

Oxonica plc Annual Report and Accounts 2009



Directors' report

The directors present their report and audited financial statements for the year ended 31st December 2009.

Principal Activities

Oxonica plc Group is an advanced materials business whose principal activity during the year was the development and commercialisation of nanomaterials. The Group now derives the majority of its income from licensing and patent assignment agreements following the disposal of its energy division (Oxonica Energy Ltd.) in September 2009 and its US-based division – Oxonica Materials Inc. (OMI) – in July 2010. The Group is headquartered in Haddenham, Bucks., UK. The company's principal activity is that of a holding company.

Review of the business

Group turnover for the year was £3.26 million (2008: £3.39 million). Excluding discontinued operations, turnover was £2.6 million, an increase of 15.6% over the previous year (2008: £2.25 million), due primarily to growth in security applications and development contracts in the US. Gross profit was static at £2.89 million (2008: £2.9 million). Other operating income (primarily grants) increased to £805,000 (2008: £245,000). After a reduction in expenses to £6.24 million (2008: £7.71 million) and goodwill impairment of £3.44 million (2008: £5.13 million), the operating loss was £5.99 million compared with £9.68 million in 2008, an improvement of 38%. After financial income/expenses and taxation, the loss for the year was £6.36 million (2008: £9.86 million).

Cash and cash equivalents reduced to £403,000 at the year-end (2008: £3.6 million) due to operating cash outflows of £1.84 million, capital expenditure of £119,000 and repayment of bank loans of £1.2 million to BlueCrest Capital Finance. As a result of the decline in the Group's cash position and the reduction in operations following the agreement with Croda and the sale of Oxonica Energy Limited, staffing levels in the UK were reduced to a minimum by year-end, consistent with the ongoing nature of the Group's business. The Group currently has one full-time employee (Group Financial Controller) and part-time employment/service agreements with Board directors.

Key Events

On 25th August 2009, the Group signed an agreement with Croda whereby all Group intellectual property rights, trademarks and know-how relating to UV protection products – Optisol and Solacor – were assigned to Croda for application in personal care and polymers. Under the terms of this agreement, the Group shall receive a 20% royalty on the net contribution of all products sold by Croda in relation to the assigned intellectual property. The Group has an agreement with Umicore to manufacture such products until September 2011.

In July 2009, The Appeal Court upheld the High Court judgment issued in favour of Neuftec in the Envirox™ patent licensing dispute. The disputed royalties held in escrow of £394,000 were released to Neuftec and Oxonica then entered into discussions with third parties regarding the sale or license of the business of Oxonica Energy Limited. On 29th September 2009, Oxonica Energy Limited was sold to Energenics Holdings Pte Limited on terms whereby there has been a full and final settlement of legal actions between Oxonica and Neuftec Limited. Following the sale, a number of UK staff transferred with the business to the acquirer. The resultant loss of revenues obliged the Board reluctantly to make the remaining UK staff redundant. The Board appreciates how well employees responded to this difficult outcome and would like to thank all the former staff for their contribution and commitment to the Group over recent years.

The outstanding milestones under the terms of the Assignment and License Agreement with BD were completed successfully. Income from BD is treated as deferred income on the Group Balance sheet and stands at £4.01 million.

On 18th June 2009, the Board announced its intention to seek shareholders' approval for the cancellation of the admission of the Group's shares to trading on the Alternative Investment Market of the London Stock Exchange. The Group delisted from AIM on 4th August 2009, realising significant cost savings. The Board evaluated alternative methods of enabling shareholders to trade in Group shares and applied for the Group's shares to be traded on Sharemark. Sharemark issued a conditional approval for the shares to be traded on Sharemark subject to certain additional information being provided. Whilst the Board

expects to be able to satisfactorily address the requirements of Sharemark in due course, the Board determined that trading would not be able to re-commence until completion of the restructuring programme. In addition, the Board is considering establishing an informal matched bargain trading facility managed by the Group Secretary.

Kevin Matthews (Chief Executive), Richard Clarke (Chief Financial Officer), and Ed Weeks (Non-executive Director) resigned from the Board as of 29th September 2009. Gordon Ringold (Non-executive Director) resigned from the Board on 11th December 2009. The Group appointed Graham Shaw as Chief Executive as of the same date.

The key performance indicators for the Group during 2009 are shown below:

	2009	2008
Turnover	£3,264,000	£3,388,000
Gross Profit	£2,888,000	£2,917,000
Gross Profit as % of Turnover	88.5%	86%
Profit/(Loss) before interest (EBIT)	(£5,991,000)	(£9,684,000)
EBIT as % of Turnover	184%	286%

Post Balance Sheet Events

On 28th July 2010, the Group sold its entire share capital in Oxonica Materials Inc. (OMI) to Cabot Corporation for US\$5.2 million after exercise of employee share options. After deduction of various expenses, the sale of OMI realised approximately US\$4 million, enabling the Group to settle all outstanding loans and creditor balances.

On 28th May 2010, the Group entered into a secured loan agreement with Richard Farleigh for the amount of £200,000 in order to meet critical creditor obligations and to enable continued discussions with Cabot re the sale of OMI. The loan carried a redemption premium of two-times the original loan capital and was repaid on 3rd August 2010, following the sale of OMI.

Risks and Uncertainties

The key business risks are set out below:

The current adverse economic conditions are likely to impact the Group's business, particularly if they are prolonged, resulting in a slower rate of adoption of the Group's products by new customers and greater pressure on pricing.

Receipt of royalties from the agreement with BD will depend on a lengthy period of product development, trial and evaluation. Delays in the development cycle or in product adoption or acceptance by customers could materially affect the Group's future operating results or financial condition. The Group has no control over any such delays.

The Group receives revenue and incurs costs in foreign currency which may affect the Group's competitiveness and/or profitability should there be an exchange rate movement.

Claims by others that the Group infringes on their intellectual property rights could be costly to defend and could harm the Group's business and licensing arrangements.

The Group has significant contractual agreements with third parties which are subject to interpretation and disputes may arise resulting in legal costs and an inability to enforce all its rights. There is no guarantee that the Group will be able to enforce all its rights under its agreements or arrangements with third parties and disputes may result.

The Group's strategy has been formulated in the light of the current regulatory and legal environment. However, due to the early nature of this industry the regulatory and legal environment may change both rapidly and significantly in the near term. Any such changes to, or increases in, regulation or legal requirements may have a material adverse effect on the Group

Goodwill Impairment

During the year, a provision for goodwill impairment of £3.44 million (2008: £5.13 million) was made in respect of Oxonica Inc., following review of the estimated timescale for release by BD of products relevant to the Assignment and License Agreement, and the consequent receipt of royalties by Oxonica Inc.

Taxation

The Group had a tax charge in the year of £201,000 relating primarily to the financial results of Oxonica Materials Inc. in the US. The Group has substantial tax losses available in the UK for carry forward against future profits.

Currency

The Group has both translational and transactional currency exposures. Translational exposures arise on the translation of overseas results into sterling. Transactional exposures arise where the currency of sale or purchase invoices differs from the functional currency in which each Group prepares its local accounts. The transactional exposures include situations where foreign currency denominated trade debtor, trade creditor and cash balances are held. The largest transactional and translational exposures are to the US dollar. Translational currency exposures are not hedged. However, transactional currency exposures will be hedged to the extent that they become sufficiently material.

Accounting standards and policies

This annual report complies with all Adopted IFRSs applicable to financial statements at 31 December 2009. Oxonica's accounting policies are set out on pages 12 to 16 and are consistent with previous years.

Future Developments

The Group has now (August 2010) completed its restructuring programme, reduced its cost base to a minimum and holds significant cash reserves. All future revenues will be generated solely from royalties and will depend on the agreements with Croda and BD. It is anticipated that, under the Croda agreement, royalties will grow gradually over the next two years. The Board intends to evaluate further the timing and level of royalties anticipated from the BD agreement, which are likely to be post-2015, in order to determine the cash requirements of the Group until such time as a significant royalty stream develops. It remains the Board's objective to achieve a cash break-even position with a sustainable, relatively low-risk business model.

Proposed Dividend

The directors do not recommend the payment of a dividend for the year under review. (2008: £nil).

Names of Directors

The directors in office during the year are listed below. Their beneficial interests in the Group's issued ordinary share capital are listed in Note 27 to the financial statements.

Richard Farleigh

B Comm (age 49)

Non-executive Chairman

Richard worked at Australia's central bank and then pursued a career in finance, including designing derivatives, proprietary trading and hedge fund management. He then established himself as an investor in early stage businesses in emerging technologies and markets and was a founder investor in Oxonica when it was spun-out from the University of Oxford in 1999. Other companies in which he has invested include Wolfson Microelectronics plc, Arc International plc, Cmed Group Ltd, Celoxica Holdings plc, Radiation Watch Ltd, Net-A-Porter Ltd, Green Chemicals plc, Spectral Fusion Technologies plc and ClearSpeed Technology plc. Richard is non-executive chairman of Spectral Fusion Technologies plc and ClearSpeed Technology plc. He has also served as a panellist on BBC 2's popular business show, Dragon's Den.

George Elliott

BA CA (age 57)

Non-executive Director

George is non-executive Chairman of Craneware plc (CRW), EasyDate plc (EZD), Corsair Memory Inc, and Scotcloth Ltd. He is also a non-executive Director of Summit Corporation plc (SUMM). From 2000-

2007 George was Chief Financial Officer of Wolfson Microelectronics plc (WLF), a leading global provider of high performance mixed-signal semiconductors to the consumer electronics market. Previously, he was Business Development Director at McQueen International Ltd (now Sykes), where he was responsible for strategic sales and marketing. George, formerly a partner of Grant Thornton, is a member of the Institute of Chartered Accountants of Scotland and has a degree in Accountancy and Finance from Herriot-Watt University. He joined the Board in 2009.

Kevin Matthews

MA DPhil CChem CSi MRSC MACS (age 45)

Chief Executive Officer (to Sept. 2009)

Kevin was appointed Chief Executive Officer of Oxonica plc in April 2001. He joined Oxonica from Rhodia Consumer Specialties Limited and previously held roles with Albright & Wilson UK Limited and ICI Chemicals & Polymers. He has a DPhil in organic chemistry. He is a member of the Nominations Committee. Kevin is also a nonexecutive director of Elementis plc.

Richard Clarke

BSc FCA MBA (age 53)

Chief Financial Officer (to Sept. 2009)

Richard is a Chartered Accountant and has held a number of senior financial positions within the aerospace, electronics, optics and semiconductor industries, including acting as finance director for an international group of electro-optics companies listed on the Singapore Stock Exchange and also as CFO of a London listed semiconductor materials Group. Richard joined Oxonica in 2004.

Gordon Ringold

PhD (age 58)

Non-executive Director (to December 2009)

Gordon worked for Syntex, now a division of Hoffman La-Roche, and Glaxo-Wellcome, where he was CEO of the Affymax Research Institute. He subsequently cofounded Maxygen Corporation and Alexza Pharmaceuticals. He continues to act as a director of these companies and is also Managing Partner of Technogen Associates L.P., a private investment firm. Gordon also serves on several non-profit Boards including the Damon Runyon Cancer Research Foundation and the University of California President's Advisory Board on Science and Technology. He joined the Board in February 2006 following the acquisition of Nanoplex Technologies Inc.

Ed Weeks

(age 62)

Non-executive Director (to Sept. 2009)

After periods in the chemical and papermaking industries, Ed was appointed Director of Plastics at BASF UK and supervised the growth of the division which included the integration of ICI's UK polypropylene business. He has held many board appointments and has wide experience of starting, growing, acquiring, rationalising and merging businesses. Ed is currently chairman of Advanced Insulation plc. He joined the Board in March 2004.

Graham Shaw

BA Hons London (age 60)

Chief Executive

Graham joined Oxonica in September 2009 to assume the role of Chief Executive. Graham is a director of Signum Technologies Ltd. and part-time Chief Executive of the DIPEX charity. Graham has held senior positions in technology companies over the last 20 years, including Crosfield Electronics Ltd. and SoftPress, and has particular expertise in the management and commercial exploitation of intellectual property through Group sales and licensing agreements. Graham is a graduate of London University with postgraduate qualifications in international marketing.

Charitable Donations

During the year, the Group made no political or charitable donations (2008: £nil).

Creditor Days

During the year, creditor days averaged 33 days (2008: 37 days)

Statement of directors' responsibilities in respect of the Annual Report and the financial statements

The directors are responsible for preparing the Annual Report and the Group and Parent Group financial statements in accordance with applicable law and regulations. Group law requires the directors to prepare Group and Parent Group financial statements for each financial year. The Group and Parent Group financial statements are required by law and IFRSs as adopted by the EU to present fairly the financial position of the Group and the Parent Group and the performance for that period; the Companies Act 2006 provides in relation to such financial statements that references in the relevant part of that Act to financial statements giving a true and fair view are references to their achieving a fair presentation.

In preparing each of the Group and Parent Group financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the Parent Group will continue in business.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Parent Group and enable them to ensure that its financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities. The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Group's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Disclosure of information to auditors

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Group's auditors are unaware; and each director has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the Group's auditors are aware of that information.

Approved by the Board of Directors and signed on behalf of the Board.



Graham Shaw
Chief Executive Officer

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF OXONICA PLC

We have audited the group and parent company financial statements of Oxonica Plc for the year ended 31 December 2009 set out on pages 8 to 32. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

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

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 5, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the 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 and the parent 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 financial statements.

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2009 and of the group's loss for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

TO THE MEMBERS OF OXONICA PLC

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

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

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Rouse Audit LLP

Bindi Palmer, Senior Statutory Auditor
For and on behalf of Rouse Audit LLP

Chartered Accountants
Statutory Auditor

26 August 2010

55 Station Road
Beaconsfield
Bucks
HP9 1QL

Statement of Comprehensive Income
for the year ended 31 December 2009

		2009				2008			
		Before intangible amortisation and exceptional items	Intangible amortisation and exceptional items (Note 3)	Discontinued Operations	Total	Before intangible amortisation and exceptional items	Intangible amortisation and exceptional items (Note 3)	Discontinued Operations	Total
		£'000	£'000	£'000	£'000	Restated £'000	Restated £'000	£'000	Restated £'000
Note									
	Revenue from								
	Continued Operations	2,600	-	-	2,600	2,249	-	-	2,249
	Discontinued Operations	-	-	664	664	-	-	1,139	1,139
	Cost of sales	(213)	-	(163)	(376)	(68)	-	(403)	(471)
	Gross profit	2,387	-	501	2,888	2,181	-	736	2,917
	Other operating income	805	-	2	807	245	-	-	245
	Administration Expense - Research and development	(1,977)	-	(305)	(2,282)	(2,576)	-	(342)	(2,918)
	Administration Expense - Sales, marketing and other	(4,278)	39	275	(3,964)	(2,507)	(753)	(1,538)	(4,798)
	Goodwill impairment	-	(3,440)	-	(3,440)	-	(5,130)	-	(5,130)
	Operating loss	(3,063)	(3,401)	473	(5,991)	(2,657)	(5,883)	(1,144)	(9,684)
	Financial income	27	-	-	27	166	-	-	166
	Financial expense	(192)	-	-	(192)	(141)	-	(10)	(151)
	Net financial income	(165)	-	-	(165)	25	-	(10)	15
	Loss before tax	(3,228)	(3,401)	473	(6,156)	(2,632)	(5,883)	(1,154)	(9,669)
	Taxation	(201)	-	-	(201)	(186)	-	-	(186)
	Loss for the year attributable to equity holders of the parent	(3,429)	(3,401)	473	(6,357)	(2,818)	(5,883)	(1,154)	(9,855)
	Basic and diluted loss per share				(9.70)p				(15.04)p

Other Comprehensive Income

	2009 Group £'000	2009 Company £'000	2008 Group £'000	2008 Company £'000
Fair value of equity component of new debt	-	-	108	108
Exchange differences on translation of foreign operations	(120)	-	1,548	-
Loss for the year	(6,357)	(10,821)	(9,855)	(9,551)
Total comprehensive income for the year attributable to equity holders of the parent	(6,477)	(10,821)	(8,199)	(9,443)

Statement of Financial Position
at 31 December 2009

	Note	2009 Group £'000	2009 Company £'000	2008 Group £'000	2008 Company £'000
ASSETS					
Non current assets					
Intangible assets	9	4,748	-	9,235	-
Investments in subsidiaries	10	-	4,748	-	9,763
Property, plant and equipment	11	473	-	842	-
Total non current assets		5,221	4,748	10,077	9,763
Current assets					
Inventories	12	-	-	187	-
Tax receivable		-	-	50	-
Trade and other receivables	13	600	1,635	921	5,709
Cash and cash equivalents		403	37	3,597	2,983
Total current assets		1,003	1,672	4,755	8,692
TOTAL ASSETS		6,224	6,420	14,832	18,455
EQUITY					
Issued share capital	20	656	656	655	655
Share premium	23	26,310	26,310	26,310	26,310
Exchange reserve	23	(146)	-	(66)	-
Other reserves	23	9,953	-	9,953	-
Retained earnings	23	(35,087)	(20,560)	(28,668)	(9,737)
Total equity attributable to the shareholders of the parent	23	1,686	6,406	8,184	17,228
LIABILITIES					
Current liabilities					
Interest bearing loans and borrowings	16	-	-	552	552
Trade and other payables	14	4,538	14	4,898	27
Provisions	15	-	-	550	-
Total current liabilities		4,538	14	6,000	579
Non current liabilities					
Interest bearing loans and borrowings	16	-	-	648	648
Total non current liabilities		-	-	648	648
Total liabilities		4,538	14	6,648	1,227
TOTAL EQUITY AND LIABILITIES		6,224	6,420	14,832	18,455

Company No: 05363273

These financial statements were approved by the Board of Directors on 26 August 2010 and were signed on its behalf by:



Mr G Shaw, Chief Executive Officer

Statement of Cash Flows
for the year ended 31 December 2009

	2009 Group	2009 Company	2008 Group	2008 Company
	£'000	£'000	£'000	£'000
Cash flows from continuing operations				
Loss before tax	(6,629)	(10,821)	(8,516)	(9,551)
<i>Adjustments for:</i>				
Depreciation, amortisation, impairment and loss on disposal	4,789	5,015	4,207	5,180
Foreign exchange (gains)/losses	(174)	(1)	(262)	-
Equity settled share-based payment expenses	22	-	199	85
Financial income and expense	165	192	(15)	(8)
Operating cash flow before changes in working capital, interest and taxes	(1,827)	(5,615)	(4,387)	(4,294)
(Increase)/decrease in trade and other receivables	(94)	4,073	(477)	2,252
Decrease in inventories	1	-	134	-
Increase/(decrease) in trade and other payables	254	(12)	2,821	(1)
Cash utilised in operations	(1,666)	(1,554)	(1,909)	(2,043)
Interest received	27	-	166	155
Interest paid	(192)	(192)	(151)	(147)
Tax received	-	-	29	-
Net cash outflow from operating activities	(1,831)	(1,746)	(1,865)	(2,035)
Cash flows from investing activities				
Capital expenditure	(119)	-	(197)	-
Net cash used in investing activities	(119)	-	(197)	-
Free cash flow	(1,950)	(1,746)	(2,062)	(2,035)
Cash flows from financing activities				
Proceeds from the issue of share capital	-	-	8	8
New bank loans	-	-	1,500	1,500
Proceeds from the sale of fixed assets	44	-	-	-
Inter-company loans	-	-	-	(434)
Repayment of bank loans	(1,200)	(1,200)	(545)	(488)
Net cash from/(used in) financing activities	(1,156)	(1,200)	963	586
Net decrease in cash and cash equivalents	(3,106)	(2,946)	(1,099)	(1,449)
Cash and cash equivalents at 1 January	3,509	2,983	4,608	4,432
Cash and cash equivalents at 31 December	403	37	3,509	2,983

Statement of Cash Flows
for the year ended 31 December 2009

	2009 Group	2009 Company	2008 Group	2008 Company
	£'000	£'000	£'000	£'000
Cash flows from discontinued operations				
Profit / (Loss) before tax	473	-	(1,153)	-
<i>Adjustments for:</i>				
Depreciation, amortisation, impairment and loss on disposal	277	-	137	-
Foreign exchange (gains)/losses	13	-	-	-
Equity settled share-based payment expenses	-	-	37	-
Operating cash flow before changes in working capital, interest and taxes	763	-	(979)	-
(Increase)/decrease in trade and other receivables	94	-	179	-
Decrease in inventories	186	-		-
Increase/(decrease) in trade and other payables	(445)	-	282	-
Increase / (decrease) in provisions	(550)	-	550	-
Cash utilised in operations	48	-	32	-
Net cash outflow from operating activities	48	-	32	-
Cash flows from investing activities				
Capital expenditure	(136)	-	(147)	-
Net cash used in investing activities	(136)	-	(147)	-
Free cash flow	(88)	-	(115)	-
Net decrease in cash and cash equivalents	(88)	-	(115)	-
Cash and cash equivalents at 1 January	88	-	203	-
Cash and cash equivalents at 31 December	-	-	88	-

Notes to the financial statements *(forming part of the financial statements)*

1 Accounting policies

Oxonica plc (the "Company") is a company domiciled in the UK. The consolidated financial statements as at, and for, the year ended 31 December 2009 comprise the Company and its subsidiaries (together referred to as the "Group"). The Parent Company financial statements present information about the Company as a separate entity and not about its group. Both the Parent Company financial statements and the group financial statements have been prepared and approved by the directors in accordance with International Financial Reporting Standards as adopted by the EU ("Adopted IFRSs").

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements. In publishing the Parent Company financial statements here, together with Group financial statements, the Company is taking advantage of the exemption in section 408 of the Companies Act 2006 not to present its individual Statement of Comprehensive Income and related notes that form a part of these approved financial statements.

Measurement convention

The financial statements are prepared on the historical cost basis. Non-current assets are stated at the lower of previous carrying amount and recoverable amount.

Going concern

The financial statements are prepared on a going concern basis which the directors believe to be appropriate. The Company and Group meets its day to day to working capital requirements through existing cash resources.

On 28 July 2010, the Company sold its entire share capital in Oxonica Materials Inc to Cabot Corporation for sales proceeds of \$5.2 million, As at 25 August 2010, the Group's cash resources amounted to £2.4m.

The directors have prepared projected cash flow forecasts for the period ending twelve months from the date of their approval of these financial statements. On the basis of these cash flow forecasts the directors consider that, for the foreseeable future, the Group will continue to operate within its existing resources and meet its obligations as they fall due.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and all Group subsidiaries. Subsidiaries are entities controlled by the Group. Control exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The Company's investments in shares in Group companies are stated at cost less provision for impairment. All intercompany balances and transactions, including unrealised profits arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Revenue

Revenue represents the total amount receivable by the Group for goods supplied and services provided, excluding value added tax and other sales-related taxes. Revenue from product sales is recognised when substantially all the risks and rewards have been transferred to the customer. Revenue from funded development contracts is recognised on a percentage of completion basis. Costs which have been incurred on funded development contracts and are recoverable, but which have not yet been billed to the customer are carried forward on the balance sheet.

Revenue received under assignment and license agreements is accounted for as deferred revenue and will be released to the Statement of Comprehensive Income on a straight line basis over the estimated life of the agreement.

Expenses

Operating lease payments

Payments made under operating leases are recognised in the Statement of Comprehensive Income on a straight-line basis over the term of the lease.

Finance lease payments

Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Net financing costs

Net financing costs comprise interest payable, finance charges on finance leases, interest receivable on funds invested and foreign exchange gains and losses that are recognised in the Statement of Comprehensive Income.

Interest income and interest payable are recognised in the Statement of Comprehensive Income as they accrue, using the effective interest method.

Employee benefits

Defined contribution plans

Obligations for contributions to defined contribution pension plans are recognised as an expense in the Statement of Comprehensive Income as incurred.

Share-based payment transactions

The grant date fair value of options granted to employees is recognised as an employee expense, with a corresponding increase in equity, over the period in which the employees become unconditionally entitled to the options. The fair value of the options granted is measured using an option valuation model, taking into account the terms and conditions upon which the options were granted. The amount recognised as an expense is adjusted to reflect the actual number of share options that vest except where forfeiture is due only to share prices not achieving the threshold for vesting.

The Group and Company took advantage of the option available in IFRS 1 to apply IFRS 2 only to equity instruments that were granted after 7 November 2002 and that had not vested by 1 January 2006.

Where the Company grants options over its own shares to the employees of its subsidiaries it recognises, in its individual financial statements, an increase in the cost of investment in its subsidiaries equivalent to the equity-settled share-based payment charge recognised in its consolidated financial statements with the corresponding credit being recognised directly in equity.

Research and development expenditure

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 to 31 December 2009, no development expenditure satisfied the necessary conditions of IAS 38.

The Group monitors the level of product development costs against all criteria set out in IAS 38. These include the requirement to establish that a flow of economic benefits is probable before costs are capitalised. This is only apparent shortly before a product is launched into the market. The level of development costs incurred after these criteria have been met is currently insignificant.

Taxation

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the Statement of Comprehensive Income except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

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 following temporary differences are not provided for: the initial recognition of goodwill; the initial recognition of assets or liabilities that affect neither accounting nor taxable profit other than in a business combination, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. 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.

Amortisation is charged to the Statement of Comprehensive Income on a straight-line basis over the estimated useful lives of intangible assets. Goodwill is systematically tested for impairment at each balance sheet date.

Impairment excluding inventories and deferred tax assets

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.

For goodwill, the recoverable amount is estimated at each balance sheet date.

An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the Statement of Comprehensive Income.

Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to cash-generating units and then to reduce the carrying amount of the other assets in the unit on a pro rata basis. A cash generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

Goodwill was tested for impairment as at 1 January 2006, the date of transition to Adopted IFRSs, even though no indication of impairment existed.

Inventories

Inventories are stated at the lower of cost and net realisable value, after making due allowance for obsolete and slow moving items. Cost is based on the weighted average principle and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. In determining the allowance to be made for obsolete and slow moving items, the Group makes assumptions as to future inventory usage based on forecast sales.

Trade and other receivables

Trade and other receivables are recorded at their fair value amount less an allowance for any doubtful debts.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and short term deposits. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose only of the statement of cash flows.

Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the Statement of Comprehensive Income over the period of the borrowings on an effective interest basis.

Trade and other payables

Trade and other payables are stated at their fair value.

Own shares held by ESOP trust

Transactions of the Company-sponsored ESOP trust are treated as being those of the Company and are therefore reflected in the Parent Company and Group financial statements. In particular, the trust's purchases of shares in the Company are debited directly to equity.

Provisions

A provision is recognised in the balance sheet when the Group has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected, risk adjusted, and future cash flows at a pre-tax risk-free rate.

Government grants

Grants that compensate the Group for expenses incurred are recognised in the Statement of Comprehensive Income on a systematic basis in the same periods in which the expenses are recognised. Grants that compensate the Group for the cost of an asset are deducted from the cost of the related asset. Depreciation is based on the net carrying amount of the asset. Government grants are recognised

initially as deferred income when there is reasonable assurance that they will be received and that the Group will comply with the conditions associated with the grant.

Intra-group financial instruments

Where the Group enters into financial guarantee contracts to guarantee the indebtedness of other companies within its group, the company considers these to be insurance arrangements and accounts for them as such. In this respect, the company treats the guarantee contract as a contingent liability until such time as it becomes probable that the company will be required to make a payment under the guarantee.

Equity instruments

Equity instruments issued by the Group are recorded at the proceeds received, net of direct issue costs.

Compound instruments

A compound instrument was issued by the Group in the form of a secured loan with an option to purchase shares at a specified future date and price. The liability component of the compound instrument was recognised at the fair value of a similar liability that does not have the attached options. The equity component is recognised initially at the difference between the fair value of the compound instrument as a whole and the fair value of the liability component. Subsequent to recognition the liability component of a compound instrument is measured at amortised cost using the effective interest method. The equity component of the compound instrument is not remeasured subsequent to initial recognition. The unwinding of the discount on the liability component is accounted for as an interest expense.

Key sources of estimation uncertainty

The preparation of Oxonica'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 Oxonica's financial statements. Oxonica'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.

Oxonica makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(i) Capitalisation of intangibles

On acquisition of Nanoplex Technologies Inc an external valuation of the intangible assets purchased was carried out under IFRS 3 and IAS 39, a valuation of US\$5.6 million and an estimated useful life of 15 years were derived. The useful life was estimated based on discussions regarding the likely commercial lifespan of the assets and is therefore subject to change.

(ii) Impairment reviews

Determining whether goodwill is impaired requires an estimation of the value in use of the cash generating units to which goodwill has been allocated. The value in use calculation requires an estimate of the future cash flows expected to arise from the cash generating unit and a suitable discount rate in order to calculate present value.

(iii) Provisions for receivables

The risk of uncollectability of accounts receivable is primarily estimated based on prior experience with, and the past due status of, doubtful debtors, while large accounts are assessed individually based on factors that include ability to pay, bankruptcy and payment history. In addition, debtors in certain countries are subject to a higher collectability risk, which is taken into account when assessing the overall risk of uncollectability. Should the outcome differ from the assumptions and estimates, revisions to the estimated valuation allowances would be required.

2 Other operating income

Other operating income comprises grant income received of £728,702 (2008: £177,806), rental income and the proceeds from sale of fixed assets.

3 Intangible amortisation and exceptional items

The following items have been described as “exceptional” as they are significant by size and/or nature and are expected to be non-recurring.

	2009 £'000	2008 £'000
Intangible amortisation (note 9)	236	203
Provision for award of legal costs to Neuftec following High Court judgment against Oxonica Energy (note 15)	-	550
Impairment (note 9)	3,440	5,130
Profit on Sale of Subsidiary (Oxonica Energy)	(275)	-
	3,401	5,883

Sale of Subsidiary – Oxonica Energy	
Sale Proceeds	548
Less: Net assets at point of disposal	(273)
Profit on Disposal	275

4 Expenses and auditors' remuneration

	2009 £'000	2008 £'000
Included in operating loss are the following:		
Auditors' remuneration		
audit of these financial statements	17	33
audit of subsidiaries' financial statements	20	9
other services relating to taxation	60	25
other advisory services	-	-
Depreciation	297	343
Amortisation of intangibles	236	203
(Profit)/loss on disposal of non current assets	9	(10)
Government grants	(729)	(178)
Net (profit)/loss on foreign exchange transactions	399	(166)

5 Remuneration

Staff numbers and costs

The average number of persons employed by the Group (including executive directors) during the year, analysed by category was as follows:

	2009 Group	2009 Company	2008 Group	2008 Company
Technical staff	17	-	20	-
Sales and marketing	3	-	10	-
Management and administration	15	2	13	2
	35	2	43	2

The aggregate payroll costs of these persons were as follows:

	Group £'000	Company £'000	Group £'000	Company £'000
Wages and salaries	2,200	302	2,730	361
Social security costs	201	36	242	43
Pension costs	115	16	128	22
Company contribution to share incentive plan	2	1	10	3
Share based payments	(22)	(1)	236	84
	<u>2,496</u>	<u>354</u>	<u>3,346</u>	<u>513</u>

6 Financial income and expense

	2009 £'000	2008 £'000
Financial income		
Bank interest receivable	27	166
Financial expense		
Bank interest paid	-	-
Lease interest paid	-	(3)
Other loans	(192)	(148)
	<u>(192)</u>	<u>(151)</u>

7 Taxation

Recognised in the Statement of Comprehensive Income

	2009 £'000	2008 £'000
Current tax expense		
Current year	-	-
Reversal of research and development tax credit	-	(18)
Overseas tax	(201)	(168)
Total tax (charge)/ credit in Statement of Comprehensive Income	<u>(201)</u>	<u>(186)</u>

	2009 £'000	2008 £'000
Reconciliation of effective tax rate		
Loss for the year	(6,357)	(9,855)
Total income tax	(201)	(186)
Loss before income tax	<u>(6,156)</u>	<u>(9,669)</u>
Income tax using the Company's domestic tax rate	28.0% (1,724)	28.5% (2,756)
<i>Effects of:</i>		
Expenses not deductible for tax purposes	(14.06%) 866	(16.9%) 1,637
Depreciation for the year in excess of capital allowances	(0.01) (0)	(0.1%) 13
Reversal of research and development tax credit	(0.00) 0	(0.2%) (18)
Overseas taxation	3.27% (201)	(1.7%) (168)
Increase in tax losses carried forward	(13.94%) 858	(11.4%) 1,106
Total current tax (charge)/ credit (see above)	3.27% <u>201</u>	1.9% <u>186</u>

There is no taxation charge for the period due to losses incurred. At 31 December 2009 the Group had tax losses, subject to the agreement of HM Revenue and Customs of approximately £8.2 million (2008: £5.6m) available for offset against future taxable profits of the same trade.

Provision for deferred taxation

The Group's and the Company's UK net deferred tax, calculated under the liability method at 28% (2008: 28%), is £nil (2008: £nil). A £1,144,000 (2008: £1,246,000) US deferred tax liability has been recognised on the temporary timing differences created by the fair value adjustment on consolidation that recognises the patents. An equal amount of deferred tax asset has been recognised to offset this.

A deferred tax asset has not been recognised in respect of the remaining tax losses as, based on detailed budgets, the Group does not anticipate taxable profits to arise within the immediate future. In the medium term it is anticipated that the Group will generate profits and that the losses will then be recovered.

Movement in unrecognised deferred tax assets	Restated	Restated	Restated	Movement	Balance at 31 December 2009
	Balance at 1 January 2008	Movement	Balance at 31 December 2008		
	£'000	£'000	£'000	£'000	£'000
Tax losses	5,136	501	5,637	2,606	8,243

8 Loss of the parent company

As permitted by section 408 of the Companies Act 2006, the Statement of Comprehensive Income of the Parent Company is not presented as part of these financial statements. The Parent Company's loss for the financial year amounted to £10,821,000 (2008: £9,443,000).

9 Intangible assets

	Goodwill	Patents and Technology	Licences	Total
	£'000	£'000	£'000	£'000
Cost				
At 1 January 2008	9,047	2,798	-	11,845
Amount written-off	-	-	-	-
Foreign Exchange adjustment	3,440	1,069	-	4,509
At 31 December 2008	12,487	3,867	-	16,354
At 1 January 2009	12,487	3,867	-	16,354
Foreign Exchange adjustment	(480)	(419)	-	(899)
At 31 December 2009	12,007	3,448	-	15,455
Amortisation and impairment				
At 1 January 2008	-	357	-	357
Charge for the year	-	203	-	203
Amount written-off	5,130	-	-	5,130
Foreign Exchange adjustment	1,237	192	-	1,429
At 31 December 2008	6,367	752	-	7,119
At 1 January 2009	6,367	752	-	7,119
Charge for the year	-	236	-	236
Goodwill impairment charge	3,440	-	-	3,440
Foreign Exchange adjustment	-	(88)	-	(88)
At 31 December 2009	9,807	900	-	10,707

Net book value

At 1 January 2008	9,047	2,441	-	11,488
At 31 December 2008	6,120	3,115	-	9,235
At 1 January 2009	6,120	3,115	-	9,235
At 31 December 2009	2,200	2,548	-	4,748

The goodwill, patents and technology comprises intangible assets acquired with Nanoplex Technologies Inc (re-named Oxonica Inc) on 7 February 2006.

The goodwill arising on the acquisition is attributable to the anticipated future profitability of Oxonica Inc based on its management and skills, future strategic customer relationships and synergies with the Oxonica Group.

Goodwill is deemed to be a dual purpose asset which is not attributable to a specific cash generating unit. The Group's goodwill was reviewed at the balance sheet date, as in prior periods, using the methodology described below.

The recoverable amount of goodwill has been calculated with reference to its value in use. Cash flow projections, which were based on a ten year business plan due to the long-term nature of the agreements, were used to calculate the value in use. These are based on management's best estimations, reflecting on past experiences and future expectations. The growth rate applied beyond the ten year forecast was 5%. The pre-tax discount rate used was 24% (2008: 24%). The discount rate was estimated based on the Group's weighted average cost of capital, adjusted to reflect the risks specific to the asset being assessed. Based on this assessment, an impairment loss of £3,440,000 (2008: £5,130,000) was recognised in the Statement of Comprehensive Income in the year.

10 Investments in subsidiaries

	Company 2009 £'000	Company 2008 £'000
Cost		
At 1 January	9,763	14,836
Impairment	(5,015)	(5,073)
At 31 December	4,748	9,763

Management have impaired the Company's investment by £5,015,000 (2008 £5,073,000) to its recoverable amount. The recoverable amount is based on management's best estimates of its value in use. The key assumptions in the estimate is the future expected cash flows of the subsidiaries which is discussed above and the Directors' report.

The Company's investment in subsidiary undertakings comprises 100 percent of the issued share capital of the following companies:

	Country of incorporation	Principal activity
Oxonica Materials Limited	England	Development and commercialisation of advanced nanomaterials for UV protection
Oxonica Healthcare Limited	England	Dormant
Oxonica Overseas Holdings Limited	England	Holding company

Oxonica Inc.	USA	Development and commercialisation of advanced nanomaterials for biodiagnostics applications
Oxonica Materials Inc.	USA	Development and commercialisation of advanced nanomaterials for security applications
Oxonica Singapore Pte Limited*	Singapore	Sales and marketing of fuel additive products

*Owned by Oxonica Overseas Holdings Limited

The company sold its entire shareholding in Oxonica Materials Inc to Cabot Corporation on 28 July 2010.

11 Property, plant and equipment Group

	Short Leasehold improvements £'000	Plant, machinery & laboratory equipment £'000	Fixtures, fittings & computer equipment £'000	Total £'000
Cost				
Balance at 1 January 2008	105	1,567	394	2,066
Additions	-	335	29	364
Disposals	-	(12)	(19)	(31)
Foreign Exchange adjustment	2	244	21	267
Balance at 31 December 2008	107	2,134	425	2,666
Balance at 1 January 2009	107	2,134	425	2,666
Additions	-	243	12	255
Disposals	(92)	(1,288)	(205)	(1,585)
Foreign Exchange adjustment	4	(114)	(35)	(145)
Balance at 31 December 2009	19	975	197	1,191
Depreciation				
Balance at 1 January 2008	96	1,019	280	1,395
Charge for year	5	282	56	343
Disposals	-	(11)	(13)	(24)
Foreign Exchange adjustment	6	93	11	110
Balance at 31 December 2008	107	1,383	334	1,824
Balance at 1 January 2009	107	1,383	334	1,824
Charge for year	-	248	49	297
Disposals	(92)	(1,031)	(191)	(1,314)
Foreign Exchange adjustment	4	(60)	(33)	(89)
Balance at 31 December 2009	19	540	159	718
Net book value				
At 1 January 2008	9	548	114	671
At 31 December 2008	-	751	91	842
At 1 January 2009	-	751	91	842
At 31 December 2009	-	435	38	473

12 Inventories

	2009 Group £'000	2009 Company £'000	2008 Group £'000	2008 Company £'000
Finished goods	-	-	187	-

The cost of inventories recognised as expense and included in cost of sales amounted to £274,000 (2008: £226,000).

13 Trade and other receivables

	2009 Group £'000	2009 Company £'000	2008 Group £'000	2008 Company £'000
Trade receivables	290	-	568	-
Amounts owed by Group undertakings	-	1,631	-	5,687
VAT receivable	7	1	90	2
Prepayments and accrued income	54	3	181	20
Sundry receivables	249	-	82	-
	600	1,635	921	5,709

14 Trade and other payables

	2009 Group £'000	2009 Company £'000	2008 Group £'000	2008 Company £'000
Current				
Trade payables	266	-	663	-
Other taxation and social security	13	-	35	-
Accruals and deferred income	4,012	14	3,747	27
Other creditors	247	-	453	-
	4,538	14	4,898	27

Accruals and deferred revenue includes £4,011,000 (2008: £3,491,000) which relates to the deferral of the cash payments received from BD at the start of the licensing agreement. This revenue will be recognised over the 15 year estimated life of the licence agreement.

15 Provisions

GROUP	TOTAL £000
Balance at 1 January 2009	550
Provisions made during the year	-
Provisions used during the year	-
Provisions reversed during the year	(550)
Balance at 31 December 2009	-

On 29 September 2009 Oxonica Energy was sold. The provision of £550k covering the legal costs due to Neuftec Limited reported in 2008 is no longer required as the sale of the subsidiary was in full and final settlement of such liabilities.

16 Interest bearing loans and borrowings

	2009 Group £'000	2009 Company £'000	2008 Group £'000	2008 Company £'000
Current liabilities				
Secured bank loans	-	-	552	552
Unsecured bank loans	-	-	-	-
	-	-	552	552
Non-current liabilities				
Secured bank loans	-	-	648	648
Unsecured bank loans	-	-	-	-
	-	-	648	648

Terms and debt repayment schedule

	Currency	Nominal interest rate	Year of maturity	2009 Face value £'000	2009 Carrying amount £'000	2008 Face value £'000	2008 Carrying amount £'000
Secured bank loans	£ sterling	7.4%	2009	-	-	-	-
Secured bank loans	£ sterling	14%	2010	-	-	1,308	1,308
Unsecured bank loans	£ sterling	0%	2012	-	-	-	-
				-	-	1,308	1,308

17 Financial instruments

The Group's financial instruments comprise loans, short term bank deposits and cash. The Group has various other financial instruments, such as trade debtors and trade creditors that arise directly from its operations which have not been included in the credit risk disclosures.

The main risks arising from the Group's financial instruments are credit risk and liquidity risk. The policies for managing these risks are regularly reviewed and agreed by the Board. The Group does not trade in financial instruments.

No derivatives were used by the Group during the period under review (2008: nil).

Interest rate risk

Interest risk is the risk that changes in market prices will affect the Group's income or the value of its holdings of financial instruments.

The interest rate profile of the Group's financial assets and liabilities is as follows:

	Assets floating rate £'000	Assets fixed rate £'000	Liabilities floating rate £'000	Liabilities fixed rate £'000	Total £'000
At 31 December 2008					
Cash at bank	681	2,916	-	-	3,597
Other loans	-	-	-	(1,308)	(1,308)
Total	681	2,916	-	(1,308)	2,289
At 31 December 2009					
Cash at bank	403	-	-	-	403
Other loans	-	-	-	-	-
Total	403	-	-	-	403

The weighted average interest rate for the fixed rate liabilities is 14% (2008: 14%) and the weighted average period for which interest rates are fixed is 1 year.

The interest rate profile of the Company's financial assets and liabilities is as follows:

	Assets floating rate £'000	Assets fixed rate £'000	Liabilities floating rate £'000	Liabilities fixed rate £'000	Total £'000
At 31 December 2008					
Cash at bank	67	2,916	-	-	2,983
Other loans	-	-	-	(1,308)	(1,308)
Total	67	2,916	-	(1,308)	1,675
At 31 December 2009					
Cash at bank	37	-	-	-	-
Total	37	-	-	-	-

Sensitivity analysis

A change of 1 basis point in interest rates at the balance sheet date would have increased / (decreased) profit or loss by the amounts shown below. This calculation assumes that the change occurred at the balance sheet date and had been applied to risk exposures existing at that date.

This analysis assumes that all other variables, in particular foreign currency rates, remain constant and considers the effect of financial instruments with variable interest rates, financial instrument at fair value through profit or loss or available for sale with fixed interest rates and the fixed rate element of interest rate swaps. The analysis is performed on the same basis for 2008.

	2009 Group £'000	2009 Company £'000	2008 Group £'000	2008 Company £'000
Profit or loss				
Increase	2	-	22	16
Total	2	-	22	16

Foreign currency risk

Foreign exchange risk is the risk that changes in market prices will affect the Group's income or the value of its holdings of financial instruments.

During the period under review the Group has entered into only a limited number of transactions with overseas customers and suppliers in currencies other than sterling. The Group's currency exposure is currently small. The Group will continue to monitor any exposure to foreign exchange risk and manage accordingly.

Sensitivity analysis

A 10 percent weakening of the following currencies against the pound sterling at 31 December 2009 would have increased / (decreased) profit or loss by the amounts shown below. This calculation assumes that the change occurred at the balance sheet date and had been applied to risk exposures existing at that date.

This analysis assumes that all other variables, in particular other exchange rates and interest rates, remain constant. The analysis is performed on the same basis for 31 December 2008.

	Profit or loss		Profit or loss	
	2009 Group £'000	2009 Company £'000	2008 Group £'000	2008 Company £'000
Euro	(4)	-	(2)	-
USD	(37)	(2)	(113)	(45)
SGD	(2)	-	(3)	-
AUD	5	-	3	-
CAD	(1)	-	=	=

A 10 percent strengthening of the above currencies against the pound sterling at 31 December 2009 would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due.

It is currently the Group's policy to finance its business by means of internally generated funds and new share capital. The cash position of the Group is regularly reviewed by the Board (see also going concern paragraph in note 1 Accounting policies).

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the effect of netting agreements:

	2009					2008				
	Carrying amount £000	Contractual cash flows £000	1 year or less £000	1 to <2years £000	2 to <5years £000	Carrying amount £000	Contractual cash flows £000	1 year or less £000	1 to <2years £000	2 to <5years £000
Non-derivative financial liabilities										
Secured bank loans	-	-	-	-	-	1,308	1,308	552	756	-
Trade and other payables	4,538	4,538	4,538	-	-	4,898	4,898	-	-	-
	4,538	4,538	4,538	-	-	6,206	6,206	5,450	756	-

Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers and investment securities.

	Carrying Amount	
	2009	2008
	£'000	£'000
Trade Receivables	266	568
Cash and Cash equivalents	403	3,597
Total	<u>669</u>	<u>4,165</u>

The maximum exposure to credit risk for trade receivables at the reporting date by geographic region was:

	Carrying Amount	
	2009	2008
	£'000	£'000
Domestic	65	76
Euro-zone countries	-	1
United States	190	375
Australasia	-	21
Rest of world	11	95
Total	<u>266</u>	<u>568</u>

The maximum exposure to credit risk for trade receivables at the reporting date by type of customer was:

	Carrying Amount	
	2009	2008
	£'000	£'000
Distributors	15	95
End-user customers	251	473
Total	<u>266</u>	<u>568</u>

The ageing of trade receivables at the reporting date was:

	2009		2008	
	Gross £'000	Impairment £'000	Gross £'000	Impairment £'000
Not past due	81	-	329	-
Past due 0-30 days	123	-	80	-
Past Due 31-60 days	5	-	17	-
Past Due 61-120 days	233	167	189	72
Past Due 120-365 days	201	186	37	33
Past due more than one year	12	12	167	146
Total	<u>655</u>	<u>365</u>	<u>819</u>	<u>251</u>

The Group's most significant customer, a US security customer, accounts for £170,289 of the trade receivables carrying amount at 31 December 2009 (2008: £55,496).

The Company had no trade receivables in either 2009 or 2008 and therefore had no credit risk exposure.

Impairment losses

The movement in the allowance for impairment in respect of trade receivables during the year was as follows:

	Carrying Amount	
	2009 £'000	2008 £'000
Balance at 1 January	251	93
Impairment loss recognised	-	-
Impairment loss created	82	132
Foreign exchange adjustment	32	26
Balance at 31 December	365	251

The impairment loss created during the year relates to amounts owed by a Russian distributor which are more than 90 days old. An additional impairment was created to cover trade debts that were assigned to Oxonica Materials on the sale of Oxonica Energy which remain unpaid and are over 90 days old.

Currency risk

The Group's exposure to foreign currency risk is set out in the table below:

£000's	31 December 2009						31 December 2008					
	GBP	AUD	USD	Euro	SGD	CAD	GBP	AUD	USD	Euro	SGD	CAD
Cash and cash equivalents	29	-	322	36	16	-	2,603	-	938	20	36	-
Trade Receivables	50	-	190	15	-	11	77	21	470	-	-	-
Trade Payables	(99)	(60)	(107)	-	-	-	(439)	(54)	(168)	(1)	(1)	-
Gross Balance sheet Exposure	(20)	(60)	405	51	16	11	2,241	(33)	1,240	19	35	-

At the balance sheet date there were no forward exchange contracts in place.

The exchange rates that were applied during the year were:

	Average Rate		Reporting Date Spot Rate	
	2009	2008	2009	2008
USD	1.573	1.8378	1.6149	1.4378
Euro	1.127	1.2479	1.126	1.0344
SGD	2.282	2.5858	2.267	2.0715
AUD	1.99	2.1713	1.795	2.0622
CAD	1.783	-	1.693	-

Fair values of financial assets and liabilities

There are no material differences between the fair value of any of the Group's financial assets or liabilities and their book value as at the balance sheet date.

Guarantees and security

The Group had previously provided security over all its assets to BlueCrest Capital Finance, the providers of the drawn down £1,500,000 loan facility (2008: £1,500,000). As this was settled during 2009 this security has been removed. A second charge over all the Group's assets is provided to HSBC (2008: primary charge).

Capital management

The board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. There were no changes in the Group's approach to capital management during the year.

18 Operating leases

Non-cancellable operating lease rentals are payable as follows:

	2009 Group £'000	2009 Company £'000	2008 Group £'000	2008 Company £'000
Annual commitments which expire:				
Later than one year and not later than five years	12	12	398	398

19 Capital commitments

The Group had no capital commitments outstanding at the year end (2008: £nil).

20 Called up share capital

	Number of shares	2009 £	Number of shares	2008 £
Allotted, called up and fully paid				
Ordinary shares of £0.01p each	65,559,943	655,599	65,536,833	655,368

The movement in the issued share capital from 2008 and 2009 represents a correction to the amount disclosed for 2008.

21 Share based payments

The Group has adopted IFRS 2 and accordingly, sales and marketing and administration costs include a charge of £8,090 (2008: £236,366) in respect of share based payments issued to employees.

(a) Share option scheme

Under the Company's share option scheme, employees held options at 31 December 2009 over unissued ordinary shares as follows:

Options held at 1 January 2009	Options granted	Options exercised	Options lapsed	Options held at 31 December 2009	Exercise price	Earliest exercise date	Date options lapse
3,150,960	-	-	(2,274,224)	876,736	£0.447	Between 15/05/08 & 01/01/07	Between 21/11/12 & 15/07/15
68,500	-	-	-	68,500	\$0.227	Between 01/01/02 & 01/12/05	Between 01/01/13 & 29/11/15
<u>3,219,460</u>	<u>-</u>	<u>-</u>	<u>(2,274,224)</u>	<u>945,236</u>			

The fair values calculated are inherently subjective and uncertain due to the assumptions made and the limitations of the options model

The estimated fair values of share options which fall under the IFRS 2 accounting charge, and the inputs used in the Black-Scholes model to calculate those fair values, are as follows:

Date of grant	Estimated fair value	Share price	Exercise price	Expected volatility	Expected Life	Risk free rate	Expected dividends
15 July 2005	£0.7636	£0.958	£0.447	52%	1 yrs 5 mths	4.5%	0%
8 February 2006	£1.5512	£1.68	£0.134	52%	0 yrs	4.5%	0%

(b) Long Term Incentive Plan (LTIP)

Under the Rules of the LTIP, which was suspended shortly after the year-end, directors and senior employees received conditional rights to acquire ordinary shares in the Company. Eligible employees were awarded rights to acquire a maximum number of shares at the beginning of a holding period, a proportion of which they were entitled to receive based on the extent to which the performance conditions set by the Remuneration Committee at the time the allocation was made were satisfied. If the performance conditions were not satisfied the share award lapsed. See Remuneration Report for details of performance conditions.

Details of the LTIPs outstanding during the year are as follows:

	2009 Number of shares	2008 Number of Shares
At 1 January	-	653,375
Granted during the year	-	-
Lapsed during the year	-	(515,276)
Forfeited during the year	-	(138,099)
Released during the year	-	-
Outstanding at 31 December	<u>-</u>	<u>-</u>

The estimated fair values of LTIP awards which fall under the IFRS 2 accounting charge, and the inputs used in the Monte Carlo model to calculate those fair values, are as follows:

Date of grant	Estimated fair value	Share price	Expected volatility	Expected Life	Risk free rate	Expected dividends
19 September 2006	£0.7459	£1.30	58.2625%	2 yrs	4.4082%	0%

Expected volatility was determined by calculating the annualised standard deviation of daily continuously compounded returns of Group's share price calculated over the period from the Company's flotation to the date of grant. The expected life used in the model is in line with the vesting period of the LTIP award (2 years). The Company had assumed that the number of LTIP awards that would ultimately be released would reduce by 5% per annum.

(c) Share Incentive Plan (SIP)

All UK employees are eligible to participate in the UK Share Incentive Plan which is a HM Revenue and Customs approved share incentive plan for UK employees. Until 1 January 2009 the Group also operated an International Share Incentive Plan for employees outside of the UK. Employees are able to buy shares through the plan ("Invest Shares") and these shares are held in trust on behalf of the employee. For every Invest Share bought the Company will give the employee one matching share for free ("Plus Shares"). Employees have to take their shares out of the plan on leaving the Company and will not be entitled to all the Plus Shares if they leave within 3 years of acquiring the linked Invest Shares.

Under the SIP, the Company can also make awards of Free Shares to employees. Under the UK SIP employees are awarded shares which are subject to three year holding period. Under the International Plan employees were awarded rights to acquire a maximum number of shares at the beginning of a holding period set by the Company.

For the purposes of IFRS 2 the fair value of the Plus and Free Shares is determined as the market value of the shares at the date of grant. In determining the charge to the Statement of Comprehensive Income the Company has assumed that the number of Plus Share awards that will ultimately be released is reduced by 5% per annum.

Details of the SIP Awards (Plus and Free Shares) outstanding during the year are as follows:

	2009 Number of Free shares	2009 Number of Plus shares	2008 Number of Free shares	2008 Number of Plus shares
At 1 January	25,380	62,001	23,073	21,088
Granted during the year	-	19,469	2,307	40,912
Forfeited during the year	-	-	-	-
Released during the year	-	-	-	-
Outstanding at 31 December	25,380	81,470	25,380	62,000

22 Pension scheme

The company operates a defined contribution pension scheme. The pension cost charge for the period represents contributions payable by the Company to the scheme and amounted to £115,109 (2008: £128,354). At the year end, £1,176 accruals were outstanding in relation to pension contributions (2008: £6,584).

23 Capital and reserves

Reconciliation of movement in capital and reserves Group

	Share capital £000	Share premium £000	Merger Reserve * £000	Exchange reserve Restated £000	Retained Earnings Restated £000	Total Parent equity £000
Balance at 1 January 2008	654	26,303	9,953	(1,614)	(19,157)	16,139
Total recognised income and expense	-	-	-	1,548	(9,747)	(8,199)
Issue of shares	1	7	-	-	-	8
Equity-settled share based payment transactions	-	-	-	-	236	236
Balance at 31 December 2008	655	26,310	9,953	(66)	(28,668)	8,184
Balance at 1 January 2009	655	26,310	9,953	(66)	(28,668)	8,184
Total recognised income and expense	-	-	-	(80)	(6,397)	(6,477)
Issue of shares	1	-	-	-	-	1
Equity-settled share based payment transactions	-	-	-	-	(22)	(22)
Balance at 31 December 2009	656	26,310	9,953	(146)	(35,087)	1,686

* The merger reserve of £9,953,000 represents the difference between the nominal value of the shares in Oxonica Materials Ltd received and the nominal value of the shares issued in Oxonica plc as a result of the share exchange and 75 for 1 bonus issue which took place on 16 June 2005 as part of a corporate restructuring prior to the flotation on AIM.

Company

	Share capital £000	Share premium £000	Retained Earnings £000	Total parent equity £000
Balance at 1 January 2008	654	26,303	(379)	26,578
Total recognised income and expense*	-	-	(9,443)	(9,443)
Issue of shares (previously reported as £987,000)	1	7	-	8
Equity-settled share based payment* transactions (previously reported as £525,000)	-	-	85	85
Balance at 31 December 2008	655	26,310	(9,737)	17,228
Balance at 1 January 2009	655	26,310	(9,737)	17,228
Total recognised income and expense	-	-	(10,821)	(10,821)
Issue of shares	1	-	-	1
Equity-settled share based payment transactions	-	-	(2)	(2)
Balance at 31 December 2009	656	26,310	(20,560)	6,406

* Restated

24 Loss per ordinary share

Basic loss per share is calculated by dividing the loss attributable to ordinary shareholders by the weighted average number of ordinary shares in issue during the year. Options over 3,219,460 ordinary shares (2008: 3,219,460) are not included in the calculation of diluted loss per share as their effect is anti-dilutive.

	2009	2008
	£'000	Restated £'000
Basic and diluted loss attributable to ordinary shareholders	(6,357)	(9,855)
Weighted average number of ordinary shares	No. 65,559,943	No. 65,523,768
Loss per share – basic and diluted	(9.7)p	(15.04)p

25 Contingent liabilities

The Company and its subsidiaries are, from time to time, parties to legal proceedings and claims which arise in the ordinary course of business. The position reported last year with the patent dispute with Neuftec has now been settled.

26 Financial Commitments

Following the sale of Oxonica Materials Inc to Cabot Corporation on 28 July 2010, Oxonica Plc indemnifies the purchaser up to an amount not to exceed \$1,100,000 for claims under warranties arising in the period of 18 months from the date of sale.

27 Related party disclosures

The following directors or parties related to directors held shares in the Company:

	2009	2008
	No of shares	No of shares
Richard Farleigh	13,218,995	13,218,995
Kevin Matthews	60,110	56,283
Richard Clarke	44,588	40,761
Martin Hagen	-	148,857
Gordon Ringold	467,503	467,503
Alavita, Inc (a company of which Gordon Ringold is a director)	4,287,371	4,287,371

* Includes interest in 6,190,476 shares held by The Kyabram Trust, a discretionary family trust

The Group has a related party relationship with its subsidiaries and with its key management personnel. The key management personnel of the Group are the executive directors. Compensation of key management personnel was:

	2009	2008
	£'000	£'000
Remuneration	225	361
Social security costs	35	43
Equity settled transactions	-	84
Company contribution to share incentive plan	1	3
Pension costs	16	22
	277	513



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