

Nanotecture Group plc

Report and Financial Statements

Period Ended

31 May 2012

Company Number 05131621



Nanotecture Group plc

**Report and financial statements
for the period ended 31 May 2012**

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Directors

Mr M J Stevens (Chairman)
Prof P N Bartlett
Mr L T Clay
Mr R G Healey

Secretary and registered office

Mr T Hilton, c/o Avonglen Limited, 2 Venture Road, University of Southampton Science Park, Southampton, Hampshire, SO16 7NP

Company number

05131621

Auditors

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

Nanotecture Group plc

Report of the directors for the period ended 31 May 2012

The directors present their report together with the audited financial statements for the period ended 31 May 2012

Results and dividends

The profit and loss account is set out on page 7 and shows the loss for the period

Principal activities, review of business and future developments

The Group is a developer of power sources and materials for automotive, renewable and portable communications

During the period, the Group continued research and development work and incurred expenditure on product development

The activities of the business are focussed on two core areas –

a) Supercapacitors – the main applications of this technology are in the automotive, renewables and portable electronics industry. The Group has developed market contacts particularly in the automotive and renewable sectors and is developing the technology and evaluation products for these applications. In addition, the Group has continued to research processes for miniaturised supercapacitors which are required for high power demands in the electronics and mobile communications industries

b) Materials – the Group has developed materials to support its supercapacitor activities and new materials for battery products developed by third parties which increase power and energy densities over current materials

The Group is now seeking to collaborate with companies interested in the technology and materials already developed and ensuring its core patent portfolio remains updated

The directors have prepared forecasts covering a period of more than twelve months from the date of the approval of these financial statements. Based on the Group's cash position and its objectives for 2012/13, the directors consider that the Group has adequate resources to continue in operational existence for the foreseeable future. Therefore, the directors continue to adopt the going concern basis in preparing the accounts

Nanotecture Group plc

Report of the directors for the period ended 31 May 2012 (*continued*)

Key performance indicators

The Group prepares an annual budget and this is then monitored by the board of directors on a regular basis

The key performance indicators of the company through the period were as follows

Cash flow

As the Group is now seeking to collaborate with other companies, the monitoring of cash flow to budget is important. Cash at bank at 31 May 2012 was £92,000. Cash flow compared to budget is reviewed on a regular basis by the board.

Level of commercial activity

At an operational level, the Group calculates the market opportunity for each commercial activity and decides whether to proceed or not. At a board level, these activities are reviewed on a regular basis from a strategic point of view and to ensure that each opportunity is appropriately resourced.

Patents

The Group generates shareholder value by innovation and protecting that innovation by filing patents both in the UK and overseas. The Group ensures that a core portfolio of patents was maintained throughout the period.

Financial Instruments and Risk Management

The board has identified the following major risks

Risk

The technology developed by the Group is yet to be adopted commercially

Mitigation

The Group actively communicates with potential customers to tailor the technology to their needs

Risk

The Group needs to have enough cash to meet its current and future obligations

Mitigation

The board monitors the cash flow of the Group to budget on a monthly basis

Risk

The Group maximises the return on investment from its liquid resources

Mitigation

The Group uses a high interest bearing account to deposit most of the liquid funds available

Policy and practice on the payment of creditors

It is the policy of the Group 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.

The number of average days purchases of the Group represented by trade creditors at 31 May 2012 was 9 (2010 - 30)

Nanotecture Group plc

Report of the directors for the period ended 31 May 2012 (continued)

Directors

The directors of the company during the period were

Mr M J Stevens (Chairman)
Prof P N Bartlett
Mr L T Clay
Mr R G Healey
Dr A Raven (resigned 14 April 2011)

Directors' responsibilities

The directors are responsible for preparing the directors' report and the financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the group and company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and company and of the profit or loss of the group 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 accounting estimates that are reasonable and prudent,
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements,
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

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

Nanotecture Group plc

Report of the directors for the period ended 31 May 2012 *(continued)*

Auditors

All of the current directors have taken all the steps that they ought to have taken to make themselves aware of any information needed by the company's auditors for the purposes of their audit and to establish that the auditors are aware of that information. The directors are not aware of any relevant audit information of which the auditors are unaware.

BDO LLP have expressed their willingness to continue in office and a resolution to re-appoint them will be proposed at the annual general meeting.

By order of the board

Mr T Hilton



Secretary

20 NOVEMBER 2012

Nanotecture Group plc

Independent auditor's report

To the members of Nanotecture Group plc

We have audited the financial statements of Nanotecture Group plc for the 17 month period ended 31 May 2012 which comprise the consolidated profit and loss account, the consolidated and company balance sheets, the consolidated cash flow statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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

Respective responsibilities of directors and auditors

As explained more fully in the statement of directors' responsibilities, 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 (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's website at www.frc.org.uk/apb/scope/private.cfm.

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the group's and the parent company's affairs as at 31 May 2012 and of the group's loss for the period then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the directors' report for the financial period for which the financial statements are prepared is consistent with the financial statements.

Nanotecture Group plc

Independent auditor's report (*continued*)

Matters on which we are required to report by exception

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

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us, or
- the parent company financial statements 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, or
- the directors were not entitled to prepare the financial statements and the directors' report in accordance with the small companies' regime



Mr Kim Hayward (senior statutory auditor)
For and on behalf of BDO LLP, statutory auditor
Southampton
United Kingdom

26 November, 2012

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127)

Nanotecture Group plc

Consolidated profit and loss account for the period ended 31 May 2012

	Note	17 months ended 31 May 2012 £'000	Year ended 31 December 2010 £'000
Turnover	2	17	30
Cost of sales		15	26
		<u> </u>	<u> </u>
Gross profit		2	4
Administrative expenses		1,978	1,674
		<u> </u>	<u> </u>
Group operating loss	3	(1,976)	(1,670)
Other interest receivable and similar income		1	1
Interest payable and similar charges	6	(757)	(412)
		<u> </u>	<u> </u>
Loss on ordinary activities before taxation		(2,732)	(2,081)
Taxation on loss on ordinary activities	7	127	153
		<u> </u>	<u> </u>
Loss on ordinary activities after taxation		<u>(2,605)</u>	<u>(1,928)</u>

All amounts relate to continuing activities

All recognised gains and losses in the current period and prior year are included in the profit and loss account

The notes on pages 11 to 25 form part of these financial statements

Nanotecture Group plc

Consolidated balance sheet at 31 May 2012

Company number 05131621	Note	31 May 2012 £'000	31 May 2012 £'000	31 December 2010 £'000	31 December 2010 £'000
Fixed assets					
Intangible assets	9		83		527
Tangible assets	10		-		64
			<u>83</u>		<u>591</u>
Current assets					
Debtors	12	158		276	
Cash at bank and in hand		92		517	
		<u>250</u>		<u>793</u>	
Creditors' amounts falling due within one year	13	3,088		787	
		<u></u>		<u></u>	
Net current (liabilities)/assets			<u>(2,838)</u>		<u>6</u>
Total assets less current liabilities			<u>(2,755)</u>		<u>597</u>
Creditors' amounts falling due after more than one year	14		3,915		4,662
			<u>(6,670)</u>		<u>(4,065)</u>
Capital and reserves					
Called up share capital	16		98		98
Share premium account	18		3,444		3,444
Other reserves	18		2,570		2,570
Profit and loss account	18		(12,782)		(10,177)
Shareholders' deficit	19		<u>(6,670)</u>		<u>(4,065)</u>

The financial statements were approved by the board of directors and authorised for issue on 20 November 2012

Mr M J Stevens
Director



The notes on pages 11 to 25 form part of these financial statements

Nanotecture Group plc

Company balance sheet at 31 May 2012

<i>Company number 05131621</i>	Note	31 May 2012 £'000	31 May 2012 £'000	31 December 2010 £'000	31 December 2010 £'000
Fixed assets					
Fixed asset investments	11		270		270
Current assets					
Debtors	12	303		1,238	
Creditors' amounts falling due within one year	13	3,058		641	
Net current (liabilities)/assets			(2,755)		597
Total assets less current liabilities			(2,485)		867
Creditors' amounts falling due after more than one year	14		3,915		4,662
			(6,400)		(3,795)
Capital and reserves					
Called up share capital	16		98		98
Share premium account	18		3,444		3,444
Other reserves	18		607		607
Profit and loss account	18		(10,549)		(7,944)
Shareholders' deficit	19		(6,400)		(3,795)

The financial statements were approved by the board of directors and authorised for issue on 20 NOVEMBER 2012

Mr M J Stevens
Director



The notes on pages 11 to 25 form part of these financial statements

Nanotecture Group plc

Consolidated cashflow statement for the period ended 31 May 2012

	Note	17 months ended 31 May 2012 £'000	17 months ended 31 May 2012 £'000	Year ended 31 December 2010 £'000	Year ended 31 December 2010 £'000
Net cash outflow from operating activities	21		(1,377)		(1,585)
Returns on investments and servicing of finance					
Interest received			1		1
Taxation					
Corporation tax paid			153		159
Capital expenditure and financial investment					
Payments to acquire intangible fixed assets		(187)		(135)	
Payments to acquire tangible fixed assets		(10)		(32)	
Receipts from sale of tangible fixed assets		80		-	
Net cash outflow from capital expenditure and financial investment			(117)		(167)
Cash outflow before use of financing			(1,340)		(1,592)
Financing					
New loans			915		1,000
Decrease in cash	22		(425)		(592)

The notes on pages 11 to 25 form part of these financial statements

Nanotecture Group plc

Notes forming part of the financial statements for the period ended 31 May 2012

1 Accounting policies

The financial statements have been prepared under the historical cost convention

The following principal accounting policies have been applied

Going concern

The directors have prepared forecasts covering a period of more than twelve months from the date of the approval of these financial statements. Based on the Group's cash position and its objectives for 2012/13, the directors consider that the Group has adequate resources to continue in operational existence for the foreseeable future. Therefore, the directors continue to adopt the going concern basis in preparing the accounts

Basis of consolidation

The consolidated financial statements incorporate the results of Nanotecture Group plc and all of its subsidiary undertakings as at 31 May 2012 using the acquisition or merger method of accounting as required. Where the acquisition method is used, the results of subsidiary undertakings are included from the date of acquisition

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 or useful life, if shorter
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Amortisation rates are reviewed on a regular basis to ensure the rates in use accurately and prudently reflect the useful economic life of assets. During the period, the group revised the rate of amortisation for Patents from straight line over 15 years to straight line over 15 years or the expected useful economic life of the asset, if shorter

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 lives. It is calculated at the following rates

Plant and machinery	- 3 years
Fixtures and fittings	- 3 - 5 years

Nanotecture Group plc

Notes forming part of the financial statements for the period ended 31 May 2012 (*continued*)

1 Accounting policies (*continued*)

Taxation

The charge for taxation is based on the loss for the year and takes into account taxation deferred. Current tax is measured at amounts expected to be paid using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

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 group anticipates making sufficient taxable profits in the future to absorb the reversal of the underlying timing differences.

Deferred tax balances are not discounted.

Foreign currency

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.

Pension costs

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

Share based employee remuneration

Where share options are awarded to employees, the fair value of the options at the date of grant is charged to the profit and loss account over the vesting period. Non-market vesting conditions are taken into account by adjusting the number of equity instruments expected to vest at each balance sheet date so that, ultimately, the cumulative amount recognised over the vesting period is based on the number of options that eventually vest. Market vesting conditions are factored into the fair value of the options granted. As long as all other vesting conditions are satisfied, a charge is made irrespective of whether the market vesting conditions are satisfied. The cumulative expense is not adjusted for failure to achieve a market vesting condition.

Where the terms and conditions of options are modified before they vest, the increase in fair value of the options, measured immediately before and after the modification, is also charged to the profit and loss account over the remaining vesting period.

The Group adopted UITF 44 in 2007. When a parent entity grants options over equity instruments directly to employees of a subsidiary undertaking, then in the parent company financial statements the effect of the share-based payment, as calculated in accordance with FRS 20, is capitalised as part of the investment in the subsidiary as a capital contribution, with a corresponding increase in equity.

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

All 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.

Nanotecture Group plc

Notes forming part of the financial statements for the period ended 31 May 2012 (continued)

1 Accounting policies (continued)

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

Financial instruments

The financial instruments are presented in accordance with their substance. The loan stock is presented partly as a liability when in substance that loan stock contains liability and equity elements

Financial liabilities and equity

Financial liabilities and equity are classified according to the substance of the financial instrument's contractual obligations, rather than the financial instrument's legal form

2 Turnover

	17 months ended 31 May 2012 £'000	Year ended 31 December 2010 £'000
Analysis by geographical market		
Rest of the world	17	30
	<u>17</u>	<u>30</u>

Turnover is wholly attributable to the principal activity of the group

3 Operating loss

	17 months ended 31 May 2012 £'000	Year ended 31 December 2010 £'000
This is arrived at after charging		
Research and development - current period's expenditure	510	623
Depreciation of tangible fixed assets	48	73
Amortisation of other intangible fixed assets	95	37
Operating leases - land & buildings	93	83
Operating leases - other	3	2
Audit services	6	7
Non-audit services	2	2
Loss on disposal of intangible fixed assets	536	-
	<u>536</u>	<u>-</u>

Nanotecture Group plc

Notes forming part of the financial statements
for the period ended 31 May 2012 (*continued*)

4 Employees

Staff costs (including directors) consist of

	Group 17 months ended 31 May 2012 £'000	Group Year ended 31 December 2010 £'000
Wages and salaries	379	503
Social security costs	36	53
Other pension costs	38	71
	<u>453</u>	<u>627</u>

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

	Group 17 months ended 31 May 2012 Number	Group Year ended 31 December 2010 Number
Research and Development	6	12
Office and Management	1	3
	<u>7</u>	<u>15</u>

5 Directors' remuneration

	17 months ended 31 May 2012 £'000	Year ended 31 December 2010 £'000
Directors' emoluments	30	30
Company contributions to defined contribution pension schemes	5	28
Amounts paid to third parties in respect of directors' services	179	177
	<u>214</u>	<u>235</u>

There were nil directors in the group's defined contribution pension scheme during the period (2010 - nil)

Nanotecture Group plc

Notes forming part of the financial statements
for the period ended 31 May 2012 (*continued*)

6 Interest payable and similar charges

	17 months ended 31 May 2012 £'000	Year ended 31 December 2010 £'000
Interest charge on convertible redeemable loan stock	757	412
	<u>757</u>	<u>412</u>

Nanotecture Group plc

Notes forming part of the financial statements for the period ended 31 May 2012 (continued)

7 Taxation on loss on ordinary activities

	17 months ended 31 May 2012 £'000	Year ended 31 December 2010 £'000
<i>UK Corporation tax</i>		
Current tax on profits of the period/year	(127)	(153)

The tax assessed for the period/year is higher than (2010 lower than) the standard rate of corporation tax in the UK applied to loss before tax. The differences are explained below

	17 months ended 31 May 2012 £'000	Year ended 31 December 2010 £'000
Loss on ordinary activities before tax	(2,732)	(2,081)
Loss on ordinary activities at the standard rate of corporation tax in the UK of 26% (2010 - 28%)	(710)	(583)
Effect of		
Fixed asset timing differences	15	12
Other timing differences	(2)	2
Research and Development enhanced relief claimed	(121)	(131)
Losses carried forward	484	326
Losses surrendered for Research and Development tax credits	254	305
Research and Development tax credits claimed	(127)	(153)
Effect of variable tax rates on deferred tax	79	69
Expenses not deductible for tax purposes	1	-
Current tax credit for the period/year	(127)	(153)

The Group has an unrecognised deferred tax asset of £2,206,000 at 31 May 2012 (2010 £1,855,000), available for offset against future profits of the Group. This asset is represented by trading losses of £2,167,000 and other timing differences of £39,000. The full utilisation of these losses in the foreseeable future is uncertain and no deferred tax has therefore been recognised.

8 Profit for the financial year

The company has taken advantage of the exemption allowed under section 408 of the Companies Act 2006 and has not presented its own profit and loss account in these financial statements. The group loss for the period includes a loss after tax of £2,605,000 (2010 - £1,928,000) which is dealt with in the financial statements of the parent company.

Nanotecture Group plc

Notes forming part of the financial statements
for the period ended 31 May 2012 (*continued*)

9 Intangible fixed assets

Group

	Patents £'000
<i>Cost or valuation</i>	
At 1 January 2011	644
Additions	187
Disposals	(703)
	<hr/>
At 31 May 2012	128
	<hr/>
<i>Amortisation</i>	
At 1 January 2011	117
Provided for the period	95
Disposals	(167)
	<hr/>
At 31 May 2012	45
	<hr/>
<i>Net book value</i>	
At 31 May 2012	83
	<hr/>
At 31 December 2010	527
	<hr/>

During the period, the group revised the rate of amortisation for Patents from straight line over 15 years to straight line over 15 years or the expected useful economic life of the asset, if shorter. The effect of this revision is an increase in the amortisation charge for the period of £28,000.

Nanotecture Group plc

Notes forming part of the financial statements
for the period ended 31 May 2012 (*continued*)

10 Tangible fixed assets

Group

	Plant and machinery £'000	Fixtures and fittings £'000	Total £'000
<i>Cost or valuation</i>			
At 1 January 2011	667	147	814
Additions	10	-	10
Disposals	(592)	(147)	(739)
	<hr/>	<hr/>	<hr/>
At 31 May 2012	85	-	85
	<hr/>	<hr/>	<hr/>
<i>Depreciation</i>			
At 1 January 2011	611	139	750
Provided for the period	44	4	48
Disposals	(570)	(143)	(713)
	<hr/>	<hr/>	<hr/>
At 31 May 2012	85	-	85
	<hr/>	<hr/>	<hr/>
<i>Net book value</i>			
At 31 May 2012	-	-	-
	<hr/>	<hr/>	<hr/>
At 31 December 2010	56	8	64
	<hr/>	<hr/>	<hr/>

Nanotecture Group plc

Notes forming part of the financial statements
for the period ended 31 May 2012 (*continued*)

11 Fixed asset investments

Company

	Group undertakings £'000
<i>Cost or valuation</i>	
At 1 January 2011 and 31 May 2012	270

Subsidiary undertakings, associated undertakings and other investments

The principal undertakings in which the company's interest at the period end is 20% or more are as follows

	Country of incorporation or registration	Class of share capital held	Proportion of share capital held	Nature of business
<i>Subsidiary undertakings</i>				
Nanotecture Limited	England	Ordinary	100%	Nano-materials research and development

12 Debtors

	Group 31 May 2012 £'000	Group 31 December 2010 £'000	Company 31 May 2012 £'000	Company 31 December 2010 £'000
Trade debtors	-	27	-	-
Amounts owed by group undertakings	-	-	272	1,056
Corporation tax recoverable	127	153	-	153
Other debtors	-	27	-	-
Prepayments and accrued income	31	69	31	29
	158	276	303	1,238

All amounts shown under debtors fall due for payment within one year

Nanotecture Group plc

Notes forming part of the financial statements
for the period ended 31 May 2012 (continued)

13 Creditors: amounts falling due within one year

	Group 31 May 2012 £'000	Group 31 December 2010 £'000	Company 31 May 2012 £'000	Company 31 December 2010 £'000
Convertible debt liability component	1,767	-	1,767	-
Trade creditors	15	77	-	-
Taxation and social security	-	14	-	-
Other creditors	-	11	-	-
Accruals and deferred income	1,306	685	1,291	641
	<u>3,088</u>	<u>787</u>	<u>3,058</u>	<u>641</u>

14 Creditors: amounts falling due after more than one year

	Group 31 May 2012 £'000	Group 31 December 2010 £'000	Company 31 May 2012 £'000	Company 31 December 2010 £'000
Convertible debt liability component	<u>3,915</u>	<u>4,662</u>	<u>3,915</u>	<u>4,662</u>

Maturity of debt

	Convertible debt 31 May 2012 £'000	Convertible debt 31 December 2010 £'000
In one year or less, or on demand	<u>1,767</u>	<u>-</u>
In more than one year but not more than two years	3,915	-
In more than two years but not more than five years	<u>-</u>	<u>4,662</u>

Nanotecture Group plc

Notes forming part of the financial statements for the period ended 31 May 2012 (*continued*)

15 Convertible redeemable loan stock

In April 2008, the Company issued £2,024,050 of convertible loan stock. The loan stock is due to be redeemed in five years from the issue date or in certain other limited circumstances before that date subject to a conversion event being triggered. These conversion events comprise a sale or a listing of the Company, or a further investment made in the Company. The loan stock is secured by a fixed and floating charge over the Company's assets. The loan stock attracts a rate of interest at 7% per annum calculated on a daily basis. In accordance with FRS 25, this type of financial instrument is assumed to contain an element of liability and an element of equity as the loan stock is convertible into a fixed number of shares. As such, the fair value of the debt element of the loan stock has been included within Creditors. Amounts falling due outside of one year and the residual balance has been included within Other Reserves.

In May 2009, the Company issued £1,000,000 of convertible loan stock. A further issue of this convertible loan stock of £1,000,000 was made in December 2009 and £1,000,000 was issued in August 2010. The loan stock is due to be redeemed in May 2014 or in certain other limited circumstances before that date subject to a conversion event being triggered. These conversion events are the same as for the 2013 convertible redeemable loan stock above. The loan stock is secured by a fixed and floating charge over the Company's assets. The loan stock attracts a rate of interest at 7% per annum calculated on a daily basis. Any conversion of this instrument would be for a variable number of shares and therefore in accordance with FRS 25, this loan stock has been classified as a liability and is included within Creditors. Amounts falling due outside one year.

In April 2011, the Company issued £425,000 of convertible loan stock. A further issue of this convertible loan stock of £490,000 was made in July 2011. The loan stock is due to be redeemed in May 2014 or in certain other limited circumstances before that date subject to a conversion event being triggered. These conversion events are the same as for the 2013 convertible redeemable loan stock above. The loan stock is secured by a fixed and floating charge over the Company's assets. The loan stock attracts a rate of interest at 7% per annum calculated on a daily basis. Any conversion of this instrument would be for a variable number of shares and therefore in accordance with FRS 25, this loan stock has been classified as a liability and is included within Creditors. Amounts falling due outside one year.

16 Share capital

	31 May 2012 £'000	31 December 2010 £'000
<i>Allotted, called up and fully paid</i>		
9,769,429 Ordinary shares of 1p each	98	98

Nanotecture Group plc

Notes forming part of the financial statements
for the period ended 31 May 2012 (*continued*)

17 Share-based payments

Share options

	31 May 2012	31 May 2012	31 December 2010	31 December 2010
	Weighted average exercise price(pence)	Number	Weighted average exercise price (pence)	Number
Outstanding at the beginning of the period/year	86	414,543	86	414,543
Lapsed during the period/year	81	(37,175)	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
Outstanding at the end of the period/year	87	377,368	86	414,543
	<hr/>	<hr/>	<hr/>	<hr/>

At the start of the period, there were 308,440 options outstanding at an exercise price of £0.81 each. During the period, 37,175 options had lapsed. Of the 271,265 options remaining, 175,900 are exercisable at the end of the period. All the remaining 95,365 options have already vested. All the vested options can only be exercised 12 months after the flotation of the company.

At the start of the period, there were also 106,103 options outstanding at an exercise price of £1.01 each. None of the 106,103 options are exercisable at the end of the period. All of these options have already vested and can only be exercised 12 months after the flotation of the company.

There were no share options granted by Nanotecture Group plc during the period.

Nanotecture Group plc

Notes forming part of the financial statements
for the period ended 31 May 2012 (*continued*)

18 Reserves

Group

	Share premium account £'000	Other reserves £'000	Profit and loss account £'000
At 1 January 2011	3,444	2,570	(10,177)
Loss for the period	-	-	(2,605)
	<u>3,444</u>	<u>2,570</u>	<u>(12,782)</u>
At 31 May 2012	<u>3,444</u>	<u>2,570</u>	<u>(12,782)</u>

Company

	Share premium account £'000	Other reserves £'000	Profit and loss account £'000
At 1 January 2011	3,444	607	(7,944)
Loss for the period	-	-	(2,605)
	<u>3,444</u>	<u>607</u>	<u>(10,549)</u>
At 31 May 2012	<u>3,444</u>	<u>607</u>	<u>(10,549)</u>

19 Reconciliation of movements in shareholders' deficit

	Group 31 May 2012 £'000	Group 31 December 2010 £'000	Company 31 May 2012 £'000	Company 31 December 2010 £'000
Loss for the period/year	(2,605)	(1,928)	(2,605)	(423)
Opening shareholders' deficit	<u>(4,065)</u>	<u>(2,137)</u>	<u>(3,795)</u>	<u>(3,372)</u>
Closing shareholders' deficit	<u>(6,670)</u>	<u>(4,065)</u>	<u>(6,400)</u>	<u>(3,795)</u>

Nanotecture Group plc

Notes forming part of the financial statements for the period ended 31 May 2012 (continued)

20 Related party disclosures

During the period ended 31 May 2012, the company incurred fees and expenses of £nil (2010 £11,250) to IP2IPO Limited for the provision of Mr C Tavner's time spent acting for the company and the parent undertaking in his capacity as a director. Funds managed by IP2IPO Limited have an interest in Nanotecture Group Plc and Mr C Tavner was employed by IP2IPO Limited. At the balance sheet date the amount unpaid in respect of these charges was £nil (2010 £nil).

During the period ended 31 May 2012, the company incurred consultancy fees in respect of Professor P N Bartlett, a director of the company and the parent undertaking, of £8,750 (2010 £15,000). At the balance sheet date, the amount unpaid in respect of these charges was £nil (2010 £6,520).

During the period ended 31 May 2012, the company incurred fees of £501 (2010 £885) 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 parent undertaking. At the balance sheet date, the amount unpaid in respect of these charges was £nil (2010 £nil).

During the period ended 31 May 2012, the company incurred fees and expenses of £10,000 (2010 £20,000) to Foresight Venture Partners for the provision of Mr R Healey's time spent acting for the parent undertaking in his capacity as a director. Foresight Venture Partners manage/advise a number of venture capital trusts who have an interest in the parent undertaking and Mr R Healey is employed by Foresight Venture Partners. At the balance sheet date the amount unpaid in respect of these charges was £nil (2010 £nil).

During the period ended 31 May 2012, East Hill Management Company subscribed to £915,000 convertible loan stock issued by the Company (2010 £1,000,000). The principal of East Hill Management Company is Mr L Clay, who is also a director of the company.

21 Reconciliation of operating loss to net cash outflow from operating activities

	17 months ended 31 May 2012 £'000	Year ended 31 December 2010 £'000
Operating loss	(1,976)	(1,670)
Amortisation of intangible fixed assets	95	39
Depreciation of tangible fixed assets	48	73
Profit on sale of tangible fixed assets	(54)	-
Loss on intangible write offs	536	-
Decrease/(increase) in debtors	92	(29)
(Decrease)/increase in creditors	(118)	2
	<hr/>	<hr/>
Net cash outflow from operating activities	(1,377)	(1,585)
	<hr/>	<hr/>

Nanotecture Group plc

Notes forming part of the financial statements
for the period ended 31 May 2012 (*continued*)

22 Reconciliation of net cash flow to movement in net (debt)/funds

	17 months ended 31 May 2012 £'000	Year ended 31 December 2010 £'000
Decrease in cash	(425)	(592)
Cash outflow from changes in debt	(915)	(4,662)
Movement in net debt	(1,340)	(5,254)
Opening net (debt)/funds	(4,145)	1,109
Closing net debt	(5,485)	(4,145)

23 Analysis of net debt

	At 1 January 2011 £'000	Cash flow £'000	Other non- cash items £'000	At 31 May 2012 £'000
Cash at bank and in hand	517	(425)	-	92
Debt due within one year	-	-	(1,767)	(1,767)
Debt due after one year	(4,662)	(915)	1,662	(3,915)
Total	(4,145)	(1,340)	(105)	(5,590)