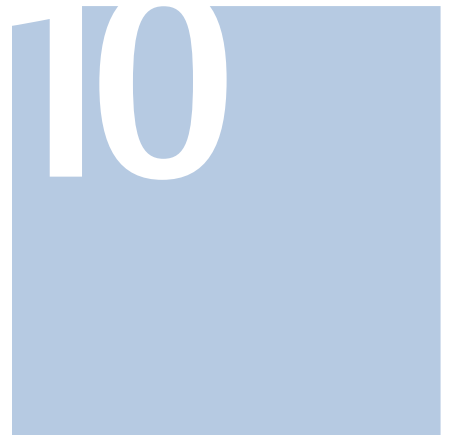
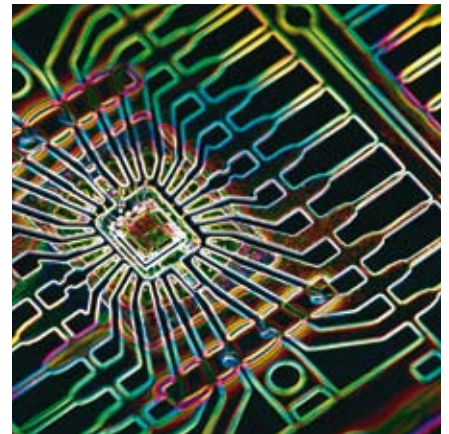
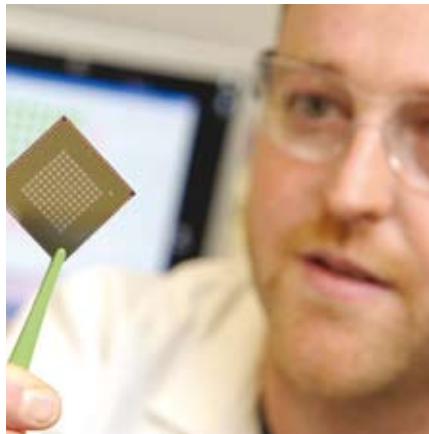
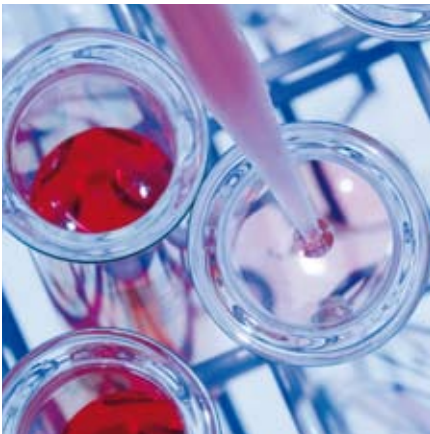




Science-led Materials Discovery

## Ilika plc Annual Report 2010



# Fast-tracking materials discovery

# Fast-tracking materials discovery

Ilika invents, tests and selects materials in the laboratory that can be scaled up for everyday commercial use

## Ilika focuses on three sectors:

- > **Energy** where Ilika assesses materials for their greater capacity for energy storage and conversion efficiency, for example in batteries
- > **Electronics** where materials created by Ilika rapidly improve the performance and efficiency of a range of electronic components, such as digital memory devices and sensors
- > **Biomedical devices** where Ilika's subsidiary Altrika has already successfully commercialised innovative products for the treatment of burns

# 01 Highlights



- > Toyota renews relationship with Ilika to accelerate development of high performance battery materials
- > Ilika enters joint development project with CeramTec for development and commercialisation of novel ceramic materials
- > Ilika spins out new company, Altrika, focused on biomedical materials
- > Toyota extends partnership with Ilika focusing on development of improved materials for next generation lithium-ion batteries
- > Hydrogen storage project receives further funding from Technology Strategy Board ('TSB')
- > Successful completion of IPO on AIM raising £5.2m

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## 02 Ilika at a glance

**Ilika's unique process is far quicker and more efficient than traditional materials discovery processes**

**Ilika uses high throughput, or combinatorial, techniques which involve the rapid synthesis of a large number of different materials in a few automated steps**

“

Our proposition is all about speed and efficiency: speed of materials discovery, enabling rapid commercialisation and efficient production

Graeme Purdy  
Chief Executive Officer

”

## Key market sectors



### Energy

We are developing innovative new materials for lithium-ion batteries, developing high capacity hydrogen storage materials, developing cheaper alternatives to platinum electrodes for use in fuel cells and carrying out in-house research on thin-film photovoltaic solar cells.

Ilika can cover a wide range of different market applications within the energy sector to help customers advance their materials discovery programmes. The great breadth and large numbers of samples that can be synthesised and screened with respect to an identified property means that Ilika can optimise materials in a much shorter timeframe.

For example, for hydrogen storage applications, different compositions can be characterised with respect to their hydrogen adsorption and desorption behaviours including their hydrogen storage capacity and cyclability. For fuel cell and battery applications, the candidate materials can be measured for catalytic activity. For the photovoltaic market, it is possible to screen materials for greater energy conversion efficiency.

### Electronics

We are developing lead-free piezoelectric materials through a joint development programme with CeramTec. We are also developing phase change memory materials for high capacity memory chips and are currently in negotiations with a major electronics manufacturer.

We cover a wide range of different market applications within the electronics sector to help customers advance their materials discovery programmes. The high throughput approach to materials synthesis coupled with high throughput characterisation and screening means that Ilika can optimise materials with respect to a desired property in a much shorter timeframe. For phase change memory applications, for example, we can monitor the phase change behaviour of different alloys as a function of temperature. The optical and electrical behaviours of interesting compositions can then be studied in more detail.

### Biomedical

We are developing polymers to enable the filtering of somatic stem cells from blood, have been selling our Cryoskin® and Myskin® products for the treatment of burns and wounds in the UK and intend to commence clinical trials of our corneal bandage candidate.

Ilika has developed an extensive library of bio-functional materials specifically designed to promote or deter cell binding, enrich specific cell types from diverse populations and promote cell growth on tailored surfaces. We are working together with medical device companies to create valuable products through the application of cell-specific functional coatings optimised using our high throughput techniques.

The application areas in which we are active include:

- skin wound care
- cell replacement for organ regeneration
- implants
- diagnostic devices
- cell purification

## 04 Chairman's statement

# A year of key milestones



**We have had a year of significant milestones including entering into a joint development programme with CeramTec and extending our contract with Toyota**

### Introduction

I am pleased to present Ilika's financial statements for the year ended 30 April 2010, update shareholders on the Group's performance in the financial year to date and provide an introduction to our unique technology.

Ilika's materials discovery capabilities significantly reduce the long timelines traditionally required for the development of new materials. The Group's primary commercialisation strategy is to enter into joint development or licensing agreements with large multinational companies seeking to commercialise products developed using the intellectual property created through jointly funded programmes.

The Company focuses its efforts on those industrial partnerships where an end need has been identified and an addressable market in excess of \$1 billion is expected to exist. Ilika aims to exploit the huge opportunities

unlocked by having its materials integrated into market-leading commercial products sold worldwide.

Current commercialisation partners include large multinational companies such as Toyota, Shell, Johnson Matthey and CeramTec. Ilika generates revenues from three sources: licensing and milestone payments from joint development programmes, fees for service from contract research projects, and from sales of CryoSkin® and MySkin®.

The majority of Ilika's business is in the development of materials for the energy sector, but it is also active in the electronics and biomedical areas.

### Ilika's technology

Ilika's unique high throughput technology ('HTT'), accelerates the discovery of new and patentable materials for identified end uses in our chosen sectors. This process enables hundreds of materials to be made in

a single, automated operation and subsequently tested for the necessary properties.

Experiments carried out by Ilika can be executed 10 to 100 times faster than by using conventional techniques. The production of a new material has traditionally been a slow and arduous process, taking between 7 and 10 years to move from an initial discovery through to the first commercial prototype.

Ilika's HTT process has the additional attraction of enabling materials to be rapidly scaled up for commercial application once the requisite chemical and physical properties have been achieved.

### Review of the year

The Company's corporate development has moved forward significantly in 2009–10. Major milestones achieved during the year include entering into a joint development programme



with CeramTec for the discovery of novel piezoelectric materials, and a contract extension with Toyota for the development of battery materials.

In July 2009, Ilika's subsidiary, Altrika, commenced trading to manage all of the Group's biomedical products and development programmes. Altrika has been selling its CryoSkin® and MySkin® products for the treatment of burns and wounds in the UK through a specialist distributor appointed in October 2009.

#### People

Ilika is fortunate to benefit from a highly experienced Board of Directors, including its founder and Chief Scientific Officer, Professor Brian Hayden. Brian is one of the world's leading experts in materials science and among the most academically cited globally. During the year Ilika was privileged to have Dr. Werner Braun and Professor Sir William Wakeham on the Board. Their experience in the UK and internationally has been instrumental in supporting the Group's development. The Board was also pleased to welcome Clare Spottiswoode CBE at the time of the IPO. Her experience in the energy sector will be a significant asset to the Company as it continues to develop new materials solutions in that market. All these Directors have been appointed to the Ilika plc Board post year end.

Our research focused team of 22 PhDs are fundamental to the success of Ilika. I would like to take this opportunity to acknowledge all of these dedicated scientists for their hard work and commitment to making Ilika a world class company. I would also like to thank our strategic partners, distributors and advisers for their contribution to the development of the Company during the course of the financial year.

#### Outlook

In May Ilika became the first cleantech company in 2010 to list on AIM. The proceeds of the listing are expected to be sufficient to fund the Group's development until financial break-even and will increase production capacity for current and future joint development partnerships.

A major benefit of the IPO has been to publicise the transparency and organisational discipline which characterises Ilika's operations. The Group's current and future partners can do business with Ilika knowing that it meets the exacting standards of corporate governance that come with a listing on the public markets.

The current financial year has started well, with the signing of several significant contracts, including an agreement with Diverso to develop business in the People's Republic of China and a contract with final column before ITRI insert "Industrial Research Institute of Taiwan ('ITRI')", to scale up and commercialise the next generation of fuel cell catalysts. The Group looks forward to announcing further agreements in the near future.

Thanks to its highly innovative technology, Ilika already has a strong presence with well-known global customers, particularly in Europe and Asia. The Company will continue to build its presence in these important markets in addition to pursuing the considerable opportunities in North America for materials discovery and development.

The Board looks forward to reporting further progress during the coming year and beyond.

**Jack Boyer**  
Chairman  
14 July 2010

## In the last year...

#### June 2009

Toyota renews its relationship with Ilika to accelerate the development of high performance battery materials, following a successful completion of the first project

#### November 2009

Ilika enters into a joint development project with CeramTec, the world-leading ceramics company, for the development and commercialisation of novel ceramic materials

#### November 2009

Ilika spins out new company focused on biomedical materials. Altrika will continue to take advantage of the High Throughput materials synthesis and screening platforms used by its parent company Ilika to extend its materials IP portfolio

#### December 2009

Ilika and Toyota extend partnership which focuses on the development of improved materials for next-generation lithium ion batteries for use in electric and hybrid vehicles

#### May 2010

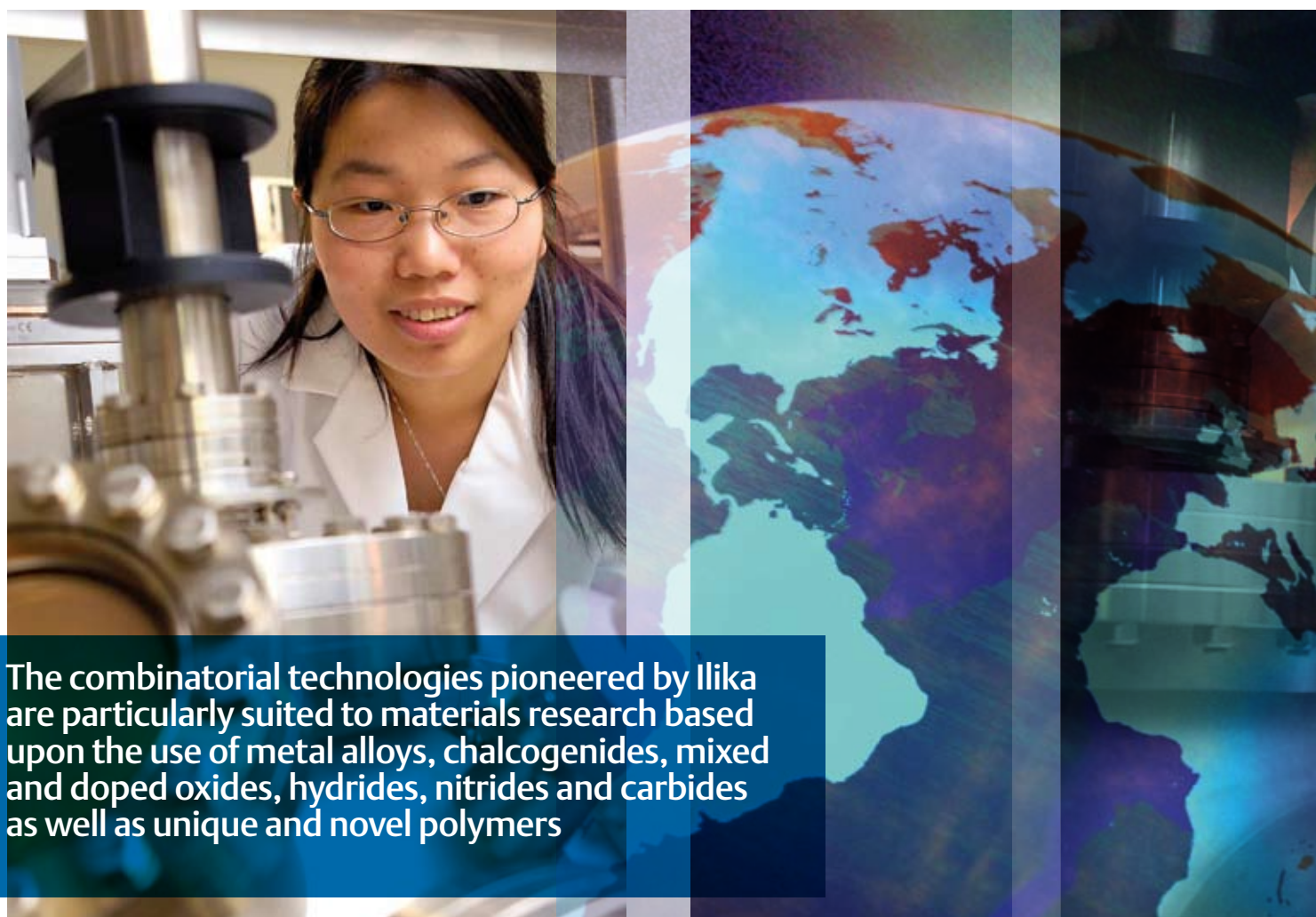
Successful completion of IPO on AIM raising £5.2m

#### February 2010

Hydrogen storage project receives further funding from the Technology Strategy Board ('TSB')

## 06 Our technology platforms

# Developing materials for large, global markets

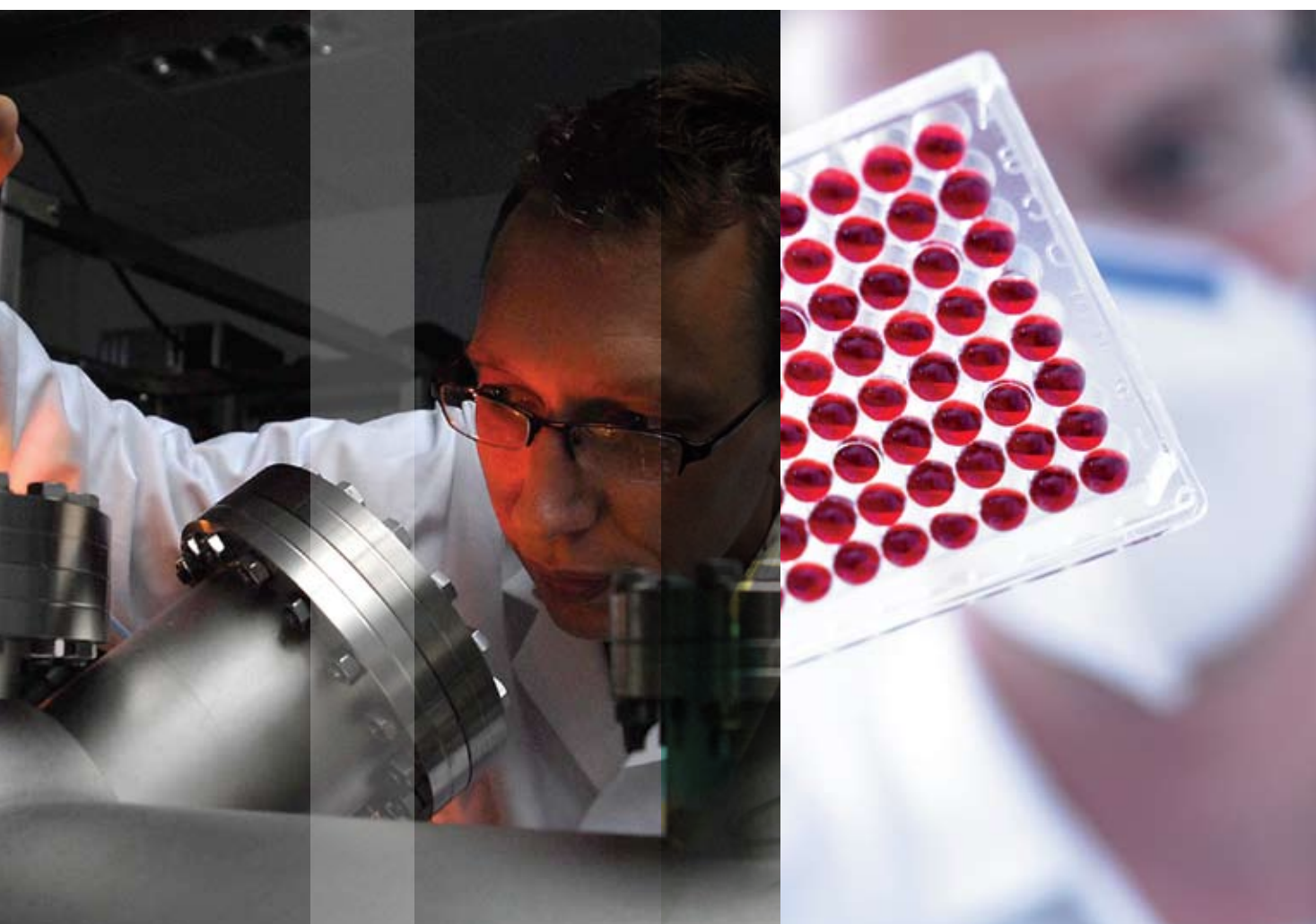


The combinatorial technologies pioneered by Ilika are particularly suited to materials research based upon the use of metal alloys, chalcogenides, mixed and doped oxides, hydrides, nitrides and carbides as well as unique and novel polymers

We have state-of-the-art high throughput processes incorporating patented technology which are capable of producing large sample arrays. These arrays can then be rapidly screened and characterised using a wide variety of analytical techniques linked to bespoke informatics software.

In this way, vast libraries of materials can be generated, described and patented with customers able to utilise and exploit new and innovative materials in a significantly faster timeframe.





### Synthesis

Many of the materials of interest to the energy and electronics industries are inorganic materials. To make these materials, Ilika uses a process which is based on ultra-high vacuum technology used widely in the electronics industry, but modified in a proprietary way to make hundreds of distinct materials in one automated experiment. This process creates so-called 'thin-film' materials for testing.

Many biomedical applications have a need for materials with a biological function, which can be provided through the use of polymers. Ilika uses ink-jet printing and contact printing processes to make arrays of unique polymers.

Materials with compositions which show interesting properties can be made in larger amounts for further testing by Ilika using a range of processes suited for industrial commercialisation.

### Testing

Once the arrays of candidate materials have been produced, they can be rapidly tested using Ilika's proprietary screening techniques. Ilika's equipment has been developed to measure well-understood materials properties using established concepts modified for use in a high throughput manner. For instance, one of Ilika's test rigs can simultaneously measure the electrochemical properties of over 100 candidate electrode materials for use in lithium-ion batteries.

### Informatics

To allow Ilika's scientists to identify promising materials more rapidly, the Company has developed a proprietary informatics suite. The software collects data from the high throughput testing rigs, collates the information and displays it in a way that enables scientists to quickly understand and interpret the measurements made.

## 08 Q&A with Graeme Purdy, Chief Executive

# Answering significant unmet needs



We are building a company to develop valuable new materials that will be incorporated into a series of product launches over the next few years

### What is the key problem Ilika addresses?

Ilika significantly compresses the long timelines traditionally required for the development of new materials.

### How does Ilika achieve this?

Often, materials scientists use sequential, iterative techniques for making and testing new materials one at a time. This traditional approach usually results in timelines of about 10 years to turn an initial idea for a new material into the first commercial prototype. By contrast, Ilika uses a parallel, automated high throughput approach which yields results 10–100 times faster.

### Which markets has Ilika chosen and why?

Ilika focuses on the energy, electronics and biomedical sectors. We have chosen these for three basic reasons: they all have significant unmet needs; they have market sectors that are capable of yielding revenues of at least \$1 billion per year; and they have specific operational obstacles which can be overcome by our technical capabilities.

“  
 We aim to create intellectual property such that we will benefit from commercialisation rewards associated with our adopted technologies  
 ”

**Could you give an example of a new material Ilika is developing?**

A typical joint development programme we are currently running is with one of the world's leading manufacturers of technical ceramics. The EU has banned the use of lead in electronics and manufacturers who make lead-containing materials are currently working under an exemption. Piezoelectric devices, which are widely used in the aerospace and automotive industries for applications such as air-bags and actuators, are generally made from lead-zirconium-titanate. Hence, we are working together with the manufacturer, CeramTec, to develop a lead-free replacement.

**What is Ilika's business model?**

Ilika typically enters into joint development programmes with its partners to develop new materials, followed by licensing agreements which allow its partners to incorporate the developed materials into their products.

**How does this business model make money?**

Ilika's partners contribute to Ilika's development costs through up-front payments made during the joint development programmes. During product development, partners make milestone payments, followed by a licensing royalty on sales of products.

**Given that many of your partners have the financial resources to carry out product development in-house, why do you collaborate externally in the way you have described?**

Firstly, Ilika's technology is protected by a portfolio of patents. Secondly, our partners recognise the benefit of the business focus Ilika has adopted and see our capabilities as a productive extension of their in-house capabilities. The most successful organisations around the world practice an open-innovation approach to product development in order to allow them to deliver the best possible shareholder returns through maximising their ability to develop the next generation of products.

**Is Ilika's business unique and, if not, how is it differentiated?**

There are other organisations around the world that have high throughput technology capable of making and testing materials in parallel, but that technology has often been designed for different application areas such as pharmaceutical development or catalysts for the chemicals industry. Our products and processes are well protected by patents and we have a strong internal patent team. Also, if anyone were to question our patent rights, they'd effectively be taking on our partners, who are major global corporations.

**How is Ilika using the funds it raised on IPO?**

Ilika is using the funds it raised on IPO to co-fund the further development of the portfolio of products it is bringing to market over the next few years. Its first product was launched into the biomedical sector by its subsidiary Altrika. The product is called Cryoskin® and is sold as a treatment for serious burns.

**What is your vision for Ilika in the future?**

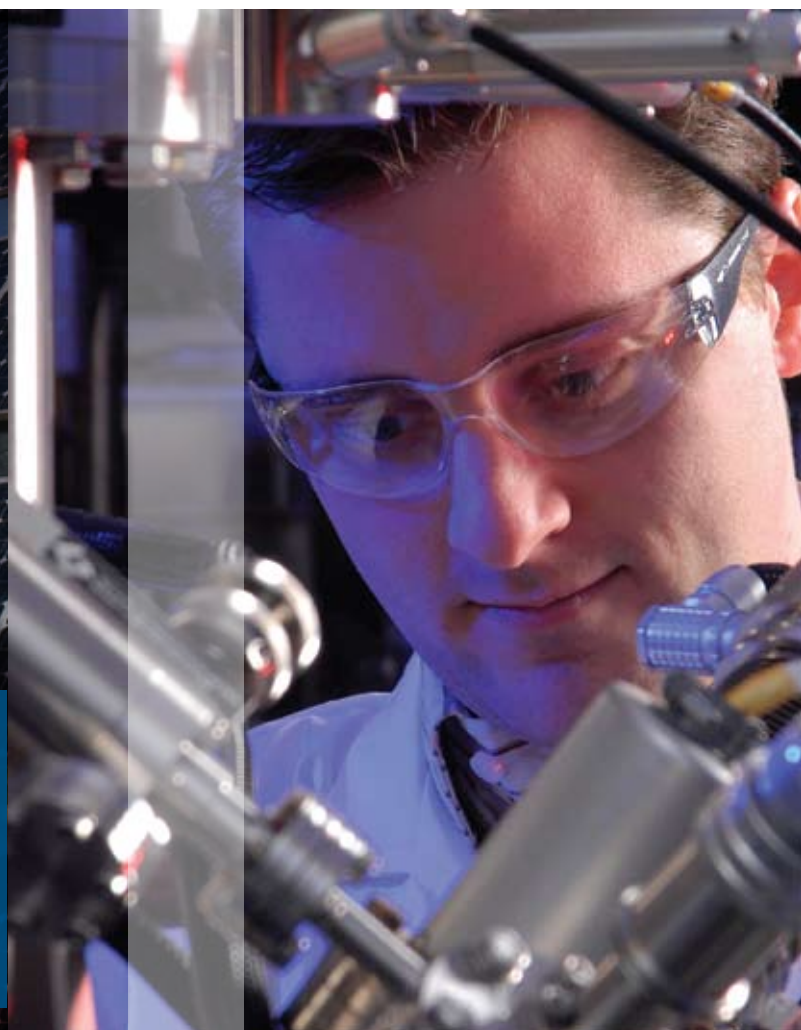
We are building a company to develop valuable new materials that will be incorporated into a series of product launches over the next few years. We will continue to enter into joint development projects with credible partners who have a strong commercial need and a clear channel to market. Our immediate focus will be to grow revenues, manage our cash and achieve profitability.



## 10 Our strategy



The Company's business strategy is to use our HTT process to discover and commercialise novel materials for integration into products with high value end-markets



### 1

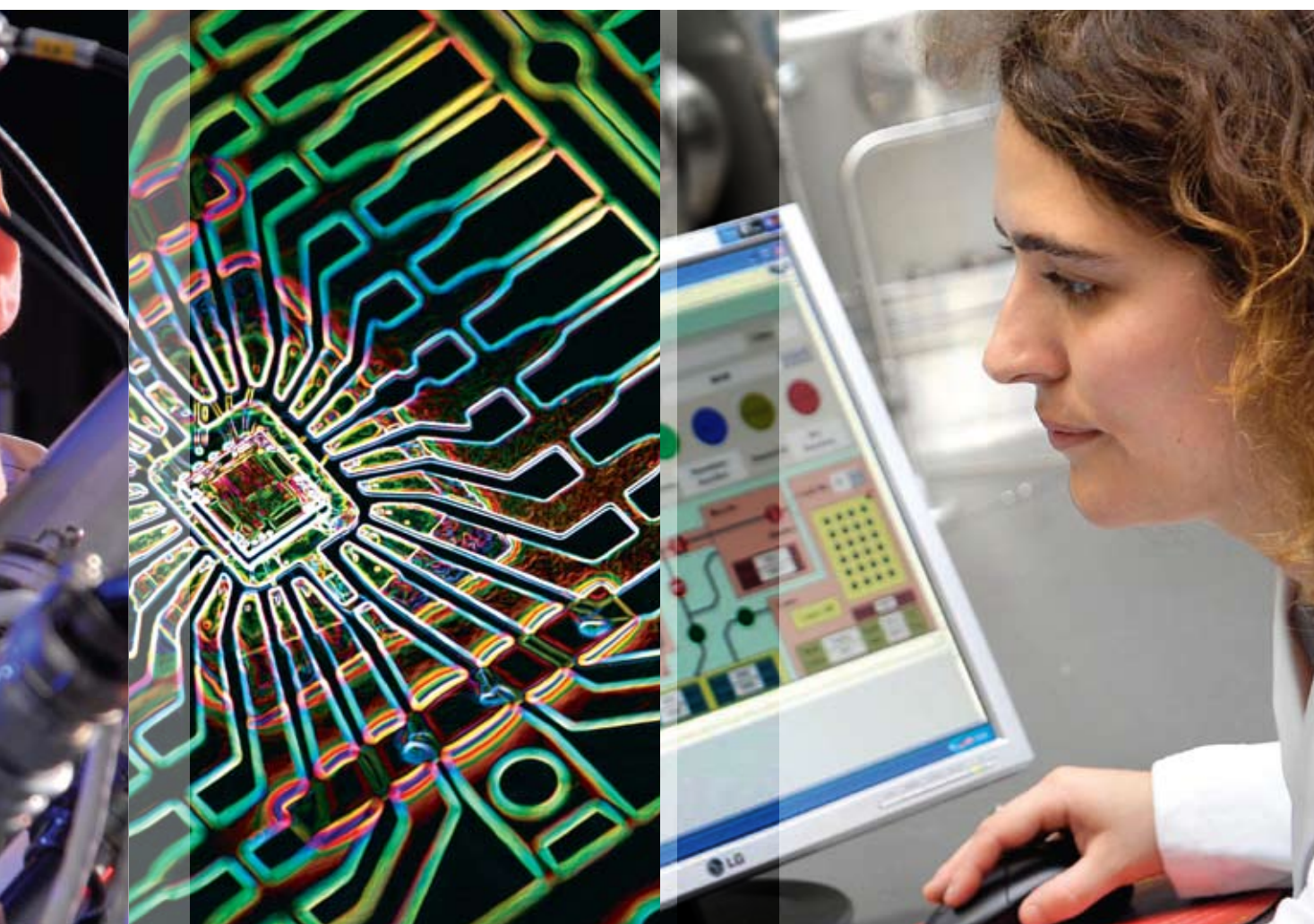
#### Developing leading-edge high throughput development processes

We have an established record in successfully developing and applying leading-edge research and development technology for the creation of novel materials. The Group has continued to build expertise on this foundation, and intends to continue innovation in this area generating substantial know-how and trade secrets. This unique selling point has attracted large multinational partners to the Group and created a barrier to entry for potential competitors.

### 2

#### Partnering with companies committed to developing and commercialising jointly developed products

Our core competence is in the innovation of novel materials which includes the identification of demand for new materials and the rapid execution of experimental programmes to develop materials to meet that demand. We operate at the beginning of the product supply chain and understand that successful commercialisation requires manufacturing capabilities, know-how in the integration of materials into consumer products and retailing to the mass market. Once we have identified potential demand for a new material we shortlist the leading industrial companies in the sector and seek to attract them into mutually beneficial joint development programmes.



### 3

#### Using high throughput processes to invent patentable functional materials

We aim to use our HTT process to invent patentable functional materials. We also use specialist software to analyse the existing intellectual property landscape and, in addition, exchange information with our commercialisation partners in order to draw up a project scope that is thought likely to yield a material or family of materials with a defensible patent position. The Group has filed a series of patents covering materials which are potentially of significant value to target markets, a number of which are currently being scaled up by its commercialisation partners.



## 12 Chief Executive's review

# Making significant progress



### Introduction

Ilika's unique high throughput technology (HTT) enables the synthesis and screening of new materials which are vital to solving some of the world's most important unmet needs.

The Company has built a portfolio of blue chip partners in significant markets that validate its technology. It has secured up-front payments in Joint Development Programmes ('JDPs') from these partners to offset development costs prior to mass market commercialisation of the materials. The JDPs provide income, development expertise and a route to market for the new materials that Ilika develops.

Ilika's technology platform can be applied to a large number of substantial potential markets but its priorities, in order of importance, are the energy, electronics and biomedical sectors.

These markets have been chosen because they combine clear unmet needs with large potential revenues and are a close fit with the HTT platform's technical capabilities. Renewable energy applications require innovative new materials and Ilika views demand in the sector to be especially attractive.

Approximately 70 percent of the Company's business is in the area of new materials for efficient energy conversion and storage. A further 20 percent of its work relates to the electronics sector, where regulation and consumer demand are driving the search for materials with lower heavy metal content and better performance. This operational weighting is the reason why Ilika describes itself as a cleantech materials discovery business.

Ilika's wholly-owned subsidiary, Altrika, addresses the burgeoning need for materials with a biological function. Altrika's facility in Sheffield manufactures the Group's revolutionary cell-based treatment for burns victims and is regulated by the Human Tissue Authority and Medicines and Healthcare products Regulatory Agency.

## Energy

In most cases energy from renewable sources needs to be efficiently converted from one form into another, in addition to being effectively stored. Ilika has active programmes in batteries, hydrogen storage, fuel cells and solar cells.

### Batteries

The past year has seen tremendous interest in using batteries in vehicles, where rapid charging and compact design are essential for mass adoption. Improved battery performance will require new cell chemistries, where the principal components of the cell, the electrodes and electrolytes, are made from carefully selected materials. The objective is to make them suitably light and small without losing performance.

Since 2008, Ilika has had a commercial relationship with Toyota, one of the world's most innovative automotive companies. This relationship has

provided Ilika with a resounding customer endorsement and driven the Company to stay at the forefront of this rapidly moving field.

### Hydrogen storage

The use of hydrogen as an energy carrier has been widely discussed in recent years, but it must overcome significant challenges before it becomes a mainstream alternative. Hydrogen's limitations revolve around the difficulty in transporting it and converting it into electricity cheaply.

Hydrogen transportation is largely carried out in compressed gas cylinders at pressures of up to 700 bar for use in prototype vehicles. Such pressures present a major hazard to both suppliers and users. In addition, large energy losses are incurred in compressing hydrogen to such pressures. Cryogenic storage of hydrogen is similarly fraught with difficulties because of the high vapour pressure of hydrogen even at low temperatures and the energy required to condense hydrogen released as a result of boil-off.



The past year has seen tremendous interest in using batteries in vehicles, where rapid charging and compact design are essential for mass adoption





Ilika believes the answer to effective hydrogen storage lies in the use of metal hydrides, (metal alloys which have reacted with hydrogen to form a stable solid). These hydrides often exist in powder form and can store hydrogen chemically to yield much greater energy densities than lithium-ion batteries. Consequently they offer an important and attractive long-term alternative to batteries. Ilika has worked with Shell to develop lightweight metal hydrides which have been patented and are now being scaled-up by a consortium lead by Johnson Matthey, supported by grant funding from the TSB.

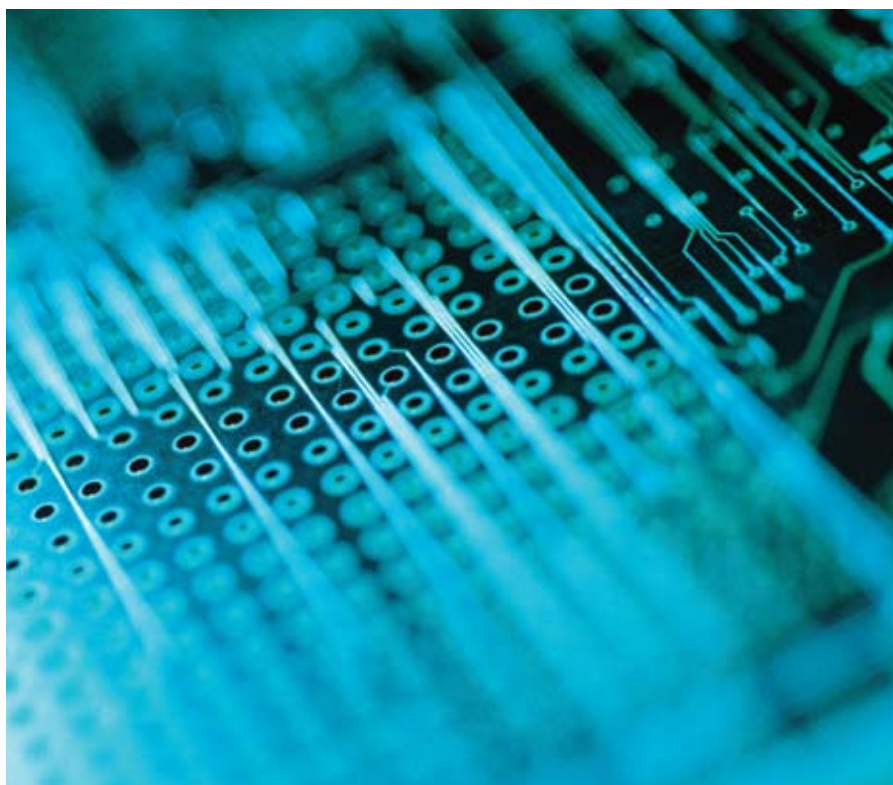
Hydrogen is most readily converted to electricity using a fuel cell. Despite being invented 170 years ago about 40 percent of the cost of a fuel cell is in the so-called membrane electrode assembly, which uses platinum, one of the world's scarcest commodities, as a catalyst. For hydrogen fuel cells to reach the mass market a more abundant and cost effective alternative will need to be developed.

The Carbon Trust has recognised the value of Ilika's patents in this field and has supported further development of its platinum-free catalysts which offer cost and availability advantages. A number of organisations around the world, including ITRI, have expressed interest in scaling up Ilika's results in this area.

In June 2010, Ilika entered into a non-exclusive agreement with ITRI whereby ITRI will meet the cost of scale-up work with a view to making samples of catalyst available to customers for evaluation by the end of 2011.

### Solar

The photovoltaic sector is undergoing a period of rationalisation which is creating opportunities for Ilika. Manufacturers of thin-film photovoltaic panels clearly need to differentiate themselves from the competition through improvements in their technology. Ilika is currently marketing its expertise in optimising both the active photovoltaic materials and the protective gas barrier layers.



## Electronics

### Piezoelectrics

In November 2009 Ilika entered into a JDP with CeramTec, one of the world's leading manufacturers of technical ceramics. The partnership aims to find a replacement for the lead ingredient in CeramTec's piezoelectric materials following the entry into force of the EU's new Restriction of Hazardous Substances ('RoHS') regulations, which prohibit the use of lead in electronic materials.

CeramTec's piezoelectric materials are used in actuators and sensors in the aerospace and automotive industries. There is a large existing market which ceramics manufacturers are supplying under an exemption from the prevailing regulations until a replacement can be found. The initial discovery project is designed to run until May 2011 after which materials offering the most potential will be scaled-up for

manufacture. The expectation is that uptake will be rapid given the regulatory drivers in place.

### Memory devices

A second area of the electronics industry where Ilika is active is the development of the next generation of solid-state memory as FLASH devices approach the limits of their physical storage capacity. The demand for terabyte levels of memory capacity on portable devices is growing rapidly, driven in particular by demand for video data content. To meet this demand the electronic memory industry is embracing new types of data storage technology, which, in contrast to traditional silicon-based chip architectures, generally use innovative new materials. Negotiations are maturing with a leading US-based manufacturer of memory devices which is actively developing next generation technology.

## 14 Chief Executive's review



### Biomedical

Altrika is Ilika's wholly-owned subsidiary which has technology and products focused on producing biologically-functionalised materials for the medical device sector.

Altrika's JDP with a global filter manufacturer progressed well in the last year and the active polymer materials identified in the earlier stages of the project are now being tested on model filters at the partner's development facility. Results have continued to be positive and a decision is expected in this calendar year regarding the suitability of the materials for further scale-up.

In 2009, Altrika acquired the assets of a business based in Sheffield. These assets include key personnel, supporting IP and a lab (development and small scale production) licensed by both the Human Tissue Authority and Medicines and Healthcare products Regulatory Agency.

A portfolio of three products has been developed based on a novel polymer, initially developed by Altrika, to which live cells can effectively bind, creating bioengineered cell-based products that can be used to repair tissue.

The first 2 products in this portfolio, CryoSkin<sup>®</sup> and MySkin<sup>®</sup>, have been successfully launched as burns treatments in the UK and are producing revenues. The third, a corneal bandage, is awaiting clinical trials. Altrika is in discussions with agents and regulators to make CryoSkin<sup>®</sup> and MySkin<sup>®</sup> available in other jurisdictions both within and outside of the EU.

Interest levels in Altrika's materials development capabilities continue to be robust, with a number of new JDPs expected to mature in the next financial year.

#### International expansion

In 2009, the majority of Ilika's revenue was generated through agreements with organisations in Japan, Europe and the US.

At the beginning of 2010, Ilika appointed an agent to accelerate its business development activities in Japan. As a result, Ilika's deal pipeline from Japan has been enlarged and is expected to deliver revenue growth in the coming financial year.

Ilika has also recently announced a new partnering agreement with Diverso to strengthen its business in China. Diverso will initially focus on the energy sector,

with a mandate to arrange and secure collaborative research projects or licensing arrangements between the Company and third party commercialisation partners in China.

Diverso is incentivised to secure new business for Ilika as it will be reimbursed by Ilika based upon the revenues it receives from such third party commercialisation partners.

Through its investment at Ilika's IPO, Diverso, through a subsidiary company, is also a substantial shareholder in Ilika. Ilika believes the large and rapidly growing Chinese market offers significant opportunities: not only is R&D expenditure growing by 20 percent per year with strong government backing, but Chinese companies are also willing to pay significant sums for technology in order to gain ground on more established western rivals.

The US market appears to be recovering more rapidly than Europe from the recent economic downturn and Ilika plans to increase its business development efforts in that jurisdiction in the current financial year.

#### Summary

Ilika has made strong progress in the year to 30 April 2010, developing its IP portfolio, the strength and breadth of its commercialisation agreements and the maturity of the commercialisation efforts relating to forthcoming product launches.

The Company's successful IPO in May 2010 earmarked it as a unique enterprise with a compelling commercial and technical offering. Ilika has been able to announce a series of developments in the few weeks since its IPO and will continue with its strategy of securing JDP's with globally competitive partners.

In the forthcoming year Ilika will also follow through its strategy of portfolio scale-up in preparation for a systematic roll-out of products incorporating Ilika's materials over the medium and long term.

**Graeme Purdy**  
Chief Executive

14 July 2010

## 15 Financial review



During the year, Ilika established its own biomedical production facility and released two new biomedical products



The vast majority of revenue relates to the payments made by Ilika's partners for research and development activities

Ilika plc was incorporated on 12 March 2010 with a view to the acquisition of Ilika Technologies Limited and its subsidiary, Altrika Limited, ('the Limited Group') and subsequent AIM listing. The acquisition and subsequent AIM listing occurred on 14 May 2010. The AIM admission document, published on 14 May 2010, contained financial information for the financial period to 31 October 2009 and these non-statutory financial statements are for the year ended 30 April 2010. As, at that date, no Group existed, the financial information presented in this report, is that of the Limited Group.

Revenue for the year ended 30 April 2010 was £1.06m (£0.92m for 2008/9), supplemented by £0.22m of grant income (£0.20m for 2008/9).

The vast majority of revenue relates to the payments made by Ilika's partners for research and development activities, particularly in the energy and electronics sectors. During the year, Ilika established its own biomedical production facility and released two new biomedical products which contributed £88k of revenue.

Grant funding was received from the Carbon Trust, supporting development of Ilika's proprietary fuel cell electrodes and the TSB, to develop hydrogen storage materials with Johnson Matthey plc.

Administration expenses in the year increased by around £1.1m in comparison to the year to 30 April 2009. This was partly due to the set up and running costs of the new biomedical facility, but is mainly due to the increased share-based payment accounting charge. This charge has risen from £86k in 2008/9 to £816k this year. It is an accounting entry which has no impact on the Limited Group's cash flows. This increase is attributable to the fact that the listing of Ilika plc's shares, at the market price of the stock, is deemed a maturity event for share options. The prior year's charge was calculated with reference to previous, historical estimates of the fair value of the share options granted. No share options were exercised in the year. Loss per share for the year was £25.81 (2008/9: £15.97). Loss per share adjusting for the share-based payment charge was £19.08 (2008/9: £15.25).

As at 30 April 2010, the Limited Group's cash position was £792k. On 14 May 2010, Ilika plc raised £5.175m by placing 10,147,059 shares at 51p per share together with 10,147,059 placing warrants.

### Post balance sheet events

On 6 May 2010, Ilika plc entered into a share exchange agreement with the shareholders of Ilika Technologies Limited whereby Ilika plc acquired the entire issued share capital of Ilika Technologies Limited in consideration of the issue and allotment of 10,352,499 Ordinary Shares and 1,781,400 Convertible Preference Shares to the shareholders of Ilika Technologies Limited, pro rata to their existing shareholdings.

On 14 May 2010, Ilika plc was admitted to AIM.

**Steve Boydell**  
Finance Director and  
Company Secretary

14 July 2010



# 16 Board of Directors



## 1. Jack Boyer Chairman (age 50)

Mr. Boyer joined Ilika as Chairman in 2004. He previously founded and was the CEO of Trident Components Group, a £280m revenue pan-European engineering group. He has worked in investment banking at Goldman Sachs, management consulting at Bain & Co and been the CEO of manufacturing companies.

Mr. Boyer was educated at Stanford University (B.A. Hons), the London School of Economics (M.Sc.) and INSEAD (MBA). He currently leads the University of Southampton's corporate spin-out and intellectual property exploitation activities as Chair of Southampton Asset Management and is Chairman of early-stage companies involved in emerging technologies.

Mr. Boyer is a Board member of the User Panel of the Engineering and Physical Sciences Research Council ('EPSRC') and a Trustee of environmental and educational non-profit organisations.

## 2. Graeme Purdy Chief Executive Officer (age 44)

Mr. Purdy was appointed to head-up the Company from the beginning of May 2004, just before completion of the Company's seed round of funding.

Prior to joining Ilika, Graeme was Chief Operating Officer of a high-technology company in the Netherlands and before that worked internationally in a variety of technical and commercial roles for Shell. He holds a Master's Degree in Chemical Engineering from Cambridge and an MBA from INSEAD business school in France.

## 3. Professor Brian Hayden Chief Scientific Officer (age 55)

Prof. Hayden is currently on secondment to Ilika from the University of Southampton, where he is Professor of Physical Chemistry. He is a pioneer of surface science and has a strong track record in running successful industrial collaborations. He has published in excess of 100 papers in the fields of surface science, surface electrochemistry and fundamental aspects of heterogeneous catalysis and electrocatalysis. He is a Fellow of the Royal Society of Chemistry and regular speaker at conferences.

## 4. Stephen Boydell Finance Director (age 39)

Mr. Boydell qualified as a Chartered Accountant with Deloittes in 1996, he held a number of positions at Hays plc and then AGI Media before becoming Finance Director of a successful Guernsey based group of companies. He was instrumental in the restructuring of that group and the subsequent successful sale to a competitor. He studied Economics at Nottingham University.

## 5. Dr Werner Braun Non-Executive Director (age 64)

Having received a PhD in plasma and laser physics from the Technical University in Munich for research work performed at the Max Planck Institute for Plasma Physics, Dr Braun initially worked for Messer Griesheim before joining Biotronik as VP of Marketing and Sales. Over a period of 14 years, Dr Braun played a key role in growing Biotronik from an early stage company to a global provider of medical devices for use in cardiology and cardiosurgery. Following spells as General Manager of Chiron Adatomed and VP of Marketing and Sales for Medtronic Europe, Middle East and Africa, Dr Braun returned to Biotronik in 2001 to become Managing Director, further developing the company's market expansion to become Europe's largest privately-held medical device company in the cardiovascular arena.



#### 6. Clare Spottiswoode CBE

##### Non-Executive Director (age 57)

Ms. Spottiswoode's career started as an economist with the Treasury before establishing her own software company. She is perhaps best known for her role as Director General of Ofgas between 1993 and 1998 where she oversaw the transformation of the gas industry from a monopoly, which controlled the whole gas supply chain, into a deregulated, competitive industry.

In November 2006 she was appointed as the Policyholder Advocate for Aviva, and is responsible for ensuring that around 1m With-Profits policyholders receive a fair share of the £5–6 billion inherited estate. The deal has now been completed and policyholders received around 70 percent of the estate, which was more than double the only previous reattribution settlement. Ms. Spottiswoode currently chairs Gas Strategies Limited which has done a recent management buy-out from Standard and Poors, and is a Non-Executive Director of Energy Solutions, a US Nuclear waste company and Tullow Oil, a FTSE50 company.

Awarded a CBE for services to industry in 1999, she holds degrees from Cambridge and Yale Universities in Maths and Economics and has an honorary doctorate from Brunel.

#### 7. Professor Sir William Wakeham

##### Non-Executive Director (age 65)

Professor Sir William Wakeham retired as Vice-Chancellor of the University of Southampton in September 2009 after 8 years in that position. He studied Physics at Exeter University at both undergraduate and doctoral level. In 1971 he took up a lectureship in the Chemical Engineering Department at Imperial College London and became Head of Department in 1988. By 1999 he was Pro-Rector (Research), Deputy Rector and Pro-Rector (Resources) at Imperial College. He oversaw the College's merger with a series of medical schools and stimulated its entrepreneurial activities.

He is a Fellow of the Royal Academy of Engineering and its International Secretary, a Fellow of the Institution of Chemical Engineers, the Institution of Engineering and Technology, and the Institute of Physics. He holds a higher doctorate from Exeter University, and honorary degrees from Lisbon University, Exeter and Southampton Solent University and is a Fellow of Imperial College London. He is a Council Member of the Engineering and Physical Sciences Research Council and Chair of Its Audit Committee. He was knighted in the Queen's Birthday Honours 2009 for services to Chemical Engineering and Higher Education.

# 18 Directors' responsibilities

The Directors who served on the Board of Ilika Technologies Limited during the year and to the date of this report were as follows:

Mr. S. Boydell (FD)\* appointed 22 September 2009  
 Mr. J.B. Boyer\* (Non-Executive Chairman)  
 Dr. W. Braun\* (Non-Executive) resigned 5 May 2010  
 Prof. B.E. Hayden (CSO)\*  
 Mr. A.R. Marrocco (FD) resigned 30 June 2009  
 Dr. R. Penning de Vries (Non-Executive) appointed 20 January 2009, resigned 29 March 2010  
 Mr. G. Purdy (CEO)\*  
 Prof. Sir W. Wakeham\* (Non-Executive) appointed 1 December 2009, resigned 5 May 2010

\* Appointed to the Board of Ilika plc.

The Directors are responsible for preparing these non-statutory financial statements in accordance with International Financial Reporting standards ('IFRSs') and for being satisfied that the non-statutory financial statements give a true and fair view.

In preparing these non-statutory 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;
- prepare the non-statutory financial statements on the going concern basis unless it is inappropriate to presume that the Group and Company will continue in business; and
- present the non-statutory financial statements as if the requirements of the Companies Act 2006 applied to the Company.

The Directors are responsible for keeping adequate accounting records that show and explain the Company's transactions, disclose with reasonable accuracy at any time the financial position of the Company, and enable them to ensure that the non-statutory financial statements comply with the basis of preparation in note 1.

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.

**Steve Boydell**  
 Finance Director and  
 Company Secretary

14 July 2010



# 19 Corporate governance statement

The Board is accountable to the Company's shareholders for good corporate governance and it is the objective of the Board to attain a high standard of corporate governance. As an AIM-quoted company full compliance with The Principles of Good Governance and Code of Best Practice (2006) ('the Combined Code') is not a formal obligation. The Company has not sought to comply with the full provisions of the Combined Code, however it has sought to adopt the provisions that are appropriate to its size and organisation and establish frameworks for the achievement of this objective. This statement sets out the corporate governance procedures that are in place.

## Board of Directors

On 6 May 2010 the Board of Directors ('the Board') was appointed and consisted of a Non-Executive Chairman (Jack Boyer), three Executive Directors (Graeme Purdy, Steve Boydell and Professor Brian Hayden), and three Non-Executive Directors (Dr. Werner Braun, Professor Sir William Wakeham and Clare Spottiswoode CBE).

The responsibilities of the Non-Executive Chairman and the Chief Executive Officer are clearly divided. The Non-Executive directors bring relevant experience from different backgrounds and receive a fixed fee for their services and reimbursement of reasonable expenses incurred in attending meetings.

The Board retains full and effective control of the Group. This includes responsibility for determining the Group's strategy and for approving budgets and business plans to fulfil this strategy. The full Board ordinarily meets bi-monthly.

It is the duty of the Chairman to ensure that all Directors are properly briefed on issues arising at Board meetings. Prior to each Board meeting, Directors are sent an agenda and Board papers for each agenda item to be discussed. Additional information is provided when requested by the Board or individual Directors.

The Company Secretary is responsible to the Board for ensuring that Board procedures are followed and that the applicable rules and regulations are complied with. All Directors have access to the advice and services of the Company Secretary, and independent professional advice, if required, at the Company's expense. Removal of the Company Secretary would be a matter for the Board.

As appropriate, the Board has delegated certain responsibilities to Board committees.

## Audit Committee

The Audit Committee currently comprises Clare Spottiswoode CBE (Chairman), Professor Sir William Wakeham and Jack Boyer.

The committee monitors the integrity of the Group's financial statements and the effectiveness of the audit process. The committee reviews accounting policies and material accounting judgements. The committee also reviews, and reports on, reports from the Group's auditors relating to the Group's accounting controls. It makes recommendations to the Board on the appointment of auditors and the audit fee. It has unrestricted access to the Group's auditors. The committee keeps under review the nature and extent of non-audit services provided by the external auditors in order to ensure that objectivity and independence are maintained.

## Remuneration Committee

The Remuneration Committee currently comprises Dr. Werner Braun (Chairman), Clare Spottiswoode CBE and Jack Boyer. It is responsible for making recommendations to the Board on remuneration policy for Executive Directors and the terms of their service contracts, with the aim of ensuring that their remuneration, including any share options and other awards, is based on their own performance and that of the Group generally.

## Nomination Committee

The Nomination Committee currently comprises Jack Boyer (Chairman), Professor Sir William Wakeham and Dr. Werner Braun. It is responsible for providing a formal, rigorous and transparent procedure for the appointment of new Directors to the Board.

By order of the Board

## Steve Boydell

Finance Director and  
Company Secretary

14 July 2010

## 20 Auditors' report

### Independent non statutory auditors' report to the Directors of Ilika Technologies Limited

We have audited the non-statutory financial statements of Ilika Technologies Limited for the year ended 30 April 2010 which comprise the consolidated statement of comprehensive income, the consolidated balance sheet, the consolidated cash flow statement, the consolidated statement of changes in equity and the related notes. These non-statutory financial statements have been prepared in accordance International Financial Reporting Standards ('IFRSs') as adopted by the European Union.

Our report has been prepared pursuant to the requirements of our engagement letter and for no other purpose. Our audit work has been undertaken so that we might state to the company's directors 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 directors as a body, for our audit work, for this report, or for the opinions we have formed.

### Respective responsibilities of directors and auditors

The Directors of Ilika Technologies Limited are responsible for preparing the non-statutory financial statements in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the European Union and for being satisfied that they give a true and fair view.

Our responsibility is to audit the non-statutory 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

An audit involves obtaining evidence about the amounts and disclosures in the non-statutory financial statements sufficient to give reasonable assurance that the non-statutory financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the non-statutory financial statements.

### Opinion on financial statements

In our opinion:

- the non-statutory financial statements give a true and fair view of the state of the Group's affairs as at 30 April 2010 and of its loss for the period then ended, and
- the non-statutory financial statements have been prepared in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the European Union.

**BDO LLP,**  
Southampton  
United Kingdom  
14 July 2010

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

# 21 Consolidated statement of comprehensive income

for the year ended 30 April 2010

	Notes	Year ended 30 April	
		2010 £	2009 £
<b>Revenue</b>	2	<b>1,060,872</b>	916,131
Cost of sales		<b>(644,384)</b>	(531,682)
<b>Gross profit</b>		<b>416,488</b>	384,449
Administrative expenses		<b>(3,899,100)</b>	(2,824,762)
Other operating income	5	<b>215,000</b>	196,213
<b>Operating loss</b>	3	<b>(3,267,612)</b>	(2,244,100)
Financial income	6	<b>9,686</b>	163,371
Financial expense	7	<b>(6,448)</b>	(6,451)
<b>Loss before tax</b>	2	<b>(3,264,374)</b>	(2,087,180)
Taxation	8	<b>132,823</b>	150,078
<b>Loss for period/total comprehensive income</b>		<b>(3,131,551)</b>	(1,937,102)
Loss per share	9		
Basic		<b>(25.81)</b>	(15.97)
Diluted		<b>(25.81)</b>	(15.97)

All amounts relate to continuing activities.



# 22 Consolidated balance sheet

as at 30 April 2010

	Notes	As at 30 April	
		2010	2009
		£	£
<b>ASSETS</b>			
<b>Non current assets</b>			
Intangible assets	10	66,738	77,254
Property, plant and equipment	11	2,068,129	2,712,046
<b>Total non current assets</b>		<b>2,134,867</b>	<b>2,789,300</b>
<b>Current assets</b>			
Trade and other receivables	12	614,110	316,958
Current tax receivable		132,823	150,078
Cash and cash equivalents	13	792,418	2,600,641
<b>Total current assets</b>		<b>1,539,351</b>	<b>3,067,677</b>
<b>Total assets</b>		<b>3,674,218</b>	<b>5,856,977</b>
<b>EQUITY</b>			
Issued share capital	16	1,213	1,213
Share premium		8,451,483	8,451,483
Warrant reserve		90,433	90,433
Retained earnings		(5,887,258)	(3,571,886)
<b>Total equity</b>		<b>2,655,871</b>	<b>4,971,243</b>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Trade and other payables	14	1,000,157	848,484
<b>Non current liabilities</b>			
Other payables	14	18,190	37,250
<b>Total liabilities</b>		<b>1,018,347</b>	<b>885,734</b>
<b>Total equity and liabilities</b>		<b>3,674,218</b>	<b>5,856,977</b>

These non-statutory financial statements were approved and authorised for issue by the Board of Directors on 14 July 2010.

**Mr. J.B. Boyer**  
Chairman

# 23 Consolidated cash flow statement

for the year ended 30 April 2010

	Year ended 30 April	
	2010	2009
	£	£
<b>Cash flows from operating activities</b>		
Loss before tax	(3,264,374)	(2,087,180)
Adjustments for:		
Amortisation	21,594	22,438
Depreciation	764,327	629,609
Equity-settled share-based payments	816,179	86,413
Profit on disposal of property, plant and equipment	(183)	-
Net financial income	(3,238)	(156,920)
<b>Operating cash flow before changes in working capital, interest and taxes</b>	<b>(1,665,695)</b>	<b>(1,505,640)</b>
(Increase)/decrease in trade and other receivables	(297,152)	270,345
Increase/(decrease) in trade and other payables	151,673	(37,421)
<b>Cash utilised by operations</b>	<b>(1,811,174)</b>	<b>(1,272,716)</b>
Tax received	150,078	105,021
<b>Net cash flow from operating activities</b>	<b>(1,661,096)</b>	<b>(1,167,695)</b>
<b>Cash flows from investing activities</b>		
Interest received	9,686	163,371
Purchase of intangible assets	(11,078)	(16,508)
Sale of property, plant and equipment	1,141	-
Purchase of property, plant and equipment	(121,368)	(1,771,229)
<b>Net cash used in investing activities</b>	<b>(121,619)</b>	<b>(1,624,366)</b>
<b>Cash flows from financing activities</b>		
Capital element of finance leases	(19,060)	(19,060)
Interest element of finance leases	(6,448)	(6,451)
<b>Net cash from financing activities</b>	<b>(25,508)</b>	<b>(25,511)</b>
<b>Net decrease in cash and cash equivalents</b>	<b>(1,808,223)</b>	<b>(2,817,572)</b>
Cash and cash equivalents at the start of the period	2,600,641	5,418,213
Cash and cash equivalents at the end of the period	792,418	2,600,641

# 24 Consolidated statement of changes in equity

for the year ended 30 April 2010

	Share capital £	Share premium account £	Warrant reserve £	Profit and loss account £	Total £
<b>As at 30 April 2008</b>	1,213	8,451,483	90,433	(1,721,197)	6,821,932
Share-based payment	–	–	–	86,413	86,413
Loss for the year and total comprehensive income	–	–	–	(1,937,102)	(1,937,102)
<b>As at 30 April 2009</b>	1,213	8,451,483	90,433	(3,571,886)	4,971,243
Share-based payment	–	–	–	816,179	816,179
Loss for the year and total comprehensive income	–	–	–	(3,131,551)	(3,131,551)
<b>As at 30 April 2010</b>	<b>1,213</b>	<b>8,451,483</b>	<b>90,433</b>	<b>(5,887,258)</b>	<b>2,655,869</b>

## Share capital

The share capital represents the nominal value of the equity shares in issue.

## Share premium account

When shares are issued, any premium paid above the nominal value is credited to the share premium reserve.

## Warrant reserve

The warrant reserve relates to the fair value of the warrants issued.

## Retained earnings

The retained earnings reserve records the accumulated profits and losses of the Group since inception of the business.



# 25 Notes to the consolidated financial statements

## 1 Accounting policies

### Basis of preparation

The non-statutory financial statements have been prepared in accordance with International Financial Reporting Standards adopted by the European Union ('IFRSs').

These non-statutory financial statements are a consolidation of the financial statements of Ilika Technologies Limited and Altrika Limited, where Ilika Technologies Limited ('the Company') has the power, either directly or indirectly, to govern the financial and operating policies of another entity or business so as to obtain benefits from its activities, it is classified as a subsidiary. The consolidated non-statutory financial statements present the results of the Company and its subsidiary, Altrika Limited, (together 'the Group') as if they formed a single entity. Intercompany transactions and balances between these Group companies are therefore eliminated in full.

The financial information set out in these non-statutory financial statements does not constitute the Company's statutory accounts for the periods ended 30 April 2010 or 30 April 2009. The statutory accounts for the period ended 30 April 2009, prepared under UK GAAP, have been filed with the Registrar of Companies and those for the period ended 30 April 2010, also prepared under UK GAAP, will be delivered to the Registrar in due course; both have been reported on by the Independent Auditors. The Independent Auditors' report on the financial statements for the period ended 30 April 2009 was unqualified, did not draw attention to any matters by way of emphasis, and did not contain a statement under 498(2) or 498(3) of the Companies Act 2006. The Independent Auditors' report on the financial statements for the period ended 30 April 2010 was also unqualified, did not draw attention to any matters by way of emphasis, and did not contain a statement under 498(2) or 498(3) of the Companies Act 2006.

### Going concern

The non-statutory financial statements are prepared on a going concern basis which the Directors believe continues to be appropriate. The Group meets its day to day working capital requirements through existing cash resources which, at 30 April 2010, amounted to £792,000. On 6 May 2010, the Group was acquired by Ilika plc which subsequently completed an initial public offering on the Alternative Investment Market, see note 21 for further details. The Directors have prepared projected cash flow information for the period ending 12 months from the date of their approval of these non-statutory financial statements. On the basis of this cash flow information the Directors believe that the Group will be able to continue to trade for the foreseeable future.

### (a) New standards, amendments to standards or interpretations adopted early

The following new standards have been adopted early:

- Amendments to IAS 1 Presentation of Financial Statements: A Revised Presentation: As a result of the application of this amendment the Group has elected to present a single statement of comprehensive income, previously it presented a profit and loss statement and the statement of recognised income and expense. In addition, a statement of changes in equity is now presented as a primary statement where previously the information was included in a note. The Amendment does not change the recognition or measurement of transactions and balances in the financial statements.
- IFRS 8, Operating Segments (effective for accounting periods beginning on or after 1 January 2009). The Group has adopted IFRS 8 in advance of its effective date, with effect from 1 May 2008. This standard sets out the requirements for the disclosure of information about an entity's operating segments and also about the entity's products and services, the geographical areas in which it operates and its major customers. The segments are to be identified on the basis of internal reports about components of the entity that are reviewed by the chief operation decision maker in order to allocate resources to the segments and to assess its performance. It replaces IAS 14, Segmental Reporting. The adoption of the standard has not resulted in a change of the number and composition of the segments reported by the Group.

### (b) New standards, amendments to standards or interpretations not yet applied

The following standards, interpretations and amendments, which have not been applied in these non-statutory financial statements, will or may have an effect on the Group's future financial statements:

International Accounting Standards (IAS/IFRS)	Effective date for periods commencing
• IFRS 2 (amendment) Group Cash-settled Share-based Payment Transactions This amendment clarifies that vesting conditions are service conditions and performance conditions only.	1 January 2009
• IFRS 3 (revised) Business Combinations This revision requires that acquisition costs are written off instead of including them in the cost of investment and intangible assets are recognised even if it cannot be reliably measured.	1 July 2009
• IAS 24 (revised) Related Party Disclosure This revision provides a simplified definition of a related party.	1 January 2011
• IAS 27 (amendments) Consolidated and Separate Financial Statements This amendment affects the acquisition of subsidiaries achieved in stages.	1 July 2009

# 26 Notes to the consolidated financial statements

## 1 Accounting policies (continued)

No other new standards or amendments are expected to have an effect on the Group.

IFRS 3 (revised) and IAS 27 (amendments) will be applicable prospectively.

The following principal accounting policies have been applied consistently in dealing with items which are considered material in relation to the financial information.

### Revenue

Revenue comprises the fair value for the sale of goods and services, net of value added tax and is recognised as follows:

#### Sales of goods

Sales of equipment and skin-based products are recognised when products are delivered to a customer, the customer has accepted the products and collectability of the related receivables is reasonably assured.

#### Sales of services

Sales of research and development services are recognised in the accounting period in which the services are rendered, by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

### Leases

Where a Group company enters into a lease which entails taking substantially all the risks and rewards of ownership of an asset, the lease is treated as a 'finance lease'. The asset is recorded in the balance sheet as property, plant and equipment and is depreciated over its estimated useful life or the term of the lease, whichever is shorter. Future instalments under such leases, net of finance charges, are included within creditors. Rentals payable are apportioned between the finance element, which is charged to the consolidated income statement, and the capital element which reduces the outstanding obligation for future instalments. All other leases are accounted for as 'operating leases' and the rental charges are charged to the consolidated income statement on a straight-line basis over the life of the lease.

### Financial income and financial expense

Financial income and financial expense is recognised in the income statement as it accrues, using the effective interest method.

### Pension and other post retirement benefits

Payments to defined contribution retirement benefit schemes are charged as an expense as they fall due.

### Share-based payment transactions

The Group issues equity-settled share-based payments to all employees. Equity-settled share-based payments are measured at fair value at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest and adjusted for the effect of non market-based vesting conditions.

The fair value of options granted by the Group is measured by use of the Black-Scholes pricing model taking into account the following inputs: the exercise price of the option; the life of the option; the market price on the date of grant of the option; the expected volatility of the share price; the dividends expected on the shares; and the risk free interest rate for the life of the option. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations.

### Research and development expenditure

Expenditure on the research phase is charged to the income statement in the period in which it is incurred. Development expenditure on new products is capitalised only once the criteria specified under IAS 38, Intangible Assets, have been met. Prior to and during the year ended 30 April 2010, no development expenditure satisfied the necessary conditions of IAS 38.

### Taxation

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised.

## 1 Accounting policies (continued)

### Foreign currency

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

### Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses.

Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

Depreciation is charged to the profit and loss statement on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. The estimated useful lives are as follows:

Leasehold improvements	Lease term
Furniture and fittings	5 years
Computer equipment	3 years
Laboratory and office equipment	5 years

### Impairment

The carrying amounts of the Group's assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognised in the income statement.

### Intangible assets

#### Computer software

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised to administrative expenses using the straight-line method over their estimated useful lives (1 to 3 years).

#### Intellectual property

Acquired intellectual property is included at cost and is amortised to administrative expenses on a straight-line basis over its useful economic life of 15 years.

### Financial instruments

Financial assets and financial liabilities are recognised on the Group's balance sheet when the Group becomes a party to the contractual provisions of the instrument. The Group's financial assets are all classified as loans and receivables and carried at amortised cost. The Group's financial liabilities are all classified as 'other' liabilities which are carried at amortised cost. Cash and cash equivalents comprise cash balances and call deposits.

### Government grants

Grants that compensate the Group for expenses incurred are recognised in the income statement on a systematic basis in the same periods in which the expenses are recognised. Grant revenue is disclosed within other operating income.

### Key sources of estimation uncertainty

The preparation of the Group's financial statements, in accordance with IAS 1, Presentation of Financial Statements, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities at the date of the Group's financial statements. The Group's estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

- Depreciation of property, plant and equipment

Depreciation is provided in the consolidated financial statements so as to write-down the respective assets to their residual values over their estimated useful lives and as such, the selection of the estimated useful lives and the expected residual values of the assets requires the use of estimates and judgements. Details of the estimated useful lives are as shown above in the policy note for depreciation.

- Amortisation lives

Intangible assets are recorded at their fair value at acquisition date and are amortised on a straight-line basis over their estimated useful economic lives from the time they are available for use. Any change in the estimated useful economic lives could affect the future results of the Group; however, no changes were made in the year.



# 28 Notes to the consolidated financial statements

## 1 Accounting policies (continued)

### • Revenue recognition

The Group's revenue substantially comprised revenues from the provision of research and development services. The contracts set out defined deliverables the achievement of which trigger milestone payments. Judgement is used to determine the stage of completion and the point at which revenue is recognised.

### • Share-based payments

The critical accounting estimates, assumptions and judgements underpinning the valuation of the option awards are disclosed in note 20.

### • Taxation

The current tax receivable is the expected tax receivable on the expenditure for the period using the tax rates and laws that have been enacted or substantially enacted at the balance sheet date, and any adjustments to tax payable in respect of previous years. The ultimate receivable may vary from the amounts provided and is dependent upon negotiations with the relevant tax authorities.

## 2 Segment reporting

IFRS 8 requires the Group to report on operating segments on the same basis as that used by the chief operating decision maker to assess the performance of the business segments and to allocate resources accordingly. For management purposes, the Group is organised by market category and operational information is presented to the chief operating decision maker in the following market categories: energy, electronics, biomedical and products and recharges.

The Group's activities originate from the production, design and development of high throughput methods of material synthesis, characterisation and screening. The Group has commercialised skin-based products, details of which are given below:

### Energy

The Group has materials development programmes in the battery, fuel cell and hydrogen storage sectors.

### Electronics

The Group's technology can be applied to a wide range of electronic materials. The Group is initially focusing on piezoelectric and memory materials.

### Biomedical

In 2009, the Group incorporated a subsidiary to handle all of its biomedical products and development programmes. The biomedical business is built on the Group's biopolymer technology.

### Recharges

The Group has recharged academic partners for their limited use of its equipment.

Details of the revenues from external customers by operating segment are given below:

	Year ended 30 April	
	2010	2009
	£	£
<b>Turnover</b>		
Analysis by class of business:		
Energy	910,937	783,694
Electronics	–	105,000
Biomedical	148,895	26,500
Recharges	1,040	937
	<b>1,060,872</b>	<b>916,131</b>

## 2 Segment reporting (continued)

	Year ended 30 April	
	2010	2009
	£	£
<b>Turnover</b>		
Analysis by geographical market:		
By destination		
Belgium	179,381	223,878
United Kingdom	89,435	937
Germany	42,000	–
Netherlands	–	226,838
Japan	689,556	437,978
North America	60,500	26,500
	<b>1,060,872</b>	<b>916,131</b>
Analysed as:		
Rendering of services	972,477	916,131
Sales of goods	88,395	–
	<b>1,060,872</b>	<b>916,131</b>

In the period to 30 April 2010, the biomedical class of business turnover can be analysed as £88,395 for sale of skin-based products and £60,500 for research and development services. All revenues associated with the energy and electronics class of business are for research and development services.

A number of customers individually account for more than 10 percent of the total turnover of the Group. The revenues from these companies are indicated below on a segment basis:

	Year ended 30 April	
	2010	2009
	£	£
<b>Turnover</b>		
Customer 1	689,556	437,978
Customer 2	179,381	223,878
Customer 3	–	121,838
Customers less than 10 percent	42,000	–
<b>Energy total</b>	<b>910,937</b>	<b>783,694</b>
Customer 4	–	105,000
<b>Electronics total</b>	<b>–</b>	<b>105,000</b>
Customer 5	60,500	26,500
Customers less than 10 percent	88,395	–
<b>Biomedical total</b>	<b>148,895</b>	<b>26,500</b>
Customers less than 10 percent	1,040	937
<b>Product and recharges total</b>	<b>1,040</b>	<b>937</b>
	<b>1,060,872</b>	<b>916,131</b>

The chief operating decision maker only reviews turnover by operating segment then reviews expenses and profit on an aggregate basis. Therefore the segmental loss before tax information, along with the segmental total assets and liabilities information has not been split out in this note.

The loss before tax per the management accounts is the same as the loss before tax on the consolidated statement of comprehensive income with the exception of the Share-based payment expense which is only calculated as a year end adjustment. For details of the calculation see note 20. The total assets and liabilities per the management accounts are the same as the consolidated balance sheet with the exception of the period end tax adjustment.

## 30 Notes to the consolidated financial statements

### 3 Operating loss

	Year ended 30 April	
	2010	2009
	£	£
<b>This is arrived at after charging:</b>		
Research and development expenditure in the year	1,145,360	1,212,853
Depreciation	764,327	629,609
Amortisation of intangible assets	21,594	22,438
Auditors remuneration:		
Fees payable to the Group's auditor for the audit of the Group's accounts	4,750	4,750
Fees payable to the Group's auditor for other services:		
– the audit of the Group's subsidiaries	2,500	–
– tax services	9,555	–
– other services	23,718	–
Operating lease rentals	174,119	140,613
Share-based payment charge	816,179	86,413

### 4 Employees

The average number of employees during the year, including Executive Directors, was:

	Year ended 30 April	
	2010	2009
	Number	Number
Administration	9	8
Materials synthesis	17	18
	26	26

Staff costs for all employees, including Executive Directors, consist of:

	Year ended 30 April	
	2010	2009
	£	£
Wages and salaries	1,235,823	1,119,596
Social security costs	129,426	116,195
Share-based payment expense	816,179	86,413
Pension costs	76,741	88,897
	2,258,169	1,411,101

**4 Employees (continued)**

The Directors' costs consist of:

	Basic salary £	Fees £	Benefits in kind £	Bonus £	Total short-term benefits £	Pension £	Share-based payment expense £	Total £
<b>Year to 30 April 2010</b>								
G. Purdy	122,760	–	365	36,828	159,953	12,276	154,292	326,521
A. Marrocco	14,841	–	65	–	14,906	1,228	90,824	106,958
S. Boydell	46,836	–	71	9,373	56,280	3,832	–	60,112
J. Boyer	40,920	–	–	–	40,920	–	199,946	240,866
W. Braun	20,460	–	–	–	20,460	–	26,371	46,831
K. Seifert	–	–	–	–	–	–	26,371	26,371
R. Penning de Vries	–	24,510	–	–	24,510	–	–	24,510
W. Wakeham	10,230	–	–	–	10,230	–	–	10,230
B. Hayden	2,917	31,739	–	–	34,656	–	56,698	91,354
	<b>258,964</b>	<b>56,249</b>	<b>501</b>	<b>46,201</b>	<b>361,915</b>	<b>17,336</b>	<b>554,502</b>	<b>933,753</b>
<b>Year to 30 April 2009</b>								
G. Purdy	122,760	–	365	14,209	137,334	12,276	12,494	162,104
A. Marrocco	92,070	–	274	9,764	102,108	7,366	4,126	113,600
J. Boyer	40,920	–	–	–	40,920	–	26,192	67,112
W. Braun	20,383	–	–	–	20,383	–	1,738	22,121
K. Seifert	16,973	–	–	–	16,973	–	1,738	18,711
D. Norwood	13,640	–	–	–	13,640	–	–	13,640
B. Hayden	–	35,603	–	–	35,603	–	4,964	40,567
	<b>306,746</b>	<b>35,603</b>	<b>639</b>	<b>23,973</b>	<b>366,961</b>	<b>19,642</b>	<b>51,252</b>	<b>437,855</b>

Benefits in kind include critical illness cover.

The share options of the Directors under the Ilika Technologies Approved Share Option Scheme are set out below:

	2010 Number	2009 Number
G. Purdy	7,607	7,607
A. Marrocco	1,000	1,000
S. Boydell	900	–

The share options of the Directors under the Ilika Technologies Unapproved Share Option Scheme are set out below:

	2010 Number	2009 Number
G. Purdy	1,362	1,362
J. Boyer	5,402	5,402
W. Braun	200	200
K. Seifert	200	200
B. Hayden	593	593

No options have lapsed under either scheme.

**5 Other operating income**

	Year ended 30 April	
	2010 £	2009 £
Grant income	210,457	182,133
Sundry other income	4,543	14,080
	<b>215,000</b>	<b>196,213</b>



## 32 Notes to the consolidated financial statements

### 6 Financial income

	Year ended 30 April	
	2010	2009
	£	£
Income from short-term deposits	9,686	163,371

### 7 Financial expense

	Year ended 30 April	
	2010	2009
	£	£
Interest on: Finance leases	6,448	6,451

### 8 Taxation

#### (a) Tax on profit from ordinary activities

There is no taxation charge due to the losses incurred by the Group during the year. The taxation credit represents R&D tax credit claims as follows:

	Year ended 30 April	
	2010	2009
	£	£
Current tax on loss for the year	(132,823)	(150,078)

#### (b) Factors affecting current tax charge

The tax assessed on the loss on ordinary activities for the period is different to the standard rate of corporation tax in the UK of 28 percent. The differences are reconciled below:

	2010	2009
	£	£
Loss on ordinary activities before tax	(3,264,374)	(2,087,180)
Loss on ordinary activities before tax multiplied by the standard rate of corporation tax in the UK of 28 percent	(914,025)	(584,410)
Effects of:		
Expenses not deductible for corporation tax	13,348	1,314
Other temporary differences not recognised	191,332	24,459
Property, plant and equipment temporary differences not recognised	228,589	(323,776)
R&D relief	5,583	10,972
Origination of unrecognised tax losses	342,350	721,363
<b>Total tax credit for the year</b>	<b>(132,823)</b>	<b>(150,078)</b>

	2010	2009
	£	£
Deferred tax		
Recognised deferred taxation		
Accelerated capital allowances	553,939	743,507
Other temporary differences	(553,939)	(385,099)
Losses	–	(358,408)
Charge for the year	–	–

#### Unrecognised deferred taxation

There are tax losses available for carry forward against future trading profits of approximately £6,228,000 (2009: £4,973,000). A deferred tax asset in respect of these losses of approximately £1,736,000 (2009: £1,392,000) has not been recognised in the accounts, as the full utilisation of these losses in the foreseeable future is uncertain.

## 9 Earnings per share

Earnings per Ordinary Share have been calculated using the weighted average number of shares in issue during the relevant financial periods. The weighted average number of Equity Shares in issue and the earnings, being profit after tax, are as follows:

	Year ended 30 April	
	2010 Number	2009 Number
Weighted average number of Equity Shares	121,339	121,339
	£	£
Earnings, being profit after tax	(3,131,551)	(1,937,102)

The loss attributable to Ordinary Shareholders and weighted average number of Ordinary Shares for the purpose of calculating the diluted earnings per Ordinary Share are identical to those used for basic earnings per share. This is because the exercise of share options would have the effect of reducing the loss per Ordinary Share and is therefore not dilutive under the terms of IAS 33. At 30 April 2010 there were 46,049 options outstanding (2009: 45,149 options outstanding) as detailed in note 16 and note 20. Following the share for share exchange, there is no effect on the earnings per share.

The Share-based payment charge has had a significant effect on the loss per share for the year. The loss per share after adding back this charge is shown below:

	Year ended 30 April	
	2010 £	2009 £
Earnings, being profit after tax	(3,131,551)	(1,937,102)
Share-based payment charge	816,179	86,413
Earnings adjusted for Share-based payment charge	(2,315,372)	(1,850,689)
Loss per share	(25.81)	(15.97)
Loss per share adjusting for the Share-based payment charge	(19.08)	(15.25)

## 10 Intangible assets

	Software licences £	Intellectual property £	Total £
<b>Cost</b>			
As at 30 April 2008	33,030	75,000	108,030
Additions	16,508	–	16,508
Disposals	(26,730)	–	(26,730)
As at 30 April 2009	22,808	75,000	97,808
Additions	11,078	–	11,078
<b>As at 30 April 2010</b>	<b>33,886</b>	<b>75,000</b>	<b>108,886</b>
<b>Amortisation</b>			
As at 30 April 2009	16,096	8,750	24,846
Provided for the year	17,438	5,000	22,438
Disposals	(26,730)	–	(26,730)
As at 30 April 2009	6,804	13,750	20,554
Provided for the year	16,594	5,000	21,594
<b>As at 30 April 2010</b>	<b>23,398</b>	<b>18,750</b>	<b>42,148</b>
<b>Net book value</b>			
As at 30 April 2009	16,004	61,250	77,254
<b>As at 30 April 2010</b>	<b>10,488</b>	<b>56,250</b>	<b>66,738</b>

## 34 Notes to the consolidated financial statements

### 11 Property, plant and equipment

	Leasehold improvements £	Plant, machinery and equipment £	Fixtures and fittings £	Total £
<b>Cost</b>				
As at 30 April 2008	221,665	1,446,003	153,437	1,821,105
Additions	130,002	1,636,632	4,595	1,771,229
Disposals	–	(11,027)	–	(11,027)
<b>As at 30 April 2009</b>	<b>351,667</b>	<b>3,071,608</b>	<b>158,032</b>	<b>3,581,307</b>
Additions	20,000	100,235	1,133	121,368
Disposals	–	(1,568)	–	(1,568)
<b>As at 30 April 2010</b>	<b>371,667</b>	<b>3,170,275</b>	<b>159,165</b>	<b>3,701,107</b>
<b>Depreciation</b>				
As at 30 April 2008	75,063	143,926	31,690	250,679
Provided for the year	187,006	411,437	31,166	629,609
Disposals	–	(11,027)	–	(11,027)
<b>As at 30 April 2009</b>	<b>262,069</b>	<b>544,336</b>	<b>62,856</b>	<b>869,261</b>
Provided for the year	95,310	633,303	35,714	764,327
Disposals	–	(610)	–	(610)
<b>As at 30 April 2010</b>	<b>357,379</b>	<b>1,177,029</b>	<b>98,570</b>	<b>1,632,978</b>
<b>Net book value</b>				
As at 30 April 2009	89,598	2,527,272	95,176	2,712,046
<b>As at 30 April 2010</b>	<b>14,288</b>	<b>1,993,246</b>	<b>60,595</b>	<b>2,068,129</b>

### Commitments for capital expenditure

	As at 30 April	
	2010	2009
	£	£
Contracted but not provided for	–	9,567

The net book value of tangible assets for the Group includes an amount of £36,683 (2009: £55,743) in respect of assets held under finance lease contracts.

### 12 Trade and other receivables

	As at 30 April	
	2010	2009
	£	£
Trade receivables	87,891	1,330
Prepayments and accrued income	368,888	192,356
Other receivables	157,331	123,272
	<b>614,110</b>	<b>316,958</b>

### 13 Cash and cash equivalents

	As at 30 April	
	2010	2009
	£	£
Current bank accounts	492,418	850,641
Short-term deposits	300,000	1,750,000
	<b>792,418</b>	<b>2,600,641</b>

**14 Trade and other payables****Current**

	As at 30 April	
	2010	2009
	£	£
Trade payables	328,281	323,099
Other payables	3,584	1,732
Other taxes and social security costs	33,143	32,340
Lease purchase agreements	19,060	19,060
Accruals and deferred income	616,089	472,253
	<b>1,000,157</b>	<b>848,484</b>

**Non current**

	As at 30 April	
	2010	2009
	£	£
Lease purchase agreements	18,190	37,250

**Lease purchase agreements**

	As at 30 April	
	2010	2009
	£	£
Amounts payable		
Within 1 year	19,060	19,060
In 1 year to 2 years	18,190	19,060
In 2 years to 5 years	–	18,190
	<b>37,250</b>	<b>56,310</b>

Lease purchase agreements are secured on the related assets and carry interest at fixed rates.

**15 Financial instruments**

The Group's principal financial instruments comprise, lease financing arrangements, cash and short-term deposits as well as other various items arising from its operations such as trade receivables and trade payables which are shown in the table below. The main purpose of these instruments is to finance the Group's working capital requirements as well as funding its capital expenditure programmes. The Group does not enter into derivative transactions such as interest rate swaps or forward exchange contracts.

	As at 30 April	
	2010	2009
	£	£
<b>Financial assets</b>		
<b>Loans and receivables</b>		
Trade receivables	87,891	1,330
Accrued income	88,173	58,074
Other receivables	157,331	123,272
Current bank accounts	492,418	850,641
Short-term deposits	300,000	1,750,000
<b>Total loans and receivables</b>	<b>1,125,813</b>	<b>2,783,317</b>
<b>Financial liabilities</b>		
<b>Other financial liabilities</b>		
Trade payables	328,281	323,099
Other payables	3,582	1,732
Lease purchase agreements	37,250	56,310
Accruals	547,312	173,920
<b>Total other financial liabilities</b>	<b>916,425</b>	<b>555,061</b>



## 36 Notes to the consolidated financial statements

### 15 Financial instruments (continued)

The risks associated with these financial instruments are set out below:

#### Foreign currency risk

The Group buys goods and services in currencies other than sterling. The Group's non sterling liabilities and cash flows can be affected by movements in exchange rates. These transactions are not significant and therefore no forward exchange contracts have been entered into. It is Group policy not to engage in any speculative trading in financial instruments. Any risk is mitigated by sales transactions being denominated in sterling.

#### Credit risk

The Group's credit risk is attributable to its trade receivables and banking deposits. The Group places its deposits with reputable financial institutions to minimise credit risk. The maximum exposure to credit risk for each period is the amount disclosed above as total loans and receivables. For the periods above there were no trade receivables which were past due or impaired. Risk is further mitigated through the use of credit limits, but also through the nature of the customers, who, for the most part, are large multinationals. There is no bad debt provision.

#### Liquidity risk

The Group's policy is to maintain adequate cash resources to meet liabilities as they fall due. With the exception of its hire purchase liabilities, which are disclosed in note 14, all other Group payable balances fall due for payment within 1 year. Cash balances are placed on deposit for varying periods with reputable banking institutions to ensure there is limited risk of capital loss. The Group does not maintain an overdraft facility. Whilst cash reserves do not meet short term liabilities at the year end, post year end Ilika plc, who acquired the Group, have raised funds, see note 21.

#### Interest rate risk

The main risk arising from the Group's financial instruments is interest rate risk. The Group placed deposits surplus to short-term working capital requirements with a variety of reputable UK-based banks and building societies. These balances are placed at floating rates of interest and deposits have maturities of 1 to 3 months. The Group's cash and short-term deposits are set out in note 13.

Fixed-rate financial liabilities comprise a finance lease, which expires in April 2012 and has a weighted average interest rate of 13.5 percent. The maturity profile is detailed in note 14. Floating-rate financial assets comprise cash on deposit and cash at bank. Short-term deposits are placed with banks for periods of up to 6 months and are categorised as floating-rate financial assets. Contracts in place at 30 April 2010 had a weighted average period to maturity of 19 days and a weighted average annualised rate of interest of 0.35 percent.

#### Interest rate risk sensitivity analysis

It is estimated that a change in base rate to zero would have increased the Group's less before taxation for the year to 30 April 2010 by approximately £9,000 (2009: £164,000).

It is estimated that an increase in base rate by 1 percent would decrease the Group's less before taxation for the year to 30 April 2010 by approximately £11,000 (2009: £26,000).

There is no difference between the book and fair value of financial assets and liabilities.

#### Capital management

The primary aim of the Group's capital management is to safeguard the Group's ability to continue as a going concern, to support its businesses and maximise shareholder value. The Group monitors its capital structure and makes adjustments as and when it is deemed necessary and appropriate to do so using such methods as the issuing of new shares. At present, other than finance leases, all funding is raised by equity. See note 21 for the fundraising that occurred after the year end.

### 16 Share capital

	As at 30 April	
	2010	2009
	£	£
<b>Authorised</b>		
158,248 Ordinary Shares of £0.01 each	1,582	1,582
23,752 Convertible Preference Shares of £0.01 each	238	238
<b>Allotted, called up and fully paid</b>		
103,525 Ordinary Shares of £0.01 each	1,035	1,035
17,814 Convertible Preference Shares of £0.01 each	178	178
	<b>1,213</b>	<b>1,213</b>

## 16 Share capital

### Share rights

The Ordinary Share and preference shares rank pari passu in all respects other than:

- The profits which the Group may determine to distribute in respect of any financial period shall be distributed only among the holders of the Ordinary Shares. The Preference Shares shall not entitle the holders of them to any share in such distributions.
- On a return of capital or assets on a liquidation, reduction of capital or otherwise the surplus assets of the Group remaining after payment of its obligations shall be applied:
  - first, in paying to the holders of the Preference Shares the amount paid thereon, being the amount equal to the par value of the Preference Shares excluding any premium; and
  - secondly, the balance of such surplus assets shall belong to and be distributed amongst the holders of the Ordinary Shares

The preference shareholders have the right to, at any time, convert the Preference Shares held to the same number of Ordinary Shares.

### Share options and warrants

Employee related share options are disclosed in note 20. In addition to these, there were 22,072 non employee share options over Ordinary Shares of £0.01 at the year end. The Company's brokers also have a warrant to subscribe to 1,301 Ordinary Shares of £0.01.

## 17 Operating leases

The total future minimum rent payable under non-cancellable operating leases is as follows:

	As at 30 April	
	2010	2009
	£	£
Property		
Within 1 year	–	64,448
In 1 to 2 years	50,753	–
In 2 to 5 years	471,784	–
	<b>522,537</b>	<b>64,448</b>

## 18 Pensions

The Group operates a defined contribution group personal pension scheme. The pension cost charge for the period represents contributions payable by the Group to the scheme and amounted to £76,741 (2009: £88,897).

## 19 Related party transactions

The Directors consider that no one party controls the Group.

During the year ended 30 April 2010, the Group incurred costs of £251,529 (2009: £252,308) 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 Group. At 30 April 2010, the amount unpaid in respect of these costs was £15,239 (2009: £17,399).

During the year ended 30 April 2010, the Group incurred costs of £nil (2009: £5,715) with IP Group plc, a shareholder in the Group in connection with non-executive recruitment fees. At 30 April 2010, the amount unpaid in respect of these costs was £nil (2009: £nil).

During the year ended 30 April 2010, the Group paid consultancy fees of £35,000 (2009: £35,603) directly to Prof. B. Hayden, a Director of the Group. At 30 April 2010, the amount unpaid in respect of these costs was £nil (2009: £nil). The Group also incurred fees from the University of Southampton in respect of Prof. B. Hayden. These amounts are included in the £251,529 shown above.

## 20 Share-based payments expense and share options

### Share-based payment expense

The Group has recognised an expense to the consolidated statement of comprehensive income representing the fair value of outstanding equity-settled Share-based payment awards to employees.

The Group has calculated the fair market value of options using the Black-Scholes method.

Those fair values were charged to the consolidated statement of total comprehensive income over the relevant vesting periods adjusted to reflect actual and expected vesting levels.

The Group has incentivised and motivated staff through the grant of share options under the Enterprise Management Incentive ('EMI') scheme and through unapproved share option schemes.

## 38 Notes to the consolidated financial statements

### 20 Share-based payments expense and share options (continued)

	Weighted average exercise price		Number	
	2010 £	2009 £	2010	2009
Outstanding:				
At start of the period	33.09	33.09	21,776	19,996
Granted during the period	80.00	–	900	1,780
At the end of the period	34.95	33.09	22,676	21,776

The exercise price of options outstanding at the end of the period ranged between £10 and £242.83 and their weighted average contractual life was 5.9 years (2009: 6.7 years). These share options are exercisable only on or after the flotation or sale of the Group and must be exercised within 10 years from the date of grant.

The following information is relevant in the determination of the fair value of options granted under the equity-settled Share-based remuneration schemes operated by the Group:

	Year ended 30 April	
	2010	2009
Equity-settled:		
Weighted average share price at date of grant/£	49.50	207.81
Exercise price/£	80	10.00–242.83
Weighted average contractual life/years	9.7	9.7
Expected volatility	30%	39%
Expected dividend yield	0%	0%
Risk free interest rate	0.5%	2.84%

The volatility has been based on the annualised average of the standard deviations of the daily historical continuously compounded returns of the share price of 3 companies listed on the Alternative Investment Market which have a broadly similar technology risk profile to the Group. The risk free rate was assumed to be the yield to maturity on a UK Gilt strip with the term to maturity equal to the expected life of the option.

The charge for the period has been calculated on the basis that the Group floated in May 2010.

	2010 £	2009 £
Share-based payment expense	816,179	86,413

#### Ilika Technologies Approved Share Option Scheme

At 30 April 2010 the following share options were outstanding in respect of the Ordinary Shares:

Date of grant	Number of shares	Period of option	Exercise price per share
19/05/04	3,750	10 years	£10
29/06/04	2,197	10 years	£10
09/06/05	1,395	10 years	£10
30/03/06	192	10 years	£10
14/05/07	1,561	10 years	£80
15/01/08	744	10 years	£100
02/02/09	1,380	10 years	£80
01/12/09	900	10 years	£80

No options were exercised in the year.

**20 Share-based payments expense and share options (continued)****Ilika Technologies Unapproved Share Option Scheme**

At 30 April 2010 the following share options were outstanding in respect of the Ordinary Shares:

Date of grant	Number of shares	Period of option	Exercise price per share
19/05/04	3,750	10 years	£10
29/06/04	2,731	10 years	£10
01/12/05	2,800	10 years	£10
08/05/06	1,155	10 years	£10
11/07/07	1,955	10 years	£80
30/08/07	1,516	10 years	£10
11/11/08	400	10 years	£242.83

No options were exercised in the year.

**21 Post balance sheet events**

On 6 May 2010, Ilika plc entered into a share exchange agreement with the shareholders of Ilika Technologies Limited whereby Ilika plc acquired the entire issued share capital of Ilika Technologies Limited in consideration of the issue and allotment of 10,352,499 Ordinary Shares and 1,781,400 Convertible Preference Shares to the shareholders of Ilika Technologies Limited, pro rata to their existing shareholdings.

On 6 May 2010, Southampton Asset Management exercised, conditional upon admission to the Alternative Investment Market ('AIM'), its options over 2,099,900 options over Ordinary Shares.

On 14 May 2010, Ilika plc was admitted to AIM. This initial public offering comprised of the issue of 10,147,059 Placing Shares at 51p per share together with 10,147,059 Placing Warrants. The net proceeds, after transaction costs, were approximately £4,350,000.



# 40 Auditors' report

## Independent non statutory auditors' report to the Directors of Ilika plc

We have audited the non-statutory financial statements of Ilika plc for the period ended 30 April 2010 which comprises the balance sheet and the related notes. These non-statutory financial statements have been prepared in accordance International Financial Reporting Standards ('IFRSs') as adopted by the European Union.

Our report has been prepared pursuant to the requirements of our engagement letter and for no other purpose. Our audit work has been undertaken so that we might state to the company's directors 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 directors as a body, for our audit work, for this report, or for the opinions we have formed.

### Respective responsibilities of directors and auditors

The Directors of Ilika plc are responsible for preparing the non-statutory financial statements in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the European Union and for being satisfied that they give a true and fair view.

Our responsibility is to audit the non-statutory 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

An audit involves obtaining evidence about the amounts and disclosures in the non-statutory financial statements sufficient to give reasonable assurance that the non-statutory financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the non-statutory financial statements.

## Opinion on financial statements

In our opinion:

- the non-statutory financial statements give a true and fair view of the state of the Company's affairs as at 30 April 2010, and
- the non-statutory financial statements have been prepared in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the European Union.

**BDO LLP,**  
Southampton  
United Kingdom  
14 July 2010

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

# 41 Balance sheet of Ilika plc

as at 30 April 2010

	As at 30 April 2010 £
<b>Current assets</b>	
Cash at bank and cash equivalents	0.01
<b>Total net assets</b>	<b>0.01</b>
<b>Equity</b>	
Issued share capital	0.01
<b>Shareholders' funds – equity (note 2)</b>	<b>0.01</b>

# 42 Notes to the financial information

## 1 Accounting policies

### Basis of preparation

These non-statutory financial statements have been prepared in accordance with International Financial Reporting Standards ('IFRS') adopted by the European Union IFRSs and have been prepared to update the financial information presented in the admission document to the Company's financial year end.

Ilika plc was incorporated on 12 March 2010. Since the date of incorporation, Ilika plc has not traded, nor has it received any income, incurred any expenses or paid any dividends. Consequently no statement of comprehensive income is presented. No statement of change in equity or cash flow statement has been presented as the only movement is the £0.01 issue of share capital.

No Directors' report has been presented and the Directors' responsibilities in respect of these non-statutory financial statements are set out on page 18.

## 2 Share capital

	As at 30 April 2010 £
<b>Allotted, called up and fully paid</b>	
1 Ordinary Share of 1p each	<b>0.01</b>

## 3 Post balance sheet events

On 6 May 2010, the Company issued 10,352,500 Ordinary Shares and 1,781,400 Convertible Preference Shares in consideration for the entire issued share capital of Ilika Technologies on a ratio of 100:1 shares. On 6 May 2010, the Company issued 2,099,900 Ordinary Shares pursuant to the exercise of a number of the non employee options.

On 14 May 2010, Ilika plc was admitted to AIM. This initial public offering comprised of the issue of 10,147,059 Placing Shares at 51p per share together with 10,147,059 Placing Warrants. The net proceeds, after transaction costs, were approximately £4,350,000.

# 43 Corporate directory

<b>Company number:</b>	7187804
<b>Directors</b>	
<b>Executive:</b>	Graeme Purdy Stephen Boydell Brian Hayden
<b>Non-Executive:</b>	Jack Boyer (Chairman) Dr. Werner Braun Clare Spottiswoode Prof. William Wakeham
<b>Secretary:</b>	Stephen Boydell
<b>Registered office:</b>	Kenneth Dibben House Enterprise Road University of Southampton Science Park Chilworth Southampton SO16 7NS
<b>Website:</b>	<a href="http://www.ilika.com">www.ilika.com</a>
<b>Advisers</b>	
<b>Independent auditors:</b>	<b>BDO LLP</b> Arcadia House Maritime Walk Ocean Village Southampton SO14 3TL
<b>Nominated adviser and broker:</b>	<b>Nomura Code Securities Limited</b> 1 Carey Lane London EC2V 8AE
<b>Registrars:</b>	<b>Computershare Investor Services PLC</b> The Pavilions Bridgwater Road Bristol BS13 8AE
<b>Public relations:</b>	<b>Pelham Bell Pottinger</b> 12 Arthur Street London EC4R 9AB



## 44 Notes





Science-led Materials Discovery

**Ilika plc**

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