illuminating the future

Interim Report
For the six months ended 31 January 2010

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

Quantum dots enable reduced power consumption and increased efficiency.

Commercial contracts signed with global technology companies

Highlights

- US$2 million milestone payment from major Japanese corporation triggered in March 2010, reinforcing the commercial potential of quantum dots in LCD TVs
- Further joint development agreement signed in September 2009 with a major Japanese electronics company
- Manufacturing scale-up progressing well with automated scale-up reactors installed and commissioned and Manufacturing Director appointed
- Discussions on-going with further potential commercial partners in target markets including LED lighting and solar power
- Cash and cash equivalents of £5.04 million at 31 January 2010 (31 January 2009: £3.05 million)

Chairman's and Chief Executive Officer's Joint Review

The six months ended 31 January 2010 represent a period of significant progress at Nanoco. During the period we were focussed on three key areas: delivering on our commercial collaborations, scaling-up production and pursuing new collaborations. We made significant progress in all three of these areas and are well-placed to continue this progress in the current half and beyond.

Nanoco is a relative newcomer to the London Stock Exchange, having joined the AIM market in May last year. It might therefore be useful to provide a brief introduction to the Company before detailing our achievements in the half year.

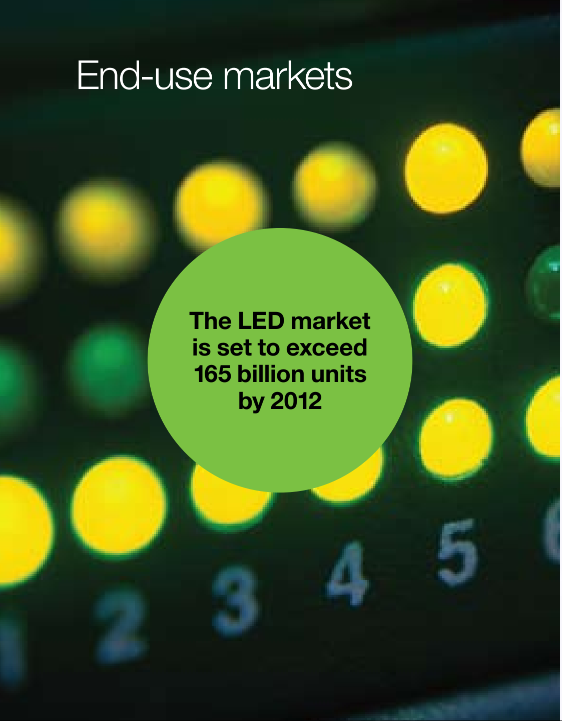
Nanoco's key asset is world-class, patent-protected technology for the design and manufacture of quantum dots – nano-sized particles of semiconductor material which have the ability to emit intense light of a specific colour dependent on dot size. Quantum dots, which are only ten to one hundred atoms wide, have multiple potential applications in many different industrial and consumer segments, delivering significant benefits to end products such as a reduction in power consumption and other performance improvements.

One of the clear competitive advantages of Nanoco is that our technology will allow, for the first time, the mass production of quantum dots, thereby creating the potential for the large scale adoption of quantum dots in diverse markets.

Since Nanoco's formation in 2001 we have used our technology to manufacture small quantities of quantum dots of around 50 grams per batch – appropriate for use in the development and testing of end-use applications. Development work is one of the key strengths of Nanoco's scientists, who are able to design quantum dots of very specific sizes and to modify their surface to allow them to be incorporated into many different materials, such as water, glass and a variety of polymers. They can also be combined into inks, and then printed using ink jet, screen and other conventional printing techniques.

Our most advanced commercial market is the use of quantum dots in light emitting diodes (LEDs) for highly energy efficient, tuned lighting in next-generation liquid crystal display (LCD) TVs. We are collaborating with a number of major global corporations in this application, the potential of which was underlined in the US last year when California introduced legislation demanding that TV makers cut the power consumption of TVs by 49 per cent by 2013. We have a particularly strong global position in this application because our technology allows the manufacture of quantum dots that are free of heavy metals, thereby complying with RoHS legislation which restricts the use of hazardous substances in electrical and electronic goods.

End-use markets

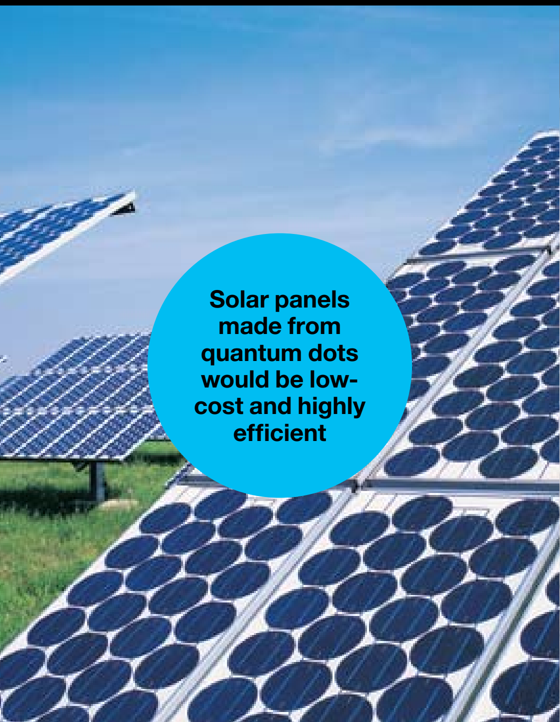


The LED market is set to exceed 165 billion units by 2012

LED Lighting

Quantum dots create the opportunity for next generation displays

Displays



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

Solar Cells

Quantum dots are an ideal visualisation tool in cell imaging

Bio-imaging

Chairman's and Chief Executive Officer's Joint Review

continued

LEDs, which are increasingly used in TV, vehicle and other general lighting applications, use less power than traditional light sources and also benefit from compact size, shock resistance and a very long service life. They have the potential to replace traditional light sources in many applications, including household and commercial lighting. The use of quantum dots to produce tuned spectrum white light from blue LEDs has significant advantages compared with currently used technologies including superior colour performance.

We are also very active in other target markets, including solar power, computer and mobile displays and bio-imaging. Our strategy is to access target markets through partnerships with global corporations, under a business model in which we receive revenues during the development phase followed by revenues from the manufacture and supply of quantum dots and additionally from a royalty payment on end-product sales.

During the half year we made substantial progress with our existing collaborations and have continued to negotiate and secure new collaborations.

In September 2009 we signed a joint development agreement with a major Japanese electronics company for the design and development of quantum dots for use in LED backlights for LCD TVs. Under the terms of the agreement Nanoco received an upfront payment and will receive milestone payments on achieving certain targets. On completion of the 18-month development work, it is expected that a supply and licence agreement will be signed. Nanoco recently received a milestone payment under this joint development agreement, which is proceeding on schedule.

As recently announced, we have triggered a further US$2 million milestone from a major Japanese corporation in connection with a supply and licence agreement signed in November 2008 for red and green quantum dots for LEDs for use in general lighting and the LCD backlight market. We are currently working towards the next milestones under this agreement including the final milestone which will be achieved by the delivery of 1kg each of red and green quantum dots.

Also, discussions are continuing with potential new partners in the LED lighting market and with potential partners in the solar energy market, where quantum dots have the potential to improve the efficiency of converting solar energy into electricity. Nanoco has developed quantum dots capable of capturing the full spectrum of wavelengths of sunlight, and which can be printed to form thin films by conventional printing technology.

During the half year we made substantial progress in the scale-up of production in line with our plan, which is to scale-up to batches of 1kg and then on to significantly larger batches in order to ensure Nanoco's annual production capacity meets demand.

We installed the first of a suite of automated scale-up reactors capable of producing larger batches of quantum dots in September 2009. This reactor was commissioned in October 2009 and has successfully produced both red and green quantum dots for one of our collaborative partners. More recently a larger scale-up reactor has been installed and commissioned.

To lead the on-going scale-up of manufacturing and commercial supply of product, we were delighted to appoint Andrew Gooda to the newly created position of Manufacturing Director in January 2010. Andrew has already made a significant impact on our scale-up process, and has systematised our approach to the process through semi-tech, kilo lab and mass production stages. Andrew, who holds an MBA and engineering qualifications, is a highly experienced production engineer and operations manager with a track record at major international companies including Croda and ICI. Work has now started on the semi-tech step in production scale up, which we intend to complete by the end of this calendar year.

We have also recruited a new Non-Executive Director to Nanoco, Anthony Clinch, as announced separately today. His breadth of experience of international industrial businesses will be of great value in the future development of Nanoco and we welcome him to the Board.

Financial results

Revenues in the six months to 31 January 2010 were £1.60 million (H1 2009: £1.78 million) and the loss before tax was £0.47 million (H1 2009: profit of £0.66 million). At this stage in the Company's development, revenues are primarily a reflection of the amount and timing of milestone and joint development payments from strategic partners. This pattern of revenues is expected to continue in the second half of the financial year.

Cash, and cash equivalents, at 31 January 2010 were £5.04 million (31 January 2009: £3.05 million). Both cash and costs continue to be prudently and tightly managed.

Outlook

The progress in the first six months of our financial year has continued into the second half, including the recent achievement of key milestones in two major agreements with Japanese corporations. These milestones underline the commercial potential of Nanoco's quantum dots for use in backlighting for LCD TVs and in other solid state lighting applications.

We are continuing to make good progress with manufacturing scale-up and with our commercial agreements. Also, the backdrop of potential demand for our quantum dots is increasingly positive, supported for example by recently introduced legislation in California demanding that TV makers reduce the power consumption of TVs and the recent recommendation by the US Federal Trade Commission that TVs sold in the USA should display an EnergyGuide label.

Peter Rowley
Non-Executive Chairman

Michael Edelman
Chief Executive Officer

30 March 2010

Consolidated Income Statement

For the six months ended 31 January 2010

	Notes	Six months to 31 Jan 2010 (Unaudited) £'000	Six months to 31 Jan 2009 (Unaudited) £'000	Year to 31 Jul 2009 (Audited) £'000
Revenue	2	**1,600**	1,781	1,994
Cost of sales		**(217)**	(62)	(161)
Gross profit		**1,383**	1,719	1,833
Administrative expenses		**(1,881)**	(1,088)	(2,450)
Cost of reverse acquisition		**–**	–	(195)
Operating (loss)/profit		**(498)**	631	(812)
Finance income		**29**	45	57
Finance costs		**(6)**	(17)	(25)
(Loss)/profit on ordinary activities before taxation		**(475)**	659	(780)
Tax on (loss)/profit on ordinary activities	3	**234**	85	240
(Loss)/profit on ordinary activities after taxation attributable to members of the parent entity		**(241)**	744	(540)
(Loss)/earnings per share:				
Basic on (loss)/profit for the period	4	**(0.13)p**	0.48p	(0.31)p
Diluted on (loss)/profit for the period	4	**(0.13)p**	0.46p	(0.31)p

Consolidated Statement of Changes in Shareholders' Equity

For the six months ended 31 January 2010

	Issued equity capital £'000	Share-based payment reserve £'000	Merger reserve £'000	Revenue reserve £'000	Total equity £'000
At 1 August 2008	6,544	95	(1,242)	(1,965)	3,432
Profit for the six months to 31 January 2009	–	–	–	744	744
Issue of share capital	106	–	–	–	106
Share-based payments	–	34	–	–	34
At 31 January 2009	6,650	129	(1,242)	(1,221)	4,316
Loss for the six months to 31 July 2009	–	–	–	(1,284)	(1,284)
Issue of share capital	2	–	–	–	2
Share-based payments	–	38	–	–	38
Reallocation of reserves on reverse acquisition	6,154	–	–	–	6,154
Expenses on issue of shares	(455)	–	–	–	(455)
At 31 July 2009	12,351	167	(1,242)	(2,505)	8,771
Loss for the six months to 31 January 2010	–	–	–	(241)	(241)
Share-based payments	–	39	–	–	39
At 31 January 2010	**12,351**	**206**	**(1,242)**	**(2,746)**	**8,569**

Consolidated Balance Sheet
As at 31 January 2010

	31 Jan 2010 (Unaudited) £'000	31 Jan 2009 (Unaudited) £'000	31 Jul 2009 (Audited) £'000
Assets			
Non-current assets			
Plant and equipment	**2,205**	1,232	2,127
Intangible assets	**482**	321	376
	2,687	1,553	2,503
Current assets			
Inventories	**17**	9	17
Trade and other receivables	**1,339**	186	378
Income tax asset	**469**	232	135
Cash and cash equivalents	**5,039**	3,054	6,589
	6,864	3,481	7,119
Total assets	**9,551**	5,034	9,622
Liabilities			
Current liabilities			
Trade and other payables	**539**	212	376
Short-term financial liabilities	**63**	63	63
	602	275	439
Non-current liabilities			
Long-term liabilities	**380**	443	412
Total liabilities	**982**	718	851
Net assets	**8,569**	4,316	8,771
Capital and reserves			
Issued equity capital	**12,351**	6,650	12,351
Share-based payment reserve	**206**	129	167
Merger reserve	**(1,242)**	(1,242)	(1,242)
Revenue reserve	**(2,746)**	(1,221)	(2,505)
Total equity	**8,569**	4,316	8,771

Approved by the board and authorised for issue on 30 March 2010.

Dr M A Edelman
Director

Consolidated Cash Flow Statement

For the six months ended 31 January 2010

	Six months to 31 Jan 2010 (Unaudited) £'000	Six months to 31 Jan 2009 (Unaudited) £'000	Year to 31 Jul 2009 (Audited) £'000
(Loss)/profit before interest and tax	**(498)**	631	(812)
Adjustments for:			
Depreciation	**200**	106	233
Amortisation of intangible assets	**26**	25	39
Cost of reverse acquisition	**–**	–	195
Movement in share payment reserve	**39**	34	72
Changes in working capital (excluding the effects of acquisition):			
Inventories	**–**	–	(8)
Trade and other receivables	**(961)**	50	162
Trade and other payables	**63**	(167)	(124)
Cash (utilised)/generated from operating activities	**(1,131)**	679	(243)
Interest paid	**(6)**	(17)	(25)
Research and development tax credit received	**–**	–	136
Net cash (outflow)/inflow from operating activities	**(1,137)**	662	(132)
Cash flows from investing activities			
Purchases of plant and equipment	**(310)**	(188)	(1,242)
Related grant received	**32**	–	32
Net purchases of plant and equipment	**(278)**	(188)	(1,210)
Purchases of intellectual property	**(132)**	(67)	(136)
Interest received	**29**	45	57
Net cash outflow from investing activities	**(381)**	(210)	(1,289)
Net cash from financing activities			
Cash acquired on reverse acquisition	**–**	–	5,892
Net proceeds from the issue of ordinary share capital	**–**	106	108
Expenses on issue of shares	**–**	–	(455)
Loan repayment	**(32)**	(32)	(63)
Net cash (outflow)/inflow from financing activities	**(32)**	74	5,482
(Decrease)/increase in cash and cash equivalents	**(1,550)**	526	4,061
Cash and cash equivalents at beginning of period	**6,589**	2,528	2,528
Cash and cash equivalents at end of period	**5,039**	3,054	6,589

1. Accounting policies

Basis of preparation

The accounting policies adopted in this interim financial report are consistent with those followed in the preparation of the Group's annual report and accounts for the year to 31 July 2009. The interim financial information for the six months ended 31 January 2010 and 31 January 2009 is unaudited and does not constitute statutory accounts as defined in the Companies Act 2006. This interim financial report includes audited comparatives for the year to 31 July 2009. The 2009 annual report and accounts received an unqualified audit opinion and have been filed with the Registrar of Companies. These interim financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and have been prepared under the historical cost convention.

Basis of consolidation

This interim financial report consolidates the financial statements of Nanoco Group PLC and the entities it controls (its subsidiaries).

Reverse acquisition of Evolutec Group PLC

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

The combination was accounted for as an equity transaction as if Nanoco Tech Limited had issued new shares in exchange for Evolutec Group PLC's cash and other assets. Although the Group annual report and accounts for the year to 31 July 2009 were issued in the name of the legal parent, the Group's activity was in substance a continuation of that of the legal subsidiary, Nanoco Tech Limited, because after the transaction the former Board of Nanoco Tech Limited were deemed to have control of the Group and of the legal parent. The following accounting treatment was applied in respect of the transaction.

- The retained loss and other equity balances recognised in the Group annual report and accounts reflected 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 were those of Nanoco Tech Limited. However, the equity structure which appeared in the Group financial statements reflected 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 gave rise to a reverse acquisition reserve adjustment to the Group's issued equity capital.
- Comparative numbers for the six months ended 31 January 2009 presented in the Group interim financial report are those of the legal subsidiary, Nanoco Tech Limited, for that period. The fair value of the shares issued by Nanoco Group PLC has been determined from the perspective of Nanoco Tech Limited. 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. 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.

2. Segmental information

Primary reporting format – business segments

At 31 January 2010 the Group operated in one business segment, being the provision of high performance nano particles for research and development purposes. All revenues have been generated from continuing operations and are from external customers.

Secondary reporting format – geographical segments

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

	Six months to 31 Jan 2010 £'000	Six months to 31 Jan 2009 £'000	Year to 31 Jul 2009 £'000
Revenue			
UK	**63**	85	170
Europe (excluding UK)	**22**	34	63
Asia	**1,515**	1,623	1,697
USA	**–**	39	64
	1,600	1,781	1,994

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

3. Tax on loss on ordinary activities

The effective rate of tax takes account of the decrease in the standard rate of corporation tax in the UK to 28% from 30% from April 2008. The tax credit of £234,000 recorded in the consolidated income statement for the six months ended 31 January 2010 (£85,000 for the six months ended 31 January 2009; £240,000 for the year ended 31 July 2009) reflects a research and development tax credit receivable.

The Group has accumulated losses available to carry forward against future trading profits. No deferred tax asset has been recognised in respect of tax losses since it is uncertain at the balance sheet date as to whether future profits will be available against which the unused tax losses can be utilised.

4. (Loss)/earnings per share

Basic earnings per share is calculated by dividing the (loss)/profit attributable to equity holders of the parent by the weighted average number of ordinary shares in issue during the period. Diluted loss per share is calculated by adjusting the weighted average number of ordinary shares in issue during the period to assume conversion of all dilutive potential ordinary shares.

	31 Jan 2010 £'000	31 Jan 2009 £'000	31 Jul 2009 £'000
(Loss)/profit attributable to the equity holders of the Company	**(241)**	744	(540)
Weighted average number of shares	**No.**	No.	No.
Weighted average number of ordinary shares in issue during the period	**184,088,032**	155,135,048	171,646,252
Adjustments for:			
Share options	**8,048,950**	4,370,927	4,370,927
Weighted average number of ordinary shares for diluted earnings per share	**192,136,982**	159,505,975	176,017,179
(Loss)/earnings per share			
Basic on (loss)/earnings for the year	**(0.13)p**	0.48p	(0.31)p
Diluted on (loss)/earnings for the year	**(0.13)p**	0.47p	(0.31)p

The weighted average number of shares for the for the six months ended 31 January 2009 and the year ended 31 July 2009 was based on the number of shares issued by Nanoco Group PLC to acquire Nanoco Tech Limited for the period prior to acquisition (adjusted downwards for the impact of shares issued by Nanoco Tech Limited in that period) and the weighted average number of shares in issue for the period post the acquisition.

5. Interim financial report

A copy of this interim financial report will be distributed to shareholders and is also available on the Company's website at www.nanocotechnologies.com

Investor Information

Directors

Dr P Rowley	(Non-Executive Chairman)
Dr M Edelman	(Chief Executive Officer)
Dr N Pickett	(Chief Technical Officer)
Mr M Bretherton	(Chief Financial Officer)
Mr A Clinch	(Non-Executive Director)
Mr G Hall	(Non-Executive Director)

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