NANOCO GROUP PLC

Investing in growth...

Annual Report and Accounts 2011

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

Highlights for the year

- Follow-on product development agreement, worth \$800,000, signed with major Japanese LCD TV manufacturer for cadmium-free quantum dots (CFQD™) for LED backlighting
- Phase 1 of Tokyo Electron solar cell programme completed and phase 2 development agreement signed
- Joint Development Agreement signed with world leading lighting company to produce high quality CFQD™ LED general lighting system
- Runcorn quantum dot production facility designed, built and commissioned on time and on budget
- 1kg CFQD™ produced at Runcorn and shipped to Japanese LED customer, triggering \$2 million payment
- Cash, cash equivalents and deposits of £17.10 million at 31 July 2011 (31 July 2010: £5.68 million)

79
79 patent applications in 2010/11

£17m
£17m cash and deposits at 31 July 2011

31
31 Ph.D.s employed in Nanoco's research labs

25kg
25kg annual CFQD™ manufacturing capacity

50,000
50,000 40 inch LCD TVs from 1kg of CFQD™

8
8 patents granted in 2010/11

Chairman's statement
Making substantial progress in developing our business.

Peter Rowley
Non-Executive Chairman

Manufacturing quantum dots on this scale is a major technical achievement and a world-first, underlining the scalability of Nanoco's technology and the expertise of our technical and production teams.

I am delighted to report on Nanoco's second full year as a publicly quoted company.

It was a year of excellent progress in which we continued to make the transition from a research-based company to a high-tech manufacturing business capable of producing large batches of cadmium-free quantum dots (CFQD™).

We commissioned our first production lines in January 2011 in Runcorn, giving us the capacity to produce around 25kg of CFQD™ annually and marking an important step in our multi-stage plan to build substantial manufacturing capacity.

In April 2011, we announced the production of a 1kg batch of red CFQD™ for a major Japanese corporation, marking a key milestone for the Runcorn plant. Manufacturing quantum dots on this scale is a major technical achievement and a world-first, underlining the scalability of Nanoco's technology and the expertise of our technical and production teams. Not only is the scale of manufacture a world-first but our quantum dots are free of cadmium or other toxic metals, making them ideally suited to use in consumer electronics and other products where health, safety and environmental considerations are paramount.

We have progressed plans for further expanding capacity following a successful £15 million fundraising in January 2011. We are currently finalising the detailed design of the Kilo Lab plant, with the start of construction timed to reflect the increase in demand when commercial production ramps-up. If demand ramps-up more quickly we can expand capacity on the existing production line to 40kg and add further lines at relatively short notice.

During the year we have made good progress with our commercial collaborations in light-emitting diode (LED) backlighting for liquid crystal display (LCD) TVs and in solar power, receiving significant stage payments for achieving various technical and performance milestones. We continue to believe the first commercial product to come to market will be backlit CFQD™ TVs. Based on our current analysis we believe that shipments of materials will commence during the 2012/13 financial year. In August, shortly after the period end, we signed a new joint development agreement (JDA) with one of the world's largest lighting companies with the objective of incorporating red CFQD™ into LED lights for commercial, residential and other uses. We also successfully exceeded the Phase 1 targets of our solar program with Tokyo Electron and signed a Phase 2 JDA to further progress our joint development of an efficient, low cost, printable solar cell.

We now have an increasing diversity of commercial collaborations working in three key areas: LED backlighting for TVs, solid state LED lighting and solar power.

Our technology has a myriad of potential applications, highlighted by recent approaches we've received from companies wishing to incorporate CFQD™ into their products. Whilst we continue to evaluate new applications, we are focused on getting the first products to market.

Nanoco's core asset is its world-class patent-protected technology. We have continued to strengthen our intellectual property (IP) position throughout the year. Over the past 12 months Nanoco has had eight new patents granted and 79 patent applications filed.

Financials

Our revenues in the year to 31 July 2011 were £2.64 million (2010: £2.94 million). Our loss before tax was £3.22 million (2010: loss of £1.37 million), primarily reflecting the costs associated with setting up the Runcorn manufacturing facilities and commissioning the plant to produce the first kilo of red CFQD™. Cash and short term investments and deposits at the year-end were £17.10 million (31 July 2010: £5.68 million).

People

In August 2010, we were delighted to welcome Colin White as our Chief Financial Officer. By the year end, the Nanoco team had grown to 63 people, compared with 49 people a year earlier. The increase reflects the transition to a growing manufacturing business and includes roles in systems, processes and sales in addition to production and technical product development.

I would like to offer my sincere thanks to all at Nanoco for their dedication and commitment throughout the year and to all our commercial partners and other stakeholders.

Outlook

The rapid progress the Company has made in the past year has continued into the current year. All of our commercial relationships are developing well as is the industrialisation of our technology, with commercial production now projected to commence during the 2012/13 financial year. We look forward to continued progress and view the future with confidence.

Peter Rowley

Peter Rowley
Non-Executive Chairman
14 October 2011

Our business model
How we work with our customers.

Partnership

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

R&D

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

Scale-up

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

Revenue

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

Our achievements

August 2010
CFO appointed

October 2010
Work begins on constructing Runcorn production facility

December 2010
Red CFQD™ achieves 50,000 hour lifetime

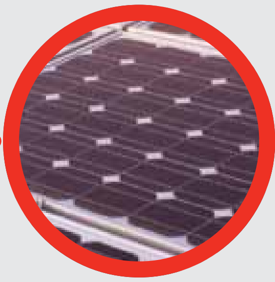
January 2011
Runcorn production facility commissioned

February 2011
£14.3m net cash received from placing

March 2011
LCD TV product development agreement, phase 2, signed

April 2011
Delivered 1kg red CFQD™

June 2011
Phase 1 TEL solar programme completed



August 2011
LED lighting JDA signed

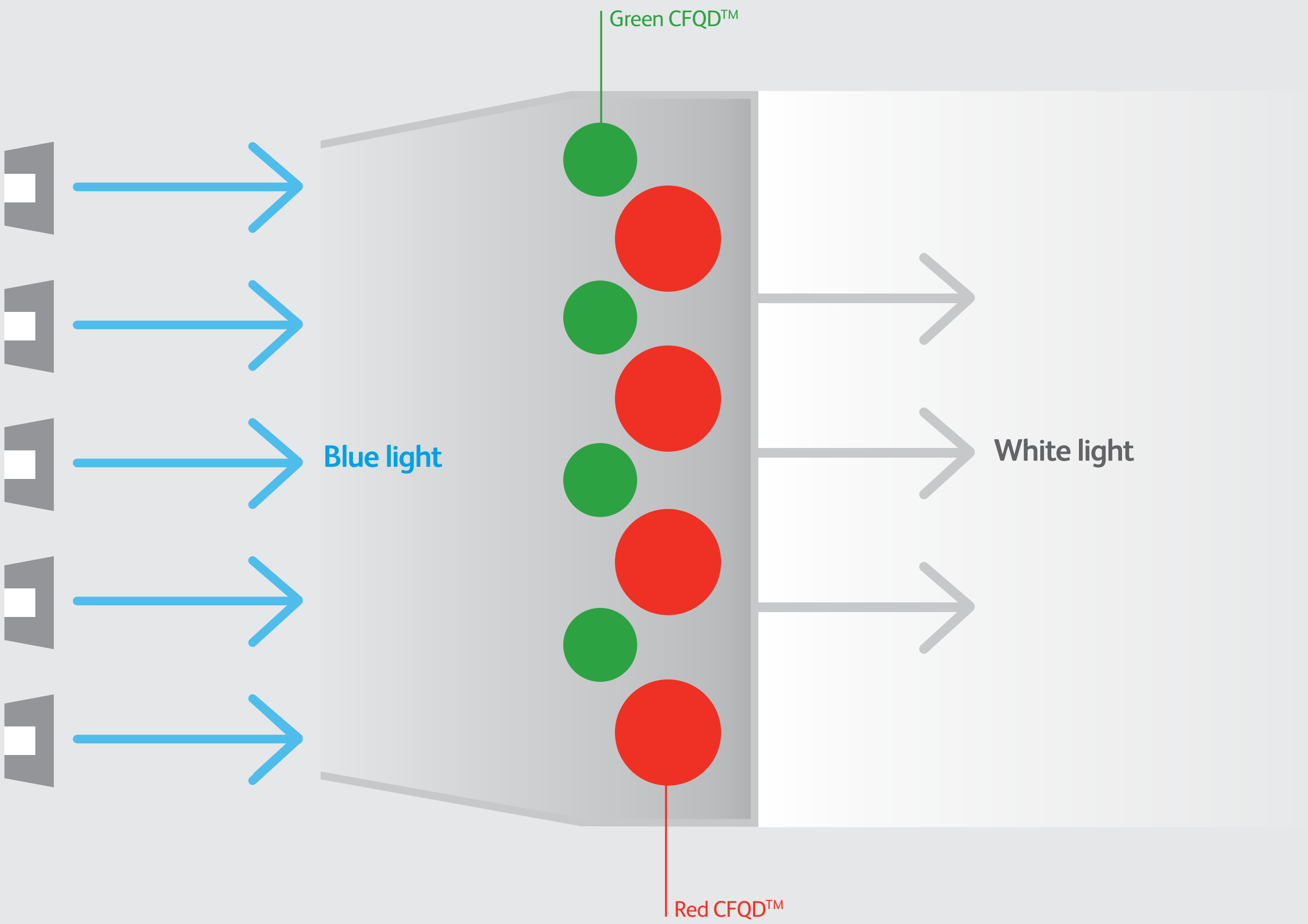
October 2011
TEL phase 2 agreement commences

Our core technology
Cadmium-free quantum dots “CFQD™”.

Our technology in LCD backlighting and LED lighting applications

Quantum dots

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



This diagram illustrates how green and red quantum dots combine with a blue LED light source to create white light.

Intellectual property

- IP is a strategic asset to Nanoco
- Nanoco invests heavily in its Patent Portfolio
- 8 patents granted this year, 79 patent applications filed

Nanoco's technology

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

Nanoco CFQD™

Solutions of Nanoco CFQD™. Changing the size of the semiconducting nanoparticle changes the colour.

LCD TV screens

Quantum dots are used to improve colour quality and reduce cost in backlight units used in LCD TVs.

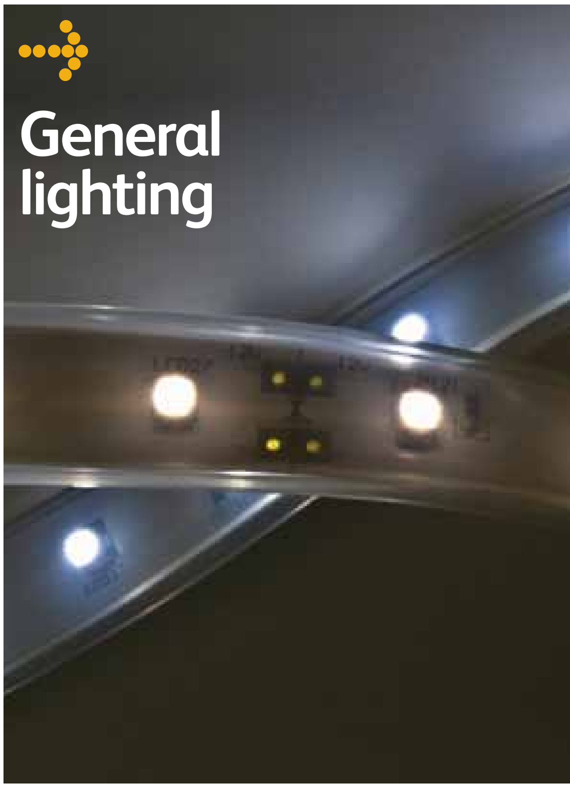
Signage applications

Improved colour and design freedom and reduced power.

General lighting

Quantum dots allow lighting companies to "tune" the visible light spectrum to meet specific end use lighting market needs.

Key markets
Nanoco is currently focused on four target markets.



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

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

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

Benefits
Nanomaterials produced by Nanoco have the ability to absorb a wide spectrum of the sun's energy. This makes them ideal for use in next generation solar cells. Nanoco has developed inks based on these materials which can be fabricated into the solar absorption layer of a solar cell. The objective is to produce solar cells which are efficient and cost effective.

< Backlighting for LCD TV

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

Benefits

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

^ Other applications

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

Bio-imaging

Quantum dots are already used for in vitro imaging. Nanoco's heavy metal free quantum dots are being evaluated for in-vivo imaging and medical diagnostics.

Infrared applications

Quantum dots which emit light in the infrared region of the spectrum can be used for diagnostics and sensors.

CEO's review of operations

We are very focused on delivery of technology to satisfy our major markets.

Michael Edelman
Chief Executive Officer

During the year to 31 July 2011 we made substantial progress in all of the key areas of our business, particularly in manufacturing scale-up, in commercial agreements, in intellectual property (IP) protection and in building our company infrastructure.

The commissioning of our production facility in Runcorn in January 2011 was a major achievement and demonstrated our commitment to transitioning from a research-based company to a high-tech manufacturer. We were particularly pleased with the speed with which we were able to locate a site and then procure, build and commission the production facility, which was completed by the end of January 2011 at a capital cost of £1.3 million. This was followed by the production of 1kg of red CFQD™, which we shipped in March 2011. The two Semi-Tech production lines have the capacity to produce a total of around 25kg a year of CFQD™.

The success of the Semi-Tech lines demonstrates the scalability of our technology to produce large quantities of CFQD™. Manufacturing in-house is central to our business strategy. It ensures that our customers are guaranteed product, produced to the highest quality standards, which meets the most demanding technical specifications. A tremendous amount of work has been carried out on upgrading the Company's internal systems to ensure that we are able to supply our large multinational customers in a timely and professional manner.

Our people are the Company's strongest asset. Our total staff numbers were 63 at the year end, reflecting the increased activity across our business. We currently have seven staff located full-time in Runcorn, and three others dividing their time between Runcorn and our Manchester headquarters.

Soon after commissioning the Runcorn facility, we successfully raised £15 million (before expenses) through a placing of shares to new and existing investors. The funds were raised to invest in further developing the business. The funds will be used for the next stage of manufacturing scale-up; for new product development; for business development; and for strengthening patent portfolio management and protection.

The next stage in manufacturing scale-up is the installation of Kilo Lab lines, which would increase our total production capacity to around 150kg annually. So far we have spent around £200,000 on planning and design work but will begin construction only when we have the appropriate visibility in our order books. If demand ramps-up more quickly we can expand capacity on the existing production line to 40kg and add further lines at relatively short notice.

The Company has continued to invest heavily in its technology base during the year. We now employ around 31 scientists with Ph.D.s and 17 with degrees. These scientists come from 11 countries worldwide. A measure of our technology advancement is the number of patents granted and filed by the Company over the year: a total of eight new patents were granted and 79 patent applications were filed. Earlier this month, we took the opportunity to further expand our patent estate by acquiring patents from Evident Technologies Inc., a US nanotechnology company. The patents, which largely relate to the surface chemistry of quantum dots and their use in applications, extend the reach of our cadmium-free technology.

Business development has been an important focus for us during the year. To date, the great majority of Nanoco's commercial relationships have centred on Japan, which has a leadership position in the world's optoelectronics industry. But we have started to diversify geographically and are now active in Japan, Korea, Taiwan and the USA. We look forward to signing our first development agreement in Korea.

Review of key markets

LED backlighting

We made significant progress during the year with our supply and licence agreement with a major Japanese corporation. In December 2010, we received a US$500,000 milestone payment after bespoke red CFQD™ met performance criteria including a performance life of at least 50,000 hours.

This was followed in April by a US$2 million milestone payment for the production of 1kg of red CFQD™ at our Runcorn facility. This kilogramme marked the first time that quantum dots had been manufactured on this scale, and was a major achievement for Nanoco. A kilogramme of quantum dots will make of the order of 50,000 backlight units for LCD TVs, depending on the TV size.

We are now focusing on achieving the remaining milestones for green CFQD™, which are part of the same agreement. Our customer is currently testing the green lifetime against the 50,000 hour requirement. Once achieved, a payment of US$1 million will be made to Nanoco and pave the way for the production of the 1kg of green which triggers a further US$2 million payment.

In April this year we received a US$800,000 upfront payment for signing a product development agreement with a major Japanese company, whose products include LCD TVs. This agreement, which followed an 18 month JDA, is focused on the final steps in combining CFQD™ into an LCD TV for commercial launch. We are currently refining the CFQD™ so as to meet the technical specification for the customer's TV, as part of the iterative design and development process between Nanoco and our customer. The TV incorporating the CFQD™ in the LED backlight unit will benefit from the superior colour performance of CFQD™ and is expected to generate cost savings through a reduction in LED chip complexity. Much effort by Nanoco and our customer is currently being put into engineering the CFQD™ onto the next generation backlight systems. We continue to be unclear as to the precise timing of commercial launch for these products which is controlled by our customer, however we believe that shipments of materials will commence during the 2012/13 financial year.

LED lighting

Our most recent JDA was signed in August 2011 with one of the world's largest lighting companies. It marks our first agreement focused solely on general lighting and it was signed with a large Western company. The objective of the JDA is to incorporate CFQD™ into the lighting company's LEDs to create LED lighting systems with the superior performance characteristics required for widespread residential and commercial use.

This is an exciting opportunity, exploiting the ability of Nanoco's CFQD™ to transform the blue light from an LED into white light with a high colour rendering index. Current methods for producing white light from a blue LED tend to be weak in the red wavelengths, giving the two problems, that the light lacks warmth and fails to show true colours. CFQD™ can overcome these problems, unlocking the many advantages of LEDs including reduced power consumption, long service life and compact size.

We have started to diversify geographically and are now active in Japan, Korea, Taiwan and USA.

Solar

Our solar energy JDA with Tokyo Electron, a major Japanese equipment supplier, has also progressed extremely well. In November 2010, we received a milestone payment for successfully developing a nanomaterial solar ink, which can be printed to form a thin film through techniques developed by Tokyo Electron. This thin film is the active solar absorber area which is incorporated into a material stack to create a low cost solar cell. We successfully exceeded all the Phase 1 JDA targets which led to both companies signing a Phase 2 agreement in September of this year. This second phase will generate significant milestone payments to Nanoco and is expected to last for 12 months. It will focus on continuing to increase the solar cell performance, process-ability and cost reduction.

Our solar ink is based on nanoparticles which have been developed and manufactured by the Company to maximise their effectiveness in absorbing solar energy. These nanoparticles are printed using low cost methods and then annealed into a solar active film layer.

The solar market is huge and growing. We are pleased to be working in partnership with Tokyo Electron to optimise the technology and eventually bring it to market.

Other applications

There are many applications for Nanoco's CFQD™. We continue in discussions with potential partners across a range of applications and have been approached by an increasing number of companies interested in including CFQD™ in their products.

One such application is the work the Company is currently doing with University College London, on using CFQD™ for in-vivo imaging of cancer.

Summary

The year to 31 July 2011 was one of real momentum in our business. We made major steps forward in the development of our technology and intellectual property, we built and commissioned our first manufacturing plant, we made significant progress in our commercial contracts and we strengthened our balance sheet for the next stage in our development. The Company also broadened its commercial relationships to include LED general lighting in addition to LCD backlighting and solar energy. All of our commercial relationships are progressing well.

We successfully expanded our activities in our key markets of Japan, Korea, Taiwan and the USA and expect further positive news from these territories going forward.

This momentum has continued into the current year, which has started well. We look forward to making further technical and commercial progress in the months ahead, building on our position as a high-tech manufacturer with unique IP.

Michael Edelman
Chief Executive Officer
14 October 2011

Financial review

The Company ended the year with cash and deposit balances totalling £17 million.

Colin White
Chief Financial Officer

Results

Revenue decreased by £295,000 to £2,642,000 (2010: £2,937,000). The Company's revenue is earned primarily through joint development agreements and a material supply and licence agreement, with revenue being recognised as agreed performance milestones are achieved. The year on year reduction in revenue reflects the phasing of milestone payments on the material supply and licence agreement, which had generated higher income in 2010 and a normal level of revenue recognition in 2011. All revenues earned were denominated in US Dollars and mostly originated from customers in the Far East.

Costs of sales, which includes raw material costs, consumable items and sub-contract testing and analysis, increased by £590,000 to £1,085,000 (2010: £495,000). This increase reflected, in particular, the incremental costs associated with setting up and trialling the scale-up laboratory and manufacturing facility at Runcorn. Material and sub-contract spend associated with the various joint development programmes also increased; a consequence of the magnitude of work performed in achieving the various programme milestones.

Total staffing costs increased by £471,000 to £2,564,000 (2010: £2,093,000) and average staffing numbers increased by 17 heads from an average of 39 heads in 2010 to 56 in 2011. During the year seven (2010: four) new roles were created in support of the work associated with developing the scale-up laboratory and establishing the new manufacturing facility at Runcorn. The majority of the other increases in staffing were technical roles associated with the on-going joint development programmes. Total research and development spend, which primarily includes the employment costs of technical staff, increased by £731,000 to £2,581,000 (2010: £1,850,000). Investment in the new manufacturing facility at Runcorn was also the primary driver behind the increase in the level of depreciation by £306,000 to £734,000 (2010: £428,000).

After deducting operating costs the adjusted* operating loss for the year ending 31 July 2011 was £3,232,000 (2010: adjusted* operating loss of £1,262,000).

The Company aims to incentivise and retain key staff through the use of equity-settled share awards. The IFRS2 (share-based payment) charge in respect of share schemes totalled £153,000 (2010: £166,000). The total number of share options in issue as at 31 July 2011 were 7.1 million (31 July 2010: 11.0 million). In addition a further 4.2 million (31 July 2010: 3.8 million) of shares are jointly owned by the Company's Employee Benefit Trust ("EBT") and certain senior management through a Jointly Owned Agreement ("JOE"). Under the JOE the employee beneficiaries have the option to acquire the trustees' share at an agreed option price subject to meeting certain performance criteria.

* Before share-based payment charge

Share options and JOE shares that had been issued under the Nanoco Tech share incentive plan (prior to the reverse take-over in 2009), and which totalled 12.2 million share options and JOE shares, are now capable of being exercised until 31 August 2016. During the year 4.5 million of these options were exercised. Details on the various share schemes are provided in note 19 to the financial statements.

Interest income increased by £112,000 to £180,000 (2010: £68,000), benefiting from the increase in cash following the receipt of the proceeds from the Placing, in February 2011.

The loss before tax was £3,215,000 (2010: loss of £1,371,000).

Taxation

The tax credit for the year is £723,000 (2010: £288,000). The R&D tax credit to be claimed in respect of 2010/11 R&D spend is £600,000 (2010: £433,000). There was a deferred tax credit of £129,000 (2010: £129,000 deferred tax charge). This credit is a result of the un-provided tax losses which more than offset the deferred tax liability for accelerated capital allowances. There was also a small charge in respect of the prior year R&D tax credit of £6,000 (2010: £16,000).

Earnings per share

Adjusted* loss per share was (1.22) pence (2010: adjusted* loss of (0.51) pence). Basic loss per share was (1.30) pence (2010: loss of (0.60) pence).

No dividend has been proposed (2010: nil) in order to retain cash within the business to fund future investment.

Cash flow and balance sheet

During the year cash, cash equivalents, deposits and short term investments increased by £11,417,000 from £5,682,000 at 31 July 2010 to £17,099,000 at 31 July 2011.

The Company raised net proceeds of £14,344,000 (net of expenses) from a Placing of 16.7 million new shares which were admitted to the AIM listing on 3 February 2011. A further £300,000 was raised from the exercise of options during the year.

Purchases of capital equipment in the year, primarily in connection with equipment for the new Runcorn facility, totalled £1,605,000 (2010: £615,000). Expenditure incurred in registering patents totalled £299,000 (2010: £300,000) during the year. This is capitalised and amortised over ten years in line with the Company's accounting policy.

At the year-end current liabilities included £719,000 (2010: £539,000) of deferred income which will be recognised in the Income Statement, as revenue, as performance milestones are achieved.

Treasury activities and policies

The Group carries a significant cash sum which is managed prudently. In order to minimise risk to the Group's capital the funds are invested across a number of financial institutions which have investment grade credit ratings. The deposits range from instant access to twelve month term deposits and are regularly reviewed by the Board. Cash forecasts are updated monthly to ensure that there is sufficient cash available for foreseeable requirements.

Credit risk

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

Foreign exchange management

The Company invoices most of its revenues in US Dollars. The Company is therefore exposed to movements in the US Dollar relative to Sterling. The Company enters into forward currency contracts to fix the exchange rate on invoiced or confirmed foreign currency receipts. The Company does not take out forward contracts against uncertain or forecast income. There were no open forward contracts as at 31 July 2011 (2010: nil).

At the year end the Group had a net liability of £11,000 (2010: net asset £1,176,000) in US Dollar cash, debtor, less creditor balances. The Group's net profit is exposed to movements in the value of Sterling relative to the US Dollar. The indicative impact of movements in the Sterling exchange rate on profits based on the re-translation of the closing balance sheet is summarised in note 24 to the Financial Statements. As US Dollar income increases so the exposure of the Group's Income Statement to movements in the Sterling/US Dollar exchange rate will increase as well.

Colin White

Colin White
Chief Financial Officer
14 October 2011

* Before share-based payment charge

In conversation with the Chief Technology Officer, Nigel Pickett.

Q: How did you get interested in quantum dots?

A: In the mid-90s I was working at St Andrews University studying semiconductor thin films, the material used in chips in today's electronic equipment. Specifically, I was looking at how to eliminate an unwanted fine powder that formed on top of the thin film semiconductors during their manufacture. I found that the addition of amine changed the amount and colour of the powder, ranging from black to yellow, depending on the concentration of amine used. The powder was made up of quantum dots, and I've been fascinated by them ever since.

Q: What was the start of Nanoco's technology?

A: It was clear that one of the major hurdles to the commercialisation of quantum dots was to be able to produce them in large quantities. I could see the commercial potential so I worked on solving this problem in the evenings and at weekends. At the time, I was working for Professor Paul O'Brien at Manchester University, making starting materials used to grow semiconductor thin films.

Q: When did you first seek patent protection?

A: As soon as the first experiments were successful in 2004.

Q: What was the breakthrough that you made?

A: The breakthrough was discovering a scalable process so that quantum dots could be produced in large quantities and to tailor the process so that the quantum dots are free of cadmium or other heavy metals. This is very important for their adoption in consumer products.

Q: Why is making commercial quantities of quantum dots so difficult?

A: To be commercially viable, quantum dots have to be of high purity with a narrow size distribution, which is demanding as quantum dots are very small, only 5-10 nanometers in diameter. They also need an organic surface coating so that they can be combined into glass, resins or polymers for use in finished products. The process must also be scalable. We believe that Nanoco's technology is the only method that meets all of these criteria.

A careful balance is required to allow us to develop quickly and effectively to meet market demand whilst at the same time minimising technical risks and managing costs.

Q: Scientists have been looking for a way to mass produce quantum dots for many years. How did you solve the problem?

A: Before Nanoco, the main method was using traditional chemistry. Typically, starting materials were rapidly injected into a reaction flask to achieve nucleation and growth of quantum dots. This method (dual injection) works well for small-scale synthesis. However, increasing the reaction size, and trying to rapidly inject a large volume of hot solution into another, results in a temperature differential. This produces a range of quantum dot sizes, which is undesirable.

The way I solved the scale-up problem was by removing the need for the dual injection step. Instead I used pre-formed "molecular clusters" as a seed from which larger quantities of crystalline quantum dots could be produced. Moreover, because suitable nucleation sites are already provided by the molecular clusters, a high temperature nucleation step is not necessary. This methodology is scalable and is what we call Nanoco's "molecular seeding" process.

Q: What is the patent position currently?

A: Because of the uniqueness of Nanoco's "molecular seeding" process we have a very strong IP position. We are continually expanding our IP as we further develop our technology.

Q: How many scientists work at Nanoco?

A: We now have about 50 scientists spread over our two sites, in Manchester and in Runcorn.

Q: What are those scientists working on currently?

A: We have a number of scientists working on improvements to our quantum dots and expanding the range of quantum dots and other nanoparticles we can produce. To make the quantum dots commercially useful they need to be incorporated into some kind of ink, resin or polymer matrix, depending of the specific application, therefore we have a group of scientists dedicated to modifying the organic surface of the quantum dots to make them compatible with many of these materials. They also work on making inks and resins specifically for the quantum dots. This work is done in close collaboration with our partners and customers.

Q: What do you see as the most exciting commercial possibilities for Nanoco technology?

A: There are many potential possibilities as the quantum dots can be used in many existing products, but would make the product more efficient. Nearest to commercialisation is our work on replacing the current phosphor material used in LEDs for the backlighting of LCD displays. The current technology is weak in red wavelengths so by using our technology a much improved picture quality can be achieved. We are also active in the area of general lighting. Because we can control the size of quantum dots very accurately, we can create LEDs that give "warm" light with a high colour rendering index suitable for home and office environments. We're close to the commercialisation of these products as well.

Q: Looking into the future, how could the technology be used?

A: The technology could be used anywhere that a luminescent dye is currently employed, such as in many biological and bio-medical applications. Our main focus currently is commercialising LED lighting and solar power but the theoretical possibilities are very exciting. In the future, our quantum dots could be used as pixels to create ultra-thin, printable QD-OLED TV screens with the possibility that these could either be sprayed on walls or printed on flexible materials, so the screen could be rolled up.

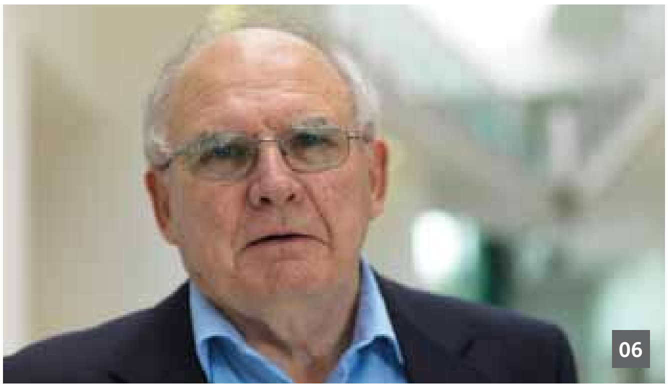
Board of Directors
An experienced and driven board.

01. Dr Peter Rowley – Non-Executive Chairman
Peter Rowley joined the Nanoco board in 2006. Previously he led the management buyout of Victrex from ICI in 1993, followed by the successful listing of Victrex PLC on the London Stock Exchange in 1995. He joined ICI in 1968 and progressed through a number of positions in the organisation. In 1983 he became International Business Manager for the widely used polymer PTFE and in 1989 he was appointed General Manager for ICI Advanced Materials Asia Pacific. Peter has a Ph.D. in organic chemistry from King's College London.

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

03. Dr Nigel Pickett – Chief Technology Officer
Nanoco's technology team is led by Nigel Pickett who is a co–founder of Nanoco and inventor of Nanoco's key quantum dot scale–up technology. Nigel graduated from Newcastle University in 1991 and chose to remain at Newcastle to pursue a Ph.D. in the field of main group organometallics. After graduation in 1994 he undertook a postdoctoral fellowship at St. Andrews University, Scotland, in the field of precursor design for MOVPE growth and synthesis of nanoparticles using CVD techniques. In 1996 he won a Japan Society for the Promotion of Science (JSPS) fellowship and spent the following year working at Tokyo University of Agriculture and Technology, Japan. In 1998 he became a research fellow at Georgia Institute of Technology, USA, working on the design and evaluation of precursor used in MOVPE. Nigel co–founded Nanoco Technologies in 2001.

04. Colin White – Chief Financial Officer
Colin White is a chartered accountant with international experience of publicly quoted companies in the manufacturing, technology and professional services sectors. Prior to joining Nanoco, he was Group Finance Director of Driver Group PLC, where he was involved in implementing a range of strategic growth initiatives and setting up a number of overseas joint ventures. He has also held senior positions at Scapa Group PLC and TI Group PLC, where he worked for almost 10 years prior to its acquisition by Smiths Group PLC. During this time he held positions including Finance Director of the Dowty Aerospace Division, finance controller of Dowty North America and group investor relations manager. Colin, who graduated from Cambridge University in 1983 and qualified as a chartered accountant with Grant Thornton in 1987, joined Nanoco and its board in August 2011.



05. Michael Bretherton – Non-Executive Director
Michael Bretherton graduated in Economics from the University of Leeds and then worked as an accountant and manager with PriceWaterhouse for 7 years in both London and the Middle East. Michael subsequently worked for The Plessey Company PLC before being appointed Finance Director of the fully listed Bridgend Group PLC in 1988 where he held the position for 12 years. More recently, he has worked at the property and services company, Mapeley Limited as Financial Operations Director and then at the entertainment software games developer, Lionhead Studios Limited, where he helped to complete a trade sale of the business to Microsoft in March 2006. Michael is currently also a director of ORA Capital Partners Limited and a number of other AIM listed companies. Michael held the position of Chief Financial Officer for Nanoco Group PLC until 9th August 2010.

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

07. St Gabrielle LLP, Non-Executive Director represented by Anthony Clinch
Anthony Clinch is chairman of The Valence Group, a Non-Executive Director of Taminco Group Holdings S.a.r.l, a member of the supervisory board of CABB International GmbH, a senior advisor to CVC Capital Partners and a member of the Advisory Board of Imperial College's Chemistry Faculty. He was an employee of CVC Capital Partners between 1987 and 2007, including as Managing Director where he specialized in chemical industry investments. He previously worked for Citibank in a number of managerial roles in Corporate Banking. He is a Chartered Engineer and a member of the Institution of Engineering and Technology, having spent his early career with Rolls Royce Ltd. He holds a B.Sc. in Aeronautical Engineering and an M.Sc. in Management Science and Operational Research from Imperial College, London.

Directors' Report

The Directors present their report and consolidated financial statements for the year ended 31 July 2011, and the financial statements for the parent company for the year ended 31 July 2011.

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

Review of the business and future developments
A review of the Group's performance and future projects, including research and development and manufacturing scale-up, is included in the Chairman's Statement, CEO's Review of Operations, Financial Review and other business review reports on pages 2 to 13.

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

Research and development
The principal activity of the Group is research and development, a review of which is included in the Chairman's Statement, CEO's Review of Operations and other business review reports on pages 2 to 11.

Key performance indicators
Key Group performance indicators are set out below:

	31 July 2011 £000	31 July 2010 £000
Revenue	**2,642**	2,937
Net assets	**20,159**	7,854
Loss attributable to equity holders	**(2,492)**	(1,083)
Cash, cash equivalents and deposits	**17,099**	5,682
Research and development spend	**2,581**	1,850

Results and dividends
Turnover for the Group reduced from £2,937,000 last year to £2,642,000 whilst losses after taxation for the year increased to £2,492,000 (2010 loss of £1,083,000).

The Directors do not recommend payment of an ordinary dividend (2010: £nil).

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

Directors and their interests
The following Directors held office in the year:
Dr Peter Rowley
Dr Michael Edelman
Dr Nigel Pickett
Mr Colin White (appointed 9 August 2010)
Mr Michael Bretherton
Mr Gordon Hall
St Gabrielle LLP, represented by Mr Anthony Clinch

Details of Directors' interest are shown in the Directors' Remuneration Report on pages 20 to 22.

Directors' indemnity insurance
The Group has maintained insurance throughout the year for its directors and officers against the consequences of actions brought against them in relation to their duties for the Group. Such provision remains in force as at the date of approving the Directors' Report.

Substantial shareholders
The Company is aware that the following have, at 14 October 2011, an interest in 3% or more of the issued ordinary share capital of the Company:

	Number of 10p ordinary shares	Percentage of the issued share capital
ORA Capital Partners Limited	39,190,390	19.04%
Baillie Gifford & Co	19,749,501	9.59%
Universities Superannuation Scheme	14,894,320	7.24%
Fidelity Investments	12,202,096	5.93%
Mitsubishi UFJ	11,872,888	5.77%
Nigel Pickett	10,451,931	5.08%
Michael Edelman	9,272,940	4.50%
F & C Asset Management	8,186,746	3.98%
Paul O'Brien	7,621,843	3.70%

Donations
No charitable or political donations were made in the year (2010: £nil).

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

The Group's trade creditor days as at 31 July 2011 were 46 (2010: 31 days).

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

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

Health and safety
The Group is committed to ensuring the health and safety of its employees in the workplace.

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

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

On behalf of the Board

Colin White
Director
14 October 2011

Directors' Remuneration Report

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

Remuneration committee

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

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

Basic annual salary

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

Discretionary annual bonus

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

Discretionary share schemes

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

Remuneration policy for Non-Executive Directors

Non-Executives do not receive any pension payments or other benefits, nor do they participate in bonus schemes. Fees are based on a fixed fee plus an additional fee for chairmanship of a committee.

Directors' remuneration

The remuneration of the Directors, who served on the Board of Nanoco Group PLC during the year to 31 July 2011, is as follows:

	Salary & fees £000	Share-based payments £000	Pension costs £000	**Total 2011 £000**	Total 2010 £000
Dr Peter Rowley	12	–	–	**12**	12
Dr Michael Edelman	150	14	–	**164**	129
Dr Nigel Pickett	100	10	11	**121**	91
Mr Colin White (appointed 9 August 2010)	100	39	9	**148**	–
Mr Michael Bretherton	12	–	–	**12**	12
Mr Gordon Hall	12	–	–	**12**	12
St Gabrielle LLP	12	–	–	**12**	4
	398	63	20	**481**	260

Michael Edelman and Nigel Pickett both have contracts with an indefinite term providing for a maximum of twelve months' notice. Colin White has an indefinite term contract which provides for a maximum of six months' notice which will increase to twelve months in the event of a change of control of the Company. In the event of early termination, the Directors' contracts provide for compensation up to a maximum of basic salary for the notice period.

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

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

Directors' shareholdings

Directors' interests in the shares of the Company, including family and beneficial interests, at 31 July 2011 were:

	Ordinary shares of 10p each			
	31 July 2011 Number	**31 July 2011 %**	31 July 2010 Number	31 July 2010 %
Dr Peter Rowley	**1,571,820**	**0.76%**	1,571,820	0.85%
Dr Michael Edelman *	**9,272,940**	**4.50%**	9,272,940	5.04%
Dr Nigel Pickett *	**10,451,931**	**5.08%**	10,451,931	5.68%
Mr Colin White *	**320,411**	**0.16%**	–	–
Mr Michael Bretherton	**227,500**	**0.11%**	227,500	0.12%
Mr Gordon Hall	**100,000**	**0.05%**	100,000	0.05%
Mr Anthony Clinch **	**57,640**	**0.03%**	57,640	0.03%

* Includes the jointly owned EBT shares referred to below.
** Shares are owned by Anthony Clinch who represents the Non-Executive Director St Gabrielle LLP.

Directors' jointly owned employee benefit trust shares and share options

Directors' interests in jointly owned employee benefit trust ("EBT") shares and in share options to acquire ordinary shares of 10 pence in the Company as at 31 July 2011 were:

	Date granted	Exercise Price	At 31 July 2010	Exercised during the year	Granted during the year	**At 31 July 2011**
Share options:						
Dr Michael Edelman:	1 Sept 2006	3.52p	2,843,750	(1,350,000)	–	**1,493,750**
	27 Nov 2009	78.00p	300,000	–	–	**300,000**
	2 June 2011	79.25p	–	–	189,274	**189,274**
Dr Nigel Pickett:	1 Sept 2006	3.52p	2,843,750	(1,350,000)	–	**1,493,750**
	27 Nov 2009	78.00p	212,500	–	–	**212,500**
	2 June 2011	79.25p	–	–	138,801	**138,801**
Mr Colin White:	9 Aug 2010	92.60p	–	–	129,589	**129,589**
	2 June 2011	79.25p	–	–	138,801	**138,801**
EBT Scheme:						
Dr Michael Edelman	1 Sept 2006	3.52p	3,229,162	–	–	**3,229,162**
Dr Nigel Pickett	1 Sept 2006	3.52p	530,089	–	–	**530,089**
Mr Colin White	9 Aug 2010	92.60p	–	–	320,411	**320,411**

Directors' Remuneration Report continued

Exercise of the options, which were granted on 1 September 2006, was conditional on achievement of share price performance criteria and either a sale or listing of the Company. All of the relevant conditions have been successfully met and the options are capable of being exercised at any time from 1 August 2010 to 31 August 2016. Dr Michael Edelman and Dr Nigel Pickett each exercised and sold 1,350,000 of their options on 2 November 2010 and each made a net gain after associated commissions on the sale of their options of £1,373,168.

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

The options granted on 2 June 2011 were granted under the terms of the Nanoco Group PLC long-term incentive plan and will be exercisable subject to performance conditions being met based on revenue targets, following the publication of the 2012 financial results.

The market price at 31 July 2011 was 79 pence per share, the highest and lowest prices during the year were 116 pence and 68 pence respectively.

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

On behalf of the Board

Gordon Hall
Chairman of the remuneration committee
14 October 2011

Corporate Governance Statement

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

The Board

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

Audit committee

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

The audit committee comprises two Non-Executive Directors, Michael Bretherton and Peter Rowley, with Michael Bretherton as Chairman.

Remuneration committee

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

Nominations committee

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

Internal controls

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

Some key features of the internal control system are:

(i) management accounts information, budgets, forecasts and business risk issues are regularly reviewed by the Board who meet at least six times per year;

(ii) the Company has operational, accounting and employment policies in place;

(iii) the Board actively identifies and evaluates the risks inherent in the business and ensures that appropriate controls and procedures are in place to manage these risks; and

(iv) there is a clearly defined organisational structure and there are well-established financial reporting and control systems.

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

Going concern

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

Corporate Governance Statement
continued

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

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

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

The Group seeks to manage liquidity by ensuring funds are available to meet foreseeable needs and to invest cash assets safely and profitably. The Group had net cash, cash equivalent and deposit balances of £17.10 million as at 31 July 2011 (2010: £5.68 million). Cash deposits are spread across a range of financial institutions with 'investment grade' credit status. Deposits are invested in a mixture of fixed term and notice accounts with maximum fixed term of twelve months. The Board approves all financial institutions before deposits are placed and regularly reviews the level of funds allocated to each institution.

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

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

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

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

In preparing each of the Group and Company financial statements, the Directors are required to:
a. select suitable accounting policies and then apply them consistently;
b. make judgements and estimates that are reasonable and prudent;
c. state whether they have been prepared in accordance with IFRS; and
d. prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the Company will continue in business.

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

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

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

Independent Auditors' Report to the Members of Nanoco Group PLC

for the year ended 31 July 2011

We have audited the financial statements of Nanoco Group PLC for the year ended 31 July 2011 which comprise the Consolidated Statement of Comprehensive Income, the Consolidated and Parent Company Statements of Changes in Equity, the Consolidated and Parent Company Statements of Financial Position, the Consolidated and Parent Company Statements of Cash Flow and the related notes 1 to 26. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards ("IFRS") as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

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

Respective responsibilities of Directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 24, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's and the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion:

> the financial statements give a true and fair view of the state of the Group's and of the parent company's affairs as at 31 July 2011 and of the Group's loss for the year then ended;

> the Group financial statements have been properly prepared in accordance with IFRS as adopted by the European Union;

> the parent company financial statements have been properly prepared in accordance with IFRS as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and

> the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

> the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and

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

Independent Auditors' Report to the Members of Nanoco Group PLC continued

for the year ended 31 July 2011

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

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

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

Alastair John Richard Nuttall
(Senior Statutory Auditor)
for and on behalf of Ernst & Young LLP (Statutory Auditor)
Manchester
14 October 2011

Consolidated Statement of Comprehensive Income

for the year ended 31 July 2011

	Notes	2011 £000	2010 £000
Revenue	4	**2,642**	2,937
Cost of sales		**(1,085)**	(495)
Gross profit		**1,557**	2,442
Administrative expenses		**(4,942)**	(3,870)
Operating loss			
– before share-based payments		**(3,232)**	(1,262)
– share-based payments	19	**(153)**	(166)
	5	**(3,385)**	(1,428)
Finance income	7	**180**	68
Finance costs	7	**(10)**	(11)
Loss on ordinary activities before taxation		**(3,215)**	(1,371)
Taxation	8	**723**	288
Loss for the year and total comprehensive loss for the year		**(2,492)**	(1,083)
Loss per share			
Basic loss for the year	9	**(1.30)p**	(0.60)p

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

There were no other items of comprehensive income for the year (2010: £nil) and therefore the loss for the year is also the total comprehensive loss for the year.

The notes on pages 32 to 57 form an integral part of these financial statements.

Consolidated Statement of Changes in Equity

for the year ended 31 July 2011

	Issued equity capital £000	Share-based payment reserve £000	Merger reserve £000	Revenue reserve £000	Total £000
At 31 July 2009	**12,351**	**167**	**(1,242)**	**(2,505)**	**8,771**
Loss for the year and total comprehensive loss for the year	–	–	–	(1,083)	(1,083)
Share-based payments	–	166	–	–	166
At 31 July 2010	**12,351**	**333**	**(1,242)**	**(3,588)**	**7,854**
Loss for the year and total comprehensive loss for the year	–	–	–	(2,492)	(2,492)
Issue of share capital	15,595	–	–	(432)	15,163
Expenses of placing	(519)	–	–	–	(519)
Share-based payments	–	153	–	–	153
At 31 July 2011	**27,427**	**486**	**(1,242)**	**(6,512)**	**20,159**

Company Statement of Changes in Equity

for the year ended 31 July 2011

	Issued equity capital £000	Share-based payment reserve £000	Capital redemption reserve £000	Revenue reserve £000	Total £000
At 31 July 2009	**89,817**	**167**	**4,804**	**(25,743)**	**69,045**
Profit for the year and total comprehensive profit for the year	–	–	–	68	68
Share-based payments	–	166	–	–	166
At 31 July 2010	**89,817**	**333**	**4,804**	**(25,675)**	**69,279**
Profit for the year and total comprehensive profit for the year	–	–	–	130	130
Recognition of treasury shares acquired on reverse acquisition	–	–	–	(20)	(20)
Issue of share capital	15,805	–	(210)	(432)	15,163
Treasury shares transferred from Nanoco Tech Ltd	–	–	–	(545)	(545)
Expenses of placing	(519)	–	–	–	(519)
Share-based payments	–	153	–	–	153
At 31 July 2011	**105,103**	**486**	**4,594**	**(26,542)**	**83,641**

Statement of Financial Position

at 31 July 2011
Registered No. 05067291

	Notes	31 July 2011 Group £000	31 July 2011 Company £000	31 July 2010 Group £000	31 July 2010 Company £000
Assets					
Non-current assets					
Tangible fixed assets	10	**3,153**	**–**	2,803	–
Intangible assets	11	**828**	**–**	616	–
Investment in subsidiaries	12	**–**	**63,625**	–	63,588
		3,981	**63,625**	3,419	63,588
Current assets					
Inventories	13	**80**	**–**	18	–
Trade and other receivables	14	**407**	**13,596**	584	5,175
Income tax asset		**581**	**–**	501	–
Short-term investments and cash on deposit	15	**12,015**	**3,500**	2,000	–
Cash and cash equivalents	15	**5,084**	**3,369**	3,682	516
		18,167	**20,465**	6,785	5,691
Total assets		**22,148**	**84,090**	10,204	69,279
Liabilities					
Current liabilities					
Trade and other payables	16	**1,641**	**–**	1,810	–
Financial liabilities	17	**63**	**–**	63	–
		1,704	**–**	1,873	–
Non-current liabilities					
Financial liabilities	17	**285**	**–**	348	–
Other payables	16	**–**	**449**	–	–
Deferred tax liability	8	**–**	**–**	129	–
		285	**449**	477	–
Total liabilities		**1,989**	**449**	2,350	–
Net assets		**20,159**	**83,641**	7,854	69,279
Capital and reserves					
Issued equity capital	18	**27,427**	**105,103**	12,351	89,817
Share-based payment reserve	19	**486**	**486**	333	333
Merger reserve	20	**(1,242)**	**–**	(1,242)	–
Capital redemption reserve	20	**–**	**4,594**	–	4,804
Revenue reserve	21	**(6,512)**	**(26,542)**	(3,588)	(25,675)
Total equity		**20,159**	**83,641**	7,854	69,279

Approved by the Board and authorised for issue on 14 October 2011. The notes on pages 32 to 57 form an integral part of these financial statements.

Colin White
Director
14 October 2011

Cash Flow Statements

for the year ended 31 July 2011

	Notes	31 July 2011 Group £000	31 July 2011 Company £000	31 July 2010 Group £000	31 July 2010 Company £000
(Loss)/profit before interest and tax		**(3,385)**	**67**	(1,428)	65
Adjustments for:					
Depreciation of tangible fixed assets	10	**734**	**–**	428	–
Amortisation of intangible assets	11	**87**	**–**	60	–
Share-based payments	19	**153**	**–**	166	–
Changes in working capital:					
Increase in inventories		**(62)**	**–**	(1)	–
Decrease/(increase) in trade and other receivables		**279**	**–**	(206)	–
Increase in trade and other payables		**352**	**–**	913	–
Cash (outflow)/inflow from operating activities		**(1,842)**	**67**	(68)	65
Interest paid	7	**(10)**	**–**	(11)	–
Research and development tax credit received		**514**	**–**	51	–
Net cash (outflow)/inflow from operating activities		**(1,338)**	**67**	(28)	65
Cash flows from investing activities					
Purchases of tangible fixed assets		**(1,605)**	**–**	(615)	–
Related grant received	10	**–**	**–**	32	–
Net purchases of tangible fixed assets		**(1,605)**	**–**	(583)	–
Purchases of intangible fixed assets	11	**(299)**	**–**	(300)	–
Cash advance to subsidiary		**–**	**(8,421)**	–	(5,491)
Increase in cash placed on deposit	15	**(10,015)**	**(3,500)**	(2,000)	–
Interest received		**78**	**63**	68	3
Net cash outflow from investing activities		**(11,841)**	**(11,858)**	(2,815)	(5,488)
Cash flows from financing activities					
Proceeds from issues of ordinary share capital		**15,163**	**15,163**	–	–
Expenses on issue of shares	18	**(519)**	**(519)**	–	–
Loan repayment		**(63)**	**–**	(64)	–
Net cash inflow/(outflow) from financing activities		**14,581**	**14,644**	(64)	–
Increase/(decrease) in cash and cash equivalents		**1,402**	**2,853**	(2,907)	(5,423)
Cash and cash equivalents at the start of the year		**3,682**	**516**	6,589	5,939
Cash and cash equivalents at the end of the year		**5,084**	**3,369**	3,682	516
Monies placed on deposit at the end of the year		**12,015**	**3,500**	2,000	–
Cash, cash equivalents and deposits at the end of the year	15	**17,099**	**6,869**	5,682	516

The notes on pages 32 to 57 form an integral part of these financial statements.

Notes to the Financial Statements

for the year ending 31 July 2011

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

The financial statements of Nanoco Group PLC and its subsidiaries (the "Group") for the year ended 31 July 2011 were authorised for issue by the Board of Directors on 14 October 2011 and the Statement of Financial Position was signed on the Board's behalf by Mr Colin White.

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

The Company's financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union ("IFRS") and International Financial Reporting Committee ("IFRIC") interpretations as they apply to the financial statements of the Group for the period ended 31 July 2011.

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

2. Accounting policies

Basis of preparation

These financial statements have been prepared in accordance with IFRS and IFRIC interpretations as they apply to the financial statements of the Group for the year ended 31 July 2011 and applied in accordance with the Companies Act 2006.

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

The following new and amended IFRS and IFRIC interpretations were mandatory as of 1 August 2010 unless otherwise stated.

- Improvements to IFRS (issued April 2009)
- Improvements to IFRS (issued May 2010)
- Amendment to IFRS 2, Group cash-settled share-based payment transactions, effective 1 January 2010
- Amendments to IFRS 1, limited exemption from comparative IFRS 7 disclosures
- IFRIC 19, extinguishing financial liabilities with equity instruments

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

> Improvements to IFRS (issued April 2009 and in May 2010)

In April 2009 and May 2010 the Board issued further omnibus amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each amendment. The adoption of the amendments resulted in no significant changes to the financial statements or performance of the Group.

> Amendment to IFRS 2 Share-based payment: Group cash-settled share-based payment transactions

This amendment did not have an impact on the financial position or performance of the Group.

> Amendments to IFRS 1, limited exemption from comparative IFRS 7 disclosures

This amendment did not have any impact on the financial position or performance of the Group.

> IFRIC 19, extinguishing financial liabilities with equity instruments

This amendment did not have any impact on the financial position or performance of the Group.

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

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

The Company has elected to take the exemption under section 408 of the Companies Act 2006 not to present the parent company's Income Statement. The parent company's result for the period ended 31 July 2011 was a profit of £130,000 (2010: profit of £68,000).

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

2. Accounting policies continued

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

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

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group before 31 July 2011. The costs of an acquisition are measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are initially measured at fair value at acquisition date irrespective of the extent of any minority interest. The difference between the cost of acquisition of shares in subsidiaries and the fair value of the identifiable net assets acquired is capitalised as goodwill and reviewed annually for impairment. Any deficiency in the cost of acquisition below the fair value of identifiable net assets acquired (ie, discount on acquisition) is recognised directly in the Income Statement.

All intra-group transactions, balances and unrealised gains on transactions between Group companies are eliminated on consolidation. Subsidiaries' accounting policies are amended where necessary to ensure consistency with the policies adopted by the Group. All financial statements are made up to 31 July 2011.

Foreign currency translation

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

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

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

Segmental reporting

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

Revenue recognition

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

The Group's revenues to date comprise amounts earned under joint development agreements and individual project development programmes, material supply and licence agreements and revenue from the sale of quantum dot products.

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

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

2. Accounting policies continued

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

Interest income

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

Research and development

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

The criteria for recognising expenditure as an asset are:

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

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

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

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

Leases

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

Provisions

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

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

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

2. Accounting policies continued

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

At the year end, the Group had no financial assets or liabilities designated as at fair value through the Income Statement (2010: £nil).

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

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

Deferred income tax
Deferred income tax is recognised on all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements with the following exceptions:
> where the temporary difference arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination, that at the time of the transaction affects neither accounting nor taxable profit nor loss; and
> in respect of taxable temporary differences associated with investments in subsidiaries where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

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

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

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

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

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

Laboratory infrastructure	– straight line over remainder of lease period
Fixtures and fittings	– straight line over five years
Office equipment	– straight line over three years
Plant and machinery	– straight line over five years

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

2. Accounting policies continued

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

Intangible assets

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

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

Impairment of assets

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

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

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

Inventories

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

Trade and other receivables

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

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

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

2. Accounting policies continued

Government grants

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

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

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

Cash, cash equivalents and short-term investments

Cash and cash equivalents comprise cash at hand and deposits with an original term of not greater than three months. Short-term investments comprise deposits with an original term of greater than three months, but no greater than twelve months.

Trade and other payables

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

Borrowings

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

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

Share capital

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

Shares held by Employee Benefit Trust

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

Share-based payments

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

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

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

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

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

2. Accounting policies continued

Defined Contribution Pension Scheme

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

Accounting standards and interpretations not applied

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

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

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

		Effective date
IFRS 7	Financial Instruments: Disclosures (Amendment)	1 July 2011
IAS 24	Related Party Disclosures (Revised)	1 January 2011
	Improvements to International Financial Reporting Standards (issued 2010)	1 January 2011
IFRS 9	Financial Instruments – Classification and Measurement	1 January 2013
IAS 12	Income Taxes (Amendment) – Deferred Taxes: Recovery of underlying assets	1 January 2012
IFRS 11	Joint Arrangements	1 January 2013
IFRS 12	Disclosure of Interests in Other Entities	1 January 2013
IFRS 13	Fair Value Measurement	1 January 2013
IAS 1	Presentation of Financial Statements – Amendments to revise the way other comprehensive income is presented	1 July 2012
IAS 19	Employee Benefits – Amended standard resulting from the Post-Employment Benefits and Termination Benefits projects	1 January 2013
IAS 27	Consolidated and Separate Financial Statements – Reissued as IAS 27 Separate Financial Statements (as amended in 2011)	1 January 2013
IAS 28	Investments in Associates – Reissued as IAS 28 Investments in Associates and Joint Ventures (as amended in 2011)	1 January 2013

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

3. Judgements and key sources of estimation uncertainty

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

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

3. Judgements and key sources of estimation uncertainty continued

Equity-settled share-based payments

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

Taxation

Management judgement is required to determine the amount of tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with an assessment of the effect of future tax planning strategies. The carrying value of the unrecognised tax losses at 31 July 2011 was £1,691,000 (2010: £343,000). The value of tax asset (net of deferred tax liability) not recognised at the year-end is £1,190,000 (2010: £nil), as measured at a standard tax rate of 26% (2010: 27%).

4. Segmental information

Operating segments

At 31 July 2011 the Group operated as one segment, being the provision of high performance nanoparticles for research and development purposes. This is the level at which operating results are reviewed by the chief operating decision maker (i.e. the CEO) to make decisions about resources, and for which financial information is available. All revenues have been generated from continuing operations and are from external customers.

	31 July 2011 £000	31 July 2010 £000
Analysis of revenue		
Products sold	**194**	82
Rendering of services	**1,351**	1,269
Royalties and licences	**1,097**	1,586
	2,642	2,937

Included within rendering of services is revenue from two material customers amounting to £697,000 and £603,000 (2010: one material customer amounting to £839,000) and included within royalties and licences is revenue from one material customer amounting to £1,097,000 (2010: one material customer amounting to £1,586,000).

Geographical information

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

	31 July 2011 £000	31 July 2010 £000
Revenue		
UK	**–**	49
Europe (excluding UK)	**200**	117
Asia	**2,397**	2,754
USA	**45**	17
	2,642	2,937

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

Notes to the Financial Statements continued

for the year ending 31 July 2011

5. Operating loss

The Group	31 July 2011 £000	31 July 2010 £000
Operating loss is stated after charging/(crediting):		
Depreciation of tangible fixed assets (see note 10)	**734**	428
Amortisation of intangible assets (see note 11)	**87**	60
Staff costs (see note 6)	**2,564**	2,093
Foreign exchange losses	**41**	44
Grants receivable	**–**	(48)
Research and development expense**	**2,581**	1,850
Cost of inventories recognised as an expense (included in cost of sales)	**531**	148
Operating lease rentals (see note 22):		
Land and buildings	**195**	140
Auditor's remuneration		
Audit services:		
– Fees payable to Company auditor for the audit of the parent and the consolidated accounts	**10**	10
Fees payable to Company auditor for other services:		
– Auditing the accounts of subsidiaries pursuant to legislation	**14**	13
– Other services	**8**	27
Total auditor's remuneration	**32**	50

** Included within research and development expense are staff costs totalling £1,695,000 (2010: £1,429,000).

6. Staff costs

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

The Group	31 July 2011 Number	31 July 2010 Number
Directors	**7**	5
Laboratory and administrative staff	**49**	34
	56	39

6. Staff costs continued

	31 July 2011 £000	31 July 2010 £000
Wages and salaries	**2,087**	1,775
Social security costs	**216**	152
Pension contributions	**108**	–
Share-based payments	**153**	166
	2,564	2,093

Directors' remuneration included in the aggregate remuneration above comprised:		
Emoluments for qualifying services	**528**	287

Directors' emoluments (excluding social security costs) disclosed above include £164,000 paid to the highest paid Director (2010: £129,000).

An analysis of the highest paid Director's remuneration is included in the Director's Remuneration Report on page 20.

7. Finance income/(costs)

The Group	31 July 2011 £000	31 July 2010 £000
Finance income:		
Bank interest receivable	**180**	68
Finance costs:		
Loan interest payable	**(10)**	(11)
	170	57

Bank interest receivable includes £102,000 (2010: £nil) which is receivable after the year end.

8. Taxation

The tax credit is made up as follows:

The Group	31 July 2011 £000	31 July 2010 £000
Current income tax:		
UK corporation tax losses in the year	**–**	–
Research and development income tax credit receivable	**(600)**	(433)
Adjustment in respect of prior years	**6**	16
Total current income tax	**(594)**	(417)
Deferred tax:		
Origination and reversal of temporary differences	**(129)**	129
Total deferred tax	**(129)**	129
Total tax credit in the income statement	**(723)**	(288)

Notes to the Financial Statements continued

for the year ending 31 July 2011

8. Taxation continued

Factors affecting tax charge for the year:

The Group	31 July 2011 £000	31 July 2010 £000
The tax assessed for the year varies from the standard rate of corporation tax as explained below:		
Loss on ordinary activities before taxation	**(3,215)**	(1,371)
Tax at standard rate of 27.33% (2010: 28%)	**(878)**	(384)
Effects of:		
Expenses not deductible for tax purposes	**42**	48
Movement in unprovided deferred tax	**(279)**	(4)
Additional reduction for research and development expenditure	**(587)**	(379)
Surrender of research and development relief for repayable tax credit	**1,292**	867
Research and development tax credit receivable	**(600)**	(433)
Share options exercised (CTA 2009 Pt 12 deduction)	**(1,132)**	–
Tax losses carried forward/(brought forward losses utilised)	**1,413**	(19)
Adjustment in respect of prior years	**6**	16
Tax credit in income statement	**(723)**	(288)

Deferred tax has been calculated at the rate of 26% being the rate which had been substantively enacted by law at the date of these accounts. The change in tax rate is not considered to have had a material impact.

The Group has accumulated losses available to carry forward against future trading profits. The estimated value of the deferred tax asset, measured at a standard rate of 26% (2010: 27%) is £1,691,000 (2010: £343,000).

The Group also has a deferred tax liability being accelerated capital allowances less the deferred tax on share-based payments for which the tax, measured at a standard rate of 26% (2010: 27%) is £501,000 (2010: £472,000).

The excess of accumulated losses over deferred tax liability has not been recognised as an asset to the extent that the transfer of economic benefits in the future is uncertain (2010: recognised deferred tax liability £129,000).

The Chancellor has proposed changes to further reduce the main rate of corporation tax by 1% per annum to 23% by 1 April 2014, but these changes have not yet been substantively enacted and therefore are not included in the figures above. The overall effect of the further reduction from 26% to 23%, if these applied to the unprovided deferred tax asset of 31 July 2011, would be to further reduce the deferred tax asset by £138,000.

9. Earnings per share

The Group	31 July 2011 £000	31 July 2010 £000
Loss for the financial year attributable to equity shareholders	**(2,492)**	(1,083)
Share-based payments	**153**	166
Loss for the financial year before share-based payments	**(2,339)**	(917)
Weighted average number of shares:		
Ordinary shares in issue	**192,142,536**	180,397,031
Adjusted loss per share before share-based payments (pence)	**(1.22)**	(0.51)
Basic loss per share (pence)	**(1.30)**	(0.60)

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

10. Tangible fixed assets

The Group	Laboratory infrastructure £000	Office equipment, fixtures and fittings £000	Plant and machinery £000	Total £000
Cost:				
At 31 July 2009	1,660	159	762	2,581
Additions	24	30	1,082	1,136
Grant received	(32)	–	–	(32)
At 31 July 2010	1,652	189	1,844	3,685
Additions	367	116	601	1,084
Grants received	–	–	–	–
At 31 July 2011	**2,019**	**305**	**2,445**	**4,769**
Depreciation:				
At 31 July 2009	214	68	172	454
Provided during the year	185	47	196	428
At 31 July 2010	399	115	368	882
Provided during the year	268	52	414	734
At 31 July 2011	**667**	**167**	**782**	**1,616**
Net book value:				
At 31 July 2011	**1,352**	**138**	**1,663**	**3,153**
At 31 July 2010	1,253	74	1,476	2,803

Fixed asset additions for the year ending 31 July 2011 include £nil (2010: £521,000) of equipment that was in the process of construction at 31 July 2011 and was paid for after the year end.

11. Intangible assets

The Group	Patents £000
Cost:	
At 31 July 2009	459
Additions	300
At 31 July 2010	759
Additions	299
At 31 July 2011	**1,058**
Amortisation:	
At 31 July 2009	83
Provided during the year	60
At 31 July 2010	143
Provided during the year	87
At 31 July 2011	**230**
Net book value:	
At 31 July 2011	**828**
At 31 July 2010	616

Amortisation provided during the period is recognised in administrative expenses.

12. Investment in subsidiaries

The Company	Shares £000	Loans £000	Loan Provision £000	Total £000
At 31 December 2009	63,255	20,453	(20,286)	63,422
Increase in respect of share-based payments	–	166	–	166
At 31 July 2010	63,255	20,619	(20,286)	63,588
Increase in respect of share-based payments	–	153	–	153
Transfer of treasury shares	–	(96)	–	(96)
Recognition of treasury shares acquired on reverse acquisition	(20)	–	–	(20)
At 31 July 2011	**63,235**	**20,676**	**(20,286)**	**63,625**

The impairment of the loan relates to the Company's investment in Nanoco Life Sciences Limited. The Directors have concluded that the investment's recoverable amount is £nil.

The accounting for the reverse acquisition that took place in 2009 is described in note 23. The treasury shares were initially written off at the time of the reverse acquisition and have subsequently been re-recognised.

12. Investment in subsidiaries continued

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

			Share of issued ordinary share capital	
Subsidiary undertakings	Country of incorporation	Principal Activity	**31 July 2011**	31 July 2010
Nanoco Life Sciences Limited (formerly Evolutec Limited)	England and Wales	Research and development	**100%**	100%
Nanoco Tech Limited	England and Wales	Holding company	**100%**	100%
Nanoco Technologies Limited*	England and Wales	Research and develop nanoparticles	**100%**	100%

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

13. Inventories

	31 July 2011 Group £000	**31 July 2011 Company £000**	31 July 2010 Group £000	31 July 2010 Company £000
Raw materials and consumables	**80**	**–**	18	–

14. Trade and other receivables

	31 July 2011 Group £000	**31 July 2011 Company £000**	31 July 2010 Group £000	31 July 2010 Company £000
Trade receivables	**29**	**–**	334	–
Prepayments	**247**	**–**	156	–
Inter-company short-term loan to subsidiary	**–**	**13,596**	–	5,175
Other receivables	**131**	**–**	94	–
	407	**13,596**	584	5,175

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

14. Trade and other receivables continued

Trade receivables are denominated in the following currencies:

	31 July 2011 Group £000	31 July 2011 Company £000	31 July 2010 Group £000	31 July 2010 Company £000
Sterling	–	–	–	–
US Dollars	29	–	334	–
	29	–	334	–

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

	Total £000	Neither past due nor impaired £000	<30 days £000	Past due but not impaired 30 to 60 days £000
2011	29	29	–	–
2010	334	334	–	–

15. Cash, cash equivalents and deposits

	31 July 2011 Group £000	31 July 2011 Company £000	31 July 2010 Group £000	31 July 2010 Company £000
Short-term investments and cash on deposit	12,015	3,500	2,000	–
Cash and cash equivalents	5,084	3,369	3,682	516
	17,099	6,869	5,682	516

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

Cash and cash equivalents at 31 July 2011 include deposits with original maturity of three months or less of £4,962,000 (2010: £2,502,000).

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

16. Trade and other payables

	31 July 2011 Group £000	31 July 2011 Company £000	31 July 2010 Group £000	31 December 2010 Company £000
Current				
Current payables	**600**	**–**	933	–
Other payables	**802**	**–**	584	–
Accruals	**239**	**–**	293	–
	1,641	**–**	1,810	–
Non-current				
Non-current long-term loan from subsidiary	**–**	**449**	–	–
	–	**449**	–	–

Trade payables includes £nil (2010: £521,000) of equipment additions that were still in the process of construction at 31 July 2011 and for which payment was made after the year end.

Other payables includes £719,000 (31 July 2010: £539,000) of deferred revenue.

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

17. Financial liabilities

	31 July 2011 Group £000	31 July 2011 Company £000	31 July 2010 Group £000	31 July 2010 Company £000
Current				
Other loan	**63**	**–**	63	–
Non-current				
Other loan	**285**	**–**	348	–
	348	**–**	411	–

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

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

18. Issued equity capital

The Group	Number	Share capital £000	Share premium £000	Reverse acquisition reserve £000	Total £000
Authorised ordinary shares of 10p:					
At 31 July 2009, 31 July 2010 and 31 July 2011	250,000,000	25,000	–	–	25,000
Allotted, called up and fully paid ordinary shares of 10p:					
As at 31 July 2009 and 31 July 2010	184,156,282	18,416	71,400	(77,465)	12,351
Shares issued on exercise of options	4,522,900	452	59	(211)	300
Shares issued in placing	16,700,000	1,670	13,193	–	14,863
EBT shares issued on 30 June 2011	479,235	48	384	–	432
Expenses of placing	–	–	(519)	–	(519)
As at 31 July 2011	**205,858,417**	**20,586**	**84,517**	**(77,676)**	**27,427**

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

The retained loss and other equity balances recognised in the Group financial statements reflect the consolidated retained loss and other equity balances of Nanoco Tech Limited immediately before the business combination which was reported in the year ended 31 July 2009. The consolidated results for the period from 1 August 2008 to the date of the acquisition by Nanoco Group PLC are those of Nanoco Tech Limited. However, the equity structure appearing in the Group financial statements reflects the equity structure of the legal parent, including the equity instruments issued under the share for share exchange to effect the transaction. The effect of using the equity structure of the legal parent gives rise to an adjustment to the Group's issued equity capital in the form of a reverse acquisition reserve.

Certain share options exercised during the year had an exercise price less than nominal value. The aggregate discount to nominal value on these options of £211,000 has been charged to the Company's capital redemption reserve and, on consolidation, to the Group's reverse acquisition reserve. The discount arose as a result of the formula agreed, at the time of the acquisition of Nanoco Tech Limited by the Company on 1 May 2009, for converting share options in Nanoco Tech Limited into equivalent share options in the Company. The total aggregate discount to nominal value of all relevant options, including those not yet exercised, was £662,000. This treatment will be submitted for approval by the Company at the AGM in December 2011.

The Company	Number	Share capital £000	Share premium £000	Total £000
Authorised ordinary shares of 10p:				
At 31 July 2009, 31 July 2010 and 31 July 2011	250,000,000	25,000	–	25,000
Allotted, called up and fully paid ordinary shares of 10p:				
As at 31 July 2009 and 31 July 2010	184,156,282	18,416	71,401	89,817
Shares issued on exercise of options	4,522,900	452	58	510
Shares issued in placing	16,700,000	1,670	13,193	14,863
EBT shares issued on 30 June 2011	479,235	48	384	432
Expenses of placing	–	–	(519)	(519)
As at 31 July 2011	**205,858,417**	**20,586**	**84,517**	**105,103**

19. Share-based payments

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

A charge of £153,000 has been recognised in the Income Statement for the year (2010: £166,000).

Share option schemes

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

Nanoco Tech Share Incentive Plan

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

Nanoco Group PLC Long-Term Incentive Plan ("LTIP")

– Grant in November 2009

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

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

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

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

– Grant in June 2011

Share options were granted to management on 2 June 2011 subject to performance conditions being achieved, based on sales targets for the financial year ended 31 July 2012. The exercise price was set at 79.25 pence, being the average closing share price on the day preceding issue of the share options. The fair value benefit is measured using a Binomial model, taking into account the terms and conditions upon which the share options were issued.

19. Share-based payments continued

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

% of award	Performance conditions	Targets		% shares vesting		
		Min.	Stretch	Min.	Stretch	Notes
100%	CFQD revenues in year ending 31 July 2012	£5m	£10m	50%	100%	(1)

CFQD = Cadmium free quantum dots.

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

– Other awards

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

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

The Group also operates a jointly owned EBT share scheme for senior management under which the trustee of the Group-sponsored EBT has acquired shares in the Company jointly with a number of employees. The shares were acquired pursuant to certain conditions set out in Jointly Owned Agreements ("JOE"). Subject to meeting the performance criteria conditions set out in the JOE the employees are able to exercise an option to acquire the trustee's interests in the jointly owned EBT shares at the option price. The jointly owned EBT shares issued on 1 September 2006 had met the option conditions on 1 August 2010 and are capable of being exercised at any time until 31 August 2016.

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

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

The Group and Company	Share options number	EBT number	**2011 total number**	2010 total number
Outstanding at 1 August	11,028,835	3,759,251	**14,788,086**	12,190,401
Granted during the year	1,242,754	479,235	**1,721,989**	2,597,685
Exercised during the year	(4,522,900)	–	**(4,522,900)**	–
Forfeited/cancelled	(692,288)	–	**(692,288)**	–
Outstanding at 31 July	7,056,401	4,238,486	**11,294,887**	14,788,086
Exercisable at 31 July	3,794,501	3,759,251	7,667,502	–

19. Share-based payments continued

The Group and Company	2011 pence	2010 pence
Weighted average exercise price of options		
Outstanding at 1 August	**14.0**	5.2
Granted during the year	**80.8**	54.7
Exercised during the year	**6.6**	–
Forfeited/cancelled	**37.2**	–
Outstanding at 31 July	**26.0**	14.0

The weighted average fair value of options granted during the year to 31 July 2011 was 89.0 pence (2010: 54.7 pence). The range of exercise prices for options and jointly owned EBT shares outstanding at the end of the year was 3.5 pence –100.75 pence, (2010: 3.52 pence – 87.5 pence).

For the share options outstanding as at 31 July 2011, the weighted average remaining contractual life is 6.4 years (2010: 6.4 years).

The weighted average share price at the date of exercise for those share options exercised in the year ended 31 July 2011 was 100.9 pence (2010: N/A).

The following table lists the inputs to the models used for the years ended 31 July 2011 and 31 July 2010.

	Share options granted in year to 31 July			
	Performance linked grants		Non-performance linked grants	
The Group and Company	2011	2010	2011	2010
Dividend yield	**–**	–	**–**	–
Expected volatility (%)	**44%**	40%	**44%**	40%
Risk-free interest rate (%)	**2.20%**	0.90%	**1.8%–2.3%**	0.90%
Expected vesting life of options (years average)	**1.2 years**	3 years	**3 years**	3 years
Weighted average exercise price (pence)	**79p**	49p	**95p**	86p
Weighted average share price at date of grant (pence)	**79p**	69p	**95p**	86p
Model used	**Binomial**	Monte Carlo	**Binomial**	Binomial

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

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

Notes to the Financial Statements continued

for the year ending 31 July 2011

20. Merger reserve and capital redemption reserve

Merger reserve

The Group	£000
At 31 July 2009, 31 July 2010 and 31 July 2011	(1,242)

The merger reserve arises under section 612 of the Companies Act 2006 on the shares issued by Nanoco Tech Limited to acquire Nanoco Technologies Limited as part of a simple Group re-organisation on 27 June 2007.

Capital redemption reserve

The Company	£000
At 31 July 2009 and 31 July 2010	4,804
Share options exercised at a discount to nominal value	(210)
At 31 July 2011	**4,594**

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

21. Movement in revenue reserve and treasury shares

The Group	Retained deficit £000	Treasury shares £000	Total revenue reserve £000
As at 31 July 2009	(1,940)	(565)	(2,505)
Loss for the year	(1,083)	–	(1,083)
As at 31 July 2010	(3,023)	(565)	(3,588)
Jointly owned shares granted to EBT*	–	(432)	(432)
Loss for the year	(2,492)	–	(2,492)
As at 31 July 2011	**(5,515)**	**(997)**	**(6,512)**

* Granted during the year 479,235 shares (2010: nil shares).

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

21. Movement in revenue reserve and treasury shares continued

Treasury shares include the value of Nanoco Group PLC shares issued as jointly owned equity shares and held by the Nanoco Group sponsored Employee Benefit Trust ("EBT") jointly with a number of the Group's employees. At 31 July 2011 4,238,486 shares in the Company were held by the EBT (2010: 3,759,251). In addition there are 12,222 (2010: 12,222) treasury shares not held by the EBT.

The Company	Retained deficit £000	Treasury shares £000	Total revenue reserve £000
As at 31 December 2009	(25,743)	–	(25,743)
Profit for the period	68	–	68
At 31 July 2010	(25,675)	–	(25,675)
Recognition of treasury shares acquired on reverse acquisition (note 18)	–	(20)	(20)
Jointly owned shares granted to EBT	–	(432)	(432)
Treasury shares transferred from Nanoco Tech Ltd*	–	(545)	(545)
Profit for the year	130	–	130
At 31 July 2011	**(25,545)**	**(997)**	**(26,542)**

* Shares issued to EBT previously reported by Nanoco Tech Limited.

22. Commitments

Operating lease commitments

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

	31 July 2011 Group £000	31 July 2010 Group £000
Land and buildings:		
Not later than one year	**192**	157
After one year but not more than five years	**420**	494
After five years	**67**	267
	679	918

23. Acquisition of subsidiary undertaking in 2009

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

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

The fair value of the shares issued has been determined from the perspective of Nanoco Tech. The Directors of Nanoco Tech negotiated the acquisition terms on the basis that Nanoco Tech had a total fair value worth of £37.5 million and that its shareholders would be diluted to 14.1% 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 was recorded as a cost of reverse acquisition in the Income Statement.

23. Acquisition of subsidiary undertaking in 2009 continued

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

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

Evolutec Group PLC changed its name to Nanoco Group PLC on completion of the acquisition on 30 April 2009 and was readmitted to AIM on 1 May 2009.

24. Financial instruments

Capital risk management

The Company reviews its forecast capital requirements on a half-yearly basis to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders.

The capital structure of the Group consists of equity attributable to equity holders of the parent, comprising issued share capital, reserves and retained earnings as disclosed in notes 18, 20 and 21 and in the Group Statement of Changes in Equity. Total equity was £20,159,000 at 31 July 2011 (£7,854,000 at 31 July 2010).

The Company is not subject to externally imposed capital requirements.

Categorisation of financial instruments

Financial assets/liabilities	Loans and receivables £000	Financial liabilities at amortised cost £000	Group £000	Company £000
31 July 2011				
Trade and other receivables	29	–	29	–
Cash, cash equivalents and deposits	17,099	–	17,099	6,869
Trade and other payables*	–	(922)	(922)	–
Financial liabilities	–	(348)	(348)	–
	17,128	**(1,270)**	**15,858**	**6,869**
31 July 2010				
Trade and other receivables	334	–	334	–
Cash, cash equivalents and deposits	5,682	–	5,682	516
Trade and other payables*	–	(1,271)	(1,271)	–
Financial liabilities	–	(411)	(411)	–
	6,016	(1,682)	(4,334)	516

* Excluding deferred income.

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

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

24. Financial instruments continued

Credit risk

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

The Group trades only with recognised, creditworthy third parties. Receivable balances are monitored on an on-going basis with the result that the Group's exposure to bad debts is not significant. The Group's maximum exposure is the carrying amount as disclosed in note 14, which was neither past due nor impaired.

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

Foreign currency risk

The Group has transactional as well as translational currency exposures. Such exposure arises from sales or purchases in currencies other than the functional currency.

The Company enters into forward currency contracts to fix the exchange rate on invoiced or confirmed foreign currency receipts. The Company does not take out forward contracts against uncertain or forecast revenues. There were no open forward contracts as at 31 July 2011.

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

	31 July 2011			31 July 2010		
The Group	**GBP £000**	**USD £000**	**Total £000**	GBP £000	USD £000	Total £000
Cash, cash equivalents and deposits	**17,042**	**57**	**17,099**	4,756	926	5,682
Trade receivables	**–**	**29**	**29**	–	334	334
Trade payables	**(503)**	**(97)**	**(600)**	(849)	(84)	(933)
	16,539	**(11)**	**16,528**	3,907	1,176	5,083

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

Increase/(decrease) in Sterling vs. US Dollar rate %	**Impact on profit before tax and Group equity 2011 £000**	Impact on profit before tax and Group equity 2010 £000
10%	**1**	(107)
5%	**1**	(56)
(5)%	**(1)**	61
(10)%	**(1)**	130

24. Financial instruments continued

Interest rate risk

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

	31 July 2011			31 July 2010		
The Group	**Fixed rate £000**	**Floating rate £000**	**Total £000**	Fixed rate £000	Floating rate £000	Total £000
Cash, cash equivalents and deposits	**16,244**	**855**	**17,099**	4,004	1,678	5,682
The Company						
Cash, cash equivalents and deposits	**6,519**	**350**	**6,869**	–	516	516

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

Maturity profile

Set out below is the maturity profile of the Group's financial liabilities at 31 July 2011 based on contractual undiscounted payments including contractual interest.

2011	**Less than 1 year £000**	**1 to 5 years £000**	**Greater than 5 years £000**	**Total £000**
Financial liabilities				
Trade and other payables*	**922**	**–**	**–**	**922**
Other loans (including contractual interest)	**65**	**259**	**33**	**357**
	987	**259**	**33**	**1,279**

2010	Less than 1 year £000	1 to 5 years £000	Greater than 5 years £000	Total £000
Financial liabilities				
Trade and other payables*	1,271	–	–	1,271
Other loans (including contractual interest)	78	288	100	466
	1,349	288	100	1,737

* Excluding deferred revenue.

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

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

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

25. Related party transactions

The Group:

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

The Company:

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

	Notes	31 July 2011 £000	31 July 2010 £000
Long-term loans owed to Nanoco Group PLC by:			
Nanoco Life Sciences Limited		**20,286**	20,286
Nanoco Technologies Limited*		**390**	237
Nanoco Tech Limited**		**–**	96
	12	**20,676**	20,619
Less provision against debt owed by Nanoco Life Sciences Limited	12	**(20,286)**	(20,286)
		390	333
Short-term loan owed to Nanoco Group PLC by:			
Nanoco Technologies Limited***	14	**13,596**	5,175
Long-term loan owed by Nanoco Group PLC to:			
Nanoco Tech Limited**	16	**(449)**	–

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

** The movement in the inter-company balances with Nanoco Tech Limited relates to the transfer of Treasury shares.

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

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

None of the loans is interest bearing.

26. Compensation of key management personnel (including Directors)

	2011 £000	2010 £000
Short-term employee benefits	**475**	297
Pension costs	**40**	–
Share-based payments	**90**	25
	605	322

Notice of Annual General Meeting

Notice is hereby given that the seventh annual general meeting of Nanoco Group PLC will be held at The Core Technology Facility, 46 Grafton Street, Manchester M13 9NT on 16 December 2011 at 10.00 a.m. for the purpose of considering and, if thought fit, passing the following resolutions, of which resolutions 1 to 8 will be proposed as ordinary resolutions and resolutions 9 to 11 will be proposed as special resolutions:

Ordinary Resolutions

1 That the Company's annual report and audited financial statements, and the reports of the Directors and auditors, for the period ended 31 July 2011, now laid before this meeting, be and are hereby approved.

2 That the Directors' Remuneration Report, on pages 20 to 22 of the Company's annual report, be and is hereby approved.

3 That Dr Michael Edelman, who retires by rotation, be and is hereby re-elected as a Director of the Company.

4 That Gordon Hall, who retires by rotation, be and is hereby re-elected as a Director of the Company.

5 That Ernst & Young LLP be and are hereby reappointed as auditors of the Company, to hold office until the conclusion of the next general meeting at which accounts are laid before the Company.

6 That the Board of Directors be and is hereby authorised to agree the remuneration of the auditors.

7 That in accordance with section 551 of the Companies Act 2006 (the "2006 Act"):

7.1 the Directors be and they are hereby generally and unconditionally authorised to exercise all the powers of the Company to allot equity securities (as defined in section 560 of the 2006 Act) up to an aggregate nominal value of £6,861,947 (approximately one-third of the Company's issued share capital at the date of this notice); and

7.2 in addition to the authority granted pursuant to sub-paragraph 7.1, the Directors be and they are hereby generally and unconditionally authorised to exercise all the powers of the Company to allot equity securities up to an aggregate nominal value of £6,861,947 (approximately one-third of the Company's issued share capital at the date of this notice) in connection with a rights issue offered to holders of equity securities and other persons who are entitled to participate, in proportion (as nearly as may be) to their then holdings of equity securities (or, as appropriate, the numbers of such securities which such other persons are for those purposes deemed to hold), subject only to such exclusions or other arrangements as the Directors may feel necessary or expedient to deal with fractional entitlements or legal or practical problems under the laws of, or the requirements of any recognised regulatory body of, or any stock exchange in, any territory,

provided that both such authorities shall (unless previously revoked, varied or renewed) expire on the earlier of the date of the next annual general meeting of the Company and 16 March 2013, save that, in respect of either authority, the Company may before such expiry make an offer or agreement which would or might require equity securities to be allotted after such expiry and the Directors may allot equity securities in pursuance of such an offer or agreement as if the authority conferred hereby had not expired.

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

8 That, conditionally upon the passing of resolution 11 below, and with effect from the time the amendment to the articles of association of the Company pursuant to such resolution takes effect, an amount up to £662,000, being part of the amount presently standing to the credit of the capital redemption reserve of the Company, be capitalised and accordingly that such sum be released and applied in paying up in full those ordinary shares in the Company allotted and to be allotted pursuant to exercise of those options granted under the terms of the Nanoco Tech Share Incentive Plan (the "Plan"), which options were granted in consideration of the release of previous options granted under the Plan over shares in Nanoco Tech Limited, and whose exercise price would otherwise be less than the nominal value of the relevant ordinary shares in the Company.

Special Resolutions

9 That, conditionally upon the passing of resolution 7 above, in accordance with section 570 of the 2006 Act, the Directors be and they are hereby given power to allot equity securities (as defined in section 560 of the 2006 Act) pursuant to the authority conferred by resolution 7 above, and to sell treasury shares, as if section 561 of the 2006 Act did not apply to such allotment or sale, provided that this power shall be limited to:

9.1 the allotment or sale of equity securities for cash in connection with or pursuant to an offer to the holders of equity securities and other persons entitled to participate, in proportion (as nearly as may be) to their then holdings of equity securities (or, as appropriate, the numbers of such securities which such other persons are for those purposes deemed to hold), subject only to such exclusions or other arrangements as the Directors may feel necessary or expedient to deal with fractional entitlements or legal or practical problems under the laws of, or the requirements of any recognised regulatory body of, or any stock exchange in, any territory; and

9.2 the allotment or sale of equity securities (otherwise than pursuant to sub-paragraph 9.1) for cash up to a maximum nominal value of £2,058,584 (approximately 10% of the Company's issued share capital at the date of this notice),

provided that the power granted by this resolution shall (unless previously revoked, varied or renewed) expire on the earlier of the date of the next annual general meeting and 16 March 2013, save that the Company may before such expiry make an offer or agreement which would or might require equity securities to be allotted or sold after such expiry and the Directors may allot or sell equity securities in pursuance of such an offer or agreement as if the power conferred hereby had not expired.

10 That the Company be and is hereby generally authorised pursuant to section 701 of the 2006 Act to make market purchases (as defined in section 693(4) of the 2006 Act) of its ordinary shares provided that:

10.1 the Company does not purchase more than 30,858,177 ordinary shares (approximately 14.99% of the Company's issued share capital at the date of this notice);

10.2 the Company does not pay for any such ordinary share less than its nominal value at the time of purchase; and

10.3 the Company does not pay for any such ordinary share more than 5% above the average of the closing mid-market price for ordinary shares for the five business days immediately preceding the date on which the Company agrees to buy the shares concerned, based on the share prices published in the Daily Official List of the London Stock Exchange or the AIM supplement thereto.

The authority conferred by this resolution shall (unless previously revoked, varied or renewed) expire on the earlier of the date of the next annual general meeting of the Company and 16 March 2013, save that the Company may before such expiry make a contract to purchase ordinary shares which will or may be executed wholly or partly after the expiry of such authority, and may make a purchase of ordinary shares in pursuance of any such contract, as if such authority had not expired.

11 That the articles of association of the Company be and are hereby amended:

11.1 by inserting the following additional wording at the start of article 119.1.2:
"...apply up to £662,000 in aggregate of the sum resolved to be capitalised and standing to the credit of the capital redemption reserve of the Company in paying up in full those ordinary shares in the Company allotted and to be allotted pursuant to exercise of those options granted under the terms of the Nanoco Tech Share Incentive Plan (the "Plan"), which options were granted in consideration of the release of previous options granted under the Plan over shares in Nanoco Tech Limited, and whose exercise price would otherwise be less than the nominal value of the relevant ordinary shares in the Company, and subject only thereto..."

11.2 forthwith upon the application in full of the said sum of £662,000, by deleting the wording so inserted.

By order of the Board
M Sullivan
Secretary

Registered office:
46 Grafton Street
Manchester
M13 9NT

21 October 2011

Notice of Annual General Meeting
continued

Notes to the Notice of Annual General Meeting:

1 As a member of the Company, you are entitled to appoint a proxy or proxies of your own choice to exercise all or any of your rights to attend, speak and vote on your behalf at the meeting and you should have received a proxy form. You can only appoint a proxy using the procedures set out in these notes and the notes to the proxy form.

2 A proxy does not need to be a member of the Company but must attend the meeting to represent you. Details of how to appoint the Chairman of the meeting or another person as your proxy using the proxy form are set out in the notes to the proxy form.

3 You may appoint more than one proxy provided each proxy is appointed to exercise rights attached to different shares. You may not appoint more than one proxy to exercise rights attached to any one share. To appoint more than one proxy you may photocopy the proxy form. Please indicate the proxy holder's name and the number of shares in relation to which they are authorised to act as your proxy. Please also indicate if the proxy instruction is one of multiple instructions being given. All forms must be signed and should be returned together in the same envelope.

4 If you do not give your proxy an indication of how to vote on any resolution, your proxy will vote (or abstain from voting) at his or her discretion. Your proxy will vote (or abstain from voting) as he or she thinks fit in relation to any other matter which is put before the meeting.

5 Pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001, the Company has specified that only those shareholders registered on the register of members of the Company at 6.00 p.m. on 14 December 2011, or if the meeting is adjourned, on the register of members at 6.00 p.m. on the day two days before the date fixed for the adjourned meeting (as the case may be), shall be entitled to attend and vote at the meeting in respect of the number of ordinary shares in the Company registered in their name at the relevant time. Changes to entries on the register of members after 6.00 p.m. on 14 December 2011 or, if the meeting is adjourned, on the register of members after 6.00 p.m. on the day two days before the date fixed for the adjourned meeting, will be disregarded in determining the right of any person to attend and vote at the meeting.

Appointment of proxy using hard copy proxy form

6 The notes to the proxy form explain how to direct your proxy on how to vote on each resolution or withhold their vote. To appoint a proxy using the proxy form, the form must be:

- completed and signed;
- sent or delivered to the Company's registrars, Capita Registrars, PXS, 34 Beckenham Road, Beckenham, BR3 4TU; and
- received by no later than 10.00 a.m. on 14 December 2011.

In the case of a member which is a company, the proxy form must be executed under its common seal or signed on its behalf by an officer of the company or an attorney for the company. Any power of attorney or any other authority under which the proxy form is signed (or a duly certified copy of such power of authority) must be included with the proxy form.

Changing your proxy instructions

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

Where you have appointed a proxy using the hard-copy proxy form and would like to change the instructions using another hard-copy proxy form, please contact the Company's registrars, Capita Registrars, PXS, 34 Beckenham Road, Beckenham, BR3 4TU.

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

Termination of proxy appointments

8 In order to revoke a proxy instruction you will need to inform the Company by sending a signed hard copy notice clearly stating your intention to revoke your proxy appointment to the Company's registrars, Capita Registrars, PXS, 34 Beckenham Road, Beckenham, BR3 4TU. In the case of a member which is a company, the revocation notice must be executed under its common seal or signed on its behalf by an officer of the company or an attorney for the company. Any power of attorney or any other authority under which the revocation notice is signed (or a duly certified copy of such power of authority) must be included with the revocation notice.

9 The revocation notice must be received no later than 24 hours before the time and date scheduled for the meeting.

10 Appointment of a proxy does not preclude you from attending the meeting and voting in person. If you have appointed a proxy and attend the meeting in person, your proxy appointment will automatically be terminated.

Appointment of proxy using CREST electronic proxy appointment service

11 CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so for the annual general meeting and any adjournment(s) thereof by using the procedures described in the CREST Manual. CREST personal members or other CREST sponsored members and those CREST members who have appointed a voting service provider should refer to their CREST sponsor or voting service provider, who will be able to take the appropriate action on their behalf.

12 In order for a proxy appointment or instruction made using the CREST service to be valid, the appropriate CREST message (a "CREST Proxy Instruction") must be properly authenticated in accordance with Euroclear's specifications and must contain the information required for such instructions, as described in the CREST Manual. The message, regardless of whether it relates to the appointment of a proxy, the revocation of a proxy appointment or an amendment to the instruction given to a previously appointed proxy, must, in order to be valid, be transmitted so as to be received by the issuer's Agent (ID: RA10) by the latest time(s) for receipt of proxy appointments specified in this notice of meeting. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Applications Host) from which the issuer's Agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time, any change of instructions to a proxy appointed through CREST should be communicated to the appointee by other means.

13 CREST members and, where applicable, their CREST sponsors or voting service providers should note that Euroclear does not make available special procedures in CREST for any particular messages. Normal system timings and limitations will therefore apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member or sponsored member or has appointed a voting service provider, to procure that his CREST sponsor or voting service provider takes) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting service providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.

14 The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.

Communications

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

Documents available for inspection

16 There are available for inspection at the registered office of the Company during usual business hours on any week day (Saturdays, Sundays and public holidays excepted), and there will be available for inspection at the place of the annual general meeting from at least fifteen minutes prior to and until the conclusion of the annual general meeting:

- Copies of the service contracts of Executive Directors of the Company; and
- Copies of the letters of appointment of the Non-Executive Directors of the Company.

Explanatory Notes of Annual General Meeting

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

Resolution 1 – Receipt of accounts
The Directors must lay the Company's accounts, the Directors' Report and the auditors' report before the shareholders at a general meeting. This is a legal requirement after the Directors have approved the accounts and the Directors' Report, and the auditors have prepared their report.

Resolution 2 – Directors' Remuneration Report
This resolution approves the Directors' Remuneration Report for the period ended 31 July 2011. The full text of the report is contained on pages 20 to 22 of the Company's annual report, and sets out the Company's policy towards, and gives details of, Directors' remuneration and other relevant information.

Resolutions 3 and 4 – Re-election of Directors
Although the Company is not bound to adhere to the UK Corporate Governance Code published by the Financial Reporting Council in June 2010 (formerly the Combined Code (2008)) ("the Code"), the Directors recognise the importance of sound corporate governance and intend to ensure that the Company continues to comply with such principles of the Code as are appropriate to the size, nature and stage of development of the Company.

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

Resolution 3 and 4 – Re-election of Dr Michael Edelman and Gordon Hall
Each of Dr Michael Edelman and Gordon Hall, retiring by rotation, offers himself for re-election, in accordance with the Company's articles of association. Details of their respective CV's are on page 16 and 17 of the Company's annual report.

Resolution 5 – Re-election of Ernst & Young LLP as auditors
The Board of Directors, on the recommendation of its audit committee, recommends the re-election of Ernst & Young LLP as auditors, to hold office until the next general meeting at which accounts are laid.

Resolution 6 – Remuneration of the auditors
This resolution authorises the Board of Directors to agree the remuneration of the auditors.

Resolution 7 – Authority to allot shares
The purpose of resolution 7 is to renew the Directors' power to allot shares. Section 551 of the Companies Act 2006 provides that the Board of Directors may not allot new shares (other than for employee share schemes) without shareholder authority.

Accordingly, resolution 7 will be proposed as an ordinary resolution to authorise the Directors (pursuant to Section 551 of the Companies Act 2006): (i) to allot ordinary shares of 10 pence each in the capital of the Company up to a maximum nominal amount of £6,861,947, being approximately one-third of the nominal value of the ordinary shares in issue on 21 October 2011; and (ii) in addition to the authority described above, to allot ordinary shares of 10 pence each in the capital of the Company up to a maximum nominal amount of £6,861,947 pursuant to a rights issue in respect of which all shareholders are entitled to participate as nearly as possible in proportion to their holding of shares in the Company at the time.

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

Resolution 8 – Capitalisation of capital redemption reserve

Resolution 8 relates to the share acquisition by the Company, which took effect on 1 May 2009, of the entire issued share capital of Nanoco Tech Limited (then Nanoco Tech PLC), effected by means of a Court approved scheme of arrangement pursuant to Part 26 of the Companies Act 2006, referred to as the "Reverse". As part of the Reverse, holders of options over ordinary shares in Nanoco Tech Limited, under the Nanoco Tech Share Incentive Plan, were invited to release such options in consideration of the grant of equivalent new options over ordinary shares in the Company, which new options would remain subject to the rules of the said plan.

Under the terms put to optionholders, to reflect the terms of the Reverse, they were each granted an option over such number of ordinary shares in the Company as represented the number of ordinary shares in Nanoco Tech Limited represented by their existing option, multiplied by 4.55 (as nearly as possible without involving fractions), the exercise price being divided by the same amount, meaning that the overall value of each option package remained the same. The terms of the new options were approved by the HMRC Shares and Assets Valuation for the purposes of the continued qualification of the options under the enterprise management incentive regime.

It was subsequently established that the resulting exercise price of certain of the resulting new options was less than the nominal value of the relevant ordinary shares in the Company, and without further provision, it would be unlawful for the Company to allot ordinary shares in the Company at such exercise price. The total aggregate discount of exercise price of all relevant options to the aggregate nominal value of the relevant ordinary shares is £662,000. The Directors consider the valid grant of the new options to be a binding obligation on the Company.

The purpose of resolution 8 is to allow an amount up to £662,000, standing to the credit of the Company's capital redemption reserve, to be capitalised and applied in paying up in full the balance of the nominal value of the ordinary shares in the Company allotted and to be allotted pursuant to exercise of the relevant options. The funds standing to the credit of the capital redemption reserve are not available for distribution to shareholders.

Resolution 9 – Disapplication of pre-emption rights

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

It is proposed that the disapplication of these statutory pre-emption rights be approved, as a special resolution, to give the Directors power to allot shares without the application of these statutory pre-emption rights, first, in relation to rights issues and, secondly, in relation to the issue of ordinary shares of 10 pence each in the capital of the Company for cash up to a maximum aggregate nominal amount of £2,058,584 (representing approximately 10% of the nominal value of the ordinary shares in issue on 21 October 2011).

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

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

Resolution 10 – Purchase by the Company of its own Shares

The purpose of resolution 10 is to obtain the authority for the Company to purchase its ordinary shares. Under the Companies Act 2006 such an authority must first be sanctioned by an ordinary resolution of the Company in general meeting, but current institutional shareholder voting guidelines require that any such authority should be sanctioned by special resolution.

Accordingly, resolution 10 will be proposed as a special resolution to authorise the Company to purchase a maximum of 30,858,177 ordinary shares (equal to approximately 14.99% of the Company's present issued ordinary share capital) on AIM at a price per share of not less than 10 pence, and not more than 5% above the average of the middle market quotations for ordinary shares of the Company for the five business days immediately preceding the day of purchase. In order to maximise the benefit to be derived by the Company, it would be the Directors' intention that any purchases should be made at as low a price (within the limits specified in resolution 10) as they considered reasonably obtainable.

Explanatory Notes of Annual General Meeting continued

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

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

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

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

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

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

Resolution 11 – Amendment to articles of association
Resolution 11 makes an amendment to the articles of association of the Company to allow capitalisation of the capital redemption reserve as referred to in resolution 8 above.

Investor Information

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

Secretary
Mr M Sullivan

Nominated Advisor and Joint Broker
Canaccord Genuity
7th Floor
80 Victoria Street
London SW1E 5JL

Corporate Broker
Bank of America Merrill Lynch
2 King Edward Street
London EC1A JHQ

Auditor
Ernst & Young LLP
100 Barbirolli Square
Manchester M2 3EY

Legal Adviser
Schofield Sweeney
76 Wellington Street
Leeds LS1 2AY

Investor Relations and Financial PR
Buchanan Communication
107 Cheapside
London EC2V 6DN

Registered Office
46 Grafton Street
Manchester M13 9NT

Website
www.nanocotechnologies.com

Registrars
The Company's share register is maintained on our behalf by Capita Registrars. Capita are responsible for updating the register, including changes to shareholders' addresses, purchases and sales of the Company's shares.
If you have any questions about your shareholding or need to notify any changes to your personal details please contact them:

Capita Registrars
The Registry
34 Beckenham Road
Beckenham
Kent
BR3 4TU

Telephone: 0871 664 0300
(Calls cost 10 pence per minute plus network extras.)
(from outside the UK:
+44 (0) 20 8639 3399)
Lines are open Monday – Friday, 8:30am – 5.30pm
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