Oxonica

Annual Report & Accounts 2006

Oxonica plc – Leaders in Nanotechnology

Oxonica Products. Development into significant sales

Optisol™ UV absorber

1999	2004	2005	2005
Licensed from The University of Oxford	Manufacturer appointed	First commercial sale	Global distributor appointed

Envirox™ fuel borne catalyst

2001	2003	2004	2006
Technology developed	Field trials	Stagecoach adoption and roll out	Petrol Ofisi supply agreement

Nanoplex™ biomarker detection

2003	2006	2006	2006
Licensed from University of Strathclyde	Acquisition of Nanoplex Technologies Inc	Prototype product show-cased	First licensing agreement

Contents

The Group's mission is to develop innovative commercial solutions for international markets using Oxonica's expertise in the design and application of nanomaterials.

Oxonica has been named one of four nanotechnology startups offering the greatest value for potential corporate partners.

08/02/06 Acquisition of Nanoplex Technologies Inc.
Oxonica announced that it has now completed the acquisition of Nanoplex Technologies Inc. The acquisition is expected to enhance the development of Oxonica's existing biomarker detection and security technology.

14/03/06 Oxonica Awarded ISO9001 Certification
Oxonica was delighted to announce that it had been awarded ISO9001 certification for its UK based activities. Oxonica were accredited by Moody International.

06/07/06 Oxonica Platform Detection Technology Wins Nanotech Briefs Nano 50 Award
Oxonica received Nanotech Briefs' Nano 50™ Award for its powerful diagnostics platform product, Nanoplex™ biomarker detection. The awards honor Oxonica as one of the top 50 technologies, products, and innovators that have significantly impacted, or are expected to impact, the state of the art in nanotechnology.

16/08/06 Oxonica Announces Agreement with Petrol Ofisi A.S. to Supply Enivirox™
Oxonica announced that it had reached agreement with Petrol Ofisi A.S., the leading national oil company in Turkey, to supply its Envirox™ fuel borne catalyst for use in diesel fuel across Petrol Ofisi's nationwide distribution network.

22/08/06 Oxonica Signs Nanoplex™ Agreement with BD, a Leading Global Medical Technology Company
Oxonica announced that it had signed a licence agreement for its Nanoplex™ technology with BD (Beckton Dickinson and Company), a leading global medical technology company headquartered in New Jersey, USA. Under the terms of the agreement, a cooperative research programme will be initiated to apply Oxonica's technology for use in diagnostics by BD.

22/09/06 Oxonica Receives Double Honours at Small Times "Best of Small Tech" Awards
Oxonica announced that it had been honoured in two categories of the Small Times Magazine Best of Small Tech Awards. Michael Natan, Ph.D., President of Oxonica Inc., was named in the Business Leader of the Year category while Oxonica's Nanoplex™ technology were finalists in the Product of the Year category.

19/10/06 Oxonica Is One of the World's Most Suitable Nanotechnology Start-Ups
In a study by Lux Research measuring 136 venture-capital backed nanotech companies, Oxonica has been named one of four nanotechnology startups offering the greatest value for potential corporate partners.

Building a leading international group through the development of innovative commercial solutions for global markets.

ENERGY

Delivering a proven, cost effective means of extending fuel mileage whilst contributing to a cleaner environment

The possibilities for reducing global warming receive daily attention in our media. Unfortunately, many of the proposed solutions and advancements being talked about will take years to develop or scale up, and require significant changes.

Nanotechnology, on the other hand, offers us all an opportunity to make significant progress today. In 2001, Oxonica Energy began work on a fuel combustion catalyst designed to improve fuel economy and reduce emissions in diesel-powered applications. Research and development, both in the laboratory and in the field, resulted in the creation of Envirox™fuel borne catalyst. In practice, Envirox™ is formulated as a fluid to be included within diesel fuel. No engine modifications are needed.

Field trials in Asia Pacific and in the UK have demonstrated that fuel economy benefits of 5-10% are achievable in bus fleets under everyday operating conditions.

The Stagecoach Group adopted the product across their entire UK fleet in 2005. In July 2006 a major supply agreeement for Envirox™ was signed with Petrol Ofisi, Turkey's national oil company.

HEALTHCARE

Providing breakthrough commercial solutions in clinical diagnostic environments

Today's consumer is better informed about healthcare than ever before. This knowledge is fuelling demand for better, more advanced techniques and products. Parallel to this is a search, on the part of healthcare professionals, for more efficient ways of detecting conditions, and more effective ways of moving advanced methods closer to the point of care.

Oxonica's Healthcare group is driving advanced product development and its commercialisation in both the consumer and the professional environments.

In diagnostics, Oxonica has accelerated the commercialisation of Nanoplex™ biomarker detection, through the acquisition of Nanoplex Technologies Inc. Nanoplex™ is a biomarker detection technology that offers the potential for improved sensitivity, multiplexing and the ability to test in whole blood, thereby enabling more cost-effective, flexible and reliable diagnoses. Nanoplex™ offers the opportunity to bring the advanced performance of the central hospital laboratory to the point of care.

MATERIALS

Creating market-ready solutions for UV protection in the cosmetics, polymer and coatings environments

The impact of UV light and sun related damage is of concern in a number of industries. Oxonica has developd a leading technology to address these concerns.

The first product Optisol™, a UV absorber was launched in 2005 into the cosmetics market and represents a major advance in combining stable, broad-spectrum UV protection with free radical scavenging for sunscreens and other cosmetics products. Having undergone extensive testing it offers proven performance and assurance. Products containing Optisol™ offer unique advantages in a market that is sensitive to quality and is always looking for safe, advanced solutions.

Oxonica's technology has been shown to provide significant stabilisation benefits in a number of polymers such as polystyrene and poly (vinyl) chloride. The technical programme has now been expanded to include a variety of polymers.

SECURITY

Opening eyes to the possibilities of covert marking on a sub-micron scale

Many Governments and major companies recognise the need for improved security. The ability to supply advanced solutions for verification of authenticity and identification is an important element of improving security.

Oxonica's security portfolio has been strengthened with the acquisition of Nanoplex Technologies Inc. A number of commercial development projects are underway and activity is expected to increase during 2007.

The Group is now a multi-sector business with strong product opportunities in each sector.

ENERGY

This division is focused on the development of Envirox™ fuel additive which was supplied to Petrol Ofisi in 2006

HEALTHCARE

The Healthcare division was accelerated with the acquisition of Nanoplex Technologies Inc. and the signing of the Beckton Dickinson agreement

I am pleased to report that Oxonica enjoyed a busy and exciting year in 2006. Turnover increased substantially in the second half of the year following the signing of an initial supply agreement for the Group's Envirox™ fuel borne catalyst with the leading national oil company in Turkey. The positive impact of the increased sales to Petrol Ofisi during the second half of the year, together with the investment in Oxonica plc shares by Beckton Dickinson, resulted in the year-end Group cash balances being £6,836,000.

In addition to the commercial progress, Oxonica also completed the acquisition of Nanoplex Technologies Inc., now renamed Oxonica Inc. and successfully integrated this business into the Group.

Results

In the year to 31 December 2006, turnover increased by more than 8 times to £10,229,000 (2005: £1,247,000), and gross profit also rose by more than 8 times to £5,925,000 (2005: £661,000). As expected, administrative expenses rose by 77% to £9,547,000 (2005: £5,406,000) principally as a result of the acquisition and integration of Nanoplex Technologies, Inc. and also due to increased commercialisation efforts in connection with Envirox™. The operating loss reduced by 28% to £3,245,000 (2005: £4,504,000) and there was a cash inflow before financing of £343,000 (2005: outflow of £5,130,000). As at 31 December 2006, the Group had cash and short term deposits of £6,836,000.

Turnover excludes grant income received of £377,000 (2005: £241,000).

The Board is not recommending the payment of a dividend.

Overview of the year

Oxonica continued to build out the business and further establish itself as a significant international nanotechnology group operating in four market sectors: Energy, Materials, Healthcare and Security.

Oxonica now has well established offices in Asia, based in Singapore, and with the acquisition and integration of Nanoplex Technologies, Inc., in Mountain View, California in the USA.

During the year, the Group made substantial progress in moving its products into the volume market. The signing of an initial supply agreement for the Group's Envirox™ fuel borne catalyst with Petrol Ofisi A.S., the leading national oil company in Turkey, constituted a major milestone for the Energy business and helps the development of a platform for the future growth of this product into the oil industry. The agreement with Petrol Ofisi, signed in July 2006, resulted in £7.6 million of additional revenues being booked in the year. This significantly enhanced the Group's cashflow position and illustrates the potential for rapid growth in Oxonica's revenues.

MATERIALS

Materials is based on the development of Oxonica's UV technology with the main commercial development focused on Optisol™ UV absorber

SECURITY

Oxonica Security is the youngest of Oxonica's divisions, this is concerned with the design and supply of market orientated covert verification solutions

The signing of a licence and collaboration agreement with Beckton Dickinson & Co. for the Group's proprietary Nanoplex™ technology for the in-vitro clinical diagnostics market represents a significant move forward for the healthcare division. Beckton Dickinson is one of the leading global medical technology companies. As part of the collaboration Beckton Dickinson invested $2m in new ordinary shares of Oxonica plc.

The collaboration agreement with Croda International plc to distribute Oxonica's Optisol™ UV absorber for personal care applications, is proceeding well with product now being sold to 14 customers in 9 countries and extensive evaluation and testing continuing worldwide.

Board

Martin Hagen and Dr Gordon Ringold both joined the Board during the year. Martin joined the Board in January 2006 and was previously a senior partner of Deloitte. He has taken over as Chairman of the Audit Committee and the Nominations Committee. He has also been appointed as Senior Independent Non-executive Director. Gordon was Chairman of Nanoplex Technologies, Inc. and joined the Board in February 2006 following the completion of the Nanoplex acquisition. He has 20 years experience in managing the discovery and development of pharmaceuticals and new, enabling life science technologies which is proving to be very relevant as Oxonica develops this aspect of its business. The Board is being continuously evaluated to ensure that it adapts in line with the changing requirements of a rapidly developing group. A Nominations Committee has been formed and is currently undertaking a full review of the Board structure.

Summary

Oxonica plc is now established as one of the leading nanotechnology groups in Europe, and has commercial products generating revenues. Oxonica is developing an expanding IP base, together with additional technology and projects for future commercialisation. The Board is confident of further progress in 2007.

Oxonica is now a truly international organisation and I would like to thank everyone working for the Group for their contribution during an important year.

C M MOORE
CHAIRMAN

Chief Executive's Review

Establishing strategic relationships to handle sales, distribution and customer support in volume markets.

ENERGY

Oxonica's mission is to build a leading international group by developing innovative commercial solutions for global markets using it's expertise in the design and application of nanomaterials.

Overview of the Business

Having identified a market requirement and a potential nanomaterial solution, Oxonica's business model consists of developing patent protected product applications, putting appropriate outsource manufacturing arrangements in place and marketing the products to end-users in order to create customer demand and product pull-through. The final stage in the process is the establishment of strategic relationships to handle sales, distribution and customer support in volume markets.

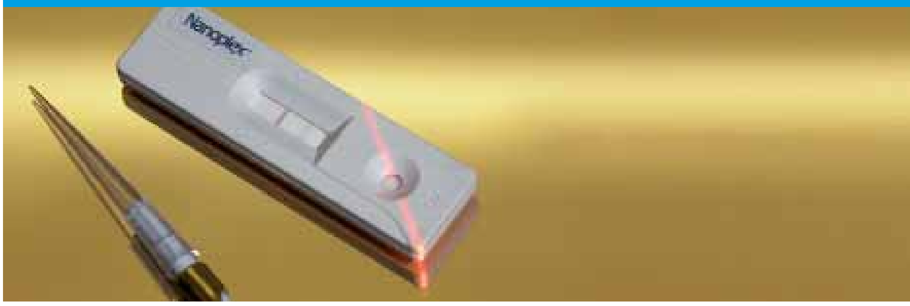
The Group has focused the majority of its investment to date on worldwide energy and healthcare markets. The Group's lead commercial product Envirox™ fuel borne catalyst reduces fuel consumption in diesel engines offering an immediate solution to cutting greenhouse gas emissions from diesel vehicles and the global transport industry. Following the acquisition of Nanoplex Technologies in the USA in February of 2006, the Group is investing in developing new solutions for the global clinical diagnostics market that promise to deliver highly sensitive, cost effective, easy to use disease detection.

In addition, Oxonica has developed a technology to improve protection from UV radiation. Application of the technology is potentially very broad in protecting materials from damage due to sunlight and the first commercial product is Optisol™ designed for the cosmetics industry. Finally, Oxonica is investigating the potential to apply the technology developed for clinical diagnostics into the security market.

The Board has recently completed a strategy review. As a result of the Group finishing the financial year ended 31 December 2006 with cash and short term deposits of £6.8 million it has made the decision to increase investment to support the development of its two principal product areas, Envirox™ fuel borne catalyst and Nanoplex™ markers for biodiagnostics. This extra investment, comprising approximately £2.5 million, is intended to accelerate the progress of these two products in future years, although the additional revenue costs will be expensed in the current financial year.

Oxonica aims to manage its business responsibly with the objective of value creation for its shareholders through investment in the Group's considerable product opportunities. Operational delivery and execution is key to being able to deliver the growth strategy and the Group operates a remuneration policy whereby a significant proportion of the remuneration for all employees is based on performance. The Group takes its social and commercial responsibilities to its employees, customers and suppliers seriously. This is reflected in the products that the Group is focused on developing, products that have been developed to reduce greenhouse gas emissions and deliver cost effective disease diagnosis that could have a major impact in the developing world as well as in developed countries.

HEALTHCARE



ENERGY

This division is focused on the development of Envirox™, a fuel borne catalyst for diesel which reduces fuel consumption and exhaust emissions. Following early success with Stagecoach the product continues to secure commercial traction and in August 2006 the Group announced that Petrol Ofisi A.S., Turkey's national oil company had decided to use Envirox™. The product was subsequently incorporated in Petrol Ofisi's high sulphur diesel throughout Turkey and generated sales in excess of the expected $12.7m in the second half of the year. Petrol Ofisi is monitoring the product performance in market as well as carrying out a number of specific tests, prior to a planned launch in Q2 of this year. Oxonica Energy is actively engaging with other oil companies to leverage the progress already made in Turkey.

Envirox™ has been shown in field trials to reduce fuel consumption in diesel engines with savings of 5% up to 10% with commensurate reductions in carbon dioxide (CO_2). Envirox™ has also been shown to reduce particulate emissions by up to 15%. The product offers the opportunity for fuel savings leading to both economic benefits and an immediate reduction in greenhouse gas emissions from diesel vehicles.

In addition to the agreement in Turkey the business has secured sales in Italy and Germany. The activity in support of fleet trials has decreased as a result of the Group's experience in running such trials and the success of targeting oil companies. Nevertheless, the Company continues to trial the product with a number of potential customers.

In order to sell Envirox™ into the United States for on-highway use, a US EPA registration is required. Oxonica Energy made its submission regarding Envirox™ to the EPA in April 2005. The EPA responded with a request for further data in October 2005 and this additional data was submitted to the EPA in May 2006. EPA have subsequently confirmed that Envirox™ satisfies Tier 1 requirements, however, the EPA have a further six months to consider whether further testing will be required prior to registering the product.

HEALTHCARE

In 2006 the Healthcare division had two business lines, Optisol™ UV absorber for cosmetics and personal care products and Nanoplex™ biomarker detection for clinical diagnostics. At the year end the Optisol™ product line has been moved into Oxonica Materials, which comprises Oxonica's other product line in UV protection, Solacor™. This move allows the marketing resources and technical expertise in UV protection to be more efficiently utilised. At the same time it allows the Healthcare management team to focus exclusively on Oxonica's rapidly developing clinical diagnostics activities. Optisol™ is reported under Oxonica Materials below.

In December 2005 Oxonica announced that the Group had signed an agreement to acquire Nanoplex Technologies Inc, a California based nanomaterials company with technology that was closely aligned with Oxonica's own efforts targeted at clinical diagnostics. The acquisition was completed in February 2006 and the company was renamed Oxonica Inc. Following the acquisition, all of the Group's research activities in clinical diagnostics were consolidated in Mountain View, California.

Chief Executive's Review

Oxonica's vision for clinical diagnostics is to enable central laboratory performance at the point of care.

MATERIALS

Oxonica's Nanoplex™ technology is based on gold nanoparticles with a unique label on the surface of the particle. This "biotag" can be attached to a wide range of biological markers from infectious diseases, such as flu, through to cancers. These diseases can then be identified by way of the biotag being "visualised" using a laser-based reader through a phenomenon known as Surface Enhanced Raman Scattering (SERS). The technology can provide ultra-sensitive and simultaneous detection of a number of diseases in the same test (multiplexing). The ability to deliver high levels of multiplexing in a simple format gives the technology advantages over current diagnostic techniques, which typically use fluorescent and chemiluminescent markers. Oxonica showcased the first prototype product based on this technology in February 2006, a quantitative, multiplexed lateral flow immunoassay (the format routinely used for home pregnancy tests).

In August 2006 Oxonica announced that it had signed a licence agreement for its Nanoplex™ technology with Beckton Dickinson & Co (BD). Under the terms of the agreement, a cooperative research programme was initiated to apply Oxonica's technology for use in diagnostics by BD. In addition, BD subscribed for the equivalent of US$2 million worth of new ordinary shares in Oxonica, which were allotted at a price of 127.4 pence per share.

Oxonica's vision is to bring central laboratory performance to the point-of-care by providing technology which enables high information content, robust, accurate and rapid tests in a simple device. The landmark deal with BD represents a key step in enabling this vision.

Oxonica's technical programme has made significant advances through the year including the development of a reader and software system that can be supplied to potential partners to facilitate their evaluation of the Nanoplex™ markers. A number of these devices are now in the hands of potential partners along with the Nanoplex™ marker beads to allow verification of Oxonica's in-house generated assay data. The Group believes that the potential of the platform in terms of sensitivity, multiplexing and robustness has now been validated. The next stage of development for the Nanoplex™ technology is to identify specific products to focus on bringing to market and determining the capability boundaries of the technology within a specific test format.

MATERIALS

In December 2005 Oxonica announced that it had signed an exclusive agreement with Croda International plc to distribute Optisol™ UV absorber into the international personal care market. Throughout 2006 Oxonica has been working closely with Croda to provide technology transfer, product development and marketing support to Croda's worldwide sales teams.

The lead customer for Optisol™ over the last two years has been Boots plc who originally adopted Optisol™ in its own brand Soltan facial sun defence cream, in April 2005. In 2006 Boots incorporated Optisol™ into a new product, Soltan Once. In 2007 the product range containing Optisol™ has been further extended to include Kids Once, Soltan Sensitive and Soltan Extreme Sports.

Optisol™ turnover increased by nearly 6 times in 2006 but remains relatively modest, with a clear recognition that the sales cycle from introducing product to potential customers to customer adoption is 18-24 months. Nevertheless, as a result of the activities of both Oxonica and Croda, Optisol™ is now being sold in 27 formulations by 14 customers in 9 different countries. The product is beginning to secure market acceptance but has still to gain any meaningful market share and this is not expected to be achieved until 2008/2009.

⊙ SECURITY

Development of Solacor™ UV protection product for the industrial markets of coatings and plastics has been mainly focused on securing application data to validate that the material acts to protect substrates from degradation by sunlight which typically affects colour, mechanical strength and performance. Considerable progress in achieving this was made in 2006 and the next major milestone in the development of this business is securing a high volume, relatively low cost manufacturing partner to allow Oxonica to address the price sensitive industrial market.

⊙ SECURITY

Following the acquisition of Nanoplex™ Technologies, a number of commercial applications for Oxonica's Nanobarcode™ marker systems for anti-counterfeiting and brand protection have been pursued under collaborative agreements. As a result of these efforts, technical validation of the potential applicability of these markers has been achieved including the development with a partner of a handheld reader system. The next phase of development of this business is the scale-up of the marker manufacture to industrial scale to facilitate the commercialisation efforts.

Regulatory and toxicology issues

Oxonica operates a duty of care approach to the production and use of its products. The Group participates in inter-company and international programmes aimed at defining and understanding best practice related to the production and use of nanomaterials. In many cases Oxonica has commissioned toxicology and environmental studies which go beyond what is required by the regulatory authorities in order to confirm the safety of its products to the satisfaction of the Board.

Operations

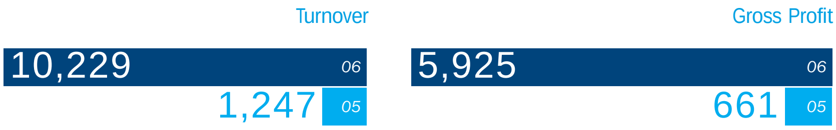
The Group's corporate headquarters are in Oxford, UK, which is also the base for the Energy and Materials businesses. The Healthcare and Security businesses are based in the facility in Mountain View, California and the Group has an Asian sales operation based in Singapore. The Group ended 2006 with 60 employees.

In October 2006, Dr Michael Natan, President of Oxonica Inc was appointed Chief Technical Officer for the Oxonica Group and Dr Sharron Penn was appointed Chief Operating Officer of Oxonica Inc.

Throughout 2006, Oxonica has continued to work on upgrading its systems and processes. The Company obtained ISO 9001 certification for its UK facilities in March 2006 with accreditation by Moody International. The Company is currently working towards obtaining ISO 9001 certification for the Mountain View facility as a first step towards achieving the high quality standards required by the clinical diagnostics market.

K R K MATTHEWS
CHIEF EXECUTIVE OFFICER

Healthcare and Security made a significant contribution to Group sales.



Analysis of results

Group turnover for the year was up by slightly over 8 times at £10,299,000 (2005: £1,247,000) and gross profit increased by nearly 9 times to £5,925,000 (2005: £661,000). The majority of the sales revenue consisted of Envirox™, sales of which increased substantially in the second half following the signing of the supply agreement with Petrol Ofisi A.S., the leading national oil company in Turkey. Sales of Optisol™ also increased in the year, rising by nearly 6 times following its incorporation into a broader range of Boots products and its initial adoption by a number of new customers worldwide. Sales of Optisol™ continue to be weighted towards the first half of the year due to the seasonal manufacture of sunscreens, although this is expected to reduce in future years as the product is incorporated into a broader range of cosmetics. Following the acquisition of Nanoplex Technologies Inc, Healthcare and Security made a significant contribution to Group sales. The final payments received under the DTI SMART grant for the biodiagnostics project in the UK along with grant income received in the US on a number of funded programmes has not been included in sales and is shown as other operating income in the profit and loss account.

The operating loss for the year was £3,245,000 (2005: £4,504,000). The lower loss resulted from the increase in gross profit to £5,925,000 (2005: £661,000) driven by the substantial increase in sales. However, this was offset by an increase in development, sales and marketing and administration costs to £9,547,000 (2005: £5,406,000), the majority of which resulted from the addition of the Mountain View facility following the acquisition of Nanoplex Technologies, Inc. and the associated amortisation of intangible assets and goodwill. There was also an increase in costs in the UK to support the sale of Envirox™ to Petrol Ofisi and to provide product training for Croda's sales team on Optisol™. In the US, the technical team was expanded to accelerate the biodiagnostics development effort in support of the research collaboration with Beckton Dickinson.

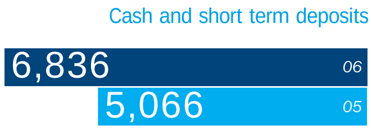
The higher net interest credit for the year of £115,000 (2005: £71,000) results from the Group's higher cash balances driven by positive cash generation in the second half, plus higher average interest rates on deposits during the year.

There is a £114,000 research and development tax credit for the year (2005: £93,000 tax charge). The charge in the prior year was due to an adjustment to the research and development tax credits claimed in earlier years. The Group has substantial tax losses available for carry forward against future profits.

Cash balances, including short term deposits, stood at £6,836,000 at the year-end (2005: £5,066,000). Over the year, cash increased by £1,770,000, driven by an inflow from operations of £617,000 and a net cash inflow from financing of £1,349,000, which included £1,117,000 raised through share issues.

Acquisition of Nanoplex Technologies Inc

On 8 February 2006, Oxonica plc completed the acquisition of Nanoplex Technologies Inc based in California, USA. 5,426,432 new ordinary shares were issued at completion, at which time they had a market value of £9.12 million. Subsequent to the year end, deferred consideration consisting of a further 2,090,005 new ordinary shares was issued following the achievement of revenue milestones and there being no claims under Nanoplex's representations and warranties. The tangible net assets of Nanoplex Technologies Inc as the date of acquisition amounted to £314,000. Following the acquisition, the Board carried out a review of the intangible assets acquired and a fair value adjustment of £3,200,000 was made representing the valuation of the patented technology owned by Nanoplex. The Board has estimated that this technology has a useful life of 15 years.



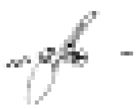
International Financial Reporting Standards

For the year ending 31 December 2007, the Group will be required under European Union law to prepare its consolidated accounts in accordance with International Financial Reporting Standards (IFRS). These accounts will include comparative information for 2006 also prepared in accordance with IFRS.

During the year, the Group put in place a timetable to effect the transition to IFRS and carried out an initial impact assessment of the areas likely to be affected by the adoption of IFRS. At this stage the Group has not yet completed the work necessary to identify with sufficient certainty all the accounting policy differences that may arise from the transition but will provide details to shareholders when this information becomes available.

Accounting standards and policies

This annual report complies with all accounting standards issued by the Accounting Standards Board applicable to financial statements at 31 December 2006. As set out in note 20, the Company has adopted FRS 20 for the first time in this year and accordingly, sales and marketing and administration costs includes a charge of £353,000 (2005: £106,000) in respect of share based payments issued to employees. A further cost of £882,000 in connection with share options in Nanoplex Technologies Inc, which were assumed by the Company as part of the acquisition was capitalised as part of the acquisition cost. No other new accounting standards were applied during the year. Oxonica's accounting policies are set out on pages 13 and 14 and are consistent with previous years.



R J G CLARKE
CHIEF FINANCIAL OFFICER

Board of Directors

Top right: Christopher Moore
Top left: Kevin Matthews
Bottom right: Richard Clarke
Bottom left: Charles Eld

Christopher Moore

MA FCA (age 62)

EXECUTIVE CHAIRMAN

Christopher qualified as a Chartered Accountant and then moved into investment banking, principally with the Robert Fleming Group in New York, Hong Kong, Singapore and London, including nine years as a main board director. Since then he has run a strategic advisory business and remained involved in private equity. He was chairman of Fleming Ventures Limited from 1992 to 2003. He is currently a director of TriVest VCT, Matrix Income & Growth VCT and Matrix Income & Growth 3 VCT. Christopher is a member of the Nominations Committee.

Kevin Matthews

MA DPhil CChem CSi MRSC MACS (age 43)

CHIEF EXECUTIVE OFFICER

Kevin was appointed Chief Executive Officer of Oxonica 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 D Phil in organic chemistry. Kevin was appointed as a non-executive director of Elementis plc in February 2005. He is a member of the Nominations Committee.

Richard Clarke

BSc FCA MBA (age 51)

CHIEF FINANCIAL OFFICER

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 company.

Charles Eld

BSc CMBII (age 55)

NON-EXECUTIVE DIRECTOR

Charles was formerly chief executive of Morrells Brewery in Oxford. After the sale of this company, he established Seighford Investment Company Limited as a family investment business and holds directorships on the boards of a number of different companies in which Seighford has an investment. Seighford was one of the original investors in Oxonica. Charles is Chairman of the Remuneration Committee and a member of the Audit Committee.

Top right: Martin Hagen
Top left: Ed Weeks
Bottom right: Bob Pettigrew
Bottom left: Gordon Ringold

Martin Hagen
FCA (age 55)
NON-EXECUTIVE DIRECTOR

Martin is a Chartered Accountant and is Vice President of the Institute of Chartered Accountants in England and Wales and a member of its Board, Nominations Committee and Remuneration Committee. He is also a member of the Regulatory Decisions Committee of the Financial Services Authority. He was formerly Office Senior Partner of Deloitte's Bristol office and Partner in Charge of the West of England audit practice. Martin is the Senior Independent Non-executive Director and chairs the Audit and Nominations Committees. He is a member of the Remuneration Committee.

Bob Pettigrew
(age 62)
NON-EXECUTIVE DIRECTOR

Bob co-founded Generics, an international technology, business consulting and investment group. He was managing director and subsequently executive chairman of Scientific Generics and a key member of the team that took Generics public. He was also involved in developing the company's investment activities in early stage companies. Bob is on the board of a number of technology companies including Sphere Medical Devices, BioWisdom, Digital Healthcare and Zinwave and is a non-executive director of 2 listed VCT's. He is a member of the Audit and Remuneration Committees.

Gordon Ringold
PhD (age 56)
NON-EXECUTIVE DIRECTOR

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 co-founded 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 is a member of the Audit and Remuneration Committees.

Ed Weeks
(age 60)
NON-EXECUTIVE DIRECTOR

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 the Polymer Industry Education and Training Trust and is also a director of Alderley plc. He is a member of the Audit, Nominations and Remuneration Committees.

The Group takes its commercial, social and environmental responsibilities to its employees, customers, suppliers and the wider community, extremely seriously. Indeed, the whole ethos of the company, and its very existence, hinges on the belief that nanotechnology can improve the lives of people everywhere.

At present the Company is concerned with developing products that will deliver more cost effective and efficient disease control, solutions that will protect people from harmful climatic conditions, technology that will reduce greenhouse gas emissions, and applications that will enhance our ability to make security systems more robust.

Our aim is to provide these high performance, advanced technology solutions in the simplest, most usable and cost effective form possible to people all over the world, both in leading and developing economies, and to do so as soon as we can.

In the pursuit of this goal we have taken every possible care to ensure our research and development and our day-to-day operations are conducted safely and securely and in a way that has, wherever possible, a positive effect on the world we live in.

Best practice

The Group participates in inter-company and international programmes aimed at defining and understanding best practice related to the production and use of nanomaterials. In many cases Oxonica has commissioned toxicology and environmental studies which go beyond what is required by the regulatory authorities in order to confirm the safety of its products to the satisfaction of the Board.

Environmental health and safety

The Board and senior management of Oxonica plc are committed to the effective management of health, safety and environmental risks and continually monitor requirements in all fields. In 2006 the Group had no lost time accidents (LTA's), recordable incidents or environmental incidents.

Communications

The Board of Oxonica believes that transparency of the Group's activities to all interested stakeholder groups is fundamental to good corporate responsibility. This has been achieved in 2006 through regular shareholder communications, monthly meetings with all employees, engagement in public consultation activities relating to nanotechnology, a number of media appearances, and active participation in government initiatives.

Oxonica was a founder member of the Nanotechnology Industry Association which is a cross industry trade association made up of members who have specific interests in the commercial development of nanotechnology.

How our technology is working

The Group's Nanoplex™ technology has the potential to significantly improve the accuracy of diagnostics at greatly reduced cost. By bringing hospital laboratory standards of diagnostics to the point of care, it also promises to substantially improve healthcare outcomes in poorer countries and those with remote or transient populations.

Optisol™ UV absorber has been designed to improve protection against the sun's harmful rays. It is a highly efficient absorber of the ultraviolet radiation implicated in skin cancer and skin ageing. The product also acts to protect and stabilise other formulation components in sunscreens, anti-ageing products and general cosmetics.

Envirox™ fuel borne catalyst offers direct environmental benefits and indirect health benefits through the improvement in the fuel efficiency of diesel vehicles and the reduction of diesel emissions, including particulates. In trials conducted with Stagecoach in the UK a fuel saving of 5% was demonstrated, which if applied across the entire UK diesel market is estimated to give a reduction of over 2 million tonnes of carbon dioxide emissions annually. Product trials carried out in Asia have demonstrated higher levels of fuel saving.

The directors present their report and the audited financial statements for the year ended 31 December 2006.

Activities
The principal activity of the Group during the year was the development and commercialisation of advanced nanomaterials.

Review of developments and future prospects
The Group's activities and future prospects are detailed in the Chairman's Statement, the Chief Executive's Review and the Financial Review and should be read as part of this report.

Dividends
The directors do not recommend the payment of a dividend.

Directors
The directors in office during the year and their beneficial interests in the company's issued ordinary share capital were as follows:

	Ordinary shares of 1p each 31.12.06 No.	*Ordinary shares of 1p each 31.12.05 No.*
C M Moore	131,718	131,483
Dr K R K Matthews	47,203	46,968
R J G Clarke	7,871	7,636
C J Eld	-	-
M J Hagen (appointed 26 January 2006)	6,000	-
R M Pettigrew	-	-
G Ringold (appointed 24 February 2006)	97,714	-
E Weeks	-	-

Supplier payment policy
It is the Group's policy to agree payment terms in advance with individual suppliers at the outset of the contract and abide by those terms. The Group's average number of days purchases outstanding in respect of trade creditors at 31 December 2006 was 50 days (2005: 41 days).

Political and charitable donations
During the year the Group made no political or charitable donations.

Substantial shareholders
So far as is known to the Company, the only persons who, directly or indirectly, were interested in three per cent, or more of the Company's share capital as at 16 March 2007 were as follows:

Shareholder	*Number of shares*	*% of issued share capital*
R Farleigh	7,028,519	16.41
BASF Venture Capital	5,865,711	13.69
Foresight Technology VCT	5,683,108	13.27
TriVest VCT	5,115,947	11.94
Alavita, Inc	3,066,649	7.16
Stagecoach Bus Holdings Limited	2,035,485	4.75
Seighford Investment Co	1,295,488	3.02

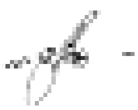
Employees
Briefing and consultative procedures exist throughout the Group to keep employees informed on general business issues and other matters of concern. The Group has a policy of offering share options to all eligible employees, subject to availability under the Group's share option plan rules.

It is the Group's policy that there should be no discrimination on grounds of race, religion, age or gender in considering applications for employment. All employees are given equal opportunities in terms of career development and promotion. Every effort is made to provide the same opportunities to disabled persons as to others.

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 Company'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 company's auditors are aware of that information.

Auditors
KPMG Audit Plc have expressed their willingness to continue in office as auditors and a resolution to reappoint them will be proposed at the forthcoming Annual General Meeting.

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



R J G CLARKE
COMPANY SECRETARY

Statement of Directors' Responsibilities in Respect of the Directors' Report and the Financial Statements

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the group and the parent company financial statements in accordance with UK Accounting Standards.

The Group and parent company financial statements are required by law to give a true and fair view of the state of affairs of the group and the parent company and of the profit or loss for that period.

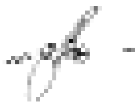
In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and the parent company 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 company and enable them to ensure that its financial statements comply with the Companies Act 1985. They have a 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 company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

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



R J G CLARKE
COMPANY SECRETARY

Remuneration Committee

The Company has established a Remuneration Committee which is constituted in accordance with the recommendations of the Combined Code. It consists of four directors, all of whom are non-executive directors, and is chaired by C J Eld.

The Remuneration Committee considers and approves on behalf of the Board and the shareholders the conditions of service of the Chairman, executive directors and senior employees. It has access to and takes professional advice.

The remuneration of the non-executive directors is determined by the Board.

Remuneration Policy

The objective of the policy is that executive directors and senior employees should receive remuneration which is appropriate to their position of responsibility, and which will attract, motivate and retain executives of the necessary calibre. The remuneration of the executive directors and senior employees consists of basic salary, bonus, share based payments, taxable benefits in kind and pension contributions.

Basic Salary

Basic salaries are determined by the Remuneration Committee, taking into account the performance of the individual and the rates for similar positions in comparable companies. There is an annual review at which the Committee approves the basic salary for each executive director.

Bonus Scheme

The Company operates a bonus scheme for executive directors based on the performance of each director and the achievement of key Group financial targets. The Committee has discretion to make additional payments if circumstances justify them. However, bonuses are capped at a percentage of salary and are not pensionable.

Share Options and Share Plans

Share Options: The Company operates an approved share option scheme and has also granted individual unapproved options and options under the Enterprise Management Initiative (EMI) legislation to certain directors. The approved share option scheme is overseen by the Remuneration Committee which determines the terms under which eligible individuals may be invited to participate. Following the introduction of the Long Term Incentive Plan and the Share Incentive Plan, the Company is no longer making option grants to employees.

Long Term Incentive Plan (LTIP): Under the terms of the LTIP, which was introduced in 2006, certain directors and senior employees are granted conditional rights to acquire ordinary shares in the Company. Eligible employees are awarded rights to acquire a maximum number of shares at the beginning of a holding period, a proportion of which they will be entitled to receive based on the extent to which the performance conditions set by the Remuneration Committee at the time the allocation is made are satisfied. If the performance conditions are not satisfied the share award will lapse.

Share Incentive Plan (SIP): Under the terms of the SIP, which was introduced in 2006, all employees, including directors are eligible to participate in the SIP which is operated in two parts – the UK Share Incentive Plan which is a Revenue approved share incentive plan for UK employees and the 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 are awarded rights to acquire a maximum number of shares at the beginning of a holding period set by the Company.

Benefits in kind

Benefits for executive directors comprise permanent health insurance and private medical insurance. The Company does not provide company cars (or a salary alternative). Benefits in kind are not pensionable.

Pensions

The executive directors, management and staff in the UK are all eligible to participate on the same basis in the Group Personal Pension Scheme. The scheme is a defined contribution scheme to which the Group makes a contribution matching that of the employee. Up to 31 December 2006 the Group contribution was subject to a maximum of 5% of basic earnings, but this was increased to 7.5% of basic earnings with effect from 1 January 2007. In the event that the employee makes no contribution to the scheme, the Group nevertheless contributes 3% of basic earnings. The assets of the pension scheme are held separately from those of the Group.

Directors' service contracts

All executive directors are employed under service contracts. Each of the agreements contains post termination restrictive covenants which place limitations on solicitation of customers and employees of the Group and on acting in competition with the business of the Group. The services of all directors may be terminated by the provision of a maximum of six months' notice by the Company.

Directors' remuneration for the year ended 31 December 2006

	Salary £	Fees £	Bonus £	Benefits £	Pension £	Total 2006 £	Total 2005 £
Executive Directors							
C M Moore	70,500	4,500	52,500	-	3,525	131,025	103,750
Dr K R K Matthews	123,000	-	86,100	1,987	6,150	217,237	185,875
R J G Clarke	95,000	-	47,500	2,144	4,750	149,394	119,673
Non-Executive Directors							
C J Eld	22,917	-	-	-	-	22,917	19,474
B W Fairman (resigned 17.06.05)	-	-	-	-	-	-	7,500
M J Hagen (appointed 26.01.06)	21,121	-	-	-	-	21,121	-
R M Pettigrew	20,000	-	-	-	-	20,000	15,987
G Ringold (appointed 24.02.06)	-	32,555	-	-	-	32,555	-
E Weeks	7,500	15,000	-	-	-	22,500	20,248
	360,038	52,055	186,100	4,131	14,425	616,749	472,507

Of the amounts payable to C M Moore, the fees of £4,500 and £7,875 of the bonus was paid to TriVest VCT, a company of which he is a director and which holds 5,115,947 shares in Oxonica plc.

Dr K R K Matthews also received a salary of £35,000 in connection with his services as a non-executive director of Elementis plc.

Directors' share options – number of ordinary shares

Details of the options of directors who served during the year are as follows:

Director	*As at 1 January 2006*	*Options Granted*	*Options Cancelled*	*As at 31 December 2006*	*Exercise price*	*Date from which exerciseable*	*Expiry date*
C M Moore	730,512	-	-	730,512	£0.447	Between 15/07/05 & 01/01/07	15/07/15
Dr K R K Matthews	1,385,024	-	-	1,385,024	£0.447	Between 15/07/05 & 01/01/07	15/07/15
R J G Clarke	574,864	-	-	574,864	£0.447	Between 15/07/05 & 01/01/07	15/07/15

No other director held share options at any point during the year.

No directors exercised any options during the year.

Directors LTIP and SIP Free Share awards – number of ordinary shares

Details of the LTIP and SIP awards of directors who served during the year are as follows:

Director		*As at 1 January 2006*	*LTIP/SIP Awards Granted*	*LTIP/SIP Awards Lapsed*	*As at 31 December 2006*
C M Moore –	LTIP	-	86,538	-	86,538
	SIP Free Shares	-	2,307	-	2,307
	SIP Plus Shares	-	235	-	235
Dr K R K Matthews –	LTIP	-	141,923	-	141,923
	SIP Free Shares	-	2,307	-	2,307
	SIP Plus Shares		235		235
R J G Clarke –	LTIP	-	109,615	-	109,615
	SIP Free Shares	-	2,307	-	2,307
	SIP Plus Shares		235		235

The performance conditions governing the LTIP awards are based on the Company's Total Shareholder Return (TSR) performance relative to the AIM all-share index adjusted to exclude investment companies. Performance is measured over a two-year period from the date of grant. To meet the minimum TSR target, the Company must rank no lower than the median position when measured against the index. To achieve the maximum target, the Company must rank in the upper quartile.

Corporate Governance

The Board supports the principles set out in the Combined Code and has taken steps to ensure that Oxonica plc is committed to the highest standards of corporate governance.

At all levels the Group ensures that relevant information is made available to all interested parties and decision making procedures are followed in strict accordance with the structures laid down.

The Board of Directors

The Company is controlled by the Board of Directors, which currently consists of three executive and five non-executive directors.

The Board meets regularly and has a formal schedule of matters referred to it for decision; these include formulating the Group's corporate strategy, monitoring financial performance, approval of major items of capital expenditure, share capital issues, governance issues, treasury and risk management policies and executive appointments. Prior to each meeting the Board is provided with appropriate strategic and financial information to enable it to monitor the performance of the Group. Annual budgets are approved by the full Board. Operational control is delegated by the Board to the executive directors. Non-executive directors are able to contact the executive directors at any time for further information.

All the directors have direct access to the advice and the services of the Company Secretary and can take independent advice, if necessary, at the Company's expense.

Board Committees

The Board has delegated specific responsibilities to the following committees:

Audit Committee

The Audit Committee consists of four non-executive directors, under the chairmanship of Martin Hagen. The Committee meets at least twice a year and is responsible for ensuring that the financial performance of the Group is properly monitored and reported on. The Committee also meets with the auditors to review reports from them relating to the accounts and internal control systems. Although there is currently no internal audit function, the Audit Committee regularly reviews the need to implement one. The Chief Financial Officer and the external auditors attend, as necessary. However, the Committee also holds separate meetings with the external auditors, as appropriate.

Remuneration Committee

The Remuneration Committee consists of four non-executive directors, under the chairmanship of Charles Eld and meets periodically as required. The Committee reviews the performance of the executive directors, sets the scale and structure of their remuneration and reviews the basis for their service agreements with due regard to the interests of shareholders. Specifically, the Remuneration Committee reviews and approves the executive directors' six-monthly performance targets and bonus payments. The Committee also reviews and approves the remuneration policy for senior employees.

Nominations Committee

Shortly after the year-end, the Board established a separate Nominations Committee. The Nominations Committee comprises the Chairman, Chief Executive Officer and two independent non-executive directors and is chaired by Martin Hagen. The role of the Nominations Committee is to advise and make recommendations to the Board with regard to the size, structure and composition of the Board, the appointment of new directors and the reappointment of existing directors. Prior to the establishment of a separate Nominations Committee, the responsibility for nominations rested with the Remuneration Committee.

The Committees all have written terms of reference which clearly specify their authority and duties and those terms of reference are available upon written request to the Company.

Attendance at meetings

	Board (10 meetings in year)		Audit Committe (3 meetings in year)		Remuneration Committee (3 meetings in year)	
	Meetings during period of appointment	Attended	Meetings during period of appointment	Attended	Meetings during period of appointment	Attended
Executive Directors						
C M Moore	10	9	3	0	3	2*
Dr K R K Matthews	10	10	3	1*	3	3*
R J G Clarke	10	10	3	3*	3	0
Non-Executive Directors						
C J Eld	10	10	3	3	3	3
M J Hagen	10	10	3	3	3	3
R M Pettigrew	10	9	3	3	3	3
G Ringold	10	9	3	1	3	2
E Weeks	10	9	3	3	3	3

* Attended by invitation

There were no meetings of the Nominations Committee during the year.

Chairman and Chief Executive

There is a clear division of responsibilities between the Chairman and the Chief Executive. The Chairman is responsible for leadership of the Board and for ensuring its effectiveness and setting its agenda. He also ensures effective communication with shareholders and facilitates the contribution of the non-executive directors.

The Chief Executive is responsible for implementing the strategy agreed by the Board as a whole and for managing the Group.

Board balance and independence

Board balance is achieved by the Board being comprised of three executive directors and five non-executive directors. Two of the non-executive directors, Martin Hagen and Ed Weeks are considered by the Board to be ‘independent’.

The senior independent non-executive director is Martin Hagen.

Internal control

The Board has overall responsibility for the Group’s system of internal control and for reviewing its effectiveness. The processes to identify and manage the key risks to the success of the Group are an integral part of the internal control environment. Such processes, which are continuing and regularly reviewed and improved as necessary, include strategic planning, approval of annual budgets, regular monitoring of performance against budget including full investigation of significant variances, control of capital expenditure and significant revenue investment, ensuring that proper accounting records are maintained, the appointment of senior managers and the setting of high standards for health, safety and environmental performance. These processes have been in place for the full financial year and up to the date of approval of the financial statements.

The effectiveness of the control systems and procedures is monitored regularly through a combination of management self-assessment and external audit. The results are reported to, and considered by, the Audit Committee.

The system of internal control comprises those controls established in order to provide assurance that the assets of the Group are safeguarded against unauthorised use or disposal and to ensure the maintenance of proper accounting records and the reliability of financial information used within the business or for publication. Any system of internal control can only provide reasonable, but not absolute assurance against material misstatement or loss, as it is designed to manage rather than to eliminate the risk of failing to achieve the business objectives of the Group.

The key procedures that the directors have established with a view to providing effective internal control are as follows:

a) a clearly defined organisational structure and limits of authority
b) corporate policies and procedures for financial reporting and control, project appraisal, human resources, quality control, health and safety, information security and corporate governance
c) the preparation of annual budgets and regular re-forecasts which require approval from the Board
d) the monitoring of performance against budget and forecasts and the reporting of any variances in a timely manner to the Board
e) regular review and self-assessment of the risks to which the Group is exposed, taking steps to monitor and mitigate these wherever possible including, where appropriate, taking out insurance cover
f) The Audit Committee approves audit plans and, on behalf of the Board, receives reports on the Group's accounting and financial reporting practices and its internal controls. It also receives reports from the external auditors as part of their normal audit work

Relations with shareholders

The Company is committed to open communication with all its shareholders. Communication is primarily through the Annual General Meeting, which shareholders are encouraged to attend and where participation is encouraged. The directors, including the Chairmen of the Audit, Remuneration and Nomination Committees, are all available, both formally during the meeting and informally afterwards, to answer questions.

The Group maintains a website www.oxonica.com which contains up to date information on the Company and which shareholders are advised to visit regularly. All shareholders receive a copy of the full Annual Report following the year end and an Interim Report at the half year. Care is taken to ensure that any price-sensitive information is released to all shareholders at the same time. Oxonica aims to provide a full, realistic and timely assessment of its business and operations in a balanced way, in all price-sensitive reports and presentations.

Institutional investors and analysts are invited to attend briefings by the Company following the announcements of the full-year and half-year results. Copies of the presentations given at these briefings are posted on the website.

The Chairman and the Senior Independent Director are always available to shareholders on all matters relating to governance.

Going concern

The directors, having made appropriate enquiries, have a reasonable expectation that the Company and the Group will be able to obtain adequate resources to continue in operational existence for the foreseeable future. Accordingly, the directors continue to adopt the going concern basis for preparing the financial statements.

Independent Auditors' Report

Independent auditor's report to the members of Oxonica plc

We have audited the group and parent company financial statements (the "financial statements") of Oxonica plc for the year ended 31 December 2006 which comprise the Consolidated Profit and Loss Account, the Consolidated Statement of Total Recognised Gains and Losses, the Consolidated and Company Balance Sheets, the Consolidated Cash Flow Statement and the related notes. These financial statements have been prepared 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 auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Directors' Report and the financial statements in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities on page 13.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

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 other transactions is not disclosed.

We read the Directors Report and consider the implications for our report if we become aware of any apparent misstatement within it.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) 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 judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group's and company's circumstances, consistently applied and adequately disclosed.

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, in accordance with UK Generally Accepted Accounting Practice, of the state of the group's and the parent company's affairs as at 31 December 2006 and of the group's loss for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements.

KPMG Audit Plc
Arlington Business Park
Theale
Reading RG7 4SD
United Kingdom

CHARTERED ACCOUNTANTS
REGISTERED AUDITOR

Consolidated Profit and Loss Account

For the year ended 31 December 2006

	Note	2006 £'000	2005 £'000
Group turnover	2		
Continuing operations		9,160	1,247
Acquisitions		1,069	-
		10,229	1,247
Cost of sales		(4,304)	(586)
Gross profit		5,925	661
Development, sales and marketing and administration costs		(9,547)	(5,406)
Before goodwill amortisation		(8,915)	(5,406)
Goodwill amortisation	9	(632)	-
Other operating income		377	241
Operating loss	3	(3,245)	(4,504)
Operating loss from continuing operations		(1,377)	(4,504)
Acquisitions		(1,868)	-
Interest receivable	5	169	157
Interest payable	5	(54)	(86)
Loss on ordinary activities before taxation		(3,130)	(4,433)
Tax credit/(charge) on loss on ordinary activities	6	114	(93)
Loss on ordinary activities after taxation and retained for the year		(3,016)	(4,526)
Basic and fully diluted loss per share	8	(7.22)p	(16.38)p

The above results all derive from continuing operations.

Consolidated Statement of Total Recognised Gains and Losses

For the year ended 31 December 2006

	2006 £'000	2005 As restated Note 20 £'000
Loss on ordinary activities after taxation and retained for the period	(3,016)	(4,526)
Gain on foreign currency translation of equity investments in overseas subsidiaries	71	-
Total recognised losses relating to the period	(2,945)	(4,526)

Balance Sheet

At 31 December 2006

	Note	2006 Group £'000	2006 Company £'000	2005 Group £'000	2005 Company £'000
Fixed assets					
Goodwill	9	9,715	-	-	-
Other intangible assets	10	3,152	-	173	-
Intangible assets		12,867	-	173	-
Tangible assets	11	731		734	-
Investments	12	-	14,156	-	296
		13,598	14,156	907	296
Current assets					
Stock	14	477	-	412	-
Debtors	15	852	2,731	901	3,791
Short term deposits		3,932	3,932	5,000	5,000
Cash at bank and in hand		2,904	2,315	66	28
		8,165	8,978	6,379	8,819
Creditors: amounts falling due within one year	16	(3,470)	(356)	(1,119)	(228)
Net current assets		4,695	8,622	5,260	8,591
Total assets less current liabilities		18,293	22,778	6,167	8,887
Creditors: amounts falling due after more than one year	17	(247)	(192)	(168)	-
		18,046	22,586	5,999	8,887
Capital and reserves					
Called-up share capital	19	428	428	368	368
Share premium account	21	18,971	18,971	9,499	9,499
Merger reserve	21	9,953	-	9,953	-
Shares to be issued	21	4,225	4,225	-	-
Profit and loss account	21	(15,531)	(1,038)	(13,821)	(9,401)
Equity shareholders' funds		18,046	22,586	5,999	8,887

These financial statements were approved by the Board of Directors on 16 March 2007

Signed on behalf of the Board of Directors


DR K R K MATTHEWS
R J G CLARKE

Consolidated Cash Flow Statement

For the year ended 31 December 2006

	Note	2006 £'000	2005 £'000
Net cash inflow/(outflow) from operating activities	22	617	(4,795)
Returns on investments and servicing of finance			
Interest received		169	157
Interest paid		(54)	(82)
Net cash outflow from returns on investments and servicing of finance		115	75
Taxation			
Overseas taxes paid		(5)	-
Capital expenditure and financial investment			
Acquisition of subsidiaries		(66)	-
Purchase of tangible fixed assets		(318)	(410)
Net cash outflow from capital expenditure and financial investment		(384)	(410)
Net cash inflow/(outflow) before management of liquid resources		343	(5,130)
Management of liquid resources			
Decrease/(increase) in term deposits		1,068	(5,000)
Financing activities			
Issue of ordinary share capital		1,117	12,191
New loans advanced		514	-
Repayment of loans		(181)	(2,457)
Decrease in finance leases		(101)	(138)
Net cash inflow from financing		1,349	9,596
Increase/(decrease) in cash	23	2,760	(534)
Opening cash balances		66	600
Effects of exchange rate changes		78	-
Closing cash balances		2,904	66

1. Accounting policies

Basis of accounting
The financial statements have been prepared under the historical cost convention and in accordance with applicable accounting standards, which have been applied on a consistent basis, with the exception that FRS 20 – Share Based Payments has been applied for the first time. The principal accounting policies of the Group are set out below.

Basis of consolidation
The consolidated financial statements incorporate the financial statements of the Company and all Group undertakings. The acquisition method of accounting has been adopted. Under this method the results of subsidiary undertakings acquired or disposed of during the year are included in the consolidated profit and loss account from the date of acquisition or up to the date of disposal. 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 (3) of the Companies Act 1985.

Turnover and revenue recognition
Turnover represents the total amount receivable by the Group for goods supplied and services provided, excluding value added tax. 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.

Intangible fixed assets
Patents, technology and licences are included at cost and are amortised over their useful economic life which is the lower of 15 years or the remaining life of the associated patents.

Goodwill
Purchased goodwill (representing the excess of the fair value of the consideration given over the fair value of the separable net assets acquired) arising on consolidation in respect of acquisitions is capitalised. Positive goodwill is amortised to nil by equal annual instalments over its estimated useful life.

Tangible fixed assets
Tangible fixed assets are stated at cost less accumulated depreciation. Cost comprises all costs that are directly attributable to bringing the asset into working condition for its intended use, as defined by FRS 15.

Depreciation has been calculated so as to write down the cost of assets to their residual values over the following estimated useful economic lives:

Leasehold improvements	Over the period of the lease
Plant and machinery	3 years
Laboratory equipment	4 years
Office furniture and equipment	4 years

Investments
Investments held as fixed assets are stated at cost, less any provision for impairment in value.

Stocks
Stocks are stated 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 and hire purchase contracts are capitalised at their fair value on the inception of the leases and depreciated over the shorter of the period of the lease and the estimated useful economic lives of the assets. 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 to the profit and loss account over the periods of the leases and hire purchase contracts in proportion to the capital amount outstanding.

Operating lease rentals are charged to profit and loss in equal annual amounts over the lease term.

Pension costs
The Group operates a defined contribution pension scheme for employees. The assets of the scheme are held separately from those of the Group. Contributions are charged in the profit and loss account as they become payable in accordance with the rules of the scheme.

Deferred taxation
Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Deferred tax assets are only recognised where recovery is more likely than not. Timing differences are differences between the Group's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantially enacted by the balance sheet date. Deferred tax is measured on a non-discounted basis.

Research and development
Research and development expenditure is charged to the profit and loss account in the year in which it is incurred.

Foreign currencies
Transactions in foreign currencies during the year are recorded in sterling at the rates of exchange ruling at the date of the transaction. Assets and liabilities in foreign currencies are translated into sterling at the rates ruling at the balance sheet date. All exchange differences are taken to the profit and loss account.

Government grants
Government grants for the reimbursement of costs charged to the profit and loss account are credited to the profit and loss account in the year in which the costs are incurred.

Share based payments
The share option programme, long term incentive plan (LTIP) and share incentive plan (SIP) allow employees to acquire shares of the Company. The fair value of options and conditional share awards granted is recognised as an employee expense with a corresponding increase in equity. The fair value is measured at grant date and spread over the period during which the employees become unconditionally entitled to the options or shares. The fair value of the options and shares granted is measured using an option pricing model, taking into account the terms and conditions upon which the options or share awards were granted. The amount recognised as an expense is adjusted to reflect the actual number of share options or shares that vest except where variations are due only to share prices not achieving the threshold for vesting.

2. Segmental information

Group analysis by business segment:

	Energy		Materials		Healthcare & Security		Total	
	2006 £'000	*2005 £'000*	*2006 £'000*	*2005 £'000*	*2006 £'000*	*2005 £'000*	*2006 £'000*	*2005 As restated (note 20) £'000*
Turnover	8,933	1,208	227	39	1,069	-	10,229	1,247
Segment profit/(loss)	3,454	(1,120)	(90)	(55)	(1,474)	(490)	1,890	(1,665)
Unallocated corporate costs							(4,503)	(2,839)
Operating loss before goodwill amortisation							(2,613)	(4,504)
Goodwill amortisation							(632)	-
Operating loss							(3,245)	(4,504)
Net interest							115	71
Loss on ordinary activities before taxation							(3,130)	(4,433)
Segment net assets	(794)	1,085	(396)	(456)	3,206	224	2,016	854
Non-operating net assets (incl. goodwill)							9,707	360
Net funds							6,323	4,785
Net assets							18,046	5,999

The Healthcare and Security segment comprised the business of Nanoplex Technologies Inc, which was acquired during the year.

Geographical analysis of turnover:

	2006 £'000	2005 £'000
UK	1,628	947
Europe	11	2
Rest of the World	8,590	298
	10,229	1,247

3. Operating loss

	2006 £'000	2005 £'000
Operating loss is after charging:		
Amortisation of intangible fixed assets and goodwill	852	25
Depreciation of tangible fixed assets:		
Owned assets	219	122
Leased assets	117	122
Amounts receivable by auditors and their associates in respect of:		
Audit of these financial statements	80	50
Audit of financial statements of subsidiaries pursuant to legislation	3	4
Other services relating to taxation	19	24
All other services	61	134
Operating lease rentals	294	4
Exchange losses	107	10

4. Staff costs

	2006 £'000	2005 As restated (note 20) £'000
Staff costs including directors:		
Wages and salaries	2,663	1,580
Social security costs	319	189
Other pension costs	76	55
Share based payments	353	106
	3,411	1,930

The average number of employees, including executive directors, during the year was as follows:

	2006 No.	2005 No.
Technical staff	28	14
Sales and marketing	16	9
Management and administration	15	10
	59	33

5. Interest

	2006 £'000	2005 £'000
Interest receivable:		
Bank interest	169	157
Interest payable:		
Finance charges under finance lease and hire purchase contracts	(21)	(42)
Investor loans	-	(32)
Other loans	(33)	(12)
	(54)	(86)

6. Taxation

(a) Analysis of credit in year

	2006 £'000	2005 £'000
Current tax:		
Research and development tax credit	(114)	(12)
Overseas tax	5	-
Adjustments in respect of prior years provision:		
(Under)/over provision of research and development tax credit in prior year	(5)	105
Tax (credit)/charge on loss on ordinary activities	(114)	93

(b) Factors affecting tax credit for year

	2006 £'000	2005 £'000
Loss on ordinary activities before taxation	(3,130)	(4,433)
Corporation tax at 19% based on the loss for the year	(595)	(842)
Effects of:		
Expenses not deductible for tax purposes	5	25
Depreciation for the year in excess of capital allowances	22	13
Share options expense	46	20
Research and development tax credit	(114)	(12)
Overseas taxation	5	-
Increase in tax losses carried forward	522	784
Adjustments in respect of prior year	(5)	105
Current tax (recovery)/charge/ for the year (see (a) above)	(114)	93

There is no taxation charge for the period due to losses incurred. At 31 December 2006 the Group had tax losses, subject to the agreement of the Inland Revenue of approximately £14.3 million (2005: £11.6 million) available for offset against future taxable profits of the same trade. The tax rate of 19% used in the above reconciliation is the standard rate of tax applicable to small companies in the UK.

(c) Provision for deferred taxation

The Group's and the Company's provision for deferred tax, calculated under the liability method at 19%, is £ nil (2005: £ nil).

A deferred tax asset has not been recognised in respect of the 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. The Group estimates that the value of the deferred asset not recognised, measured at a rate of 19%, is £2.7 million (2005: £2.2 million).

7. Profit of parent company

As permitted by Section 230 of the Companies Act 1985, the profit and loss account of the parent Company is not presented as part of these accounts. The parent Company's loss for the financial year amounted to £1,132,000 (2005: £1,048,000).

8. 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 4,482,581 ordinary shares (2005: 3,669,563) would have formed part of the dilutive calculation but were not included because of the continuing loss.

	2006 £'000	*2005 As restated (note 20) £'000*
Basic and diluted loss attributable to ordinary shareholders	(3,016)	(4,526)

	No.	No.
Weighted average number of ordinary shares	41,773,796	27,631,595
Loss per share – basic and diluted	(7.22)p	(16.38)p

9. Goodwill

	Total £'000
The Group	
Cost	
At 1 January 2006	-
Acquisitions	10,346
At 31 December 2006	10,346
Amortisation	
At 1 January 2006	-
Charge for the year	631
At 31 December 2006	631
Net book value	
At 31 December 2006	9,715
At 31 December 2005	-

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10. Intangible fixed assets

The Group

	Patents & Technology £'000	*Licences £'000*	*Total £'000*
Cost			
At 1 January 2006	-	250	250
Acquisitions	3,200	-	3,200
At 31 December 2006	3,200	250	3,450
Amortisation			
At 1 January 2006	-	77	77
Charge for the year	196	25	221
At 31 December 2006	196	102	298
Net book value			
At 31 December 2006	3,004	148	3,152
At 31 December 2005	-	173	173

The patents and technology comprises intangible assets acquired with Nanoplex Technologies Inc on 7 February 2006 and licences relates to the patent licence from Neuftec Limited that was acquired on 7 December 2001.

11. Tangible fixed assets

	Short leasehold improvements £'000	Plant, machinery & laboratory equipment £'000	Fixtures, fittings & computer equipment £'000	Total £'000
The Group				
Cost				
At 1 January 2006	86	1,041	294	1,421
Acquisitions	-	133	22	155
Additions	-	209	81	290
Disposals	-	(1)	(9)	(10)
Foreign exchange adjustment	-	(22)	-	(22)
At 31 December 2006	86	1,360	388	1,834
Depreciation				
At 1 January 2006	60	486	141	687
Acquisitions	-	87	15	102
Charge for the year	19	243	75	337
Disposals	-	(1)	(9)	(10)
Foreign exchange adjustment	-	(10)	(3)	(13)
At 31 December 2006	79	805	219	1,103
Net book value				
At 31 December 2006	7	555	169	731
At 31 December 2005	26	555	153	734

The net book value of short leasehold improvements includes £1,971 (2005: £4,599), the net book value of plant, machinery and laboratory equipment includes £82,404 (2005: £163,004) and the net book value of fixtures, fittings and computer equipment includes £62,946 (2005: £98,054) in respect of assets held under finance leases.

12. Fixed asset investments

	2006 £'000	2005 £'000
The Company		
Cost and net book value		
At 1 January 200	296	296
Additions (note 13)	13,860	-
At 31 December 2006	14,156	296

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 (formerly Oxonica Limited)	England	Development and commercialisation of advanced nanomaterials for UV protection
Oxonica Energy Limited (formerly Cerulean International Limited)	England	Development, sales and marketing and supply of fuel additive products
Oxonica Healthcare Limited	England	Development, sales and marketing and supply of healthcare products
Oxonica Security Limited	England	Dormant
Oxonica Overseas Holdings Limited	England	Holding company
Oxonica Inc. (formerly Nanoplex Technologies Inc.)	USA	Development and commercialisation of advanced nanomaterials for biodiagnostics and security applications
Oxonica Singapore Pte Limited	*Singapore	Sales and marketing of fuel additive products
Oxonica (HK) Limited (formerly Cerulean Asia Pacific Limited)	*Hong Kong	Dormant

* Owned by Oxonica Overseas Holdings Limited

13. Acquisitions

On 7 February 2006 the Company acquired the entire share capital of Nanoplex Technologies Inc ("Nanoplex"), a developer of nanoparticle based detection systems for healthcare and security markets, which was then renamed Oxonica Inc. The initial consideration for the acquisition was satisfied by the issue of 5,426,432 new ordinary shares in the Company. Subsequent to the year end, deferred consideration consisting of a further 2,090,005 new ordinary shares was issued following the achievement of revenue milestones and there being no claims under Nanoplex's representations and warranties.

The net assets acquired in the transaction, and the goodwill arising are as follows:

	Carrying values pre acquisition £'000	*Fair value adjustments £'000*	*Provisional fair value £'000*
Net assets acquired			
Intangible assets	-	3,200	3,200
Tangible assets	54	-	54
Trade and other receivables	320	-	320
Cash and cash equivalents	247	-	247
Trade and other payables	(307)	-	(307)
	314	3,200	3,514
Goodwill			10,346
Total consideration			13,860
Satisfied by			
Shares issued at completion			8,440
Shares to be issued			4,225
Share options assumed			882
Cash			313
			13,860

The fair value adjustment in respect of intangible assets represents the valuation of the patented technology owned by Nanoplex. The Board has estimated that this technology has a useful life of 15 years. The goodwill arising on the acquisition is attributable to the anticipated future profitability of the company based on its management and skills, strategic customer relationships and synergies with the Oxonica Group. The goodwill and intangible assets relating to the acquisition are being amortised over 15 years on a straight line basis.

Oxonica Inc contributed £1,069,000 revenue and £1,868,000 operating loss before interest and tax to the Group's results between the date of acquisition and the balance sheet date. Its operating loss from the beginning of its financial year up to the date of acquisition was £967,000 and for the year ended 31 December 2005 was £244,000.

14. Stocks

	2006		*2005*	
	Group £'000	*Company £'000*	*Group £'000*	*Company £'000*
Raw materials and consumables	-	-	168	-
Work in progress and finished goods	477	-	244	-
	477	-	412	-

15. Debtors

	2006		*2005*	
	Group £'000	*Company £'000*	*Group £'000*	*Company £'000*
Trade debtors	429	-	343	-
Amounts owed by Group undertakings	-	2,547	-	3,514
R&D tax credit	156	-	36	-
VAT recoverable	23	151	104	109
Other debtors	1	-	39	-
Prepayments and accrued income	243	33	379	168
	852	2,731	901	3,791

16. Creditors: amounts falling due within one year

	2006		2005	
	Group £'000	Company £'000	Group £'000	Company £'000
Bank loans and overdrafts	166	153	12	-
Amounts due under hire purchase and finance leases	100	-	101	-
Trade creditors	1,688	-	443	-
Other taxation and social security costs	60	3	47	-
Other creditors	88	21	10	10
Accruals and deferred income	1,368	179	506	218
	3,470	356	1,119	228

17. Creditors: amounts falling due after more than one year

	2006		2005	
	Group £'000	Company £'000	Group £'000	Company £'000
Bank loans	247	192	68	-
Amounts due under hire purchase and finance leases	-	-	100	-
	247	192	168	-

18. Borrowings

	2006 £'000	2005 £'000
Bank loans and overdrafts	413	80
Other loans	-	-
	413	80
Borrowings are repayable as follows:		
Within one yea	166	12
Between one and five years	247	68
	413	80

	2006 £'000	2005 £'000
Hire purchase and finance lease repayments		
Hire purchase and finance lease repayments are payable as follows:		
Within one year	100	101
Between one and five years	-	100
	100	201

The bank loans and overdrafts are secured by a first fixed and floating charge over all the assets of the Group. Interest is charged on the bank loans at 2% above LIBOR.

Amounts due under hire purchase and finance leases are secured on the related assets.

19. Share capital

	2006 Number of shares	2006 £	2005 Number of shares	2005 £
Authorised				
Ordinary shares of £0.01 each	500,000,000	5,000,000	500,000,000	5,000,000
Allotted, called up and fully paid				
Ordinary shares of £0.01 each	42,831,641	428,316	36,805,329	368,053

On 7 February 2006, the Company issued 5,023,554 new ordinary shares with a nominal value of £0.01 each to the shareholders of Nanoplex Technologies Inc as the initial consideration for the acquisition of Nanoplex.

On 29 August 2006, in connection with a licence agreement and collaborative research agreement, the Company issued 829,356 new ordinary shares with a nominal value of £0.01 each to Beckton Dickinson.

During the year 69,210 new ordinary shares with a nominal value of £0.01 each were issued to employees by way of free share awards and 104,192 new ordinary shares with a nominal value of £0.01 each were issued as a result of the exercise of share options.

The movement in ordinary shares during the year was:

	At 1 January 2006 No.	*Shares Issued on Acquisition of Nanoplex No.*	*Shares Subscribed for by Beckton Dickinson No.*	*Free Shares Issued and Exercise of Share Options No.*	*At 31 December 2006 No.*
Ordinary shares of £0.01 each	36,805,329	5,023,554	829,356	173,402	42,831,641

20. Share based payments

The Company has adopted FRS 20 for the first time in this year and accordingly, sales and marketing and administration costs includes a charge of £353,000 (2005: £106,000) in respect of share based payments issued to employees. The comparative figures for 2005 have been adjusted accordingly. A further cost of £882,000 in connection with share options in Nanoplex, which were assumed by the Company as part of the acquisition has been capitalised as part of the acquisition cost – see note 12.

(a) Share option scheme

Under the Company's share option scheme, employees held options at 31 December 2006 over unissued ordinary shares as follows:

Options held at 1 January 2006	*Options Assumed On Acquisition Of Nanoplex*	*Options granted*	*Options exercised*	*Options cancelled*	*Options held at 31 December 2006*	*Exercise price*	*Earliest exercise date*	*Date options lapse*
4,130,752	-	-	(65,000)	(105,516)	3,960,236	£0.447	Between 15/07/05 & 01/01/07	Between 21/11/12 & 15/07/15
-	392,962	-	(39,192)	-	353,770	$0.227	Between 01/01/02 & 01/12/05	Between 01/01/13 & 29/11/15
-	9,916	-	-	-	9,916	$1.634	30/11/05	29/11/15
4,130,752	402,878	-	(104,192)	(105,516)	4,323,922			

(b) Long Term Incentive Plan (LTIP)

Under the Rules of the LTIP directors and senior employees receive conditional rights to acquire ordinary shares in the Company. Eligible employees are awarded rights to acquire a maximum number of shares at the beginning of a holding period, a proportion of which they will be entitled to receive based on the extent to which the performance conditions set by the Remuneration Committee at the time the allocation is made are satisfied. If the performance conditions are not satisfied the share award will lapse. See Remuneration Report for details of performance conditions.
Details of the LTIP's outstanding during the year are as follows:

	2006 Number of shares	*2005 Number of shares*
At 1 January 2006	-	-
Granted during the year	831,691	-
Forfeited during the year	(62,307)	-
Released during the year	-	-
Outstanding at 31 December 2006	769,384	-

20. Share based payments continued

The estimated fair values of LTIP awards which fall under the FRS 20 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 is in the model is in line with the vesting period of the LTIP award (2 years). The Company has assumed that the number of LTIP awards that will ultimately be released is reduced by 5% per annum.

(c) Share Incentive Plan (SIP)

All employees are eligible to participate in the SIP which is operated in two parts – the UK Share Incentive Plan which is a Revenue approved share incentive plan for UK employees and the 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 are awarded rights to acquire a maximum number of shares at the beginning of a holding period set by the Company.

For the purposes of FRS 20 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 profit and loss account 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:

	2006 Number of Free shares	*2006 Number of Plus shares*	*2005 Number of Free shares*	*2005 Number of Plus shares*
At 1 January 2006	-	-	-	-
Granted during the year	109,969	3,432	-	-
Forfeited during the year	(2,307)	-	-	-
Released during the year	-	-	-	-
Outstanding at 31 December 2006	107,662	3,432	-	-

21. Reserves

	Share premium account £'000	*Merger reserve £'000*	*Shares to be issued £'000*	*Profit and loss account £'000*	*Total 2006 £'000*	*Total 2005 £'000*
The Group						
At 1 January 2006	9,499	9,953	-	(13,821)	5,631	(1,775)
Merger difference	-	-	-	-	-	(246)
Share issues	9,472	-	4,225	-	13,697	13,106
Issue costs	-	-	-	-	-	(1,034)
Exchange rate adjustments	-		-	71	71	
Share options – value of employee service	-	-	-	1,235	1,235	106
Loss for the year	-	-	-	(3,016)	(3,016)	(4,526)
At 31 December 2006	18,971	9,953	4,225	(15,531)	17,618	5,631

	Share premium account £'000	*Shares to be issued £'000*	*Profit and loss account £'000*	*Total 2006 £'000*	*Total 2005 £'000*
The Company					
At 1 January 2006	9,499	-	(980)	8,519	(2,139)
Adjustment on Group reorganisation	-	-	-	-	2,139
Share issues	9,472	4,225	-	13,697	10,489
Issue costs	-	-	-	-	(990)
Share options – value of employee service	-	-	1,074	1,074	68
Loss for the year	-	-	(1,132)	(1,132)	(1,048)
At 31 December 2006	18,971	4,225	(1,038)	22,158	8,519

22. Reconciliation of operating loss to net cash outflow from operating activities

	2006 £'000	2005 £'000
Operating loss	(3,245)	(4,504)
Amortisation of intangible fixed assets and goodwill	852	25
Depreciation charges	336	244
Share based payment expense	353	106
Loss on sale of fixed assets	-	-
(Increase) in stocks	(66)	(253)
Decrease/(increase) in debtors	462	(494)
Increase in creditors	1,925	81
Net cash inflow/(outflow) from operating activities	617	(4,795)

23. Reconciliation of net cash flow to movement in net funds

	2006 £'000	2005 £'000
Movement in cash	2,760	(534)
New loans advanced	(514)	-
Inception of new finance leases	-	-
Loan repayments	181	2,457
Leases repaid	101	138
(Decrease)/increase in short term deposits	(1,068)	5,000
Effects of exchange rate changes	78	-
Change in net funds in year	1,538	7,061
Net funds at start of the year	4,785	(2,276)
Net funds at end of the year	6,323	4,785

24. Analysis of net funds

	At 1 January 2006 £'000	*Cashflow £'000*	*Foreign exchange movements £'000*	*Other non-cash movements £'000*	*At 31 December 2006 £'000*
Cash in hand and at bank	66	2,760	78	-	2,904
Cash on short term deposit	5,000	(1,068)	-	-	3,932
Debt due within one year	(12)	(142)	-	(12)	(166)
Debt due after one year	(68)	(191)	-	12	(247)
Finance leases	(201)	101	-	-	(100)
	4,785	1,538	78	-	6,323

25. Financial instruments

The Group's financial instruments comprise hire purchase agreements and similar lease arrangements, 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 following disclosures.

The main risks arising from the Group's financial instruments are interest rate 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.

Interest rate risk

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 2006					
Cash at bank	2,904	3,932	-	-	6,836
Finance leases	-	-	-	(100)	(100)
Other loans	-	-	(413)	-	(413)
Total	2,904	3,932	(413)	(100)	6,323
At 31 December 2005					
Cash at bank	66	5,000	-	-	5,066
Finance leases	-	-	-	(201)	(201)
Other loans	-	-	(80)	-	(80)
Total	66	5,000	(80)	(201)	4,785

The weighted average interest rate for the fixed rate liabilities is 16% and the weighted average period for which interest rates are fixed is 1 year.

Foreign currency risk

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.

Liquidity risk

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.

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.

26. Commitments under operating leases

At 31 December 2006 the Group had annual commitments under non-cancellable operating leases as set out below:

	Land and buildings	
	2006 £'000	2005 £'000
Annual commitments which expire:		
Within one year	-	-
Between one and five years	106	106
	106	106

27. Capital commitments

The Group had the following capital commitments as at 31 December 2006:

	2006 *£'000*	2005 £'000
Authorised and contracted for	Nil	Nil

28. 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 directors do not anticipate that the outcome of these proceedings and claims, either individually or in aggregate, will have a material adverse effect upon the Group's financial position.

29. Pension scheme

The Group operates a defined contribution pension scheme. The pension cost charge for the period represents contributions payable by the Group to the scheme and amounted to £81,000 (2005: £55,000). There were no outstanding contributions at the beginning or the end of the year.

30. Related party disclosures

As at 31 December 2006:

Christopher Moore owned 131,718 ordinary shares in Oxonica plc. Mr Moore is also a director of TriVest VCT Plc, which held 5,115,947 ordinary shares in the Company.

Kevin Matthews owned 47,203 ordinary shares in Oxonica plc.

Richard Clarke owned 7,871 ordinary shares in Oxonica plc.

Charles Eld is a director of Seighford Investment Company Limited which held 1,295,488 ordinary shares.

Martin Hagen owned 6,000 ordinary shares in Oxonica plc.

Gordon Ringold owned 97,714 ordinary shares in Oxonica plc.

26. Post balance sheet events

On 8 February 2007, following the achievement of revenue milestones and there being no claims under the vendor's representations and warranties, deferred consideration consisting of a further 2,090,005 new ordinary shares was issued to the previous shareholders of Nanoplex Technologies, Inc.

Company Information

Directors
C M Moore (Executive Chairman)
K R K Matthews (Chief Executive Officer)
R J G Clarke (Chief Financial Officer)
C J Eld
M J Hagen
R M Pettigrew
G Ringold
E Weeks

Secretary
R J G Clarke

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Auditors
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Chartered Accountants
Arlington Business Park
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