

Nanotecture Group plc

Report and Financial Statements

Year Ended 31 December 2010

Company number - 05131621

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Nanotecture Group plc

Annual report and financial statements for the year ended 31 December 2010

Directors

Mr M J Stevens (Chairman)
Prof P N Bartlett
Mr L Clay
Mr R Healey
Dr A Raven

Secretary and registered office

Mr T Hilton, Epsilon House, Enterprise Road, University of Southampton Science Park,
Southampton, Hampshire, SO16 7NS

Company number

05131621

Independent auditors

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

Nanotecture Group plc

Report of the directors for the year ended 31 December 2010

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 2010

Results and dividends

The Group's loss for the year after taxation amounted to £1,928,000 (2009 loss of £1,886,000) The directors do not propose the payment of a dividend

Principal activities, review of the business and future developments

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

During the year, 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 in discussion, and early stage evaluations, with a number of major companies and is preparing supercapacitor modules for customer testing

The Group has successfully negotiated additional funding from its primary shareholder, East Hill Management Company The directors have received draft legal documentation and would hope to complete this transaction in mid April 2011

Key Performance Indicators

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

Cash flow

As the Group is in the process of research and product development, the monitoring of cash flow to budget is important Cash at bank at 31 December 2010 was £517,000 which was better than budgeted Cash flow compared to budget is reviewed monthly by the board Capital expenditure is a significant part of the budgeted spend and is reviewed by the board on a monthly basis

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 monthly basis from a strategic point of view and to ensure that each opportunity is appropriately resourced

Nanotecture Group plc

Report of the directors for the year ended 31 December 2010

Patents

The Group generates shareholder value by innovating and protecting that innovation by filing patents both in the UK and overseas

Directors

The directors who served during the year and to the date of this report were

Mr M J Stevens (Chairman)
Prof P N Bartlett
Mr L T Clay
Mr R Healey
IP2IPO Services Limited (resigned 15 October 2010)
Dr A Raven

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. Total creditor days of the Group as at 31 December 2010 were 30 days (2009 29 days)

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

Statement of 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.

Nanotecture Group plc

Report of the directors for the year ended 31 December 2010

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.

Auditor

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

A resolution to re-appoint BDO LLP as auditor will be put to members at the AGM.

By order of the Board



Mr T Hilton
Company Secretary

29 March 2011

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF NANOTECHTURE GROUP PLC FOR THE YEAR ENDED 31 DECEMBER 2010

We have audited the financial statements of Nanotecture Group Plc for the year ended 31 December 2010 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 auditor

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/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 December 2010 and of the group's loss for the year 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.

Emphasis of matter regarding Going Concern

In forming our opinion, which is not qualified, we have considered the adequacy of the disclosures made in note 1 of the financial statements concerning the uncertainty over the ability of the company to continue as a going concern which depends on its ability to raise further funding to continue in operational existence. This condition, along with other matters explained in note 1, indicate the existence of a material uncertainty which may cast significant doubt on the company's ability to continue as a going concern. The financial statements do not include any adjustments that would result if the company was unable to continue as a going concern.

Nanotecture Group plc

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF NANOTECHTURE GROUP PLC FOR THE YEAR ENDED 31 DECEMBER 2010 (CONTINUED)

Opinion on other matters 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

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

BDO LLP

Mr Kim Hayward (senior statutory auditor)
For and on behalf of BDO LLP, statutory auditor
Southampton
United Kingdom
29 March 2011

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 year ended 31 December 2010

		Year ended 31 December 2010	Year ended 31 December 2009
	Notes	£'000	£'000
Turnover	2	30	25
Cost of sales		(26)	(22)
Gross Profit		4	3
Administrative expenses		(1,674)	(1,772)
Operating loss	3	(1,670)	(1,769)
Bank interest receivable		1	2
Interest payable	4	(412)	(273)
Loss on ordinary activities before taxation		(2,081)	(2,040)
Tax on loss on ordinary activities	6	153	154
Loss on ordinary activities after taxation and retained loss for the year	17	(1,928)	(1,886)

All amounts relate to continuing activities

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

The notes on pages 11 to 24 form part of these financial statements

Nanotecture Group plc

Consolidated Balance Sheet as at 31 December 2010

	Notes	31 December 2010 £'000	31 December 2009 £'000
Fixed assets			
Intangible assets	8	527	429
Tangible assets	9	64	107
		<u>591</u>	<u>536</u>
Current assets			
Debtors	11	276	253
Cash at bank and in hand		517	1,109
		<u>793</u>	<u>1,362</u>
Creditors amounts falling due within one year	12	(787)	(448)
Net current assets		<u>6</u>	<u>914</u>
Creditors amounts falling due outside one year	13	(4,662)	(3,587)
Net liabilities		<u>(4,065)</u>	<u>(2,137)</u>
Capital and reserves			
Called up share capital	15	98	98
Share premium account	17	3,444	3,444
Merger reserve	17	1,963	1,963
Other reserves	17	607	607
Profit and loss account	17	(10,177)	(8,249)
Shareholders' funds	17	<u>(4,065)</u>	<u>(2,137)</u>

These financial statements were approved and authorised for issue by the directors on 29 March 2011 and are signed on their behalf by



Mr M J Stevens

Director

The notes on pages 11 to 24 form part of these financial statements

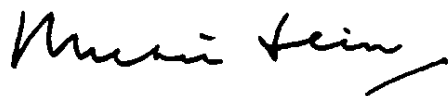
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Nanotecture Group plc

Balance sheet as at 31 December 2010

	Notes	31 December 2010 £'000	31 December 2009 £'000
Fixed assets			
Investments	10	<u>270</u>	<u>270</u>
Current assets			
Debtors	11	<u>1,238</u>	<u>1,753</u>
Creditors amounts falling due within one year	12	<u>(641)</u>	<u>(303)</u>
Net current assets		<u>597</u>	<u>1,450</u>
Creditors amounts falling due outside one year	13	<u>(4,662)</u>	<u>(3,587)</u>
Net liabilities		<u>(3,795)</u>	<u>(1,867)</u>
Capital and reserves			
Called up share capital	15	98	98
Share premium account	17	3,444	3,444
Other reserves	17	607	607
Profit and loss account	17	<u>(7,944)</u>	<u>(6,016)</u>
Shareholders' funds	17	<u>(3,795)</u>	<u>(1,867)</u>

These financial statements were approved and authorised by the directors for issue on 29 March 2011 and are signed on their behalf by



Mr M J Stevens

Director

The notes on pages 11 to 24 form part of these financial statements

Company number - 05131621

Nanotecture Group plc

Consolidated Cash Flow Statement for the year ended 31 December 2010

	Notes	Year ended 31 December 2010 £'000	Year ended 31 December 2009 £'000
Net cash outflow from operating activities	19(i)	(1,585)	(1,672)
Returns on investments and servicing of finance			
Interest received		1	2
Taxation			
Corporation tax received		159	220
Capital expenditure and financial investment			
Purchase of intangible fixed assets		(135)	(171)
Purchase of tangible fixed assets		(32)	(39)
Net cash outflow from capital expenditure		(167)	(210)
Net cash outflow before financing		(1,592)	(1,660)
Financing			
Proceeds from issue of loan stock		1,000	2,000
Issue costs		-	-
Cash inflow from financing activities		1,000	2,000
(Decrease) / Increase in cash	19(ii)	(592)	340

The notes on pages 11 to 24 form part of these financial statements

1 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 2006 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 2010. A summary of the more important accounting policies, which have been applied consistently throughout the year, is set out below.

Going Concern

The Group's cash position at 31 December 2010 was £517,000. The Group has successfully negotiated additional funding from its primary shareholder, East Hill Management Company. The directors have received draft legal documentation and would hope to complete this transaction in mid April 2011. The aggregate funding to be provided amounts to £1,265,000 through a further issue of convertible loan stock. The first tranche of £425,000 has been agreed, however, the lender is under no obligation to make the remaining £840,000 advance. The Group is in the process of commercialising its technology and therefore generating low levels of revenue at present and the directors believe that additional investment will be required to support further commercialisation of the technology.

There is a material uncertainty that may cast significant doubt on the entity's ability to continue as a going concern and therefore, that it may be unable to realise its assets and discharge its liabilities in the normal course of business. However, until the successful completion of negotiations to secure additional equity, alongside planned overhead cost restructuring, the directors believe that the Group will continue as normal and accordingly, they consider that the going concern basis of preparation continues to be appropriate. For this reason we continue to adopt the going concern basis in preparing these financial statements. The financial statements do not include any adjustments that would result if the going concern basis of preparation were no longer appropriate.

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
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1. Accounting policies (continued)

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
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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.

Taxation

The charge for taxation is based on the profit or 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 company anticipates making sufficient taxable profits in the future to absorb the reversal of the underlying timing differences. Deferred tax balances are not discounted.

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

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.

1 Accounting policies (continued)

Share based employee remuneration (continued)

Where the terms and conditions of options are modified before they vest, the increase in the 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.

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

Turnover is wholly attributable to the principal activity of the Group, namely nano-materials research and development, and is stated net of value added tax. The proportion of turnover by destination that is attributable to markets outside of the United Kingdom is 100% (2009: 0%).

Nanotecture Group plc

Notes forming part of the financial statements for the year ended 31 December 2010

3. Operating loss

This is arrived at after charging

	2010 £'000	2009 £'000
Research and development	623	650
Depreciation of tangible fixed assets	73	104
Amortisation	37	29
Operating leases - land & buildings	83	77
Operating leases - other	2	2
Audit services	7	10
Non-audit services	2	5

4 Interest payable

	2010 £'000	2009 £'000
Interest charge on convertible redeemable loan stock	412	273

5 Particulars of employees

Staff costs (including directors) consist of

	2010 £'000	2009 £'000
Wages and salaries	503	596
Social security costs	53	62
Other pension costs	71	85

	627	743
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The directors' remuneration comprises

	2010 £'000	2009 £'000
Directors' emoluments	30	47
Company contributions to defined contribution pension schemes	28	28
Amounts paid to third parties in respect of directors' services	177	192

	235	267
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No directors exercised share options in the company in either year

Nanotecture Group plc

Notes forming part of the financial statements for the year ended 31 December 2010

5. Particulars of employees (continued)

The highest paid director received the following during the year -

	2010 £'000	2009 £'000
Emoluments	30	30
Company contributions to defined contribution pension schemes	28	28
	58	58

One director received contributions towards a defined contribution pension scheme during the period (2009 1)

The average number of persons (including executive directors) employed during the year was

	2010 No.	2009 No
Research and Development	12	15
Office and Management	3	2
	15	17

Nanotecture Group plc

Notes forming part of the financial statements for the year ended 31 December 2010

6. Tax on loss on ordinary activities

The taxation credit for the year comprises -

	2010 £'000	2009 £'000
UK corporation tax on loss for the year	(153)	(159)
Adjustment in respect of prior periods	-	5
Tax on loss on ordinary activities	(153)	(154)

The tax assessed on the loss on ordinary activities for the year is lower (2009 lower) than the standard rate of corporation tax in the UK of 28% (2009 28%) The differences are reconciled below

	2010 £'000	2009 £'000
Loss on ordinary activities before tax	(2,081)	(2,040)
Loss on ordinary activities before tax multiplied by the standard rate of corporation tax in the UK of 28% (2009 28%)	(583)	(571)
Effects of		
Expenses not deductible for tax purposes	-	6
Fixed asset timing differences	12	-
Other timing differences	2	-
Research and Development enhanced relief claimed	(131)	(137)
Under provision in respect of prior year	-	5
Losses carried forward	326	369
Movement on unrecognised deferred tax	-	14
Losses surrendered for Research and Development tax credits	305	319
Research and Development tax credits claimed	(153)	(159)
Effect of variable tax rates on deferred tax	69	-
Current tax credit for period	(153)	(154)

Unrecognised deferred taxation

The Group has an unrecognised deferred tax asset of £1,855,000 at 31 December 2010 (2009 £1,516,000), available for offset against future profits of the Group. This asset is represented by trading losses of £1,855,000 and other timing differences of £15,000, offset by capital allowances received in advance of depreciation of £15,000. The full utilisation of these losses in the foreseeable future is uncertain and no deferred tax asset has therefore been recognised.

Nanotecture Group plc

Notes forming part of the financial statements for the year ended 31 December 2010

7. Loss attributable to shareholders of the parent company

As permitted by Section 408 of the Companies Act 2006, the Company's profit and loss account has not been included in these financial statements. The loss dealt with in the financial statements of the parent company was £1,928,000 (2009 £6,012,000)

8 Intangible fixed assets Group

	Patents £'000
Cost	
At 1 January 2010	509
Additions	135
At 31 December 2010	<u>644</u>
Amortisation	
At 1 January 2010	80
Provided for in the year	37
At 31 December 2010	<u>117</u>
Net book amount at 31 December 2010	<u>527</u>
Net book amount at 31 December 2009	<u>429</u>

9. Tangible fixed assets

Group	Plant and Machinery £'000	Fixtures and Fittings £'000	Total £'000
Cost			
At 1 January 2010	658	142	800
Additions	26	6	32
Disposals	(17)	(1)	(18)
At 31 December 2010	<u>667</u>	<u>147</u>	<u>814</u>
Depreciation			
At 1 January 2010	562	131	693
Provided for in the year	65	8	73
Disposals	(16)	-	(16)
At 31 December 2010	<u>611</u>	<u>139</u>	<u>750</u>
Net book value at 31 December 2010	<u>56</u>	<u>8</u>	<u>64</u>
Net book value at 31 December 2009	<u>96</u>	<u>11</u>	<u>107</u>

Nanotecture Group plc

Notes forming part of the financial statements for the year ended 31 December 2010

10 Investments

Company	Investment in subsidiary undertaking £'000
At 1 January 2009 and 2010	270
Capital contribution (see notes 1 and 16)	-
At 31 December 2009 and 2010	270

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

	2010 £'000	Group 2009 £'000	2010 £'000	Company 2009 £'000
Trade debtors	27	4	-	-
Amounts due from group undertakings	-	-	1,056	1,714
Corporation tax recoverable	153	159	153	-
Other debtors	27	20	-	-
Prepayments and accrued income	69	70	29	39
	276	253	1,238	1,753

All amounts fall due for payment within one year

12. Creditors amounts falling due within one year

	2010 £'000	Group 2009 £'000	2010 £'000	Company 2009 £'000
Trade creditors	77	58	-	-
Other tax and social security	14	23	-	-
Other creditors	11	11	-	-
Accruals and deferred income	685	356	641	303
	787	448	641	303

Nanotecture Group plc

Notes forming part of the financial statements for the year ended 31 December 2010

13. Creditors amounts falling due outside one year

	2010 £'000	Group 2009 £'000	2010 £'000	Company 2009 £'000
Convertible redeemable loan stock	4,662	3,587	4,662	3,587

14. 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 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.

15. Share Capital

Issued, called up, allotted and fully paid	2010 Number	2009 Number	2009 £'000	2008 £'000
Equity				
Ordinary shares of 1p each	9,769,429	9,769,429	98	98

Nanotecture Group plc

Notes forming part of the financial statements for the year ended 31 December 2010

16. Share Options

Exercise price of £0.81

	2010 Number of options	2009 Number of options
Options outstanding at start of the year	308,440	342,335
Lapsed during the year	-	(33,895)
Options outstanding at end of the year	<u>308,440</u>	<u>308,440</u>

Of the 308,440 options above, 175,900 are exercisable at the end of the year. All the remaining 132,540 options have already vested. All the vested options can only be exercised 12 months after the flotation of the company.

Exercise price of £1.01

	2010 Number of options	2009 Number of options
Options outstanding at start of the year	106,103	151,603
Lapsed during the year	-	(45,500)
Options outstanding at end of the year	<u>106,103</u>	<u>106,103</u>

None of the 106,103 options above are exercisable at the end of the year. All of these options have already vested and can only be exercised 12 months after the flotation of the company.

Grand total	<u>414,543</u>	<u>414,543</u>
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Nanotecture Group plc

Notes forming part of the financial statements for the year ended 31 December 2010

17. Reconciliation of movements in reserves and shareholders' funds

Group	Share capital £'000	Share premium account £'000	Merger reserve £'000	Other reserves £'000	Profit and loss account £'000	Shareholders' funds £'000
At 1 January 2009	98	3,444	1,963	607	(6,363)	(251)
Loss for the year	-	-	-	-	(1,886)	(1,886)
At 1 January 2010	98	3,444	1,963	607	(8,249)	(2,137)
Loss for the year	-	-	-	-	(1,928)	(1,928)
At 31 December 2010	98	3,444	1,963	607	(10,177)	(4,065)

Company	Share capital £'000	Share premium account £'000	Other reserves £'000	Profit and loss account £'000	Shareholders' funds £'000
At 1 January 2009	98	3,444	607	(4)	4,145
Loss for the year	-	-	-	(6,012)	(6,012)
At 1 January 2010	98	3,444	607	(6,016)	(1,867)
Loss for the year	-	-	-	(1,928)	(1,928)
At 31 December 2010	98	3,444	607	(7,944)	(3,795)

The warrants have been valued using the Black-Scholes valuation model and at 31 December 2010 the following warrants were outstanding

2,004,050 warrants to subscribe for ordinary shares of 1 pence each in the Company. The warrants can be exercised at any time after a number of specified events which include the sale or a listing of the company, or a further investment made in the company or finally the fifth anniversary of the creation of the convertible loan stock 2013 (see note 14)

Nanotecture Group plc

Notes forming part of the financial statements for the year ended 31 December 2010

18. Commitments under operating leases

There are annual commitments under non-cancellable operating leases as set out below

	31 December 2010	31 December 2009
Group	£'000	£'000
Operating leases, in respect of land and buildings, which expire		
In less than one year	<u>21</u>	<u>20</u>

	31 December 2010	31 December 2009
Group	£'000	£'000
Other operating leases which expire		
Within one year	-	2
Within two and five years	<u>2</u>	<u>-</u>

Nanotecture Group plc

Notes forming part of the financial statements for the year ended 31 December 2010

19. Notes to the Cash Flow Statement

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

	Year ended 31 December 2010 £'000	Year ended 31 December 2009 £'000
Group		
Operating loss	(1,670)	(1,769)
Depreciation & amortisation	112	133
(Increase) in debtors	(29)	(16)
Increase / (decrease) in creditors	2	(20)
Net cash outflow from operating activities	<u>(1,585)</u>	<u>(1,672)</u>

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

	Year ended 31 December 2010 £'000	Year ended 31 December 2009 £'000
Group		
(Decrease) / Increase in cash in year	<u>(592)</u>	340
Change in net funds resulting from cash flows and movement in net funds	(592)	340
Net funds at start of year	<u>1,109</u>	769
Net funds at end of year	<u>517</u>	<u>1,109</u>

(iii) Analysis of net funds

	At 1 January 2010 £'000	Cash flow £'000	At 31 December 2010 £'000
Group			
Cash at bank and in hand	<u>1,109</u>	592	<u>517</u>

Nanotecture Group plc

Notes forming part of the financial statements for the year ended 31 December 2010

20. Related party transactions and balances

The company has taken advantage of the exemption conferred by Financial Reporting Standard 8 "Related party disclosures" not to disclose transactions with members of the group headed by Nanotecture Group plc on the grounds that 100% of the voting rights in the company are controlled within that group and the company is included in consolidated financial statements

During the year ended 31 December 2010, the company incurred fees and expenses of £11,250 (2009 £15,240) 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 (2009 £4,312)

During the year ended 31 December 2010, the company incurred consultancy fees in respect of Professor P N Bartlett, a director of the company and the parent undertaking, of £15,000 (2009 £15,000). At the balance sheet date the amount unpaid in respect of these charges was £6,250 (2009 £6,250)

During the year ended 31 December 2010, the company incurred fees of £88 (2009 £1,600) 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 (2009 £nil)

During the year ended 31 December 2010, the company incurred fees and expenses of £20,000 (2009 £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 (2009 £nil)

During the year ended 31 December 2010 East Hill Management Company subscribed to £1m convertible loan stock issued by the Company (2009 £2m). The principal of East Hill Management Company is Mr L Clay, who is also a director of the Company