

illuminating the future

Annual Report and Accounts 2009

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2001

2005 July

2006 February

2006 April

2007 December

2008 May

2008 November

2009 February

2009 May

2009 September

Chairman's Statement



I am pleased to present Nanoco's maiden financial results as a quoted company, and to provide an introduction to our world-class technology and manufacturing capabilities. Our technology has multiple potential applications in many different industrial and consumer segments. To harness this diverse breadth of opportunities, we have chosen a partnering business model through which we already have revenue-generating relationships with global companies.

Before discussing our strategy and achievements, I would like to give a brief summary of our core technology, quantum dots, in which we have a strong global position.

Quantum dots are nano-sized particles of semiconductor material, each being around eighty thousandth of the width of a human hair. At this size, semiconductors develop a new property: the ability to emit intense light of a very specific colour, with the colour dependent on the size of the dot. These dots can be stimulated to fluoresce through excitation by light energy or by electricity and have the potential to make major improvements to some products and to revolutionise others.

The academic understanding of quantum dots is not new, nor is an awareness of their commercial potential. However, this potential has not yet been realised because of the overwhelming complexity of manufacturing quantum dots in commercial quantities. Nanoco's technology provides the solution to this problem, paving the way for quantum dots to be used in multiple large scale end user applications.

Nanoco has also overcome another key obstacle to the widespread use of quantum dots: the manufacture of dots that do not use heavy metals such as cadmium. This has key environmental benefits and also allows the dots to be used in humans for the next generation of bio-imaging.

We are focusing initially on four substantial markets for our quantum dots: LED lighting, computer and mobile displays, solar energy and bio-imaging. Each of these markets represents a very substantial opportunity for Nanoco.

Our strategy is to access these markets through partnerships with major global end users, under a business model in which we receive revenues during the development phase followed by revenues from the manufacture and supply of quantum dots and additionally from a royalty payment on end-product sales.

This business model is exemplified by our partnership with a major Japanese corporation active in the LCD display and general lighting markets. Following a successful joint development agreement with the corporation under which we received a total of US\$1.2 million, a supply and licence agreement was signed in November 2008, which included a US\$2 million upfront payment and from which a further US\$8 million in milestone payments is expected by 31 December 2010. A royalty of 5 per cent will be paid to Nanoco on the net sales of the corporation's resulting products.

The use of LEDs as the backlight for LCD displays and in general lighting allows a substantial reduction in the power consumed. Quantum dots also offer key advantages over the phosphors currently used to create white light from LEDs including superior colour performance and the potential market is very considerable.

Further details of our technology and target markets, and of the progress made in our commercial relationships, are included in the Chief Executive Officer's Business Review.

In way of background, Nanoco was founded in 2001 from technology developed at Manchester University and at Imperial College, London. It made significant technical and commercial progress as a private company, including the signing of distribution agreements with Kisco, a leading Asian electronics and trading company, and Sigma-Aldrich, the world's largest supplier of research chemicals.

Flotation on AIM, via the reverse takeover of a cash shell, was one of the Company's key milestones during the year to 31 July 2009. This transaction strengthened the Company's financial resources for use in the continued development of our quantum dot technology and in the formation of further strategic partnerships. Nanoco shares began trading on AIM on 1 May 2009.

Financial results

Our revenues in the year to 31 July 2009 were £1.99 million (2008: £1.08m), comprising primarily of milestone payments from strategic partners but including some income from the sale of products by our distribution partners. The loss before tax was £652,000 (2008: loss of £698,000). Cash, and cash equivalents, at the year end were £6.59 million (31 July 2008: £2.53m).

People

Nanoco has a team of 41 people, the great majority of which have PhDs in quantum physics or chemistry. As the scale-up towards the mass production of quantum dots progresses, we envisage employing further staff, particularly at the production technician level.

I would like to take this opportunity to thank all of the Nanoco team for their energy and hard work and for their commitment to making Nanoco a world-class company. I would also like to thank our strategic partners, distributors and advisers for their contribution to the development of the Company during the course of the financial year.

Outlook

The current financial year has started well, with a new joint development agreement with a major Japanese electronics company active in the LCD TV market being signed in Sept 2009.

We are making substantial progress in the scale-up of manufacturing and expect to produce our first 1kg batches of quantum dots in the coming months. Our strategic relationships are also progressing well, and we anticipate the receipt of further milestone payments during the current half.

We are currently at discussion stages with further potential commercial partners, and look forward to announcing additional signed agreements with companies active in LED and other markets in the near future.



P Rowley

Non-executive Chairman

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

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

LED Lighting Market:

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

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

The use of LEDs as the backlight for LCD TVs is expected to be the first, mass market lighting application of solid state lighting owing to dramatically reduced energy consumption.

Q&A with Michael Edelman



Q: What are the key problems Nanoco's technology addresses?

A: Nanoco's core technology solves the problem of mass production of quantum dots.

Q: What is Nanoco's business model?

A: To develop our materials into customers' applications through joint development agreements followed by material supply and licence contracts.

Q: How does the company make money?

A: Nanoco has three revenue streams. First, joint development where our partners help fund the development costs of incorporating our quantum dots into their products. Assuming development is successful we then sign a supply and licence agreement where Nanoco earns money from the supply of its quantum dots and also from a licence royalty on sales of products into which our materials have been incorporated.

Q: Why did you adopt the partnership approach to doing business?

A: To accelerate time to market. Quantum dots are new to industry and our success depends on these materials being adopted on a large scale by companies building products based on our materials. We are experts in modifying the quantum dots so they are fit for specific applications. Our customers are expert in building products such as TVs, lighting systems and solar cells. To give the product the best chance of success both we and our customers focus on what we are good at and combine that expertise in a partnership to accelerate time to market.

Q: What's your vision for Nanoco?

A: We are building a company that develops new materials and then manufactures and sells those materials for a profit. It is a challenge to scale up new materials and build ISO assured manufacturing processes and supply chains but we believe building and retaining control of development, manufacture and supply is a key strength of the business.

Q: Why not simply license your technology to third parties?

A: Because there is greater value in building a business that can manufacture and supply its own products.

Q: How did you choose your four key markets?

A: LED lighting, displays and solar cells all play to Nanoco's strength of being able to supply commercial quantities of heavy-metal free quantum dots at a price that industry can accept. The original market for quantum dots was bio-imaging, which only requires tiny amounts of material. We realised we could produce world demand in a day, so it was clear that we needed to find other outlets for all the material we can produce. LED lighting, display and solar cell markets are very large and will use huge quantities of quantum dots so their requirements fit nicely with Nanoco's strengths. Today, bio-imaging is our least developed market but with the success of our heavy-metal free materials we see a significant opportunity in this rapidly growing market.

Q: As a small, fast-growing company how do you retain focus when working across four different markets?

A: The quantum dots we produce are a true platform technology in that they share many of the same chemical characteristics but can be used in different applications in unrelated industries. Nanoco focuses on the material and tailoring our materials so they are fit for each application.

Q: Why is cadmium-free important?

A: Five years ago we realised that if we were going to sell large quantities of materials we needed to be developing in the electronics and opto-electronics industries which meant we needed to be working in Asia, specifically Japan. Very quickly we realised that Japanese electronics companies were not interested in producing quantum dot based electronic products using cadmium which is a regulated heavy metal. We took the strategic decision to develop away from cadmium and now have a world leading range of non-cadmium products.

Q: Why do you believe the quantum dot LED market will be the first to take off?

A: Because quantum dots allow the LCD TV and display manufacturers a way to significantly reduce the power consumed by the display panel. Legislation is being introduced that will restrict the amount of power new TVs can use. Nanoco's heavy metal free quantum dots help solve the problem of power consumption.

Q: What is Nanoco's strongest attribute?

A: Our people. Every Nanoco employee makes a difference.

CEO's Business Review

Nanoco's key strength is the world-class technology on which the company is based. This technology has multiple potential applications across diverse end-user markets, bringing a very substantial commercial opportunity. It is our responsibility as a management team to ensure that we commercialise this technology successfully for the benefit of all stakeholders.

Our technology, which is protected by an extensive patent portfolio, provides the solution to the challenging problem of manufacturing quantum dots in commercial quantities at economic pricing. This technology has positioned Nanoco as a world leader in the development and manufacture of quantum dots, with the additional benefit that the Company's manufacturing process allows quantum dots to be made from semiconductors that do not include heavy metals which present environmental issues.

Owing to the scale of the opportunity presented to us, we have adopted a partnership strategy focused initially on four target markets: LED lighting, displays, solar cells and bio-imaging.

Before discussing these markets in detail, I would like to provide a review of the rapid progress we have made since the formation of Nanoco in 2001 with focus on our partnership strategy and manufacturing scale-up.

Commercial agreements

Since the company was founded we have used our technology to manufacture small quantities of quantum dots of around 50 grams per batch. Whilst our objective is to manufacture industrial quantities of quantum dots, our small-scale manufacturing has allowed us to sign two revenue-generating distribution agreements and enter into partnership with global corporations interested in using quantum dots in end-use applications. The first distribution deal was signed in 2007 with US-based Sigma Aldrich Corporation, one of the world's largest suppliers of chemicals to the research market. The second distribution agreement was signed in 2008 with Japan-based Kisco Ltd, a major, privately owned electronic materials supplier to Asian markets.

Both of these distribution agreements contributed to Nanoco's revenues in the year to 31 July 2009 and have brought other benefits such as visibility in the nanomaterials industry, access to new application development programs and the business discipline of delivering products to fixed specifications.

Quantum dot development is one of the key strengths of Nanoco. Our scientists are able to design quantum dots of very specific size, which determines the wavelength of light they emit, and to modify their surface to allow the quantum dots to be incorporated into many different materials, such as water, glass and a variety of different polymers. They can also be developed into inks and printed using ink jet, screen and other conventional printing techniques.

Our business is to work with customer and potential customers in developing quantum dots to their bespoke specifications for the customers' particular end use. Our business model is to efficiently tailor the quantum dots to meet a specific customer's end use application need in a joint development where the customer covers a portion of the Nanoco development costs. Once the joint development is successful, a material supply and licence agreement is signed under which Nanoco receives payment for the manufacture and supply of quantum dots and receive a royalty on sales of the quantum dot containing product.

We are currently already working with customers or in initial discussions with multiple potential customers in our four key target markets. We also have a number of joint development agreements under way.

In November 2008 Nanoco signed a major supply and license agreement with a large Japanese corporation to develop our quantum dots onto their LEDs for use in the lighting and LCD backlight market. This agreement followed the successful completion of a joint development agreement signed in December 2007, worth US\$1.2 million to Nanoco. The new agreement gives Nanoco US\$10 million in upfront revenue based on hitting specific milestones. US\$2 million of the US\$10 million has already been paid and we expect to complete all milestones and receive a further US\$8 million by 31 December 2010. Amongst other targets, this agreement requires the commercial supply of 1 kilogram batches of heavy metal free quantum dots.



Quantum dots have the potential to form the next generation of ultra-thin electroluminescent displays for use in a wide range of products from computer and laptop screens to PDAs and mobile phones.

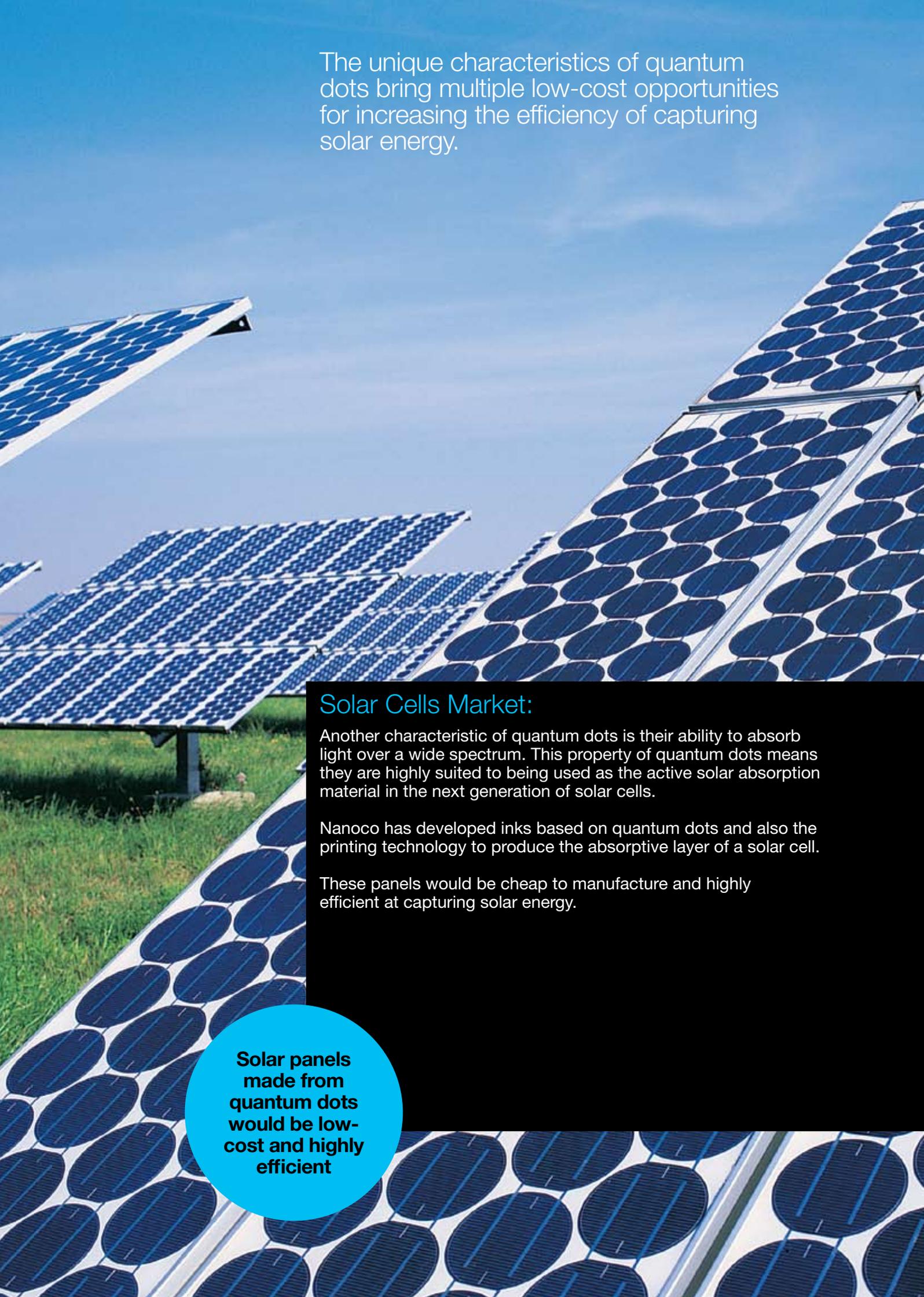
Displays Market:

Quantum dots, because of their ability to emit bright light of specific wavelengths, have the potential to form the pixels in novel inorganic electroluminescent displays.

Such displays would have significant advantages to LCD displays in terms of power consumption, compactness and cost of manufacture. Because quantum dots are printable, the pixels could be ink jet printed onto flexible polymer surfaces, which could be rolled up or folded when not in use.

It is expected that electroluminescent displays based on quantum dots would first be used in products with small-size screens, such as mobile phones and PDAs.

**Quantum dots
create the
opportunity for
next generation
displays printed
on flexible
surfaces**



The unique characteristics of quantum dots bring multiple low-cost opportunities for increasing the efficiency of capturing solar energy.

Solar Cells Market:

Another characteristic of quantum dots is their ability to absorb light over a wide spectrum. This property of quantum dots means they are highly suited to being used as the active solar absorption material in the next generation of solar cells.

Nanoco has developed inks based on quantum dots and also the printing technology to produce the absorptive layer of a solar cell.

These panels would be cheap to manufacture and highly efficient at capturing solar energy.

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

Business Review

continued

Major contracts signed with global electronics corporations

Once the products are commercialised, a royalty of 5% will be paid to Nanoco on the net sales of the corporation's products, which will comprise a light emitting diode (LED) chip, quantum dots and an encapsulant. The packaged LEDs will be sold by the corporation to TV and display makers and to solid state lighting manufacturers. The world market for these LEDs is expected to be 167 billion units by 2012 (DisplaySearch, report: "Display LEDs: Lighting up the World").

In the current financial year, we recently announced further agreements in a similar area.

Manufacturing scale-up

Nanoco's technology allows the industrial scale-up of the manufacture of quantum dots and is focused on producing quantum dots without heavy metals. This enables Nanoco's customers to comply with legislation that restricts hazardous heavy metals in electrical and electronic goods. Conforming to these regulations is a prerequisite for the large scale adoption of quantum dots into TVs and other electronic equipment.

During the financial year to 31 July 2009, and post the period end, we have made substantial progress in the scaling up of our manufacturing. Our flotation on AIM in May 2009 provided additional funds to support this growth.

The first of a suite of reactors capable of producing 1 kilogram batches of quantum dots was installed in our Manchester facility in September 2009 and is being commissioned on smaller batches of quantum dots today. Throughout this 2009/10 year we are working to scale up to 1 kilogram per batch and then on to 25 kilograms per batch. We do not anticipate inherent difficulties in scaling up to 25kg, which is a relatively small amount compared with many production processes, but intend to manage the scale-up carefully.

LED lighting

The use of quantum dots to produce white light from blue LEDs has significant advantages compared with currently used fluorescent lighting and phosphor technology. These advantages include superior colour performance, the ability to easily change the components which make up the white light leading to a higher colour quality and ultimately less energy used in future quantum dot products such as backlights for LCD TVs.

LEDs use less power than traditional light sources and also benefit from compact size and a very long service life. They have the potential to replace traditional light sources in many applications, including household and commercial lighting.

LEDs are particularly suited for use as the backlight in LCD TVs, owing to reduced power consumption. Legislation is being proposed in California forcing manufacturers to reduce the power consumed by their TV's by 33% from 2011.

Nanoco is working with a number of global companies involved in the LCD TV market and the first TVs to include Nanoco quantum dots could be on the market as early as end 2011, early 2012. We also anticipate signing further agreements with companies active in the LED market.

Displays

Quantum dots can be lit up electronically which makes them well suited for next generation displays used on mobile devices, computer and laptop screens and TV's.

The benefits would include low power consumption, high colour quality and simple manufacturing. These displays would be very thin, as there would be no requirement for a backlight, and they could be printed by an ink jet printer.

Nanoco is currently in discussions with a number of multinational companies with the objective of developing and commercialising quantum dots in electroluminescent displays.

Business Review

continued

Solar power

Quantum dots, owing to their ability to absorb light efficiently, have the potential to improve the efficiency of converting solar energy into electricity. Nanoco works with a range of quantum dot materials destined for different solar cell applications which could eventually improve efficiencies and reduce the cost per watt of solar energy produced.

Nanoco has developed quantum dots capable of capturing the full spectrum of wavelengths of light and which can be printed on to thin films by conventional printing technology.

We are working with a number of companies with relevant experience in this area and evaluation samples of quantum dots in thin films are under evaluation by potential partners.

Bio-imaging

The use of quantum dots for in vitro imaging of cells was the first market to develop for quantum dots as the application required only small quantities of materials. As Nanoco can produce large quantities our focus has been on higher volume applications such as electronics. With Nanoco's strategic focus on heavy metal free quantum dots there has been an increasing demand to use our quantum dots for in vivo imaging.

Other markets

Whilst we intend to maintain our focus on our four key target markets, there are many other potential areas of use for quantum dots. In some of these we already have patent protection, including the security and anti-counterfeiting markets. Other markets such as functional decoration and printing have shorter development cycles and the opportunity to enter commercial production quickly. Given suitable commercial partnerships we would consider pursuing these, and other, markets.

Summary

Nanoco made excellent progress in the year to 31 July 2009 in the development of its technology, commercial relationships and manufacturing. Through joining AIM in May 2009, we have strengthened our balance sheet and gained greater visibility as a world-leading company at the forefront of quantum dot commercialisation.

In the current financial year, we have already signed a significant joint development agreement with a Japanese electronics giant, and we are in multiple discussions with other potential partners across our chosen end-user markets.

The company will continue to move forward by focusing on execution of our manufacturing scale up plans and delivery of commercial product to our customers which will drive business growth.



M Edelman

Chief Executive Officer

Our ability to manufacture quantum dots free of heavy metals creates the opportunity for in vivo cell imaging for disease diagnosis.

Quantum dots are an ideal visualisation tool in cell imaging

Bio-imaging Market:

The use of quantum dots for bio-imaging provides researchers and clinicians with a new and versatile solution to a range of biomedical challenges.

Quantum dots made from heavy metals are already in use in cell labelling and other in vitro applications where visualisation of cellular activity is required. Their bright light emission over a long period of time and their ability to bind to molecules and remain in place make them particularly suited to bio-imaging applications. However, heavy metals are toxic and such quantum dots are unsuitable for use in live tissue.

Developing quantum dots free of heavy metals creates the opportunity for in vivo imaging, bringing the benefits of quantum dots in imaging applications to living tissue.

Board of Directors

Dr Peter Rowley

Non-executive Chairman

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

Dr Michael Edelman

Chief Executive Officer

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

Dr Nigel Pickett

Chief Technology Officer

Nanoco's technology team is led by Dr Nigel Pickett who is a co-founder of Nanoco Tech and inventor of Nanoco's key quantum dot scale-up technology. Nigel graduated from Newcastle University in 1991 and chose to remain at Newcastle to pursue a Ph.D. in the field of main group organometallics.

After graduation in 1994 he undertook a postdoctoral fellowship at St. Andrews University, Scotland, in the field of precursor design for MOVPE growth and synthesis of nanoparticles using CVD techniques. In 1996 he won a Japan Society for the Promotion of Science (JSPS) fellowship and spent the following year working at Tokyo University of Agriculture and Technology, Japan. In 1998 he became a research fellow at Georgia Institute of Technology, USA, working on the design and evaluation of precursor used in MOVPE. Nigel co-founded Nanoco in 2001.

Michael Bretherton

Chief Financial Officer

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

Gordon Hall

Non-executive Director

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

From left to right:
Michael Edelman,
Gordon Hall,
Nigel Pickett,
Michael Bretherton,
Peter Rowley.



Directors' Report

The Directors present their report and consolidated financial statements for the year ended 31 July 2009, and the financial statements for the parent company for the six months ended 31 July 2009.

Acquisition and re-admission to AIM

On 30 April 2009 Evolutec Group PLC completed the acquisition of Nanoco Tech PLC, at which time the Company also changed its name to Nanoco Group PLC, and was delisted and re-admitted to AIM on 1 May 2009.

As explained in Note 2, these financial statements for the year ended 31 July 2009 have been presented using reverse acquisition accounting under which the Group's activity has been presented as a continuation of that of the legal subsidiary, Nanoco Tech Limited (formerly Nanoco Tech PLC). Comparative Group information therefore also reflects the consolidated results of Nanoco Tech in the prior year.

The accounting period for the Company was subsequently changed from 31 December to 31 July to be co-terminous with the other Nanoco group companies. A short period of accounts is therefore included in these financial statements for the Company and the comparative period is for the year ended 31 December 2008, see Note 2 for further details.

Principal activity

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

Review of the business and future developments

A review of the Group's performance and future projects, including research and development, is included in the Chairman's statement and Group Business Review reports on pages 6 to 15.

Key performance indicators

Key Group performance indicators are set out below:

	31 Jul 2009 £000	31 Jul 2008 £000
Revenue	1,994	1,078
Net assets	8,771	3,432
Loss attributable to equity holders	(540)	(551)
Cash and cash equivalents	6,589	2,528
Research and development spend	1,259	940

Results and dividends

Turnover for the Group increased from £1,078,000 last year to £1,994,000 whilst losses after taxation for the year reduced to £540,000 (2008: loss of £551,000).

The Directors do not recommend payment of an ordinary dividend (2008: nil).

Share capital and funding

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

Directors and their interests

The following directors held office in the year.

Dr P Rowley	(appointed 30 April 2009)
Dr M Edelman	(appointed 30 April 2009)
Dr N Pickett	(appointed 30 April 2009)
Mr M Bretherton	(appointed 30 April 2009)
Mr G Hall	
Dr D Bloxham	(resigned 30 April 2009)
Mr G Hart	(resigned 30 April 2009)
Mr M Hawtin	(resigned 30 April 2009)

Details of Directors' interest are shown in the Directors' Remuneration Report on pages 20 and 21.

Directors' indemnity insurance

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

Substantial shareholders

The Company is aware that the following have, at 23 October 2009 an interest in three per cent or more of the issued Ordinary Share capital of the Company:

	Number of 10p ordinary shares	Percentage of the issued share capital
ORA Capital Partners Limited*	69,739,348	37.88%
Gartmore	29,737,156	16.15%
Mitsubishi UFJ	11,872,888	6.45%
Paul O'Brien	9,921,843	5.39%
Kisco Ltd	6,026,615	3.27%
Nora Powell	5,997,723	3.26%

*Includes 2,870,260 (1.59%) held indirectly through a derivative financial instrument.

Donations

No charitable or political donations were made in the year (2008: nil).

Policy on payment of suppliers

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

The Group's trade creditor days as at 31 July 2009 were 31 (2008: 31 days).

Employment policies

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

Disclosure of information to the auditors

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

Auditor

In accordance with section 485 of the Companies Act 2006, a resolution to reappoint Ernst & Young LLP as auditors will be put to the members at the Annual General Meeting.

On behalf of the board

M Bretherton

Director
27 October 2009

Directors' Remuneration Report

Companies with securities listed on AIM do not need to comply with either of the Directors' Remuneration Report Regulations 2002 or the UKLA Listing Rules and the provisions under section 7A of the Companies Act 1985. The Remuneration Committee is however committed to maintaining high standards of corporate governance and disclosure and has applied the guidelines as far as practical given the current size and development of the Company.

Remuneration Committee

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

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

Basic annual salary (including directors' fees)

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

Discretionary annual bonus

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

Discretionary share option scheme

All Executive Directors and senior managers are eligible for discretionary share option awards to be paid in accordance with the option scheme. This takes into account the need to motivate and retain key individuals, along with similar performance criteria to the discretionary bonus scheme.

Remuneration Policy for Non-executive Directors

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

Directors' remuneration

The remuneration of the Directors, who served the Nanoco Group during the year to 31 July 2009, is as follows:

	Salary & fees £000	Bonus £000	Share based payments £000	Total 2009 £000	Total 2008 £000
Dr P Rowley	10	–	–	10	10
Dr M A Edelman	118	50	24	192	166
Dr N L Pickett	82	30	15	127	110
Mr M Bretherton	3	–	–	3	–
Mr G Hall	3	–	–	3	–
	216	80	39	335	286

It is the Company's policy that executive Directors should have contracts with an indefinite term providing for a maximum of twelve months notice, with the exception of M Bretherton who has a six month notice period. 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.

Investor Information

Directors

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

Secretary

Mr M Sullivan

Nominated Adviser and Broker

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Auditor

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Maine Gloss Club is an FSC-recognised paper,
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wood or fibre. This publication was printed with
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