

**For Immediate Release**

**3 November 2021**

**NANOCO GROUP PLC**  
(“Nanoco”, the “Group”, or the “Company”)

**Preliminary Results for the year ended 31 July 2021**

**Nanoco Group plc (LSE: NANO)**, a world leader in the development and manufacture of cadmium-free quantum dots and other specific nanomaterials emanating from its technology platform, is pleased to announce its preliminary results for the year ended 31 July 2021.

**Operational highlights**

- Delivered all technical milestones for our important European electronics customer
- Signed major new Asian chemicals customer for novel materials in sensing applications
- Completed restructuring of the business around core competencies of R&D, scale up and production
- Continued good progress in our legal action against Samsung for wilful infringement of our IP
- Debt issuance of £3.0 million completed in July 2021 to protect cash runway and value in organic business and the Samsung lawsuit
- Moved from a “single customer, single product” position to one in which the Group now has multiple customers and eight distinct materials.

**Financial highlights**

- Group revenue at £2.1 million (2020: £3.9 million). Decrease due to the completion of the contract with the US Customer in the prior year
- Organic cash runway extended to H2 2022, maximising the Group’s chances of delivering significant organic value and litigation upside value in the coming years
- Adjusted operating loss marginally better than prior year at £4.6 million (2020: £4.8 million), despite reduction in revenue
- Cash of £3.8 million at year end with gross monthly cash costs c. £0.4 million, following substantial and continuing reduction of the cost base

**Brian Tenner, Nanoco’s CEO, commented on the results:**

*“This has been a year of steady progress for Nanoco. We met all existing customer milestones and added new strategic customers, whilst significantly expanding our range of nanomaterials for sensing applications and their addressable wavelengths.*

*“Our extensive efforts on the litigation against Samsung for the alleged wilful infringement of our IP have continued. The outcome of the claim construction hearing (or “Markman”) was very positive for Nanoco: we won the argument on four of the five patents in the case and the fifth had each side win one construction each.*

*“We retain our core competencies and capabilities in R&D, scale up and production and have a small and focused team dedicated to bringing our nanomaterials to market. The opportunities to create significant shareholder value in our organic activities and the Samsung litigation in the short to medium term, are clear and compelling. The Board therefore remains confident in the strength of the investment proposition and value inherent in the business.*

**Analyst meeting and webcast details**

To listen to a webcast of the analyst briefing, please log on to the following web address approximately five minutes before 10:00am, today Wednesday 3 November 2021:

<https://webcasting.brrmedia.co.uk/broadcast/615b17cf4e29f55a94190200>

A recording of the webcast will also be made available on Nanoco's website, [www.nanocotechnologies.com](http://www.nanocotechnologies.com), later today.

**For further information, please contact:****Nanoco**

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**Notes for editors:****About Nanoco Group plc**

Nanoco (LSE: NANO) harnesses the power of nano-materials. Nano-materials are materials with dimensions typically in the range 1 – 100 nm. Nano-materials have a range of useful properties, including optical and electronic. Quantum dots are a subclass of nano-material that have size-dependent optical and electronic properties. The Group produces quantum dots.

Within the sphere of quantum dots, the Group exploits different characteristics of the quantum dots to target different performance criteria that are attractive to specific markets or end-user applications such as the Display and Electronics markets. One of the interesting properties of quantum dots is photoluminescence: the emission of longer wavelength light upon excitation by light of a shorter wavelength. The colour of light emitted depends on the particle size. Nanoco's CFQD® quantum dots are free of cadmium and other toxic heavy metals, and can be tuned to emit light at different wavelengths across the visible and infrared spectrum, rendering them useful for a wide range of applications including displays, lighting and biological imaging.

Nanoco was founded in 2001 and is headquartered in Manchester, UK, with a US subsidiary, Nanoco Inc., in Concord, MA. Nanoco continues to build out a world-class, patent-protected IP portfolio generated both by its own innovation engine, as well as through acquisition.

Nanoco is listed on the Main Market of the London Stock Exchange and trades under the ticker symbol NANO. For further information please visit: [www.nanocogroup.com](http://www.nanocogroup.com).

# Chairman's statement

This has been a year of steady progress for Nanoco. We delivered all existing customer milestones and added new strategic customers. We substantially reduced our cost base, starting with the Board, and the broader team has been re-shaped while retaining our core competencies. In parallel, we have successfully progressed our litigation against Samsung.

## Strategy and business activity

We have significantly expanded our range of nanomaterials for sensing applications and their addressable wavelengths for a variety of potential sensing applications. We have moved steadily from a "single customer, single product" position in sensing to one in which we have multiple customers and eight distinct materials. This expanded range of market leading materials will support more stable revenue growth over the medium term.

While sensing applications are our current primary focus, we also continue to work with partners in display, horticulture and life sciences.

Completion of restructuring activities during the year has allowed us to retain a skilled and focussed team that is able to deliver R&D, scale up and production at scale from our Runcorn facility.

## Samsung litigation

Our extensive efforts on the litigation against Samsung for the alleged wilful infringement of our IP have continued. The outcome of the claim construction hearing (or "Markman"), held in March 2021, was very positive for Nanoco: we won the argument on four of the five patents in the case and the fifth had each side win one construction each.

Once the Patent Trial and Appeal Board ("PTAB") took the decision in May 2021 to review all five patents in the case, it became clear that our best strategy for the case was to agree to a deferral of the trial until after the PTAB issues its ruling on patent validity – expected by May 2022. This approach simplifies the trial process and increases potential damages from allegedly infringing TVs sold by the time of the trial.

Our third party funding partner continues to support all aspects of the lawsuit, including the parallel patent review process. This allows us to focus our financial resources on our organic business activities.

## Covid-19 and financial performance

Through the sterling efforts of our staff we were able to maintain Covid-19 secure customer-focused output in both of our facilities. This allowed us to meet all technical milestones and material deliveries on time.

The Board responded promptly to the Covid-19 pandemic, leading the way with reductions in Directors' salaries, followed by Company-wide temporary pay reductions. With the benefit of restructuring during the year and new commercial business wins, we were able to reverse most staff salary reductions in October 2020 (and in April 2021 for the leadership team).

Monthly gross cash costs are now stable at around £0.4 million per month. With revenue running at between £0.2m and £0.3m per month, the cash burn has been substantially reduced compared with the prior year.

The debt issue in July 2021 extends the Group's cash runway past the initial result of the PTAB and the expected re-scheduled trial in H2 2022. The Board formed the view that the Company's share price did not fairly reflect the value potential within the Group and therefore a non-dilutive debt issue, instead of a highly dilutive equity issue, was in the best interests of all shareholders. Importantly, the debt issue also extends the organic cash runway to a point when we expect to have visibility on potential production orders in the short to medium term – a key strategic priority.

No dividend is proposed for the year (2020:none)

## Governance and Board

During the year, we took decisive steps to reduce the size and cost of the Board, to make it commensurate with the scale of the operations. The cost of the Board is now broadly half that of the prior year. Executive Director salary reductions remained in place for a full year up to March 2021. The Non-Executive Directors now defer 35% of their salaries until there is a significant improvement in the Group's financial condition.

Brian Tenner, the previous COO and CFO, was appointed as CEO on 1 September 2020. This planned succession reflects the positive impact Brian has made on the business since his appointment in August 2018. As previously announced, Michael Edelman stepped down from the Board as CEO with effect from 1 September 2020. He remains available to the Group in his part-time role of Special Adviser to the Litigation Sub-Committee.

Nigel Pickett's notice as CTO was rescinded in March 2021 (having been served in March 2020 as a pre-emptive potential cost reduction measure). Nigel remains critical to the development of our new materials and the ongoing litigation against Samsung.

The smaller Executive team of Brian and Nigel successfully oversaw the delivery of growing commercial opportunities and important development programmes during the year. They have been ably assisted in their efforts by Liam Gray as UK Finance Director and Company Secretary, Kevin Smith as UK Operations Director and the whole of the senior management team.

Just after the year end we welcomed Henry Turcan to the Board as a new Non-Executive Director. Henry is a representative of our major shareholder, Lombard Odier, and brings extensive and valuable experience of capital markets and funding for companies at Nanoco's stage of evolution.

### **Employees and shareholders**

Our staff have again demonstrated great commitment in a challenging year. With more tasks inevitably shared amongst a smaller team, excellent customer service and on time delivery of milestones and material orders have been maintained. This has only been possible through the continued dedication and application of all of our staff. The Board is immensely grateful to our staff for their continued commitment.

I would also like to thank our shareholders for their continuing support. We are very much aware that the Group will continue to burn cash in the near term, as we pursue our goals of building the commercial business while defending our IP through litigation. I look forward to engaging with as many shareholders as possible at our AGM to be held on 30 November 2021.

### **Outlook**

The Board remains convinced of the strong merits of our broad-based platform technology. The programme with a major European electronics company has the potential to move into commercial production in the short to medium term, subject to the delivery of technical milestones and final customer adoption of the associated technology.

The new development programme with a significant Asian chemical company announced in July 2021 also has the potential to follow a similar path, albeit on a slightly longer timeframe.

It remains the case that our current programmes are still subject to risks of failure in other parts of the supply chain or a decision by final customers not to adopt the technology that uses our nanomaterials. As a result, we reiterate the material uncertainty around the timing of future revenue streams.

The litigation against Samsung has significant potential to transform shareholder value. We therefore retain contingency plans to protect our "IP shell" and the potential value in the litigation if we cannot create a self-financing organic business in the medium term. We retain our core competencies and capabilities in R&D, scale up and production and have a small and focused team dedicated to bringing our nanomaterials to market.

The opportunities to create significant shareholder value in our organic activities and the Samsung litigation in the short to medium term, are clear and compelling. The Board therefore remains confident in the strength of the investment proposition and value inherent in the business.

**Dr Christopher Richards**

**Chairman**

*3 November 2021*

# Chief Executive Officer's statement

We have made a number of advances this year in building foundations for potential future value creation. This was achieved despite the continuing challenges of operating in a Covid-19 secure way with unpredictable impacts on staffing due to isolation requirements. The commitment of the team to service our customers and to step up and adopt new responsibilities cannot be faulted.

We grew our pipeline of customer opportunities throughout the year, particularly in infra-red sensing markets. We have also continued development work with customers in the display field using our CFQD® quantum dots which are also relevant for lighting and life sciences opportunities.

The litigation against Samsung for the alleged wilful infringement of our IP has taken significant effort on the part of a small number of team members. The Board is very pleased with progress in the last year and remains confident in the strength of our position and that transformative value can be generated for shareholders if the outcome is successful.

The year finished with a non-dilutive debt issue to extend the cash runway for the organic business and to strengthen the Group's balance sheet for the litigation process.

## **Business performance**

### ***Electronics***

In the first half we achieved all development milestones for our major European electronics customer. A second scope of work was added early in the second half and this was completed successfully just after the year end. We also added additional customer relationships throughout the year with the most notable being a very significant Asian chemical company that supplies advanced materials to global electronics supply chains.

Deliveries for these customers underpinned our revenue for the year and allowed us to finish the year with revenue of £2.1 million in line with Board expectations, having started the year with a contracted order book of £1.0 million. Both of these large customers have the potential for demand volumes that could move the Group significantly towards our goal of becoming self-financing in the medium term. Both relationships are part of our strategy to diversify our commercial risk.

Our offering of nanomaterials for use in sensing applications has moved from a single customer/single product in early 2018 to a position today where we are engaged with five customers and are working with eight distinct materials/ wavelength combinations. Nigel Pickett is leading our ongoing efforts to expand this further to cover multiple material sets in all of the key operating wavelengths, specifically targeting bands such as 1,400nm, 1,550nm and 1,800nm.

The mega-trends seen in electronics, automation, automotive and the Internet of Things more generally continue to be very favourable and support our strategy of adding our nanomaterials to silicon based sensors to significantly enhance their performance and overcome a number of current challenges faced by those devices. Given the scale of these sectors and the other market participants, we are often going to be part of an extensive supply chain. This does mean that we are subject to events and decisions outside of our control – as happened with the US Customer last year – but it also means the potential is very high to deliver significant value if our materials make it into commercial production.

Delivery of technical milestones during the year has moved a number of programmes closer to potential scale up and commercial production. Indeed, already published customer product life cycles suggest we may have good visibility of potential commercial production by the second half of calendar year 2022. While our current activities are more heavily weighted towards development work at this stage, possible scale up activity may occur in FY22, depending of course on the continued successful delivery of technical milestones by Nanoco and ongoing support for these projects by our customers and the ultimate adoption of the technology by the final OEM's in the supply chains.

Our small scale allows us to be much more agile and responsive to our customers' needs than many other players in electronics supply chains. The in-depth nature of our technological insight also means that we do tend to "punch above our weight" in terms of direct engagement even with very large end customers and their technology teams. Conversely, our scale does present challenges for customers in terms of supply chain risks and we work proactively to agree commercial solutions to the issue of supply chain diversity.

### ***Display (CFQD® quantum dots)***

Display remains an important target market for Nanoco. We have maintained our focus on our "dot only" strategy where we aim to provide the highest performing CFQD® quantum dots.

Activity in Display reduced following the end of our collaboration with Merck. Merck has announced its intention to continue investing in electronics materials that may create opportunities for Nanoco in the future but at present, there are no ongoing commercial activities between the two companies. We continue to seek out new relationships and a number of these are moving forward at a small scale.

A number of small R&D projects were delivered for customers during the year. We hope that the final decision to end the Restriction of Hazardous Substances ("RoHS") cadmium exemption for film based displays will soon be legislated and will provide fresh impetus to display panel manufacturers to embrace the benefits of our CFQD® quantum dots. While the European markets currently only see limited sales of cadmium-based QD televisions, the focus of growth on cadmium-free solutions may provide a helpful tailwind.

We retain our core capabilities to deliver display R&D services, scale up and commercial production of material from our Runcorn facility. We are therefore well positioned to take advantage of any broadening in the adoption of non-toxic quantum dots by global display manufacturers when the opportunity arises.

A successful outcome to the litigation with Samsung will also positively affect our ability to derive income from our capabilities in display, whether in production, further robust defence of our existing IP portfolio, or the future licensing of our technology.

We continue to adopt a dual approach to commercial exploitation of our display materials. We are still ready to license our technology to different channel partners but also retain our own manufacturing capability.

### ***Life Sciences***

In November 2020, the Life Sciences team secured a grant from Innovate UK, the UK's innovation agency, for a life sciences project to develop a heavy metal-free quantum dot testing kit for the accurate and rapid visual detection of Covid-19. The project builds on Nanoco's existing capabilities in utilising quantum dots conjugated with antibodies as a diagnostic tool in the detection of cancer (VIVODOTS® nanoparticles). The project specifically focuses on antibodies for Covid-19. However, as is the case with our other materials, our goal is to create a platform technology that is applicable to other pathogens and potential future variants of Covid-19. The project therefore remains relevant despite many other tests now being available on the market for Covid-19.

The project is scheduled to complete in May 2022 with a working prototype. Good progress has been made to date with VIVODOTS® conjugated with the appropriate antibodies successfully detecting the presence of the target pathogen at the required level of sensitivity to proceed to the next stage of the project. We are now working with a device partner to create a functional device which will then be subject to industrial design to create the functioning prototype. The project is an exciting adjacent use of our technology platform. Any medium term value implications will be wholly contingent on the successful delivery of the targeted project outcomes.

### ***Other sectors including lighting***

Following the need to restructure and downsize the business, our core focus is primarily on near-term sensing opportunities. Where there is an immediate substitution opportunity we will continue to proactively engage with other sectors such as horticultural applications that utilise the platform technology of our CFQD® quantum dots.

### ***Operations***

In the early part of the year, in order to conserve our cash, the Group completed the restructuring exercise that started at the end of the prior year. A further small scale restructuring took place in the second quarter.

Our resulting team now numbers approximately 39 staff and we have cut our installed cash cost base from over £12.0 million in FY19 to around £5.0 million for FY22. Critically, we have managed to retain our core capabilities in R&D, scale up and manufacturing, including both facilities at our Runcorn site. This is essential to deliver the business growth we hope to achieve in the short to medium term.

Activity in our production facility at Runcorn has focused on supporting the higher demand levels we are seeing for sensing materials from our R&D facility in Manchester. Our scale up team has been re-trained to be able to operate the slightly larger scale reactors in Manchester when customer demand has gone beyond the normal small laboratory scale orders.

The Display facility in Runcorn is currently mothballed to conserve cash but can be re-started at short notice. It also has the potential to support sensing activities if multiple orders for different materials are received at the same time. Our flexible production team is trained to be able to operate both facilities to maximise our capability while minimising costs in the short term and maintaining our significant production revenue generating capacity.

### ***Responding to Covid-19***

During the current Covid-19 pandemic, we continue to focus on protecting the health, safety and wellbeing of our employees while mitigating ongoing economic challenges. We have put together a series of measures that allow us to continue to meet customer needs from our Manchester R&D facility with support from our Runcorn site as required.

Our Runcorn site has lower activity levels and our facility for the large scale production of CFQD® quantum dot has been temporarily mothballed. Other essential work is being carried out remotely and no members of staff are using the Government's furlough scheme.

Our reduced headcount and the layout of our split facilities make it easier to follow many of the recommended practices for the return to work. Having completed detailed risk assessments and implemented the resulting

action plans many staff have now safely returned to the workplace while also allowing remote working where appropriate.

### **Intellectual property**

We continue to proactively manage our IP portfolio to maximise value and protect our core competencies. During the year, the Group's IP portfolio was reduced to 559 patents and patent applications (2020: 731).

This net reduction reflected 74 new applications and 246 that were dropped, mainly in territories or potential applications where it was no longer felt worthwhile to pursue. We have also slowed the rate of filing new IP to preserve trade secrets and to conserve financial resources. Our IP and a significant range of business process secrets strongly underpin the Group's valuation while also operating as a challenging barrier to entry to potential competitors.

### **Environment/restriction of hazardous substances ("RoHS")**

The European Commission ("EC") was considering an appeal that the exemption allowing the use of cadmium based quantum dots in display films should continue. The EC was also considering an appeal for a five-year exemption to allow cadmium-based quantum dots to be applied directly onto LED chips for displays and lighting.

The EC has now received a recommendation that:

- the exemption to allow cadmium (>100ppm) in QD films for display is no longer justified and should be phased out by 31 October 2021; and
- a new exemption is granted to allow cadmium-based quantum dots applied directly onto LED chips for displays and high CRI lighting for a period of five years.

Before becoming law, this has to be adopted by the EC though this is not expected to take a significant length of time. It should also be noted that for film-based displays there is not an outright ban which could allow displays with cadmium content below the limit above to continue to be sold.

### **People**

Our employees have shown great resilience during a very uncertain year. They have remained focused on our customers and supporting each other while coping with the Covid-19 pandemic, uncertainty during the consultation process and a companywide salary reduction. We were pleased to be able to reverse the salary reduction for all staff outside the leadership team in October 2020 with the latter having pay cuts rescinded at the end of March 2021.

We were pleased that the staff achieved 100% of their shared team goals for revenue and safety improvements and hence received their full bonus awards. While we feel it is not an appropriate time to make a general inflationary pay award, we have recognised staff feedback on their preferred form of rewards and have therefore increased the Company pension contribution from 5% to 6% with a medium-term goal of achieving a 7.5% Company contribution.

Retaining and incentivising our highly skilled team is key to delivering organic value from the business.

### **Outlook**

Some much needed stability has returned to the business. All staff are now back at work and numbers are stable to match current activity levels. The heavy workload and distraction of the lawsuit is focused on a small number of the team and our advisers do much of the heavy lifting. Our third party funding for the lawsuit and patent review process allow us to focus Nanoco's cash resources on capturing near-term commercial opportunities.

We continue to expand our range of materials offered in sensing markets that are experiencing high rates of growth. We are focusing our internal resources on a balance of commercial activities and investment in new IP to protect the developments being made by our R&D efforts.

Contingency plans remain in place in the event that the organic business fails to become self financing. These plans ensure that the potential value in the lawsuit can be protected. However, they would result in the Group becoming an IP shell with all future value potential linked only to our IP, the lawsuit, and a potential licensing only business model. With our stable cost base, near-term commercial opportunities and live development programmes with significant global players in various electronics markets, I remain confident that we can deliver value for all of our stakeholders in the short to medium term with potentially additional transformative value in the Samsung litigation.

**Brian Tenner**

**Chief Executive Officer**

*3 November 2021*

## Financial review

Revenue and other operating income decreased by £1.7 million to £2.3 million (2020: £4.0 million). The reduction is due to the completion of the contract with the US Customer in the prior year.

Revenue from the sale of products and services rendered accounted for 95% (2020: 89%) of revenues with the balance being royalty and licence income.

Revenue from services has decreased from £3.0 million to £1.3 million as a result of the completion of the contract with the US Customer in the prior year. Revenue from the sale of products was £0.7 million (2020: £0.4 million). Billings have decreased by £0.8 million to £1.7 million (2020: £2.5 million), which is in line with revenue.

Operating expenses were reduced in the year by £1.6m in total to £6.7 million. (2020 (Restated): £8.4 million). This reduction was primarily due to the fall in payroll costs to £3.3 million (2020 (Restated): £4.5 million) which resulted from:

- the full year impact of the prior year restructuring (£0.2 million);
- headcount reductions during the year (£0.3 million); and
- the impact of a Company-wide pay cut and the Government's furlough scheme (£0.4 million).

In the prior year, we consulted with employees and reduced our headcount from 72 to c. 46 full-time employees.

During the current year, our headcount has decreased further to approximately 39 employees (c. 37 full time equivalents). We have made these changes whilst retaining full operational and commercial viability. We are currently in the process of exiting our first floor premises at our Manchester offices, with the lease expiring in March 2022. This will save an additional £0.6 million per annum.

In July 2021, we agreed a non-dilutive debt facility with our two major shareholders worth £3.0 million net of costs. Cash at year end was £3.8 million, which reflects a £4.4 million consumption of cash before the impact of the debt facility. This is in part due to an adverse unwinding of working capital in FY21, which we do not expect to repeat in FY22.

Highlights	2021 £ million	2020 (Restated) £ million	% change
Turnover	2.1	3.9	(46%)
Adjusted operating loss	(4.6)	(4.8)	5%
Adjusted LBITDA	(2.9)	(2.9)	4%
Net loss	(4.4)	(5.1)	13%
Loss per share	(1.44)	(1.77)	19%
Billings	1.7	2.5	(32%)
Cash and cash equivalents	3.8	5.2	(26%)

### Non-GAAP measures

The non-GAAP measures of adjusted operating loss and adjusted loss before interest, tax, amortisation and share-based payment charges ("LBITDA") are provided in order to give a clearer understanding of the underlying loss for the year that reflects cash outflow from the business.

The calculation of both non-GAAP measures is shown in the table below:

	2021 £ million	2020 (Restated) £ million
Operating loss	(5.0)	(5.9)
Share-based payment charge	0.4	0.4
Exceptional costs	-	0.7
Adjusted operating loss	(4.6)	(4.8)
Depreciation	0.5	1.1
Amortisation*	1.2	0.8
Adjusted LBITDA	(2.9)	(2.9)

\* Includes impairment of intangible assets.

The loss before tax was £5.1 million (2020: £6.0 million).

### Exceptional items

In the prior year, these costs related to the Formal Sales Process, the start of the litigation against Samsung, the fundraise and restructuring activities. They are set out in more detail in note 7 to the financial statements.

### Taxation

The tax credit for the year is £0.7 million (2020: £0.9 million). The tax credit to be claimed, in respect of R&D spend, is £0.7 million (2020: £0.9 million). Overseas corporation tax was £nil during the year (2020: £nil). There was no deferred tax credit or charge (2020: £nil).



**Cash flow and balance sheet**

During the year cash, cash equivalents, deposits and short-term investments decreased to £3.8 million (2020: £5.2 million). The net cash outflow, excluding the benefits of the debt facility of £3.0 million in July 2021 (net of costs), was £4.4 million (2020: £5.0 million outflow).

The decrease in cash outflows reflects the reduction in the cost base, which was offset by adverse working capital movements in the year. Tax credits of £0.9 million (2020: £1.1 million) were received during the year.

Expenditure incurred in registering patents totalled £0.4 million (2020: £0.6 million) reflecting the Group's continued focus on developing and registering intellectual property. Capitalised patent spend is amortised over ten years in line with the established Group accounting policy.

**Treasury activities and policies**

The Group manages its cash deposits prudently. Cash deposits are regularly reviewed by the Board and cash forecasts are updated monthly to ensure that there is sufficient cash available for foreseeable requirements.

**Credit risk**

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

**Foreign exchange management**

The Group invoices most of its revenues in Sterling and also has US Dollar and Euro revenues. The Group is therefore exposed to movements in those currencies relative to Sterling. The Group will use forward currency contracts to fix the exchange rate on invoiced or confirmed foreign currency receipts should the amount become significant and more predictable.

There were no open forward contracts as at 31 July 2021 (2020: none). The Group's net profit and equity are exposed to movements in the value of Sterling relative to the US Dollar.

**Brexit**

The Board continues to monitor the ongoing developments. Currently, the majority of the Group's revenues are for services delivered in the UK with minimal Brexit impact. Going forward, the Group expects a significant portion of its revenues from material sales to be from non-UK countries where the Government hopes to have in place equivalent trading arrangements as exist today.

Although there were some logistical challenges on trade with EU countries, this has largely been mitigated with little to no ongoing disruption.

**Going concern**

A key area is the assessment of going concern due to the existence of material uncertainty regarding the timing of adequate commercial production orders and the implementation of any necessary restructuring plans if those revenues are delayed. This may cast significant doubt about the Group's and the Parent Company's ability to continue as a going concern.

The debt issue in July 2021 raised £3.0 million net of costs. This extended the Group's organic cash runway to the second half of calendar year 2022. If the Group implemented an IP shell structure when the current contractual order book is exhausted in early H2 of FY22, the resulting cash runway for the IP shell would extend to the middle of 2023.

Considering the mitigating actions that can be taken and recent swift and robust actions to reduce our cost base, and after making enquiries and considering the uncertainty described above, the Directors have a reasonable expectation that the Group has access to adequate resources to continue in operational existence for the foreseeable future.

Accordingly, in preparing the consolidated financial statements, the Board concluded that it is appropriate to utilise the going concern assumption.

**Prior year adjustment**

The prior year Consolidated Statement of Comprehensive Income and the prior year Group Statement of Financial Position have both been restated for adjustments relating to prior years. Details of these adjustments are included in Note 3.

**Covid-19 Pandemic**

The Group has completed detailed risk assessments and implemented the resulting action plans and Government guidance to create Covid-19 secure workplaces. We are able to meet customer needs while working in a safe fashion. We do not currently expect significant financial downsides though this is clearly dependent on changes in regulations and the scale of any further lockdowns, both in the UK and the wider world.

**Summary**

Although a challenging year for a number of reasons, the Group has continued to develop products which provide the basis for organic growth. We have shown our resilience and flexibility in being able to reduce our cost base but maintain our operational and commercial capabilities.

Our litigation against Samsung continues, and we look forward to hearing the results of the PTAB review of the five patents in question around May 2022. We believe a positive outcome in the litigation would result in a transformational award for Nanoco and its shareholders. We are therefore confident that we have the means and the will to secure our medium-term future while our focus is firmly on pursuing near-term commercial opportunities.

**Brian Tenner**

***Chief Executive Officer***

*3 November 2021*

# Principal risks and uncertainties

In common with all businesses at Nanoco's stage of development, the Group is exposed to a range of risks, some of which are not wholly within our control or capable of complete mitigation or protection through insurance.

Specifically, a number of the Group's products and potential applications are at a research or development stage and hence it is not possible to be certain that a particular project or product will lead to a commercial application. Other products require further development work to confirm a commercially viable application.

Equally, a number of products are considered commercially viable but have yet to see demand for full scale production. It is also the case that the Group is often only one part of a long and complex supply chain for new product applications. The Group therefore has little visibility of demand other than from contracts already in place. There are therefore a range of risks that are associated with the different stages of product development as well as for the Group as a whole.

## Principal overarching risk

The principal overarching strategic risk faced by the business is that the Group exhausts its available funding before achieving adequate levels of commercial revenues and cash flows to be self-funding.

This risk has been mitigated in the short term by the recent debt facility which has maintained the Group's organic cash runway to H2 2022. This date can be extended for the operational side of the business with each new business win.

In a downside (severe but plausible) scenario with no new business wins, this date can be extended to H1 2023, though this would require further significant restructuring. Experience in the past three years has shown that the Board is ready and able to take prompt action to reduce costs should the need arise.

## Principal risk in FY21

In February 2020, the Group initiated litigation against Samsung for wilful infringement of its IP. The Group is therefore exposed to the related positive and negative aspects of the litigation. Winning the litigation could create a significant increase in value for the Group in terms of any award or settlement but also in terms of increasing the likelihood of other future valuable licensing of the Group's IP.

Conversely, if the litigation is unsuccessful, this could undermine the perceived value of the Group's IP portfolio. The cost risk of the litigation if Samsung aims to delay and/or extend the length of the process has been significantly mitigated by the third party funding agreement that has been put in place whereby a large US litigation funding specialist pays the costs of the litigation.

In either case (successful or unsuccessful), the Board will initiate a further review of the future strategy of the business.

## Other principal risks

Other risks are those set out in the prior year's Annual Report and an update on their status will be included in the Annual Report for the year ended 31 July 2021.

## Directors' responsibility statement

In accordance with the FCA's Disclosure and Transparency Rules, the Directors listed on the Company's website ([www.nanocotechnologies.com/about-us/board-directors](http://www.nanocotechnologies.com/about-us/board-directors)) confirm, to the best of their knowledge, that:

1. the preliminary results which have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union, give a true and fair view of the assets, liabilities and financial position of the group and company, and of the loss of the group; and
2. the preliminary results include a fair review of the development and performance of the business and the position of the group and company, together with a description of the principal risks and uncertainties that it faces.

By order of the Board

**Brian Tenner**

***Chief Executive Officer***

*3 November 2021*

# Consolidated statement of comprehensive income

for the year ended 31 July 2021

	Notes	2021 £'000	2020 (Restated <sup>1</sup> ) £'000
<b>Revenue</b>	4	<b>2,091</b>	3,856
Cost of sales		(209)	(345)
<b>Gross profit</b>		<b>1,882</b>	3,511
<b>Other operating income</b>		<b>183</b>	101
<b>Operating expenses</b>			
Research and development expenses		(2,150)	(3,143)
Administrative expenses		(4,924)	(6,362)
<b>Operating loss</b>		<b>(5,009)</b>	(5,893)
- before exceptional items and share-based payments		(4,592)	(4,811)
- share-based payments		(417)	(360)
- net exceptional costs	5	-	(722)
Finance income		-	8
Finance expense		(71)	(87)
<b>Loss before taxation</b>		<b>(5,080)</b>	(5,972)
Taxation		685	893
<b>Loss after taxation</b>		<b>(4,395)</b>	(5,079)
<b>Other comprehensive income/(loss)</b>			
Gain on exchange rate translations		-	3
<b>Total comprehensive loss for the year</b>		<b>(4,395)</b>	(5,076)
<b>Loss per share</b>			
Basic and diluted loss for the year	6	(1.44)p	(1.77)p

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

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

## Consolidated statement of changes in equity

for the year ended 31 July 2021

Group	Issued equity capital £'000	Reverse acquisition reserve £'000	Share-based payment reserve £'000	Merger reserve £'000	Accumulated losses £'000	Total £'000
<b>At 1 August 2019</b>	144,453	(77,868)	3,419	(1,242)	(60,239)	8,523
Amendments to dilapidations calculation <sup>1</sup>	—	—	—	—	(186)	(186)
Amendments to calculation of share based payments <sup>1</sup>	—	—	122	—	(122)	—
<b>Restated At 1 August 2019</b>	144,453	(77,868)	3,541	(1,242)	(60,547)	8,337
Loss for the year (Restated)	—	—	—	—	(5,079)	(5,079)
Other comprehensive income	—	—	—	—	3	3
Total comprehensive loss	—	—	—	—	(5,076)	(5,076)
Issue of share capital on exercise of options	3,409	—	—	—	—	3,409
Share-based payments	—	—	360	—	—	360
<b>At 31 July 2020</b>	147,862	(77,868)	3,901	(1,242)	(65,623)	7,030
Loss for the year	—	—	—	—	(4,395)	(4,395)
Other comprehensive income	—	—	—	—	—	—
Total comprehensive loss	—	—	—	—	(4,395)	(4,395)
Share-based payments	—	—	417	—	—	417
<b>At 31 July 2021</b>	<b>147,862</b>	<b>(77,868)</b>	<b>4,318</b>	<b>(1,242)</b>	<b>(70,018)</b>	<b>3,052</b>

<sup>1</sup> Details of the restatement are included in Note 3 to these preliminary statements

# Group statements of financial position

at 31 July 2021

Registered no. 05067291

	Notes	31 July 2021 Group £'000	31 July 2020 Group (Restated <sup>1</sup> ) £'000	1 August 2019 Group (Restated <sup>1</sup> ) £'000
<b>Assets</b>				
<b>Non-current assets</b>				
Tangible fixed assets		199	263	747
Right of use assets		340	612	981
Intangible assets		2,858	3,742	3,897
		<b>3,397</b>	<b>4,617</b>	<b>5,625</b>
<b>Current assets</b>				
Inventories		110	140	226
Trade and other receivables		1,227	1,018	1,117
Income tax asset		686	910	1,129
Cash and cash equivalents		3,813	5,170	7,005
		<b>5,836</b>	<b>7,238</b>	<b>9,477</b>
<b>Total assets</b>		<b>9,233</b>	<b>11,855</b>	<b>15,102</b>
<b>Liabilities</b>				
<b>Current liabilities</b>				
Trade and other payables		(1,617)	(2,327)	(2,614)
Lease liabilities	8	(545)	(642)	(749)
Provisions		—	—	(134)
Deferred revenue	7	(253)	(603)	(1,462)
		<b>(2,415)</b>	<b>(3,572)</b>	<b>(4,959)</b>
<b>Non-current liabilities</b>				
Financial liabilities		(3,487)	(462)	(433)
Lease liabilities	8	(133)	(542)	(1,020)
Deferred revenue	7	(146)	(249)	(353)
		<b>(3,766)</b>	<b>(1,253)</b>	<b>(1,806)</b>
<b>Total liabilities</b>		<b>(6,181)</b>	<b>(4,825)</b>	<b>(6,765)</b>
<b>Net assets</b>		<b>3,052</b>	<b>7,030</b>	<b>8,337</b>
<b>Capital and reserves</b>				
Share capital		30,570	30,570	28,622
Share premium		117,292	117,292	115,831
Reverse acquisition reserve		(77,868)	(77,868)	(77,868)
Share-based payment reserve		4,318	3,901	3,541
Merger reserve		(1,242)	(1,242)	(1,242)
Accumulated losses		(70,018)	(65,623)	(60,547)
<b>Total equity</b>		<b>3,052</b>	<b>7,030</b>	<b>8,337</b>

The Parent Company's result for the period ended 31 July 2021 was a loss of £6,516,000 (2020: loss of £64,000). There was no other comprehensive income in either the current or prior year.

The financial statements on were approved by the Board of Directors on 3 November 2021 and signed on its behalf by:

**Dr Christopher Richards**  
**Chairman**  
3 November 2021

**Brian Tenner**  
**Chief Executive Officer**  
3 November 2021

# Group cash flow statements

for the year ended 31 July 2021

	Notes	31 July 2021 Group £'000	31 July 2020 Group (Restated <sup>1</sup> ) £'000
<b>Loss before tax</b>		<b>(5,080)</b>	<b>(5,972)</b>
Adjustments for:			
Net finance expense		71	(79)
(Profit)/Loss on exchange rate translations		17	(87)
Depreciation of tangible fixed assets		99	590
Depreciation of right of use assets		408	505
Amortisation of intangible assets		618	633
Impairment of intangible assets		623	120
Share-based payments		417	360
Exceptional items		—	722
Gain on disposal of tangible fixed assets		(48)	—
Interest paid		(4)	—
Changes in working capital:			
Decrease/(increase) in inventories		30	221
Decrease in trade and other receivables		(209)	99
Decrease in trade and other payables		(757)	(2)
(Decrease)/increase in provisions		—	(797)
(Decrease)/increase in deferred revenue		(453)	(963)
<b>Cash outflow from operating activities</b>		<b>(4,268)</b>	<b>(4,650)</b>
Research and development tax credit received		908	1,111
<b>Net cash outflow from operating activities</b>		<b>(3,360)</b>	<b>(3,539)</b>
<b>Cash flow from investing activities</b>			
Purchases of tangible fixed assets		(35)	(106)
Purchases of intangible fixed assets		(357)	(598)
Proceeds from sale of tangible fixed assets		48	—
Interest (paid)/received		—	8
<b>Net cash (outflow)/inflow from investing activities</b>		<b>(344)</b>	<b>(696)</b>
<b>Cash flow from financing activities</b>			
Proceeds from placing of ordinary share capital		—	3,409
Proceeds from issue of loan notes		3,150	—
Costs of financing/placing		(161)	(237)
Payment of lease liabilities (capital)		(642)	(772)
Payment of lease liabilities (interest)		(30)	—
<b>Net cash inflow from financing activities</b>		<b>2,317</b>	<b>2,400</b>
<b>(Decrease)/increase in cash and cash equivalents</b>		<b>(1,387)</b>	<b>(1,835)</b>
Cash and cash equivalents at the start of the year		5,170	7,005
Effects of exchange rate changes		30	—
<b>Cash and cash equivalents at the end of the year</b>		<b>3,813</b>	<b>5,170</b>

# Notes to the financial statements

## 1. Reporting entity

Nanoco Group plc (the "Company"), a public company limited by shares, is on the premium list of the London Stock Exchange. The Company is incorporated and domiciled in England, UK. The registered number is 05067291 and the address of its registered office is 46 Grafton Street, Manchester M13 9NT. The Company is registered in England.

These Group preliminary results consolidate those of the Company and its subsidiaries (together referred to as "the Group" and individually as "Group entities") for the year ended 31 July 2021.

The preliminary results of Nanoco Group plc and its subsidiaries (the "Group") for the year ended 31 July 2021 were authorised for issue by the Board of Directors on 3 November 2021 and the statements of financial position were signed on the Board's behalf by Dr Christopher Richards and Mr Brian Tenner.

The preliminary results do not constitute statutory financial statements within the meaning of section 435 of the Companies Act 2006. A copy of the statutory financial statements for the year ended 31 July 2020 has been delivered to the Registrar of Companies. There were no statements under section 498(2) or section 498(3) of the Companies Act 2006.

The statutory financial statements for the year ended 31 July 2021 will be delivered to the registrar of companies as soon as practicable. The auditors opinion on those financial statements was unqualified, but did draw attention to the Group's ability to continue as a going concern by way of a material uncertainty paragraph. It contained no statement under section 498(2) or section 498(3) of the Companies Act 2006.

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

## 2. Basis of preparation

### (a) Statement of compliance

The Group's and Parent Company's financial statements have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006, International Financial Reporting Standards ("IFRS") adopted pursuant to Regulation (EC) No. 1606/2002 as it applies in the European Union and IFRSs as issued by the International Accounting Standards Board for the year ended 31 July 2021.

### (b) Basis of measurement

The Parent Company and Group financial statements have been prepared on the historical cost basis, except for the revaluation of financial assets classified as "fair value through other comprehensive income" or "fair value through profit or loss", which are reported in accordance with the accounting policies below.

### (c) Going concern

All of the following matters are taken into account by the Directors in forming their assessment of going concern. The Group's business activities and market conditions, the principal risks and uncertainties, the Group's financial position and the Group's financial risk management objectives, policies and processes. The Group funds its day-to-day cash requirements from existing cash reserves.

For the purposes of their going concern assessment and the basis for the preparation of the financial statements, the Directors have reviewed the same trading and cash flow forecasts and sensitivity analyses that were used by the Group in the viability assessment, which cover the period to October 2023, a period of two years from the date of approval of the Annual Report and financial statements. The same base case and downside (severe but plausible) sensitivities were also used.

The base case represents the Board's current expectations. Assumptions in the base case are:

- the development programme with the European electronics customer is successful and subsequently leads to scale up of the product and thereafter to small scale commercial production in a low volume application;
- commercial services contracts are based on the existing pipeline of opportunities or agreements already in place;
- no revenue is assumed from other business lines though some small scale commercial deals are currently under discussion;
- the Group's variable costs remain in line with manufacturing activities;
- Board costs reflect the 35% deferment of Non-Executive Directors' fees as agreed;
- the Group remains a going concern and hence eligible for R&D tax credits; and
- the installed cost base is capable of supporting significant increases in revenue above those assumed in the base case so there is no immediate requirement for short-term increases or new capital expenditure.

The base case produces a cash flow statement that demonstrates that the Group has sufficient cash throughout the period of the forecast.

However, the Board acknowledges that the base case includes an element of risk that some or all of these non-contracted projects may not convert to sales during the forecast period. Accordingly, the Board has considered the downside scenario in which no revenue, except that already contracted or under contractual negotiation, is achieved during the period.



In this downside scenario, management action to reduce the activities of the Group to an IP shell that supports the Samsung lawsuit allows the Group to maintain a cash runway to the middle of 2023. All of the potential cost savings are under the direct control of the Board and the Board has the ability and intention to make such changes on a timely basis if required.

IAS 1 Presentation of Financial Statements requires the Directors to disclose “material uncertainties related to events or conditions that may cast significant doubt upon the Group’s ability to continue as a going concern”. The Directors consider that the timing of adequate commercial production orders and the implementation of any necessary restructuring plans if those revenues are delayed is a material uncertainty which may cast significant doubt about the Group’s and the Parent Company’s ability to continue as a going concern.

Nevertheless, considering the mitigating actions that are within management’s control and can be taken and after making enquiries and considering the uncertainty described above, the Directors have a reasonable expectation that the Group has access to adequate resources to continue in operational existence for the foreseeable future.

Accordingly, they continue to adopt the going concern basis in preparing the consolidated financial statements. The financial statements do not reflect any adjustments that would be required to be made if they were prepared on a basis other than the going concern basis.

#### ***(d) Functional and presentational currency***

These financial statements are presented in Pounds Sterling, which is the presentational currency of the Group and the functional currency of the Company. All financial information presented has been rounded to the nearest thousand.

#### ***(e) Use of estimates and judgements***

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

In the process of applying the Group’s accounting policies, management has made the following estimates and judgements, which have the most significant effect on the amounts recognised in the consolidated financial statements.

##### *Estimates*

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

The Group has historically issued LTIPs to incentivise employees. The determination of share-based payment costs requires: the selection of an appropriate valuation method; consideration as to the inputs necessary for the valuation model chosen; and judgement regarding when and if performance conditions will be met. Inputs required for this arise from judgements relating to the future volatility of the share price of Nanoco and comparable companies, the Company’s expected dividend yields, risk-free interest rates and expected lives of the options. The Directors draw on a variety of sources to aid in the determination of the appropriate data to use in such calculations. The share-based payment expense is most sensitive to vesting assumptions and to the future volatility of the future share price factor. Further information is included in note 3 of the financial statements.

##### **Impairment of intellectual property and tangible fixed assets**

As the Group has not, to date, made a profit the carrying value of these assets may need to be impaired. Impairment exists where the carrying value of an asset exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The value in use calculation uses cash flows based on budgets that have been approved by the Directors. The Directors also use available information to assess whether the fair value less costs of disposal of the Group’s non-current assets, including intellectual property, is less than their carrying amount. Furthermore, during the year another extensive review was undertaken to identify which patents are of no further value to Nanoco and should be allowed to lapse. As a consequence, patents with a value of £0.6 million (2020: £0.1 million) have been fully impaired in these financial statements. Judgements are based on the information available at each reporting date, which includes the progress with testing and certification and progress on, for example, establishment of commercial arrangements with third parties. The Group does not believe that any of its patents in isolation are material to the business. Management has adopted the prudent approach of amortising patent registration costs over a ten-year period, which is substantially shorter than the life of the patent. For external patents acquired the same rule is adopted unless the remaining life of the patent is shorter, in which event the cost of acquisition is amortised over the remaining life of the patent.

##### **Impairment of investment and inter-company receivable**

Judgement is required to assess the carrying value of the Company investment and inter-company receivable at each reporting date.

Accounting standards (IAS 36 Impairment of Assets) require investments in subsidiary undertakings (equity and loans) to be carried at the lower of cost or recoverable value. Recoverable value is defined as the higher of fair value less costs of disposal (effectively net sale proceeds) and value in use. Indicators of potential impairment

noted in IAS 36 (para 12) include, but are not limited to, situations where the carrying amount of the net assets of the entity is more than its market value and where significant changes with an adverse effect on the entity have taken place during the period.

The Directors consider the fair value to be market value (calculated as market capitalisation at year end) less costs to sell. As the market value was in excess of the book value, no further impairment is proposed.

### *Judgements*

#### **Revenue recognition**

Judgement is required in reviewing the terms of development agreements to identify separate components of revenue, if any, that are consistent with the economic substance of the agreement and in turn the period over which development revenue should be recognised. Judgements are required to assess the stage of completion including, as appropriate, whether and when contractual milestones have been achieved. Management judgements are similarly required to determine whether services or rights under licence agreements have been delivered so as to enable licence revenue to be recognised. This matter is further complicated where a contract may have different elements which may result in separate recognition treatments under IFRS 15.

#### **Research and development**

Careful judgement by the Directors is applied when deciding whether the recognition requirements for development costs have been met. This is necessary as the economic success of any product development is uncertain until such time as technical viability has been proven and commercial supply agreements are likely to be achieved. Judgements are based on the information available at each reporting date which includes the progress with testing and certification and progress on, for example, establishment of commercial arrangements with third parties. In addition, all internal activities related to research and development of new products are continuously monitored by the Directors. Further information is included in note 3 of the annual report.

### **3. Significant accounting policies**

Other than as noted below in the section on new accounting standards and interpretations, the accounting policies used in preparing these financial statements are consistent with those of the previous financial year and are applied consistently by Group entities and can be found in the Annual Report for the year ending 31 July 2021.

#### **(a) Basis of consolidation**

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

Subsidiaries are all entities over which the Group has the power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee), exposure, or rights, to variable returns from its involvement with the investee and ability to use its power over the investee to affect its returns. All of Nanoco Group plc's subsidiaries are 100% owned. Subsidiaries are fully consolidated from the date control passes.

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

In the consolidated financial statements, the assets and liabilities of the foreign operations are translated into Sterling at the exchange rate prevailing at the reporting date. Income and cash flow statement items for Group entities with a functional currency other than Sterling are translated into Sterling at monthly average exchange rates, which approximate to the actual rates, for the relevant accounting periods. The exchange differences arising on translation are recognised in other comprehensive income.

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

#### **(b) New accounting standards and interpretations**

The following standards have been issued but have not been applied by the Group in these financial statements. These amendments to standards and interpretations had no significant impact on the financial statements:

- Amendments to IFRS 3: Definition of a Business;
- Amendments to IAS 1 and IAS 8 Definition of Material;
- Amendments to IFRS 7, IFRS 9 and IAS 39 Interest Rate Benchmark Reform;
- Conceptual Framework for Financial Reporting issued on 29 March 2018; and
- Amendments to IFRS 16: Covid-19 Related Rent Concessions

The following standards and amendments to standards have been issued but are not effective for the financial year beginning 1 August 2020 and have not been early adopted:

- Amendments to IAS 1: Classification of Liabilities as Current or Non-current;
- Reference to the Conceptual Framework – Amendments to IFRS 3;
- Property, Plant and Equipment: Proceeds before Intended Use – Amendments to IAS 16;
- Onerous Contracts – Costs of Fulfilling a Contract – Amendments to IAS 37; and
- IFRS 9 Financial Instruments – Fees in the '10%' test for derecognition of financial liabilities

The amendments to standards and interpretations noted above are expected to have no significant impact on the financial statements.

#### **(c) Prior year restatement**

The following table summarises the impact of restatements arising from the correction of prior year errors on the Group's retained earnings:

	Share based payment reserve £'000	Accumulated losses £'000
At 1 August 2019 as reported	3,419	(60,239)
Amendment to dilapidations calculation	—	(186)
Amendment to calculation of SBP	122	(122)
<b>Restated at 1 August 2019</b>	<b>3,541</b>	<b>(60,547)</b>

#### **Amendment to dilapidations calculation**

During the year, management decided to exit the first floor of the Group's Manchester facility instead of extending the lease when it expires in April 2022 as a material cost reduction measure (saving approximately £0.6m per annum from April 2022). As a result, management have re-assessed the potential dilapidation costs on leased properties. Upon discussions with landlords around potential exit obligations, and after obtaining external third party valuations which exclude potential receipts from sales of surplus assets, the Group has increased the existing provisions for wear and tear. In accordance with IFRS, an adjustment has therefore been posted to the opening reserves and provisions as at 1 August 2019 (since the leases were signed a number of years before and in some cases the original leases had already expired by that date).

In the prior year, this adjustment increased administrative costs by £28,000.

#### **Amendment to calculation of SBP**

Since 2015, when issuing deferred share options under the Group's Deferred Bonus Plan (DBP) in respect of annual bonus targets being achieved for executive directors, the fair value charge for the share options was recognised between the grant date of the deferred share options and their vesting date two years later. This fair value charge has now been amended to be incurred from the start of the performance period for the bonus was achieved, through to the vesting date of the share options (typically just over three years). This change largely relates to the FY19 DBP share option grant. In accordance with IFRS, an adjustment has therefore been posted to the opening reserves and provisions as at 1 August 2019.

In the prior year, this adjustment decreased the share based payment charge by £16,000.

#### **Impact of adjustments on prior year loss per share**

The impact on the loss per share of both the above prior year adjustments is to increase it from 1.76p to 1.77p.

### **4. Segmental information**

#### **Operating segments**

At 31 July 2021 and 2020 the Group operated as one segment, being the research, development and manufacture of products and services based on high performance nanoparticles. This is the level at which operating results are reviewed by the chief operating decision maker (i.e. the Board) 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 2021 £'000	31 July 2020 £'000
<b>Analysis of revenue</b>		
Products sold	685	448
Rendering of services	1,303	2,981
Royalties and licences	103	427
	<b>2,091</b>	<b>3,856</b>

There was one material customer who generated revenue of £1,590,000 (2020: one material customer amounting to £2,475,000).

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

	31 July 2021 £'000	31 July 2020 £'000
<b>Revenue</b>		
UK	28	17
Europe (excluding UK)	1,618	1,111
Asia	411	228
USA	34	2,500
	<b>2,091</b>	<b>3,856</b>

All the Group's assets are held in the UK and all of its capital expenditure arises in the UK. The loss before taxation and attributable to the single segment was £5,080,000 (2020: £5,972,000).

## 5. Exceptional items

During the prior financial year, the Group incurred a number of charges which are considered to be exceptional in nature.

	31 July 2021 £'000	31 July 2020 £'000
(Charge)/income		
Formal Sale Process (legal fees)	—	(293)
Fundraise (adviser and commitment fees)	—	(237)
IP litigation (prior to litigation funding agreement)	—	(64)
Restructuring cost	—	(128)
Total net exceptional items	—	(722)

During the prior year, as part of the strategic review, the Group entered into a Formal Sales Process that was subsequently terminated after the start of the Covid-19 pandemic. In July 2020, the Group carried out a fundraising exercise, raising £3.2 million net of costs. Also during the year, the Group initiated a significant lawsuit against Samsung for wilful infringement of its IP. All three activities incurred adviser costs for processes that are considered corporate in nature and hence do not form part of the underlying business of the Group. They are therefore classified as exceptional to allow the reader a better understanding of underlying performance.

Following the resource pivot in our Display business in the second quarter, a restructuring exercise reflecting our "dot only" focus in display activities was implemented. This exercise completed in the fourth quarter of year ended 31 July 2020.

## 6. Earnings per share

	31 July 2021 £'000	31 July 2020 (Restated) £'000
Group		
Loss for the financial year attributable to equity shareholders	(4,395)	(5,076)
Share-based payments	417	360
Loss for the financial year before share-based payments	(3,978)	(4,716)
<b>Weighted average number of shares</b>		
Ordinary shares in issue	305,699,102	287,070,824
<b>Adjusted loss per share before share-based payments (pence)</b>	<b>(1.30)</b>	<b>(1.64)</b>
<b>Basic loss per share (pence)</b>	<b>(1.44)</b>	<b>(1.77)</b>

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

## 7. Deferred revenue

	31 July 2021 Group £'000	31 July 2021 Company £'000	31 July 2020 Group £'000	31 July 2020 Company £'000
<b>Current</b>				
Upfront licence fees	103	—	103	—
Milestone payments	150	—	500	—
	253	—	603	—
<b>Non-current</b>				
Upfront licence fees	146	—	249	—
	399	—	852	—

Deferred revenue arises under IFRS where upfront licence fees are accounted for on a straight-line basis over the initial term of the contract or where performance criteria have not been satisfied in the accounting period.

## 8. Lease liabilities

	31 July 2021 Group £'000	31 July 2021 Company £'000	31 July 2020 Group £'000	31 July 2020 Company £'000
<b>Current</b>				

Property leases	545	—	642	—
<b>Non-current</b>				
Property leases	133	—	542	—

== Ends ==