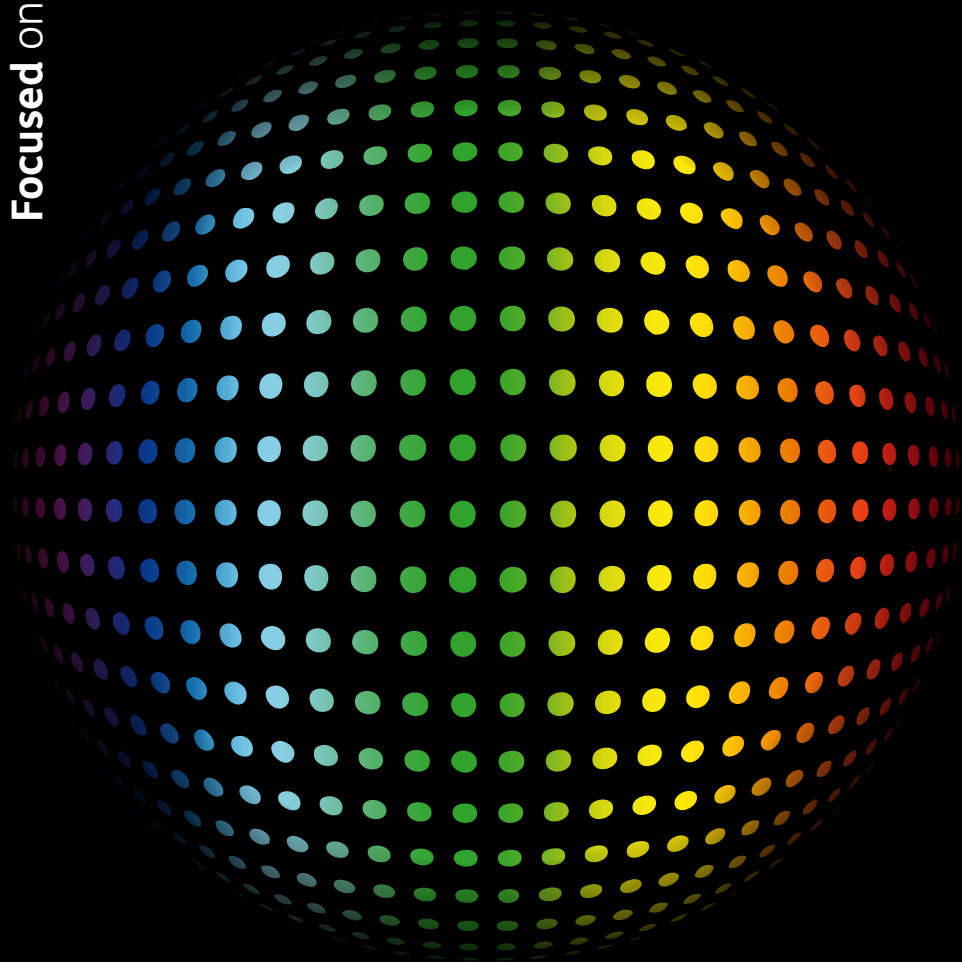


Focused on delivery



Interim Report
For the six months ended 31 January 2011

NANOCO
GROUP PLC

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Nanoco Group plc (AIM: NANO), a world leader in the development and manufacture of cadmium-free quantum dots, is pleased to announce its interim results for the six months ended 31 January 2011.

Highlights

- Commissioning of Semi-Tech lines at Runcorn facility and production of large batches of high quality quantum dots
- Production of 1kg red quantum dots which triggers a US\$2 million milestone payment to Nanoco
- Good progress in our Joint Development Agreements (JDAs), including:
 - achieving a final physical performance milestone for red quantum dots in LEDs
 - various technical milestones within our solar ink development
- Further progress with commercial collaborations, including signing a four month extension to the Company's solar ink JDA with Tokyo Electron
- Placing of £15 million to accelerate Nanoco's production programme, to invest in product development and to expand the technical sales and marketing team
- Pro-forma period end cash of £18.1 million, taking into account the net proceeds of the Placing. Statutory cash, cash equivalents and deposits as at 31 January 2011 of £3.8 million (31 July 2010: £5.7 million)

Chairman's and Chief Executive Officer's Joint Review

Overview

The six months to 31 January 2011 were highly significant in the development of Nanoco. During the period we built and commissioned our first Semi-Tech production lines and produced commercial quantities of cadmium-free quantum dots. The production of quantum dots on this scale is a world first. It is also testament to the robustness of Nanoco's technology and the quality of the Company's scientific, technical and production teams.

Whilst we are immensely proud of this achievement, we are also fully aware that it is just a step on the way to Nanoco realising its objective of becoming a highly profitable company through the widespread use of its cadmium-free quantum dots in consumer goods and other applications.

During the half-year, we made good progress in our commercial collaborations and in building the Company's quality assurance and health and safety infrastructure.

Since the period end we have also strengthened our balance sheet with a successful fund-raising of approximately £15 million, with cash proceeds being received in early February. These additional funds will be used to continue the Company's production scale-up programme, to invest in product development and to build the technical sales and marketing team.

Careful control of financial resources has been a feature of Nanoco since the Company was founded in 2001. Prior to this fundraising, Nanoco had raised a total of just £10 million in equity funding. Prudent cash management will remain one of the key elements of the Company's business model.

At our 2010 financial year end, the Nanoco team comprised 44 full time staff, most of whom are highly qualified scientists. Since then we have added a further eleven people during the first half, including four in production, three in quality assurance and health and safety, and one focused on business development in Korea.

We are in discussions with multiple potential customers in the field of LEDs for lighting and displays, electro-luminescent displays and solar applications.

Commercial contracts

Our commercial contracts have progressed well during the period.

As announced on 1 April 2011, in our supply and licence agreement with a major Japanese corporation, we have successfully produced a 1kg batch of red cadmium-free quantum dots (CFQD™), which triggers a US\$2 million milestone payment from the customer to Nanoco. This is a major technical achievement which underlines the scalability of Nanoco's patent-protected technology and expertise of its production and technical teams.



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

The Company expects to be able to demonstrate that green CFQD™ meet the final technical milestones within the next few months, which will trigger a milestone payment of US\$1 million. This should be followed by the production of 1kg of green CFQD™ for delivery to the same customer. Once validated, the green CFQD™ will also attract a US\$2 million milestone payment which is expected sometime in the second half of 2011.

The bespoke red and green quantum dots are being developed for use in LEDs for backlighting of televisions and other solid-state lighting applications.

We received a number of milestone payments during the first half, in connection with our JDA with Tokyo Electron, under which we are developing solar inks for printing into a nanomaterial film. We have now agreed a four-month extension to the JDA during which time we will focus on the performance characteristics of the solar ink. We have received an upfront payment for the extension period.

As mentioned above, we are in discussions with multiple potential customers who are interested in entering into agreements with us across a range of applications including solid-state lighting, LED backlighting and QD-Electroluminescent ('OLED' type) displays.

Scaling up production

During the period we installed and commissioned the two Semi-Tech lines at our commercial facility at The Heath Technology Park in Runcorn and produced commercial-scale batches of high quality CFQD™ during the commissioning process. The two Semi-Tech lines have the capacity to produce around 25kg of quantum dots annually.

The commissioning of the site was a key step in the Company's multi-stage strategic plan for scaling-up production capacity to meet the anticipated demand in lighting, displays, solar and other growth markets.

The next stage of the scale-up plan is the installation of Kilo Lab equipment, which would increase total capacity to around 150kg annually at a capital cost of around £8 million. The Company has begun the detailed design and planning of the Kilo Lab lines. This phase of the development is expected to take up to six months.

Product development

The recent fundraising will allow us to put additional resources into the ongoing development of our quantum dots and to improve their ability to be incorporated into an even greater variety of polymer systems. We now have a group focusing on QD-Electroluminescent displays, a future generation of displays which exploit the ability of quantum dots to be used as direct-emitting pixels.

Such displays would be very thin, have no requirement for a backlight and bring key benefits such as low power consumption, high colour quality and ease of manufacture.

We have already had interest from potential customers in our QD-Electroluminescent displays and we expect this area to be a major focus for us into the future. These new displays are in addition to the LCD displays which incorporate Nanoco's QDs into the backlight units.

Financial results

Revenues in the six months to 31 January 2011 were £1.14 million (H1 2010: £1.60 million) and the loss before tax was £1.65 million (H1 2010: loss of £0.47 million). At this stage in the Company's development, revenues are primarily a reflection of the amount and timing of milestone and joint development payments from strategic partners. This pattern of revenues is expected to continue in the second half of the financial year.

Cost of sales increased over the prior year period partly as a consequence of the material costs associated with delivering key milestones for the Tokyo Electron contract, and also as a result of the commissioning and material costs associated with setting up the Runcorn facility.

Administrative expenses have increased as a consequence of the new staff appointed to set up the Semi-Tech plant at Runcorn, and to put in place, and manage, the systems, processes and controls (including IT, financial, quality, ISO 9001 and health and safety systems) necessary for the business as it develops and grows.

Statutory cash, cash equivalents and deposits, at 31 January 2011 were £3.8 million (31 January 2010: £5.0 million; 31 July 2010: £5.7 million). Both cash and costs continue to be prudently and tightly managed.

Following the successful Placing of 16.7 million new shares, announced on 28 January 2011, the Company received net cash funds of £14.3 million (net of issue costs) in early February, which the Company invested with a range of highly rated banks, in deposit accounts of varying length, for periods of up to twelve months.

Outlook

The current half has seen the dreadful earthquake and tsunami in Japan and we extend our deepest sympathy to the Japanese nation. We have been advised that our partners' facilities there have not been directly affected and we will seek to ensure that the good progress made to date continues apace.

Our recent fundraising means that we can accelerate the development of Nanoco, although we will continue to manage expenditure prudently. Production scale-up continues to proceed well, and we have a good pipeline of potential customers based mainly in Asia.

We are particularly pleased by the increasing level of interest in Nanoco, reinforcing our belief that our cadmium-free quantum dots will become an integral part of the electronics industry in the foreseeable future.



Peter Rowley
Non-Executive Chairman
4 April 2011



Michael Edelman
Chief Executive Officer
4 April 2011

Consolidated Statement of Comprehensive Income

For the six months ended 31 January 2011

	Notes	Six months to 31 January 2011 (Unaudited) £'000	Six months to 31 January 2010 (Unaudited) £'000	Year to 31 July 2010 (Audited) £'000
Revenue	2	1,140	1,600	2,937
Cost of sales		(475)	(217)	(495)
Gross profit		665	1,383	2,442
Administrative expenses		(2,335)	(1,881)	(3,870)
Operating loss				
- before share-based payment		(1,566)	(459)	(1,262)
- share-based payment		(104)	(39)	(166)
		(1,670)	(498)	(1,428)
Finance income		28	29	68
Finance costs		(5)	(6)	(11)
Loss on ordinary activities before taxation		(1,647)	(475)	(1,371)
Tax	3	271	234	288
Loss for the period and total comprehensive loss for the period		(1,376)	(241)	(1,083)
Loss per share:				
Basic loss for the period	4	(0.75)p	(0.13)p	(0.60)p
Diluted loss for the period	4	(0.70)p	(0.13)p	(0.56)p

Consolidated Statement of Changes in Equity

For the six months ended 31 January 2011

	Attributable to equity shareholders				
	Issued equity capital £'000	Share-based payment reserve £'000	Merger reserve £'000	Revenue reserve £'000	Total equity £'000
At 1 August 2009	12,351	167	(1,242)	(2,505)	8,771
Loss for the six months to 31 January 2010	-	-	-	(241)	(241)
Share-based payments	-	39	-	-	39
At 31 January 2010	12,351	206	(1,242)	(2,746)	8,569
Loss for the six months to 31 July 2010	-	-	-	(842)	(842)
Share-based payments	-	127	-	-	127
At 31 July 2010	12,351	333	(1,242)	(3,588)	7,854
Loss for the six months to 31 January 2011	-	-	-	(1,376)	(1,376)
Proceeds from issue of share capital	290	-	-	-	290
Share-based payments	-	104	-	-	104
At 31 January 2011	12,641	437	(1,242)	(4,964)	6,872

Statement of Financial Position

As at 31 January 2011

	31 January 2011 (Unaudited) £'000	31 January 2010 (Unaudited) £'000	31 July 2010 (Audited) £'000
Assets			
Non-current assets:			
Tangible assets	3,244	2,205	2,803
Intangible assets	692	482	616
	3,936	2,687	3,419
Current assets:			
Inventories	42	17	18
Trade and other receivables	386	1,339	584
Income tax asset	685	469	501
Short-term investments and deposits	–	2,000	2,000
Cash and cash equivalents	3,793	3,039	3,682
	4,906	6,864	6,785
Total assets	8,842	9,551	10,204
Liabilities			
Current liabilities:			
Trade and other payables	1,461	539	1,810
Short-term financial liabilities	63	63	63
	1,524	602	1,873
Non-current liabilities:			
Financial liabilities	317	380	348
Deferred tax liability	129	–	129
	446	380	477
Total liabilities	1,970	982	2,350
Net assets	6,872	8,569	7,854
Capital and reserves			
Issued equity capital	12,641	12,351	12,351
Share-based payment reserve	437	206	333
Merger reserve	(1,242)	(1,242)	(1,242)
Revenue reserve	(4,964)	(2,746)	(3,588)
Total equity	6,872	8,569	7,854

Approved by the board and authorised for issue on 4 April 2011.

Colin White

Director

Cash Flow Statement

For the six months ended 31 January 2011

	Six months to 31 January 2011 (Unaudited) £'000	Six months to 31 January 2010 (Unaudited) £'000	Year to 31 July 2010 (Audited) £'000
Loss before interest and tax	(1,670)	(498)	(1,428)
Adjustments for:			
– Depreciation	289	200	428
– Amortisation of intangible assets	41	26	60
– Movement in share-based payment reserve	104	39	166
Changes in working capital:			
– (Increase) in inventories	(24)	–	(1)
– Decrease/(increase) in trade and other receivables	198	(961)	(206)
– (Decrease)/increase in trade and other payables	(349)	63	913
Cash outflow from operating activities	(1,411)	(1,131)	(68)
Interest paid	(5)	(6)	(11)
Research and development tax credit received	87	–	51
Net cash outflow from operating activities	(1,329)	(1,137)	(28)
Cash flows from investing activities:			
Purchases of plant and equipment	(730)	(310)	(615)
Related grant received	–	32	32
Net purchases of plant and equipment	(730)	(278)	(583)
Purchases of intellectual property	(117)	(132)	(300)
Decrease/(increase) in cash placed on deposit	2,000	(2,000)	(2,000)
Interest received	28	29	68
Net cash inflow/(outflow) from investing activities	1,181	(2,381)	(2,815)
Cash flows from financing activities:			
Net proceeds from the issue of ordinary share capital	290	–	–
Loan repayment	(31)	(32)	(64)
Net cash inflow/(outflow) from financing activities	259	(32)	(64)
Increase/(decrease) in cash and cash equivalents	111	(3,550)	(2,907)
Cash and cash equivalents at the start of period	3,682	6,589	6,589
Cash and cash equivalents	3,793	3,039	3,682
Monies placed on deposit	–	2,000	2,000
Cash, cash equivalents and deposits at the end of the period	3,793	5,039	5,682

Notes to the Interim Financial Report

For the six months ended 31 January 2011

1. Accounting policies

Basis of preparation

The accounting policies adopted in this interim financial report are consistent with those followed in the preparation of the Group's annual report and accounts for the year to 31 July 2010. The interim financial information for the six months ended 31 January 2011 and 31 January 2010 is unaudited and does not constitute statutory accounts as defined in the Companies Act 2006. This interim financial report includes audited comparatives for the year to 31 July 2010. The 2010 annual report and accounts received an unqualified audit opinion and has been filed with the Registrar of Companies. This interim financial report has been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and has been prepared under the historical cost convention.

Basis of consolidation

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

2. Segmental information

Operating segments

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

	Six months to 31 January 2011 £'000	Six months to 31 January 2010 £'000	Year to 31 July 2010 £'000
Analysis of revenue			
Products sold	71	24	82
Rendering of services	748	533	1,220
Royalties and licences	321	1,001	1,586
Grant income	–	42	49
	1,140	1,600	2,937

Geographical information

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

	Six months to 31 January 2011 £'000	Six months to 31 January 2010 £'000	Year to 31 July 2010 £'000
Analysis of revenue			
UK	–	63	49
Europe (excluding UK)	92	22	117
Asia	1,048	1,515	2,754
USA	–	–	17
	1,140	1,600	2,937

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

3. Tax

The tax credit of £271,000 recorded in the consolidated statement of comprehensive income for the six months ended 31 January 2011 (£234,000 for the six months ended 31 January 2010) is in respect of a research and development tax credit receivable. The tax credit of £288,000 for the year ended 31 July 2010 is in respect of a research and development tax credit receivable of £417,000 net of a deferred taxation charge of £129,000.

The deferred tax liability represents the excess of accelerated capital allowances over accumulated tax losses.

Notes to the Interim Financial Report (continued)

For the six months ended 31 January 2011

4. Loss per share

	31 January 2011 £'000	31 January 2010 £'000	31 July 2010 £'000
Loss for the financial period attributable to equity shareholders	(1,376)	(241)	(1,083)
Share-based payments	104	39	166
Loss for the financial period before share-based payments	(1,272)	(202)	(917)
Weighted average number of shares:	No.	No.	No.
Ordinary shares in issue	183,137,569	180,397,031	180,397,031
Issuable on vesting of share options	12,900,590	13,284,244	13,489,244
Diluted weighted average number of shares	196,038,159	193,681,275	193,886,275
Adjusted loss per share before share-based payments (pence)	(0.69)p	(0.13)p	(0.51)p
Basic loss per share (pence)	(0.75)p	(0.13)p	(0.60)p
Diluted loss per share (pence)	(0.70)p	(0.13)p	(0.56)p

The weighted average number of shares in issue excludes those held by the Employee Benefit Trust.

Diluted loss per share is calculated by adjusting the weighted average number of ordinary shares in issue during the period to assume conversion of the weighted average of all share options so as to derive the dilutive potential ordinary shares.

5. Share options

Certain share options exercised during the period had an exercise price less than nominal value. The aggregate discount to nominal value on these options of £210,000 has been charged to the Company's capital redemption reserve and, on consolidation, to the Group's reverse acquisition reserve, which is included within issued equity capital, as disclosed in the Statement of Financial Position. The discount arose as a result of the formula agreed, at the time of the acquisition of Nanoco Tech Limited by the Company on 1 May 2009, for converting share options in Nanoco Tech Limited into equivalent share options in the Company. The total aggregate discount to nominal value of all relevant options, including those not yet exercised, was £657,000. This treatment will be submitted for approval by the Company at the next AGM in December 2011.

6. Interim financial report

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

Investor Information

Directors

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