

2007

Annual Report & Accounts

Overview	Financials
01 Chairman's Statement	22 Consolidated Income Statement
02 Chief Executive's Review	23 Consolidated Statement of Recognised Income and Expense
07 Financial Review	24 Balance Sheets
	25 Cash Flow Statement
	26 Notes to the Financial Statements
	52 Company Information
Governance	
08 Board of Directors	
10 Corporate Social Responsibility	
11 Report of the Directors	
14 Statement of Directors' Responsibilities in respect of the Annual Report and the Financial Statements	
15 Directors' Remuneration Report	
18 Corporate Governance	
21 Independent Auditors' Report to the Members of Oxonica plc	

Oxonica's mission is to develop innovative commercial solutions for international markets using our expertise in design and application of Nanotechnology.

Chairman's Statement

01

I am pleased to report that, despite the loss of the contract to supply the Group's Envirox™ fuel combustion catalyst to the leading national oil company in Turkey in the first half of the year, Oxonica has continued to make considerable progress in 2007. Following a detailed strategic review in the second half of the year, the Group has been restructured into two main divisions and it successfully raised additional equity shortly before the year-end.

Results

In the year to 31 December 2007, turnover reduced by 59% to £4,174,000 (2006: £10,229,000). Although total Group turnover fell in the second half of the year following the loss of the Turkish contract and the seasonal reduction in Optisol™ UV absorber sales, turnover in both Security and Diagnostics increased on the back of good technical and commercial progress. Gross profit also fell by 59% to £2,411,000 (2006: £5,925,000). Overhead expenses, excluding other operating income and the write-off of intangible assets, reduced by 0.5% to £8,899,000 (2006: £8,943,000). However, this masks a substantial reduction in overheads in the second half of the year, which resulted from the management actions taken following the loss of the Petrol Ofisi contract in Turkey. The operating loss increased by 112% to £5,591,000 (2006: £2,641,000) and the free cash flow before financing was an outflow of £5,795,000 (2006: inflow of £343,000). The Group raised additional funds through a placing at 21 pence, which closed on 21 December 2007, which meant that Oxonica had cash balances at the end of the year of £4,811,000 (2006: £6,836,000).

Turnover excludes grant and other income received of £1,032,000 (2006: £377,000).

The Board is not recommending the payment of a dividend.

Overview of the year

2007 was principally a year of restructuring and recovery for Oxonica. The loss of the contract to supply Envirox™ to Petrol Ofisi in Turkey following the inconclusive result of the Istanbul track trial was a significant setback and necessitated a temporary suspension of trading in the Company's shares on 27 April 2007, which further impacted investor confidence. Appropriate steps were immediately

taken to reduce costs in the business and discussions were held with Petrol Ofisi, as a result of which a prompt and mutually agreeable settlement was reached, enabling the trading suspension to be lifted on 5 June 2007.

Following the loss of this major contract, the Board initiated a detailed strategic review of the business, recognising that there would be a need to raise additional equity funds. The strategic review highlighted the differences between supplying nanomaterials for a variety of uses where the product is the nanomaterial and developing a diagnostics business where nanomaterials are typically integrated into a full system. Accordingly the Group was restructured into two separate divisions, Oxonica Nanomaterials and Oxonica Diagnostics. The Nanomaterials division comprises the Energy, Materials and Security businesses and the Diagnostics division consists of the Group's activities in the detection of diseases and biological markers for clinical, veterinary, food and bioterrorism markets. The strategic review also identified different funding requirements for the two divisions. In particular, the significant technical progress in Diagnostics meant that there was a real opportunity for the Group to develop its own diagnostic tests based on the technology in addition to licensing it to major diagnostics companies for particular disease types and in specific assay formats. In order to effectively exploit the potential for both divisions and provide more focus, the Board is considering the strategic options for the Diagnostics business. The Diagnostics business will also require substantial investment over the next few years to develop the necessary infrastructure and accordingly, Oxonica has today announced that it has appointed ThinkEquity, a US investment bank, to advise the Group and to identify potential partners and investors for this business.

Board

I joined the Board following the AGM on 19 July 2007 and took over as Chairman on 27 September 2007 when Christopher Moore, Bob Pettigrew and Charles Eld stepped down from the Board. On behalf of the Board, I would like to thank Christopher, Bob and Charles for their valuable contributions to Oxonica, in particular leading up to and during the successful flotation on AIM and the subsequent acquisition and integration of Nanoplex Technologies Inc.

Also on 19 July 2007, Foresight Venture Partners, the Investment Adviser to the Foresight Funds, together with the largest combined shareholder group in Oxonica, was granted observer status at Board meetings. David Hughes, a Foresight partner with over 30 years of venture capital and corporate finance experience with smaller listed companies, has been attending Board meetings as the nominated representative. The Board is being continuously evaluated to ensure that it adapts in line with the changing requirements of a rapidly developing group.

Summary

As a result of the termination of the contract with Petrol Ofisi, the Group's sales revenues for the year to December 2007 were considerably lower than the previous year. However, new distributors have been appointed for Envirox™, further successful trials have been completed and a pipeline of new customer opportunities has been re-established. Additionally, the continued increase in the price of oil and rising concerns over carbon emissions make this product even more attractive to users of diesel fuel. Optisol™ continues to move forward and exciting opportunities are emerging for the security technology as well as for Solacor™ in a range of industrial applications including plastics, polymers and coatings. The Diagnostics business has also made significant progress, as evidenced by the follow-on collaboration agreement with BD which was announced in September 2007. The Board believes that there is substantial value in this business and is working with its advisers to identify the best way to realise this.

Oxonica is now recovering from the setback with Petrol Ofisi in 2007 and the Board is optimistic as to the Group's progress in 2008, especially for Envirox™ where the macro-drivers of high fuel costs and environmental concerns align with the demonstrated performance and green benefits of Envirox™.



R Farleigh
Chairman

Chief Executive's Review

02

Overview of the Business

Oxonica is a developer of products based on advanced materials. The Group's business model is to identify attractive market opportunities, secure any necessary intellectual property and manufacturing capability (through partnerships), develop products and applications and generate value through agreements with commercial partners for end-market adoption. The focus on nanomaterials offers significant opportunities for the continued development of valuable businesses with differentiated product performance or new applications. In many industries performance is limited by the use of old technologies that have reached their performance limits and to date Oxonica has actively identified major markets where nanomaterials can offer meaningful improvements compared with the incumbent technology. As a result, the Group has built a portfolio of potential applications.

A detailed strategic review was carried out during the year as a result of which the Group has been restructured into two operating divisions, Oxonica Nanomaterials and Oxonica Diagnostics. Oxonica Nanomaterials consists of three application-based businesses: Oxonica Energy, Oxonica Materials and Oxonica Security.

Oxonica Energy

Oxonica Energy is focused on the development of Envirox™, a fuel combustion catalyst for diesel with the demonstrated potential to reduce diesel fuel use by 4-10% with commensurate reductions in greenhouse gases and an addressable market estimated at US\$3 billion.

Following early success with Stagecoach, where the product was adopted following an extensive field trial lasting 12 months, which demonstrated fuel savings in excess of 5%, the Group entered into an agreement in August 2006 to supply Envirox™ to Petrol Ofisi A.S., Turkey's national oil company. The product was subsequently incorporated in Petrol Ofisi's high sulphur diesel throughout Turkey and generated sales in excess of \$12.7m, in the second half of 2006. Early in 2007, Petrol Ofisi requested that additional product testing was performed specifically in Turkey, using Turkish vehicles and drivers, prior to a launch planned for the second quarter of the year. The only type of trial that could be arranged to meet the tight timescale was a track based trial using a group of similar trucks and while the initial results from the trial were positive, indicating a statistically significant fuel saving, the statistical variability in the fuel usage data from the trial increased throughout the trial period to the point that it was impossible to make a definitive statement as to the effect of Envirox™ on fuel economy. In the light of the inconclusive trial result, Petrol Ofisi terminated the supply agreement.

Despite the setback in Turkey, Oxonica Energy continues to supply customers in the UK and Europe. Stagecoach remains the largest customer, having recently re-validated the performance of Envirox™ with a trial involving over 550 vehicles in the North-West region of the UK. This trial demonstrated a statistically significant fuel saving of 4.3% after 3 months, which is consistent with the results from the original 2004 trial at the same point. Oxonica has also recently completed an additional piece of work in collaboration with Stagecoach at a major independent vehicle testing facility in the UK that demonstrated reductions in particulate emissions of up to 19%. To date, Stagecoach vehicles have

driven more than 700 million miles using Envirox™. Other trials and tests have been carried out in the UK, Germany and Italy which have also demonstrated fuel economy and emissions reductions in an increasing variety of vehicle types under varying conditions. Oxonica Energy has entered into a strategic relationship with Nyacol Nanotechnologies Inc which secures the long term cost effective supply of Envirox™ and assigns the distribution rights in certain Asian territories to Nyacol. New distributors have been appointed in Germany and in Russia and a number of significant customer trials are currently in progress.

Oxonica Energy has been in a patent dispute with Neuftec Limited since early January 2007 regarding the issue of whether royalty fees are payable to Neuftec on sales of the Envirox™ formulation currently sold by Oxonica Energy. To obtain clarity on the issue, Oxonica Energy issued proceedings on 23 February 2007 for a declaration that the formulation does not infringe Neuftec's granted patent and, as announced on 12 July 2007, Neuftec has confirmed that it does not. The remaining claims concern whether or not royalties are nevertheless payable under the licence between Neuftec and Oxonica Energy prior to its termination on 26 February 2007. Oxonica Energy has been advised that its prospects of success are good and that it is expected to prevail on its arguments at trial. However, an accrual has been established to offset any additional royalties which may ultimately be payable. Legal costs are being expensed as incurred and the licence, which was being carried in the balance sheet as an intangible fixed asset at a value of £135,000, has been written-off.

The focus on nanomaterials offers significant opportunities for the continued development of valuable businesses with differentiated product performance or new applications.

04

In many industries performance is limited by the use of old technologies that have reached their performance limits. To date Oxonica has actively identified major markets where nanomaterials can offer improvements compared with the incumbent technology. As a result, the Group has built a portfolio of potential applications.

Products like Envirox™ could be implemented immediately across the UK with the potential to save 2 to 3 million tonnes of carbon dioxide per year.

05

Oxonica has continued to pursue its submission for EPA Tier 1 registration in order to be able to sell Envirox™ into the USA for on-road use. The EPA has now confirmed that Envirox™ has met all the requirements for Tier 1 approval. However, EPA has requested that certain additional information is provided before they consider whether or not to grant Tier 1 approval and Oxonica is evaluating options to carry out the required tests. In the UK, a report by Oakdene Hollins for DEFRA on Environmentally Beneficial Nanotechnologies recognised that products like Envirox™ could be implemented immediately across the UK with the potential to save 2 to 3 million tonnes of carbon dioxide per year.

Oxonica Materials

The principal products of this business are the UV absorbers Optisol™ and Solacor™, with the demonstrated ability to improve protection against sunlight for both cosmetic and industrial applications and an addressable market estimated at US\$2.3 billion. Optisol™, which improves the performance of sunscreens and anti-ageing products, was launched in Boots' Soltan facial defence cream in 2005 and extended into the Soltan Once range in 2006. In 2007 the product range containing Optisol™ was further extended to include Kids Once, Soltan Sensitive and Soltan Extreme Sports. Optisol™ performed strongly in the first half of 2007 and is now being used in 27 formulations, by 14 customers in 9 countries. In April 2007, Croda, Oxonica's principal distribution partner for Optisol™, launched a pre-dispersed form of the product designed to help customers incorporate Optisol™ into their personal care formulations quicker and more effectively. This important development should shorten customers' lead times and accelerate sales growth. However, despite strong growth in 2007 and significant market interest, the rate of adoption is being restrained by the selling price of Optisol™. We are in discussions with Umicore and Croda with a view to identifying options to reduce supply chain costs.

Solacor™ is being developed for industrial markets such as coatings and plastics and work has continued 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.

Oxonica Security

Oxonica Security was established in February 2006, following the acquisition of Nanoplex Technologies Inc., to exploit a number of commercial applications for nanotechnology-based marker systems for anti-counterfeiting and brand protection. These applications include high value documents, tax stamps, pharmaceuticals, fuel and luxury goods, with an addressable market size estimated at US\$440 million per annum. In June 2007, Oxonica secured a series of purchase orders totalling US\$1.16 million for a number of development products to be delivered over the following nine months as part of a project with one of its existing customers. Further purchase orders worth \$0.5 million were contingent on the achievement of certain technical milestones and, following strong technical progress, an initial follow-on order of US\$0.3 million was received in December 2007. These orders represent significant progress in moving Oxonica's security technology towards product development on a commercial scale and the next phase of development of this business is the scale-up of manufacture to facilitate the commercialisation efforts.

Oxonica Diagnostics

Oxonica Diagnostics is a business based on the same platform technology as Oxonica Security, which has the potential to be utilised in a number of application areas including clinical diagnostics (central laboratory and point-of-care), life sciences, veterinary, food and bioterrorism with combined estimated addressable markets of in excess of \$30 billion. The business has evolved considerably over the last two years. The initial development of the nanomaterial-based optical tags, based on technology in-licensed from the University of Strathclyde, was significantly accelerated in 2006 following the acquisition of Nanoplex Technologies Inc., which was concluded in February 2006. This acquisition consolidated the principal intellectual property in the area as well as strengthening the technical and commercial skills within the business.

The Diagnostics business introduced the first product prototype in the first quarter of 2006. This was a multiplexed lateral flow test which allowed the simple simultaneous detection and measurement of a number of respiratory diseases. In addition, the business has advanced the technology to demonstrate the potential for more sensitive lateral flow tests over those currently available in the market and the development of a new assay format that allows a test where the requirement for sample preparation is minimised, the Nanoplex™ no-wash assay. This latter development is being well received by the market as it provides the potential for a significant reduction in processing time and cost, is easy to use in a point-of-care setting and offers unique benefits for carrying out tests in whole blood and other complex biological materials leading to faster, simpler and more accurate results.

06

In August 2006, Oxonica signed a non-exclusive licence agreement for the technology with BD. At the same time, the two companies entered into a co-operative research programme to apply Oxonica's technology for use in diagnostics by BD. Considerable progress was made and a follow-on research agreement was signed in September 2007 in order to facilitate BD's continued evaluation of the technology. Oxonica has also been carrying out evaluations with a number of other global diagnostics companies.

Oxonica has successfully completed the feasibility phase of its development programme for the Nanoplex™ no-wash assay. During the feasibility phase, the potential to combine and dramatically simplify both protein and DNA based diagnostics has been demonstrated. In the category of protein diagnostics, for a model triplex cardiac panel system, the Nanoplex™ no-wash assay has achieved sensitivities on a par with large clinical analysers in a portable instrument and using whole blood samples. Other protein based model assays, such as those for inflammatory disease, have shown a sensitivity for TNF-alpha similar to the industry standard, six hour, multi-step test, but in a simple 30 minute test suitable for the physician's office. In the category of DNA or molecular diagnostics, a model assay for E.Coli showed femtomolar sensitivities with no amplification step in 40 minutes. With the Nanoplex™ platform moving to the next stage of product development, a market area has been identified for the development of our own product with an estimated addressable market size of US\$2.75 billion.

Early in 2007, it was recognised that in order to support its partners, including BD, the business not only needed to develop the capability to manufacture a range of nanomaterial markers, but also needed to contribute to assay or test development and the design, prototyping and specification of associated readers and software. Significant progress in all of these areas in 2007 has meant that the business now has the capability to develop its own diagnostic tests based on the technology in addition to licensing it to the major players for certain disease types and assay formats.

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.

Oxonica has submitted three academic papers for peer review describing the toxicological and environmental studies conducted on Envirox™. Two of these papers have already been published, one in the journal, Nanotoxicology and one in the journal, Particle and Fibre Toxicology. The third is due for publication later this year. The conclusions from these studies are that Envirox™ is safe for use as a fuel combustion catalyst.

Management and staff

2007 was a challenging year for the Group's management and staff. A total of 10 employees were lost through redundancy from the UK operations as part of the cost reduction exercise which followed the termination of the Petrol Ofisi contract. At the end of the year, the Group had 50 full and part-time employees of which 25 (50%) were based in California. On behalf of the Board, I would like to express our sincere appreciation to all our employees for their sustained efforts and continued support throughout the year.

Operations

Throughout 2007, Oxonica has continued to work on upgrading its systems and processes. The Company obtained ISO 9001 certification for its UK facilities in February 2006 and shortly after the year-end, following an assessment by Underwriters Laboratories, Oxonica Inc., was also successful in achieving ISO 9001 accreditation for its US based activities in the development and manufacture of nanoparticles for OEM partners and the design and development of nanoparticle-based applications.



Dr K R K Matthews
Chief Executive Officer

Analysis of results

Group turnover for the year was significantly lower than the previous year at £4,174,000 (2006: £10,229,000), a reduction of 59% and gross profit reduced correspondingly to £2,411,000 (2006: £5,925,000). The decrease in sales revenue was a consequence of the termination of the contract to supply Envirox™ to Petrol Ofisi A.S., the leading national oil company in Turkey, following an inconclusive track trial result in February 2007. Sales of Optisol™ doubled in the year following the extension of the Soltan Once range by Boots and its adoption by a number of new customers worldwide, including a leading global brand, which launched a new foundation cream incorporating Optisol™. 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. In the US, Security sales were up compared with the prior year following a strong second half performance supported by purchase orders for development products as part of a project with an existing customer. Diagnostics sales were lower than the previous year, which included revenues from the initial research and collaboration agreement with BD, but still made a significant contribution to Group sales.

The operating loss for the year was £5,591,000 (2006: £2,641,000). The higher loss resulted principally from a reduction in gross profit to £2,411,000 (2006: £5,925,000) caused by the substantial decrease in sales. Research and development, sales and marketing and administration expenses were kept to 2006 levels as a result of the cost reduction actions which followed the loss of the Petrol Ofisi contract. However, the impact of these cost reductions was partly offset by a higher charge in respect of share based payments which increased to £514,000 (2006: £353,000). Other operating income increased to £1,032,000 (2006: £377,000) mainly due to the contract termination settlement with Petrol Ofisi. The operating result was also impacted by the write-off of the Neuftec licence, which was being carried in the balance sheet at a value of £135,000, following the termination of the licence in February 2007.

The higher net financial income for the year of £150,000 (2006: £115,000) results from the higher average cash balances driven by a strong opening position at the start of the year due to positive cash generation in the second half of 2006 from the Petrol Ofisi contract. The average interest rates on deposits were also slightly higher during the year.

There is a small overseas tax credit in the year of £2,000 compared with a more substantial research and development tax credit of £114,000 in the prior year. The change in emphasis within the UK operation from product development to commercialisation has significantly reduced the Company's ability to claim R&D tax credits. The Group has substantial tax losses available for carry forward against future profits.

Cash and cash equivalents stood at £4,811,000 at the year-end (2006: £6,836,000). Over the year, cash decreased by £2,025,000 (2006: £1,770,000 increase), driven by an outflow from operating activities of £5,471,000 (2006: £727,000 inflow), an outflow of £324,000 (2006: £318,000) from investing activities and a net cash inflow from financing of £3,778,000 (2006: £1,349,000), which included £4,047,000 (2006: £1,117,000) raised through share issues.

Nanoplex Technologies Inc – Deferred consideration

On 9 February 2007, the Board confirmed that the final outstanding conditions in connection with the acquisition of Nanoplex Technologies Inc had been satisfied. Under the terms of the acquisition agreement, deferred consideration of up to 1,338,366 new ordinary shares in Oxonica plc were to be issued during the 18 months after completion of the acquisition contingent on the achievement of certain milestones, together with 751,644 shares issued 12 months after completion subject to there being no claims under the representations and warranties contained in the Nanoplex acquisition agreement. Completion of the Nanoplex acquisition occurred on 8 February 2006.

Accordingly, 2,090,005 new ordinary shares in Oxonica plc were issued to the previous shareholders of Nanoplex and were admitted to trading on AIM on 16 February 2007.

Financing

On 21 December 2007, the Group completed a successful placing, which raised £4.0 million, net of expenses. In addition to providing working capital, the funds raised will allow the Group to increase investment in the engine test programme and marketing activity for Envirox™, to continue the commercial development of Solacor™ into a number of applications and explore the strategic financial and structural options to best support the development of the Oxonica Diagnostics business.

International Financial Reporting Standards

This is the first year that the Group has adopted International Financial Reporting Standards as adopted by the EU ("Adopted IFRS"). The most significant impact of this change is in relation to the accounting treatment of goodwill which, having been amortised under UK GAAP, is now stated at cost subject to impairment testing. The restated results have been used for the comparatives in the consolidated financial statements. Details of the changes are set out in note 23 of the financial statements.

Accounting standards and policies

This annual report complies with all Adopted IFRSs applicable to financial statements at 31 December 2007. Oxonica's accounting policies are set out on pages 26 to 29 and with the exception of those changes required as a result of the transition to IFRS, are consistent with previous years.



R J G Clarke
Chief Financial Officer

Board of Directors

08

Richard Farleigh

B Comm (age 47)

Non-executive Chairman

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

Kevin Matthews

MA DPhil CChem CSi MRSC MACS (age 44)

Chief Executive Officer

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

Richard Clarke

BSc FCA MBA (age 52)

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. Richard joined Oxonica in 2004.

Martin Hagen

FCA (age 56)

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 joined Oxonica in January 2006 and is the Senior Independent Non-executive Director. He chairs the Audit and Nominations Committees and is a member of the Remuneration Committee.

Gordon Ringold

PhD (age 57)

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 joined the Board in February 2006, following the acquisition of Nanoplex Technologies Inc. Gordon is a member of the Audit and Remuneration Committees.

Ed Weeks

(age 61)

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 joined the Group in March 2004. Ed is chairman of the Remuneration Committee and a member of the Audit and Nominations Committees.

On 21 December 2007, the Group completed a successful placing, which raised £4.0 million, net of expenses.

Corporate Social Responsibility

10

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 performance. The Group had no lost time accidents (LTAs), recordable incidents or environmental incidents in 2007.

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 2007 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.

External benefits

Envirox™ 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 4.3% 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.

Optisol™ 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.

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.

Oxonica is a member of the working group which is developing a responsible nanocode under the auspices of the Nanotechnology Industry Association, The Royal Society and Insight Investment.

Report of the Directors

The directors present their report and the audited financial statements for the year ended 31 December 2007.

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 (2006: £nil).

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 December 2007 No.	Ordinary shares of 1p each 31 December 2006 No.
R Farleigh		
(appointed 19.07.07)	13,218,995*	7,028,519
Dr K R K Matthews	49,866	47,203
R J G Clarke	34,344	7,871
M J Hagen	148,857	6,000
G Ringold	467,503	97,714
E Weeks	-	-
C M Moore		
(resigned 27.09.07)	133,413	131,718
C J Eld		
(resigned 27.09.07)	-	-
R M Pettigrew		
(resigned 27.09.07)	-	-

Mr C M Moore, Mr C J Eld and Mr R M Pettigrew resigned from the Board on 27 September 2007.

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

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 day's purchases outstanding in respect of trade creditors at 31 December 2007 was 43 days (2006: 50 days).

Political and charitable donations

During the year the Group made no political or charitable donations (2006: £nil).

12

The key business risks are set out below:

Demand for the Group's products may be adversely affected if economic and market conditions are unfavourable. Adverse economic conditions may impact the Group's business resulting in a slower rate of adoption of the Group's products by new customers and greater pressure on pricing.

The Group's products have lengthy sales and commercialisation cycles, which could adversely impact the Group's business. Sales of the Group's products typically require the Group to engage in lengthy periods of product trial and evaluation and delays in product adoption or acceptance by customers could materially affect the Group's operating results or financial condition. Many of these delays are delays over which the Group has little or no control, including customers' budget constraints and internal evaluation and purchasing processes.

The Group is at an early stage of development and has a limited number of customers. The loss of a significant customer could have a material adverse impact on the Group's business. The Group is at an early stage of development and the revenues generated to date consist of sales to a limited number of customers. While a number of other potential customers are trialling or evaluating the Group's products, there is no guarantee that these trials or evaluations will lead to significant revenues. The loss of a significant customer at this stage could materially impact the Group's operating results or financial condition.

The Group does not have its own volume manufacturing facilities and relies on a small number of third parties to manufacture its products. The loss of a critical supplier could have a major adverse effect on the Group's business. The Group's fuel combustion catalyst for diesel and UV protection additive are currently sole sourced and the Group is reliant on these suppliers for maintaining the quality and quantity of its production supply. Developing a new supplier or changing suppliers takes time to implement and requires the products to be evaluated and tested. This process may have a disruptive effect on the Group's supply chain and an adverse impact on revenue and costs.

If the Group loses key personnel or cannot recruit additional staff, the Group's business may suffer. The Group's success greatly depends on its ability to hire, train, retain and motivate qualified personnel, particularly in sales, marketing and product development. The Group faces significant competition for individuals with the necessary skills and experience. If the Group is unable to attract and retain suitably qualified staff it could be prevented from managing and growing its business.

Failure to obtain and maintain effective patent and other intellectual property protection for the Group's products could result in significant harm to its business. The Group's commercial success depends, in part, on its ability to obtain and maintain effective patent and other protection for the technologies underlying the materials and applications relating to the Group's products and to defend successfully patent rights in those technologies against third party challenges. Patent applications have been filed in a number of countries in respect of the Group's technologies. However, there can be no assurance that any such applications will be granted or, if granted, be enforceable, and they may be amended to reduce the scope of protection of patent claims. In addition, third parties may oppose the Group's patents and patent applications. If patents are granted they may later be held invalid.

Claims by others that the Group infringes on their intellectual property rights could be costly to defend and could harm the Group's business. The Group may be subject to claims by others that the Group's products or brands infringe on or misappropriate their intellectual property or other property rights. Such claims, whether valid or not, could require the Group to spend significant sums in litigation, distract management attention, pay damages, delay or cancel product shipments, re-brand or re-design the Group's products or acquire licences to third party intellectual property. In the event that the Group needs to acquire a third party licence, the Group may not be able to secure it on commercially reasonable terms, or at all.

The Group is at an early stage of development and is loss-making, The Group's growth and profitability may be reliant in the future on its ability to access capital for further development. At present the Group's revenues are insufficient to support the costs of developing and growing the business and the Group is loss-making and absorbing cash. If the Group does not generate sufficient revenue levels to achieve and sustain profitability, it may require additional financing, which may or may not become available. The Group's growth and profitability may be reliant in the future on its ability to access capital for further development. Additional equity fundraising may be dilutive for existing shareholders, and debt financing, if available, may bind the Group to restrictive covenants and curb its operating business. Inability to access funding may result in a curtailment of the scale or scope of the Group's business.

The markets in which the Group operates are subject to numerous health and safety and other regulations. However, the science of nanomaterials is relatively new and these regulations may change significantly. The Group's strategy has been formulated in the light of the current regulatory and legal environment. However, due to the early nature of this industry the regulatory and legal environment may change both rapidly and significantly in the near term. Any such changes to, or increases in, regulation or legal requirements may have a material adverse effect on the Group.

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 18 April 2008 were as follows:

Shareholder

	Number of shares	Percentage of issued share capital
R Farleigh	13,218,995	20.20%
Foresight VCT plc	7,734,360	11.82%
Income & Growth VCT plc	6,962,442	10.64%
BASF Venture Capital	5,865,711	8.96%
Alavita, Inc	4,254,326	6.50%
Stagecoach Bus Holdings Limited	2,035,485	3.11%

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
18 April 2008

Statement of Directors' Responsibilities in respect of the Annual Report and the Financial Statements

14

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

Company law requires the directors to prepare Group and Parent Company financial statements for each financial year. As required by the AIM Rules of the London Stock Exchange they are required to prepare the Group financial statements in accordance with IFRSs as adopted by the EU and applicable laws and have elected to prepare the Parent Company financial statements on the same basis.

The Group and Parent Company financial statements are required by law and IFRSs as adopted by the EU to present fairly the financial position of the Group and the Parent Company and the performance for that period; the Companies Act 1985 provides in relation to such financial statements that references in the relevant part of that Act to financial statements giving a true and fair view are references to their achieving a fair presentation.

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

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the Parent 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
18 April 2008

Directors' Remuneration Report

15

Remuneration Committee

The Company has established a Remuneration Committee which consists of three directors, all of whom are non-executive directors, and two of which are independent. The Committee is chaired by Ed Weeks.

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 can take 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.

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 ("Free Shares"). 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 Report

continued

16

Directors' remuneration for the year ended 31 December 2007

	Salary £	Fees £	Bonus £	Benefits £	Pension £	Total 2007 £	Total 2006 £
Executive Directors							
C M Moore (resigned 27.09.07)	70,700	7,077	44,625*	-	5,188	127,590	131,025
Dr K R K Matthews	170,000	-	43,050*	2,322	12,750	228,122	217,237
R J G Clarke	120,000	-	23,750*	2,237	9,000	154,987	149,394
Non-Executive Directors							
R Farleigh (appointed 19.07.07)	-	-	-	-	-	-	-
C J Eld (resigned 27.09.07)	17,813	-	-	-	-	17,813	22,917
M J Hagen	15,000	-	-	-	-	15,000	21,121
R M Pettigrew (resigned 27.09.07)	15,833	-	-	-	-	15,833	20,000
G Ringold	-	16,692	-	-	-	16,692	32,555
E Weeks	5,000	10,000	-	-	-	15,000	22,500
	414,346	33,769	111,425	4,559	26,938	591,037	616,749

Of the amounts payable to C M Moore, £30,000 of the salary was paid as severance under the terms of his employment contract, the fees of £7,077 were paid to Income & Growth VCT plc, a company of which he is a director and which holds 6,962,442 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.

* The bonus amounts were paid in the first quarter and were in respect of the Group's performance in 2006.

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	Options Granted	Options Cancelled	As at 31 December 2007	Exercise price	Date from which exercise-able	Expiry Date
C M Moore (resigned 27.09.07)	730,512	-	-	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	-	-	1,385,024	£0.447	Between 15/07/05 & 01/01/07	15/07/15
R J G Clarke	574,864	-	-	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	LTIP/SIP Awards Granted	LTIP/SIP Awards Lapsed	As at 31 December 2007
C M Moore	- LTIP	-	86,538	-	86,538	-	(86,538)	-
	SIP Free Shares	-	2,307	-	2,307	-	-	2,307
	SIP Plus Shares	-	235	-	235	1,695	-	1,930
Dr K R K Matthews	- LTIP	-	141,923	-	141,923	-	-	141,923
	SIP Free Shares	-	2,307	-	2,307	-	-	2,307
	SIP Plus Shares	-	235	-	235	2,663	-	2,898
R J G Clarke	- LTIP	-	109,615	-	109,615	-	-	109,615
	SIP Free Shares	-	2,307	-	2,307	-	-	2,307
	SIP Plus Shares	-	235	-	235	2,663	-	2,898

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.

The Board supports the principles of good governance set out in the Combined Code on Corporate Governance which was updated by the Financial Reporting Council in June 2006. Although not required to comply with the disclosures of the Combined Code on Corporate Governance, published in June 2006, Oxonica plc is committed to high standards of corporate governance and has adopted procedures to institute good governance insofar as it is practical and appropriate for a company of its size.

The Board of Directors

The Company is controlled by the Board of Directors, which currently consists of two executive and four 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, including management accounts together with monthly reports 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 three non-executive directors, under the chairmanship of Martin Hagen. The Committee meets at least three times a year and more frequently if required. The Committee is responsible for ensuring that the financial performance of the Group is properly monitored and reported on, for assessing the suitability of its accounting policies and financial reporting systems and for reviewing the nature and scope of the audit. 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 three non-executive directors, under the chairmanship of Ed Weeks 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

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 re-appointment of existing directors.

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 (11 meetings in year)		Audit Committee (3 meetings in year)		Remuneration Committee (2 meetings in year)		Nominations Committee (2 meetings in year)	
	Meetings during period of appointment	Attended	Meetings during period of appointment	Attended	Meetings during period of appointment	Attended	Meetings during period of appointment	Attended
Executive Directors								
C M Moore	9	9	3	-	2	2*	1	1
Dr K R K Matthews	11	11	3	1*	2	2*	2	2
R J G Clarke	11	11	3	3*	2	-	2	2*
Non-Executive Directors								
R Farleigh	4	4	-	-	-	-	-	-
C J Eld	9	9	2	2	2	2	2	-
M J Hagen	11	11	3	3	2	2	2	2
R M Pettigrew	9	8	2	2	2	2	2	-
G Ringold	11	8	1	-	2	2	2	-
E Weeks	11	11	3	3	2	2	2	2

* Attended by invitation

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 two executive directors and four 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.

20

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. See Note 1 to the financial statements for further details.

Independent Auditors' Report to the Members of Oxonica plc

21

We have audited the Group and parent Company financial statements (the "financial statements") of Oxonica plc for the year ended 31 December 2007 which comprise the Group Income Statement, the Group and Parent Company Balance Sheets, the Group and Parent Company Cash Flow Statements, the Group and Parent Company Statements of Recognised Income and Expense 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 Annual Report and the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU are set out in the Statement of Directors' Responsibilities on page 14.

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 whether in our opinion the information given in the Directors' Report is consistent with the financial statements. The information given in the Directors' Report includes that specific information presented in the Chairman's Statement that is cross referred from the Review of developments and future prospects section of the Directors' Report.

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

Basis of 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 Group financial statements give a true and fair view, in accordance with IFRSs as adopted by the EU, of the state of the Group's affairs as at 31 December 2007 and of its loss for the year then ended;

The Parent Company financial statements give a true and fair view, in accordance with IFRSs as adopted by the EU as applied in accordance with the provisions of the Companies Act 1985, of the state of the Parent Company's affairs as at 31 December 2007;

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.

Emphasis of matter – Going concern

In forming our opinion on the financial statements, which is not qualified, we have considered the adequacy of the disclosure made in note 1 to the financial statements concerning the Group's ability to continue as a going concern. The Group's cash outflows from operating activities during the year ended 31 December 2007 amounted to £5,471,000 and, at that date, the Group's cash resources amounted to £4,811,000. These conditions, along with the other matters explained in note 1 to the financial statements, indicate the existence of a material uncertainty which may cast significant doubt on the Group's ability to continue as a going concern. The financial statements do not include any adjustments that would result if the Group were unable to continue as a Going concern.

KPMG Audit plc

Chartered Accountants
Registered Auditor
18 April 2008

Consolidated Income Statement

for the year ended 31 December 2007

22

	Note	2007 £'000	2006 £'000
Revenue from continuing activities	1,2	4,174	10,229
Cost of sales		(1,763)	(4,304)
Gross profit		2,411	5,925
Other operating income	3	1,032	377
Research and development		(2,599)	(2,384)
Sales and marketing and administration expenses		(6,435)	(6,559)
Operating loss		(5,591)	(2,641)
Financial income	6	186	169
Financial expense	6	(36)	(54)
Net financing income		150	115
Loss before tax	2	(5,441)	(2,526)
Taxation	7	2	114
Loss for the year attributable to equity holders of the parent	21	(5,439)	(2,412)
Basic and diluted loss per share	22	(11.61)p	(5.77)p

The accounting policies and notes on pages 26 to 51 form part of these financial statements

Consolidated Statement of Recognised Income and Expense

for the year ended 31 December 2007

23

	2007 Group £'000	2007 Company £'000	2006 Group £'000	2006 Company £'000
Loss for the year	(5,439)	(987)	(2,412)	(1,133)
Exchange differences on translation of foreign operations	17	-	71	-
Total recognised income and expense for the period attributable to equity holders of the parent	(5,422)	(987)	(2,341)	(1,133)

The accounting policies and notes on pages 26 to 51 form part of these financial statements

Balance Sheets

as at 31 December 2007

24

	Note	2007 Group £'000	2007 Company £'000	2006 Group £'000	2006 Company £'000
ASSETS					
Non current assets					
Intangible assets	9	13,138	-	13,498	-
Investments in subsidiaries	9	-	14,590	-	14,317
Property, plant and equipment	10	671	-	731	-
Total non current assets		13,809	14,590	14,229	14,317
Current assets					
Inventories	11	321	-	477	-
Tax receivable		79	-	156	-
Trade and other receivables	12	623	7,527	696	2,731
Cash and cash equivalents		4,811	4,432	6,836	6,247
Total current assets		5,834	11,959	8,165	8,978
Total assets		19,643	26,549	22,394	23,295
EQUITY					
Issued share capital	18, 21	654	654	428	428
Share premium	21	26,303	26,303	18,971	18,971
Shares to be issued	21	-	-	4,225	4,225
Exchange reserve		88	-	71	-
Other reserves	21	9,953	-	9,953	-
Retained earnings	21	(19,209)	(625)	(14,998)	(877)
Total equity attributable to the shareholders of the parent	21	17,789	26,332	18,650	22,747
LIABILITIES					
Current liabilities					
Interest bearing loans and borrowings	14	163	151	166	153
Trade and other payables	13	1,610	28	3,331	203
Total current liabilities		1,773	179	3,497	356
Non current liabilities					
Interest bearing loans and borrowings	14	81	38	247	192
Total non current liabilities		81	38	247	192
Total liabilities		1,854	217	3,744	548
Total equity and liabilities		19,643	26,549	22,394	23,295

These financial statements were approved by the Board of Directors on 18 April 2008 and were signed on its behalf by:

Dr K R K Matthews



R J G Clarke



The accounting policies and notes on pages 26 to 51 form part of these financial statements

Cash Flow Statement

for the year ended 31 December 2007

25

	2007 Group £'000	2007 Company £'000	2006 Group £'000	2006 Company £'000
Cash flows from operating activities				
Loss before tax	(5,441)	(987)	(2,526)	(1,133)
<i>Adjustments for:</i>				
Depreciation, amortisation, impairment and loss on disposal	744	-	557	-
Foreign exchange losses	-	38	-	39
Equity settled share-based payment expenses	514	253	353	192
Net finance income and expense	(150)	(145)	(115)	(109)
Operating cash flow before changes in working capital, interest and taxes	(4,333)	(841)	(1,731)	(1,011)
Decrease in trade and other receivables	71	118	462	53
Decrease/(increase) in inventories	156	-	(66)	-
(Decrease)/increase in trade and other payables	(1,591)	(30)	1,952	85
Cash generated /(utilised) from operations	(5,697)	(753)	617	(873)
Interest received	186	-	169	116
Interest paid	(36)	(20)	(54)	(31)
Tax received/(paid)	76	-	(5)	-
Net cash inflow/(outflow) from operating activities	(5,471)	(773)	727	(788)
Cash flows from investing activities				
Capital expenditure	(324)	-	(318)	-
Acquisition of subsidiaries net of cash acquired	-	-	(66)	-
Net cash used in investing activities	(324)	-	(384)	-
Net cash (outflow) / inflow before operating activities	(5,795)	(773)	343	(788)
Cash flows from financing activities				
Proceeds from the issue of share capital	4,047	4,047	1,117	1,117
New bank loans	-	-	514	376
Advances (to)/from subsidiaries	-	(4,953)	-	514
Repayment of bank loans and hire purchase liabilities	(269)	(136)	(282)	-
Net cash from financing activities	3,778	(1,042)	1,349	2,007
Net (decrease)/increase in cash and cash equivalents	(2,017)	(1,815)	1,692	1,219
Cash and cash equivalents at 1 January	6,836	6,247	5,066	5,028
Effect of exchange rate fluctuations on cash held	(8)	-	78	-
Cash and cash equivalents at 31 December	4,811	4,432	6,836	6,247

The accounting policies and notes on pages 26 to 51 form part of these financial statements

Notes to the Financial Statements

(forming part of the financial statements)

26

01 Accounting policies

Oxonica plc (the "Company") is a company domiciled and incorporated in the UK.

The Group financial statements consolidate those of the Company and its subsidiaries (together referred to as the "Group"). The Parent Company financial statements present information about the Company as a separate entity and not about its Group. Both the Parent Company financial statements and the Group financial statements have been prepared and approved by the directors in accordance with International Financial Reporting Standards as adopted by the EU ("Adopted IFRSs").

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements and in preparing an opening IFRS balance sheet at 1 January 2006 for the purposes of the transition to Adopted IFRSs. In publishing the Parent Company financial statements here, together with Group financial statements, the Company is taking advantage of the exemption in s230 of the Companies Act 1985 not to present its individual income statement and related notes that form a part of these approved financial statements.

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2007, and have not been applied in preparing these consolidated financial statements:

IFRS 8 Operating Segments introduces the "management approach" to segment reporting. IFRS 8, which becomes mandatory for the Group's 2009 financial statements, will require the disclosure of segment information based on the internal reports regularly reviewed by the Group's Chief Operating Decision Maker in order to assess each segment's performance and to allocate resources to them. Currently the Group presents segment information in respect of its business and geographical segments (see note 2).

IFRIC 11 IFRS2 – Group and Treasury Share Transactions requires a share-based payment arrangement in which an entity receives goods or services as consideration for its own equity instruments to be accounted for as an equity-settled share-

based payment transaction, regardless of how the equity instruments are obtained. IFRIC 11 will become mandatory for the Group's 2008 financial statements, with retrospective application required. It is not expected to have any impact on the consolidated financial statements.

Transition to Adopted IFRSs

Both the Group and the Company are preparing their financial statements in accordance with Adopted IFRS for the first time and consequently have applied IFRS 1. An explanation of how the transition to Adopted IFRSs has affected the reported financial position, financial performance and cashflows of the Group is provided in note 23.

In addition to exempting companies from the requirement to restate comparatives for IAS 32 and IAS 39, IFRS 1 grants certain exemptions from the full requirements of Adopted IFRSs in the transition period. The following exemptions have been taken in these financial statements:

Fair value or revaluation as deemed cost – At the date of transition, fair value has been used as deemed cost for properties previously measured at fair value.

Share based payments – IFRS 2 is being applied to equity instruments that were granted after November 2002 and that had not vested by 1 January 2006.

Measurement convention

The financial statements are prepared on the historical cost basis except that the following assets and liabilities are stated at their fair value: investment property. Non-current assets and disposal groups held for sale are stated at the lower of previous carrying amount and fair value less costs to sell.

Going concern

The financial statements are prepared on a going concern basis which the directors believe continues to be appropriate. The Group meets its day to day working capital requirements through existing cash resources which, at 6 March 2008, amounted to £3.4 million. The directors have prepared projected cash flow information for the period ending twelve months from the date of their approval of these financial statements. On the basis of this cash flow

information and discussion with advisers regarding the potential separate financing of the Diagnostics business, the directors believe that the Group will be able to continue to trade for the foreseeable future. The directors also believe that additional funding, including but not restricted to debt facilities, would be available to the Group if required and further management action could be taken to reduce costs to enable the Group to operate within its available resources. However, the directors recognise that there can be no certainty in relation to these matters, which may cast significant doubt on the Group's ability to continue as a going concern. The Group may, therefore, be unable to continue realising its assets and discharging its liabilities in the normal course of business but the financial statements do not include any adjustments that would result if the Group were unable to continue as a going concern.

Basis of consolidation

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

Revenue

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

Expenses

Operating lease payments

Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease. Lease incentives received are recognised in the income statement as an integral part of the total lease expense.

Finance lease payments

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

Net financing costs

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

Interest income and interest payable is recognised in the income statement as it accrues, using the effective interest method.

Employee benefits

Defined contribution plans

Obligations for contributions to defined contribution pension plans are recognised as an expense in the income statement as incurred.

Share-based payment transactions

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

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

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

Research and development expenditure

Development expenditure on new products is capitalised only once the criteria specified under IAS 38, Intangible Assets, have been met. Prior to and during the year to 31 December 2007, no development expenditure satisfied the necessary conditions of IAS 38.

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

Taxation

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

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

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: the initial recognition of goodwill; the initial recognition of assets or liabilities that affect neither accounting nor taxable profit other than in a business combination, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of

realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

Deferred tax assets and liabilities require management judgement in determining the amounts to be recognised. A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised.

Foreign currency

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

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on consolidation, are translated at foreign exchange rates ruling at the balance sheet date. The revenues and expenses of foreign operations are translated at an average rate for the period where this rate approximates to the foreign exchange rates ruling at the dates of the transactions.

Exchange differences arising from this translation of foreign operations, and of related qualifying hedges are taken directly to the translation reserve. Such qualifying hedges consist of loans entered into to fund the net assets of foreign operations in the same currency. They are released into the income statement upon disposal.

Notes to the Financial Statements

continued

28

01 Accounting policies *continued*

Investments in subsidiary undertakings

Investments in subsidiary undertakings including long term loans are included in the balance sheet of the Company at the lower of cost and the expected recoverable amount. Any impairment is recognised in the income statement.

Property, plant and equipment

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

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

Leases in which the Company assumes substantially all the risks and rewards of ownership of the leased asset are classified as finance leases. Where land and buildings are held under leases the accounting treatment of the land is considered separately from that of the buildings. Leased assets acquired by way of finance lease are stated at an amount equal to the lower of their fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation and impairment losses.

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

Short leasehold improvements	Over the period of the lease
Plant, machinery and laboratory equipment	3 years
Fixtures, fittings and computer equipment	4 years

Impairment excluding inventories and deferred tax assets

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

For goodwill, assets that have an indefinite useful life and intangible assets that are not yet available for use, the recoverable amount is estimated at each balance sheet date.

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

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

Goodwill, assets that have an indefinite useful life and intangible assets that are not yet available for use were tested for impairment as at 1 January 2006, the date of transition to Adopted IFRSs, even though no indication of impairment existed.

Intangible assets

(i) Goodwill

Goodwill arises on the acquisition of subsidiaries. Goodwill represents the excess of the cost of the acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquiree.

(ii) Other intangible assets

The other intangible asset relates to the patents and technology acquired at fair value with the acquisition of Nanoplex Technologies Inc, renamed Oxonica Inc. on 8 February 2006. These patents and technology are deemed to have an estimated useful life of 15 years.

Amortisation is charged to the income statement on a straight-line basis over the estimated useful lives of intangible assets unless such lives are indefinite. Intangible assets with an indefinite useful life and goodwill are systematically tested for impairment at each balance sheet date. Other intangible assets are amortised from the date they are available for use.

Inventories

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

Trade and other receivables

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

Cash and cash equivalents

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

Interest-bearing borrowings

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

Trade and other payables

Trade and other payables are stated at their fair value.

Own shares held by ESOP trust

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

Provisions

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

Government grants

Grants that compensate the Group for expenses incurred are recognised in the income statement on a systematic basis in the same periods in which the expenses are recognised. Grants that compensate the Group for the cost of an asset are recognised in the income statement on a systematic basis over the useful life of the asset. Government grants are recognised initially as deferred income when there is reasonable assurance that they will be received and that the Group will comply with the conditions associated with the grant.

Intra-Group financial instruments

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

Equity instruments

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

Key sources of estimation uncertainty

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

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

(i) Capitalisation of intangibles

On acquisition of Nanoplex Technologies Inc an external valuation of the intangible assets purchased was carried out under IFRS 3 and IAS 39, a valuation of £3.2M and an estimated useful life of 15 years were derived. The useful life was estimated based on discussions regarding the likely commercial lifespan of the assets and is therefore subject to change.

(ii) Impairment reviews

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

(iii) Provisions for receivables

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

differ from the assumptions and estimates, revisions to the estimated valuation allowances would be required.

(iv) Disclosure of contract termination

In accordance with IFRS standards, revenue is income that arises in the course of the ordinary activities of the entity. As the Petrol Ofisi termination payment was not ordinary and was a one off payment, this was disclosed as other income.

02 Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing related products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and returns that are different from those of other segments. Segment information is presented in respect of the Group's business and geographical segments. The Group's primary format for segment reporting is based on business segments. The business segments are determined based on the Group's management and internal reporting structure.

Inter-segment pricing is determined on an arm's length basis.

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly investments and related revenue, loans and borrowings and related expenses, corporate assets and head office expenses, and income tax assets and liabilities.

Notes to the Financial Statements

continued

30

02 Segment reporting continued

Primary

For management purposes the Group is currently organised into four different operating businesses.

	2007 £'000	2006 £'000
Revenue		
Energy	2,763	8,933
Materials	361	175
Security	739	792
Diagnostics	311	329
Group	-	-
Total	4,174	10,229
	2007 £'000	2006 £'000
Operating profit/(loss) before tax		
Energy	406	3,419
Materials	(2,908)	(3,029)
Security	(456)	(519)
Diagnostic	(1,368)	(913)
Group	(1,265)	(1,599)
Total	(5,591)	(2,641)
	2007 £'000	2006 £'000
Total assets		
Energy	792	1,530
Materials	715	616
Security	127	91
Diagnostics	379	274
Group	17,630	19,883
Total	19,643	22,394
	2007 £'000	2006 £'000
Total liabilities		
Energy	469	739
Materials	864	2,117
Security	72	73
Diagnostics	215	221
Group	234	594
Total	1,854	3,744

02 Segment reporting continued**Secondary**

The Group sales are managed into four regions

	2007 £'000	2006 £'000
Revenue by geographical market		
UK	832	996
Europe	2,079	8,077
USA	1,050	1,072
Rest of world	213	84
	4,174	10,229
	2007 £'000	2006 £'000
Revenue by geographical origin		
UK	3,124	9,157
USA	1,050	1,072
	4,174	10,229
	2007 £'000	2006 £'000
Total assets by geographical origin		
UK	19,094	21,935
USA	506	366
Rest of world	43	93
	19,643	22,394
	2007 £'000	2006 £'000
Total liabilities by geographical origin		
UK	1,549	3,430
USA	287	294
Rest of world	18	20
	1,854	3,744
	2007 £'000	2006 £'000
Capital expenditure		
UK	114	75
USA	215	183
Rest of world	-	32
	329	290

Notes to the Financial Statements

continued

32

02 Segment reporting continued

Secondary	2007 £'000	2006 £'000
Depreciation and amortisation		
UK	518	510
USA	70	41
Rest of world	8	6
	596	557

03 Other operating income

Other operating income comprises grant income received, and the contract termination settlement with Petrol Ofisi in 2007.

04 Expenses and auditors remuneration

	2007 £'000	2006 £'000
Included in operating loss are the following:		
Auditors' remuneration		
audit of these financial statements	47	47
audit of subsidiaries' financial statements	33	36
other services relating to taxation	52	19
other advisory services	27	61
Depreciation	370	337
Amortisation of intangibles	226	221
Loss on disposal of non current assets	136	1
Government grants	(250)	(276)
Net loss on foreign exchange transactions	1	107

05 Remuneration

Staff numbers and cost

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

	2007 No. of employees	2006 No. of employees
Technical staff	29	28
Sales and marketing	16	16
Management and administration	15	15
	60	59

	2007 £'000	2006 £'000
<i>The aggregate payroll costs of these persons were as follows:</i>		
Wages and salaries	3,326	3,260
Social security costs	298	319
Pension costs	152	76
Company contribution to share incentive plan	14	9
Share based payments	514	353
	4,304	4,017

06 Financial income and expense

	2007 £'000	2006 £'000
Financial income		
Bank interest receivable	186	169
Financial expense		
Bank interest paid	(20)	-
Lease interest paid	(10)	(21)
Other loans	(6)	(33)
	(36)	(54)

07 Taxation

Recognised in the income statement

	2007 £'000	2006 £'000
Current tax expense		
Current year	-	-
Research and development tax credit in relation to the prior year	-	(114)
Overseas tax	(2)	5
Adjustments for prior years	-	(5)
Total tax in income statement	(2)	(114)

Notes to the Financial Statements

continued

34

07 Taxation continued

		2007 £'000		2006 £'000
Reconciliation of effective tax rate				
Loss for the year		(5,439)		(2,412)
Total income tax credit		2		114
Loss excluding income tax		(5,441)		(2,526)
Income tax using the Company's domestic tax rate	30.00%	(1,632)	30.00%	(758)
<i>Effects of:</i>				
Expenses not deductible for tax purposes	(0.02%)	(1)	0.28%	7
Depreciation for the year in excess of capital allowances	0.15%	8	1.39%	35
Share options income / (expense)	(1.68%)	(91)	1.39%	35
Research and development tax credit	0.00%	-	(4.52%)	(114)
Overseas taxation	(0.04%)	(2)	0.20%	5
Increase in tax losses carried forward	31.54%	1,716	26.96%	681
Adjustments in respect of prior year	0.00%	-	(0.20%)	(5)
Total current tax recovery (see above)	(0.04%)	(2)	4.52%	(114)

There is no taxation charge for the period due to losses incurred. At 31 December 2007 the Group had trading losses, subject to the agreement of HM Revenue and Customs of approximately £14.6 million (2006: £11.5 million) available for offset against future taxable profits of the same trade.

Provision for deferred taxation

The Group's and the Company's provision for deferred tax, calculated under the liability method at 28% is £nil (2006: £nil).

A deferred tax asset has not been recognised in respect of the tax losses due to the uncertainty as to whether taxable profits will arise in 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 28% (2006: 30%) is £5.3 million (2006: £4.8 million) and that there is no time limit on the utilisation of these losses.

Movement in unrecognised deferred tax assets

	Balance 1 January 2006 £'000	Movement £'000	Balance 31 December 2006 £'000	Movement £'000	Balance 31 December 2007 £'000
Accelerated capital allowances	45	86	131	79	210
Intangible fixed assets	52	894	946	(165)	781
Share based payments	13	298	311	(131)	180
Tax losses	3,362	92	3,454	637	4,091
	3,472	1,370	4,842	420	5,262

There are no unrecognised deferred tax liabilities.

08 Profit of Parent Company

As permitted by section 230 of the Companies Act 1985, the income statement of the parent Company is not presented as part of these accounts. The parent Company's loss for the financial year amounted to £986,764 (2006: £1,132,753).

09 Intangible assets

	Goodwill £'000	Patents & Technology £'000	Licences £'000	Total £'000
Cost				
At 1 January 2006	-	-	250	250
Acquisitions	10,347	3,200	-	13,547
At 31 December 2006	10,347	3,200	250	13,797
At 1 January 2007	10,347	3,200	250	13,797
Amount written-off	-	-	(250)	(250)
At 31 December 2007	10,347	3,200	-	13,547
Amortisation				
At 1 January 2006	-	-	77	77
Charge for the year	-	196	26	222
At 31 December 2006	-	196	103	299
At 1 January 2007	-	196	103	299
Charge for the year	-	213	13	226
Amount written-off	-	-	(116)	(116)
At 31 December 2007	-	409	-	409
Net book value				
At 1 January 2006	-	-	173	173
At 31 December 2006	10,347	3,004	148	13,498
At 1 January 2007	10,347	3,004	148	13,498
At 31 December 2007	10,347	2,791	-	13,138

The goodwill, patents and technology comprise intangible assets acquired with Nanoplex Technologies Inc on 8 February 2006. Licences relate to the patent licence from Neuftec Limited that was acquired on 7 December 2001 and terminated in the year (for further information see the Chief Executive's Review).

A test for impairment was performed on the goodwill arising on the acquisition of Oxonica Inc. The test consisted of calculating the future discounted cash flows of the business for the next 10 years, using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the business unit.

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

Notes to the Financial Statements

continued

36

09 Intangible assets continued

Acquisition

The net assets acquired in the purchase of the entire share capital of Nanoplex Technologies Inc (renamed Oxonica Inc), and the goodwill arising are as follows:

	Carrying values pre acquisition £'000	Fair value adjustments £'000	Recognised values on acquisition £'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)
At 31 December 2006	314	3,200	3,514
Goodwill	-	-	10,346
Total consideration	-	-	13,860

The fair value adjustment in respect of intangible assets represents the valuation of the patented technology owned by Oxonica Inc. 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 Oxonica Inc. based on its management and skills, strategic customer relationships and synergies with the Oxonica Group.

Investments in subsidiaries

Cost

	Company £'000
At 1 January 2006	296
Acquisitions	13,860
Share based payments – share options granted to subsidiary company employees	161
At 31 December 2006	14,317
At 1 January 2007	14,317
Acquisitions	-
Share based payments – share options granted to subsidiary company employees	273
At 31 December 2007	14,590

The above share based payments represent the impact of adopting IFRIC 8 – “Scope of IFRS 2” which applies to transactions in which an entity receives goods or services as consideration for equity instruments.

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

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

* Owned by Oxonica Overseas Holdings Limited

10 Property, plant and equipment

	Short Leasehold improvements £'000	Plant, machinery & laboratory equipment £'000	Fixtures, fittings & computer equipment £'000	Total £'000
Cost				
Balance at 1 January 2006	86	1,042	291	1,419
Acquisitions	-	133	22	155
Additions	-	209	81	290
Disposals	-	(1)	(9)	(10)
Foreign Exchange adjustment	-	(22)	-	(22)
Balance at 31 December 2006	86	1,361	385	1,832
Balance at 1 January 2007	86	1,361	385	1,832
Additions	19	292	18	329
Disposals	-	(84)	(5)	(89)
Foreign Exchange adjustment	-	(2)	(4)	(6)
Balance at 31 December 2007	105	1,567	394	2,066
Depreciation				
Balance at 1 January 2006	60	487	138	685
Acquisitions	-	87	15	102
Charge for year	19	243	75	337
Disposals	-	(1)	(9)	(10)
Foreign Exchange adjustment	-	(10)	(3)	(13)
Balance at 31 December 2006	79	806	216	1,101
Balance at 1 January 2007	79	806	216	1,101
Charge for year	17	285	68	370
Disposals	-	(71)	(3)	(74)
Foreign Exchange adjustment	-	(1)	(1)	(2)
Balance at 31 December 2007	96	1,019	280	1,395
Net book value				
At 1 January 2006	26	555	153	734
At 31 December 2006	7	555	169	731
At 1 January 2007	7	555	169	731
At 31 December 2007	9	548	114	671

Notes to the Financial Statements

continued

38

11 Inventories

	2007 Group £'000	2007 Company £'000	2006 Group £'000	2006 Company £'000
Finished goods	321	-	477	-

The cost of inventories recognised as expense and included in cost of sales amounted to £930,754 (2006: £1,686,328).

During 2007 the Group reversed £49,141 (2006: £nil) of a previous inventory write-down. In addition the Group created a provision for slow moving stock. This amounted to £82,293 (2006: £1,363) and has been included in cost of sales.

12 Trade and other receivables

	2007 Group £'000	2007 Company £'000	2006 Group £'000	2006 Company £'000
Trade receivables	249	-	429	-
Amounts owed by Group undertakings	-	7,498	-	2,547
VAT	26	15	23	151
Prepayments and accrued income	346	14	243	33
Sundry receivables	2	-	1	-
	623	7,527	696	2,731

13 Trade and other payables

	2007 Group £'000	2007 Company £'000	2006 Group £'000	2006 Company £'000
Current				
Hire purchase agreements	-	-	100	-
Trade payables	747	-	1,688	-
Other taxation and social security	38	-	60	3
Other creditors	2	1	88	21
Accruals and deferred income	823	27	1,395	179
	1,610	28	3,331	203

Hire purchase agreements of £100,000 in 2006 were all payable in less than one year. Interest outstanding on these obligations amounted to £10,000 and was charged to the income statement in the year.

14 Interest bearing loans and borrowings

	2007 Group £'000	2007 Company £'000	2006 Group £'000	2006 Company £'000
Current liabilities				
Secured bank loans	151	151	153	153
Unsecured bank loans	12	-	13	-
	163	151	166	153
Non-current liabilities				
Secured bank loans	38	38	192	192
Unsecured bank loans	43	-	55	-
	81	38	247	192

The bank loans and overdrafts are secured by a fixed and floating charge over all the assets of the Group. Interest is charged on the bank loans at 2% above LIBOR. A balance equal to the principal amount outstanding on the secured loan is held in a separate deposit account.

Terms and debt repayment schedule

	Currency	Nominal interest rate	Year of maturity	2007 Face value £'000	2007 Carrying amount £'000	2006 Face value £'000	2006 Carrying amount £'000
Secured bank loans	\$ Dollars	7.4%	2009	189	189	345	345
Unsecured bank loans	£ Sterling	0%	2012	55	55	68	68
				244	244	413	413

Notes to the Financial Statements

continued

40

15 Financial instruments

The Group's financial instruments comprise hire purchase agreements and similar lease arrangements, short term bank deposits and cash.

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	1,215	5,621	-	-	6,836
Finance leases	-	-	-	(100)	(100)
Other loans	-	-	(413)	-	(413)
Total	1,215	5,621	(413)	(100)	6,323

At 31 December 2007

Cash at bank	815	3,996	-	-	4,811
Finance leases	-	-	-	-	-
Other loans	-	-	(244)	-	(244)
Total	815	3,996	(244)	-	4,567

The weighted average interest rate for the fixed rate liabilities is 16% (2006: 16%) and the weighted average period for which interest rates are fixed is 1 year.

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

	Assets floating rate £'000	Assets fixed rate £'000	Assets floating rate £'000	Liabilities fixed rate £'000	Liabilities Total £'000
At 31 December 2006					
Cash at bank	626	5,621	-	-	6,247
Other loans	-	-	(345)	-	(345)
Total	626	5,621	(345)	-	5,902

At 31 December 2007

Cash at bank	436	3,996	-	-	4,432
Other loans	-	-	(189)	-	(189)
Total	436	3,996	(189)	-	4,243

Sensitivity analysis

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

This analysis assumes that all other variables, in particular foreign currency rates, remain constant and considers the effect of financial instruments with variable interest rates, financial instruments at fair value or available for sale with fixed interest rates and the fixed rate element of interest rate swaps.

The analysis is performed on the same basis for 2006.

	2007 Group £'000	2007 Company £'000	2006 Group £'000	2006 Company £'000
Profit or loss				
Increase	46	42	65	59
Total	46	42	65	59

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.

Sensitivity analysis

A 10 percent weakening of the following currencies against the pound sterling at 31 December 2007 would have increased / (decreased) profit or loss by the amounts shown below. This calculation assumes that the change occurred at the balance sheet date and had been applied to risk exposures existing at that date.

This analysis assumes that all other variables, in particular other exchange rates and interest rates, remain constant. The analysis is performed on the same basis for 31 December 2006.

	Profit or loss		Profit or loss	
	2007 Group £'000	2007 Company £'000	2006 Group £'000	2006 Company £'000
Euro	(4)	-	(9)	-
USD	(10)	(13)	(137)	(200)
SGD	(3)	-	(3)	-
AUD	-	-	10	-

A 10 percent strengthening of the above currencies against the pound sterling at 31 December 2007 would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

Liquidity risk

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

Notes to the Financial Statements

continued

42

15 Financial instruments continued

Credit risk

	Carrying Amount	
	2007 £'000	2006 £'000
Trade Receivables	249	429
Cash and Cash equivalents	4,811	6,836
Total	5,060	7,265

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

	Carrying Amount	
	2007 £'000	2006 £'000
Domestic	87	208
Euro-zone countries	45	72
United States	68	123
Australasia	49	26
Total	249	429

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

	Carrying Amount	
	2007 £'000	2006 £'000
Distributors	43	58
End-user customers	206	371
Total	249	429

The aging of trade receivables at the reporting date was:

	2007 Gross £'000	2007 Impairment £'000	2006 Gross £'000	2006 Impairment £'000
Not past due	147	-	85	-
Past due 0-30 days	54	-	205	-
Past due 31-60 days	-	-	51	-
Past due 61-120 days	-	-	32	-
Past due more than one year	141	93	164	108
Total	342	93	537	108

The Group's most significant customer, a UK bus operator, accounts for £82,897 of the trade receivables carrying amount at 31 December 2007 (2006: £176,085).

The Company had no trade receivables in either 2006 or 2007 and therefore had no credit risk exposure.

Impairment losses

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

	Carrying Amount	
	2007 £'000	2006 £'000
Balance at 1 January	108	108
Impairment loss recognised	(15)	-
Balance at 31 December	93	108

The impairment loss reported at 31 December 2007 relates to three customers where the debt is greater than 365 days old.

Currency risk

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

£000's	31 December 2007					31 December 2006				
	GBP	AUD	USD	Euro	SGD	GBP	AUD	USD	Euro	SGD
Cash and cash equivalents	4,423	-	331	27	30	4,133	-	2,629	44	30
Trade Receivables	87	48	68	46	-	207	36	118	68	-
Trade Payables	(385)	(48)	(287)	(31)	-	(289)	(145)	(1,240)	(15)	-
Gross Balance sheet exposure	4,125	-	112	42	30	4,081	(109)	1,507	97	30

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

The exchange rates that were applied during the year were:

	Average Rate		Reporting Date Spot Rate	
	2007	2006	2007	2006
USD	2.0144	1.8579	1.9906	1.9591
Euro	1.4567	1.4664	1.3615	1.4831
SGD	3.0073	2.9241	2.8654	3.0064
AUD	2.3918	2.4413	2.2663	2.4851

Fair values of financial assets and liabilities

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

Notes to the Financial Statements

continued

44

16 Operating leases

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

	2007 Group £'000	2007 Company £'000	2006 Group £'000	2006 Company £'000
No later than one year	-	-	106	106
After one year but not more than five years	530	530	-	-
Total	530	530	106	106

17 Capital commitments

The Group had no capital commitments outstanding at the year end (2006: £nil).

Capital management

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Board of Directors monitors the return on capital, which the Group defines as net operating income divided by total shareholders' equity, excluding non-redeemable preference shares and minority interests.

18 Called up share capital

	Number of shares	2007 £	Number of shares	2006 £
Authorised				
Ordinary shares of £0.01p each	500,000,000	5,000,000	500,000,000	5,000,000
Allotted, called up and fully paid				
Ordinary shares of £0.01p each	65,471,567	654,715	42,831,641	428,316

During the year 9,228 (2006: 69,210) new ordinary shares with a nominal value of £0.01 each were issued to employees by way of free share awards and 424,204 (2006: 108,494) new ordinary shares with a nominal value of £0.01 each were issued as a result of the exercise of share options.

On 9 February 2007, the Board confirmed that the final outstanding conditions in connection with the acquisition of Oxonica Inc on 8 February 2006 had been satisfied. Under the terms of the acquisition agreement, deferred consideration of up to 1,338,366 new ordinary shares were to be issued during the 18 months after completion contingent on the achievement of certain milestones, together with 751,644 shares issued 12 months after completion subject to there being no claims under the representations and warranties. Accordingly, 2,090,005 new ordinary shares in Oxonica plc were issued to the previous shareholders of Oxonica Inc on 16 February 2007.

19 Share based payments

The Company has adopted IFRS 2 and accordingly, sales and marketing and administration costs include a charge of £514,421 (2006:£353,385) in respect of share based payments issued to employees.

(a) Share option scheme

Under the Company's share option scheme, employees held options at 31 December 2007 over unissued ordinary shares as follows:

Options held at 1 January 2007	Options Granted	Options exercised	Options cancelled	Options held at 31 December 2007	Exercise price	Earliest exercise date	Date options lapse
3,958,186	-	(51,748)	(55,328)	3,851,110	£0.447	Between 15/05/08 & 01/01/07	Between 21/11/12 & 15/07/15
447,911	51,784	(362,540)	-	137,155	\$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
4,416,013	51,784	(424,204)	(55,328)	3,988,265			

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

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

Notes to the Financial Statements

continued

46

19 Share based payments continued

(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 LTIPs outstanding during the year are as follows:

	2007 Number of shares	2006 Number of shares
At 1 January 2007	769,384	-
Granted during the year	-	831,691
Lapsed during the year	(32,107)	-
Forfeited during the year	(83,902)	(62,307)
Released during the year	-	-
Outstanding at 31 December 2007	653,375	769,384

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

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

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

19 Share based payments *continued***(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 HM Revenue and Customs 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 a 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 IFRS 2 the fair value of the Plus and Free Shares is determined as the market value of the shares at the date of grant. In determining the charge to the income statement 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:

	2007 Number of Free shares	2007 Number of Plus shares	2006 Number of Free shares	2006 Number of Plus shares
At 1 January 2007	107,662	3,432	-	-
Granted during the year	25,380	23,635	109,969	3,432
Forfeited during the year	-	(40)	(2,307)	-
Released during the year	(109,969)	(5,939)	-	-
Outstanding at 31 December 2007	23,073	21,088	107,662	3,432

20 Pension scheme

The Company operates a defined contribution pension scheme. The pension cost charge for the period represents contributions payable by the Company to the scheme and amounted to £151,752 (2006: £76,170).

Notes to the Financial Statements

continued

48

21 Capital and reserves

Reconciliation of movement in capital and reserves

The Group	Share capital £000	Share premium £000	Merger Reserve* £000	Shares to be issued** £000	Exchange reserve £000	Retained earnings £000	Total parent equity £000
Balance at 1 January 2006	368	9,499	9,953	-	-	(13,821)	5,999
Total recognised income and expense	-	-	-	-	55	(2,412)	(2,357)
Issue of shares	60	9,472	-	4,225	-	-	13,757
Revaluation of foreign assets	-	-	-	-	16	-	16
Equity-settled share based payment transactions	-	-	-	-	-	1,235	1,235
Balance at 31 December 2006	428	18,971	9,953	4,225	71	(14,998)	18,650
Balance at 1 January 2007	428	18,971	9,953	4,225	71	(14,998)	18,650
Total recognised income and expense	-	-	-	-	(22)	(5,439)	(5,461)
Issue of shares	226	7,332	-	(4,225)	-	714	4,047
Revaluation of foreign assets	-	-	-	-	28	-	28
Equity-settled share based payment transactions	-	-	-	-	11	514	525
Balance at 31 December 2007	654	26,303	9,953	-	88	(19,209)	17,789

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

** The shares to be issued of £4,225,000 represents the shares issued as deferred consideration in connection with the acquisition of Oxonica Inc which was settled in the year. See Note 18 to the financial statements for further details.

21 Capital and reserves continued

The Company	Share capital £000	Share premium £000	Shares to be issued £000	Retained earnings £000	Total parent equity £000
Balance at 1 January 2006	368	9,499	-	(980)	8,887
Total recognised income and expense	-	-	-	(1,132)	(1,132)
Issue of shares	60	9,472	4,225	-	13,757
Equity-settled share based payment transactions	-	-	-	1,235	1,235
Balance at 31 December 2006	428	18,971	4,225	(877)	22,747
Balance at 1 January 2007	428	18,971	4,225	(877)	22,747
Total recognised income and expense	-	-	-	(987)	(987)
Issue of shares	226	7,332	(4,225)	714	4,047
Equity-settled share based payment transactions	-	-	-	525	525
Balance at 31 December 2007	654	26,303	-	(625)	26,332

22 Loss per ordinary share

Basic loss per share is calculated by dividing the loss attributable to ordinary shareholders by the weighted average number of ordinary shares in issue during the year. Options over 3,988,266 ordinary shares (2006: 4,416,013) are not included in the calculation of diluted loss per share as their effect is anti-dilutive.

	2007 £'000	2006 £'000
Basic and diluted loss attributable to ordinary shareholders	(5,439)	(2,412)
	No.	No.
Weighted average number of ordinary shares	46,859,697	41,773,796
Loss per share – basic and diluted	(11.61)p	(5.77)p

Notes to the Financial Statements

continued

50

23 Transition to IFRS

	2006 Group £'000	2006 Company £'000
Profit and loss account reserve (UK GAAP)	(15,532)	(877)
IFRS adjustments		
Intangible assets	632	-
Other financial liabilities	(27)	-
Profit and loss account reserve (IFRS)	(14,927)	(877)

Under IFRS 3, goodwill is no longer amortised but is required to be reviewed annually for impairment. Therefore the amortisation charge of £632,000 in 2006 on the goodwill generated on the acquisition of Nanoplex Technologies Inc has been reversed.

Under IAS 19, whilst not a change in policy, a review of the holiday pay accrual showed that the timing of recognition of such costs to the Group required an adjustment. The effect of this change was an increased charge of £27,000 in the year ended 31 December 2006.

Reconciliation of profit for the year ended 31 December 2006

	UK GAAP £'000	IFRS Adjustments £'000	IFRS Company £'000
Development, sales and marketing and administration costs	(8,916)	(27)	(8,943)
Goodwill amortisation	(632)	632	-
Loss after tax	(3,016)	605	(2,412)

There were no material changes to the cash flow statement on conversion to IFRS.

24 Principal exchange rates

	2007	2006
Average for the period		
Euro	1.4567	1.4664
United States Dollar	2.0144	1.8579
Period end		
Euro	1.3615	1.4831
United States Dollar	1.9906	1.9591

25 Contingent liabilities

The Company and its subsidiaries are, from time to time, parties to legal proceedings and claims which arise in the ordinary course of business. The 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.

26 Related party disclosures

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

	2007 number of shares	2006 number of shares
Richard Farleigh	13,218,995*	7,028,519
Kevin Matthews	49,866	47,203
Richard Clarke	34,344	7,871
Martin Hagen	148,857	6,000
Gordon Ringold	467,503	97,714
Alavita, Inc (a company of which Gordon Ringold is a director)	4,254,326	3,066,649

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

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

	2007 £'000	2006 £'000
Remuneration	479	479
Social security costs	48	48
Equity settled transactions	253	192
Pension costs	27	14
	807	733

The remuneration of the Directors is disclosed in the Remuneration report.

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note. There were no inter-Group sales during the year. The movement on inter-Group balances consist of the transfer of cash between entities and the recharge of costs on a cost only basis.

Company Information

52

Directors

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Dr K R K Matthews (Chief Executive Officer)
R J G Clarke (Chief Financial Officer)
M J Hagen
G Ringold
E Weeks

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