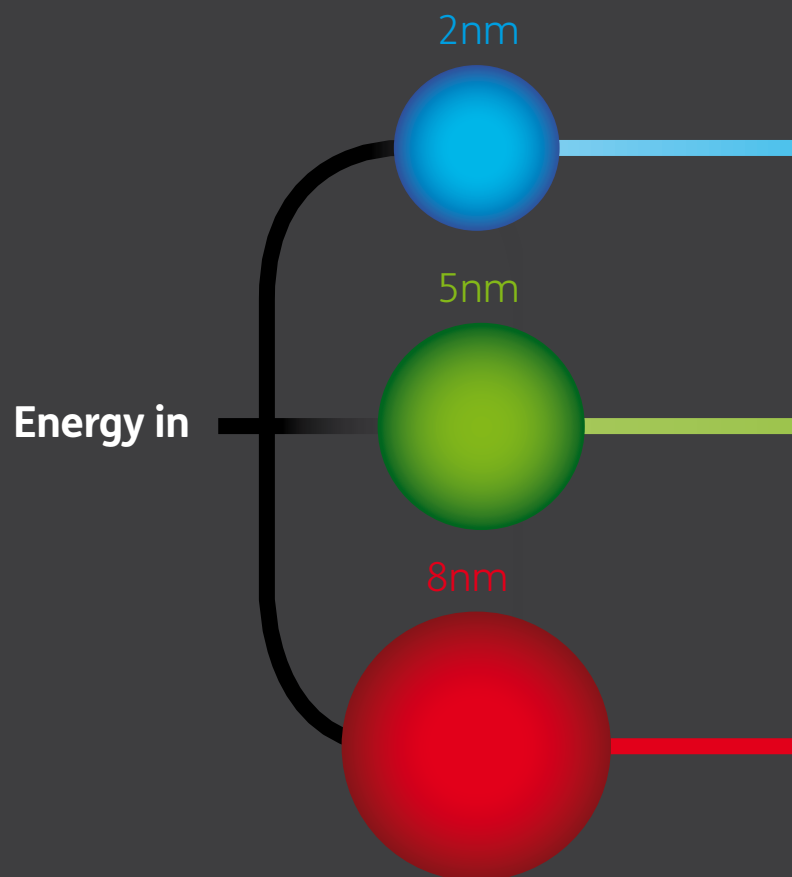
Nanoco's customers rely on our proven ability to deliver timely, high quality, bulk product shipments which enable them to take their next-generation quantum-dot-containing products to market.

Nanoco actively protects its IP across the world. The company has an active program of pursuing new patents arising from ongoing research and development activity.

### About Our Technology

Conventional quantum dot synthesis, often referred to as "high temperature dual injection", is a process which is difficult to control, uses harsh reaction conditions and only affords small quantities of quantum dots per batch.

Nanoco's proven manufacturing technology gets around this problem. The Nanoco "seeding process" provides a reproducible route to larger quantities of consistent, high quality quantum dots. This involves producing nanoparticles from chemical precursors in the presence of a molecular cluster compound under conditions whereby the integrity of the molecular cluster is maintained and acts as a prefabricated seed template. Individual molecules of a cluster compound act as a seed or nucleation point upon which nanoparticle growth can be initiated. In this way, a high temperature nucleation step is not necessary to initiate nanoparticle growth because suitable nucleation sites are already provided in the system by the molecular clusters. A significant advantage of this method is that it is highly scalable.





### Quantum Dots

- Fluorescent semiconductor nanoparticles; 10-100 atoms in diameter
- Energy efficiency, very bright, tunable colour, versatile
- The size of a quantum dot determines the colour it emits

### Nanoco's Technology

- Mass production
- World leader in heavy metal free technology
- Extensive patent protection (material, process and applications)

Blue light out →

Green light out →

Red light out →

## Key Markets

Nanoco is currently focused on four target markets: LED lighting for backlighting of liquid crystal display (LCD) televisions and for general lighting; solar power; electroluminescent displays; and other applications. These markets are all very large in their own right and represent a huge opportunity for growth.



### Backlighting

Quantum dot LEDs are increasingly being seen as a replacement for traditional fluorescent (CCFL) or white LEDs for the backlighting of LCD (liquid crystal display) TVs.

#### Benefits

Quantum dot LED backlights for LCD TVs enable TV manufacturers to get improved colour performance with lower power consumption. This is the result of quantum dots' tuneable and narrow emission spectrum.



### General Lighting

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

#### Benefits

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

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



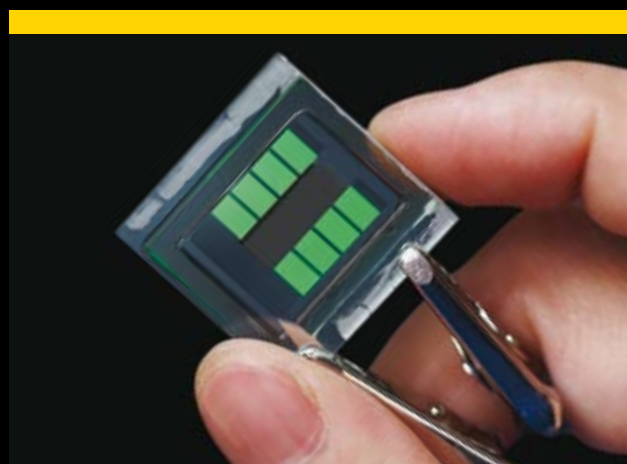
## Thin Film Solar

Printable nanoparticles for use in low-cost, high efficiency solar cells have the potential to make substantial gains in the solar cell market.

### Benefits

Quantum dots and other nanomaterials produced by Nanoco have the ability to absorb a wide spectrum of the sun's energy. This makes them ideal for use in next generation solar cells.

Nanoco has developed inks based on these materials which can be fabricated into the solar absorption layer of a solar cell. The objective is to produce solar cells which are efficient and cost effective.



## Other Applications

Nanoco's heavy metal free quantum dots can be used in a wide variety of applications. Some of these include very thin electroluminescent displays, sensors, and anti-counterfeiting tags.

### Electroluminescent displays

Quantum dots have the ability to be excited electronically to emit bright, pure colours. This means the quantum dots can be fabricated into very thin electroluminescent displays which have a superior picture and consume little power using low-cost printing technology.

### Sensors

The properties of quantum dots are such that they can be functionalised to emit light on binding to a "target" molecule, which enables them to be used, for example, to detect specific airborne pollutants.

### Anti-counterfeiting

From expensive luxury goods to critical products like drug packaging and currency, quantum dots provide a method of creating unique, optical barcodes: the precise combinations of wavelengths of light emitted by complex combinations of different quantum dot. Embedded in inks, plastic, glass, and polymers, quantum dots are invisible to the naked eye and extremely difficult to counterfeit.

“We are very focused on delivery of technology and new production capacity to satisfy our major markets including backlighting for LCD TVs, general lighting and thin film solar cells.”



**Michael Edelman**  
Chief Executive Officer

Our primary focus at Nanoco is to commercialise our world-class technology, but before reviewing the significant progress made towards achieving this goal I would like to provide a brief overview of the Company.

Our key asset is our patent-protected technology for the design, development and mass manufacture of quantum dots and other nanomaterials, which have highly attractive commercial characteristics. The robustness of our intellectual property is underlined by the recent issuing of patent number 7,803,423, one of Nanoco's fundamental manufacturing patents, by the United States Patent and Trademark Office.

Quantum dots are nano-sized semiconductor particles with the ability to emit intense light of a specific colour dependent on the size of the dots, which range from 10 to 100 atoms in width. These dots, which Nanoco makes without toxic heavy metals, such as cadmium, have multiple commercial applications in many industrial and consumer markets, delivering significant benefits including reduced power consumption and increased performance. Our technology allows the manufacture of other nanomaterials including solar inks, harnessing the ability of nanoparticulate semiconductors to absorb light to create highly efficient solar panels.

Owing to the scale of the commercial opportunity presented to us, we have focused initially on a small number of high value target markets, working in collaboration with customers and potential customers who have the ability to bring products to market incorporating our nanomaterials.

Critical to success is our ability to design and develop quantum dots to bespoke specifications for our customers' particular end use. Once this design and development is successful, a material supply and licence agreement is signed under which Nanoco receives payments for the supply of material and royalties on sales of the customer's end product.

Manufacturing in-house is central to our business model owing to the value that control of the supply chain can bring to the Company. We have made major progress in the scale-up of our manufacturing and remain confident that we will be able to deliver large quantities of quantum dots in the foreseeable future. Although this has never been done before, Nanoco's solution-based chemistry uses equipment similar to other industries, significantly reducing risk.

We are currently focused on four target markets: LED lighting for backlighting of liquid crystal display (LCD) televisions and for general lighting; solar power; electroluminescent displays; and other applications.

Creating white light from blue LEDs through the use of red and green quantum dots brings significant benefits compared with the currently used phosphor technology. These benefits include reduced power consumption and superior colour performance.

Quantum dot LEDs are ideally suited for the backlighting of television and other displays, such as computer screens.

In addition to their ability to emit light, nanoparticulate semiconductors are able to absorb light across a very broad spectrum, bringing the potential for highly efficient solar cells to reduce the cost per watt of solar energy. Nanoco has developed photovoltaic nanomaterial inks which can be printed by conventional low-cost printing techniques to create thin films for use as solar panels.

Nanoco's development work in electroluminescent displays – the future generation of displays for consumer goods including mobile phones, computers and televisions – exploits the ability of quantum dots to be used as pixels. Such displays would be very thin and have no requirement for a backlight, bringing benefits including low power consumption, high colour quality and ease of manufacture.

Nanoco's ability to make quantum dots free of heavy metals creates the opportunity for in vivo imaging, which has attracted considerable interest from the life science industry. The development cycle is substantially longer in this sector owing to the regulatory framework but presents a significant medium term opportunity.

### Commercial agreements

During the year we signed our first agreement in the solar power sector with Tokyo Electron, a major Japanese semiconductor and flat panel display production equipment supplier. We also signed a new agreement in the LED lighting market and made significant progress with our other LED lighting activities.

Under the agreement with Tokyo Electron, we are developing solar inks for printing into a nanomaterial film, which will form the solar-active component of a new photovoltaic panel. Nanoco received an upfront payment and will receive milestone payments during the contract, which began in June 2010 and is progressing well.

In September 2009 we signed a new agreement with a major Japanese electronics company for the bespoke design of quantum dots for use in the

LED backlighting of televisions. This collaboration is progressing well and we have achieved the required milestones, triggering a payment of US\$600,000 in July 2010 and bringing the total paid to Nanoco from the agreement to US\$1.8 million.

We received a milestone payment of US\$2 million from our first supply and licence agreement signed in November 2008 with a major Japanese corporation for red and green quantum dots for LEDs. It was subsequently agreed with this partner that the second technical milestone would be amended in the light of more demanding market requirements, particularly with regard to the lifetimes in service of the LEDs, which have now been set at 50,000 hours. It is pleasing to note that our quantum dots have met the key technical criteria to date except for the final extended lifetime tests which are expected to be completed successfully in the near future. Our partner has already made partial payment for these revised intermediate milestones in recognition of the successful progress. We are therefore pressing ahead to deliver our first 1kg of red quantum dots to the Japanese corporation early in the next calendar year, which will trigger a further US\$2 million milestone payment. It is expected that the green 1kg delivery will follow later in the first half of 2011, triggering a further US\$2 million payment.

Once the products under this agreement are commercialised, a royalty will be paid to Nanoco on the net sales of the corporation's products, which will comprise an LED chip, quantum dots and an encapsulant. The packaged LEDs will be sold by the corporation to LCD television and display makers and to solid state lighting manufacturers.

During the year, we have seen increasing interest from potential customers in the use of our quantum dots for use with LEDs in general lighting, where Nanoco's technology has the potential to provide lighting with a high colour rendering index. Current methods for producing white light from blue LEDs tend to be relatively weak in the red wavelengths, with the result that the light can lack warmth and fail to show true colours; the use of Nanoco's quantum dots can correct these failings.

We continue in discussions with potential partners across a range of applications.

### Manufacturing/operations

Since joining AIM in May 2009, we have been focused on scaling up from the production of very small quantities of quantum dots to mass production so that customers can supply major end-use markets. We made significant progress during the year in achieving this goal, including the appointment of Andrew Gooda as Manufacturing Director in January 2010. He has since developed a clear pathway to take us through the steps to mass production.

During the year, we have added a series of scale-up reactors in our Manchester headquarters. These reactors are critical in the progression of the quantum dots from very small scale manufacture in the laboratory to mass production.

Today we announced that we have taken a lease on a 3000 square foot facility at The Heath, a technology park in Runcorn, Cheshire. This facility, which will involve an initial investment of £1.3 million, will be our first commercial production plant and we expect it to be commissioned later this calendar year. This sixty acre site provides ample room for Nanoco's future expansion requirements.

Our customers are global corporations who expect suppliers to perform to accepted international standards. We are committed to exceeding the expected quality assurance standards, and health, safety and environmental legislation, both at Runcorn and in Manchester. We have recruited skilled staff who are currently developing and implementing the systems needed to ensure that all of our operations meet the highest standards.

### Summary

Our first full year as a quoted company has been one of rapid progress. The Company has delivered against customer contracts and against manufacturing scale-up targets whilst keeping tight control over our cash to ensure we have adequate funds to build the Company successfully.

In the current year we will continue to focus on delivery of our commercial contracts, our manufacturing scale-up and on securing new commercial agreements across our target markets.



**Michael Edelman**  
Chief Executive Officer  
15 October 2010



## Results

Revenue increased by 47% to £2,937,000 (2009: £1,994,000). The Company's revenue is earned primarily through joint development agreements, with revenue being recognised as agreed performance milestones are achieved, and also from a material supply and licence agreement. Of this total £2,771,000 (2009: £1,761,000) was earned in US Dollars and mostly originated from customers in the Far East.

Underlying\* operating loss for the year ending 31 July 2010 was £1,262,000 (2009: underlying\* operating loss of £545,000). Total staffing costs increased by £679,000 to £2,093,000 (2009: £1,414,000) and average staffing numbers increased by 12 heads from an average of 27 heads in 2009 to 39 in 2010. Total research and development ("R&D") spend, which primarily includes the employment costs of technical staff, increased by £591,000 to £1,850,000 (2009: £1,259,000), reflecting the increase in technical staff in support of the expansion in the number of product development programmes.

Investment in scale-up manufacturing plant and equipment over the last year has increased the level of the depreciation charge by £195,000 to £428,000 (2009: £233,000).

The Company aims to incentivise and retain key staff through the use of equity-settled share schemes. During the year the Company also introduced a long term incentive share option plan in which all staff can participate. The IFRS2 (share-based payment) charge in respect of share schemes totalled £166,000 (2009: £72,000). The total number of share options in issue as at 31 July 2010 were 11.0m (31 July 2009: 8.4m). In addition a further 3.8m (31 July 2009: 3.8m) of shares are jointly owned by the Company's Employee Benefit Trust ("EBT") and certain senior management through a Jointly Owned Agreement ("JOE").

Under the JOE the employee beneficiaries have the option to acquire the trustees' share at an agreed option price subject to meeting certain performance criteria. No options were capable of being exercised during the year. Share options and JOE shares that had been issued under the Nanoco Tech Share incentive Plan (prior to the reverse take-over in 2009), which total 12.2m share options and JOE shares, are capable of being exercised from 1 August 2010 until 31 August 2016. Details on the various share schemes are provided in note 19 to the accounts.

The loss before tax was £1,371,000 (2009: loss of £780,000), after deducting the share-based payment charge and after crediting net interest income of £57,000 (2009: £32,000) and, in 2009, after deducting the cost of the reverse acquisition of £195,000.

## Taxation

The tax credit for the year is £288,000 (2009: £240,000). The R&D tax credit to be claimed in respect of R&D spend is £433,000 (2009: £254,000), and this is partially offset in the Income Statement by a deferred tax charge for accelerated capital allowances of £129,000 (2009: nil) and an adjustment in respect of the prior year R&D tax credit of £16,000 (2009: £14,000).

## Earnings per share

Underlying\* basic earnings per share ("EPS") was a loss of (0.51) pence (2009: underlying\* loss of (0.16) pence). Basic EPS was a loss of (0.60) pence (2009: loss of (0.31) pence).

No dividend has been proposed (2009: nil) in order to retain cash within the business to fund future investment.

## Cash flow and balance sheet

During the year cash, cash equivalents and deposits reduced by £907,000 from £6,589,000 at 31 July 2009 to £5,682,000 at 31 July 2010. Purchases of capital equipment in the year, primarily in connection with scale-up manufacturing apparatus and equipment for the new Runcorn facility totalled £1,136,000. Of this total £615,000 was paid for during the year, and the balance, associated with equipment for the Runcorn manufacturing facility which was still in the process of construction at 31 July 2010, was paid for after the year end. Expenditure incurred in registering patents totalled £300,000 during the year. This is capitalised and amortised over ten years in line with the Company's accounting policy. At the year-end current liabilities included £539,000 of deferred income which is recognised in the Income Statement, as revenue, as performance milestones are achieved.

## Treasury activities and policies

The Group carries a significant cash sum which is managed prudently. In order to minimise risk to the Group's capital the funds are invested across a number of financial institutions with strong 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.

## Credit risk

The Company 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.

\* Underlying figures are before the share-based payment charge and before the cost of the reverse acquisition in 2009.

**Foreign exchange management**

The Company invoices most of its revenues in US Dollars. The Company is therefore exposed to movements in the US Dollar relative to Sterling. Foreign currency balances in excess of forecast amounts required to fund projected outgoings have been converted during the year at spot rate. No foreign currency hedging instruments are currently used due to the lack of forward visibility on foreign currency receipts. This policy will remain under review and may change if the Company is generating predictable levels of non-Sterling income.

At the year end the Group had £1,260,000 (2009: £40,000) in US Dollar cash or debtor balances. The Group's net profit and its equity are exposed to movements in the value of Sterling relative to the US Dollar. The estimated impact of movements in the Sterling exchange rate on profits and equity are summarised in note 24 to the Financial Statements. Based on the balances at the year end, a 10% strengthening in Sterling against the US Dollar would reduce Group pre-tax profit and equity by £115,000 and a 10% strengthening in the US Dollar relative to Sterling would increase pre-tax profit and equity by £140,000. As US Dollar revenues increase so the exposure of the Group's Income Statement and equity to movements in the Sterling/ US Dollar exchange rate will increase as well.



**Colin White**  
Chief Financial Officer  
15 October 2010

“The Company ended the year with cash and deposit balances totalling £5.7 million.”



**Colin White**  
Chief Financial Officer

## Production Highlights

- We have had a successful year. A year of delivery on our contracts and delivering against our scale-up strategy
- We have focused on production (shown through the appointment of a Manufacturing Director)
- We have focused on our infrastructure as shown through the appointment of new people (including a new CFO) and purchase of new facilities and equipment (as well as investment in our quality, safety and IT systems)

## Roadmap to Mass Production

### Milestones and Objectives

	2009	2010
<b>QD Development</b> → Lab scale development and customer trials. → Small scale commercial supply.		
<b>Scale-up</b> → Automated small scale production. → Scale-up reactors – Current.		
<b>Pilot Plant</b> → SemiTech Production Facility. → Kilo lab Production Facility.		
<b>Mass Production</b> → Mass production – target for 2012/2013.		







“Our patented production processes are unique. They enable us to make heavy metal free (CFQD™) quantum dots in kilogram quantities with very high performance.”

**Andrew Gooda**  
Manufacturing Director

## Q: What is your experience in the manufacturing industry?

A: I have been involved in manufacturing throughout my career. After completing an engineering degree at Imperial College in 1985 I joined the chemicals industry with ICI, working in crude oil refining through to speciality chemicals. I then spent 10 years as site director of Croda's Uniqema manufacturing facility in Merseyside, making chemicals for consumer care and industrial products.

## Q: Why did you decide to join Nanoco?

A: It is such an exciting project! How often does an engineer get the opportunity to develop the manufacturing base for a whole new technology? Nanoco's technology is at the cutting edge of science but one of the attractions is that it can be put into mass production through fairly conventional processes.

## Q: What have you focused on since joining Nanoco?

A: My first task was to understand the production process and draw up a strategy for scaling up our manufacturing capability in manageable steps. A careful balance is required to allow us to develop quickly and effectively to meet market demand whilst at the same time minimising technical risks and managing costs. The strategy includes expanding our facilities and staff, as well as procuring specialised equipment.

## Q: What are the main challenges in scaling up to mass production?

A: Maintaining consistent physical and chemical conditions is essential when you increase scale by a factor of up to 10,000. Identifying and procuring the equipment that will do the job is also critical. We use standard equipment as far as we can, but we have to customise most of it and some of it we design from scratch.

## Q: How big is the new production facility at The Heath?

A: We have 3,000 square feet of high specification laboratory space at The Heath, which is located in Runcorn,

Cheshire. We have two large rooms for two quantum dot production lines with 20 litre reactors, and a small room for precursor manufacture and support activities. We also have an open plan office and external storage space.

## Q: Is this the only production facility of its type in the UK?

A: Absolutely! It's the only one in the world. Nobody else has access to our patented production process which enables us to make Cadmium Free Quantum Dots (CFQD™) in kilogram quantities with very high performance.

## Q: Will manufacturing continue to take place in Manchester?

A: Yes, we will continue to operate our scale-up facility in Manchester as well. Indeed, we have expanded the capacity there with a new multi-reactor system. This gives us flexibility to produce smaller, trial batches of new products for customers as well as supporting further product and process development.

## Q: When will the new facility be commissioned and begin production?

A: The new multi-reactor at Manchester is already operational. Commissioning the production lines at Runcorn is on schedule for completion in Q4 this year, with commercial production starting in Q1 2011.

## Q: How much will it cost and how many staff will it employ?

A: The investment cost for the production equipment has been around £1.3m, including equipping the new laboratories to our specifications. We will initially have up to seven staff based at Runcorn, but we expect that to increase next year as sales demand grows.

## Q: Will you produce other nanomaterials at the facility?

A: We will be able to produce large scale batches of our solar nanomaterials, as demand increases.

## Q: How much capacity will the new facility have, and is there room for expansion?

A: We will start with about 25kg a year capacity for the two production lines at Runcorn, but we expect to increase this towards 50kg a year. We have taken sufficient space to allow initial expansion within the existing laboratory facilities. More space is available if we need it in future.

## Q: What is your vision for the facility over the next few years?

A: The new facility will be ground-breaking, but it is only one step in our strategy. We have already started design work on the next stage – Kilo-Lab production lines with up to 10 times more capacity. I can certainly see us building these at Runcorn and further expanding our operations there. The Heath has great facilities, a good location and is committed to helping technology companies grow and prosper.

## Q: What initiatives have you taken in health and safety and quality assurance?

A: We have recently recruited a professional Safety, Health and Environment (SHE) Manager with over 30 years' experience in the chemical industry. We already had good systems in place at Nanoco, but we will now develop them towards the international standards of OHSAS 18000 for safety and ISO 14000 for environment. We have also strengthened our quality team to provide the rigorous systems we need as we move into commercial production. We remain on track to implement the full ISO 9000 system for quality assurance in 2011.

## Q: What is the business's contribution to clean technology?

A: I expect our products to make a significant contribution to sustainability, by reducing energy consumption in lighting and displays and by generating solar power – all without using toxic heavy metals. We are working at nanoparticle sizes so the resources used in the new facility are at a very small scale, but even there we have tried to reduce our impact – for example by reducing energy consumption for air handling when the laboratories are not manned.

### 1. Dr Peter Rowley Non-Executive Chairman

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

### 2. Dr Michael Edelman Chief Executive Officer

Nanoco is led by Dr Michael Edelman. Michael joined Nanoco in 2004, led the initial fund-raising and spun Nanoco out of the University of Manchester. Prior to Nanoco Michael was responsible for licensing the technology developed by GE/Bayer joint venture, Exatec LLP. As Vice President and managing director of yet2.com Michael set up, grew

and ran yet2.com's European operation and was instrumental in successfully selling the business. He was main board director for Colloids Ltd, a manufacturer of colours and additives for plastics with responsibility for global sales, marketing and restructuring of the business. Michael started his career with ICI, has a PhD in organo-metallic chemistry from the University of Sussex, UK, and undergraduate degree in classics and chemistry from Tufts University, Boston, MA, USA.

### 3. Dr Nigel Pickett Chief Technology Officer

Nanoco's technology team is led by Dr 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 organometallics. After graduation in 1994 he undertook a postdoctoral fellowship at St Andrews University, Scotland, in the field of precursor design for MOVPE growth and

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

### 4. 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 ten 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.

#### **5. Michael Bretherton** **Non-Executive Director**

Michael Bretherton graduated in Economics from the University of Leeds and then worked as an accountant and manager with PriceWaterhouse for seven years in both London and the Middle East. Michael subsequently worked for The Plessey Company PLC before being appointed Finance Director of the fully listed Bridgend Group PLC in 1988 where he held the position for twelve years. More recently, he has worked at the property and services company Mapeley Limited as Financial Operations Director and then at the entertainment software games

developer, Lionhead Studios Limited, where he helped to complete a trade sale of the business to Microsoft in March 2006. Michael is currently also a director of ORA Capital Partners Limited and a number of other AIM listed companies. Michael held the position of Chief Financial Officer for Nanoco Group PLC until 9 August 2010.

#### **6. Gordon Hall** **Non-Executive Director**

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

#### **7. Anthony Clinch** **Anthony Clinch represents** **St Gabrielle LLP, a corporate** **Non-Executive Director**

Anthony Clinch is a senior advisor to CVC Capital Partners through his consultancy business, St. Gabrielle LLP. He was an employee of CVC Capital Partners between 1987 and 2007 and was actively involved in a number of CVC Capital Partners' international chemical investments. He previously worked for Citibank in a number of managerial roles in Corporate Banking. Via his consulting partnership he is a Director (recently Chairman) of Taminco Group Holdings S.a.r.l, a major international chemical manufacturer of alkylamines and derivatives. 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 a BSc. in Aeronautical Engineering and an M.Sc. in Management Science and Operational Research from Imperial College, London. He is a member of the Advisory Board of Imperial College's Chemistry faculty.



# Directors' Report

The Directors present their report and consolidated financial statements for the year ended 31 July 2010, and the financial statements for the parent company for the year ended 31 July 2010.

## Principal activity

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

## Review of the business and future developments

A review of the Group's performance and future projects, including research and development and manufacturing scale-up, is included in the Chairman's Statement, CEO's Review of Operations, Financial Review, Delivering Production and Entering the Next Phase of Scale-up reports on pages 5, 10, 12, 14 and 16 respectively.

## Key performance indicators

Key Group performance indicators are set out below:

	31 July 2010 £000	31 July 2009 £000
Revenue	2,937	1,994
Net assets	7,854	8,771
Loss attributable to equity holders	(1,083)	(540)
Cash, cash equivalents and deposits	5,682	6,589
Research and development spend	1,850	1,259

## Results and dividends

Turnover for the Group increased from £1,994,000 last year to £2,937,000 whilst losses after taxation for the year increased to £1,083,000 (2009: loss of £540,000).

The Directors do not recommend payment of an ordinary dividend (2009: nil).

## Share capital and funding

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

## Directors and their interests

The following Directors held office in the year.

Dr Peter Rowley

Dr Michael Edelman

Dr Nigel Pickett

Mr Michael Bretherton

Mr Gordon Hall

St Gabrielle LLP, represented by Mr Anthony Clinch (appointed 30 March 2010)

Details of Directors' interest are shown in the Directors' Remuneration Report on pages 22 to 23.

## Directors' indemnity insurance

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

### Substantial shareholders

The Company is aware that the following have at 15 October 2010 an interest in 3 per cent or more of the issued ordinary share capital of the Company:

	Number of 10p ordinary shares	Percentage of the issued share capital
ORA Capital Partners Limited*	52,870,260	28.48%
Universities Superannuation Scheme	12,968,100	6.99%
Mitsubishi UFJ	11,872,888	6.40%
Gartmore Investment Management	10,975,931	5.91%
Nigel Pickett	10,451,931	5.63%
Paul O'Brien	9,921,843	5.34%
Michael Edelman	9,272,940	5.00%
Kisco Ltd	6,026,615	3.25%

\* Includes 2,870,260 (1.5%) held indirectly through a derivative financial instrument.

### Donations

No charitable or political donations were made in the year (2009: nil).

### Policy on payment of suppliers

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

The Group's trade creditor days as at 31 July 2010 were 31 (2009: 31 days).

### Employment policies

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

### Health and safety

The Group is committed to ensuring the health and safety of its employees in the workplace. The business recently appointed a full-time health and safety manager as part of its commitment to further improving health and safety processes within the company, particularly as the business develops its manufacturing capabilities.

### Disclosure of information to the auditors

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

### Auditor

A resolution to reappoint Ernst & Young LLP as auditors will be put to the members at the Annual General Meeting.

On behalf of the Board



**Colin White**

Director  
15 October 2010

# Directors' Remuneration Report

Companies with securities listed on AIM do not need to comply with either the Directors' Remuneration Report Regulations 2002 or the UKLA Listing Rules and the provisions under section 421 of the Companies Act 2006. The Company is required to provide details of Directors' remuneration during the financial year for each Director acting in such capacity. The Remuneration Committee is however committed to maintaining high standards of corporate governance and disclosure and has applied the guidelines as far as practical given the current size and development of the Company.

## Remuneration committee

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

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

- **Basic annual salary**

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

- **Discretionary annual bonus**

All Executive Directors and senior managers are eligible for a discretionary annual bonus which is paid in accordance with a bonus scheme developed by the remuneration committee. This takes into account individual contribution, business performance and technical and commercial progress, along with financial results. No bonus is payable to Executive Directors in respect of the financial year ended 31 July 2010.

- **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 relevant scheme. This takes into account the need to motivate and retain key individuals, along with similar performance criteria to the discretionary bonus scheme.

## Remuneration policy for Non-Executive Directors

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

## Directors' remuneration

The remuneration of the Directors, who served on the Board of Nanoco Group during the year to 31 July 2010 is as follows:

	Salary and fees £000	Share-based payments £000	Total 2010 £000	Total 2009 £000
Dr Peter Rowley	12	–	12	10
Dr Michael Edelman	120	9	129	192
Dr Nigel Pickett	85	6	91	127
Mr Michael Bretherton	12	–	12	3
Mr Gordon Hall	12	–	12	3
St Gabrielle LLP (appointed 30 March 2010)	4	–	4	–
	245	15	260	335

Michael Edelman and Nigel Pickett both have contracts with an indefinite term providing for a maximum of twelve months' notice. Colin White, who became Chief Financial Officer on 9 August 2010, has an indefinite term contract which provides for a maximum of six months' notice which will increase to twelve months 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. The basic fee payable to the Non-Executive Directors is £12,000 per annum.



St Gabrielle LLP, Non-Executive Director, entered into a formal engagement with the company under which it agreed to supply the services of Anthony Clinch as its representative. The agreement can be terminated upon not less than six months' notice.

### Directors' shareholdings

Directors' interests in the shares of the Company, including family and beneficial interests, at 31 July 2010 were:

	Ordinary shares of 10p each			
	31 July 2010 Number	31 July 2010 %	31 July 2009 Number	31 July 2009 %
Dr Peter Rowley	1,571,820	0.85%	1,571,820	0.85%
Dr Michael Edelman*	9,272,940	5.04%	9,272,940	5.04%
Dr Nigel Pickett*	10,451,931	5.68%	10,451,931	5.68%
Mr Michael Bretherton	227,500	0.12%	227,500	0.12%
Mr Gordon Hall	100,000	0.05%	100,000	0.05%
Mr Anthony Clinch**	57,640	0.03%	–	–

\* Includes the jointly owned EBT shares referred to below.

\*\* Shares are owned by Anthony Clinch who represents the Director St Gabrielle LLP.

### Directors' jointly owned employee benefit trust shares and share options

Directors' interests in jointly owned employee benefit trust ("EBT") shares and in share options to acquire ordinary shares of 10 pence in the Company as 31 July 2010 were:

	Date granted	Exercise price	At 31 July 2009	Granted during the year	At 31 July 2010
<b>Approved EMI Scheme:</b>					
Dr Michael Edelman:	1 Sept 2006	3.52p	2,843,750	–	2,843,750
	27 Nov 2009	78.00p	–	29,005	29,005
Dr Nigel Pickett:	1 Sept 2006	3.52p	2,843,750	–	2,843,750
	27 Nov 2009	78.00p	–	29,005	29,005
<b>EBT Scheme:</b>					
Dr Michael Edelman	1 Sept 2006	3.52p	3,229,162	–	3,229,162
Dr Nigel Pickett	1 Sept 2006	3.52p	530,089	–	530,089
<b>Unapproved scheme:</b>					
Dr Michael Edelman	27 Nov 2009	78.00p	–	270,995	270,995
Dr Nigel Pickett	27 Nov 2009	78.00p	–	183,495	183,495

Exercise of the options held at 31 July 2010, which were granted on 1 September 2006, is conditional on achievement of share price performance criteria and either a sale or listing of the Company. All of the relevant conditions have been successfully met and the options are capable of being exercised at any time from 1 August 2010 to 31 August 2016.

The options granted on 27 November 2009 were granted under the terms of the Nanoco Group PLC long term incentive plan and will be exercisable subject to performance conditions being met, based on share price and EPS targets following the publication of the 2012 financial results.

The market price at 31 July 2010 was 88.5 pence per share the highest and lowest price during the year were 113.25 pence and 66.5 pence respectively.

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

On behalf of the Board

### Gordon Hall

Chairman of the Remuneration Committee  
15 October 2010

# Corporate Governance Statement

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

## **The Board**

The Board currently comprises three Executive and four Non-Executive Directors.

## **Audit committee**

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

The audit committee comprises two Non-Executive Directors, Michael Bretherton and Peter Rowley, with Michael as Chairman. Michael Bretherton replaced Gordon Hall as from 1 September 2010.

## **Remuneration committee**

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

## **Nominations committee**

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

## **Internal controls**

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

Some key features of the internal control system are:

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

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

### Going concern

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

### Risk management

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

The Directors consider that the principal risk facing the Group is the speed at which the Group's products can be developed into final solutions by its partners. The Group's strategy of working with a number of global partners in a wide variety of potential applications mitigates this risk.

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

The Group seeks to manage liquidity by ensuring funds are available to meet foreseeable needs and to invest cash assets safely and profitably. The Group had net cash, cash equivalents and deposit balances of £5.68 million as at 31 July 2010 (2009: £6.59 million).

### Statement of Directors' responsibilities

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

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

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

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

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

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the requirements of the Companies Act 2006 and Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are also responsible for the maintenance and integrity of the company website, [www.nanocotechnologies.com](http://www.nanocotechnologies.com).

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

# Independent Auditors' Report

for the year ended 31 July 2010

We have audited the financial statements of Nanoco Group PLC for the year ended 31 July 2010 which comprise the Group Statement of Comprehensive Income, the Group and Parent Company Statements of Changes in Equity, the Group and Parent Company Statements of Financial Position, the Group and Parent Company Cash Flow Statements and the related notes 1 to 26. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

This report is made solely to the company's members, as a body, in accordance with 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 auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

## Respective responsibilities of Directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 25, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB'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 company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements.

## Opinion on the financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the group and company affairs as at 31 July 2010 and of the group's loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- 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 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, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

## Jan Gregory

(Senior Statutory Auditor)

For and on behalf of Ernst & Young LLP (Statutory Auditor)

Manchester

15 October 2010

# Consolidated Statement of Comprehensive Income

for the year ended 31 July 2010

	Notes	2010 £000	2009 £000
<b>Revenue</b>	4	<b>2,937</b>	1,994
Cost of sales		<b>(495)</b>	(161)
<b>Gross profit</b>		<b>2,442</b>	1,833
Administrative expenses		<b>(3,870)</b>	(2,450)
Cost of reverse acquisition	23	–	(195)
<b>Operating loss</b>			
– before share-based payment and cost of reverse acquisition		<b>(1,262)</b>	(545)
– cost of reverse acquisition		–	(195)
– share-based payment	19	<b>(166)</b>	(72)
	5	<b>(1,428)</b>	(812)
Finance income	7	<b>68</b>	57
Finance costs	7	<b>(11)</b>	(25)
<b>Loss on ordinary activities before taxation</b>		<b>(1,371)</b>	(780)
Tax	8	<b>288</b>	240
<b>Loss for the year and total comprehensive loss for the year</b>		<b>(1,083)</b>	(540)
<b>Loss per share:</b>			
Basic loss for the year	9	<b>(0.60)p</b>	(0.31)p
Diluted loss for the year	9	<b>(0.56)p</b>	(0.31)p

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

There were no other items of comprehensive income for the year (2009: nil) and therefore the loss for the year is also the total comprehensive loss for the year.

The notes on pages 32 to 55 form an integral part of these financial statements.

# Consolidated Statement of Changes in Equity

for the year ended 31 July 2010

	Attributable to equity holders				Total £000
	Issued equity capital £000	Share-based payment reserve £000	Merger reserve £000	Revenue reserve £000	
<b>At 1 August 2008</b>	<b>6,544</b>	<b>95</b>	<b>(1,242)</b>	<b>(1,965)</b>	<b>3,432</b>
Loss for the year and total comprehensive loss for the year	–	–	–	(540)	(540)
Exercise of warrant	108	–	–	–	108
Share-based payments	–	72	–	–	72
Reallocation of reserves on reverse acquisition	6,154	–	–	–	6,154
Expenses on issue of shares	(455)	–	–	–	(455)
<b>At 31 July 2009</b>	<b>12,351</b>	<b>167</b>	<b>(1,242)</b>	<b>(2,505)</b>	<b>8,771</b>
Loss for the year and total comprehensive loss for the year	–	–	–	(1,083)	(1,083)
Share-based payments	–	166	–	–	166
<b>At 31 July 2010</b>	<b>12,351</b>	<b>333</b>	<b>(1,242)</b>	<b>(3,588)</b>	<b>7,854</b>

# Company Statement of Changes in Equity

for the year ended 31 July 2010

	Attributable to equity holders				Total £000
	Issued equity capital £000	Share-based payment reserve £000	Capital redemption reserve £000	Revenue reserve £000	
<b>At 31 December 2008</b>	<b>27,037</b>	<b>–</b>	<b>4,804</b>	<b>(26,050)</b>	<b>5,791</b>
Profit for the period and total comprehensive profit for the year	–	–	–	287	287
Treasury shares reclassified to EBT	(20)	–	–	20	–
Share-based payments	–	167	–	–	167
Shares issued on acquisition of Nanoco Tech Limited (see note 18)	63,255	–	–	–	63,255
Expenses on issue of shares	(455)	–	–	–	(455)
<b>At 31 July 2009</b>	<b>89,817</b>	<b>167</b>	<b>4,804</b>	<b>(25,743)</b>	<b>69,045</b>
Profit for the year and total comprehensive profit for the year	–	–	–	68	68
Share-based payments	–	166	–	–	166
<b>At 31 July 2010</b>	<b>89,817</b>	<b>333</b>	<b>4,804</b>	<b>(25,675)</b>	<b>69,279</b>

# Statement of Financial Position

at 31 July 2010

Registered No: 05067291

	Notes	31 July 2010 Group £000	31 July 2010 Company £000	31 July 2009 Group £000	31 July 2009 Company £000
<b>Assets</b>					
<b>Non-current assets</b>					
Plant and equipment	10	2,803	–	2,127	–
Intangible assets	11	616	–	376	–
Investment in subsidiary	12	–	63,588	–	63,422
		3,419	63,588	2,503	63,422
<b>Current assets</b>					
Inventories	13	18	–	17	–
Trade and other receivables	14	584	5,175	378	–
Income tax asset		501	–	135	–
Short term investments and deposits	15	2,000	–	–	–
Cash and cash equivalents	15	3,682	516	6,589	5,939
		6,785	5,691	7,119	–
<b>Total assets</b>		10,204	69,279	9,622	69,361
<b>Liabilities</b>					
<b>Current liabilities</b>					
Trade and other payables	16	1,810	–	376	–
Financial liabilities	17	63	–	63	–
		1,873	–	439	–
<b>Non-current liabilities</b>					
Financial liabilities	17	348	–	412	316
Deferred tax liability	8	129	–	–	–
		477	–	412	316
<b>Total liabilities</b>		2,350	–	851	316
<b>Net assets</b>		7,854	69,279	8,771	69,045
<b>Capital and reserves</b>					
Issued equity capital	18	12,351	89,817	12,351	89,817
Share-based payment reserve	19	333	333	167	167
Merger reserve	20	(1,242)	–	(1,242)	–
Capital redemption reserve	20	–	4,804	–	4,804
Revenue reserve	21	(3,588)	(25,675)	(2,505)	(25,743)
<b>Total equity</b>		7,854	69,279	8,771	69,045

Approved by the Board and authorised for issue on 15 October 2010.

The notes on pages 32 to 55 form an integral part of these financial statements.

**Colin White**

Director

15 October 2010



# Cash Flow Statements

for the year ended 31 July 2010

	Notes	31 July 2010 Group £000	31 July 2010 Company £000	31 July 2009 Group £000	31 July 2009 Company £000
<b>(Loss)/profit before interest and tax</b>		<b>(1,428)</b>	<b>65</b>	<b>(812)</b>	<b>287</b>
Adjustments for:					
Depreciation	10	428	–	233	–
Amortisation of intangible assets	11	60	–	39	–
Cost of reverse acquisition	23	–	–	195	–
Share-based payment	19	166	–	72	–
Impairment of investment in subsidiary	12	–	–	–	5,338
Net reversal of provision for non-recovery of loan to subsidiary	12	–	–	–	(5,744)
Changes in working capital:					
Increase in inventories		(1)	–	(8)	–
(Increase)/decrease in trade and other receivables		(206)	–	162	–
Increase/(decrease) in trade and other payables		913	–	(124)	312
<b>Cash inflow/(outflow) from operating activities</b>		<b>(68)</b>	<b>65</b>	<b>(243)</b>	<b>193</b>
Interest paid	7	(11)	–	(25)	–
Research and development tax credit received		51	–	136	–
<b>Net cash inflow/(outflow) from operating activities</b>		<b>(28)</b>	<b>65</b>	<b>(132)</b>	<b>193</b>
<b>Cash flows from investing activities</b>					
Purchases of plant and equipment		(615)	–	(1,242)	–
Related grant received	10	32	–	32	–
Net purchases of plant and equipment		(583)	–	(1,210)	–
Purchases of intellectual property	11	(300)	–	(136)	–
Cash advance to/(receipts of repayment of loan from) subsidiary	14, 17	–	(5,491)	–	6,197
Increase in cash placed on deposit	15	(2,000)	–	–	–
Interest received	7	68	3	57	4
<b>Net cash (outflow)/inflow from investing activities</b>		<b>(2,815)</b>	<b>(5,488)</b>	<b>(1,289)</b>	<b>6,201</b>
<b>Cash flows from financing activities</b>					
Cash acquired on reverse acquisition	23	–	–	5,892	–
Proceeds from issues of ordinary share capital		–	–	108	–
Expenses on issue of shares	18	–	–	(455)	(455)
Loan repayment		(64)	–	(63)	–
<b>Net cash (outflow)/inflow from financing activities</b>		<b>(64)</b>	<b>–</b>	<b>5,482</b>	<b>(455)</b>
<b>(Decrease)/increase in cash and equivalents</b>		<b>(2,907)</b>	<b>(5,423)</b>	<b>4,061</b>	<b>5,939</b>
<b>Cash and cash equivalents at the start of the year</b>		<b>6,589</b>	<b>5,939</b>	<b>2,528</b>	<b>–</b>
<b>Cash and cash equivalents</b>		<b>3,682</b>	<b>516</b>	<b>6,589</b>	<b>5,939</b>
<b>Monies placed on deposit</b>		<b>2,000</b>	<b>–</b>	<b>–</b>	<b>–</b>
<b>Cash, cash equivalents and deposits at the end of the year</b>	15	<b>5,682</b>	<b>516</b>	<b>6,589</b>	<b>5,939</b>

The notes on pages 32 to 55 form an integral part of these financial statements.

# Notes to the Financial Statements

for the year ended 31 July 2010

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

The financial statements of Nanoco Group PLC and its subsidiaries (the “Group”) for the year ended 31 July 2010 were authorised for issue by the Board of Directors on 15 October 2010 and the Statement of Financial Position was signed on the board’s behalf by Mr Colin White.

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

The Company’s financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (“IFRS”) and International Financial Reporting Committee (“IFRIC”) interpretations as they apply to the financial statements of the Group for the period ended 31 July 2010.

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

## 2. Accounting policies

### Basis of preparation

These financial statements have been prepared in accordance with IFRS and IFRIC interpretations as they apply to the financial statements of the Group for the year ended 31 July 2010 and applied in accordance with the Companies Act 2006.

The accounting policies adopted are consistent with those of the previous financial year except as described below.

The following new and amended IFRS and IFRIC interpretations were mandatory as of 1 January 2009 unless otherwise stated.

- Amendment to IFRS 2 Share-based Payment: Vesting Conditions and Cancellations
- IFRS 8 Operating Segments
- IAS 1 (Revised) Presentation of Financial Statements
- Amendments to IAS 23 Borrowing Costs
- IAS 39 and IFRS 7: Reclassification of Financial Assets effective 1 July 2008
- Improvements to IFRSs (issued May 2008)

For each of the new or amended IFRS and IFRIC interpretations adopted in the period the impact on the financial statements or performance of the Group is described below:

#### • Amendment to IFRS 2 Share-based Payment: Vesting Conditions and Cancellations

The amendment to IFRS 2 clarifies the definition of vesting conditions and prescribes the treatment for an award that is cancelled. This amendment did not have an impact on the financial position or performance of the Group.

#### • IFRS 8 Operating Segments

IFRS 8 replaces IAS 14 Segment Reporting. The Group concluded that its operating segments determined in accordance with IFRS 8 are the same as the business segments previously identified under IAS 14. IFRS 8 disclosures are shown in note 4.

#### • IAS 1 (revised) Presentation of Financial Statements

The revised Standard has required the reconciliation of movements in equity, previously disclosed in the notes, to be presented as a primary statement entitled “Consolidated Statement of Changes in Equity”. In addition, the Consolidated Statement of Recognised Income and Expense has been replaced with the Consolidated Statement of Comprehensive Income. The revised standard requires this statement to present all items of recognised income and expense, either in one single statement, or in two linked statements. The Group has elected to present one statement.

#### • Amendments to IAS 23 Borrowing Costs

The revised IAS 23 requires capitalisation of borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset. This amendment did not have an impact on the financial position or performance of the Group.

#### • Improvements to IFRSs (issued May 2008)

In May 2008 the Board issued its first omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each amendment. The adoption of the amendments resulted in no significant changes to the financial statements or performance of the Group.

## 2. Accounting policies (continued)

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

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

The Company has elected to take the exemption under section 408 of the Companies Act 2006 not to present the parent company's Income Statement. The parent company's result for the period ended 31 July 2010 was a profit of £68,000 (31 July 2009: profit of £287,000).

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

### Basis of consolidation

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

### Reverse acquisition of Evlutec Group PLC in year ending 31 July 2009

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

The combination was accounted for as a reverse acquisition equity transaction as if Nanoco Tech Limited had issued new shares in exchange for Evlutec Group PLC's cash and other assets.

The following accounting treatment was applied in respect of the transaction and is reflected in the prior year comparative figures.

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

### Subsidiaries

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

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group before 31 July 2009. The costs of an acquisition are measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are initially measured at fair value at acquisition date irrespective of the extent of any minority interest. The difference between the cost of acquisition of shares in subsidiaries and the fair value of the identifiable net assets acquired is capitalised as goodwill and reviewed annually for impairment. Any deficiency of the cost of acquisition below the fair value of identifiable net assets acquired (i.e. discount on acquisition) is recognised directly in the Income Statement.

All intra-group transactions, balances, and unrealised gains on transactions between Group companies are eliminated on consolidation. Subsidiaries' accounting policies are amended where necessary to ensure consistency with the policies adopted by the Group. All financial statements are made up to 31 July 2010.

# Notes to the Financial Statements

for the year ended 31 July 2010 (continued)

## 2. Accounting policies (continued)

### Foreign currency translation

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

Transactions in foreign currencies are initially recorded in the functional currency by applying the spot rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the Statement of Financial Position date. All differences are taken to the Income Statement.

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

### 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.

### 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, revenue from the sale of quantum dot products and grant income recognised.

Revenues from development programmes are recognised as development work is performed during the contractual term, as measured by performance milestones. Revenue is not recognised where there is uncertainty regarding the achievement of milestones.

Royalties are recognised when goods are supplied by customers under license agreements. Royalties received in advance under material supply and licence agreements are recognised as revenue when goods are supplied or contractual rights for the customer to recoup such payments have lapsed.

Grant income is recognised as earned based on contractual conditions, generally as expenses are incurred.

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.

### Interest income

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

### Research and development

Research costs are charged against the Income Statement as they are incurred. Certain 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 are reviewed for impairment at each Statement of Financial Position date. Other development costs are charged against income as incurred since the criteria for their recognition as an asset are not met.

The criteria for recognising expenditure as an asset are:

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

## 2. Accounting policies (continued)

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

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

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

### Leases

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 Income Statement on a straight-line basis over the expected lease term.

### Provisions

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

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

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

### Financial assets and liabilities

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

At the year end, the Group had no financial assets or liabilities designated as at fair value through the Income Statement (2009: nil).

### Derecognition of financial assets and liabilities

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

### Taxation

#### • Current income tax

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

#### • Deferred income tax

Deferred income tax is recognised on all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements 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.

# Notes to the Financial Statements

for the year ended 31 July 2010 (continued)

## 2. Accounting policies (continued)

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 Statement of Financial Position date and which are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

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

### Investments in subsidiaries

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

### Plant and equipment

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

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

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

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

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

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

### Intangible assets

Intangible assets acquired either as part of a business combination or from contractual or other legal rights are recognised separately from goodwill provided they are separable and their fair value can be measured reliably. This includes the costs associated with 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 ten years
---------	--------------------------------

### Impairment of assets

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

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

## 2. Accounting policies (continued)

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

### Inventories

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

### Trade and other receivables

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

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

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

### Government grants

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

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

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

### Cash and cash equivalents

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

### Trade and other payables

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

### Borrowings

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

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



# Notes to the Financial Statements

for the year ended 31 July 2010 (continued)

## 2. Accounting policies (continued)

### Share capital

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

### Shares held by Employee Benefit Trust

The Employee Benefit Trust is consolidated in the financial statements and the shares 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 as a separate legal entity in the separate financial statements of the parent company.

### Share-based payments

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

Equity settled share-based payment transactions are measured with reference to the fair value at the date of grant, recognised on a straight line basis over the vesting period, based on the company's estimate of shares that will eventually vest. Fair value is measured using the Black-Scholes model in the case of valuation of options with non-market-based conditions and a Binomial model in the case of valuation of options with market-based conditions. Where options include a range of target share prices a Monte Carlo simulation model has been used.

At each Statement of Financial Position 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 Statement of Financial Position date is recognised in the Income Statement, with a corresponding entry in equity.

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

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

### Accounting standards and interpretations not applied

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

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



## 2. Accounting policies (continued)

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

		Effective date
IFRS 1	First-time Adoption of International Financial Reporting Standards – Additional Exemptions for First-time Adopters (Amendments)	1 January 2010
IFRS 1	First-time Adoption of International Financial Reporting Standards – Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters	1 July 2010
IFRS 2	Group Cash-settled Share-based Payment Transactions	1 January 2010
IFRS 9	Financial Instruments: Classification & Measurement	1 January 2013
IAS 24	Related Party Disclosures (Revised)	1 January 2011
IAS 27	Consolidated and Separate Financial Statements (revised January 2008)	1 July 2009
IAS 32	Financial Instruments: Presentation – Classification of Rights Issues	1 February 2010
IFRIC 14	Prepayments of an Immediate Funding Requirement (Amendment)	1 January 2011
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments	1 July 2010

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

## 3. Judgements and key sources of estimation uncertainty

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

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

### Fair value of shares issued in reverse acquisition of Evolutec Group PLC

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

### Equity-settled share-based payments

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

### Taxation

Management judgement is required to determine the amount of deferred 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 deferred tax losses at 31 July 2010 was £343,000 (2009: £270,000). The value of deferred tax asset not recognised at the year end is nil, as measured at a standard tax rate of 27%.

# Notes to the Financial Statements

for the year ended 31 July 2010 (continued)

## 4. Segmental information

### Operating segments

At 31 July 2010 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 (i.e. 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 2010 £000	31 July 2009 £000
<b>Analysis of revenue</b>		
Products sold	82	114
Rendering of services	1,220	372
Royalties and licences	1,586	1,340
Grant income	49	168
	<b>2,937</b>	<b>1,994</b>

Included within rendering of services and royalties and licences is revenue from two material customers amounting to £839,000 and £1,586,000 respectively.

### Geographical information

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

	31 July 2010 £000	31 July 2009 £000
<b>Revenue</b>		
UK	49	170
Europe (excluding UK)	117	63
Asia	2,754	1,697
USA	17	64
	<b>2,937</b>	<b>1,994</b>

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

## 5. Operating loss

The Group	31 July 2010 £000	31 July 2009 restated £000
Operating loss is stated after charging/(crediting):		
Depreciation on plant and equipment (see note 10)	428	233
Amortisation of intangible assets (see note 11)	60	39
Cost of reverse acquisition (see note 23)	–	195
Staff costs (see note 6)	2,093	1,414
Foreign exchange losses/(gains)	44	(4)
Grants receivable	(48)	(168)
Research and development expense*	1,850	1,259
Cost of inventories recognised as an expense (included in cost of sales)	148	11
Operating lease rentals (see note 22):		
Land and buildings	140	122
Auditor's remuneration:		
Audit services		
– Fees payable to company auditor for the audit of the parent and the consolidated accounts	10	11
Fees payable to company auditor for other services		
– Auditing the accounts of subsidiaries pursuant to legislation	13	14
– Other services**	27	28
Total auditor's remuneration	50	53

\* Included within research and development expense are staff costs totalling £1,429,000 (2009: £1,114,000).

\*\* In the year to 31 July 2009 additional fees of £65,000 were payable to the company auditors in relation to their services in respect of the Company's re-admission to AIM. These fees were treated as part of the cost of acquisition and were charged to the Statement of Financial Position.

## 6. Staff costs

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

The Group	31 July 2010 Number	31 July 2009 Number
Directors	5	3
Laboratory and administrative staff	34	24
	39	27

	31 July 2010 £000	31 July 2009 restated £000
Wages and salaries	1,775	1,224
Social security costs	152	118
Share-based payments	166	72
	2,093	1,414

Directors' remuneration included in the aggregate remuneration above comprised:		
Emoluments for qualifying services	287	370

Directors' emoluments, (excluding social security costs), disclosed above include £129,000 paid to the highest paid Director (2009: £192,000).

# Notes to the Financial Statements

for the year ended 31 July 2010 (continued)

## 7. Finance income/(cost)

The Group	31 July 2010 £000	31 July 2009 £000
Finance income:		
Bank interest receivable	68	57
Finance cost:		
Loan interest payable	(11)	(25)
	57	32

## 8. Taxation

The tax credit is made up as follows:

The Group	31 July 2010 £000	31 July 2009 £000
<b>Current income tax:</b>		
UK corporation tax losses in the year	–	–
Research and development income tax credit receivable	(433)	(254)
Prior year adjustment	16	14
Total current income tax	(417)	(240)
<b>Deferred tax:</b>		
Origination and reversal of temporary differences	129	–
Total deferred tax	129	–
Total tax credit in the income statement	(288)	(240)

### Factors affecting tax charge for the year:

The Group	31 July 2010 £000	31 July 2009 £000
The tax assessed for the year varies from the standard rate of corporation tax as explained below:		
Loss on ordinary activities before taxation	(1,371)	(780)
Tax at standard rate of 28% (2009: 28%)	(384)	(218)
<b>Effects of:</b>		
Expenses not deductible for tax purposes	48	75
Capital allowances in excess of depreciation	(133)	(47)
Additional reduction for research and development expenditure	(379)	(190)
Surrender of research and development relief for repayable tax credit	867	380
Research and development tax credit receivable	(433)	(254)
Deferred tax provided at 27%	129	–
Utilisation of brought forward losses	(19)	–
Prior year adjustment	16	14
Tax credit in income statement	(288)	(240)

The Group has accumulated losses available to carry forward against future trading profits. The estimated value of the deferred tax asset, measured at a standard rate of 27% (2009: 28%) is £343,000 (2009: £270,000).

The Group also has accelerated capital allowances for which the tax, measured at a standard rate of 27% (2009: 28%) is £472,000 (2009: £258,000). The excess of accelerated capital allowances over accumulated losses has been provided for as a deferred tax liability.

## 9. Earnings per share

The Group	31 July 2010 £000	31 July 2009 £000
Loss for the financial year attributable to equity shareholders	<b>(1,083)</b>	(540)
Share-based payments	<b>166</b>	72
Cost of reverse acquisition	–	195
Loss for the financial year before share-based payments	<b>(917)</b>	(273)
<b>Weighted average number of shares:</b>		
Ordinary shares in issue	<b>180,397,031</b>	171,646,252
Issuable on vesting of share options	<b>13,489,244</b>	4,370,927
Diluted weighted average number of shares	<b>193,886,275</b>	176,017,179
<b>Adjusted earnings per share before share-based payments and cost of reverse acquisition in 2009 (pence)</b>	<b>(0.51)</b>	(0.16)
<b>Basic earnings per share (pence)</b>	<b>(0.60)</b>	(0.31)
<b>Diluted earnings per share (pence)</b>	<b>(0.56)</b>	(0.31)

Weighted average number of shares in issue exclude those held by the Employee Benefit Trust.

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

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

## 10. Fixed assets

The Group	Laboratory infrastructure £000	Office equipment, fixtures and fittings £000	Plant and machinery £000	Total £000
<b>Cost:</b>				
<b>At 1 August 2008</b>	<b>855</b>	<b>200</b>	<b>316</b>	<b>1,371</b>
Additions	837	65	340	1,242
Grant received	(32)	–	–	(32)
Reclassification	–	(106)	106	–
<b>At 31 July 2009</b>	<b>1,660</b>	<b>159</b>	<b>762</b>	<b>2,581</b>
Additions	24	30	1,082	1,136
Grant received	(32)	–	–	(32)
<b>At 31 July 2010</b>	<b>1,652</b>	<b>189</b>	<b>1,844</b>	<b>3,685</b>
<b>Depreciation:</b>				
<b>At 1 August 2008</b>	<b>120</b>	<b>41</b>	<b>60</b>	<b>221</b>
Provided during the year	94	68	71	233
Reclassification	–	(41)	41	–
<b>At 31 July 2009</b>	<b>214</b>	<b>68</b>	<b>172</b>	<b>454</b>
Provided during the year	185	47	196	428
<b>At 31 July 2010</b>	<b>399</b>	<b>115</b>	<b>368</b>	<b>882</b>
<b>Net book value:</b>				
<b>At 31 July 2010</b>	<b>1,253</b>	<b>74</b>	<b>1,476</b>	<b>2,803</b>
At 31 July 2009	1,446	91	590	2,127

# Notes to the Financial Statements

for the year ended 31 July 2010 (continued)

## 10. Fixed assets (continued)

Fixed asset additions for the year ended 31 July 2010 include £521,000 of equipment that was in the process of construction at 31 July 2010 and was paid for after the year end.

## 11. Intangible assets

The Group	Patents £000
<b>Cost:</b>	
<b>At 1 August 2008</b>	<b>323</b>
Additions	136
<b>At 31 July 2009</b>	<b>459</b>
Additions	300
<b>At 31 July 2010</b>	<b>759</b>
<b>Amortisation:</b>	
<b>At 1 August 2008</b>	<b>44</b>
Provided during the year	39
<b>At 31 July 2009</b>	<b>83</b>
Provided during the year	60
<b>At 31 July 2010</b>	<b>143</b>
<b>Net book value:</b>	
<b>At 31 July 2010</b>	<b>616</b>
At 31 July 2009	376

## 12. Investment in subsidiaries

The Company	Shares £000	Loans £000	Loan provision £000	Total £000
<b>At 31 December 2008</b>	<b>5,338</b>	<b>26,483</b>	<b>(26,030)</b>	<b>5,791</b>
Increase in respect of share-based payments	–	167	–	167
Impairment	(5,338)	–	–	(5,338)
Repayment of loan	–	(6,197)	6,197	–
Increase in loan provision	–	–	(453)	(453)
Acquisition of subsidiary	63,255	–	–	63,255
<b>At 31 July 2009</b>	<b>63,255</b>	<b>20,453</b>	<b>(20,286)</b>	<b>63,422</b>
Increase in respect of share-based payments	–	166	–	166
<b>At 31 July 2010</b>	<b>63,255</b>	<b>20,619</b>	<b>(20,286)</b>	<b>63,588</b>

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

The impairment of the investment in shares in 2009 relates to the Company's investment in Nanoco Life Sciences Limited (formerly Evolutech Life Sciences Limited). The Directors have concluded that the investment's recoverable amount was nil.



## 12. Investment in subsidiaries (continued)

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

Subsidiary undertakings	Country of incorporation	Principal activity	Share of issued ordinary share capital	
			31 July 2010	31 July 2009
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%

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

## 13. Inventories

	31 July 2010 Group £000	31 July 2010 Company £000	31 July 2009 Group £000	31 December 2009 Company £000
Raw materials and consumables	18	–	17	–

## 14. Trade and other receivables

	31 July 2010 Group £000	31 July 2010 Company £000	31 July 2009 Group £000	31 December 2009 Company £000
Trade receivables	334	–	101	–
Less: provision for doubtful debts	–	–	–	–
Net trade receivables	334	–	101	–
Prepayments	156	–	118	–
Inter-company loan to subsidiary	–	5,175	–	–
Other receivables	94	–	159	–
	584	5,175	378	–

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

Trade receivables are denominated in the following currencies:

	31 July 2010 Group £000	31 July 2010 Company £000	31 July 2009 Group £000	31 December 2009 Company £000
Sterling	–	–	84	–
US Dollars	334	–	17	–
	334	–	101	–

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

	Total £000	Neither past due or impaired £000	<30 days £000	Past due but not impaired 30 to 60 days £000
2010	334	334	–	–
2009	101	101	–	–

# Notes to the Financial Statements

for the year ended 31 July 2010 (continued)

## 14. Trade and other receivables (continued)

Movements in the provision for doubtful debts were as follows:

	31 July 2010 Group £000	31 July 2010 Company £000	31 July 2009 Group £000	31 December 2009 Company £000
At beginning of year	–	–	5	–
Amounts written off	–	–	–	–
Unused amounts reversed	–	–	(5)	–
At end of year	–	–	–	–

## 15. Cash, cash equivalents and deposits

	31 July 2010 Group £000	31 July 2010 Company £000	31 July 2009 Group £000	31 December 2009 Company £000
Short-term investments	2,000	–	–	–
Cash and cash equivalents	3,682	516	6,589	5,939
	5,682	516	6,589	5,939

Under IFRS 7, cash held on long term deposits that cannot readily be converted into cash has been classified as a short term investment. The maturity on this investment was twelve months from the date of investment.

Cash and cash equivalents at 31 July 2010 include deposits with original maturity of three months or less of £2,502,000 (2009: £6,385,000).

An analysis of cash, cash equivalents and deposits by denominated currency is given in note 24.

## 16. Trade and other payables

	31 July 2010 Group £000	31 July 2010 Company £000	31 July 2009 Group £000	31 December 2009 Company £000
Trade payables	933	–	144	–
Other payables	584	–	72	–
Accruals	293	–	160	–
	1,810	–	376	–

Other payables includes £539,000 of deferred revenue.

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

Trade payables include £521,000 of equipment additions that were still in the process of construction at 31 July 2010 and for which payment was made after the year end.

## 17. Financial liabilities

	31 July 2010 Group £000	31 July 2010 Company £000	31 July 2009 Group £000	31 December 2009 Company £000
<b>Non-current</b>				
Other loan	348	–	412	–
Loan from subsidiary	–	–	–	316
<b>Current</b>				
Other loan	63	–	63	–
	<b>411</b>	<b>–</b>	<b>475</b>	<b>316</b>

The Directors consider that the carrying amount of financial liabilities approximates to their fair value. Loans from subsidiaries bear no interest and have no formal terms of repayment in place (see note 25 for further details).

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

## 18. Issued equity capital

The Group	Number	Share capital £000	Share premium £000	Reverse acquisition reserve £000	Total £000
<b>Authorised ordinary shares of 10p:</b>					
<b>As at 1 August 2008</b>	<b>77,000,000</b>	<b>7,700</b>	<b>–</b>	<b>–</b>	<b>7,700</b>
Increase in authorised share capital	173,000,000	17,300	–	–	17,300
<b>At 31 July 2010 and 31 July 2009</b>	<b>250,000,000</b>	<b>25,000</b>	<b>–</b>	<b>–</b>	<b>25,000</b>
<b>Allotted, issued and fully paid ordinary shares of 10p:</b>					
<b>As at 1 August 2008</b>	<b>25,949,996</b>	<b>2,595</b>	<b>24,442</b>	<b>–</b>	<b>27,037</b>
Share premium on treasury shares reclassified to EBT (see note 21)	–	–	(20)	–	(20)
Shares issued to acquire Nanoco Tech Limited (see note 12)	158,138,036	15,814	47,441	–	63,255
Arising on reverse acquisition of Nanoco Tech Limited	–	–	–	(77,466)	(77,466)
Expenses of issue of shares	–	–	(455)	–	(455)
Other movement	68,250	7	(8)	1	–
<b>As at 31 July 2009</b>	<b>184,156,282</b>	<b>18,416</b>	<b>71,400</b>	<b>(77,465)</b>	<b>12,351</b>
<b>As at 31 July 2010</b>	<b>184,156,282</b>	<b>18,416</b>	<b>71,400</b>	<b>(77,465)</b>	<b>12,351</b>

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.

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

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

# Notes to the Financial Statements

for the year ended 31 July 2010 (continued)

## 18. Issued equity capital (continued)

The Company	Number	Share capital £000	Share premium £000	Total £000
<b>Authorised ordinary shares of 10p:</b>				
<b>As at 1 August 2008</b>	<b>77,000,000</b>	<b>7,700</b>	<b>–</b>	<b>7,700</b>
Increase in authorised share capital	173,000,000	17,300	–	17,300
<b>At 31 July 2010 and 31 July 2009</b>	<b>250,000,000</b>	<b>25,000</b>	<b>–</b>	<b>25,000</b>
<b>Allotted, issued and fully paid ordinary shares of 10p:</b>				
<b>As at 1 August 2008</b>	<b>25,949,996</b>	<b>2,595</b>	<b>24,442</b>	<b>27,037</b>
Share premium on treasury shares reclassified to EBT (see note 21)	–	–	(20)	(20)
Shares issued to acquire Nanoco Tech Limited (see note 12)	158,138,036	15,814	47,441	63,255
Expenses of issue of shares	–	–	(455)	(455)
Other movement	68,250	7	(7)	–
<b>As of 31 July 2009</b>	<b>184,156,282</b>	<b>18,416</b>	<b>71,401</b>	<b>89,817</b>
<b>As at 31 July 2010</b>	<b>184,156,282</b>	<b>18,416</b>	<b>71,401</b>	<b>89,817</b>

## 19. Share-based payments

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 Statements of Changes in Equity.

A charge of £166,000 has been recognised in the Income Statement for the year (2009: £72,000).

### 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, following a lock in period, 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. The fair value benefit is measured using a Black-Scholes valuation model, taking into account the terms and conditions upon which the share options were issued.

#### • Nanoco Group PLC Long Term Incentive Plan (“LTIP”)

Share options were granted to management and staff on 27 November 2009 under the terms of the Nanoco Group PLC long term incentive plan and will be exercisable subject to performance conditions being met based on: share price following publication of the 2012 results and EPS targets relating to the financial year ended 31 July 2012. The exercise price was set at 40 pence for all staff apart from Michael Edelman and Nigel Pickett, for whom the exercise price was set at 78 pence. The average market price of the company’s shares on the date of issue of the LTIP award was 69 pence. The fair value benefit is measured using a Monte Carlo model, taking into account the terms and conditions upon which the share options were issued.

## 19. Share-based payments (continued)

The key performance target criteria governing the exercise of the share options are summarised as follows:

% of award	Performance conditions	Targets		% shares vesting		Notes
		Minimum	Stretch	Minimum	Stretch	
50%	EPS	2 pence	4 pence<	0%	100%	(1)
50%	Share price	£1.20	£1.60	50%	100%	(2)

- (1) To the extent that EPS is greater than the EPS minimum threshold but less than the EPS stretch award, the number of options that will become exercisable will be calculated pro-rata on a straight line basis.
- (2) To the extent that the share price is greater than the minimum target but less than the stretch target, the number of options that will become exercisable will be calculated pro-rata on a straight line basis.

### • Nanoco Group Share Incentive Plan

Share options are awarded to management and key staff on joining the Company, as a mechanism for attracting and retaining key members of staff. The options are issued at either market price on the day of joining, or in the event of abnormal price movements on the day of joining, at an average market price for the week preceding start date. These options are exercisable any time after the third anniversary of the award and prior to 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 also operates a jointly owned EBT share scheme for senior management under which the trustee of the Group sponsored EBT has acquired shares in the Company jointly with a number of employees. The shares were acquired pursuant to certain conditions set out in Jointly Owned Agreements ("JOEs"). Subject to meeting the performance criteria conditions set out in the JOEs the employees are able to exercise an option to acquire the trustee's interests in the jointly owned EBT shares at the option price. All of the relevant conditions have been successfully met in respect of options held within the EBT, and options are capable of being exercised, following a lock in period, 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. The fair value benefit is measured using a Black-Scholes valuation model, taking into account the terms and conditions upon which the jointly owned shares were purchased.

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

	2010				2009 Total number
	EMI number	EBT number	Unapproved number	Total number	
<b>The Group and Company</b>					
Outstanding at 1 August	8,044,400	3,759,251	386,750	12,190,401	2,521,209
Granted during the year	1,771,799	–	825,886	2,597,685	173,000
Exercised during the year	–	–	–	–	(15,000)
Adjustment on reverse acquisition	–	–	–	–	9,511,192
Outstanding at 31 July	9,816,199	3,759,251	1,212,636	14,788,086	12,190,401
Exercisable at 31 July	–	–	–	–	–

### Weighted average exercise price of options

	2010 pence	2009 pence
<b>The Group and Company</b>		
Outstanding at 1 August	5.2	4.6
Granted during the year	54.7	14.5
Exercised during the year	–	14.5
Outstanding at 31 July	14.0	5.2

# Notes to the Financial Statements

for the year ended 31 July 2010 (continued)

## 19. Share-based payments (continued)

The weighted average fair value of options granted during the year to 31 July 2010 was 54.7p (2009: 14.5p) (66p pre-adjustment on reverse acquisition). The range of exercise prices for options and jointly owned EBT shares outstanding at the end of the year was 3.5p-87.5p (2009: 3.52p-14.5p) (16p to 66p pre-adjustment in reverse acquisition).

For the share options outstanding as at 31 July 2010, the weighted average remaining contractual life is 148 days (2009: 170 days).

The weighted average share price at the date of exercise for those share options exercised in the year ended 31 July 2009 was 66p.

The following table lists the inputs to the models used for the years ended 31 July 2010 and 31 July 2009.

The Group and Company	Share options granted in year to 31 July					
	Nanoco Tech Share Incentive Plan		Nanoco Group LTIP Plan		Nanoco Group Share Incentive Plan	
	2010	2009	2010	2009	2010	2009
Dividend yield	–	–	–	–	–	–
Expected volatility (%)	–	50%	40%	–	40%	–
Risk free interest rate (%)	–	4.5%	0.9%	–	0.9%	–
Expected vesting life of options (years average)	–	3.0	3.0	–	3.0	–
Weighted average exercise price (pence)	–	14.5p	49p	–	86p	–
Weighted average share price at date of grant (pence)	–	14.5p	69p	–	86p	–
Model used	–	Black- Scholes	Monte Carlo	–	Binomial model	–

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 2008, 31 July 2009 and 31 July 2010	(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 December 2008, 31 July 2009 and 31 July 2010	4,804

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



## 21. Movement in revenue reserve and treasury shares

The Group	Retained deficit £000	Treasury shares £000	Total revenue reserve £000
<b>Ordinary shares of 10p:</b>			
<b>As at 1 August 2008</b>	<b>(1,420)</b>	<b>(545)</b>	<b>(1,965)</b>
Loss for the year	(540)	–	(540)
Arising on reverse acquisition of Nanoco Tech Limited	20	(20)	–
<b>As at 31 July 2009</b>	<b>(1,940)</b>	<b>(565)</b>	<b>(2,505)</b>
Loss for the year	(1,083)	–	(1,083)
<b>As at 31 July 2010</b>	<b>(3,023)</b>	<b>(565)</b>	<b>(3,588)</b>

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

Treasury shares represent the cost of Nanoco Group PLC shares purchased in the market and held by the Nanoco Group Sponsored Employee Benefit Trust (“EBT”) jointly with a number of the Group’s employees. At 31 July 2010 and 31 July 2009 3,771,473 shares in the Company were held by the EBT.

The Company	Retained deficit £000	Treasury shares £000	Total revenue reserve £000
<b>Ordinary shares of 10p:</b>			
<b>As at 31 December 2008</b>	<b>(26,030)</b>	<b>(20)</b>	<b>(26,050)</b>
Treasury shares reclassified to EBT (see note 18)	–	20	20
Profit for the period	287	–	287
<b>At 31 July 2009</b>	<b>(25,743)</b>	<b>–</b>	<b>(25,743)</b>
Profit for the year	68	–	68
<b>At 31 July 2010</b>	<b>(25,675)</b>	<b>–</b>	<b>(25,675)</b>

## 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 2010 Group £000	31 July 2009 Group £000
Land and buildings:		
Not later than one year	157	134
After one year but not more than five years	494	400
After five years	267	367
	<b>918</b>	<b>901</b>

# Notes to the Financial Statements

for the year ended 31 July 2010 (continued)

## 23. Acquisition of subsidiary undertaking in 2009

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

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

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

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

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

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

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

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

## 24. Financial instruments

### Capital risk management

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

The capital structure of the Group consists of equity attributable to equity holders of the parent, comprising issued share capital, reserves and retained earnings as disclosed in notes 18, 20 and 21 and in the Group Statement of Changes in Equity. Total equity was £7,854,000 at 31 July 2010 (£8,771,000 at 31 July 2009).

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

## 24. Financial instruments (continued)

### Categorisation of financial instruments

Financial assets/liabilities	Loans and receivables £000	Financial liabilities at amortised cost £000	Total £000
<b>31 July 2010</b>			
Trade and other receivables	334	–	334
Cash and cash equivalents and deposits	5,682	–	5,682
Trade and other payables	–	(1,810)	(1,810)
Financial liabilities	–	(411)	(411)
	<b>6,016</b>	<b>(2,221)</b>	<b>(3,795)</b>
<b>31 July 2009</b>			
Trade and other receivables	101	–	101
Cash and cash equivalents and deposits	6,589	–	6,589
Trade and other payables	–	(376)	(376)
Financial liabilities	–	(475)	(475)
	<b>6,690</b>	<b>(851)</b>	<b>5,839</b>

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

#### Credit risk

The Group's principal financial assets are cash, 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 high credit ratings.

The Company 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.

At 31 July 2010 there was a single material receivable balance which was paid in full within one month.

#### Foreign currency risk

The company has transactional as well as translational currency exposures. Such exposure arises from sales or purchases in currencies other than the functional currency. The split of assets between Sterling and other currencies at the year end is analysed as follows:

	31 July 2010			31 July 2009		
	GBP £000	USD £000	Total £000	GBP £000	USD £000	Total £000
<b>The Group</b>						
Cash, cash equivalents and deposits	4,756	926	5,682	6,566	23	6,589
Trade receivables	–	334	334	84	17	101
	<b>4,756</b>	<b>1,260</b>	<b>6,016</b>	<b>6,650</b>	<b>40</b>	<b>6,690</b>

# Notes to the Financial Statements

for the year ended 31 July 2010 (continued)

## 24. Financial instruments (continued)

The following table demonstrates the sensitivity to a reasonably possible change in the Sterling against US Dollar exchange rate with all other variables held constant, on the Group's profit 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 profit before tax £000	Impact on equity £000
10%	(115)	(115)
5%	(60)	(60)
(5%)	66	66
(10%)	140	140

There was no material impact on loss before tax or equity arising from the re-translation of foreign currency assets as at 31 July 2009 due to potential changes in the US Dollar/Sterling rate.

### Interest rate risk

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

The Group	31 July 2010			31 July 2009		
	Fixed rate £000	Floating rate £000	Total £000	Fixed rate £000	Floating rate £000	Total £000
Cash, cash equivalents and deposits	4,004	1,678	5,682	5,896	693	6,589

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 2010 based on contractual undiscounted payments including contractual interest.

2010	Less than 1 year £000	1 to 5 years £000	Greater than 5 years £000	Total £000
<b>Financial liabilities</b>				
Trade and other payables	1,271	–	–	1,271
Other loans	78	288	100	466
	1,349	288	100	1,737
2009	Less than 1 year £000	1 to 5 years £000	Greater than 5 years £000	Total £000
<b>Financial liabilities</b>				
Trade and other payables	376	–	–	376
Other loans	81	298	168	547
	457	298	168	923

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

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

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

## 25. Related party transactions

### 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 2010 £000	31 July 2009 £000
<b>Loans owed to Nanoco Group PLC by:</b>			
Nanoco Life Sciences Ltd		20,286	20,286
Nanoco Technologies Ltd*		237	71
Nanoco Tech Ltd		96	96
	12	20,619	20,453
<b>Less provision against debt owed by Nanoco Life Sciences Ltd</b>			
	12	(20,286)	(20,286)
		333	167
<b>Loan owed to/(from) Nanoco Group PLC by:</b>			
Nanoco Technologies Ltd**	14, 17	5,175	(316)

\* The movement in the loan due from Nanoco Technologies Ltd relates to the transfer of obligation in respect of the charge for share-based payments for staff working for Nanoco Technologies Ltd and is included in investments.

\*\* The movement in the current loan due from Nanoco Technologies Ltd relates to transfers of cash balances between the entities for the purposes of investing short term funds.

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

None of the loans are interest bearing.

## 26. Compensation of key management personnel (including Directors)

	2010 £000	2009 £000
Short-term employee benefits	297	296
Share-based payments	25	39
	322	335

# Notice of Annual General Meeting

Notice is hereby given that the sixth annual general meeting of Nanoco Group PLC will be held at The Core Technology Facility, 46 Grafton Street, Manchester M13 9NT on 10 December 2010 at 10.00 a.m. for the purpose of considering, and, if thought fit, passing the following resolutions, of which resolutions numbered 1 to 9 will be proposed as ordinary resolutions and resolutions 10 to 12 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 2010, now laid before this meeting, be and are hereby approved.
- 2 That the Directors' remuneration report, on pages 22 to 23 of the Company's annual report, be and is hereby approved.
- 3 That St Gabrielle LLP, a limited liability partnership of which Anthony Clinch is a partner, which 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 Colin White, who retires in accordance with the articles of association of the Company, be and is hereby re-elected as a Director of the Company.
- 5 That Dr Peter Rowley, who retires by rotation, be and is hereby re-elected as a Director of the Company.
- 6 That Dr Nigel Pickett, who retires by rotation, be and is hereby re-elected as a Director of the Company.
- 7 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.
- 8 That the Board of Directors be and is hereby authorised to agree the remuneration of the auditors.
- 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 £6,187,923 (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 £6,187,923 (approximately one third of the Company's issued share capital at the date of this notice) in connection with a rights issue offered to holders of equity securities and other persons who are entitled to participate, in proportion (as nearly as may be) to their then holdings of equity securities (or, as appropriate, the numbers of such securities which such other persons are for those purposes deemed to hold), subject only to such exclusions or other arrangements as the Directors may feel necessary or expedient to deal with fractional entitlements or legal or practical problems under the laws of, or the requirements of any recognised regulatory body of, or any stock exchange in, any territory,

provided that both such authorities shall (unless previously revoked, varied or renewed) expire on the earlier of the date of the next annual general meeting of the Company and 10 March 2012, 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.



### Special Resolutions

- 10 That, conditionally upon the passing of resolution numbered 9 above, in accordance with section 570 of the 2006 Act, the Directors be and they are hereby given power to allot equity securities (as defined in section 560 of the 2006 Act) pursuant to the authority conferred by resolution numbered 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 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 £1,856,377 (approximately 10% of the Company's issued share capital at the date of this notice),
- provided that the power granted by this resolution shall (unless previously revoked, varied or renewed) expire on the earlier of the date of the next annual general meeting and 10 March 2012, 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 provided that:
- 11.1 the Company does not purchase more than 27,827,088 ordinary shares (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 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 10 March 2012, save that the Company may before such expiry make a contract to purchase ordinary shares which will or may be executed wholly or partly after the expiry of such authority, and may make a purchase of ordinary shares in pursuance of any such contract, as if such authority had not expired.
- 12 That the articles of association, produced to the meeting and initialled by the chairman of the meeting for the purpose of identification, be adopted as the articles of association of the Company in substitution for, and to the exclusion of, the existing articles of association.

By order of the Board

### M Sullivan

Secretary  
Registered office:  
46 Grafton Street  
Manchester  
M13 9NT  
25 October 2010

# Notice of Annual General Meeting

(continued)

## 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 8 December 2010, 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 8 December 2010 or, if the meeting is adjourned, on the register of members after 6.00 p.m. on the day two days before the date fixed for the adjourned meeting, will be disregarded in determining the right of any person to attend and vote at the meeting.

## Appointment of proxy using hard copy proxy form

- 6 The notes to the proxy form explain how to direct your proxy on how to vote on each resolution or withhold their vote. To appoint a proxy using the proxy form, the form must be:
  - completed and signed;
  - sent or delivered to the Company's registrars, Capita Registrars, PXS, 34 Beckenham Road, Beckenham BR3 4TU; and
  - received by no later than 10.00 a.m. on 8 December 2010.

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, Capita Registrars, PXS, 34 Beckenham Road, Beckenham BR3 4TU.

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

### **Termination of proxy appointments**

- 8 In order to revoke a proxy instruction you will need to inform the Company by sending a signed hard copy notice clearly stating your intention to revoke your proxy appointment to the Company's registrars, Capita Registrars, PXS, 34 Beckenham Road, Beckenham BR3 4TU. 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.

### **Appointment of proxy using CREST electronic proxy appointment service**

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

### **Communications**

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

### **Documents available for inspection**

- 16 There are available for inspection at the registered office of the Company during usual business hours on any week day (Saturdays, Sundays and public holidays excepted), and there will be available for inspection at the place of the annual general meeting from at least fifteen minutes prior to and until the conclusion of the annual general meeting:
  - A copy of the proposed new articles of association of the Company, together with a copy of the existing articles of association of the Company marked to show the changes being proposed; an electronic copy will be available on the website, [www.nanocotechnologies.com](http://www.nanocotechnologies.com), in advance of the AGM;
  - 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

These explanatory notes 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 2010. The full text of the report is contained on pages 22 to 23 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 6 – Re-election of Directors**

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

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

## **Resolution 3 and 4 – Re-election of St Gabrielle LLP and Colin White**

Each of the above, having been appointed since the Company's last annual general meeting, offers himself for re-election, in accordance with the Company's articles of association. Details of their respective CV's are on pages 18 to 19 of the Company's annual report.

## **Resolutions 5 and 6 – Re-election of Dr Peter Rowley and Dr Nigel Pickett**

Each of Dr Peter Rowley and Dr Nigel Pickett, 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 page 18 of the Company's annual report.

## **Resolution 7 – 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 8 – Remuneration of the auditors**

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

## **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 10p each in the capital of the Company up to a maximum nominal amount of £6,187,923, being approximately one third of the nominal value of the ordinary shares in issue on 25 October 2010; and
- (ii) in addition to the authority described above, to allot ordinary shares of 10p each in the capital of the Company up to a maximum nominal amount of £6,187,923 pursuant to a rights issue in respect of which all shareholders are entitled to participate as nearly as possible in proportion to their holding of shares in the Company at the time.

This authority (unless previously revoked, varied or renewed) will expire on the earlier of the date of the next annual general meeting of the Company and 15 months after the date of the passing of the resolution. The Directors will exercise the authority to allot only when satisfied that it is in the interests of the Company to do so. They have no present intention of exercising the authority, except in connection with the issue of shares under the Company's share option and long-term incentive plans.

### **Resolution 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 10p each of the Company, to the extent that they are not disapplied pursuant to section 570 of the Companies Act 2006. This provision also covers the sale of treasury shares (should the Company elect to hold any) for cash.

It is proposed that the disapplication of these statutory pre-emption rights be approved, as a special resolution, to give the Directors power to allot shares without the application of these statutory pre-emption rights, first, in relation to rights issues and, secondly, in relation to the issue of ordinary shares of 10p each in the capital of the Company for cash up to a maximum aggregate nominal amount of £1,856,377 (representing approximately 10% of the nominal value of the ordinary shares in issue on 25 October 2010).

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

### **Resolution 11 – Purchase by the Company of its own shares**

The purpose of resolution 11 is to obtain the authority for the Company to purchase its ordinary shares. Under the Companies Act 2006 such an authority must first be sanctioned by an ordinary resolution of the Company in general meeting, but current institutional shareholder voting guidelines require that any such authority should be sanctioned by special resolution.

Accordingly, resolution 11 will be proposed as a special resolution to authorise the Company to purchase a maximum of 27,827,088 ordinary shares (equal to approximately 14.99% of the Company’s present issued ordinary share capital) on AIM at a price per share of not less than 10p, and not more than 5% above the average of the middle market quotations for ordinary shares of the Company for the five business days immediately preceding the day of purchase. In order to maximise the benefit to be derived by the Company, it would be the Directors’ intention that any purchases should be made at as low a price (within the limits specified in resolution 11) as they consider reasonably obtainable.

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

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

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

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

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

# Explanatory Notes of Annual General Meeting

(continued)

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

## **Resolution 12 – Adoption of new articles of association**

Resolution 12, which is being proposed as a special resolution, asks shareholders to approve the adoption of new articles of association to reflect the implementation of the final parts of the Companies Act 2006 and the implementation of the Companies (Shareholders' Rights) Regulations 2009 ("Regulations"), as they affect the Company.

A copy of the proposed new articles of association ("New Articles"), together with a copy of the existing articles of association of the Company ("Current Articles") marked to show the changes being proposed, will be available for inspection at the registered office of the Company during usual business hours on any week day (Saturdays, Sundays and public holidays excepted) until the conclusion of the annual general meeting. An electronic copy will be available on the website, [www.nanocotechnologies.com](http://www.nanocotechnologies.com), in advance of the meeting.

Below is a summary of the main changes to the articles of association which would be effective if this resolution is passed.

### **1 General**

Generally the opportunity has been taken to replace and, where appropriate, remove obsolete references to the Companies Act 1985. Furthermore, provisions in the Current Articles which replicate provisions contained in the Companies Act 2006 are in the main to be removed in the New Articles.

### **2 General meetings**

The Current Articles contain provisions which refer to extraordinary general meetings and extraordinary resolutions. These provisions have been amended or removed as appropriate, as the concept of extraordinary general meetings and extraordinary resolutions has not been retained under the Companies Act 2006.

The Regulations have amended the Companies Act 2006 so that it now provides that each proxy appointed by a member has one vote on a show of hands unless the proxy is appointed by more than one member, in which case the proxy has one vote for and one vote against if the proxy has been instructed by one or more members to vote for the resolution and by one or more members to vote against the resolution.

The New Articles remove provisions in the Current Articles dealing with voting rights of proxies on the basis that these are dealt with in the Companies Act 2006; and contain a provision clarifying how the provision of the Act giving a proxy a second vote on a show of hands should apply to discretionary authorities.

The Regulations have amended the Companies Act 2006 so that proxies are required to vote in accordance with instructions given by the shareholder by whom the proxy is appointed. The New Articles state that the Company is not required to confirm that a proxy has followed instructions and that a failure of the proxy to vote as instructed does not invalidate the proceedings of the resolution.

The Regulations have amended the Companies Act 2006 in order to enable multiple representatives appointed by the same corporate member to vote in different ways on a show of hands and a poll. The New Articles remove provisions in the Current Articles dealing with voting by corporate representatives on the basis that this is dealt with in the Companies Act 2006.

### **3 Share capital**

Under the Companies Act 1985, a company required specific enabling provisions in its articles to purchase its own shares, to consolidate or subdivide its shares and to reduce its share capital or other undistributable reserves, as well as shareholder authority to undertake the relevant action. The Current Articles include these enabling provisions. Under the Companies Act 2006 a company will only require shareholder authority to do any of these things and it will no longer be necessary for articles to contain enabling provisions. Accordingly the relevant enabling provisions have been removed in the New Articles.

The Current Articles permit the Directors to suspend the registration of transfers. Under the Companies Act 2006 share transfers must be registered as soon as practicable. The power in the Current Articles to suspend the registration of transfers is inconsistent with this requirement. Accordingly, this power has been removed in the New Articles.

### **4 Limit on Directors' fees**

The limit on the aggregate of fees to be paid to Directors pursuant to Article 77 has been amended from £100,000 to £150,000 to reflect the increased number of Non-Executive Directors.



## Notes

# Investor Information

## Directors

Dr Peter Rowley	(Non-Executive Chairman)
Dr Michael Edelman	(Chief Executive Officer)
Dr Nigel Pickett	(Chief Technology Officer)
Mr Colin White	(Chief Financial Officer)
Mr Michael Bretherton	(Non-Executive Director)
Mr Gordon Hall	(Non-Executive Director)
St Gabrielle LLP	(Non-Executive Director) represented by Mr Anthony Clinch

## Secretary

Mr M Sullivan

## Nominated Adviser

Zeus Capital Limited  
3 Ralli Courts  
West Riverside  
Manchester M3 5FT

## Corporate Broker

Bank of America Merrill Lynch  
2 King Edward Street  
London EC1A 1HQ

## Auditor

Ernst & Young LLP  
100 Barbirolli Square  
Manchester M2 3EY

## Legal Adviser

Schofield Sweeney  
76 Wellington Street  
Leeds LS1 2AY

## Investor Relations and Financial PR

Buchanan Communication  
45 Moorfields  
London EC2Y 9AE

## Registered Office

46 Grafton Street  
Manchester M13 9NT

## Website

[www.nanocotechnologies.com](http://www.nanocotechnologies.com)



## Mixed Sources

Product group from well-managed forests, and other controlled sources  
[www.fsc.org](http://www.fsc.org) Cert no. TT-COC-002590  
© 1996 Forest Stewardship Council

## Printed on Hello Matt

Hello Matt is an FSC-recognised paper, produced from well-managed forests. This publication was printed with vegetable oil-based inks by an FSC-recognised printer that holds an ISO 14001 certification.

Designed and produced by **Emperor Design Consultants Ltd**   
Tel +44 (0)131 220 7990 [www.emperordesign.co.uk](http://www.emperordesign.co.uk)

