

Nanotecture Group plc
Report and Financial Statements
Year Ended 31 December 2005



5131621

Nanotecture Group plc

Annual report and financial statements for the year ended 31 December 2005

Directors

Dr C J Wright
Prof P N Bartlett
Mr M J Goodlad
Dr R M Mehalso
Mr R J Davies
Mr J Richards

Secretary and registered office

Mr T Hilton, Epsilon House, Chilworth, Southampton Hampshire, SO16 7NS.

Company number

05131621

Independent auditors

BDO Stoy Hayward LLP
Arcadia House, Maritime Walk, Ocean Village, Southampton, SO14 3TL.

Nanotecture Group plc

Report of the directors for the year ended 31 December 2005

DIRECTORS' REPORT

The directors present their report and the audited financial statements for Nanotecture Group plc (the 'Company') and its subsidiary (together the 'Group') for the year ended 31 December 2005. Comparative figures are for the 16 month period ended 31 December 2004.

Results and dividends

The Group's loss for the year after taxation amounted to £918,000 (16 month period ended 31 December 2004: loss of £937,000). The directors do not propose the payment of a dividend.

Principal activities, review of the business and future developments

The company is involved in nano-materials research and development.

During the year, the company continued research and development work and incurred expenditure on product development.

Corporate restructuring

The Company was incorporated on 18 May 2004 as Nanotecture Group Limited, registered in England and Wales with registered number 05131621. On 1 November 2004 the Company acquired the entire issued ordinary share capital of Nanotecture Limited in exchange for the issue of shares to shareholders on the basis of 5 shares for every 1 Nanotecture Limited share acquired. On 14 January 2005 the company re-registered as a public company under the name Nanotecture Group plc.

As part of the corporate restructuring referred to above, holders of options operated by Nanotecture Limited were offered the opportunity to roll over their options into equivalent options over shares in the Company on the basis of 5 for 1 (being equivalent to the terms upon which the restructuring was effected).

Directors and their interests

The directors had the following interests in the ordinary shares of the Company:

	31 December 2005 Number of shares	1 January 2005 Number of shares
Dr C J Wright	-	-
Prof. P N Bartlett	277,500	277,500
Mr S M Pollinger (resigned 22 July 2005)	-	-
Mr M J Goodlad	-	-
Dr R M Mehlaso (appointed 24 August 2005)	-	-
Mr J Richards (appointed 22 April 2005)	-	-
Mr R J Davies (appointed 27 May 2005)	-	-

During the year Mr R J Davies and Dr R M Mehlaso were granted options over 93,101 and 13,002 ordinary shares respectively. Full details of these can be found in note 14.

Payment of creditors

It is the policy of the Group and the Company that payments to suppliers are made in accordance with those terms and conditions agreed between the Group and its suppliers, provided that all trading terms and conditions have been complied with. At 31 December 2005 the Company had no trade creditors.

Nanotecture Group plc

Report of the directors for the year ended 31 December 2005

Statement of directors' responsibilities

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and of the Group and of the profit or loss for that period.

In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departure disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company and the Group will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and which enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Auditors

A resolution to appoint BDO Stoy Hayward LLP as auditors will be put to members at the AGM.

By order of the Board



Dr CJ Wright
Director

5 June 2006

Independent Auditors' Report to the shareholders of Nanotecture Group plc

We have audited the group and parent company financial statements (the "financial statements") of Nanotecture Group plc for the year ended 31 December 2005 which comprise the group profit and loss account, the group and company balance sheets, the group cash flow statement and the related notes. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the directors' report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Our report has been prepared pursuant to the requirements of the Companies Act 1985 and for no other purpose. No person is entitled to rely on this report unless such a person is a person entitled to rely upon this report by virtue of and for the purpose of the Companies Act 1985 or has been expressly authorised to do so by our prior written consent. Save as above, we do not accept responsibility for this report to any other person or for any other purpose and we hereby expressly disclaim any and all such liability.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group's and company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the group's and the parent company's affairs as at 31 December 2005 and of the group's loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

BDO STOY HAYWARD LLP
Chartered Accountants
and Registered Auditors
Southampton



5 June 2006

Nanotecture Group plc

Consolidated Profit and Loss Account for the year ended 31 December 2005

		Year ended 31 December 2005 £000	Proforma 16 months ended 31 December 2004 £000
	Notes		
Turnover	3	105	92
Administrative expenses		(1,345)	(1,158)
Other operating income		64	-
Operating loss	4	(1,176)	(1,066)
Bank interest receivable		120	27
Loss on ordinary activities before taxation		(1,056)	(1,039)
Tax on loss on ordinary activities	6	138	102
Loss on ordinary activities after taxation and retained loss for the year	15	(918)	(937)

During the prior period the Group carried out a corporate restructuring including the introduction of a new holding company. The prior period profit and loss account has been prepared using merger accounting and is presented on a proforma basis as if the new holding company had been in existence throughout both the current and prior periods. Further information is given in Note 1 on page 10.

A consolidated profit and loss account from the date of incorporation of the new holding company to 31 December 2004 is given in Note 19 on page 21.

There are no recognised gains and losses other than the loss above and therefore no separate statement of total recognised gains and losses has been presented.

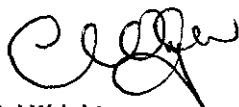
All amounts relate to continuing activities.

Nanotecture Group plc

Consolidated Balance Sheet as at 31 December 2005

		31 December 2005 £000	31 December 2004 £000
	Notes		
Fixed assets			
Intangible assets	8	98	34
Tangible assets	9	298	220
		<u>396</u>	<u>254</u>
Current assets			
Debtors	11	279	183
Cash at bank and in hand		3,054	848
		<u>3,333</u>	<u>1,031</u>
Creditors: amounts falling due within one year	12	157	277
Net current assets		<u>3,176</u>	<u>754</u>
Total assets less current liabilities		<u>3,572</u>	<u>1,008</u>
Capital and reserves			
Called up share capital	14	98	62
Share premium account	15	3,446	-
Merger reserve	15	1,963	1,963
Profit and loss account	15	(1,935)	(1,017)
Equity shareholders' funds	15	<u>3,572</u>	<u>1,008</u>

The financial statements were approved by the board of directors and authorised for issue on 5 June 2006.



Dr C J Wright

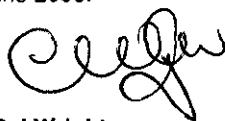
Director

Nanotecture Group plc

Balance sheet as at 31 December 2005

		31 December 2005 £000	31 December 2004 £000
	Notes		
Fixed assets			
Investments	10	62	62
Current assets			
Debtors	11	3,483	-
		3,483	-
Creditors: amounts falling due within one year	12	-	-
Net current assets		3,483	-
Total assets less current liabilities		3,545	62
Capital and reserves			
Called up share capital	14	98	62
Share premium account	15	3,446	-
Profit and loss account	15	1	-
Equity shareholders' funds	15	3,545	62

The financial statements were approved by the board of directors and authorised for issue on 5 June 2006.



Dr C J Wright

Director

Nanotecture Group plc

Consolidated Cash Flow Statement for the year ended 31 December 2005

		Year ended 31 December 2005 £000	Proforma 16 months ended 31 December 2004 £000
	Notes		
Net cash outflow from operating activities	17(i)	(1,281)	(890)
Returns on investments and servicing of finance			
Interest received		120	27
Taxation			
Corporation tax received		102	
Capital expenditure and financial investment			
Purchase of intangible fixed assets		(62)	(35)
Purchase of tangible fixed assets		(155)	(267)
Net cash outflow from capital expenditure		(217)	(151)
Net cash outflow before financing		(1,276)	(302)
Financing			
Issues of ordinary share capital		36	2,061
Share premium received on share issues		3,567	-
Share issue costs		(121)	(90)
Cash inflow from financing		3,482	1,971
Increase in cash	17(iii)	2,206	806

Nanotecture Group plc

Notes forming part of the financial statements for the year ended 31 December 2005

1. Corporate restructuring

Nanotecture Group Limited was incorporated on 18 May 2004 and 1 ordinary share of 1p each was issued. On 1 November 2004 Nanotecture Group Limited acquired the entire issued share capital of Nanotecture Limited in exchange for the issue of 5 ordinary shares in the company for every Nanotecture Limited share acquired. On 14 January 2005 the company re-registered as a public company under the name Nanotecture Group plc.

The directors have accounted for this group reconstruction using the merger accounting principles as set out in Financial Reporting Standard 6. Accordingly proforma financial information has been prepared to show the position as if Nanotecture Group plc had been in existence and the parent of Nanotecture Limited throughout the current and prior periods. The proforma information has been compiled by taking the results of Nanotecture Limited before the restructuring and adjusting for the capital structure of the new group.

2. Accounting policies

Accounting convention and basis of consolidation

The consolidated financial statements have been prepared under the historical cost convention, in accordance with the Companies Act 1985 and applicable UK accounting standards. The consolidated financial statements incorporate the financial statements of the Company and its subsidiary undertaking for the year ended 31 December 2005. Comparative figures are for the 16 months ended 31 December 2004 on the basis set out in Note 1. A summary of the more important accounting policies which have been applied consistently throughout the year is set out below.

Turnover

Turnover, which is stated net of value added tax, represents amounts invoiced to third parties, except in respect of research contracts where turnover represents the sales value of work done in the year.

Intangible fixed assets

Intangible assets are stated at cost less amortisation. Amortisation is provided to write off the cost, less estimated residual values of all intangible fixed assets, evenly over their expected useful lives. It is calculated at the following rates:

Patents	- 15 years straight line
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Tangible fixed assets

Tangible fixed assets are stated at cost less depreciation. Depreciation is provided to write off the cost, less estimated residual values, of all tangible fixed assets, evenly over their expected useful economic lives. It is calculated at the following rates:

Plant and Machinery	3 years
Fixtures and fittings	5 years
Office Equipment	3 years

The carrying values of tangible fixed assets are reviewed for impairment if events or changes in circumstances indicate that the carrying value may not be recoverable.

Deferred taxation

Deferred tax balances are recognised in respect of all timing differences that have originated but not reversed by the balance sheet date except that the recognition of deferred tax assets is limited to the extent that the company anticipates making sufficient taxable profits in the future to absorb the reversal of the underlying timing differences. Deferred tax balances are not discounted.

Nanotecture Group plc

Notes forming part of the financial statements for the year ended 31 December 2005

2. Accounting policies (continued)

Foreign currencies

Foreign currency transactions are translated into sterling at the rates ruling when they occurred. Foreign currency monetary assets and liabilities are translated at the rates ruling at the balance sheet dates. Any differences are taken to the profit and loss account.

Pensions

Contributions to the company's defined contribution pension scheme are charged to the profit and loss account in the year in which they become payable.

Share-based employee remuneration

When shares and share options are granted to employees a charge is made to the company profit and loss account based on the difference, if any, between the market value of the company's shares at the date of the grant and the option price in accordance with UITF Abstract 17 "Employee Share Schemes".

Research and development

Expenditure on pure and applied research is charged to the profit and loss account in the year in which it is incurred.

Leased assets

Where assets are financed by leasing agreements that give rights approximating to ownership (finance leases), the assets are treated as if they had been purchased outright. The amount capitalised is the present value of the minimum lease payments payable during the lease term. The corresponding leasing commitments are shown as amounts payable to the lessor. Depreciation on the relevant assets is charged to the profit and loss account.

Lease payments are analysed between capital and interest components. The interest element of the payment is charged to the profit and loss account over the period of the lease and is calculated so that it represents a constant proportion of the balance of capital repayments outstanding. The capital part reduces the amounts payable to the lessor.

All other leases are treated as operating leases. Their annual rentals are charged to the profit and loss account on a straight-line basis over the term of the lease.

Government Grants

Grants of a revenue nature are credited to the profit and loss account so as to match them with the expenditure to which they relate.

Nanotecture Group plc

Notes forming part of the financial statements for the year ended 31 December 2005

3. Segmental analysis

All turnover and loss before tax is generated within the United Kingdom from continuing activities and is stated net of value added tax.

The Group operates in one area of activity, namely nano-materials research and development. Turnover by destination to third parties is analysed as follows:

Geographical area	2005 £'000	2004 £'000
United Kingdom	2	-
Europe	-	45
Japan	93	47
North America	10	-
	105	92

4. Operating loss

This is arrived at after charging / (crediting):

	2005 £'000	2004 £'000
Research and development	609	857
Depreciation of tangible fixed assets	94	53
Amortisation	4	3
Operating leases – Land & Buildings	39	39
Government grants	(64)	-
Audit services	4	4
Non-audit services	8	64

5. Staff costs

Staff costs (including directors) consist of:

	2005 £'000	2004 £'000
Wages and salaries	530	334
Social security costs	59	39
Other pension costs	47	25
	636	398

The Directors' remuneration comprised:

	2005 £'000	2004 £'000
Directors' emoluments	177	164
Company contributions to money purchase pension schemes	17	15
Compensation for loss office	30	26
Amounts paid to third parties in respect of directors' services	28	15

Two directors received contributions towards a defined benefit contribution scheme during the period (2004: 3).

Nanotecture Group plc

Notes forming part of the financial statements for the year ended 31 December 2005

6. Tax on loss on ordinary activities

There is no taxation charge for the year (2004: £nil).

The tax assessed on the loss on ordinary activities for the year is different to the standard rate of corporation tax in the UK of 30%. The differences are reconciled below:

	2005 £'000	2004 £'000
UK corporation tax on loss for the year	(139)	(102)
Adjustment in respect of prior periods	1	-
Tax on loss on ordinary activities	(138)	(102)
	2005 £'000	2004 £'000
Loss on ordinary activities before tax	(1,056)	(1,039)
Loss on ordinary activities before tax multiplied by the standard rate of corporation tax in the UK	(317)	(312)
Effects of:		
Expenses not deductible for tax purposes	23	15
Capital allowances for period in excess of depreciation	(22)	(62)
Other timing differences	3	-
Losses surrendered for research and development tax credits	263	191
Research and development enhanced relief claimed	(88)	(65)
Research and development tax credits claimed	(139)	(102)
Losses Carried forward	138	233
Current tax charge for period	(139)	(102)

7. Profit attributable to members of the parent company

As permitted by Section 230 of the Companies Act 1985, the Company's profit and loss account has not been included in these financial statements. The profit dealt with in the financial statements of the parent company was £1,000.

Nanotecture Group plc

Notes forming part of the financial statements for the year ended 31 December 2005

8. Intangible fixed assets			
Group			Patents
			£'000
Cost			
At 1 January 2005			37
Additions			68
At 31 December 2005			<u>105</u>
Amortisation			
At 1 January 2005			3
Provided for the year			4
At 31 December 2005			<u>7</u>
Net book amount at 31 December 2005			<u>98</u>
Net book amount at 1 January 2005			<u>34</u>
9. Tangible fixed assets			
Group	Plant and Machinery	Fixtures and Fittings	Total
	£'000	£'000	£'000
Cost			
At 1 January 2005	174	99	273
Additions	171	2	173
Disposals	(1)	-	(1)
At 31 December 2005	<u>344</u>	<u>101</u>	<u>445</u>
Depreciation			
At 1 January 2005	28	25	53
Provided for the year	77	17	94
At 31 December 2005	<u>105</u>	<u>42</u>	<u>147</u>
Net book value at 31 December 2005	<u>239</u>	<u>59</u>	<u>298</u>
Net book value at 1 January 2005	<u>146</u>	<u>74</u>	<u>220</u>

The directors have reassessed the useful economic life assigned to fixtures and fittings and have decided that a 5 year life is more appropriate. The effect on the current year depreciation charge of this change in useful economic life is to reduce the current year charge by £29,000.

Nanotecture Group plc

Notes forming part of the financial statements for the year ended 31 December 2005

10. Investments

Company	Investment in subsidiary undertaking £'000
At 1 January 2005 and 31 December 2005	62

On 1 November 2004 Nanotecture Group plc acquired the entire issued share capital of Nanotecture Limited as outlined in Note 1.

Subsidiary undertakings included in the consolidated group accounts:

Name of company	Country of incorporation	Proportion of voting rights and ordinary share capital held	Nature of business
Nanotecture Limited	England	100%	Nano-materials research and development

11. Debtors

	2005 £'000	Group 2004 £'000	2005 £'000	Company 2004 £'000
Trade debtors	45	10	-	-
Amounts due from group undertakings	-	-	3,462	-
Corporation Tax recoverable	139	102	-	-
Other debtors	73	14	21	-
Prepayments and accrued income	22	57	-	-
	279	183	3,483	-

All amounts fall due for payment within one year.

12. Creditors: amounts falling due within one year

	2005 £'000	Group 2004 £'000	2005 £'000	Company 2004 £'000
Trade creditors	45	151	-	-
Other tax and social security	19	26	-	-
Other creditors	5	-	-	-
Accruals and deferred income	88	100	-	-
	157	277	-	-

Nanotecture Group plc

Notes forming part of the financial statements for the year ended 31 December 2005

13. Deferred taxation

Group

Unrecognised deferred taxation

The Group has an unrecognised deferred tax asset of £307,000 at 31 December 2005 (2004: £188,000), representing trading losses carried forward which are available for offset against future profits of the Group. The full utilisation of these losses in the foreseeable future is uncertain and no deferred tax asset has therefore been recognised.

The movement on the unrecognised deferred tax asset comprises the following:

	2005 £'000
Unrecognised deferred tax asset at 1 January 2005	188
Movement in current year	119
Unrecognised deferred tax asset at 31 December 2005	307

14. Share Capital Authorised

	2005 £000	2004 £000
Equity		
Ordinary shares of 1p each	271	271

Issued, called up, allotted and fully paid

	2005 Number	2004 Number	2005 £000	2004 £000
Equity				
Ordinary shares of 1p each	9,769,419	6,206,715	98	62

Share issues

During April and May 2005 the company issued 3,562,704 ordinary shares of 1p each for a cash consideration of £3,602,470.

Share Options

During the year as a result of the share for share exchange under which Nanotecture Group plc acquired the entire share capital of the Company, on the basis of issuing 5 ordinary shares of £0.01 each in Nanotecture Group plc for each share of £0.01 in the Company, the following options which were originally issued in Nanotecture Limited over 62,467 shares were cancelled and options to subscribe for 312,335 ordinary shares of £0.01 each in Nanotecture Group plc were issued in lieu.

Of these options 95,365 were granted in February 2004 and vested immediately. These are exercisable at any time prior to 23 February 2009, in full or in part, at an exercise price of £0.81.

Nanotecture Group plc

Notes forming part of the financial statements for the year ended 31 December 2005

14. Share Capital (continued)

Of the remaining options, 42,500 were granted on 23 September 2003 with an exercise price of £0.30 and 72,790 were granted on 20 May 2004 with an exercise price of £0.81. Both sets of options vest in three tranches. One third vested after 12 months from the date of grant, one third after 24 months from the date of grant and the final third after 36 months from the date of grant.

The remaining 101,680 options were granted on 20 May 2004 with an exercise price of £0.81. These options vest in three tranches. One third vest on the next financing of the Company in excess of £750,000, one third 12 months after that date and the final third 24 months after that date.

The company granted new share options over 294,470 ordinary shares of £0.01 each in November 2004 with an exercise price of £0.81. Of these options 18,620 vest one third in March 2006, one third in March 2007 and the final third in March 2008. The remaining 275,850 options vest one third on the next financing of the Company in excess of £750,000, one third 12 months after that date and the final third 24 months after that date.

The Company also granted share options over 106,103 ordinary shares of £0.01 each in November 2005 with an exercise price of £1.01. Of these options 93,101 vest one third on 1 May 2006, one third on 1 May 2007 and one third on 1 May 2008. The remaining options vest one third on 24 August 2006, one third on 24 August 2007 and one third on 24 August 2008.

With the exception of the 42,500 options granted in September 2003 and the 95,365 options granted in February 2004, the share options can only be exercised upon the flotation, sale or change of ownership of the company and will lapse if not exercised within 10 years from the date of grant.

Nanotecture Group plc

Notes forming part of the financial statements for the year ended 31 December 2005

15. Reconciliation of movements in reserves and shareholders' funds

Group	Share capital £000	Share premium account £000	Merger reserve £000	Profit and loss account £000	Shareholders' funds £000
At 1 September 2003	62	-	1,963	(80)	1,945
Loss for the period	-	-	-	(937)	(937)
At 1 January 2005	62	-	1,963	(1,017)	1,008
Issue of ordinary shares	36	3,567	-	-	3,603
Share issue costs	-	(121)	-	-	(121)
Loss for the year	-	-	-	(918)	(918)
At 31 December 2005	98	3,446	1,963	(1,935)	3,572

The issue of 140,000 1p ordinary shares by Nanotecture Limited prior to its acquisition by Nanotecture Group plc has been restated to reflect the 100 for 1 share for share exchange which was effected in October 2004. In accordance with the principles of merger accounting the difference between the nominal value of the shares issued in the share exchange and sum of the amounts standing to the issued share capital and share premium accounts has been taken to a merger reserve.

Company	Share capital £000	Share premium account £000	Profit and loss account £000	Shareholders' funds £000
At incorporation	-	-	-	-
Issue of ordinary shares	62	-	-	62
Profit for the period	-	-	-	-
At 1 January 2005	62	-	-	62
Issue of ordinary shares	36	3,567	-	3,603
Share issue costs	-	(121)	-	(121)
Loss for the year	-	-	1	1
At 31 December 2005	98	3,446	1	3,545

16. Commitments under operating leases

The company had annual commitments under non-cancellable operating leases as set out below:

Group	31 December 2005 Land and buildings £000	31 December 2004 Land and buildings £000
Operating leases which expire:		
In less than one year	39	-
In two to five years	-	39

Nanotecture Group plc

Notes forming part of the financial statements for the year ended 31 December 2005

17. Notes to the Cash Flow Statement

(i) Reconciliation of operating loss to net cash outflow from operating activities:

	Year ended 31 December 2005 £000	16 months ended 31 December 2004 £000
Group		
Operating loss	(1,205)	(1,066)
Depreciation & amortisation	128	56
Increase in debtors	(60)	(52)
Increase in creditors	(144)	172
Net cash outflow from operating activities	(1,281)	(890)

(ii) Reconciliation of net cash flow to movement in net funds

	Year ended 31 December 2005 £000	16 months ended 31 December 2004 £000
Group		
Increase in cash in year	2,206	806
Change in net funds resulting from cash flows and movement in net funds	2,206	806
Net funds at start of year	848	42
Net funds at end of year	3,054	848

(iii) Analysis of net funds

	At 31 August 2004 £000	Cash flow £000	At 31 December 2005 £000
Group			
Cash at bank and in hand	848	2,206	3,054

Nanotecture Group plc

Notes forming part of the financial statements for the year ended 31 December 2005

18. Related party transactions and balances

During the period ended 31 December 2005, the Company incurred fees and expenses of £142 (2004:£44,000) to IP2IPO Limited for the provision of Dr C J Wright's time spent acting for the company in his capacity as Chairman whilst an employee of IP2IPO Limited. IP2IPO Limited has an interest in the Company. At the balance sheet date the amount unpaid in respect of these charges was £Nil (2004:£11,000).

During the period ended 31 December 2005, the Company incurred fees and expenses of £14,000 (2004:£4,000) to Top Technology Ventures Limited for the provision of Mr M Goodlad's time spent acting for the company in his capacity as a director. Funds managed by Top Technology Ventures Limited have an interest in Nanotecture Group plc and Mr M Goodlad is an investment manager with Top Technology Ventures Limited and has an interest as a partner in one or more of the funds managed by Top Technology Ventures Limited. During the period Top Technology Ventures Limited was acquired by IP2IPO Limited, a shareholder in Nanotecture Group plc. At the balance sheet date the amount unpaid in respect of these charges was £5,080 (2004:£3,000).

During the period ended 31 December 2005, the Company incurred fees of £41,165 (2004:£148,000) with the University of Southampton in connection with research and development activities. The University of Southampton is the controlling shareholder of Southampton Asset Management Limited, which has an interest in the Company. At the balance sheet date the amount unpaid in respect of these charges was £10,035 (2004:£64,000).

During the period ended 31 December 2005, the Company incurred fees and expenses of £13,730 (2004:£Nil) to Foresight Venture Partners for the provision of Mr J Richard's time spent acting for the company in his capacity as a director. Foresight Venture Partners manage / advise a number of venture capital trusts who have an interest in the Company and Mr J Richard is a partner of Foresight Venture Partners. At the balance sheet date there were no amounts unpaid in respect of these charges (2004:£Nil).

During the period ended 31 December 2005, the Company incurred consultancy fees in respect of Professor P N Bartlett, a director of the Company, of £15,000 (2004:£20,000). At the balance sheet date the amount unpaid in respect of these charges was £6,250 (2004:£6,000).

Nanotecture Group plc

Notes forming part of the financial statements for the year ended 31 December 2005

19. Nanotecture Group plc (formerly Nanotecture Group Limited) – Consolidated profit and loss account from the date of incorporation on 18 May 2004 to 31 December 2004

	£'000
Turnover	14
Administrative expenses	<u>(266)</u>
Operating loss	(252)
Bank interest receivable	<u>3</u>
Loss on ordinary activities before taxation	(249)
Tax on loss on ordinary activities	<u>17</u>
Loss on ordinary activities after taxation and retained loss for the period	<u>(232)</u>

The profit and loss account above is required by the Companies Act 1985 and covers the first statutory accounting reference period of Nanotecture Group plc (formerly Nanotecture Group Limited) from its date of incorporation on 18 May 2004 to 31 December 2004.

Disclosure notes for this period, with the exception of directors' remuneration as disclosed below, are not presented as the directors do not believe they would provide meaningful information to the users of the accounts.

Directors' remuneration for this period was as follows:

	2005 £'000
Directors' emoluments	31
Company contributions to money purchase pension schemes	<u>3</u>
	<u>34</u>