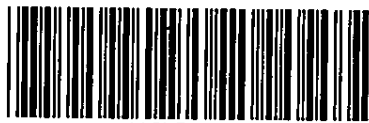


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NANOCO GROUP PLC.

Partnerships & Progress

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Strategic Report

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“Our partnership with Dow for the mass manufacture of Nanoco quantum dots to supply the display market is proceeding well and continues to be a major focus for the business. Additionally, the Company’s development agreements with Osram and Tokyo Electron are progressing well.”

Anthony Clinch, Non-executive Chairman

Highlights

- Worldwide licensing agreement signed in January 2013 with The Dow Chemical Company (“Dow”) for exclusive rights to manufacture and market Nanoco cadmium-free quantum dots for the display industry
- Follow-on development agreement signed with Osram in LED general lighting
- Follow-on development agreement signed with Tokyo Electron in solar power
- Encouraging progress from a joint research programme with University College London on the use of Nanoco cadmium-free quantum dots in cancer imaging
- Production scale-up continued with doubling of Semi-Tech capacity at Runcorn and Dow to build manufacturing capacity in Asia
- Cash, cash equivalents, deposits and short-term investments of £9 94 million at the period end (31 July 2012 £15 47 million)
- The balance sheet was further strengthened by a Placing announced on 15 October 2013, which raised £10 million

Nanoco at a Glance

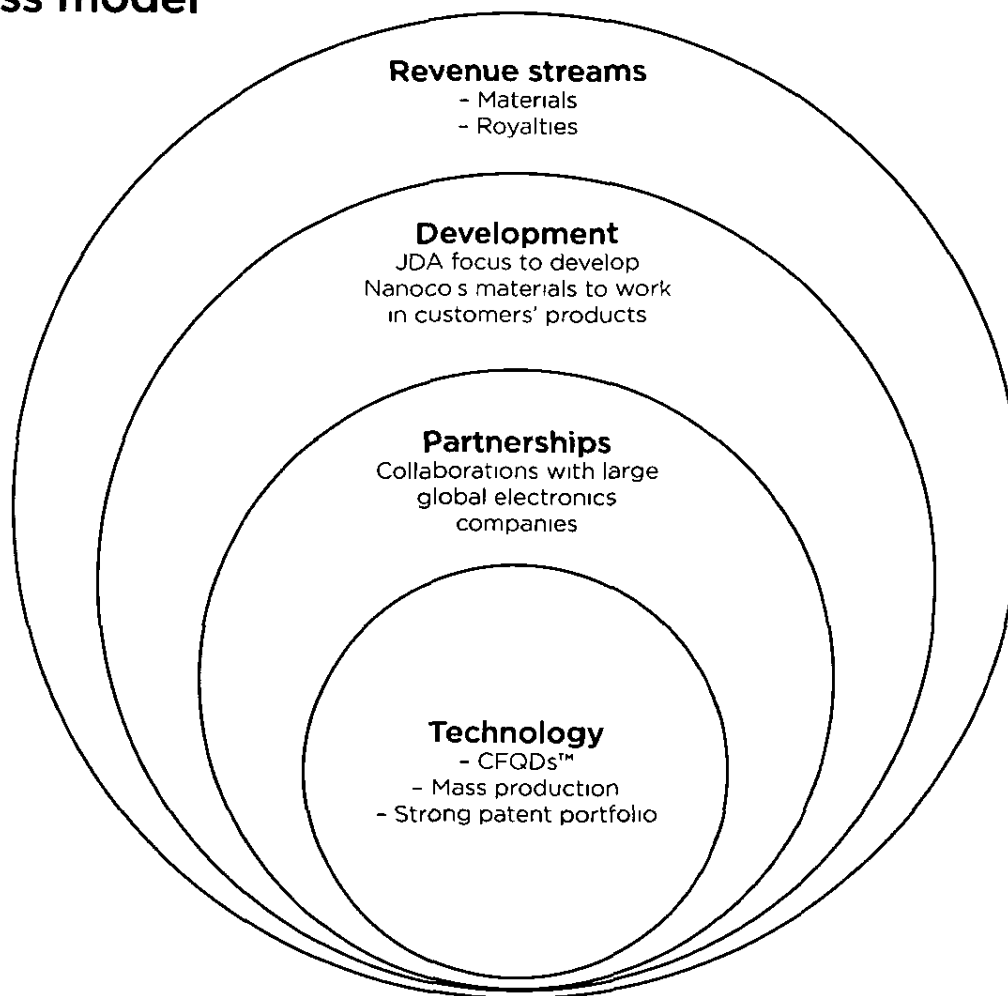
Nanoco is a world leader in the development and production of cadmium-free quantum dots for use in multiple applications including LCD displays, lighting and solar cells. In the display market, Nanoco has an exclusive manufacturing and marketing licensing agreement with The Dow Chemical Company.

Nanoco was founded in 2001 and is headquartered in Manchester, UK. It has production facilities in Runcorn, UK and business development activities in the USA, Japan, Korea, China and Taiwan. Its technology is protected worldwide by a large and growing patent estate.

Nanoco began trading on the AIM market of the London Stock Exchange in May 2009 under the ticker symbol NANO.

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

Business model



Applications

Display

Dramatic improvement in colour with seamless integration into existing LCD production process with potential energy improvements

Solar

Highly efficient, printable solar cells targeting a very low cost of electricity production

Lighting

Warm, bright LED lighting for homes and offices
- overcoming the limitations of current LED units

Bio Imaging

Using fluorescence as an in-vivo diagnostic to define cancer tumours in the operating theatre

Interview with Michael Edelman, CEO

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

Michael Edelman, CEO

Q. How would you describe the past year for Nanoco?

A. It was a year of real progress across the Company. Operationally, the two most important things for the ultimate success of Nanoco are that we continue to move our technology forwards and that we deliver against our commercial contracts. We achieved both of these during the year in all three of our target markets - displays, general lighting and solar energy.

Strategically, the most important development during the year was the exclusive global licensing agreement we signed with The Dow Chemical Company for the sale, manufacture and marketing of Nanoco quantum dots for the electronic display industry. This agreement is highly significant for Nanoco, and Dow is a great partner for us to be working with.

Q. What does the licensing agreement with Dow mean for Nanoco?

A Dow is a major global manufacturing company that already supplies the display industry. By signing the agreement with Dow, we have been able to benefit from their production expertise, from their existing customer relationships in the display industry and from their manufacturing footprint in Asia where they are developing Nanoco quantum dot production capacity.

This licensing agreement is a huge endorsement of the robustness, commercial potential and competitive advantage of Nanoco's heavy metal free quantum dot technology along with the potential to scale-up production to very high levels. The agreement also underlines the pull from the display industry which is beginning to see quantum dot technology as the next step in the evolution of the colour performance of LCD screens.

Q. Isn't the agreement a change in your commercialisation strategy?

A When Nanoco joined AIM our strategy was to keep control of manufacturing, primarily to capture the manufacturing margin. This remains our strategy where deliverable in the display industry the preferred technical solution for incorporating Nanoco quantum dots into LCD displays has evolved during the past couple of years.

The scale of quantum dot production required to supply the display industry is huge requiring major capital investment. The size of the opportunity led us into licensing our technology and we are delighted to have a licensing agreement with Dow who are an established leader in the supply of electronic materials to the global electronics industry. We will continue to develop our own production capacity to give us the ability to manufacture for some target markets.

Q. How is the licensing agreement with Dow progressing?

A Delivering against our contract with Dow has been one of the top priorities at Nanoco since the agreement was signed. We have been working very closely with Dow in the three key areas of technology transfer, on-going R&D and marketing. We have transferred our production technology and Kilo Lab plant design to Dow in preparation for the construction of production lines in Asia and we have been working with Dow on the continuous development of our quantum dots.

Marketing quantum dots to potential customers in the display industry has also been a central focus and we have shipped a significant amount of new product qualification samples from our production facility in Runcorn to major companies in the consumer electronics industry.

Interview with Michael Edelman, CEO Continued

Q. Why is the LCD display industry interested in quantum dots?

A. The reason that quantum dots are so attractive to the display industry is that they can give the next generation of colour performance within an LCD display. The display industry is continuously focused on the optimisation of LCD displays because it dominates the available display technologies, is cost effective and has a well established supply chain that has cost the industry billions to put into place. Nanoco quantum dots are about the continued evolution of the LCD display – they're a cost effective drop-in solution.

The first quantum dot TV was recently launched by Sony but the quantum dots contain cadmium, a heavy metal. Nanoco has the competitive advantage of cadmium-free quantum dots, ensuring that display makers will be able to meet existing and future regulatory requirements for cadmium-free materials.

Q. What progress are you making in your other target markets?

A. Our work in both general lighting and solar power is progressing well. In solar, we are steadily increasing the photovoltaic conversion efficiency of our nanomaterial ink with the objective of creating a low cost printable solar cell. Recently we announced that we were achieving between 12% and 13% conversion efficiency. We have made good progress in our joint development agreement with Tokyo Electron and have continued to achieve the milestones under the agreement.

General lighting is another application where Nanoco's cadmium-free quantum dots have great potential. In our joint development agreement with Osram, we have shown that our quantum dots can be used with LEDs to achieve an attractive warmth of light whilst also maintaining maximum brightness. The next steps include deciding how best to integrate the quantum dots into an LED lighting system.

Q. What are your plans for production at Runcorn?

A. Nanoco's production facilities at The Heath Business and Technical Park in Runcorn are a hugely important part of the Company's product development and optimisation. We've doubled the production capacity at Runcorn so that we are now capable of producing significant quantities of quantum dots to support our joint development agreements and to produce production samples for potential customers.

We have planning permission to build the next stage of our production scale-up, Kilo Lab lines, at Runcorn. These would be capable of producing substantial amounts of quantum dots and the start of construction will be timed in line with demand.

Q. Is the USA becoming increasingly important to Nanoco?

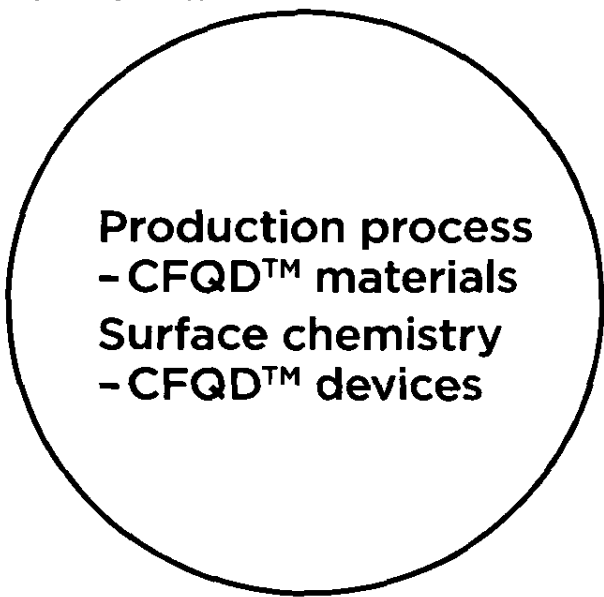
A We have strategic relationships customers and potential customers all based in the USA where our relationships with Dow and with Osram are both based. We also have shareholders based in the USA along with an increasing level of interest in the Company's investment story from potential investors.

I recently relocated to Boston, Massachusetts to be closer to Nanoco's relationships in the USA and also to the opportunities there for the Company. The optoelectronics industry is global and it has a particular concentration in Asia so I will continue to divide my time between Europe, the USA and Asia to ensure the successful growth of the Company.

Q. Are you looking at any new target markets?

A There are multiple potential markets for Nanoco quantum dots and as we move close to commercialisation in the display industry we are considering increasing our emphasis on other markets. One example is the bio-imaging market. We made encouraging progress in a joint research programme on cancer imaging with University College London and look forward to accelerating our involvement in that area. Because Nanoco quantum dots are cadmium free they can be used in the human body to assist in the detection and removal of tumours. I think bio-imaging is a very interesting area for Nanoco to explore during the coming year.

Patent Protection



**Production process
- CFQD™ materials
Surface chemistry
- CFQD™ devices**

Strategy in Action – Key Markets

Dow

TV/Display

Nanoco's heavy-metal free quantum dots can be incorporated into LCD displays to dramatically improve colour.

The use of LCD displays is widespread from TVs and computer monitors to tablets and smartphones. Nanoco's heavy-metal free quantum dots have been demonstrated to dramatically improve the picture quality achieved on an LCD display, particularly by improving the appearance of colour. Nanoco quantum dots have been used in displays of all sizes creating a major market opportunity.

Continuous improvement of the quality of displays is a key demand of companies that market display based products from TVs to smartphones. Nanoco's technology is particularly attractive as it allows a dramatic improvement in the quality of LCD displays allowing them to rival the next generation OLED products whilst using the existing LCD manufacturing infrastructure in which billions of dollars have been invested.

In January 2013 Nanoco exclusively licenced its heavy-metal free quantum dot technology to The Dow Chemical Company in the display field. Dow will manufacture, market and sell Nanoco developed quantum dots to the global display industry. The partnership of Dow and Nanoco gives the global display industry a robust and secure supply chain for Nanoco's leading edge technology.

Osram

Lighting

Nanoco's heavy-metal free quantum dots have the potential to dramatically improve LED lighting, unlocking the many benefits of LEDs so that they can be used widely for general lighting in homes, offices and other settings

Current technologies to produce white light from blue LEDs offer only limited colour performance because the light is weak in red wavelengths - the result is that the light lacks warmth and fails to show true colours. By using Nanoco quantum dots, LEDs with superior colour performance can be produced opening up a major market.

LEDs have many benefits over traditional lighting including reduced energy consumption, long service life, compact size and shock resistance. But the quality of light produced is understandably a key requirement from consumers, and one which has prevented the widespread adoption of LEDs as a light source in homes and offices. Nanoco's technology allows LED lighting manufacturers to tune the shade of white light produced and improve the colour rendering index (the ability of the light to accurately reproduce the true colour of the object being illuminated) without losing intensity. These attributes give quantum dot enhanced lighting the potential to make LEDs the standard form of lighting in almost all settings.

Tokyo Electron

Solar

Nanomaterials produced by Nanoco have the ability to absorb a wide spectrum of the sun's energy, making them ideal for the next generation of solar cells as they bring the prospect of low-cost renewable energy. Nanoco has developed the nanomaterials into solar inks, which have the benefit of being printable by low-cost, conventional printing techniques into a thin-film solar cell.

Cost is one of the key considerations for renewable energy, so the ability to combine a highly efficient photovoltaic cell with low cost manufacturing techniques is the holy grail of the solar industry. Nanoco has been achieving steady increases in the efficiency of its nanomaterial solar ink based systems which have already been demonstrated to be printable by low cost printing methods. Nanoco's solar inks are free of cadmium or other heavy metals.

Nanoco nanoparticles are highly efficient at emitting light but they can also absorb it. Nanoco is developing printable solar inks, creating the possibility of low cost highly efficient thin-film solar cells.

Chairman's and Chief Executive Officer's Joint Review

"We look forward to building on a year of solid progress in the commercialisation of our technology and view the future with confidence."

"Dow is an ideal partner for Nanoco in that it has major manufacturing and scale-up experience, customer relationships and a manufacturing footprint in Asia."

Anthony Clinch
Non-executive Chairman

Michael Edelman
Chief Executive Officer

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

Overview

The year to 31 July 2013 was another exciting period in the development of Nanoco. It was a period during which the Company made major progress in the commercialisation of its cadmium-free quantum dot (CFQD™) technology. This progress was evident across all aspects of the business but particularly in the initial three key applications of our technology – backlighting of LCD displays, LED general lighting and solar power.

Our manufacturing strategy evolved significantly during the year. In a major strategic and commercial development, we signed an exclusive worldwide licensing agreement with The Dow Chemical Company ("Dow") for the manufacture, sale and marketing of Nanoco quantum dots for use in electronic displays. This agreement, which came in response to the very substantial quantities of quantum dots that are expected to be needed by the LCD display industry, represents a major endorsement of Nanoco's technology, its scalability and commercial potential in LCD displays. Dow has advised Nanoco that it remains confident that commercial production of Nanoco quantum dots will commence during the first half of 2014.

Whilst we have chosen the licensing route to deliver CFQDs™ on the scale and timelines required by the display industry, we have also continued to develop our own production facilities at Runcorn, Cheshire, to meet demand for larger quantities of test materials from customers and potential customers. We have recently increased manufacturing capacity at Runcorn and retain the flexibility to manufacture quantum dots ourselves.

Our commercial contracts in LCD displays, LED general lighting and solar power progressed well during the year. In October 2012 we signed a follow-on joint development agreement with Osram, one of the world's largest lighting

companies, and in November we signed a further agreement with Tokyo Electron for the on-going development of a printable, nanomaterial-based solar film.

We continued in discussions throughout the year with multiple potential customers in our key target markets of Korea, USA, Japan, China and Taiwan. The focus of many of these discussions was on the supply of Nanoco quantum dots manufactured by Dow for the LCD display industry. We are pleased with the progress being made in our partnership with Dow and are confident that working with our licensee will accelerate the uptake of our technology in the display industry.

During the year we set up a US subsidiary to better serve the strategic relationships, customers, potential customers and investors all based there. As previously advised, Michael Edelman, the Company's CEO, has now relocated to the USA and is sharing his time between North America, Europe and Asia.

Nanoco currently has three full-time staff in the USA and has opened a small office in Boston, MA. In total, the Nanoco team, most of whom are based in Manchester, UK, had grown to 98 people at the year end, compared with 69 people a year earlier, with most of the increase being technical and scientific staff.

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

Chairman's and Chief Executive Officer's Joint Review continued

Commercial applications - displays

The particular appeal of quantum dots to the LCD display industry is because of their potential to offer the LCD industry the improved colour performance as exhibited by the next-generation display technology of organic light-emitting diodes (OLED). The key commercial advantage of quantum dots is that they offer the prospect of a cost-effective, drop-in solution for the LCD display industry, allowing display makers to manufacture quantum dot LCD displays on existing production lines utilising existing supply chains, in which they have invested billions of dollars.

In our preliminary results issued a year ago we highlighted a trend in which the emerging technical approach for combining our cadmium-free quantum dots into LCD displays is by incorporating them into a film which would be inserted in front of the display's LED backlighting unit. This delivery medium requires more quantum dots than if the dots were incorporated into individual LEDs. Accordingly we determined that the licensing route was the fastest way of delivering the likely quantities required to the market. We therefore decided to seek a strategic relationship with a global organisation with manufacturing and marketing expertise in the consumer electronics sector.

On 23 January 2013 we were delighted to announce a worldwide licensing agreement with The Dow Chemical Company ('Dow'). Operationally we are working with Dow's Electronic Materials' business. Dow is an ideal partner for Nanoco in that it has major manufacturing and scale-up experience, customer relationships and a manufacturing footprint in Asia where much of the optoelectronics industry is based.

Under the terms of the licensing agreement, Dow has exclusive worldwide rights for the sale, marketing and manufacture of Nanoco's cadmium-free quantum dots for use in electronic displays including LCD TVs, computer screens, tablets and smartphones.

As announced on 27 September 2013, Dow and Nanoco took the opportunity to amend the agreement to the benefit of both parties. Financial details and other specifics were not disclosed but the amendments included the waiving of a requirement for Nanoco to contribute capital expenditure to the production plant Dow is preparing to build in Asia. In return, the royalty rate that Nanoco would receive from Dow's sale of quantum dots has been adjusted but continues to acknowledge the proprietary value of Nanoco's technology. The agreement does not include specifics about the anticipated price and volume of quantum dots as these are a function of commercial negotiations with customers. Dow and Nanoco have committed additional

resources to accelerate commercialisation and Dow has advised Nanoco that it expects to begin full production under the licensing agreement in the first half of 2014.

Since the licensing agreement was initially signed in January, Dow has made significant progress in preparation for the construction of the first large-scale cadmium-free quantum dot manufacturing lines at Dow's existing facilities in Asia. Dow has also been very active in marketing Nanoco's technology to potential customers and we look forward to the first commercial contracts being signed.

Commercial applications - general lighting

LEDs have key advantages over traditional lighting including long service life, reduced power consumption, compact size and shock resistance but the adoption of LEDs in home and office environments has been slowed by amongst other issues, the current colour performance of LEDs. Nanoco's quantum dots, when combined with a blue LED, have been shown to overcome this limitation, creating a major and exciting opportunity for the Company.

Current methods for producing white light from a blue LED tend to be weak in red wavelengths, creating the two problems that the light lacks warmth and fails to show true colours. Nanoco's quantum dots can transform blue LEDs so that they produce warm white light with a high colour rendering index, thereby showing true colours. In addition, as Nanoco quantum dots are tunable to any specific wavelength, any shade of light can be produced.

Nanoco signed its first joint development agreement in general lighting in August 2011 with Osram, one of the world's largest lighting companies. The development work has progressed well and Osram has shown that Nanoco quantum dots can give the desired warmth of light without compromising on brightness. Osram is now working on the best solution for integrating the quantum dots with the LEDs to create a high quality, competitively priced product for the general lighting market.

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

Commercial applications - solar

Nanoco has developed a solar ink from cadmium-free nanomaterials. This ink has been designed to maximise the absorption of solar energy and to have physical characteristics such that it can be printed by low cost methods and annealed into a photovoltaic film. The intention is that the ink will be used by the solar industry to produce low cost, high efficiency solar panels.

In December 2012, we were delighted to sign a further joint development agreement with Tokyo Electron, the major Japanese equipment supplier, for the on-going development of a bespoke photovoltaic film. Nanoco has been working with Tokyo Electron since June 2010. Development work has focused on steadily increasing the efficiency of the electrical conversion of the film, which is now between 12% and 13% and is moving towards the target of 15%. It is the intention to achieve this level of efficiency during the current phase of work, which runs to September 2014.

Other commercial applications

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

We are increasingly interested in the potential of our quantum dots in bio-imaging and will evaluate the scale of the market opportunity in this high value sector.

A joint research programme, being carried out between Nanoco and University College London using our quantum dots for the in-vivo imaging of cancer, has made encouraging progress in the imaging of lymph node cancer.

Production scale-up

During the year we progressed plans to double capacity at our production facility at The Heath Business and Technical Park in Runcorn, where we now have four fully commissioned Semi-Tech lines focused on producing large sample quantities for the display industry. The capital expenditure to double capacity was approximately £125 million.

These Semi-Tech lines will be used for our development work and to fulfil orders for larger quantities of sample materials from customers and potential customers.

Whilst we have planning permission to build Kilo Lab lines which represent the next stage of production scale-up, we do not currently need to begin construction because Dow is developing manufacturing capacity in Asia based on our Kilo Lab designs. Nanoco's engineering resource is currently focused on preparing for Dow's manufacturing facility.

People

After seven years as Nanoco's Chairman, Peter Rowley stepped down from the role in April 2013 to become a Non-executive Director. Anthony Clinch, who became a Non-executive Director of the Company in March 2010, was appointed Chairman. We are tremendously grateful for Peter's contribution as Chairman and are delighted that Nanoco will continue to benefit from his experience and wise counsel.

By the year-end the Nanoco team had grown to 98 people (year-end 2012: 69 people), most of whom are highly qualified scientists based at our Manchester head office. An increasing number of employees are based at our Runcorn production facility and we now also have business development executives in the USA, Japan, Korea, China and Taiwan.

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

Financial results

Our revenues in the year to 31 July 2013 were £3.93 million (2012: £2.95 million). Our loss before tax was £5.04 million (2012: loss of £4.35 million). This increase in the loss before tax primarily reflected the costs of additional technical staff and associated operating costs necessary for accelerating the process for completing the CFQD™ display application. Cash and short-term investments and deposits at the year-end were £9.94 million (31 July 2012: £15.47 million).

Outlook

Our partnership with Dow for the mass manufacture of Nanoco quantum dots to supply the display market is proceeding well and continues to be a major focus of the business. Additionally, the Company's development agreements with Osram and Tokyo Electron are progressing well.

We look forward to building on a year of solid progress in the commercialisation of our technology and view the future with confidence.

Anthony Clinch

Non-executive Chairman

Michael Edelman

Chief Executive Officer
11 October 2013

Financial Review

“The Company ended the year with cash and deposit balances of £10 million.”

Colin White, Chief Financial Officer

Colin White
Chief Financial Officer

Results

Revenue for the year increased by £980,000 to £3,928,000 (2012: £2,948,000). Included within revenue is US\$1,000,000 (£634,000) from The Dow Chemical Company (“Dow”) earned under a licence agreement which was signed in January 2013. The majority of the rest of the Group’s revenue is earned primarily through joint development agreements (“JDAs”) with revenue being recognised as agreed performance milestones are achieved. The year on year increase in JDA revenue reflects the phasing of milestones relating to the respective development programmes. Almost all JDA revenues in both the current and prior year were denominated in US Dollars and mostly originated from customers in the Far East.

Cost of sales, which includes all the raw material costs, consumable items and sub-contract testing and analysis associated with developing and testing product formulations for JDA and non-JDA customers, increased by £128,000 to £1,293,000 (2012: £1,165,000). This increase reflected the incremental costs associated with the on-going development of cadmium-free quantum dots (“CFQD™”) to meet specific customer milestones as well as the production of customer samples.

Total payroll costs (before the charge for share-based payments) increased by £661,000 to £3,466,000 (2012: £2,805,000) and average staffing numbers increased by 16 heads from an average of 64 heads in 2012 to an average of 80 heads in 2013. The majority of the increases in staffing were technical roles associated with the on-going joint development programmes. Total research and development spend, which primarily includes the employment costs of technical staff, increased by £1,181,000 to £4,068,000 (2012: £2,887,000).

Rental and property running costs increased by £257,000 being the full year effect of the new 12,500 square feet laboratory and office lease that commenced from March 2012 as well as the additional costs associated with doubling the Semi-Tech laboratory space at Runcorn, from June 2013. Both expansions have provided the business with additional space and facilities to help accelerate the process for commercialising Nanoco’s CFQD™ materials for display applications. The Kilo Lab design was completed during the year with costs charged totalling £125,000 (2012: £460,000). This design will be used by Dow for their planned CFQD™ production facility in Asia under the terms of the licence agreement.

After deducting operating costs the adjusted operating loss* for the year ending 31 July 2013 was £4,452,000 (2012: adjusted operating loss* of £4,294,000).

The Group aims to incentivise and retain key staff through the use of equity-settled share awards. The IFRS2 (share-based payment) charge in respect of share schemes totalled £870,000 (2012: £365,000). This increase in the charge is a result of both an increase in the number of options awarded in the year, which totalled 8,260,000

(2012 4 820,000) as well as an increase in the average fair value of the options granted (60.8 pence compared with 50.3 pence in 2012). The total number of share options in issue as at 31 July 2013 were 13.1 million (31 July 2012 8.7 million). Of these 0.7 million (2012 2.3 million) have met their performance criteria and are therefore capable of being exercised. During the year 2.8 million options were exercised and 1.1 million options lapsed or were forfeited. In addition to the options a further 0.9 million (31 July 2012 4.2 million) of shares are jointly owned by the Group's Employee Benefit Trust ("EBT") and certain senior management through a Jointly Owned Agreement ("JOA"). Under the JOA the employee beneficiaries have the option to acquire the trustee's shares at an agreed option price subject to meeting certain performance criteria. At 31 July 2013, 0.5 million of JOA shares had met their performance criteria and were capable of being acquired from the trustees. During the year 3.4 million JOA shares were exercised. Details on the various share schemes are provided in note 19 to the accounts.

With interest income (net of interest payments) of £280,000 (2012 £309,000) a decrease of £29,000, the loss before tax was £5,042,000 (2012 loss of £4,350,000).

Taxation

The tax credit for the year is £920,000 (2012 £710,000). The R&D tax credit to be claimed in respect of R&D spend is £870,000 (2012 £654,000). There was no deferred tax credit or charge (2012 nil). There was also a £50,000 credit in respect of the prior year R&D tax claim (2012 £56,000 credit).

Adjusted basic loss per share* was 1.58 pence (2012 adjusted loss* of 1.62 pence). Basic loss per share was 2.00 pence (2012 loss of 1.80 pence).

No dividend has been proposed (2012 nil).

Cash flow and balance sheet

During the year cash, cash equivalents, deposits and short-term investments reduced by £5,530,000 to £9,944,000 (2012 £15,474,000).

Cash flow was affected by a reduction in advanced revenues received during the year of £1,823,000 (2012 an increase of £1,216,000). This arose primarily due to a number of large joint development milestone payments that were received towards the end of the prior year but which were largely recognised as revenue in 2013 as the milestones were achieved.

The Group doubled the laboratory space in Runcorn in order to increase the quantity and size of test samples and this accounted for the majority of the capital spend in the year which totalled £1,775,000 (2012 £292,000). Expenditure incurred in registering patents totalled £340,000 (2012 £336,000) during the year. Capitalised patent spend is amortised over ten years in line with the Group's accounting policy.

Treasury activities and policies

The Group manages its cash deposits prudently and invests its funds across a number of financial institutions which have investment grade credit ratings. The deposits

range from instant access to 12 month term deposits and are regularly reviewed by the Board. Cash forecasts are updated monthly to ensure that there is sufficient cash available for foreseeable requirements. More details on the Group's treasury policies are provided in note 23 to the financial statements.

Credit risk

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

Foreign exchange management

The Group invoices most of its revenues in US Dollars. The Group is therefore exposed to movements in the US Dollar relative to Sterling. The Group uses forward currency contracts to fix the exchange rate on invoiced or confirmed foreign currency receipts. The Group does not take out forward contracts against uncertain or forecast income. There were no open forward contracts as at 31 July 2013 (2012 none).

At the year end the Group had a net liability position of £8,000 (2012 net asset £450,000) in US Dollar cash debtor, less creditor balances. The Group's net profit and its equity are exposed to movements in the value of Sterling relative to the US Dollar. The indicative impact of movements in the Sterling exchange rate on profits and equity based on the re-translation of the closing balance sheet are summarised in note 23 to the financial statements and were negligible based on the year-end position. As US Dollar revenues increase, so the exposure of the Group's profit and loss and equity to movements in the Sterling/US Dollar exchange rate will increase as well.

Funding risk

The Group had £9.94 million of cash funding available at the year end. Management has prepared forecasts for the period to 31 December 2014 that assume that Dow receives a customer commitment commissions its production facility and is able to start shipping CFQD™ material in the first half of 2014. However in the event that there were delays in a customer commitment or in the commissioning of Dow's new production facility or no customer commitment is achieved, the Group would either find cost or capital savings or would raise equity finance. The Board is confident that in the event that they choose to raise further finance this would be achievable based on the strength of the share price and previous experience in raising equity finance, but acknowledge that this would be dependent on market conditions.

Colin White

Chief Financial Officer

11 October 2013

adjusted figures are stated before the share-based payment charge

Board of Directors

1 Anthony Clinch – Non-executive Chairman

Anthony Clinch is chairman of the advisory board of CABB International GmbH, an international manufacturer of fine and intermediate chemicals, chairman of the Valence Group – a specialist investment bank – and is also a senior advisor to CVC Capital Partners through his consultancy business – St Gabrielle LLP. He was an employee of CVC Capital Partners between 1987 and 2007 and was actively involved in a number of CVC Capital Partners' international chemical investments. He previously worked for Citibank in several managerial roles in Corporate Banking. He is a chartered engineer and a member of the Institution of Engineering and Technology, having spent his early career with Rolls Royce Ltd. He holds an MSc in Management Science and Operational Research and a BSc in Aeronautical Engineering from Imperial College.

3 Dr Nigel Pickett – Chief Technology Officer

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

2. Dr Michael Edelman – Chief Executive Officer

Nanoco is led by Michael Edelman. Michael joined Nanoco in 2004, led the initial fundraising and spun Nanoco out of the University of Manchester. Prior to Nanoco, Michael held a number of executive roles including responsibility for licensing the technology developed by GE/Bayer joint venture, Exatec LLP, vice president and managing director at yet2.com, commercial director at Colloids Ltd and business manager at Brunner Mond & Co Ltd. Michael started his career with ICI, has a PhD in organo-metallic chemistry from the University of Sussex, UK, and undergraduate degree in classics and chemistry from Tufts University, Boston, MA, USA.

4 Colin White – Chief Financial Officer

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

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5 Dr Peter Rowley – Non-executive Director

Peter Rowley joined the Nanoco board in 2006 and was Non-executive Chairman until April 2013. Previously he led the management buyout of Victrex from ICI in 1993, followed by the successful listing of Victrex PLC on the London Stock Exchange in 1995. He joined ICI in 1968 and progressed through a number of positions in the organisation. In 1983 he became international business manager for the widely used polymer PTFE and in 1989 he was appointed general manager for ICI Advanced Materials Asia Pacific. Peter has a PhD in organic chemistry from King's College London.

6 Michael Bretherton – Non-executive Director

Michael Bretherton graduated in economics from the University of Leeds and then worked as an accountant and manager with Price Waterhouse for seven years in both London and the Middle East. Michael subsequently worked for The Plessey Company PLC before being appointed finance director of the fully listed Bridgend Group PLC in 1988 where he held the position for 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.

7 Gordon Hall – Non-executive Director

After an early career in teaching, Gordon built up substantial international sales, management and development expertise with Rank Xerox and Abbott Laboratories. He became chief executive officer of Shield Diagnostic Limited (subsequently Axis Shield PLC) in 1990 and was responsible for listing the company on the London Stock Exchange. More recently Gordon has been involved with a range of different companies and he is currently a non-executive director of EKF Diagnostics PLC and of Quorum PLC, both of which are listed on AIM.

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Directors' Report

The directors present their report and the audited financial statements for the Group and Parent Company for the year ended 31 July 2013

Principal activity

The principal activity of the Group during the year was the research, development, licensing 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 during the year, including key performance indicators and its future prospects are included in the Chairman's and Chief Executive Officer's (CEO's) Joint Review and Financial Review on pages 10 to 15 which should be read in conjunction with this report

Turnover for the Group increased from £2 948 000 last year to £3 928 000 whilst losses after taxation for the year increased to £4 122,000 (2012: loss of £3 640 000)

Key performance indicators

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

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

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

Principal risks and uncertainties

The Group has successfully managed to reduce the inherent risk for the business by partnering with Dow, through the licensing of CFQD™ materials to Dow for use in display applications and through the continued improvement in its CFQD™ materials and scale-up processes achieved over the year. The principal risks to achieving full commercialisation and to becoming cash generative are outlined as follows

Technology

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

Production scale-up

Nanoco has demonstrated its capability to manufacture CFQD™ in 1kg batches and it opened its Semi-Tech facility in 2011 which is now capable of manufacturing up to ca 40kg per annum. To meet predicted commercial demand the manufacturing processes need to be further scaled up in order to be capable of producing commercial quantities. The Group has completed its design for the Kilo Lab, which is the next scale of production, and which is designed to produce up to 400kg pa. Nanoco signed an exclusive licensing and co-operation agreement with Dow in January 2013 which gave Dow the right to manufacture and sell CFQD™ to the global display market. Dow will therefore be responsible for building and operating the production facilities which will be based on the Kilo Lab design. This facility has yet to be built and demonstrated to work effectively

Customers

Nanoco's success is dependent upon how broadly the Group's materials are adopted by customers into their products and at a price that generates an economic return. As Nanoco is still in the development stage with its customers no commercial contracts for the sale of materials into applications, including pricing, have yet been agreed at the date of signing these accounts. Under the license agreement Dow is solely responsible for negotiating contracts and agreeing pricing for the sale of CFQD™ materials for the display market. Nanoco is working closely with Dow in marketing and developing CFQD™ materials for specific customer display applications. Nanoco also continues to work closely with a wide range of customers in the lighting and solar industries, as well as intermediary component manufacturers making parts such as film or lighting optics

Timing

It may take longer than anticipated for the Group's technology to meet the customer's requirements. It might also take longer for the customers to launch a product based on the Group's products.

Regulatory

European Union legislation ("Restriction on Hazardous Substances"), as well as regulatory codes operating in a number of other developed countries and in certain US States, severely restricts the use of cadmium based quantum dots in electronic devices. If this were ever to change then this could potentially open the quantum dot market up to cadmium based competitor products. Many electronics companies, both in Japan as well as elsewhere, have however expressed a great reluctance to use cadmium in their products because of the known health risks associated with cadmium.

Market and competition

Alternative competing technologies could emerge that might displace the market opportunity for CFQD™ in electronic devices.

Intellectual property

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

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

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

During 2011, Nanoco appointed a US firm of specialist patent lawyers to manage and co-ordinate Nanoco's patent registrations and to handle patent related claims or counter-claims. This firm is also involved in mapping the patent landscape for quantum dots and assessing the strength of Nanoco's patent presence across both geographic areas and technology sectors.

Attraction and retention of key employees

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

Funding

Funding risk and associated mitigation plans are outlined in the Financial Review on page 15.

Financial instruments

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

Research and development

The principal activity of the Group is research and development, a review of which is included in the Chairman's and CEO's Joint Review on pages 10 to 13.

Total research and development spend was £4,068,000 (2012: £2,887,000). No development expenditure was capitalised in the period (2012: £nil) for the reasons provided in note 3(f) to the accounts.

Dividends

The directors do not recommend payment of an ordinary dividend (2012: £nil).

Directors' Report continued

Share capital and funding

As at 31 July 2013 share capital comprised 210.2 million ordinary shares of 10p each (207.4 million as at 31 July 2012). There is only one class of share and all shares (with the exception of jointly owned shares issued to the EBT) are fully paid. Full details of the Group's and Company's share capital movements during the period are given in note 18 to the financial statements.

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

Directors and their interests

The following directors held office throughout the year:

Anthony Clinch
Dr Michael Edelman
Dr Nigel Pickett
Colin White
Dr Peter Rowley
Michael Bretherton
Gordon Hall

Biographies of the directors can be found on pages 16 to 17.

Details of directors' remuneration and interests in the share capital of the Company are shown in the directors' Remuneration Report on pages 22 to 24.

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

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

Directors' indemnity insurance

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

Substantial shareholders

The Company is aware that the following had an interest in 3% or more of the issued ordinary share capital of the Company at 31 July 2013:

	Number of 10p ordinary shares at 31 July 2013	% of issued share capital
ORA Capital Partners Limited	32,500,000	15.5%
Henderson Global Investor	27,242,682	13.0%
Baillie Gifford & Co	25,918,193	12.3%
Nigel Pickett	10,945,681	5.2%
Universities Superannuation Scheme	10,458,422	5.0%
Fidelity Investments	9,800,341	4.7%
UBS Investment Bank	8,483,477	4.0%
William Blair Investment Mgmt	8,393,125	4.0%
Michael Edelman	6,988,640	3.3%
Old Mutual Global Investors	6,715,200	3.2%

There were no notified significant changes in the holdings between the 31 July 2013 and the date the Annual Report and Accounts were signed.

Donations

No charitable or political donations were made in the year (2012: £nil).

Policy on payment of suppliers

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

Trade payables at 31 July 2013 represented an average of 37 days goods and services supplied (2012: 46 days).

Employment policies

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

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

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

Corporate Governance Statement

The Group's statement on corporate governance can be found in the Corporate Governance Statement on pages 25 to 28.

Going concern

The Chairman's and CEO's Joint Review on pages 10 to 13 outlines the business activities of the Group along with the factors which may affect its future development and performance.

The Group's financial position is discussed in the Financial Review on pages 14 to 15 along with details of its cash flow and liquidity. Note 23 to the financial statements sets out the Group's financial risks and the management of those risks.

Principal risks and uncertainties, together with the Company's mitigation plans in respect of these risks or uncertainties, are outlined above. As described under Funding Risk above, the risks considered by the directors to be key to their consideration of going concern are those relating to customer commitments and commissioning of production facilities.

The Group had £9.94 million of cash funding available at the year end. Management have prepared forecasts for the period to 31 December 2014 that assume that Dow receives a customer commitment, commissions its production facility and are able to start shipping CFQD™ material in the first half of 2014. However, in the event that there were delays in a customer commitment or in the commissioning of Dow's new production facility or no customer commitment is achieved, the Group would either find cost or capital savings or would raise equity finance. The Board are confident that in the event that they choose to raise further finance, this would be achievable based on the strength of the share price and previous experience in raising equity finance, but acknowledge that this would be dependent on market conditions.

On that basis and having made appropriate enquiries, the directors have a reasonable expectation 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.

Disclosure of information to the auditor

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

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

Auditor

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

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

Annual General Meeting notice

The Annual General Meeting of the Company will be held on 18 December 2013 at 10.30am at the Company's headquarters at 46 Grafton Street, Manchester, M13 9NT. The notice convening the AGM, together with an explanation of the resolutions to be proposed at the meeting, is contained in the Notice of Annual General Meeting on pages 57 to 62 of the Annual Report and Accounts 2013.

On behalf of the Board



Colin White
Chief Financial Officer
11 October 2013

Directors' Remuneration Report

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

Information not subject to audit

Remuneration Committee

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

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

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

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

Basic annual salary

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

The Company does not provide an occupational pension scheme for executive directors, nor does it make contributions into the private pension schemes of executives. However, certain executives elect to use a salary sacrifice scheme to make their own payments into private pension schemes. The salary sacrifice payments, together with any employer NIC saved, are paid into the private pension schemes and these total payments are separately disclosed in the table on page 23.

Benefit in Kind

Jointly owned EBT shares granted to Michael Edelman and Nigel Pickett on 7 April 2008 were granted on the basis that the EBT interest could be acquired for a total price of £1 and that no value would be paid for the shares themselves. When these EBT shares are exercised, the difference between the market value at the date of issue (being 14.5 pence) and the price paid for the shares (being nil) is treated as a benefit in kind. The value of the benefit in the financial year is disclosed in the Directors' Remuneration Report in the section on directors' jointly owned benefit trust shares and share options (on page 24).

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

Discretionary annual bonus

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

Discretionary share schemes

All executive directors and senior managers are eligible for discretionary share scheme awards to be paid in accordance with the Company's long-term incentive plan. Details of the awards made under the scheme are provided in note 19 to the financial statements. This takes into account the need to motivate and retain key individuals, along with similar performance criteria to the discretionary bonus scheme. Details of share scheme awards made to directors are shown in the table on page 24.

Remuneration policy for non-executive directors

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

Service contracts

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

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

St Gabrielle LLP entered into a formal engagement with the Company under which it agreed to supply the services of Anthony Clinch as its representative. 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 2013 were:

	Ordinary shares of 10p each			
	31 July 2013 Number	31 July 2013 %	31 July 2012 Number	31 July 2012 %
Anthony Clinch	57,640	0.03%	57,640	0.03%
Dr Michael Edelman	6,988,640	3.33%	9,288,640	4.48%
Dr Nigel Pickett*	10,945,681	5.21%	10,451,931	5.04%
Colin White*	320,411	0.15%	320,411	0.15%
Dr Peter Rowley	1,571,820	0.75%	1,571,820	0.76%
Michael Bretherton	227,500	0.11%	227,500	0.11%
Gordon Hall	100,000	0.05%	100,000	0.05%

*Includes the jointly owned EBT shares referred to on page 24.

Information subject to audit**Directors' remuneration**

The remuneration of the directors, who served on the Board of Nanoco Group PLC during the year to 31 July 2013, is as follows:

	Base salary & fees £000	Annual bonus £000	Pension costs £000	Benefits in kind £000	Share-based payments £000	Total 2013 £000	Total 2012 £000
Executive directors							
Dr Michael Edelman	175	20	-	468	73	736	208
Dr Nigel Pickett	62	10	73	-	59	204	144
Colin White	130	10	-	-	100	240	188
Non-executive directors							
Anthony Clinch	12	-	-	-	-	12	12
Dr Peter Rowley	12	-	-	-	-	12	12
Michael Bretherton	12	-	-	-	-	12	12
Gordon Hall	12	-	-	-	-	12	12
	415	40	73	468	232	1,228	588

During the year 3,229,162 jointly owned EBT shares were exercised and acquired from the EBT for no consideration, by Dr Michael Edelman. The difference between the market value at the date of issue, on 7 April 2008, and the nil consideration paid on exercise is disclosed as a benefit in kind, totalling £468,000, in the table above.

Directors' Remuneration Report continued

Directors' jointly owned employee benefit trust shares and share options

Directors' interests in jointly owned employee benefit trust (EBT) shares and in share options to acquire ordinary shares of 10 pence in the Company as at 31 July 2013 were

Share options	Date granted	Exercise price	At 31 July 2012	Exercised during the year	Lapsed	Granted during the year	At 31 July 2013
Dr Michael Edelman	27 Nov 2009	78 00p	150 000	-	(150,000)	-	-
	25 Nov 2011	50 00p	500 000	-	-	-	500,000
	22 Oct 2012	57 00p	-	-	-	1 000 000	1,000,000
Dr Nigel Pickett	1 Sept 2006	3 52p	1,493,750	(1,493 750)	-	-	-
	27 Nov 2009	78 00p	106 250	-	(106,250)	-	-
	25 Nov 2011	50 00p	500 000	-	-	-	500,000
	22 Oct 2012	57 00p	-	-	-	750,000	750,000
Colin White	9 Aug 2010	92 60p	129 589	-	-	-	129,589
	25 Nov 2011	50 00p	500,000	-	-	-	500,000
	22 Oct 2012	57 00p	-	-	-	750 000	750,000
Jointly owned EBT shares							
Dr Michael Edelman	7 April 2008	nil	3,229,162	(3 229 162)	-	-	-
Dr Nigel Pickett	7 April 2008	nil	530 089	-	-	-	530,089
Colin White	9 Aug 2010	92 60p	320,411	-	-	-	320,411

Exercise of the options (including the jointly owned EBT shares) which were granted on 1 September 2006, was conditional upon the 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 Nigel Pickett exercised 1 493,750 of his options on 19 October 2012 and sold 1 000 000 shares on the same day and made a net gain after associated commissions on the sale of his shares of £516,054.

During the year Dr Michael Edelman exercised his option to acquire 3 229 162 of his jointly owned shares from the EBT for no consideration. He sold 2 300 000 of these shares during the year making a net gain after associated commissions on the sale of these shares of £2 682,275. The difference between market value at the date of issue of these shares, on 7 April 2008, and the price paid (being nil) is treated as a benefit in kind and disclosed as such in the analysis of directors' remuneration.

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

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

The market price for Nanoco shares as at 31 July 2013 was 164 pence per share. The highest and lowest prices during the year were 199 pence and 55 pence respectively.

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

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

On behalf of the Board

Gordon Hall
Chairman of the Remuneration Committee

11 October 2013

Corporate Governance Statement

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

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

The Board

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

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

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

As at 31 July 2013, the Board comprised the Non-executive Chairman, two independent non-executive directors, one non-executive director (Michael Bretherton) who is also a director of ORA Capital Partners Limited, and three executive directors.

The names of the current directors together with their biographical details and any other directorships are set out on pages 16 to 17. All the directors served throughout the period under review.

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

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

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

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

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

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

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

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

Corporate Governance Statement **continued**

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

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

The roles of the Chairman and Chief Executive Officer

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

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

Professional development

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

Performance evaluation

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

The Board is in the process of implementing a review for assessing the effectiveness of the Board as a whole and for reviewing non-executive directors.

Information

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

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

Director dealings in Company shares

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

Investor relations

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

Annual General Meeting (AGM)

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

Board committees

Audit Committee

The Audit Committee comprises Michael Bretherton and Peter Rowley. Michael Bretherton is Chairman, and is deemed to have recent and relevant experience as he is a chartered accountant, holds senior financial management positions in listed companies and has chaired audit committees in a number of other listed companies. Michael's biography is included on page 17. Other directors and representatives of the external auditor attend by invitation.

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

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

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

Remuneration Committee

The Remuneration Committee comprises Gordon Hall, who is Chairman of the Committee, and Peter Rowley. The Committee is responsible for establishing a formal and transparent procedure for developing policy on executive remuneration and for setting the remuneration of individual directors. Full details of the Committee, the directors' remuneration and remuneration policy are set out on pages 22 and 24.

Nominations Committee

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

Internal controls and risk management

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

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

Some key features of the internal control system are:

- i Annual budgets and rolling forecasts reviewed and approved by the Board
- ii Monthly management accounts information compared and reconciled with budgets
- iii The Company has written operational, accounting and employment policies in place,
- iv The Board actively identifies and evaluates the risks inherent in the business and ensures that appropriate controls and procedures are in place to manage these risks
- v The Company has well-established financial reporting and approval systems and procedures which cover all key transactional processes and company commitments, and
- vi The Company has a uniform system of investment appraisal

Corporate Governance Statement **continued**

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

Risk management

Details of the technical product market and operational risks of the business are disclosed in the Directors' Report

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

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

The Group seeks to manage liquidity by ensuring funds are available to meet foreseeable needs and to invest cash assets safely and profitably. The Group had net cash, cash equivalent and deposit balances of £9.95 million as at 31 July 2013 (2012 £15.5 million). Cash deposits are spread across a range of financial institutions with 'investment grade' credit status. Deposits are invested in a mixture of fixed term and notice accounts. The Board approves all financial institutions before deposits are placed and regularly reviews the level of funds allocated to each institution.

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

The directors are responsible for preparing the Annual Report and Accounts in accordance with the applicable law and regulations.

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

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

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

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

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

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

Independent Auditor's Report to the members of Nanoco Group PLC

for the year ended 31 July 2013

We have audited the financial statements of Nanoco Group PLC for the year ended 31 July 2013 which comprise the Consolidated Statement of Comprehensive Income the Consolidated Statement of Changes in Equity the Company Statement of Changes in Equity, the Statements of Financial Position, the Cash Flow Statements and the related notes 1 to 25. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRS) as adopted by the European Union and, as regards the Company financial statements as applied in accordance with the provisions of the Companies Act 2006.

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

Respective responsibilities of directors and auditor

As explained more fully in the directors' responsibilities statement set out on page 28, 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 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 and Accounts 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 Company's affairs as at 31 July 2013 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 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.

Opinion on other matters prescribed by the Companies Act 2006

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

Matters on which we are required to report by exception

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

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

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

11 October 2013

Consolidated Statement of Comprehensive Income

for the year ended 31 July 2013

	Notes	2013 £000	2012 £000
Revenue	4	3,928	2,948
Cost of sales		(1,293)	(1,165)
Gross profit		2,635	1,783
Administrative expenses		(7,957)	(6,442)
Operating loss			
- before share-based payments		(4,452)	(4,294)
- share-based payments	19	(870)	(365)
	5	(5,322)	(4,659)
Finance income	7	286	317
Finance costs	7	(6)	(8)
Loss on ordinary activities before taxation		(5,042)	(4,350)
Taxation	8	920	710
Loss for the year and total comprehensive loss for the year		(4,122)	(3,640)
Loss per share			
Basic and diluted loss for the year	9	(2.00)p	(1.80)p

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

There were no other items of comprehensive income for the year (2012: Enil) and therefore the loss for the year is also the total comprehensive loss for the year

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

The notes on pages 35 to 56 form an integral part of these financial statements

Consolidated Statement of Changes in Equity

for the year ended 31 July 2013

	Issued equity capital £000	Share based payment reserve £000	Merger reserve £000	Revenue reserve £000	Total £000
At 31 July 2011	27,427	486	(1,242)	(6,512)	20,159
Loss for the year and total comprehensive loss for the year	-	-	-	(3,640)	(3,640)
Issue of share capital	58	-	-	-	58
Expenses of 2011 placing	(10)	-	-	-	(10)
Share-based payments	-	365	-	-	365
At 31 July 2012	27,475	851	(1,242)	(10,152)	16,932
Loss for the year and total comprehensive loss for the year	-	-	-	(4,122)	(4,122)
Issue of share capital	579	-	-	-	579
Issue of shares by EBT	-	(468)	-	603	135
Share-based payments	-	870	-	-	870
At 31 July 2013	28,054	1,253	(1,242)	(13,671)	14,394

Company Statement of Changes in Equity

for the year ended 31 July 2013

	Issued equity capital £000	Share- based payment reserve £000	Capital redemption reserve £000	Revenue reserve £000	Total £000
At 31 July 2011	105,103	486	4,594	(26,542)	83,641
Profit for the year and total comprehensive profit for the year	-	-	-	133	133
Issue of share capital	154	-	(96)	-	58
Expenses of 2011 placing	(10)	-	-	-	(10)
Share-based payments	-	365	-	-	365
At 31 July 2012	105,247	851	4,498	(26,409)	84,187
Profit for the year and total comprehensive profit for the year	-	-	-	96	96
Issue of share capital	675	-	(96)	-	579
Issue of shares by EBT	-	(468)	-	603	135
Share-based payments	-	870	-	-	870
At 31 July 2013	105,922	1,253	4,402	(25,710)	85,867

Statements of Financial Position

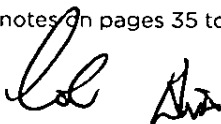
at 31 July 2013

Registered No. 05067291

	Notes	31 July 2013 Group £000	31 July 2013 Company £000	31 July 2012 Group £000	31 July 2012 Company £000
Assets					
Non-current assets					
Tangible fixed assets	10	3,470	-	2,596	-
Intangible assets	11	1,230	-	1,042	-
Investment in subsidiaries	12	-	64,860	-	63,990
		4,700	64,860	3,638	63,990
Current assets					
Inventories	13	120	-	79	-
Trade and other receivables	14	932	17,055	762	16,951
Income tax asset		870	-	654	-
Short-term investments and cash on deposit	15	6,176	1,500	11,119	2,000
Cash and cash equivalents	15	3,768	2,902	4,355	1,696
		11,866	21,457	16,969	20,647
Total assets		16,566	86,317	20,607	84,637
Liabilities					
Current liabilities					
Trade and other payables	16	1,951	-	3,390	-
Financial liabilities	17	63	-	63	-
		2,014	-	3,453	-
Non-current liabilities					
Financial liabilities	17	158	-	222	-
Other payables	16	-	450	-	450
		158	450	222	450
Total liabilities		2,172	450	3,675	450
Net assets		14,394	85,867	16,932	84,187
Capital and reserves					
Issued equity capital	18	28,054	105,922	27,475	105,247
Share-based payment reserve	19	1,253	1,253	851	851
Merger reserve	20	(1,242)	-	(1,242)	-
Capital redemption reserve	20	-	4,402	-	4,498
Revenue reserve	21	(13,671)	(25,710)	(10,152)	(26,409)
Total equity		14,394	85,867	16,932	84,187

Approved by the Board and authorised for issue on 11 October 2013

The notes on pages 35 to 56 form an integral part of these financial statements


Colin White
Director
11 October 2013

Cash Flow Statements

for the year ended 31 July 2013

	Notes	31 July 2013 Group £000	31 July 2013 Company £000	31 July 2012 Group £000	31 July 2012 Company £000
(Loss)/profit before interest and tax		(5,322)	15	(4 659)	16
Adjustments for					
Depreciation of tangible fixed assets	10	901	-	849	-
Amortisation of intangible assets	11	152	-	122	-
Share-based payments	19	870	-	365	-
Changes in working capital					
(Increase)/decrease in inventories		(41)	-	1	-
(Increase) in trade and other receivables		(130)	-	(429)	-
Increase in trade and other payables		384	-	533	-
(Decrease)/increase in deferred revenue		(1,823)	-	1,216	-
Cash (outflow)/inflow from operating activities		(5,009)	15	(2,002)	16
Research and development tax credit received		704	-	637	-
Net cash (outflow)/inflow from operating activities		(4,305)	15	(1 365)	16
Cash flows from investing activities					
Purchases of tangible fixed assets	10	(1,775)	-	(292)	-
Purchases of intangible fixed assets	11	(340)	-	(336)	-
Cash advance to subsidiary		-	(104)	-	(3 354)
Decrease in cash placed on deposit	15	4,943	500	896	1,500
Interest paid	7	(6)	-	(8)	-
Interest received		246	81	391	117
Net cash inflow/(outflow) from investing activities		3,068	477	651	(1,737)
Cash flows from financing activities					
Proceeds from issues of ordinary share capital		714	714	58	58
Expenses on issue of shares	18	-	-	(10)	(10)
Loan repayment		(64)	-	(63)	-
Net cash (outflow)/inflow from financing activities		650	714	(15)	48
(Decrease)/increase in cash and cash equivalents		(587)	1,206	(729)	(1,673)
Cash and cash equivalents at the start of the year		4,355	1,696	5,084	3 369
Cash and cash equivalents at the end of the year		3,768	2,902	4,355	1 696
Monies placed on deposit at the end of the year		6,176	1,500	11,119	2 000
Cash, cash equivalents and deposits at the end of the year	15	9,944	4,402	15,474	3 696

The notes on pages 35 to 56 form an integral part of these financial statements

Notes to the Financial Statements

for the year ended 31 July 2013

1 Reporting entity

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

These Group financial statements consolidate those of the Company and its subsidiaries (together referred to as the ‘Group’ and individually as ‘Group entities’) for the year ended 31 July 2013

The financial statements of Nanoco Group PLC and its subsidiaries (the ‘Group’) for the year ended 31 July 2013 were authorised for issue by the Board of directors on 11 October 2013 and the Statements of Financial Position was signed on the Board’s behalf by Mr Colin White

The Company has elected to take the exemption under section 408 of the Companies Act 2006 not to present the parent company’s Statement of Comprehensive Income. The parent company’s result for the period ended 31 July 2013 was a profit of £96 000 (2012 profit of £133 000)

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

2 Basis of preparation

(a) Statement of compliance

The Group’s financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (‘IFRS’) and International Financial Reporting Committee (‘IFRIC’) interpretations as they apply to the financial statements of the Group for the period ended 31 July 2013

(b) Basis of measurement

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

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

(c) Going concern

The Group’s financial position is discussed in the Financial Review on pages 14 to 15 along with details of its cash flow and liquidity. Note 23 to the financial statements sets out the Group’s financial risks and the management of those risks

The Group’s principal risks and uncertainties are set out on pages 18 and 19. Those considered by the directors to be key to their consideration of going concern are the risks relating to customer commitments and commissioning of production facilities detailed in the Joint Review

The Group had £9.94 million of cash funding available at the year end. Management have prepared forecasts for the period to 31 December 2014 that assume that Dow receives a customer commitment, commissions its production facility and is able to start shipping CFQD™ material in the first half of 2014. However in the event that there were delays in a customer commitment or in the commissioning of Dow’s new production facility or no customer commitment is achieved, the Group would either find cost or capital savings or would raise equity finance. The Board is confident that in the event that they did choose to raise further finance this would be achievable based on the strength of the share price and previous experience in raising equity finance but acknowledge that this would be dependent on market conditions.

On this basis and having made appropriate enquiries the directors have a reasonable expectation 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.

(d) Functional and presentational currency

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

(e) Use of estimates and judgements

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

Notes to the Financial Statements **continued**

for the year ended 31 July 2013

2 Basis of preparation **continued**

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

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

- **Equity-settled Share-based payments**

The determination of share-based payment costs requires the selection of an appropriate valuation method consideration as to the inputs necessary for the valuation model chosen, judgement regarding when and if performance conditions will be met, and the estimation of the number of awards that will ultimately vest. Inputs required for this arise from judgements relating to the future volatility of the share price of Nanoco and comparable companies, the Company's expected dividend yields, risk free interest rates and expected lives of the options. The directors draw on a variety of sources to aid in the determination of the appropriate data to use in such calculations. The share-based payment expense is most sensitive to the future volatility of the future share price factor.

- **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 2013 was £2,391,000 (2012: £2,004,000). The value of the tax asset (net of the net deferred tax liability) not recognised at the year-end is £2,171,000 (2012: £1,751,000).

- **Research and development**

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

- **Revenue recognition**

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

Further information on critical judgements made in applying accounting policies, including details of significant methods and assumptions used, is included in note 3 and also in notes 8, income tax, and 19, share-based payments.

3 Significant accounting policies

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

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

(a) Basis of consolidation

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

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies. All Nanoco Group PLC's subsidiaries are 100% owned. Subsidiaries are fully consolidated from the date control passes.

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

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

3 Significant accounting policies continued

(b) Foreign currency transactions

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

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

(c) Segmental reporting

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

(d) Revenue recognition

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

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

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

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

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

(e) Government grants

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

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

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

(f) Research and development

Research costs are charged in the Consolidated Statement of Comprehensive Income as they are incurred. Development costs could be capitalised as intangible assets when it is probable that future economic benefits will flow to the Company. Such intangible assets will be amortised on a straight-line basis from the point at which the assets are ready for use over the period of the expected benefit and will be reviewed for impairment at each reporting date.

The criteria for recognising expenditure as an asset are:

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

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

Notes to the Financial Statements continued

for the year ended 31 July 2013

3 Significant accounting policies continued

(g) Lease payments

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

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

(h) Finance income and expense

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

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

(i) Income tax

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

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

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

- where the temporary difference arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination that at the time of the transaction affects neither accounting nor taxable profit nor loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

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

(j) Tangible fixed assets

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

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

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

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

3 Significant accounting policies continued

(j) Tangible fixed assets continued

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

A tangible fixed asset item is de-recognised on disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the de-recognition of the asset is included in the Consolidated Statement of Comprehensive Income in the period of de-recognition.

(k) Intangible assets

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

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

Patents – straight line over ten years

(l) Impairment of assets

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

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 are corroborated by valuation multiples, or other available fair value indicators. Impairment losses on continuing operations are recognised in the Consolidated Statement of Comprehensive Income in those expense categories consistent with the function of the impaired asset.

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

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

(m) Investments in subsidiaries

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

(n) Inventories

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

Notes to the Financial Statements **continued**

for the year ended 31 July 2013

3 Significant accounting policies continued

(o) Trade and other receivables

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

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

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

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

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

(q) Trade and other payables

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

(r) Borrowings

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

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

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

(s) Provisions

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

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

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

(t) Financial assets and liabilities

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

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

At the year end, the Group had no financial assets or liabilities designated at fair value through the Consolidated Statement of Comprehensive Income (2012: £nil).

(u) Share capital

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

3 Significant accounting policies continued

(v) Shares held by the Employee Benefit Trust

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

(w) Share-based payments

Equity settled share-based payment transactions are measured with reference to the fair value at the date of grant recognised on a straight line basis over the vesting period based on the Company's estimate of shares that will eventually vest. Fair value is measured using a suitable option pricing model.

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

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

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

(x) Defined contribution pension scheme

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

(y) New standards and interpretations not yet adopted

The following new and amended IFRS, IAS and IFRIC interpretations were mandatory for accounting periods ending 31 July 2013 and thereafter, but have no material effect on the Group's financial statements:

- IAS 12 Income Taxes (Amendment) - Deferred Taxes: Recovery of Underlying Assets
- IAS 1 Presentation of Items of Other Comprehensive Income - Amendments to IAS 1
- Improvements to IFRS (2010)

A number of new standards, amendments to standards and interpretations are effective for annual periods ending 31 July 2014 or thereafter and have not been applied in preparing these consolidated financial statements and those that are relevant to the Group are summarised below. None of these is expected to have a significant effect on the consolidated financial statements of the Group.

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

	Effective date
IFRS 1 Government Loans - Amendments to IFRS 1	1 January 2013
IFRS 7 Disclosures - Offsetting Financial Assets and Financial Liabilities - Amendments to IFRS 7	1 January 2013
IFRS 9 Financial Instruments (issued in 2010)	1 January 2015
IFRS 10 Consolidated Financial Statements IAS 27 Separate Financial Statements	1 January 2014
IFRS 13 Fair Value Measurements	1 January 2013
IAS 32 Offsetting Financial Assets and Financial Liabilities - Amendments to IAS 32	1 January 2014
Annual Improvements to IFRSs 2009-2011 Cycle	1 January 2013

Notes to the Financial Statements continued

for the year ended 31 July 2013

4 Segmental information

Operating segments

At 31 July 2013 the Group operated as one segment being the provision of high performance nano- particles for research and development purposes. This is the level at which operating results are reviewed by the chief operating decision maker (i.e. the CEO) to make decisions about resources, and for which financial information is available. All revenues have been generated from continuing operations and are from external customers.

	31 July 2013 £000	31 July 2012 £000
Analysis of revenue		
Products sold	110	134
Rendering of services	2,116	1,557
Royalties and licences	1,702	1,257
	3,928	2,948

Included within rendering of services is revenue from two material customers amounting to £1,573,000 (2012: one material customer amounting to £937,000) and included within royalties and licences is revenue from two material customers amounting to £1,702,000 (2012: one material customer amounting to £1,257,000).

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 2013 £000	31 July 2012 £000
Revenue		
UK	254	182
Europe (excluding UK)	42	124
Asia	2,854	2,542
USA	778	100
	3,928	2,948

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

5 Operating loss

	31 July 2013 £000	31 July 2012 £000
The Group		
Operating loss is stated after charging/(crediting)		
Depreciation of tangible fixed assets (see note 10)	901	849
Amortisation of intangible assets (see note 11)	152	122
Staff costs (see note 6)	4,336	3,170
Foreign exchange (gains)/losses	(13)	3
Research and development expense**	4,068	2,887
Cost of inventories recognised as an expense (included in cost of sales)	1,272	1,044
Operating lease rentals (see note 22)		
Land and buildings	614	357

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	18	14
- Other services	3	3
Total auditor's remuneration	31	27

* Included within research and development expense are staff costs totalling £2,666,000 (2012: £1,808,000) also included in note 6.

6 Staff costs

	31 July 2013 £000	31 July 2012 £000
Wages and salaries	2,960	2,414
Social security costs	296	249
Pension contributions	210	142
Share-based payments	870	365
Total	4,336	3,170

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

Emoluments for qualifying services	1,228	588
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Directors' emoluments (excluding social security costs, but including benefits in kind) disclosed above include £736,000 paid to the highest paid director (2012: £208,000)

Aggregate gains made by directors during the year following the exercise of share options and jointly owned EBT shares totalled £3,198,000 (2012: £692,000)

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

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

The Group	31 July 2013 Number	31 July 2012 Number
Directors	7	7
Laboratory and administrative staff	73	57
	80	64

7 Finance income and expense

The Group	31 July 2013 £000	31 July 2012 £000
Finance income		
Bank interest receivable	286	317
Finance expense		
Loan interest payable	(6)	(8)
	280	309

Bank interest receivable includes £68,000 (2012: £28,000) which is receivable after the year end

Notes to the Financial Statements continued

for the year ended 31 July 2013

8 Income tax

The tax credit is made up as follows

The Group	31 July 2013 £000	31 July 2012 £000
Current income tax		
UK corporation tax losses in the year	-	-
Research and development income tax credit receivable	(870)	(654)
Adjustment in respect of prior years	(50)	(56)
Total current income tax	(920)	(710)

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

The Group	31 July 2013 £000	31 July 2012 £000
Loss on ordinary activities before taxation	(5,042)	(4,350)
Tax at standard rate of 23.67% (2012: 25.33%)	(1,193)	(1,102)
Effects of		
Expenses not deductible for tax purposes	207	96
Movement in unprovided deferred tax	(236)	99
Additional reduction for research and development expenditure	(1,121)	(758)
Surrender of research and development relief for repayable tax credit	1,972	1,432
Research and development tax credit receivable	(870)	(654)
Share options exercised (CTA 2009 Pt 12 deduction)	(509)	(179)
Tax losses carried forward	880	412
Adjustment in respect of prior years	(50)	(56)
Tax credit in income statement	(920)	(710)

Reductions of the main rate of corporation tax from 23% to 21% from 1 April 2014 and to 20% from 1 April 2015 were substantively enacted on 3 July 2013. The changes in tax rate are not considered to have had a material impact.

The Group has accumulated losses available to carry forward against future trading profits. The estimated value of the deferred tax asset, measured at a standard rate of 20% (2012: 24%) is £2,391,000 (2012: £2,004,000).

The Group has a deferred tax asset being share-based payments for which the tax, measured at a standard rate of 21% (2012: 24%) is £361,000 (2012: £204,000). Remaining tax losses have not been recognised as an asset as the transfer of economic benefits in the future is uncertain (2012: nil).

The Group also has a deferred tax liability being accelerated capital allowances for which the tax, measured at a standard rate of 20% (2012: 24%) is £581,000 (2012: £457,000).

The net deferred tax liability of £220,000 (2012: £253,000) has not been recognised as the Group has accumulated losses available in excess of this value.

The remaining tax losses, after deducting the net deferred tax liability, have not been recognised as an asset as the transfer of economic benefits in the future is uncertain (2012: nil).

9 Earnings per share

The Group	31 July 2013 £000	31 July 2012 £000
Loss for the financial year attributable to equity shareholders	(4,122)	(3,640)
Share-based payments	870	365
Loss for the financial year before Share-based payments	(3,252)	(3,275)
Weighted average number of shares		
Ordinary shares in issue	205,826,395	202,661,900
Adjusted loss per share before Share-based payments (pence)	(1.58)	(1.62)
Basic loss per share (pence)	(2.00)	(1.80)

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 2011	2,019	305	2,445	4,769
Additions	10	38	244	292
At 31 July 2012	2,029	343	2,689	5,061
Additions	402	71	1,302	1,775
Disposals	-	(24)	-	(24)
At 31 July 2013	2,431	390	3,991	6,812
Depreciation				
At 31 July 2011	667	167	782	1,616
Provided during the year	298	67	484	849
At 31 July 2012	965	234	1,266	2,465
Provided during the year	309	61	531	901
Eliminated on disposal	-	(24)	-	(24)
At 31 July 2013	1,274	271	1,797	3,342
Net book value				
At 31 July 2013	1,157	119	2,194	3,470
At 31 July 2012	1,064	109	1,423	2,596

Notes to the Financial Statements continued

for the year ended 31 July 2013

11 Intangible assets

The Group	Patents £000
Cost	
At 31 July 2011	1,058
Additions	336
At 31 July 2012	1,394
Additions	340
At 31 July 2013	1,734
Amortisation	
At 31 July 2011	230
Provided during the year	122
At 31 July 2012	352
Provided during the year	152
At 31 July 2013	504
Net book value	
At 31 July 2013	1,230
At 31 July 2012	1,042

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

12 Investment in subsidiaries

The Company	Shares £000	Loans £000	Loan impairment £000	Total £000
At 31 July 2011	63,235	20,676	(20,286)	63,625
Increase in respect of Share-based payments	-	365	-	365
At 31 July 2012	63,235	21,041	(20,286)	63,990
Increase in respect of Share-based payments	-	870	-	870
At 31 July 2013	63,235	21,911	(20,286)	64,860
By subsidiary				
Nanoco Tech Limited	63,235	-	-	63,235
Nanoco Life Sciences Limited	-	20,286	(20,286)	-
Nanoco Technologies Limited	-	1,625	-	1,625
At 31 July 2013	63,235	21,911	(20,286)	64,860

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

Subsidiary undertakings	Country of incorporation	Principal activity	Share of issued ordinary share capital	
			31 July 2013	31 July 2012
Nanoco Life Sciences Limited (formerly Evolutec Limited)	England and Wales	Research and development	100%	100%
Nanoco Tech Limited	England and Wales	Holding company	100%	100%
Nanoco Technologies Limited*	England and Wales	Research and develop nano particles	100%	100%
Nanoco US Inc**	USA	Management services	100%	-

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

Share capital is owned by Nanoco Tech Limited

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

13 Inventories

	31 July 2013 Group £000	31 July 2013 Company £000	31 July 2012 Group £000	31 July 2012 Company £000
Raw materials and consumables	120	-	79	-

14 Trade and other receivables

	31 July 2013 Group £000	31 July 2013 Company £000	31 July 2012 Group £000	31 July 2012 Company £000
Trade receivables	114	-	66	-
Prepayments	446	-	538	-
Inter-company short-term loan to subsidiary	-	17,055	-	16,951
Other receivables	372	-	158	-
	932	17,055	762	16,951

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

Trade receivables are denominated in the following currency

	31 July 2013 Group £000	31 July 2013 Company £000	31 July 2012 Group £000	31 July 2012 Company £000
US Dollars	114	-	66	-

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
2013	114	114	-	-
2012	66	66	-	-

15 Cash, cash equivalents and deposits

	31 July 2013 Group £000	31 July 2013 Company £000	31 July 2012 Group £000	31 July 2012 Company £000
Short-term investments and cash on deposit	6,176	1,500	11,119	2,000
Cash and cash equivalents	3,768	2,902	4,355	1,696
	9,944	4,402	15,474	3,696

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

Cash and cash equivalents at 31 July 2013 include deposits with original maturity of three months or less of £3,768,000 (2012: £3,464,000)

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

Notes to the Financial Statements continued

for the year ended 31 July 2013

16 Trade and other payables

	31 July 2013 Group £000	31 July 2013 Company £000	31 July 2012 Group £000	31 July 2012 Company £000
Current				
Current payables	1,277	-	887	-
Other payables	109	-	76	-
Deferred revenue	112	-	1,935	-
Accruals	453	-	492	-
	1,951	-	3,390	-
Non-current				
Long-term loan from subsidiary	-	450	-	450
	-	450	-	450

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

17 Financial liabilities

	31 July 2013 Group £000	31 July 2013 Company £000	31 July 2012 Group £000	31 July 2012 Company £000
Other loan				
Current	63	-	63	-
Non-current	158	-	222	-
	221	-	285	-

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

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

18 Issued equity capital

The Group	Number	Share capital £000	Share premium £000	Reverse acquisition reserve £000	Total £000
Authorised ordinary shares of 10p					
At 31 July 2011, 31 July 2012 and 31 July 2013	250,000,000	25,000	-	-	25,000
Allotted, called up and fully paid ordinary shares of 10p					
As at 31 July 2011	205,858,417	20,586	84,517	(77,676)	27,427
Shares issued on exercise of options	1,525,750	152	2	(96)	58
Expenses of 2011 placing	-	-	(10)	-	(10)
As at 31 July 2012	207,384,167	20,738	84,509	(77,772)	27,475
Shares issued on exercise of options	2,776,842	278	397	(96)	579
As at 31 July 2013	210,161,009	21,016	84,906	(77,868)	28,054

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

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

18 Issued equity capital continued
Shares issued on exercise of options

Issue date	Number of shares	Exercise price pence	Share proceeds £
19 October 2012	1 493 750	3 52	52 580
4 December 2012	109 996	14 50 to 50 0	49,674
16 January 2013	311,759	11 90 to 50 0	111 805
19 March 2013	250 079	14 50 to 67 0	77 645
15 July 2013	611,258	11 90 to 85 0	287,678
	2 776 842	-	579,382

Options exercised include certain options which had an exercise price that was less than the nominal value of shares issued (see note 20)

On 19 March 2013 158,824 jointly owned shares were acquired from the EBT at an exercise price of 85 0 pence per share, with total proceeds of £135 000. During the year, Dr Michael Edelman exercised and acquired from the EBT 3 229,162 of jointly owned EBT shares for Enil consideration. The value foregone by the Company in respect of the shares acquired from the EBT by Dr Michael Edelman at nil cost is disclosed as a benefit in kind.

The Company	Number	Share capital £000	Share premium £000	Total £000
Authorised ordinary shares of 10p				
At 31 July 2011, 31 July 2012 and 31 July 2013	250,000,000	25,000	-	25,000
Allotted, called up and fully paid ordinary shares of 10p				
As at 31 July 2011	205,858,417	20,586	84,517	105,103
Shares issued on exercise of options	1,525 750	152	2	154
Expenses of 2011 placing	-	-	(10)	(10)
As at 31 July 2012	207,384,167	20,738	84,509	105,247
Shares issued on exercise of options	2 776 842	278	397	675
As at 31 July 2013	210,161,009	21,016	84,906	105,922

19 Share-based payment reserve

The Group and Company	£000
At 31 July 2011	486
Share-based payments	365
At 31 July 2012	851
Share-based payments	870
Issue of shares by EBT	(468)
At 31 July 2013	1,253

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

A charge of £870,000 has been recognised in the Statement of Comprehensive Income for the year (2012: £365 000).

Share option schemes

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

Nanoco Tech Share Incentive Plan

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

Notes to the Financial Statements continued

for the year ended 31 July 2013

19 Share-based payment reserve continued

Share option schemes continued

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 would 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 binomial and Monte Carlo models 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		Notes
		Min	Stretch	Min	Stretch	
50%	EPS	2p	4p	0%	100%	(1)
50%	Share price	£1.20	£1.60	50%	100%	(2)

(1) The target has not been achieved and these have therefore lapsed.

(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. The reference date for the share price is the date following the publication of the 2012 results. If the share price does not fall within the targets then these options will not be exercisable and will lapse. These targets were not achieved and therefore the options have lapsed.

- Grant in November 2011

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

- Grant in October 2012

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

- Other awards

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

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

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

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

19 Share-based payment reserve continued**Share option schemes continued****Nanoco Group PLC Long-term Incentive Plan ("LTIP") continued****- Shares held in the Employee Benefit Trust ("EBT") continued**

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	2013 total Number	2012 total Number
Outstanding at 1 August	8 660,698	4,238 486	12,899,184	11 294,887
Granted during the year	8,260,000	-	8,260,000	4 820,000
Exercised during the year	(2,788 842)	(3 387 986)	(6,176 828)	(1,513 750)
Lapsed/cancelled	(1 067 100)	-	(1,067,100)	(1 701 953)
Outstanding at 31 July	13,064 756	850,500	13,915,256	12,899 184
Exercisable at 31 July	731 834	530,089	1,261,923	6,040 001

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

Weighted average exercise price of options

The Group and Company	2013 Pence	2012 Pence
Outstanding at 1 August	34 3	26 0
Granted during the year	60 8	50 3
Exercised during the year	13 4	3 5
Forfeited/cancelled	95 6	68 5
Outstanding at 31 July	56 8	34 3

The weighted average fair value of options granted during the year to 31 July 2013 was 61 pence (2012 50 pence) The range of exercise prices for options and jointly owned EBT shares outstanding at the end of the year was nil -146 pence, (2012 nil -100 75 pence)

For the share options outstanding as at 31 July 2013 the weighted average remaining contractual life is 8 5 years (2012 7 2 years)

The weighted average share price at the date of exercise for those share options exercised in the year ended 31 July 2013 was 110 pence (2012 50 2 pence)

The following table lists the inputs to the models used for the years ended 31 July 2013 and 31 July 2012

The Group and Company	Performance linked grants		Non-performance linked grants	
	2013	2012	2013	2012
Expected volatility (%)	50%-55%	50%	50%-55%	50%
Risk-free interest rate (%)	0 8%	1 28%	0 7%-0 9%	0 96%-1 6%
Expected life of options (years average)	2 5 years	3 years	2 years	3 years
Weighted average exercise price (pence)	61p	50p	62 5p	50p
Weighted average share price at date of grant (pence)	57p	50p	62 5p	50p
Model used	Binomial	Binomial	Binomial	Binomial

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

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

Notes to the Financial Statements continued

for the year ended 31 July 2013

20 Merger reserve and capital redemption reserve

Merger reserve

The Group	£000
At 31 July 2011, 31 July 2012 and 31 July 2013	(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 2011	4,594
Share options exercised at a discount to nominal value	(96)
At 31 July 2012	4,498
Share options exercised at a discount to nominal value	(96)
At 31 July 2013	4,402

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

Certain share options exercised during the year had an exercise price less than nominal value. The aggregate discount to nominal value on these options of £96,000 (2012: £96,000) 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. This accounting treatment was authorised at the AGM held on 16 December 2011.

21 Movement in revenue reserve and treasury shares

The Group	Retained deficit £000	Treasury shares £000	Total revenue reserve £000
As at 31 July 2011	(5,515)	(997)	(6,512)
Loss for the year	(3,640)	-	(3,640)
As at 31 July 2012	(9,155)	(997)	(10,152)
Issue of shares by EBT	-	603	603
Loss for the year	(4,122)	-	(4,122)
As at 31 July 2013	(13,277)	(394)	(13,671)

No jointly owned EBT shares were granted during the year (2012: no shares). 3,387,986 jointly owned EBT shares were exercised during the year (2012: no shares).

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

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

Treasury shares include the value of Nanoco Group PLC shares issued as jointly owned equity shares and held by the Nanoco Group sponsored Employee Benefit Trust (EBT) jointly with a number of the Group's employees. At 31 July 2013, 850,500 shares in the Company were held by the EBT (2012: 4,238,486). In addition, there are 12,222 (2012: 12,222) treasury shares not held by the EBT.

21 Movement in revenue reserve and treasury shares continued

The Company	Retained deficit £000	Treasury shares £000	Total revenue reserve £000
At 31 July 2011	(25,545)	(997)	(26,542)
Profit for the year	133	-	133
At 31 July 2012	(25,412)	(997)	(26,409)
Issue of shares by EBT	-	603	603
Profit for the year	96	-	96
At 31 July 2013	(25,316)	(394)	(25,710)

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 2013 Group £000	31 July 2012 Group £000
Land and buildings		
Not later than one year	667	524
After one year but not more than five years	1,912	1,918
After five years	1,390	1,777
	3,969	4,219

23 Financial risk management**Overview**

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

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

Capital risk management

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

The capital structure of the Group consists of equity attributable to equity holders of the parent, comprising issued share capital, reserves and retained earnings as disclosed in notes 18, 20 and 21 and in the Group Statement of Changes in Equity. Total equity was £14,394,000 at 31 July 2013 (£16,932,000 at 31 July 2012).

The Company is not subject to externally imposed capital requirements.

Liquidity risk

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

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

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

Notes to the Financial Statements continued

for the year ended 31 July 2013

23 Financial risk management continued

Categorisation of financial instruments

Financial assets/(liabilities)	Loans and receivables £000	Financial liabilities at amortised cost £000	Group £000	Company £000
31 July 2013				
Trade receivables	114	-	114	-
Inter-company short-term loan to subsidiary	-	-	-	17,055
Inter-company long-term loan from subsidiary	-	-	-	(450)
Cash, cash equivalents and deposits	9,944	-	9,944	4,402
Trade and other payables*	-	(1,386)	(1,386)	-
Financial liabilities	-	(221)	(221)	-
	10,058	(1,607)	8,451	21,007
Financial assets/(liabilities)	Loans and receivables £000	Financial liabilities at amortised cost £000	Group £000	Company £000
31 July 2012				
Trade receivables	66	-	66	-
Inter-company short-term loan to subsidiary	-	-	-	16,951
Inter-company long-term loan from subsidiary	-	-	-	(450)
Cash, cash equivalents and deposits	15,474	-	15,474	3,696
Trade and other payables*	-	(963)	(963)	-
Financial liabilities	-	(285)	(285)	-
	15,540	(1,248)	14,292	20,197

Excluding deferred revenue and accruals

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

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

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

Credit risk

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

The Group trades only with recognised, creditworthy third parties. Receivable balances are monitored on an on-going basis with the result that the Group's exposure to bad debts is not significant. The Group's maximum exposure is the carrying amount as disclosed in note 14 which was neither past due nor impaired. All trade receivables are ultimately overseen by the Chief Financial Officer and are managed on a day-to-day basis by the UK credit control team. Credit limits are set as deemed appropriate for the customer.

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

Foreign currency risk

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

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

The Group may use forward exchange contracts as an economic hedge against currency risk where cash flow can be judged with reasonable certainty. Foreign exchange swaps and options may be used to hedge foreign currency receipts in the event that the timing of the receipt is less certain. There were no open forward contracts as at 31 July 2013 or at 31 July 2012.

23 Financial risk management continued**Foreign currency risk** continued

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

	31 July 2013			31 July 2012		
	GBP £000	USD £000	Total £000	GBP £000	USD £000	Total £000
The Group						
Cash, cash equivalents and deposits	9,813	131	9,944	14,932	542	15,474
Trade receivables	-	114	114	-	66	66
Trade payables	1,024	(253)	1,277	(729)	(158)	(887)
	8,789	(8)	8,781	14,203	450	14,653

Sensitivity analysis to movement in exchange rates

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

	Impact on loss before tax and Group equity 2013 £000	Impact on loss before tax and Group equity 2012 £000
Increase/(decrease) in Sterling vs US Dollar rate %		
10%	1	(41)
5%	1	(21)
(5)%	-	24
(10)%	(1)	50

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 2013			31 July 2012		
	Fixed rate £000	Floating rate £000	Total £000	Fixed rate £000	Floating rate £000	Total £000
The Group						
Cash, cash equivalents and deposits	6,176	3,768	9,944	12,813	2,661	15,474
The Company						
Cash, cash equivalents and deposits	1,500	2,902	4,402	3,696	-	3,696

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

Maturity profile

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

	Less than 1 year £000	1 to 5 years £000	Greater than 5 years £000	Total £000
2013				
Financial liabilities				
Trade and other payables*	1,386	-	-	1,386
Other loans (including contractual interest)	68	163	-	231
	1,454	163	-	1,617
2012				
Financial liabilities				
Trade and other payables*	963	-	-	963
Other loans (including contractual interest)	65	227	-	292
	1,028	227	-	1,255

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

Notes to the Financial Statements continued

for the year ended 31 July 2013

23 Financial risk management continued

Maturity profile *continued*

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

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

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

24 Related party transactions

The Group

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

The Company

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

	Notes	31 July 2013 £000	31 July 2012 £000
Long-term loans owed to Nanoco Group PLC by			
Nanoco Life Sciences Limited		20,286	20 286
Nanoco Technologies Limited*		1,625	755
	12	21,911	21 041
Less provision against debt owed by Nanoco Life Sciences Limited	12	(20,286)	(20 286)
		1,625	755
Short-term loan owed to Nanoco Group PLC by			
Nanoco Technologies Limited**	14	17,055	16 951
Long-term loan owed by Nanoco Group PLC to			
Nanoco Tech Limited	16	(450)	(450)

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

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

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 are interest bearing

25 Compensation of key management personnel (including directors)

	2013 £000	2012 £000
Short-term employee benefits	549	560
Pension costs	97	48
Benefits in kind	468	-
Share-based payments	305	128
	1,419	736

Notice of Annual General Meeting

Notice is hereby given that the ninth annual general meeting of Nanoco Group PLC will be held at The Core Technology Facility 46 Grafton Street Manchester M13 9NT on 18 December 2013 at 10 30 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 and 10 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 2013 now laid before this meeting, be and are hereby approved
- 2 That the Directors' Remuneration Report on pages 22 and 23 of the Company's annual report be and is hereby approved
- 3 That Anthony Clinch who retires in accordance with the articles of association of the Company, be and is hereby re-elected as a Director of the Company
- 4 That Nigel Pickett, who retires by rotation, be and is hereby re-elected as a Director of the Company
- 5 That Colin White who retires by rotation, be and is hereby re-elected as a Director of the Company
- 6 That Ernst & Young LLP be and are hereby reappointed as auditors of the Company to hold office until the conclusion of the next general meeting at which accounts are laid before the Company
- 7 That the Board of directors be and is hereby authorised to agree the remuneration of the auditors
- 8 That in accordance with section 551 of the Companies Act 2006 (the "2006 Act")
 - 8.1 the directors be and they are hereby generally and unconditionally authorised to exercise all the powers of the Company to allot equity securities (as defined in section 560 of the 2006 Act) up to an aggregate nominal value of £7 005,367 (approximately one third of the Company's issued share capital at the date of this notice) and
 - 8.2 in addition to the authority granted pursuant to sub-paragraph 8.1 the directors be and they are hereby generally and unconditionally authorised to exercise all the powers of the Company to allot equity securities up to an aggregate nominal value of £7 005 367 (approximately one third of the Company's issued share capital at the date of this notice) in connection with a rights issue offered to holders of equity securities and other persons who are entitled to participate, in proportion (as nearly as may be) to their then holdings of equity securities (or, as appropriate the numbers of such securities which such other persons are for those purposes deemed to hold) subject only to such exclusions or other arrangements as the directors may feel necessary or expedient to deal with treasury shares, fractional entitlements or legal or practical problems under the laws of or the requirements of any recognised regulatory body of or any stock exchange in any territory, provided that both such authorities shall (unless previously revoked, varied or renewed) expire on the earlier of the date of the next annual general meeting of the Company and 18 March 2015 save that in respect of either authority, the Company may before such expiry make an offer or agreement which would or might require equity securities to be allotted after such expiry and the directors may allot equity securities in pursuance of such an offer or agreement as if the authority conferred hereby had not expired

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

Notice of Annual General Meeting **continued**

Special Resolution

- 9 That conditionally upon the passing of resolution 8 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 8 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 treasury shares fractional entitlements or legal or practical problems under the laws of or the requirements of any recognised regulatory body of or any stock exchange in any territory, and
- 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 £2101610 (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 18 March 2015 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 of 10 pence provided that
- 10.1 the Company does not purchase more than 31 503 135 ordinary shares of 10 pence (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 of 10 pence for the five business days immediately preceding the date on which the Company agrees to buy the shares concerned, based on the share prices published in the Daily Official List of the London Stock Exchange or the AIM supplement thereto

The authority conferred by this resolution shall (unless previously revoked, varied or renewed) expire on the earlier of the date of the next annual general meeting of the Company and 18 March 2015, save that the Company may before such expiry make a contract to purchase shares which will or may be executed wholly or partly after the expiry of such authority and may make a purchase of shares in pursuance of any such contract as if such authority had not expired

BY ORDER OF THE BOARD

C White
Chief Financial Officer
Registered office
46 Grafton Street
Manchester
M13 9NT

11 October 2013

Notes to the Notice of the 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 16 December 2013, 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 16 December 2013 or, if the meeting is adjourned, on the register of members after 6.00 p.m. on the day two days before the date fixed for the adjourned meeting, will be disregarded in determining the right of any person to attend and vote at the meeting.

Appointment of proxy using hard copy proxy form

- 6 The notes to the proxy form explain how to direct your proxy on how to vote on each resolution or withhold their vote. To appoint a proxy using the proxy form, the form must be:
 - completed and signed
 - sent or delivered to the Company's registrars, Neville Registrars, Neville House, 18 Laurel Lane, Halesowen, B63 3DA, and
 - received by no later than 10.30 a.m. on 16 December 2013.

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

Changing your proxy instructions

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

Where you have appointed a proxy using the hard-copy proxy form and would like to change the instructions using another hard-copy proxy form, please contact the Company's registrars, Neville Registrars, Neville House, 18 Laurel Lane, Halesowen, B63 3DA.

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

Termination of proxy appointments

- 8 In order to revoke a proxy instruction you will need to inform the Company by sending a signed hard copy notice clearly stating your intention to revoke your proxy appointment to the Company's registrars, Neville Registrars, Neville House, 18 Laurel Lane, Halesowen, B63 3DA. In the case of a member which is a company, the revocation notice must be executed under its common seal or signed on its behalf by an officer of the company or an attorney for the company. Any power of attorney or any other authority under which the revocation notice is signed (or a duly certified copy of such power of authority) must be included with the revocation notice.
- 9 The revocation notice must be received no later than 24 hours before the time and date scheduled for the meeting.
- 10 Appointment of a proxy does not preclude you from attending the meeting and voting in person. If you have appointed a proxy and attend the meeting in person, your proxy appointment will automatically be terminated.

Notice of Annual General Meeting continued

Appointment of proxy using CREST electronic proxy appointment service

- 11 CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so for the annual general meeting and any adjournment(s) thereof by using the procedures described in the CREST Manual. CREST personal members or other CREST sponsored members and those CREST members who have appointed a voting service provider should refer to their CREST sponsor or voting service provider, who will be able to take the appropriate action on their behalf.
- 12 In order for a proxy appointment or instruction made using the CREST service to be valid, the appropriate CREST message (a "CREST Proxy Instruction") must be properly authenticated in accordance with Euroclear's specifications and must contain the information required for such instructions as described in the CREST Manual. The message, regardless of whether it relates to the appointment of a proxy, the revocation of a proxy appointment or an amendment to the instruction given to a previously appointed proxy, must, in order to be valid, be transmitted so as to be received by the issuer's Agent (ID 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.

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 2013. The full text of the report is contained on pages 22 to 24 of the Company's annual report, and sets out the Company's policy towards, and gives details of, directors' remuneration and other relevant information.

Resolutions 3 to 5 - Re-election of directors

Although the Company is not bound to adhere to the UK Corporate Governance Code published by the Financial Reporting Council in June 2010 ('the Code'), the directors recognise the importance of sound corporate governance and intend to ensure that the Company continues to comply with such principles of the Code as are appropriate to the size, nature and stage of development of the Company.

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

Resolution 3 - Re-election of Anthony Clinch

Having been appointed since the Company's last annual general meeting, Anthony Clinch offers himself for re-election in accordance with the Company's articles of association. Details of his CV are on page 16 of the Company's annual report.

Resolution 4 and 5 - Re-election of Nigel Pickett and Colin White

Each of Nigel Pickett and Colin White, retiring by rotation, offers himself for re-election, in accordance with the Company's articles of association. Details of their respective CVs are on page 16 of the Company's annual report.

Resolution 6 - Re-election of Ernst & Young LLP as auditors

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

Resolution 7 - Remuneration of the auditors

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

Resolution 8 - Authority to allot shares

The purpose of resolution 8 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 8 will be proposed as an ordinary resolution to authorise the directors (pursuant to Section 551 of the Companies Act 2006)

- (i) to allot ordinary shares of 10 pence each in the capital of the Company up to a maximum nominal amount of £7,005,367, being approximately one third of the nominal value of the ordinary shares in issue on 11 October 2013, and
- (ii) in addition to the authority described above, to allot ordinary shares of 10 pence each in the capital of the Company up to a maximum nominal amount of £7,005,367 pursuant to a rights issue in respect of which all shareholders are entitled to participate as nearly as possible in proportion to their holding of shares in the Company at the time.

This authority (unless previously revoked, varied or renewed) will expire on the earlier of the date of the next annual general meeting of the Company or 15 months after the date of the passing of the resolution. The directors will exercise the authority to allot only when satisfied that it is in the interests of the Company to do so. 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.

Were the company to use the relevant authorities and

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

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

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 (and sell treasury 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 £2,101,610 (representing approximately 10% of the nominal value of the ordinary shares in issue on 11 October 2013).

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

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

Notice of Annual General Meeting continued

Resolution 10 – Purchase by the Company of its own Shares

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

Accordingly, resolution 10 will be proposed as a special resolution to authorise the Company to purchase a maximum of 31,503,135 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.

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

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

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

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

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

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

Investor Information

Directors

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

Company Secretary

Mr Colin White

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Auditor***Ernst & Young LLP***

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Legal Adviser***Schofield Sweeney***

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Investor Relations and PR Consultants***Buchanan Communications***

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Registrar***Neville Registrars***

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