

**Oxonica Limited**

Consolidated financial statements

For the year ended 31 December 2003

## Company information

<b>Company registration number</b>	03533639
<b>Registered office</b>	Unit 7 Begbroke Science Park Sandy Lane KIDLINGTON Oxfordshire OX5 1PF
<b>Directors</b>	Mr C J Eld Mr B W Fairman Dr K R K Matthews Mr E Weeks
<b>Secretary</b>	Hale and Dorr Secretaries Limited
<b>Bankers</b>	HSBC Bank Plc Midland House Seacourt West Way Botley OXFORD OX2 0PL
<b>Solicitors</b>	Hale and Dorr Park Gate 25 Milton Park OXFORD OX14 4SH
<b>Auditors</b>	Grant Thornton Chartered Accountants Registered Auditors 1 Westminster Way OXFORD OX2 0PZ

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## Report of the directors

The directors present their report and the financial statements of the group for the year ended 31 December 2003.

### Principal activities and business review

The company and group are principally engaged in research and development of natural sciences and engineering.

There was a loss for the year after taxation amounting to £2,621,827 (2002 - loss £1,994,506). The directors cannot recommend payment of a dividend.

### The directors and their interests

The directors who served the company during the year together with their beneficial interests in the shares of the company were as follows:

		<b>At</b>	<b>At</b>
	<b>Class of share</b>	<b>31 December 2003</b>	<b>1 January 2003</b>
Dr J McKeown	Ordinary	<b>4</b>	–
Mr C J Eld	Ordinary	–	–
Mr P Grubstein	Ordinary	–	–
Mr B W Fairman	Ordinary	–	–
Dr K R K Matthews	Ordinary	<b>600</b>	400

The interests of the directors in the share options of the company are disclosed in note 15 to the financial statements.

Dr J McKeown was appointed as a director on 25 September 2003 and retired on 16 January 2004.

Dr H F Askew resigned as a director on 17 July 2003. Mr S Jones resigned as a director on 8 September 2003. Mr P Grubstein resigned as a director on 4 May 2004. Mr E Weeks was appointed as a director on 25 March 2004.

### Directors' responsibilities

Company law in the United Kingdom requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and of the group at the end of the year and of the group's profit or loss for the year then ended. In preparing those 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 financial statements on the going concern basis unless it is inappropriate to presume that the group will continue in business.

The directors are responsible for keeping proper accounting records, for safeguarding the assets of the group and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

### Post balance sheet events

After the year end a fund raising round was completed. Funds raised amounted to £3,661,088. It is the opinion of the directors that these funds are sufficient to meet the working capital requirement of the company and its subsidiaries for the forthcoming 12 months. Further details of this event are disclosed in note 17 to the financial statements.

### Auditors

A resolution to re-appoint Grant Thornton as auditors for the ensuing year will be proposed at the annual general meeting in accordance with section 385 of the Companies Act 1985.

### Small company provisions

This report has been prepared in accordance with the special provisions for small companies under Part VII of the Companies Act 1985.

ON BEHALF OF THE BOARD

K R K Matthews  
Director

17 May 2004

# Report of the independent auditors to the members of Oxonica Limited

We have audited the financial statements of Oxonica Limited for the year ended 31 December 2003 which comprise the principal accounting policies, consolidated profit and loss account, consolidated balance sheet, company balance sheet and notes 1 to 17. These financial statements have been prepared in accordance with the Financial Reporting Standard for Smaller Entities (effective June 2002), under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985. 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

The directors' responsibilities for preparing the report of the directors and the financial statements in accordance with United Kingdom law and accounting standards are set out in the statement of directors' responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom auditing standards.

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

We read the other information contained in the Directors' Report and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

## Basis of opinion

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

# Report of the independent auditors to the members of Oxonica Limited

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

## Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the company and of the group as at 31 December 2003 and of the loss of the group for the year then ended, and have been properly prepared in accordance with the Companies Act 1985.

GRANT THORNTON  
REGISTERED AUDITORS  
CHARTERED ACCOUNTANTS  
OXFORD

17 May 2004

## Principal accounting policies

### Basis of accounting

The financial statements have been prepared under the historical cost convention, and in accordance with the Financial Reporting Standard for Smaller Entities (effective June 2002). The principal accounting policies of the group have remained unchanged from the previous year and are set out below.

The directors consider that the company is a going concern based on the post balance sheet event, see note 17 to the financial statements.

### Basis of consolidation

The consolidated financial statement incorporate the financial statements of the company and all group undertakings. As a consolidated profit and loss account is published, a separate profit and loss account for the parent company is omitted from the group financial statements by virtue of section 230 of the Companies Act 1985.

### Turnover

Turnover is the total amount receivable by the group for goods supplied and services provided, excluding VAT.

### Research and development

Research and development expenditure is written off in the year in which it is incurred.

### Amortisation

Licenses are included at cost and amortised over their useful economic life of 10 years.

### Depreciation

Depreciation is calculated so as to write off the cost of an asset, less its estimated residual value, over the useful economic life of that asset as follows:

Laboratory equipment	-	25%
Leasehold improvements	-	20%
Office furniture and equipment	-	25%

## Stocks

Stocks are valued at the lower of cost and net realisable value, after making due allowance for obsolete and slow moving items.

## Leasing and hire purchase commitments

Assets held under finance leases, which are leases where substantially all the risks and rewards of ownership of the asset have passed to the company, and hire purchase contracts, are capitalised in the balance sheet and are depreciated over their useful lives. The capital elements of future obligations under the leases and hire purchase contracts are included as liabilities in the balance sheet.

The interest elements of the rental obligations are charged in the consolidated profit and loss account over the periods of the leases and hire purchase contracts and represent a constant proportion of the balance of capital repayments outstanding.

Rentals payable under operating leases are charged in the consolidated profit and loss account on a straight line basis over the lease term.

## Pension costs

The company operates a defined contribution pension scheme for employees. The assets of the scheme are held separately from those of the company. The annual contributions payable are charged to the profit and loss account.

## Deferred taxation

Deferred tax is recognised on all timing differences where the transactions or events that give the group an obligation to pay more tax in the future, or a right to pay less tax in the future, have occurred by the balance sheet date. Deferred tax is measured using rates of tax that have been enacted or substantively enacted by the balance sheet date.

## Foreign currencies

Assets and liabilities in foreign currencies are translated into sterling at the rates of exchange ruling at the balance sheet date. Transactions in foreign currencies are translated into sterling at the rate of exchange ruling at the date of the transaction. Exchange differences are taken into account in arriving at the operating profit.

## Government grants

Government grants of a revenue nature are credited to the profit and loss account in the same period as related expenditure.

## Investments

Investments are included at cost.

## Consolidated profit and loss account

	<b>Note</b>	<b>2003</b> <b>£</b>	2002 £
<b>Group turnover</b>	1	<b>209,905</b>	118,319
Cost of sales		<b>116,291</b>	290,927
Gross profit/(loss)		<b>93,614</b>	(172,608)
Other operating charges		<b>2,726,589</b>	1,962,323
Other operating income		–	(32,636)
<b>Operating loss</b>	2	<b>(2,632,975)</b>	(2,102,295)
Interest receivable		<b>36,934</b>	21,311
Interest payable		<b>(109,175)</b>	(38,522)
<b>Loss on ordinary activities before taxation</b>		<b>(2,705,216)</b>	(2,119,506)
Tax on loss on ordinary activities	4	<b>(83,389)</b>	(125,000)
<b>Loss for the financial year</b>	5	<b>(2,621,827)</b>	(1,994,506)

The accompanying accounting policies and notes form part of these financial statements.

## Consolidated balance sheet

	<b>Note</b>	<b>2003 £</b>	2002 £
<b>Fixed assets</b>			
Intangible assets	6	<b>222,917</b>	118,750
Tangible assets	7	<b>296,641</b>	312,457
		<u><b>519,558</b></u>	<u>431,207</u>
<b>Current assets</b>			
Stocks		<b>128,820</b>	–
Debtors	9	<b>226,206</b>	279,497
Cash at bank		<b>33,454</b>	2,583,567
		<u><b>388,480</b></u>	<u>2,863,064</u>
<b>Creditors: amounts falling due within one year</b>	10	<b>1,089,515</b>	801,069
<b>Net current (liabilities)/assets</b>		<u><b>(701,035)</b></u>	<u>2,061,995</u>
<b>Total assets less current liabilities</b>		<u><b>(181,477)</b></u>	<u>2,493,202</u>
<b>Creditors: amounts falling due after more than one year</b>	11	<b>2,356,671</b>	2,419,735
		<u><b>(2,538,148)</b></u>	<u>73,467</u>
<b>Capital and reserves</b>			
Called-up equity share capital	14	<b>193</b>	191
Share premium account	16	<b>3,701,259</b>	3,691,049
Profit and loss account	16	<b>(6,239,600)</b>	(3,617,773)
<b>(Deficiency)/shareholders' funds</b>		<u><b>(2,538,148)</b></u>	<u>73,467</u>

These financial statements have been prepared in accordance with the special provisions for small companies under Part VII of the Companies Act 1985 and with the Financial Reporting Standard for Smaller Entities (effective June 2002).

These financial statements were approved by the directors on 17 May 2004 and are signed on their behalf by:

K R K Matthews

Director

The accompanying accounting policies and notes form part of these financial statements.

## Company balance sheet

	<b>Note</b>	<b>2003</b> <b>£</b>	2002 £
<b>Fixed assets</b>			
Tangible assets	7	<b>262,227</b>	309,897
Investments	8	<b>1</b>	1
		<u><b>262,228</b></u>	<u>309,898</u>
<b>Current assets</b>			
Debtors	9	<b>173,579</b>	1,428,313
Cash at bank		<b>33,454</b>	2,583,567
		<u><b>207,033</b></u>	<u>4,011,880</u>
<b>Creditors: amounts falling due within one year</b>	10	<b>1,089,515</b>	801,069
<b>Net current assets</b>		<u><b>(882,482)</b></u>	<u>3,210,811</u>
<b>Total assets less current liabilities</b>		<u><b>(620,254)</b></u>	<u>3,520,709</u>
<b>Creditors: amounts falling due after more than one year</b>	11	<b>2,356,671</b>	2,419,735
		<u><b>(2,976,925)</b></u>	<u>1,100,974</u>
<b>Capital and reserves</b>			
Called-up equity share capital	14	<b>193</b>	191
Share premium account	16	<b>3,701,259</b>	3,691,049
Profit and loss account	16	<b>(6,678,377)</b>	(2,590,266)
<b>(Deficiency)/shareholders' funds</b>		<u><b>(2,976,925)</b></u>	<u>1,100,974</u>

These financial statements have been prepared in accordance with the special provisions for small companies under Part VII of the Companies Act 1985 and with the Financial Reporting Standard for Smaller Entities (effective June 2002).

These financial statements were approved by the directors on 17 May 2004 and are signed on their behalf by:

K R K Matthews

Director

The accompanying accounting policies and notes form part of these financial statements.

## Notes to the financial statements

### 1 Turnover

Overseas turnover amounted to 21% (2002 - Nil%) of the total turnover for the year.

### 2 Operating loss

Operating loss is stated after charging:

	<b>2003</b>	2002
	<b>£</b>	£
Amortisation	<b>20,833</b>	6,250
Depreciation of owned fixed assets	<b>28,216</b>	10,507
Depreciation of assets held under finance leases and hire purchase agreements	<b>97,980</b>	65,980
Auditors' remuneration	<b>12,100</b>	7,000
Net loss on foreign currency translation	<b>6,010</b>	–

### 3 Directors

Remuneration in respect of directors was as follows:

	<b>2003</b>	2002
	<b>£</b>	£
Emoluments	<b>282,607</b>	294,935
Value of company pension contributions to money purchase schemes	<b>9,503</b>	8,703
	<b>292,110</b>	303,638

The number of directors who are accruing benefits under company pension schemes was as follows:

	<b>2003</b>	2002
	<b>No</b>	No
Money purchase schemes	<b>2</b>	4

**4 Taxation on ordinary activities**

(a) Analysis of credit in the year	<b>2003</b>	2002
	<b>£</b>	£
Current tax:		
Overseas taxation	<b>767</b>	–
Over provision of research and development tax credit in the prior year	<b>25,200</b>	–
Research and development tax credit	<b>(109,356)</b>	(125,000)
Total current tax	<b>(83,389)</b>	(125,000)

(b) Factors that may affect future tax charges

Unrelieved tax losses of £4,825,000 (2002 - £2,400,000) remain available to offset against future taxable trading profits of the same trade subject to the agreement of the Inland Revenue.

**5 Loss attributable to members of the parent company**

The loss dealt with in the accounts of the parent company was £4,088,111 (2002 - loss £966,999). During the year the parent company made a provision against amounts owed from its subsidiary undertaking, Cerulean International Limited, amounting to £2,537,207.

**6 Intangible fixed assets**

**Group**

	<b>Licences</b>
	<b>£</b>
Cost	
At 1 January 2003	125,000
Additions	125,000
At 31 December 2003	<b>250,000</b>
Amortisation	
At 1 January 2003	6,250
Charge for the year	20,833
At 31 December 2003	<b>27,083</b>
Net book value	
At 31 December 2003	<b>222,917</b>
At 31 December 2002	118,750

7 **Tangible fixed assets**

<b>Group</b>	<b>Plant &amp; Machinery etc £</b>
Cost	
At 1 January 2003	468,208
Additions	110,380
At 31 December 2003	<u>578,588</u>
Depreciation	
At 1 January 2003	155,751
Charge for the year	126,196
At 31 December 2003	<u>281,947</u>
Net book value	
At 31 December 2003	<u><b>296,641</b></u>
At 31 December 2002	<u>312,457</u>

Included within the net book value of £296,641 is £199,780 (2002 - £270,128) relating to assets held under finance leases and hire purchase agreements. The depreciation charged to the financial statements in the year in respect of such assets amounted to £97,980 (2002 - £65,980).

<b>Company</b>	<b>Plant &amp; Machinery etc £</b>
Cost	
At 1 January 2003	465,648
Additions	110,380
Transfers to group undertakings	(51,956)
At 31 December 2003	<u>524,072</u>
Depreciation	
At 1 January 2003	155,751
Charge for the year	126,196
Transfers to group undertakings	(20,102)
At 31 December 2003	<u>261,845</u>
Net book value	
At 31 December 2003	<u><b>262,227</b></u>
At 31 December 2002	<u>309,897</u>

Included within the net book value of £262,227 is £179,460 (2002 - £267,568) relating to assets held under finance leases and hire purchase agreements. The depreciation charged to the financial statements in the year in respect of such assets amounted to £90,081 (2002 - £65,980).

## 8 Investments

Company	Group companies £
Cost	
At 1 January 2003 and 31 December 2003	<u>1</u>
Net book value	
At 31 December 2003	<u>1</u>
At 31 December 2002	<u>1</u>

At 31 December 2003 the group held 100% of the allotted ordinary share capital of the following undertakings:

Cerulean International Limited  
 Cerulean Asia Pacific Limited\*

99.99% of the allotted ordinary share capital of Cerulean Asia Pacific Limited is held by Cerulean International Limited and the remaining 0.01% is held by Oxonica Limited.

The above companies are principally engaged in the research and development, sales and marketing of fuel additive products.

\*Incorporated in Hong Kong

## 9 Debtors

	2003	The group 2002	2003	The company 2002
	£	£	£	£
Trade debtors	32,479	75,308	32,479	75,308
Amounts owed by group undertakings	–	–	–	1,148,816
VAT recoverable	41,731	20,489	41,731	20,489
Other debtors	1,258	25,975	1,258	25,975
Research and development tax credit	108,589	125,000	55,962	125,000
Prepayments and accrued income	42,149	32,725	42,149	32,725
	<u>226,206</u>	<u>279,497</u>	<u>173,579</u>	<u>1,428,313</u>

The debtors above include the following amounts falling due after more than one year:

	2003	The group 2002	2003	The company 2002
	£	£	£	£
Amounts owed by group undertakings	<u>–</u>	<u>–</u>	<u>–</u>	<u>1,148,816</u>

10 Creditors: amounts falling due within one year

	<b>2003</b>	<b>The group</b>	<b>2003</b>	<b>The company</b>
	£	2002	£	2002
		£		£
Bank loans and overdrafts	<b>8,333</b>	–	<b>8,333</b>	–
Trade creditors	<b>529,691</b>	320,403	<b>529,691</b>	320,403
Amounts due under finance leases and hire purchase agreements	<b>78,864</b>	94,976	<b>78,864</b>	94,976
Other creditors including taxation and social security:				
PAYE and social security	<b>61,878</b>	53,061	<b>61,878</b>	53,061
Pension contributions	<b>4,985</b>	6,803	<b>4,985</b>	6,803
Other creditors	<b>18,213</b>	–	<b>18,213</b>	–
Accruals and deferred income	<b>387,551</b>	325,826	<b>387,551</b>	325,826
	<b><u>1,089,515</u></b>	<u>801,069</u>	<b><u>1,089,515</u></b>	<u>801,069</u>

11 Creditors: amounts falling due after more than one year

	<b>2003</b>	<b>The group</b>	<b>2003</b>	<b>The company</b>
	£	2002	£	2002
		£		£
Bank loans	<b>91,667</b>	100,000	<b>91,667</b>	100,000
Investor loans	<b>2,199,932</b>	2,199,932	<b>2,199,932</b>	2,199,932
Amounts due under finance leases and hire purchase agreements	<b>65,072</b>	119,803	<b>65,072</b>	119,803
	<b><u>2,356,671</u></b>	<u>2,419,735</u>	<b><u>2,356,671</u></b>	<u>2,419,735</u>

The investor loans of £2,199,932 are repayable on 23 December 2007, being the 5th anniversary of the initial drawdown, unless certain events take place in which case may be repayable earlier. The loans are interest bearing at a rate 3%.

The bank loans are secured by a first fixed and floating charge over all the assets of the Group. The investor loans are secured by a second fixed and floating charge over all the assets of the Group.

## 12 Commitments under operating leases

At 31 December 2003 the group had annual commitments under non-cancellable operating leases as set out below.

	<b>2003</b>	2002
	<b>Land and buildings £</b>	Land and buildings £
Operating leases which expire:		
Within 1 year	-	25,980
Within 2 to 5 years	<b>106,500</b>	12,990
	<u><b>106,500</b></u>	<u>38,970</u>

## 13 Related party transactions

No transactions with related parties were undertaken such as are required to be disclosed under Financial Reporting Standards for Smaller Entities.

## 14 Share capital

Authorised share capital:

	<b>2003</b>	2002
	<b>£</b>	£
100,000 Ordinary shares of £0.01 each	<b>1,000</b>	1,000
12,339 "A" ordinary shares of £0.01 each	<b>123</b>	123
	<u><b>1,123</b></u>	<u>1,123</u>

Allotted, called up and fully paid:

	<b>2003</b>		2002	
	<b>No</b>	<b>£</b>	No	£
Ordinary shares of £0.01 each	<b>13,481</b>	<b>134</b>	13,250	132
"A" ordinary shares of £0.01 each	<b>5,862</b>	<b>59</b>	5,862	59
	<u><b>19,343</b></u>	<u><b>193</b></u>	<u>19,112</u>	<u>191</u>

Allotments during the year

On 23 April 2003, 200 ordinary shares were issued for cash of £2.50 per share and 27 ordinary shares were issued at £341.18 per share.

On 22 September 2003, 4 ordinary shares were issued for cash of £125.00 per share.

The difference of £10,210 between the total consideration of £10,212 and the total nominal value of £2 has been credited to the share premium account.

## 15 Share options and warrants

At 31 December 2003, the company had granted options over ordinary shares which remained unexercised. The exercise price and periods when exercisable for options are set out below:

Exercise price	Options held at 1 January 2003	Options granted	Options held at 31 December 2003	Earliest exercise date	Date options lapse	*
£341.18	1,653	10	1,663	01/01/03	21/11/12	*
£341.18	979	–	979	07/06/06	07/06/06	
£341.18	492	92	584	07/06/06	28/06/07	
£200.00	249	–	249	07/06/02	19/05/04	
£70.00	524	10	534	22/11/02	21/11/12	
£0.01	200	–	200	22/11/02	21/11/12	

In addition, subject to performance, the company has a commitment to allow Dr K R K Matthews, a director, to subscribe for 200 ordinary shares on 9 April 2004 at a price of £2.50 per share. During the year Dr K R K Matthews exercised 200 options at £2.50 per share.

The company has a commitment to grant options on up to 4,595 shares with the exercise to be agreed in consideration for future services to be undertaken.

\* Includes 665 options held by Dr K R K Matthews.

## 16 Reserves

Group	Share premium account £	Profit and loss account £
At 1 January 2003	3,691,049	(3,617,773)
Loss for the year	–	(2,621,827)
New equity share capital subscribed	10,210	–
At 31 December 2003	<u>3,701,259</u>	<u>(6,239,600)</u>
<b>Company</b>	<b>Share premium account £</b>	<b>Profit and loss account £</b>
At 1 January 2003	3,691,049	(2,590,266)
Loss for the year	–	(4,088,111)
New equity share capital subscribed	10,210	–
At 31 December 2003	<u>3,701,259</u>	<u>(6,678,377)</u>

## 17 Post balance sheet events

After 31 December 2003 Oxonica Limited received additional support from shareholders in order to provide capital for the continued commercialisation of the products.

On 6 January 2004 the company closed a funding round. The round raised a total of £3,661,088 in return for the issue of 23,732 new "D" ordinary shares at a price of £154.268 per share. The recipients of these new "D" ordinary shares were also allotted warrants which are triggered on failing to meet key revenue milestones.