

**2008**

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# **Interim Report**

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

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**Company information****Directors**

R Farleigh  
(Non-Executive Chairman)  
K R K Matthews  
(Chief Executive Officer)  
R J G Clarke  
(Chief Financial Officer)  
G Ringold  
E Weeks  
Secretary  
R J G Clarke

**Registered Office**

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Sandy Lane  
Kidlington  
Oxford OX5 1PF

**Registered Number**

5363273

**Nominated Advisor & Broker**

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London EC2M 6XB

**Solicitors**

Hammonds  
7 Devonshire Square  
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London EC2M 4YH

**Auditors**

KPMG Audit Plc  
Chartered Accountants  
Arlington Business Park  
Theale  
Reading RG7 4SD

**Principal Bankers**

HSBC Bank plc  
Midland House  
Seacourt West Way  
Botley  
Oxford OX2 0PL

**Registrars**

Computershare Investor Services plc  
PO Box 82  
The Pavilions  
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## Financial highlights

**Revenue** reduced by 51% to £1.5m (1H07: £3.1m), mainly due to the loss of the one-off sales of Envirox™ to Petrol Ofisi of £2.1m included in the prior year figure.

**Gross profit** increased by 7% to £1.3m (1H07: £1.2m).

**Operating loss** after intangible amortisation and exceptional items was 122% higher at £7.1m (1H07: £3.2m), but before intangible amortisation and exceptional items was only 7% higher at £3.1m (1H07: £2.9m).

**Net cash outflow** before financing reduced by 31% to £2.9m (1H07: £4.2m) and cash balances at 30 June 2008 were £3.2m (1H07: £2.5m).

£3.0m discounted notes facility agreed with BlueCrest Capital Finance L.P. on 24 April 2008 – first tranche of notes with a value of £1.5m issued at closing.

## Operational highlights

**Oxonica Energy (Envirox™):** Sales of £532k (1H07: £2,411k) – Strong pipeline of potential customers established following successful follow-on trial with Stagecoach, initial sales made to Russia for mining sector applications.

High Court judgment issued in favour of Neuftec in the Envirox™ patent licensing dispute – Oxonica Energy has been advised by its lawyers that it has good grounds upon which to appeal, which it is considering.

**Oxonica Materials: (Optisol™):** Sales of £41k (1H07: £264k) – Disappointing downturn in sales caused by poor summer weather in the UK, de-stocking by customers and a high product price point – action being taken to restructure supply chain to reduce cost.

**Oxonica Security:** Sales of £490k (1H07: £332k) – US\$ 2.15m of further purchase orders received from an existing customer for development products to be delivered in 2008.

**Oxonica Diagnostics:** Sales of £446k (1H07: £94k) – Assignment and License Agreement signed with BD after the half-year end – BD will pay Oxonica a total of up to US\$7m in connection with the transfer of the technology and will make additional payments on sales of BD products covered by the Nanoplex™ patents.

# Chairman's review

## 02

I am pleased to report that, after excluding the sales to Petrol Ofisi in the prior year, Oxonica's revenues to date in 2008 are significantly higher than for the comparative period in 2007. Also, the cash outflow from operations is lower than in the corresponding prior year period.

Having successfully raised £4.0 million in additional equity funds in December 2007, on 24 April 2008 the Company agreed a £3.0 million secured discounted notes facility with BlueCrest Capital Finance, L.P. The first tranche of notes with a value of £1.5 million was issued at closing and the remaining notes can be issued in a second tranche on or after 1 September 2008 conditional upon the achievement of certain milestones agreed with BlueCrest Capital Finance. The first tranche notes were issued at a discount to their nominal value equivalent to an interest rate of 14 per cent per annum and are repayable over 36 months. In addition, the Company issued warrants to BlueCrest Capital Finance to subscribe for 569,801 shares in Oxonica at 35.1p per share, exercisable at any time up to 23 April 2018. Warrants for a further £100,000 worth of Oxonica shares will be granted on issue of the second tranche notes at the average price per share for the 5 days prior to issue.

Two events occurred following the period end which have had a significant impact on these accounts. Firstly, the High Court judgment announced on 5 September 2008 regarding the patent licensing dispute with Neuftec, which found against Oxonica Energy and secondly the signing of an Assignment and License Agreement with BD under the terms of which BD will pay Oxonica a total of up to US\$ 7 million in connection with the transfer of the technology and additional payments on sales of BD products covered by the Nanoplex™ patents. As a result of the Neuftec judgment, a provision has been made for a possible

award of costs to Neuftec, which we have estimated at £0.5 million. This is in addition to the provision for potential royalties payable of £0.4 million previously made. In conjunction with the strategic review and the agreement with BD, we reviewed the carrying value of goodwill associated with the acquisition of Oxonica Inc (formerly Nanoplex Technologies Inc) in 2006, which comprises the Security and Diagnostics businesses, and this has resulted in the Group recognising an impairment charge of £3.3 million.

### Results

In the six months ended 30 June 2008 revenue was £1.5 million (2007: £3.1 million), a reduction of 51% compared with the same period last year. However, after adjusting for the £2.1 million of sales of Envirox™ to Petrol Ofisi in the prior year, under the contract which was terminated on 22 May 2007, revenues were 44% higher than in the corresponding period in 2007.

Envirox™ revenues were 78% down at £532,000 (1H07: £2,411,000) due to the loss of the one-off sales to Petrol Ofisi of £2.1 million in the prior year, partly offset by additional sales to Stagecoach resulting from fleet expansion and initial sales into Russia for mining applications.

Optisol™ sales reduced by 84% to £41,000 (2007: £264,000) caused by poor summer weather in the UK, a reduction in distributors' inventory levels and difficulties in winning new customers.

In the US, Security sales were up 48% to £490,000 (2007: £332,000) following additional orders for development products from an existing customer and Diagnostics sales increased more than four times to £446,000 (2007: £94,000) as a result of higher sales to BD under the follow-on research and collaboration

agreement. Revenue does not include grant income received which is included under Other Operating Income of £123,000 (2007: £852,000).

Other Operating Income in the prior period included the contract termination settlement with Petrol Ofisi.

The gross margin increased from 39% to 86% partly due to the ability to utilise Envirox™ inventory previously written-down as a result of the cancellation of the Petrol Ofisi contract and partly due to a favourable sales mix which included a smaller proportion of lower margin Optisol™ sales. Research and development costs rose by 41% to £1.5 million (2007: £1.0 million) as a result of increased development effort in the US in both Security and Diagnostics. Excluding intangible amortisation and exceptional items, sales and marketing and administration expenses reduced by 22% to £3.1 million (2007: £4.0 million) largely due to the actions taken to reduce costs following the loss of the Petrol Ofisi contract in the previous year. Exceptional items include the provision for defendant's costs associated with the Neuftec litigation and a goodwill impairment charge of £3.3 million (2007: nil) in connection with Oxonica Inc, which reflects a review of the goodwill recognising the impact of the latest agreement with BD. The operating loss including intangible amortisation and exceptional items was more than double the previous year at £7.1 million (2007: £3.2 million). However, the cash outflow before financing reduced by 31% to £2.9 million (2007: £4.2 million). Cash balances, including short term deposits, at the end of the period were £3.2 million (2007: £2.5 million).

### Business overview

The Group consists of two separate divisions, Oxonica Nanomaterials and Oxonica Diagnostics. The Nanomaterials division includes the Energy, Security and Materials businesses (including Optisol™ UV absorber) 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.

### Oxonica Nanomaterials

**Energy:** The Energy business comprises the Envirox™ fuel combustion catalyst with demonstrated improvements in fuel economy and reduced emissions for diesel vehicles.

Following the successful outcome of the follow-on trial with Stagecoach announced in February 2008, there has been a significant increase in interest in Envirox™ and Oxonica Energy now has a stronger pipeline of potential UK customers than at any time in its history. The rise in oil prices and enhanced environmental pressures are making Envirox™ an increasingly attractive product for all types of significant diesel fuel users. In addition to growing sales in the UK, Oxonica Energy has now made initial sales into Russia for applications in the mining sector.

With regard to the patent licensing dispute with Neuftec, as announced on 5 September 2008, in the judgment issued on 5 September 2008 it was found that royalties are payable to Neuftec on Envirox™ sourced from Oxonica Energy's current supplier under the license agreement for the period it was in force. There will shortly be a further hearing regarding the royalties payable, the payment of costs and permission to appeal. A provision had previously been made for £408,000, based on Oxonica Energy's estimate of the royalties that might be payable, and a further provision of £550,000 for the possible payment of defendant's costs has been made in these accounts.

# Chairman's review

continued

## 04

Oxonica Energy has been advised by its lawyers that it has good grounds for an appeal, which it is currently considering. Neuftec has issued further legal proceedings relating principally to the alleged supply of Envirox™ sourced from Oxonica Energy's previous supplier. Oxonica Energy has filed a defence and made a counterclaim. The stock of Envirox™ sourced from the previous supplier held by Oxonica Energy has been fully provided for.

Oxonica has continued to discuss with the US EPA the additional testing that they have indicated will be required in order for Envirox™ to be sold in the USA for on-road use. As yet no detailed agreement has been reached as to the nature or extent of the additional testing. In the meantime, Oxonica is evaluating off-road applications in the US.

**Materials:** Oxonica Materials comprises the Optisol™ and Solacor™ UV absorbers – advanced photostable UV protection materials for personal care and industrial applications. The sales performance of Optisol™ UV absorber has been disappointing. There has been some de-stocking in the supply chain in the first half of 2008. In addition, the winning of new accounts has been slower than expected as a result of the high cost of the current supply chain which results in a high market price. Discussions are in progress with both the supplier and distributor of Optisol™ regarding reducing supply chain costs and the Company expects to announce a revised supply structure later in the year. In the meantime a fully formulated product, Optisol™ Sun Defence, has been launched in the UK market and the initial feedback has been encouraging.

Oxonica has continued to explore the options for the development of the UV protection technology for the industrial markets of coatings and plastics. The product

(Solacor™) is being evaluated by a number of blue-chip industrial partners and steady, but slow progress is being made in securing a manufacturing partner to allow Oxonica to address this market.

**Security:** Subsequent to the acquisition of Nanoplex Technologies Inc. in February 2006, Oxonica established Oxonica Security in order to pursue a number of commercial applications for nanotechnology based marker systems for anti-counterfeiting and brand protection. The market for this anti-counterfeiting technology comprises applications in high value documents, tax stamps, pharmaceuticals, fuel and luxury goods. As reported earlier in the year, Security received purchase orders totalling US\$2.15 million in April 2008 for a number of development products to be delivered over the seven months to October 2008 as part of a continuing project with one of its existing customers. On completion of the deliveries against these orders, revenue to this customer will have amounted to US\$5.3 million since November 2005. This follow-on order resulted from the successful completion of the orders announced in June, 2007 and the significant technical progress achieved. The business is now implementing the necessary process developments to allow product manufacture on a commercial scale.

**Oxonica Diagnostics:** The Diagnostics business consists of the Group's activities in the detection of diseases and biological markers for clinical, veterinary, food and bioterrorism markets. As reported on 19 September 2008, following an exercise to identify potential strategic partners for this business, the Group has signed an Assignment and License Agreement with BD. Under the terms of this agreement, BD will pay Oxonica a total of up to US\$ 7 million. Of that, US\$3.5 million is payable on signing the agreement in exchange

for the assignment to BD of the patents covering Oxonica's Nanoplex™ technology, related know-how and the Nanoplex™ trademark. A further US\$ 3.5 million is payable on Oxonica completing certain technical transfer milestones. In addition, BD will make payments to Oxonica on sales of BD products covered by the Nanoplex™ patents, albeit at rates lower than that of the original license agreement. As a result of this transaction, BD will assume the responsibility and costs associated with prosecuting the patent portfolio and will also take responsibility for the manufacture of the Nanoplex™ tags for its own requirements. This will allow Oxonica to achieve a significant reduction in operating expenses related to the Diagnostics business. Oxonica will retain a royalty free, exclusive license to continue to use the technology in the fields of industrial and homeland security and to continue to evaluate opportunities in *in-vivo* diagnostics, agriculture (excluding veterinary) and fine chemicals.

#### **Board**

Martin Hagen did not seek re-appointment to the Board at the AGM due to an increase in his other professional commitments at the Institute of Chartered Accountants in England and Wales and at the Financial Services Authority. On behalf of the Board, I would like to thank Martin for his valuable contribution to Oxonica, especially as Chairman of the Nominations and Audit Committees, and in particular for his guidance during the Company's transition to International Financial Reporting Standards. The Company has commenced the search for a replacement for Mr Hagen and in the meantime Ed Weeks will be the Senior Independent Director.

#### **Management and staff**

The first half of 2008 has continued to prove challenging for the management and staff, particularly in the US, where we lost 9 employees through redundancy as part

of the cost reduction exercise to reduce the cash burn in the Diagnostics business prior to the agreement with BD. At 31 August, after the redundancies, the Group had 40 employees of which 20 (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.

#### **Future outlook**

With a strong pipeline of potential customers and some exciting opportunities in Russia, Envirox™ is expected to make further progress in the second half. In the US, the Security business continues to perform well and the agreement with BD on Diagnostics, signed after the half-year end will strengthen the Group's cash position and reduce the cash burn going forward. The Board continues to believe that Oxonica has considerable potential and is optimistic that the Group can move closer to break-even by the end of the year.



**Richard Farleigh**  
Chairman

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# Independent review report to Oxonica plc

## 06

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We have been instructed by the Company to review the financial information for the six months ended 30 June 2008 which comprises the Consolidated income statement, Consolidated statement of recognised income and expense, Consolidated balance sheet, Consolidated cash flow statement and the related explanatory notes. We have read the other information contained in the interim report and considered whether it contains any apparent misstatements or material inconsistencies with the financial information.

This report is made solely to the Company in accordance with the terms of our engagement. Our review has been undertaken so that we might state to the Company those matters we are required to state to it in this 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 for our review work, for this report, or for the conclusions we have reached.

### **Directors' responsibilities**

The interim report, including the financial information contained therein, is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the interim report in accordance with the AIM Rules.

As disclosed in note 1, the annual financial statements of the Group are prepared in accordance with IFRSs as adopted by the EU. The interim financial statements included in this half-yearly report have been prepared in accordance with the recognition and measurement requirements of IFRSs as adopted by the EU.

### **Our responsibility**

Our responsibility is to express to the Company a conclusion on the interim financial statements in the half-yearly report based on our review.

### **Scope of review**

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410 Review of Interim Financial Information Performed by the Independent Auditor of the Entity issued by the Auditing Practices Board for use in the UK. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

### **Conclusion**

Based on our review, nothing has come to our attention that causes us to believe that the interim financial statements in the half-yearly report for the six months ended 30 June 2008 is not prepared, in all material respects, in accordance with the recognition and measurement requirements of IFRSs as adopted by the EU and the AIM Rules.

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**Emphasis of matter - Going concern**

In forming our conclusion on the financial statements, which is not qualified, we have considered the adequacy of the disclosure made in note 2 to the interim financial statements concerning the Group's ability to continue as a going concern. As more fully explained in note 2, the Company has prepared cash flow forecasts that include certain cash flow assumptions relating to the implications of a High Court judgment and the ability of the Group to generate further cash payments from a new assignment and license agreement. These conditions, along with the other matters referred to in note 2 indicate the existence of material uncertainties which may cast significant doubt on the Group's ability to continue as a going concern. The interim financial statements do not include the adjustments that would result if the Group were unable to continue as a going concern.

**KPMG Audit Plc**

Chartered Accountants  
Arlington Business Park  
Theale  
Reading  
RG7 4SD

19 September 2008

# Consolidated income statement

for the period ended 30 June 2008

## 08

	Six months to 30 June 2008 Unaudited			Six months to 30 June 2007 Unaudited			Year to 31 December 2007 Audited		
	Before intangible amortisation and exceptional items £'000	Intangible amortisation and exceptional items (Note 5) £'000	Total £'000	Before intangible amortisation and exceptional items £'000	Intangible amortisation and exceptional items (Note 5) £'000	Total £'000	Before intangible amortisation and exceptional items £'000	Intangible amortisation and exceptional items (Note 5) £'000	Total £'000
<b>Revenue from continuing activities</b>	<b>1,509</b>	<b>-</b>	<b>1,509</b>	3,101	-	3,101	4,174	-	4,174
Cost of sales	(210)	-	(210)	(1,883)	-	(1,883)	(1,763)	-	(1,763)
<b>Gross profit</b>	<b>1,299</b>	<b>-</b>	<b>1,299</b>	1,218	-	1,218	2,411	-	2,411
Other operating income	123	-	123	852	-	852	1,032	-	1,032
Research and development	(1,457)	-	(1,457)	(1,036)	-	(1,036)	(2,599)	-	(2,599)
Sales, marketing and administration expenses	(3,103)	(656)	(3,759)	(3,973)	(244)	(4,217)	(6,074)	(361)	(6,435)
Goodwill impairment	-	(3,280)	(3,280)	-	-	-	-	-	-
<b>Operating loss</b>	<b>(3,138)</b>	<b>(3,936)</b>	<b>(7,074)</b>	(2,939)	(244)	(3,183)	(5,230)	(361)	(5,591)
Financial income	98	-	98	122	-	122	186	-	186
Financial expense	(48)	-	(48)	(18)	-	(18)	(36)	-	(36)
<b>Net financial income</b>	<b>50</b>	<b>-</b>	<b>50</b>	104	-	104	150	-	150
<b>Loss before tax</b>	<b>(3,088)</b>	<b>(3,936)</b>	<b>(7,024)</b>	(2,835)	(244)	(3,079)	(5,080)	(361)	(5,441)
<b>Taxation</b>	<b>(18)</b>	<b>-</b>	<b>(18)</b>	(1)	-	(1)	2	-	2
<b>Loss for the period attributable to equity holders of the parent</b>	<b>(3,106)</b>	<b>(3,936)</b>	<b>(7,042)</b>	(2,836)	(244)	(3,080)	(5,078)	(361)	(5,439)
Basic and diluted loss per share			<b>(10.75)p</b>			<b>(6.82)p</b>			<b>(11.61)p</b>

# Consolidated statement of recognised income and expense

for the period ended 30 June 2008

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	Six months to 30 June 2008 Unaudited £'000	Six months to 30 June 2007 Unaudited £'000	Year to 31 Dec 2007 Audited £'000
<b>Loss for the period</b>	<b>(7,042)</b>	<b>(3,080)</b>	<b>(5,439)</b>
Fair value of equity component of new debt	108	–	–
Exchange differences on translation of foreign operations	2	(2)	17
<b>Total recognised income and expense for the period attributable to equity holders of the parent</b>	<b>(6,932)</b>	<b>(3,082)</b>	<b>(5,422)</b>

# Consolidated balance sheet

as at 30 June 2008

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	30 June 2008 Unaudited £'000	30 June 2007 Unaudited £'000	31 December 2007 Audited £'000
<b>ASSETS</b>			
<b>Non current assets</b>			
Intangible assets	9,752	13,254	13,138
Property, plant and equipment	608	664	671
<b>Total non-current assets</b>	<b>10,360</b>	<b>13,918</b>	<b>13,809</b>
<b>Current assets</b>			
Inventories	268	311	321
Tax receivable	62	125	79
Trade and other receivables	1,066	1,830	623
Cash and cash equivalents	3,160	2,529	4,811
<b>Total current assets</b>	<b>4,556</b>	<b>4,795</b>	<b>5,834</b>
<b>TOTAL ASSETS</b>	<b>14,916</b>	<b>18,713</b>	<b>19,643</b>
<b>EQUITY</b>			
Issued share capital	655	453	654
Share premium	26,303	22,522	26,303
Exchange reserve	92	–	88
Other reserves	9,953	9,953	9,953
Retained earnings	(25,869)	(17,033)	(19,209)
<b>Total equity attributable to the shareholders of the parent</b>	<b>11,134</b>	<b>15,895</b>	<b>17,789</b>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Interest bearing loans and borrowings	286	164	163
Trade and other payables	1,842	2,489	1,610
Provisions	550	–	–
<b>Total current liabilities</b>	<b>2,678</b>	<b>2,653</b>	<b>1,773</b>
<b>Non-current liabilities</b>			
Interest-bearing loans and borrowings	1,104	165	81
<b>Total non-current liabilities</b>	<b>1,104</b>	<b>165</b>	<b>81</b>
<b>Total liabilities</b>	<b>3,782</b>	<b>2,818</b>	<b>1,854</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>14,916</b>	<b>18,713</b>	<b>19,643</b>

# Consolidated cash flow statement

for the period ended 30 June 2008

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	Six months to 30 June 2008 Unaudited £'000	Six months to 30 June 2007 Unaudited £'000	Year to 31 Dec 2007 Audited £'000
<b>Cash flows from operating activities</b>			
Loss before tax	(7,024)	(3,079)	(5,441)
<i>Adjustments for:</i>			
Depreciation, amortisation, impairment and loss on disposal	3,547	274	597
Equity settled share-based payment expenses	272	260	514
Net finance income and expense	(50)	(104)	(150)
<b>Operating cash flow before changes in working capital, interest and taxes</b>	<b>(3,255)</b>	<b>(2,649)</b>	<b>(4,480)</b>
(Increase)/decrease in trade and other receivables	(372)	(1,159)	71
Decrease in inventories	53	167	156
Increase/(decrease) in trade and other payables	708	(761)	(1,591)
<b>Cash utilised in operations</b>	<b>(2,866)</b>	<b>(4,402)</b>	<b>(5,844)</b>
Interest received	98	122	186
Interest paid	(48)	(18)	(36)
Income tax received	-	30	76
<b>Net cash outflow from operating activities</b>	<b>(2,816)</b>	<b>(4,268)</b>	<b>(5,618)</b>
<b>Cash flows from investing activities</b>			
Capital expenditure	(98)	(111)	(324)
Loss on disposal of intangible asset	-	147	147
<b>Net cash used in investing activities</b>	<b>(98)</b>	<b>36</b>	<b>(177)</b>
<b>Net cash outflow before financing activities</b>	<b>(2,914)</b>	<b>(4,232)</b>	<b>(5,795)</b>
<b>Cash flows from financing activities</b>			
Proceeds from the issue of share capital	-	64	4,047
New bank loans	1,500	-	-
Repayment of bank loans and hire purchase liabilities	(244)	(137)	(269)
<b>Net cash from/(used in) financing activities</b>	<b>1,256</b>	<b>(73)</b>	<b>3,778</b>
<b>Net decrease in cash and cash equivalents</b>	<b>(1,658)</b>	<b>(4,305)</b>	<b>(2,017)</b>
Cash and cash equivalents at 1 January	4,811	6,836	6,836
Effect of exchange rate fluctuations on cash held	7	(2)	(8)
<b>Cash and cash equivalents at the end of the period</b>	<b>3,160</b>	<b>2,529</b>	<b>4,811</b>

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# Notes to the interim report

for the period ended 30 June 2008

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### 01 Basis of preparation

Oxonica plc (“the Company”) is a company domiciled in the UK. The consolidated interim financial statements as at, and for, the six months ended 30 June 2008 comprise the Company and its subsidiaries (together referred to as “the Group”).

The Group’s interim financial statements for the six months ended 30 June 2008 were authorised for issue by the Board of Directors on 19 September 2008.

The comparative financial information for the year ended 31 December 2007 has been extracted from the published audited financial statements of the Company. The comparative financial information for the six months ended 30 June 2007 has been extracted from the unaudited interim financial statements of the Company.

The consolidated interim financial information does not constitute statutory accounts within the meaning of section 240 of the Companies Act 1985. These interim results are unaudited but have been reviewed by the Group’s auditors. The statutory accounts for the period ended 31 December 2007 have been reported on by the Group’s auditors and delivered to the registrar of companies. The report of the auditors was unqualified and did not contain the statements under section 237(2) or (3) of the Companies Act 1985.

The Group’s interim financial statements have been prepared and approved by the Directors in accordance with the AIM Rules and International Financial Reporting Standards as adopted by the EU (“Adopted IFRSs”). The recognition and measurement requirements of adopted IFRSs have been applied; however, the voluntary compliance with IAS34 has not been adopted.

These interim statements have been prepared on a consistent basis to that used for the financial statements for the year ended 31 December 2007.

Copies of this statement are being posted to shareholders and will also be available on the investor relations page of the Group’s website ([www.oxonica.com](http://www.oxonica.com)). Further copies are available from the Company Secretary at Begbroke Science Park, Sandy Lane, Yarnton, Kidlington, Oxfordshire OX5 1PF.

### 02 Going concern

The interim financial statements are prepared on a going concern basis which the directors believe to be appropriate for the following reasons. The Group meets its day to day working capital requirements through existing cash resources and a £1.5m loan. As at 18 September 2008, the Group’s cash resources amounted to £2.1 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 the directors consider that, for the foreseeable future, the Group will continue to operate within its existing resources and meet its obligations as they fall due. The directors note that the margin of available resources over forecast requirements is not large. The preparation of the forecast requires the directors to make certain assumptions regarding measurement and timing of cash flows. In particular, the forecast contains assumptions concerning:

- The implications of a recent High Court judgment regarding a patent dispute. That judgment concluded that Oxonica Energy is required to pay retrospective royalties amounting to £408,000 plus the defendant’s costs. The exact extent of those costs is currently unknown. Having consulted with the Group’s legal advisers, the directors have included in the cash flow forecast an amount that reflects their current best estimate of £550,000. The directors note that the counter party may seek a higher amount and that there is no certainty in relation to the amounts

included in the forecast. Oxonica Energy retains the right to appeal against the judgment and is considering its options.

- The magnitude and timing of payments arising from an Assignment and License Agreement with BD, entered into on 19 September 2008. The terms of the agreement provide for an immediate payment of US\$3.5 million and further payments totaling US\$ 3.5 million are receivable should the Group successfully complete certain technical transfer milestones. In drawing up the cash flow information, certain assumptions have been made regarding the success and timing of those milestones.

In concluding that the going concern basis of preparation is appropriate, the directors note that a degree of discretion is available to them to reduce research and development, marketing and administration expenses without materially curtailing the operations of the Group. In the light of the above, the directors acknowledge that there are material uncertainties that 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. The interim financial statements do not include any adjustments that would result if the Group were unable to continue as a going concern.

### 03 Accounting policies

The preparation of the interim financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. Estimates and judgements are continually reviewed and are based on historical experience and other factors, and expectations of future events that are believed to be reasonable under the circumstances. Actual results may differ from these estimates.

The Group's principal accounting policies, the significant judgements made by management in applying these policies and the key sources of uncertainty are as follows:

- Revenue and revenue recognition  
Revenue represents the total amount receivable by the Group for goods and services 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.
- 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 period ended on 30 June 2008, no development expenditure satisfied the necessary conditions of IAS 38. The Group monitors the level of product development costs against all criteria set out in IAS 38. These include the requirement to establish that a flow of economic benefits is probable before costs are capitalised. This is only apparent shortly before a product is launched into the market. The level of development costs incurred after these criteria have been met is currently insignificant.
- Non-current assets  
Intangible assets (excluding goodwill) and property, plant and equipment are stated at cost less accumulated depreciation and any recognised impairment loss. Depreciation is provided at rates calculated to write down the cost of assets to their residual values over their estimated useful lives.

# Notes to the interim report

for the period ended 30 June 2008 continued

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### 03 Accounting policies continued

The value of the assets is reviewed for impairment if events or circumstances indicate the carrying values may not be recoverable.

#### – Goodwill

Purchased goodwill (representing the excess of the fair value of the consideration given over the fair value of the separable net assets acquired) arising on consolidation in respect of acquisitions is capitalised. Goodwill is not amortised, but is regularly reviewed for impairment. Determining whether goodwill is impaired requires an estimation of the value in use, which is calculated by estimating the future cashflow expected to arise from the cash-generating unit and discounted by a suitable discount rate in order to calculate the present value. During the period a provision for impairment of £3,280,000 was made in respect of Oxonica Inc. This was based on cash flow projections for Oxonica Inc through to 2017 (incorporating the impact of the BD Assignment and License Agreement which was completed after the end of the period) and a terminal growth rate of 15% per annum. The discount rate applied was 25%.

#### – 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.

#### – 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 the forfeiture is due only to share prices not achieving the threshold for vesting.

The Group 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 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. Development, sales and marketing and administration expenses includes a charge of £272,000 (2007: £260,000) in respect of share based payments to employees.

#### – 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.

#### 04 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 interim report

for the period ended 30 June 2008 continued

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### Segment reporting continued

#### Primary

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

Revenue	30 June 2008 Unaudited £'000	30 June 2007 Unaudited £'000	31 December 2007 Audited £'000
Energy	532	2,411	2,763
Materials	41	264	361
Security	490	332	739
Diagnostics	446	94	311
Group	—	—	—
<b>Total</b>	<b>1,509</b>	<b>3,101</b>	<b>4,174</b>

Operating profit/(loss) before tax	30 June 2008 Unaudited £'000	30 June 2007 Unaudited £'000	31 December 2007 Audited £'000
Energy	(816)	536	406
Materials	(1,020)	(1,658)	(2,908)
Security	135	(542)	(456)
Diagnostics	(1,204)	(723)	(1,368)
Group and unallocated costs	(4,119)	(692)	(1,265)
<b>Total</b>	<b>(7,024)</b>	<b>(3,079)</b>	<b>(5,591)</b>

Total Assets	30 June 2008 Unaudited £'000	30 June 2007 Unaudited £'000	31 December 2007 Audited £'000
Energy	723	1,737	792
Materials	522	448	715
Security	54	247	127
Diagnostics	850	496	379
Group and unallocated assets	12,767	15,785	17,630
<b>Total</b>	<b>14,916</b>	<b>18,713</b>	<b>19,643</b>

	30 June 2008 Unaudited £'000	30 June 2007 Unaudited £'000	31 December 2007 Audited £'000
<b>Total Liabilities</b>			
Energy	1,032	1,040	469
Materials	762	1,197	864
Security	190	66	72
Diagnostics	415	292	215
Group and unallocated liabilities	1,383	223	234
<b>Total</b>	<b>3,782</b>	<b>2,818</b>	<b>1,854</b>

### Secondary

The Group sales are managed into four regions.

	30 June 2008 Unaudited £'000	30 June 2007 Unaudited £'000	31 December 2007 Audited £'000
<b>Revenue by geographical market</b>			
UK	284	968	832
Europe	284	1,255	2,079
USA	936	420	1,050
Rest of world	5	458	213
<b>Total</b>	<b>1,509</b>	<b>3,101</b>	<b>4,174</b>

	30 June 2008 Unaudited £'000	30 June 2007 Unaudited £'000	31 December 2007 Audited £'000
<b>Revenue by geographical origin</b>			
UK	573	2,681	3,124
USA	936	420	1,050
<b>Total</b>	<b>1,509</b>	<b>3,101</b>	<b>4,174</b>

# Notes to the interim report

for the period ended 30 June 2008 continued

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### Segment reporting continued

	30 June 2008 Unaudited £'000	30 June 2007 Unaudited £'000	31 December 2007 Audited £'000
<b>Total Assets by geographical origin</b>			
UK	13,968	17,922	19,094
USA	904	743	506
Rest of world	44	48	43
<b>Total</b>	<b>14,916</b>	<b>18,713</b>	<b>19,643</b>

	30 June 2008 Unaudited £'000	30 June 2007 Unaudited £'000	31 December 2007 Audited £'000
<b>Total Liabilities by geographical origin</b>			
UK	3,160	2,450	1,549
USA	605	358	287
Rest of world	17	10	18
<b>Total</b>	<b>3,782</b>	<b>2,818</b>	<b>1,854</b>

	30 June 2008 Unaudited £'000	30 June 2007 Unaudited £'000	31 December 2007 Audited £'000
<b>Capital expenditure</b>			
UK	14	48	114
USA	84	63	215
Rest of world	–	–	–
<b>Total</b>	<b>98</b>	<b>111</b>	<b>329</b>

	30 June 2008 Unaudited £'000	30 June 2007 Unaudited £'000	31 December 2007 Audited £'000
<b>Depreciation and amortisation</b>			
UK	218	241	518
USA	49	33	70
Rest of world	–	–	8
<b>Total</b>	<b>267</b>	<b>274</b>	<b>596</b>

**05 Intangible amortisation and exceptional items**

	Six months to 30 June 2008 Unaudited £'000	Six months to 30 June 2007 Unaudited £'000	Year to 31 December 2007 Audited £'000
Intangible amortisation	106	109	226
Write-off of Neuftec patent licence terminated on 26 February 2007	–	135	135
Provision for potential award of legal costs to Neuftec following High Court judgment against Oxonica Energy	550	–	–
	<b>656</b>	244	361

The provision for legal costs to Neuftec of £550,000 has been included on the Balance Sheet within Provisions as at 30 June 2008.

**06 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 each period. Options over 3,253,541 ordinary shares (2007: 4,864,780) are not included in the calculation of diluted loss per share as their effect is anti-dilutive.

	30 June 2008 Unaudited £'000	30 June 2007 Unaudited £'000	31 December 2007 Audited £'000
Basic and diluted loss for the period attributable to ordinary shareholders	<b>(7,042)</b>	(3,080)	(2,412)
Weighted average number of ordinary shares	No. <b>65,525,214</b>	No. 45,176,067	No. 41,773,796
<b>Loss per share – basic and diluted</b>	<b>(10.75)p</b>	(6.82)p	(5.77)p

# Notes to the interim report

for the period ended 30 June 2008 continued

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### 07 Reconciliation of movements in equity

	Share capital £'000	Share premium account £'000	Merger reserve £'000	Exchange reserve £'000	Shares to be issued £'000	Retained earnings £'000	Total £'000
At 1 January 2008	654	26,303	9,953	88	–	(19,209)	17,789
Total recognised income and expense	–	–	–	–	–	(6,932)	(6,932)
Revaluation of foreign assets	–	–	–	4	–	–	4
Equity-settled share based payment transactions	–	–	–	–	–	272	272
Issue of Shares	1	–	–	–	–	–	1
<b>At 30 June 2008</b>	<b>655</b>	<b>26,303</b>	<b>9,953</b>	<b>92</b>	<b>–</b>	<b>(25,869)</b>	<b>11,134</b>

	Share capital £'000	Share premium account £'000	Merger reserve £'000	Exchange reserve £'000	Shares to be issued £'000	Retained earnings £'000	Total £'000
At 1 January 2007	428	18,971	9,953	71	4,225	(14,998)	18,650
Total recognised income and expense	–	–	–	(22)	–	(5,439)	(5,461)
Revaluation of foreign assets	–	–	–	28	–	–	28
Equity-settled share based payment transactions	–	–	–	11	–	514	525
Issue of shares	226	7,332	–	–	(4,225)	714	4,047
<b>At 31 December 2007</b>	<b>654</b>	<b>26,303</b>	<b>9,953</b>	<b>88</b>	<b>–</b>	<b>(19,209)</b>	<b>17,789</b>

The gain of £714,000 in 2007 arising on the settlement of the deferred consideration for Nanoplex results from the fact that the fixed number of shares to be issued were actually issued at a lower share price than the price ruling at the date the acquisition was completed.

### 08 Principal Exchange Rates

	30 June 2008 Unaudited £'000	30 June 2007 Unaudited £'000	31 December 2007 Audited £'000
<b>Average for the period</b>			
Euro	<b>1.2850</b>	1.4810	1.4567
United States Dollar	<b>1.9854</b>	1.9800	2.0144
<b>Period end</b>			
Euro	<b>1.2630</b>	1.4705	1.3615
United States Dollar	<b>1.9931</b>	1.9767	1.9906

### 09 Interest bearing loans and borrowings

On 23 April 2008, the Company entered into a £3.0 million secured Discounted Notes facility (the "Facility") with BlueCrest Capital Finance, L.P. ("BlueCrest Capital Finance"), secured by a fixed and floating charge on the assets of the Group.

The first tranche of discounted notes (the "First Tranche") with a total value of £1.5 million was issued at closing of the Facility and the remaining notes can be issued in a second tranche (the "Second Tranche") on or after 1 September 2008 conditional upon the achievement of certain milestones agreed with BlueCrest Capital Finance. The First Tranche notes were issued at a discount to their nominal value equivalent to an interest rate of 14 per cent per annum and are repayable over 36 months. In addition, the Company has issued warrants to BlueCrest Capital Finance to subscribe for 569,801 shares in Oxonica at 35.1p per share, exercisable at any time up to 23 April 2018. Warrants for a further £100,000 worth of Oxonica shares will be granted on issue of the Second Tranche notes at the average price per share for the 5 days prior to issue.

The fair value of the warrants issued with the First Tranche notes is £108,000 and the debt component of £1,392,000 has been included on the balance sheet within Interest Bearing Loans and Borrowings.

### 10 Safe Harbour

Our interim statement contains certain statements, statistics and projections that are or may be forward-looking. The accuracy and completeness of all such statements, including, without limitation, statements regarding the future financial position, strategy, projected costs, plans and objectives for the management of future operations of the Company and its subsidiaries is not warranted or guaranteed.

These statements typically contain words such as "intends", "expects", "anticipates", "estimates" and words of similar import. By their nature, forward-looking statements involve risk and uncertainty because they relate to events and depend on circumstances that will occur in the future. Although the Company believes that the expectations reflected in such statements are reasonable, no assurance can be given that such expectations will prove to be correct. There are a number of factors, which may be beyond the control of the Company, which could cause actual results and developments to differ materially from those expressed or implied by such forward-looking statements. Other than as required by applicable law or the applicable rules of any exchange on which our securities may be listed, the Company has no intention or obligation to update forward-looking statements contained herein.

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