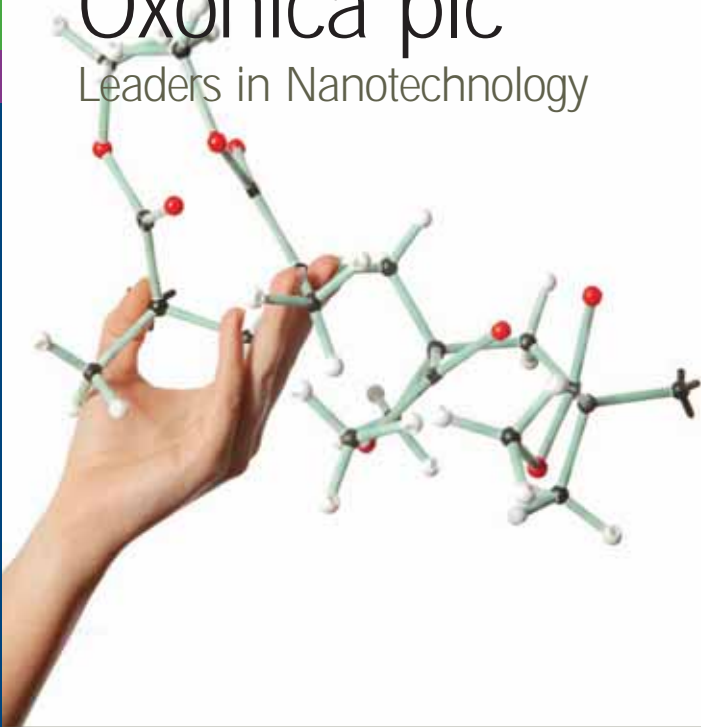


Annual Report & Accounts 2005

Oxonica plc

Leaders in Nanotechnology



Our Mission

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

What is Nanotechnology?

Nanotechnology is widely seen as having potential to bring benefits to many areas of product application, in markets as diverse as drug development, energy and environment, information and communication technologies, and the production of stronger, lighter materials.

A nanometre (nm) is one billionth of a metre. For comparison, a human hair is about 80,000 nm wide. Nanotechnologies have been used by industries for a number of years in sectors such as semiconductors and chemicals. Developments over the last 20 years in the tools used to characterise materials have led to an increased understanding of the behaviour and properties of very small size scales.

Contents

Operational & Financial Highlights	01
Nanotechnology in Our World	02
Chairman's Statement	04
Chief Executive's Review	06
Financial Review	10
Board of Directors	12
Corporate Social Responsibility	14
Report of the Directors	15
Statement of Directors' Responsibilities	16
Directors' Remuneration Report	17
Corporate Governance	19
Independent Auditors' Report	21
Consolidated Profit and Loss Account	22
Balance Sheet	23
Consolidated Cash Flow Statement	24
Notes to the Accounts	25

Oxonica Products. Development into significant sales

Optisol™ UV Absorber



Envirox™ Fuel Additive



Operational & Financial Highlights

01

Trading for the current year shows continued strong growth.

20/12/05 Acquisition of Nanoplex Technologies Inc

Oxonica announced that it had signed an agreement to acquire US based Nanoplex Technologies Inc.

15/12/05 Oxonica and Croda form partnership to drive Oxonica's UV absorber Optisol™ into the global cosmetics market

Oxonica announced that it had signed an exclusive agreement with Croda to distribute Oxonica's Optisol™ into the international personal care market.

28/11/05 Oxonica CEO Awarded Small Times 2005 Best of Small Tech Business Leader of the Year

Dr Kevin Matthews, CEO of Oxonica was awarded the Small Times 2005 Best of Small Tech Business Leader of the Year.

27/10/05 Oxonica Awarded ICIS Publications Innovation Award for the Innovation with the Best Environmental Benefit

Oxonica was awarded the ICIS Innovation Award for Envirox™ fuel additive, the innovation with the best environmental benefits.

29/09/05 Oxonica nominated for the Best New Technology at the HBA Awards

Optisol™ UV Absorber was nominated for Best New Technology by HBA Awards in New York.

20/07/05 Oxonica's successful placing on AIM

Oxonica announced that following a successful placing, its ordinary shares would commence trading on AIM.

30/06/05 Oxonica's CEO Awarded Ernst & Young Science & Technology Entrepreneur of the Year

Dr Kevin Matthews, CEO of Oxonica was awarded Entrepreneur of the Year 2005 in the Ernst & Young South regional final.

02/02/05 Oxonica to supply Optisol™ to Boots for use in own brand suncream product

Oxonica and Boots Group plc announced the incorporation of Optisol™ UV filter within Boots new range of Soltan Facial Suncare products.

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

02



ENERGY

Our technology provides a proven, cost effective means of extending fuel mileage whilst contributing to a **cleaner environment**

Andrew Elphick, Global Business Director Oxonica Energy

Since 2000, Oxonica Energy has been engaged in research and development in the laboratory and in the field to create **Envirox™** fuel combustion catalyst designed to improve fuel economy and reduce emissions in diesel powered applications. In practice **Envirox™** is formulated as a fluid to be included within diesel fuel. No engine modifications are needed.

Field trials in Asia Pacific and in the UK have demonstrated that fuel economy benefits of 5-10% are achievable in bus fleets under everyday operating conditions. Controlled laboratory studies have shown emissions reductions in hydrocarbons, carbon monoxide and particulates.

The Stagecoach Group adopted the product across their entire UK fleet in 2004/05. Demonstration trials aimed at expanding the business are ongoing with a number of substantial prospective customers in Europe and Asia Pacific.



HEALTHCARE


Oxonica's Healthcare division is focused on **developing commercial solutions** for the healthcare market including personal care applications

David Browning, CEO Oxonica Healthcare

Oxonica's Healthcare group is driving advanced product commercialisation within the personal care and clinical diagnostics markets. The first product, **Optisol™** UV Absorber was launched in 2004 and represents a major advance in combining stable, broad-spectrum UV protection with free radical scavenging for sunscreens and other cosmetics products.

Oxonica has accelerated the commercialisation of SERS Nanotags, through the acquisition of Nanoplex. SERS Nanotags, a biomarker detection technology that has the potential to enable simpler diagnostic tests and information in real time, presents a vision of bringing the performance of the central hospital laboratory to the point of care.

MATERIALS



The business is developing solutions to **meet the needs** of UV protection for the polymer and coatings market

Barry Park, COO Oxonica

After successful projects in collaboration with the University of Warwick and Loughborough, Oxonica has continued to extend the scope of its materials business. Oxonica's technology has been shown to provide significant stabilisation benefits in polymers such as polystyrene and poly (vinyl) chloride, and the technical programme has now been expanded to include a variety of coatings.

A number of key customers have been sampled with material and long term evaluations are underway.

SECURITY



Covert marking expertise applied on a sub-micron scale offers solutions to verification of **authenticity and identification**

Kevin Matthews CEO Oxonica

Oxonica's security portfolio has been strengthened with the acquisition of Nanoplex. A number of covert marking projects are underway and activity is expected to increase during 2006. Oxonica's expertise in luminescent nanoparticles combined with the covert coding abilities of Raman beads will allow access to multiple technologies in this sector.

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

ENERGY

This division is focused on the development of Envirox™ fuel additive which was successfully rolled out across Stagecoach's bus fleet in the UK during 2005

HEALTHCARE

Healthcare has two businesses, Optisol™ UV absorber for personal care applications and detection technologies for the clinical diagnostics and life science markets

04

I am pleased to report that during the year, Oxonica has made considerable progress in building a leading international group through the development of innovative commercial solutions for global markets based on its expertise in the design and application of nanomaterials. The Group is now a multi-sector business with strong product opportunities in each sector.

In addition to the commercial progress, the Group was able to raise additional funds through a rights issue in February 2005 and a private placing in July 2005, which was immediately followed by a successful admission to trading on AIM on 20 July 2005 at an issue price of 95.8p per share.

Results

In the year to 31 December 2005, turnover increased by 219% to £1,247,000 (2004: £391,000), whilst gross profit was up 134% to £661,000 (2004: £282,000). As expected, administrative expenses rose by 45% to £5,300,000 (2004: £3,664,000) as the Company increased its commercialisation efforts in connection with both Envirox™ and Optisol™. The operating loss increased by 37% to £4,398,000 (2004: £3,207,000) and the cash outflow before financing was up 35% at £5,130,000 (2004: £3,791,000). Oxonica raised a total of £9,869,000 net of expenses during the year following a rights issue in February 2005 and a private placing in July 2005. As at 31 December 2005 the Group had a cash balance of £5,066,000.

Turnover excludes grant income received including a Department of Trade and Industry ('DTI') exceptional SMART award of £241,000 (2004: £175,000).

The Board is not recommending the payment of a dividend.

Overview of the year

During the year, the Group continued to make progress in all areas of its business. Oxonica Energy completed the roll-out of the Group's fuel borne nanocatalyst, Envirox™, across Stagecoach Group plc's UK and New Zealand bus depots and in the Philippines the product was incorporated into a premium diesel fuel which has been launched in retail forecourts. Product trials are continuing in the UK, Philippines, Singapore, Australia and India.

In April, Optisol™ was successfully launched in-store by Boots in its own brand Soltan facial sun defence cream. In December 2005, the Group announced that it had signed an exclusive agreement with Croda, the UK-based global speciality chemicals group, to distribute Optisol™ into the international personal care market. Croda's global marketing network is expected to facilitate a broader and more rapid penetration of the market.

In December 2005, Oxonica announced that it had signed an agreement to acquire Nanoplex Technologies Inc. Nanoplex specialises in nanoparticle based detection systems for the healthcare and security markets.

From left to right Barry Park, Gareth Wakefield, Andrew Elphick, Christopher Moore



MATERIALS

This business is based on the development of Oxonica's UV absorber technology into industrial application such as polymers, paints and coatings

Headquartered in California, USA, Nanoplex has 17 employees with blue chip clients in both markets. It is the Directors' belief that this acquisition will substantially enhance the development of Oxonica's existing biomarker detection and security technology through the addition of highly complementary IP and development skills supported by funded programmes and established strategic relationships. The addition of Nanoplex to the Group provides Oxonica with a presence in the key US market. The acquisition was successfully completed shortly after the year-end.

Board

I noted in last year's statement that it was our intention to make one or more new Board appointments following the admission to AIM and I am pleased to report that shortly after the year-end, Martin Hagen and Dr Gordon Ringold joined the Board. Martin joined the Board in January 2006 and was until recently a senior partner of Deloitte's. He has taken over as Chairman of the Audit Committee. Gordon was Chairman of Nanoplex Technologies Inc and joined the Board in February 2006 following the completion of the Nanoplex acquisition. He has 20 years' experience in managing

the discovery and development of pharmaceuticals and new enabling life science technologies, which should be very relevant as Oxonica develops this aspect of its business.

Summary

While Oxonica remains a relatively early stage business, the progress made in commercialising Envirox™ and Optisol™, means that its overall profile has improved considerably during the year. The roll-out of these products, the establishment of a strategic relationship with Croda, and the acquisition of Nanoplex are all major milestones for the Group. Oxonica is now truly a multi-sector nanomaterials business. Based on the achievements in 2005, the Board is confident of continued revenue growth through 2006 and the achievement of further commercial milestones during the year.

None of the achievements this year could have been made without the dedication and hard work of the management and staff at Oxonica and on behalf of the shareholders I would like to thank everyone in the Group for their contribution during an eventful and progressive year.

SECURITY

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

C M MOORE
CHAIRMAN

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



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

The Group has initially focused on worldwide energy and healthcare markets, developing commercial products to reduce fuel consumption and emissions in diesel engines (Envirox™) and to reduce skin damage from UV radiation (Optisol™). Following a DTI supported development programme in the UK and the acquisition of Nanoplex in the USA, the Group is now aiming to offer new solutions for the global biodiagnostics market and also for security and brand protection markets.

Having identified a market requirement and a potential nanomaterial solution, Oxonica's business model consists of developing patent protected product applications, putting appropriate outsource manufacturing arrangements in place and marketing the products to end-users in order to create customer demand and product pull-through. The final stage in the process is the establishing of strategic relationships to handle sales, distribution and customer support in volume markets. Oxonica has a pipeline of product applications in development and at any point in time the Group would expect to have products at different stages of commercialisation.

Throughout 2005, the Group operated three divisions; Energy, Healthcare and Materials. Following the Nanoplex acquisition this is being increased to four with the creation of a Security division to address the markets of product and brand security.

ENERGY

This division is focused on the development of Envirox™ diesel fuel borne catalyst which reduces fuel consumption and exhaust emissions. Following the adoption of the product by Stagecoach in 2004, Envirox™ was successfully rolled-out across their bus fleets in the UK and New Zealand during the first half of 2005. Subsequent to the roll-out, Stagecoach sold their NZ operations to Infratil who have continued to purchase the product.

In the Asia Pacific region the product was incorporated into a premium branded diesel fuel which was launched in a limited number of retail forecourts in the Philippines in March. Resource constraints restricted commercial progress in the region and as a result the Energy division was restructured with Andrew Elphick assuming the role of Business Director for Energy and Stuart Anderson taking on the role of Strategy Director to focus on developing key relationships with major international oil, mining and fuel additive companies. In addition, an Asia Pacific office was set up in Singapore and the local team is being expanded to cover the increased commercial activity.

From left to right Christopher Moore, Charles Eld, Richard Clarke, Kevin Matthews



MATERIALS



SECURITY

The Energy division is currently focused on a specific trials programme and on securing commercial adoption by blue-chip lead customers to further build the credibility of the product and facilitate the sales cycle. Significant new trials have been initiated in the UK in bus and truck fleets and in February 2006, Rozzone, a subsidiary of Rubery Owen, was appointed as exclusive authorised reseller of Envirox™ in the UK. In addition, a number of trials are continuing in Philippines, Singapore, Australia and India.

Envirox™ was awarded the ICIS Publications Innovation Award for the innovation with the best environmental benefit. These prestigious awards are organised by ICIS Publications, part of the ICIS Group, which is the chemical publishing arm of Reed Business International. The awards were sponsored by Dow Corning which has a strong focus on innovation and R&D as part of its growth strategy.

In order to sell Envirox™ into the United States for on-highway use, a US EPA registration is required. Oxonica Energy made its submission regarding Envirox™ to the EPA in April 2005. The EPA responded with a request for further data in October 2005 and it is anticipated that this additional data will be submitted to the EPA later this year. The EPA may require further testing before it potentially approves the product.

HEALTHCARE

The Healthcare division has two business lines, Optisol™ UV absorber for cosmetics and personal care products and SERS Nanotags diagnostics for medical applications.

Optisol™ was launched in store by Boots in its own brand Soltan facial sun defence cream, in April 2005. Sales resulted in repeat orders for Optisol™ and Boots is incorporating it into additional product lines including a new product, Soltan Once, launched in March 2006.

During 2005, Oxonica focused on increasing the awareness of Optisol™ within the major cosmetics houses, and a large number of cosmetic companies progressed their evaluation of Optisol™. Key distributor agreements were established with Mitsui for Japan and Hanjoo for South Korea. As a result, further orders have been received through our distributor in Korea following a successful approval of the product. In addition, Optisol™ was nominated for 'best new technology' at the HBA awards ceremony in New York in September 2005.

Following the successful launch of Optisol™ with Boots and the positive feedback from the market and the companies evaluating it, Oxonica signed an exclusive agreement with Croda International plc in December 2005 to distribute Optisol™ into the international personal care market. Croda will provide its sales channel and technical expertise to broaden the commercialisation of Optisol™ across a wider customer base, with an initial focus on the Americas, Europe and Australia. Oxonica has since been working closely with Croda to provide technology transfer, product development and marketing support to Croda's worldwide sales teams.

Optisol™ is a good example of the implementation of Oxonica's business model. Oxonica secures a strong intellectual property position and early customer validation and then partners with manufacturing companies, in this case Umicore, and industry specific sales and marketing organisations to rapidly broaden the sales channel and access the global market.

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

08

Oxonica Healthcare is also engaged in developing detection technologies for the clinical diagnostics and life science markets. Healthcare provision is under intense cost pressure worldwide. One strategy to offset the relentless increases in the cost of provision while still maintaining or improving the level of care is through the use of better information delivered to the medical practitioner in real time. Oxonica's vision for clinical diagnostics is to enable central laboratory performance at the point of care by providing technology which enables high information content, robust and accurate tests in a simple device.

Oxonica's technology is based on nanomaterials that amplify optical signals from particular molecules enabling their use in ultrasensitive tags for the simultaneous detection of different disease markers. During 2005, the Company made significant progress in the development of the technology supported by an exceptional SMART award from the DTI and in collaboration with Strathclyde University. The opportunity arose to accelerate the commercialisation of this technology by combining this programme with similar work carried out by Nanoplex Technologies Inc, in the USA.

On 20 December 2005 we announced that the Group had signed an agreement to acquire Nanoplex and this acquisition was completed shortly after the year end. Nanoplex, now renamed Oxonica Inc, has a highly complementary intellectual property portfolio and established relationships with a number of major companies in the biodiagnostics market. In addition, the company's president, Dr Michael Natan, is an acknowledged innovator in this sector.

Oxonica showcased the first product based on this technology in February 2006, a quantitative, multiplexed lateral flow immunoassay (the format routinely used for home pregnancy tests). Oxonica is currently looking for a commercial partner to help co-develop this technology over the next three to five years into a product format with regulatory approval.

MATERIALS

I reported last year that initial data had indicated that the Group's UV protection technology could also provide benefits in stabilising plastics and coatings from UV induced damage. During 2005 development work continued in this area, in partnership with the Universities of Warwick and Loughborough and the results so far have been encouraging. The market potential for products in this area is considerable, but the markets are diverse and the Group's strategy will include licensing its technology to companies who have application expertise in the various sectors.



Stagecoach Group adopted Envirox™ across their entire UK fleet



Boots' Soltan Once contains Optisol™

SECURITY

I indicated in last year's report that the marker technology being developed under the biodiagnostics programme had the potential for commercial application in security markers. This potential was confirmed during the acquisition of Nanoplex and subsequently the security operations of both companies have been combined and a new Security division is being established to pursue a number of commercial applications for nanotechnology based marker systems for anti-counterfeiting and brand protection.

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 practices related to the production and use of nanomaterials such as the European Union consortium Nanosafe, of which it is a founding member. In many cases Oxonica has commissioned toxicology and environmental studies which go beyond what is required by the regulatory authorities in order to confirm the safety of its products to the satisfaction of the Board.

Operations

The Group finished 2005 with 38 employees and following the acquisition of Nanoplex now has 56 employees.

Throughout 2005, Oxonica has been working on upgrading its systems and processes and a new accounting software package was successfully implemented during the first half of the year. In the first half, the Company began working towards obtaining ISO 9001 certification for its UK facilities and I am delighted to report that this was successfully awarded in February 2006 following accreditation by Moody International.

K R K MATTHEWS
CHIEF EXECUTIVE OFFICER

Over the year cash increased by £4,466,000.

Revenues
£000



Research and development expenditure
£000



Employees



10 Analysis of results

Sales for the year were up 219% to £1,247,000 (2004: £391,000), whilst gross profit was up 134% to £661,000 (2004: £282,000). The majority of the sales revenue consisted of Envirox™ supplied to Stagecoach in the UK and New Zealand as well as into the Philippines and India and to other potential customers for trial and evaluation purposes. Significant sales of Optisol™ to Boots were booked in the first half to support the 2005 summer season, while second half sales were small, being principally for evaluation purposes. Sales have increased since the year-end for the 2006 season. This weighting of Optisol™ sales towards the first half of the year resulting from the seasonal manufacture of sunscreens is expected to reduce in future years as the product is incorporated into a broader range of cosmetics. The income received under the DTI SMART grant for the biodiagnostics project and also under the European funded Nanosafe grant has not been included in sales and is shown as other operating income in the profit and loss account.

The operating loss for the year was £4,398,000 (2004: £3,207,000). The higher loss resulted from an increase in development, sales and marketing and administration costs, which was driven by the support costs associated with the Envirox™ roll-out to Stagecoach, the relocation of the Group's Asia Pacific

operations to Singapore and generally increased commercialisation efforts in connection with both Envirox™ and Optisol™. Development, sales and marketing and administration costs also includes £45,000 of reorganisation expenses associated with the creation of Oxonica plc as the new holding company for the Group, in preparation for the AIM flotation.

The net interest credit for the year of £71,000 (2004: £85,000 net charge) results from the interest earned on the funds raised during the year and from the fact that the investor loans were repaid in July at the same time as the placing.

There is a £93,000 tax charge for the year (2004: £131,000 tax credit) due to an adjustment to the research and development tax credits claimed in prior years. The Group has substantial tax losses available for carry forward against future profits.

Cash balances stood at £5,066,000 at the year-end (2004: £600,000). Over the year cash increased by £4,466,000, with an outflow from operations of £4,795,000 and capital expenditure of £410,000 offset by a net cash inflow from financing of £9,596,000, which included £9,869,000 raised through share issues in February and July 2005, net of issue costs and the conversion of shareholder loans into equity.

Group reorganisation, fundraising and admission to AIM

Following the capital restructuring which was approved by shareholders in 2004 the Group completed a successful rights issue and employee fundraising in January 2005, which raised £2.6 million, net of expenses. This fundraising strengthened the balance sheet and enabled the Group to pursue its plans for an AIM flotation.

On 16 June 2005, in preparation for the flotation on AIM, Oxonica Limited, the previous Group holding company, changed its name to Oxonica Materials Limited and on the same day, its entire issued share capital was acquired by Oxonica plc, by means of a share for share exchange and Oxonica plc became the ultimate holding company of the Group. At the same time as the share for share exchange, Oxonica plc completed a 75 for 1 bonus issue of shares.

On 20 July 2005, the shares in Oxonica plc were admitted to trading on AIM. On admission to AIM, the shareholder loans in Oxonica Materials Limited were either converted into ordinary shares in Oxonica plc or repaid in cash at the discretion of the shareholder who made the loan. £2.0 million was converted into equity with the remaining £0.2 million repaid in cash. Also on admission to AIM the Company completed a private placing, raising £7.1 million, net of expenses, from both existing and new investors. The placing and

From left to right Nicola Slater, Janice Herbert,
Danielle Slater, Richard Clarke



admission to AIM raised additional capital for the Group's development, improved its profile internationally with customers and suppliers and has assisted in the recruitment, retention and incentivisation of employees.

The overall net impact of the share capital changes in the year was to reduce the shareholders' deficiency by £11,826,000 although this was partly offset by the retained losses for the year of £4,420,000.

Acquisition of Nanoplex Technologies Inc

On 8 February 2006, Oxonica plc completed the acquisition of Nanoplex Technologies Inc based in California, USA. The maximum consideration payable is 7,516,442 fully paid ordinary shares in Oxonica plc which represents approximately 17% of the equity of the enlarged Group. 5,426,432 new ordinary shares were issued at completion at which time they had a market value of £9.12 million. Deferred consideration of up to 1,338,336 new ordinary shares may be issued during the 18 months after completion depending on the achievement of revenue milestones and a further 751,644 shares will be issued 12 months after completion provided there are no claims under Nanoplex's representations and warranties. The directors believe that it is likely that the revenue targets will be met and that no claims will arise under the representations and warranties. The tangible net assets of Nanoplex Technologies Inc as the date of acquisition amounted to US\$550,000.

International Financial Reporting Standards

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

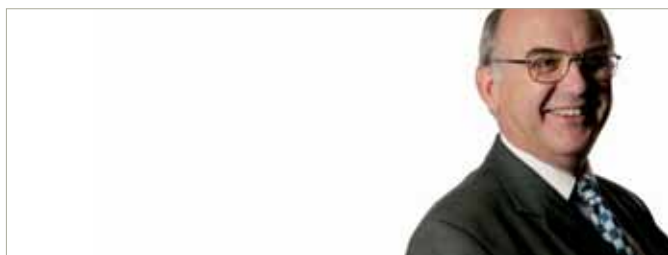
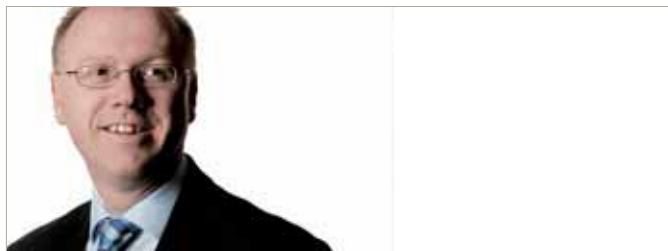
The Group has put in place a timetable to carry out an initial impact assessment of the areas likely to be affected by the adoption of IFRS and a plan for its subsequent convergence with current United Kingdom GAAP. At this stage the Group has not yet completed the work necessary to identify with sufficient certainty all the accounting policy differences that may arise from the transition but will provide details to shareholders as the relevant standards become finalised.

Accounting standards and policies

This annual report complies with all accounting standards issued by the Accounting Standards Board applicable to financial statements at 31 December 2005. No new accounting standards were applied during the year. Oxonica's accounting policies are set out on pages 25 and 26 and are consistent with previous years.

R J G CLARKE
CHIEF FINANCIAL OFFICER

Board of Directors



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

12

Christopher Moore

MA FCA (age 61)
EXECUTIVE CHAIRMAN

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

Kevin Matthews

MA DPhil CChem CSi MRSC MACS (age 42)
CHIEF EXECUTIVE OFFICER

Kevin was appointed Chief Executive Officer of Oxonica in April 2001. He joined Oxonica from Rhodia Consumer Specialties Limited and previously held roles with Albright & Wilson UK Limited and ICI Chemicals & Polymers. He has a D Phil in organic chemistry. Kevin was appointed as a non-executive director of Elementis plc in February 2005.

Richard Clarke

BSc FCA MBA (age 50)
CHIEF FINANCIAL OFFICER

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

Charles Eld

BSc CMBII (age 54)
NON-EXECUTIVE DIRECTOR

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



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

Martin Hagen

FCA (age 54)
 NON-EXECUTIVE DIRECTOR

Martin is a Chartered Accountant and was formerly Office Senior Partner of Deloitte's Bristol office and Partner in Charge of the West of England audit practice. He is an elected Member of Council of the Institute of Chartered Accountants in England and Wales and Chairman of the Institute's Professional Standards Board. Martin is a member of the Board of the Institute and an elected member of its Nominations Committee.

Bob Pettigrew

(age 61)
 NON-EXECUTIVE DIRECTOR

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

Gordon Ringold

PhD (age 55)
 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.

Ed Weeks

(age 59)
 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.

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 2005.

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 2005 through regular shareholder communications, monthly meetings with all employees, engagement in public consultation activities relating to nanotechnology, such as Nanojury and a number of media appearances, and active participation in government initiatives, including being an invited speaker to the UK/Japan working group on nanotechnology regulations and ethical considerations. To further promote communication within the fledgling nanotechnology industry, 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 5% was demonstrated, which if applied across the entire UK diesel market is estimated to give a reduction of over 2 million tonnes of carbon dioxide emissions annually. Product trials carried out in Asia have demonstrated higher levels of fuel saving.

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 directors present their report and the audited financial statements for the year ended 31 December 2005.

Activities

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

Review of developments and future prospects

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

Dividends

The directors do not recommend the payment of a dividend.

Directors

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

	Ordinary shares of 1p each 31.12.05 No.	Ordinary shares of 1p each 31.12.04 No.
C M Moore	131,483	-
Dr K R K Matthews	46,968	45,600
R J G Clarke	7,636	-
C J Eld	-	-
B Fairman (resigned 17 June 2005)	-	-
R M Pettigrew	-	-
E Weeks	-	-

The number of ordinary shares as at 31 December 2004 has been adjusted for the 75 for 1 bonus issue of shares on 16 June 2005.

Supplier payment policy

It is the Group's policy to agree payment terms in advance with individual suppliers at the outset of the contract and abide by those terms. The Group's average number of days purchases outstanding in respect of trade creditors at 31 December 2005 was 41 days (2004: 40 days).

Political and charitable donations

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

Substantial shareholders

So far as is known to the Company, the only persons who, directly or indirectly, were interested in three per cent, or more of the Company's share capital as at 27 March 2006 were as follows:

Shareholder	Number of shares	% of issued share capital
R Farleigh	7,028,519	16.80
BASF Venture Capital	6,642,711	15.88
Foresight Technology VCT	5,683,108	13.59
TriVest VCT	5,115,947	12.23
Alavita, Inc	3,066,649	7.33
Stagecoach Bus Holdings Limited	2,035,485	4.87
Seighford Investment Co	1,295,488	3.10

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.

Auditors

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

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



R J G CLARKE
COMPANY SECRETARY

Statement of Directors' Responsibilities

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and the Group as at the end of the financial year and of the profit or loss of the Group for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- comply with applicable accounting standards subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company and the Group will continue in business.

The directors are responsible for maintaining proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for the system of internal control for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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



R J G CLARKE
COMPANY SECRETARY

Directors' Remuneration Report

Remuneration Committee

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

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

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

Remuneration Policy

The objective of the policy is that executive directors 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 consists of basic salary, bonus, share option schemes, 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, having regard to key business issues. The Committee has discretion to make additional payments if circumstances justify them. Bonuses are not pensionable.

Share Option Schemes

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.

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 Company operates a defined contribution pension scheme for the benefit of executive directors and employees. 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 twelve months' notice by the Company.

Directors' Remuneration Report

- continued

Directors' remuneration for the year ended 31 December 2005

Director	Salary £	Fees £	Bonus £	Benefits £	Pension £	Total 2005 £	Total 2004 £
Executive Directors							
C M Moore	70,500	4,500	28,750	-	-	103,750	59,094
K R K Matthews	120,000	-	40,000	1,985	5,890	167,875	176,628
R J G Clarke	88,400	-	21,050	1,883	4,339	115,672	50,919
Non-Executive Directors							
C J Eld	19,474	-	-	-	-	19,474	15,000
B W Fairman (resigned 17/06/05)	-	7,500	-	-	-	7,500	15,000
R M Pettigrew	13,487	2,500	-	-	-	15,987	7,644
E Weeks	5,248	15,000	-	-	-	20,248	11,250
P Grubstein (resigned 04/05/04)	-	-	-	-	-	-	6,250
	317,109	29,500	89,800	3,868	10,229	450,506	341,785

18

Of the amounts payable to C M Moore, the fees of £4,500 and £2,625 of the bonus was paid to TriVest VCT, a company of which he is a director and which holds 5,115,947 shares in Oxonica plc.

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 2005	Effect of 75 for 1 Bonus Issue	Cancelled	Granted	As at 31 December 2005	Exercise price	Date from which exerciseable	Expiry date
C M Moore	-	-	-	487,008	487,008	£0.447	15/07/05	29/03/15
	-	-	-	243,504	243,504	£0.447	15/07/08	29/03/15
K R K Matthews	865	64,875	(65,740)	725,344	725,344	£0.447	15/07/05	29/03/15
	-	-	-	659,680	659,680	£0.447	15/07/08	29/03/15
R J G Clarke	-	-	-	287,432	287,432	£0.447	15/07/05	29/03/15
	-	-	-	287,432	287,432	£0.447	15/07/08	29/03/15

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

No directors exercised any options during the year.

The Board supports the principles of good governance set out in the Combined Code. Although not required to comply with the disclosures of the New Combined Code, published in July 2003, 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 three executive and five non-executive directors.

The Board meets regularly and has a formal schedule of matters referred to it for decision; these include formulating the Group's corporate strategy, monitoring financial performance, approval of major items of capital expenditure, share capital issues, governance issues, treasury and risk management policies and executive appointments. Prior to each meeting the Board is provided with appropriate strategic and financial information, 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 four non-executive directors, and was under the chairmanship of Charles Eld until January 2006 when Martin Hagen was appointed chairman. The Committee meets at least twice 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 four non-executive directors, under the chairmanship of Charles Eld and meets periodically as required. The Committee reviews the performance of the executive directors, sets the scale and structure of their remuneration and reviews the basis for their service agreements with due regard to the interests of shareholders. Specifically, the Remuneration Committee reviews and approves the executive directors' six-monthly performance targets and bonus payments. The Committee also reviews and approves the remuneration policy for senior employees.

The Board has not established a separate Nominations Committee. The responsibility for nominations rests with the Remuneration Committee.

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) establishing a Risk Committee to carry out 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 so that the Board may 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.

Going concern

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

Independent Auditors' Report

Report of the independent auditors to the members of Oxonica plc

We have audited the Group and parent Company financial statements of Oxonica plc for the year ended 31 December 2005 which comprise the Consolidated Profit and Loss Account, the Consolidated and Company Balance Sheets, the Consolidated Cash Flow Statement and the related notes. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Directors' Report and the financial statements in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities on page 16.

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

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

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

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's and Company's circumstances, consistently applied and adequately disclosed.

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

Opinion

In our opinion the financial statements:

- give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the Group's and the parent company's affairs as at 31 December 2005 and of the Group's loss for the year then ended;
- and have been properly prepared in accordance with the Companies Act 1985.

KPMG LLP
Arlington Business Park
Theale
Reading RG7 4SD
United Kingdom
CHARTERED ACCOUNTANTS
REGISTERED AUDITOR

Consolidated Profit and Loss Account

For the year ended 31 December 2005

	Note	2005 £'000	2004 £'000
Group turnover	2	1,247	391
Cost of sales		(586)	(109)
Gross profit		661	282
Development, sales and marketing and administration costs		(5,300)	(3,664)
Other operating income		241	175
Operating loss	3	(4,398)	(3,207)
Interest receivable	5	157	63
Interest payable	5	(86)	(148)
Loss on ordinary activities before taxation		(4,327)	(3,292)
Tax (charge)/credit on loss on ordinary activities	6	(93)	131
Loss on ordinary activities after taxation and retained for the year		(4,420)	(3,161)
Basic and fully diluted loss per share	8	(16.00)p	(81.43)p

The above results all derive from continuing operations.

The Group has no recognised gains or losses other than those passing through the profit and loss account. There is no difference between the historical cost profit and that reported in the profit and loss account.

Balance Sheet

At 31 December 2005

	Note	2005 Group £'000	2005 Company £'000	2004 Group £'000	2004 Company £'000
Fixed assets					
Intangible assets	9	173	-	198	-
Tangible assets	10	734	-	568	404
Investments	11	-	296	-	-
		907	296	766	404
Current assets					
Stock	12	412	-	159	-
Debtors	13	901	3,791	502	356
Cash at bank and in hand		5,066	5,028	600	600
		6,379	8,819	1,261	956
Creditors: amounts falling due within one year	14	(1,119)	(228)	(1,320)	(1,057)
Net current assets/(liabilities)		5,260	8,591	(59)	(101)
Total assets less current liabilities		6,167	8,887	707	303
Creditors: amounts falling due after more than one year	15	(168)	-	(2,481)	(2,441)
Net assets (liabilities)		5,999	8,887	(1,774)	(2,138)
Capital and reserves					
Called-up share capital	17	368	368	1	1
Share premium account	18	9,499	9,499	-	7,626
Merger reserve	18	9,953	-	7,626	-
Profit and loss account	18	(13,821)	(980)	(9,401)	(9,765)
Equity shareholders' funds/(deficiency)		5,999	8,887	(1,774)	(2,138)

These financial statements were approved by the Board of Directors on 27 March 2006

Signed on behalf of the Board of Directors



DR K R K MATTHEWS
R J G CLARKE

Consolidated Cash Flow Statement

For the year ended 31 December 2005

	Note	2005 £'000	2004 £'000
Net cash outflow from operating activities	19	(4,795)	(3,345)
Returns on investments and servicing of finance			
Interest received		157	63
Interest paid		(82)	(148)
Net cash outflow from returns on investments and servicing of finance		75	(85)
Taxation			
R&D tax credit		-	109
Capital expenditure and financial investment			
Purchase of tangible fixed assets		(410)	(470)
Net cash outflow from capital expenditure and financial investment		(410)	(470)
Net cash outflow before management of liquid resources		(5,130)	(3,791)
Management of liquid resources			
Increase in term deposits		(5,000)	-
Financing activities			
Issue of ordinary share capital		12,191	3,926
New loans advanced		-	250
Repayment of loans		(2,457)	(13)
(Decrease)/increase in finance leases		(138)	195
Net cash inflow from financing		9,596	4,358
(Decrease)/increase in cash	20	(534)	567

Notes to the Accounts

For the year ended 31 December 2005

1. Accounting policies

Basis of accounting

The financial statements have been prepared under the historical cost convention and in accordance with applicable accounting standards, which have been applied on a consistent basis during the year under review. The principal accounting policies of the Group have remained unchanged from the previous year and are set out below.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and all Group undertakings. As a consolidated profit and loss account is published, a separate profit and loss account for the parent company is omitted from the Group financial statements by virtue of section 230 (3) of the Companies Act 1985.

During the year, a reconstruction of the Group took place. Merger accounting has been adopted to account for the reconstruction. With merger accounting the carrying values of the assets and liabilities of the parties to the reconstruction are not required to be adjusted to fair value on consolidation.

The Company comparative balance sheet figures for 2004 presented in these financial statements relate to the holding company at that time, Oxonica Limited.

Turnover

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

Intangible fixed assets

Technology licences are included at cost and are amortised over their useful economic life which is the lower of 10 years or the remaining life of the associated patents.

Tangible fixed assets

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

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

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

Investments

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

Stocks

Stocks are stated at the lower of cost and net realisable value, after making due allowance for obsolete and slow moving items. In determining the cost of raw materials, consumables and goods purchased for resale, the FIFO method is used. For work in progress and finished goods, cost is taken as production cost, which includes an appropriate proportion of attributable overheads.

Cash and liquid resources

Cash, for the purpose of the cash flow statement, comprises cash in hand and deposits repayable on demand, less overdrafts payable on demand.

Liquid resources are current asset investments which are disposable without curtailing or disrupting the business and are either readily convertible into known amounts of cash at or close to their carrying values or traded in an active market. Liquid resources comprise term deposits of less than one year (other than cash).

Leasing and hire purchase commitments

Assets held under finance leases and hire purchase contracts are capitalised at their fair value on the inception of the leases and depreciated over the shorter of the period of the lease and the estimated useful economic lives of the assets. The capital elements of future obligations under the leases and hire purchase contracts are included as liabilities in the balance sheet.

The interest elements of the rental obligations are charged to the profit and loss account over the periods of the leases and hire purchase contracts in proportion to the capital amount outstanding.

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

Pension costs

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

Taxation

The charge for taxation is based on the profit for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes.

Notes to the Accounts

- continued

Deferred taxation

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

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

Research and development

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

Foreign currencies

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

The balance sheets of overseas subsidiary undertakings are translated at the closing exchange rates. Profit and loss accounts of such undertakings are consolidated at the average rates of exchange during the year. Gains and losses arising on these translations are taken to reserves, net of exchange differences arising on related foreign currency borrowings.

Government grants

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

26

2. Segmental information

Turnover is attributable to the principal activity of the Group.

A geographical analysis of turnover by destination is given below:

	2005 £'000	2004 £'000
UK	947	343
Europe	2	24
Rest of the World	298	24
	1,247	391

All the Group turnover originated from the UK and the Group net assets outside the UK are not material.

3. Operating loss

	2005 £'000	2004 £'000
Operating loss is arrived at after charging/(crediting):		
Amortisation of intangible fixed assets	25	25
Depreciation of tangible fixed assets:		
- Owned assets	122	82
- Leased assets	122	109
Auditors' remuneration:		
- Group - audit	44	3
- other services	34	26
- Company - audit	6	9
Research and development expenditure	966	726
Operating lease rentals	4	3
Exchange (gains)/losses	10	1

4. Staff costs

	2005 £'000	2004 £'000
Staff costs including directors:		
Wages and salaries	1,580	1,354
Social security costs	189	138
Other pension costs	55	36
	1,824	1,528

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

	2005 No.	2004 No.
Technical staff	14	14
Sales and marketing	9	6
Management and administration	10	8
	33	28

5. Interest

	2005 £'000	2004 £'000
Interest receivable:		
Bank interest	157	63
Interest payable:		
Finance charges under finance lease and hire purchase contracts	(42)	(23)
Investor loans	(32)	(116)
Other loans	(12)	(9)
	(86)	(148)

6. Taxation

	2005 £'000	2004 £'000
(a) Analysis of charge/(credit) in year		
Current tax:		
Research and development tax credit	(12)	(131)
Adjustments in respect of prior years provision:		
- Over provision of research and development tax credit in prior year	105	-
Tax charge/(credit) on loss on ordinary activities	93	(131)

(b) Factors affecting tax charge/(credit) for year

The current tax charge for the period is higher (2004: higher) than the standard rate of corporation tax applicable to smaller companies in the UK (19%, 2004: 19%). The differences are explained below.

	2005 £'000	2004 £'000
The current		
Loss on ordinary activities before taxation	(4,327)	(3,292)
Corporation tax at 19% based on the loss for the year	(822)	(625)
Effects of:		
- Expenses not deductible for tax purposes	25	29
- Depreciation for the year in excess of capital allowances	13	15
- Research and development tax credit	(12)	(131)
- Increase in tax losses	784	581
- Adjustments in respect of prior year	105	-
Current tax charge/(recovery) for the year (see (a) above)	93	(83)

At 31 December 2005 the Group had tax losses, subject to the agreement of HM Revenue and Customs of approximately £11.6 million (2004: £7.4 million) available for offset against future taxable profits of the same trade.

Notes to the Accounts

- continued

6. Taxation *continued*

(c) Provision for deferred taxation

The Group's and the Company's provision for deferred tax, calculated under the liability method at 19%, is £ nil (2004: £ nil).

A deferred tax asset has not been recognised in respect of the tax losses as, based on detailed budgets, the Group does not anticipate taxable profits to arise within the immediate future. In the medium term it is anticipated that the Group will generate profits and that the losses will then be recovered. The Group estimates that the value of the deferred asset not recognised, measured at a rate of 19%, is £2.2 million (2004: £1.4 million).

7. Profit of parent company

As permitted by Section 230 of the Companies Act 1985, the profit and loss account of the parent Company is not presented as part of these accounts. The parent Company's loss for the financial year amounted to £980,141 (2004: £3,086,000).

8. Loss per ordinary share

Basic loss per share is calculated by dividing the earnings attributable to ordinary shareholders by the weighted average number of ordinary shares during the year. Options over 3,669,563 Ordinary Shares (2004: 70,984) would have formed part of the dilutive calculation but were not included because of the continuing loss.

	2005 £'000	2004 £'000
Basic and diluted loss attributable to ordinary shareholders	(4,420)	(3,161)
	<i>No.</i>	<i>No.</i>
Weighted average number of ordinary shares	27,631,595	3,881,700
Loss per share – basic and diluted	(16.00)p	(81.43)p

On 16 June 2005 Oxonica plc completed a 75 for 1 bonus issue of shares which increased the number of ordinary shares in issue from 330,319 to 25,104,244. For the purpose of the earnings per share calculation, the comparative figures have been adjusted to reflect the impact of the bonus issue.

9. Intangible fixed assets

	<i>Licences £'000</i>
Group	
Cost	
At 1 January and 31 December 2005	250
Accumulated amortisation	
At 1 January 2005	52
Charge for the year	25
At 31 December 2005	77
Net book value	
At 31 December 2005	173
At 31 December 2004	198

The above licence relates to the patent licence from Neuftec Limited that was acquired on 7 December 2001.

10. Tangible fixed assets

	<i>Short leasehold improvements £'000</i>	<i>Plant, machinery and laboratory equipment £'000</i>	<i>Fixtures, fittings and computer equipment £'000</i>	<i>Total £'000</i>
The Group				
Cost				
At 1 January 2005	86	683	242	1,011
Additions	-	358	52	410
At 31 December 2005	86	1,041	294	1,421
Depreciation				
At 1 January 2005	41	306	96	443
Charge for the year	19	180	45	244
At 31 December 2005	60	486	141	687
Net book value				
At 31 December 2005	26	555	153	734
At 31 December 2004	45	377	146	568

The net book value of short leasehold improvements includes £4,599 (2004: £7,226), the net book value of plant, machinery and laboratory equipment includes £163,004 (2004: £264,304) and the net book value of fixtures, fittings and computer equipment includes £98,054 (2004: £114,847) in respect of assets held under finance leases.

	<i>Short leasehold improvements £'000</i>	<i>Plant, machinery and laboratory equipment £'000</i>	<i>Fixtures, fittings and computer equipment £'000</i>	<i>Total £'000</i>
The Company				
Cost				
At 1 January 2005	80	443	207	730
Transfers (intra-Group)	(80)	(443)	(207)	(730)
At 31 December 2005	-	-	-	-
Depreciation				
At 1 January 2005	40	214	72	326
Transfers (intra-Group)	(40)	(214)	(72)	(326)
At 31 December 2005	-	-	-	-
Net book value				
At 31 December 2005	-	-	-	-
At 31 December 2004	40	229	135	404

Notes to the Accounts

- continued

11. Fixed asset investments

	2005 £'000	2004 £'000
The Company		
Cost and net book value	296	-
		£'000
Reconciliation of cost and net book value:		
At 1 January 2005		-
Effect of bonus share issue		251
Expenses capitalised		45
At 31 December 2005		296

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

	<i>Country of incorporation</i>	<i>Principal activity</i>
Oxonica Materials Limited (formerly Oxonica Limited)	England	Development and commercialisation of advanced nanomaterials
Oxonica Energy Limited (formerly Cerulean International Limited)	England	Development, sales and marketing and supply of fuel additive products
Oxonica Healthcare Limited	England	Development, sales and marketing and supply of cosmetics and healthcare products
Oxonica Overseas Holdings Limited	England	Holding company
Oxonica Singapore Pte Limited*	Singapore	Sales and marketing of fuel additive products
Oxonica (HK) Limited (formerly Cerulean Asia Pacific Limited)*	Hong Kong	Sales and marketing of fuel additive products

* Owned by Oxonica Overseas Holdings Limited

12. Stocks

	Group £'000	2005 Company £'000	Group £'000	2004 Company £'000
Raw materials and consumables	168	-	59	-
Work in progress and finished goods	244	-	100	-
	412	-	159	-

13. Debtors

	Group £'000	2005 Company £'000	Group £'000	2004 Company £'000
Trade debtors	343	-	113	20
Amounts owed by Group undertakings	-	3,514	-	-
R&D tax credit	36	-	131	78
VAT recoverable	104	109	18	18
Other debtors	39	-	129	129
Prepayments and accrued income	379	168	111	111
	901	3,791	502	356

14. Creditors: amounts falling due within one year

	Group £'000	2005 Company £'000	Group £'000	2004 Company £'000
Bank loans and overdrafts	12	-	12	12
Other loans	-	-	245	-
Amounts due under hire purchase and finance leases	101	-	138	120
Trade creditors	443	-	415	415
Other taxation and social security costs	47	-	39	39
Other creditors	10	10	2	2
Accruals and deferred income	506	218	469	469
	1,119	228	1,320	1,057

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

	Group £'000	2005 Company £'000	Group £'000	2004 Company £'000
Bank loans	68	-	80	80
Amounts due under hire purchase and finance leases	100	-	201	161
Investor loans	-	-	2,200	2,200
	168	-	2,481	2,441

16. Borrowings

	The Group	
	2005 £'000	2004 £'000
Bank loans and overdrafts	80	92
Investor loans	-	2,200
Other loans	-	245
	80	2,537
Borrowings are repayable as follows:		
Within one year	12	257
Between one and five years	68	2,280
	80	2,537

	The Group	
	2005 £'000	2004 £'000
Hire purchase and finance lease repayments		
Hire purchase and finance lease repayments are payable as follows:		
Within one year	101	138
Between one and five years	100	201
	201	339

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

The investor loans were converted into ordinary shares in Oxonica plc or repaid in cash on the Company's admission to AIM on 20 July 2005, dependent upon the discretion of the shareholder who made the loan. The total converted into equity was £1,964,518 with the remaining balance of £235,414 being repaid in cash.

Other loans comprised a loan from Stagecoach plc to Oxonica Energy Limited, which was being amortised against deliveries of Envirox™. On 5 July 2005, Stagecoach Bus Holdings Limited elected to exercise its first option in accordance with the option agreements dated 22 September 2004 and 5 July 2005. Under this option, Stagecoach Bus Holdings Limited received 991,644 ordinary shares in the Company for a consideration of £346,855, part of which was satisfied by conversion of the outstanding balance of the loan as at that date.

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

Notes to the Accounts

- continued

17. Share capital

	2005		2004	
	Number of shares	£	Number of shares	£
Authorised				
Ordinary shares of £0.01 each	500,000,000	5,000,000	1,425,328	14,253
'B' ordinary shares of £0.01 each	-	-	30,250	303
'D' ordinary shares of £0.01 each	-	-	44,422	444
	500,000,000	5,000,000	1,500,000	15,000
Allotted, called up and fully paid				
Ordinary shares of £0.01 each	36,805,329	368,053	8,466	85
'B' ordinary shares of £0.01 each	-	-	16,739	167
'D' ordinary shares of £0.01 each	-	-	25,870	259
	36,805,329	368,053	51,075	511

Oxonica plc was incorporated on 14 February 2005 under the original name of Hamsard 2803 plc. It subsequently changed its name to Oxonica plc on 16 June 2005 and became incorporated under that name. At the date of its incorporation, the authorised share capital of the Company was £50,000,000 divided into 500,000,000 ordinary shares of £0.10 each. On 16 June 2005 the authorised share capital was reduced to £5,000,000 divided into 500,000,000 ordinary shares of £0.01 each.

On 11 February 2005 Oxonica Limited reorganised its share capital, with all 'B' and 'D' ordinary shares reclassified as ordinary shares accordingly. A rights issue and employee fundraising occurred, raising £2.6 million and this resulted in total ordinary share capital after the reorganisation and fundraising of £3,303 issued at a nominal value of £0.01.

On 16 June 2005 the shareholders passed a resolution for Oxonica Limited to change its name to Oxonica Materials Limited. The shareholders of Oxonica Materials Limited then entered into a share for share exchange with Oxonica plc such that Oxonica plc owned 100% of the ordinary share capital of Oxonica Materials Limited. At the same time as the share for share exchange, Oxonica plc completed a 75 for 1 bonus issue of shares which increased the number of ordinary shares in issue from 330,319 to 25,104,244 with a nominal value of £0.01.

On 5 July 2005, Stagecoach Bus Holdings Ltd exercised its first option in accordance with the option agreements dated 22 September 2004 and 5 July 2005. Under this option, 991,644 ordinary shares with a nominal value of £0.01 were issued by the Company.

On 20 July 2005, the shares in Oxonica plc were admitted to trading on AIM. On admission to AIM £1,964,518 of the shareholder loans in Oxonica Materials Limited were converted into ordinary shares in Oxonica plc. Also on admission to AIM the Company completed a placing, raising £8.3 million in exchange for issuing ordinary shares at a nominal value of £0.01 each to both existing and new investors. The total ordinary share capital after the placing and admission to AIM was £368,053.29 with a nominal value of £0.01 each.

The movement in ordinary shares during the year was:

	At 1 January 2005 No.	Shares Re-designated No.	Effect of 75 for 1 Bonus Issues	Shares Issued No.	At 31 December 2005 No.
Ordinary shares of £0.01 each	8,466	42,609	24,773,925	11,980,329	36,805,329
'B' ordinary shares of £0.01 each	16,739	(16,739)	-	-	-
'D' ordinary shares of £0.01 each	25,870	(25,870)	-	-	-
	51,075	-	24,773,925	11,980,329	36,805,329

Under the Company's share option scheme, employees held options at 31 December 2005 over unissued ordinary shares as follows:

Options held at 1 January 2005	Effect of 75 for 1 Bonus Issue.	Options granted	Options exercised	Options cancelled	Options held at 31 December 2005 No.	Exercise price	Earliest exercise date	Date options lapse
200	15,000	-	-	(15,200)	-	-	-	-
1,300	97,500	-	-	(98,800)	-	-	-	-
979	73,425	-	-	(74,404)	-	-	-	-
492	36,900	-	-	(37,392)	-	-	-	-
534	40,050	-	-	(40,584)	-	-	-	-
200	15,000	-	-	(15,200)	-	-	-	-
-	-	15,200	-	-	15,200	£0.01	15/07/05	21/11/12
-	-	7,980	-	-	7,980	£0.921	15/07/05	21/11/12
-	-	2,049,948	-	-	2,049,948	£0.447	15/07/05	29/03/15
-	-	1,900	-	-	1,900	£0.447	01/01/06	29/03/15
-	-	42,991	-	-	42,991	£0.447	01/01/06	15/07/15
-	-	37,392	-	-	37,392	£0.980	15/07/08	28/06/07
-	-	1,789,876	-	(10,032)	1,779,844	£0.447	15/07/08	29/03/15
-	-	85,981	-	-	85,981	£0.447	15/07/08	15/07/15
-	-	109,516	-	-	109,516	£0.650	15/07/08	15/07/15
3,705	277,875	4,140,784	-	(291,612)	4,130,752			

18. Reserves

	Share premium account £'000	Merger reserve £'000	Profit and loss account £'000	Total 2005 £'000	Total 2004 £'000
The Group					
At 1 January 2005	-	7,626	(9,401)	(1,775)	(2,539)
Merger reserve arising	-	2,327	-	2,327	3,925
Share issues	10,489	-	-	10,489	-
Issue costs	(990)	-	-	(990)	-
Loss for the year	-	-	(4,420)	(4,420)	(3,161)
At 31 December 2005	9,499	9,953	(13,821)	5,631	(1,775)

The merger reserve of £9,953,000 represents the difference between the nominal value of the shares in Oxonica Materials Limited received and the nominal value of the shares issued in Oxonica plc as a result of the share for share exchange and 75 for 1 bonus issue.

	Share premium account £'000	Profit and loss account £'000	Total 2005 £'000	Total 2004 £'000
The Company				
At 1 January 2005		(9,765)	(2,139)	(2,978)
Adjustment on Group reorganisation	(7,626)	9,765	2,139	-
Share issues	10,489	-	10,489	3,991
Issue costs	(990)	-	(990)	(66)
Loss for the year	-	(980)	(980)	(3,086)
At 31 December 2005	9,499	(980)	8,519	(2,139)

33

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

	2005 £'000	2004 £'000
Operating loss	(4,398)	(3,207)
Amortisation of intangible fixed assets	25	25
Depreciation charges	244	191
Loss on sale of fixed assets	-	7
(Increase) in stocks	(253)	(30)
(Increase) in debtors	(494)	(254)
Increase/(decrease) in creditors	81	(77)
Net cash outflow from operating activities	(4,795)	(3,345)

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

	2005 £'000	2004 £'000
Movement in cash	(534)	567
Change in liquid resources	5,000	-
New loans advanced	-	(250)
Inception of new finance leases	-	(282)
Loan repayments	2,457	13
Leases repaid	138	87
Change in net funds in year	7,061	135
Net funds at start of the year	(2,276)	(2,411)
Net funds at end of the year	4,785	(2,276)

Notes to the Accounts

- continued

21. Analysis of net funds

	<i>At 1 January 2005 £'000</i>	<i>Cash flow £'000</i>	<i>Other non-cash movements £'000</i>	<i>At 31 December 2005 £'000</i>
Cash in hand and at bank	600	(534)	-	66
Cash on short term deposit	-	5,000	-	5,000
Debt due within one year	(257)	257	(12)	(12)
Debt due after one year	(2,280)	2,200	12	(68)
Finance leases	(339)	138	-	(201)
	(2,276)	7,061	-	4,785

22. Financial instruments

The Group's financial instruments comprise hire purchase agreements and similar lease arrangements, short term bank deposits and cash. The Group has various other financial instruments, such as trade debtors and trade creditors that arise directly from its operations which have not been included in the following disclosures.

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

No derivatives were used by the Group during the period under review.

Interest rate risk

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

	<i>Assets floating rate £'000</i>	<i>Assets fixed rate £'000</i>	<i>Liabilities floating rate £'000</i>	<i>Liabilities fixed rate £'000</i>	<i>Total £'000</i>
At 31 December 2005					
Cash at bank	66	5,000	-	-	5,066
Finance leases	-	-	-	(201)	(201)
Other loans	-	-	(80)	-	(80)
Total	66	5,000	(80)	(201)	4,785
At 31 December 2004					
Cash at bank	281	319	-	-	600
Finance leases	-	-	-	(339)	(339)
Investor loans	-	-	-	(2,200)	(2,200)
Other loans	-	-	(92)	(245)	(337)
Total	281	319	(92)	(2,784)	(2,276)

The weighted average interest rate for the fixed rate liabilities is 16% and the weighted average period for which interest rates are fixed is 3 years.

Foreign currency risk

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

Liquidity risk

It is currently the Group's policy to finance its business by means of internally generated funds and new share capital. The cash position of the Group is regularly reviewed by the Board.

Fair values of financial assets and liabilities

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

23. Commitments under operating leases

At 31 December 2005 the Group had annual commitments under non-cancellable operating leases as set out below:

	<i>Land and buildings</i>	
	<i>2005</i>	<i>2004</i>
	<i>£'000</i>	<i>£'000</i>
Annual commitments which expire:		
Within one year	-	-
Between one and five years	106	106
	106	106

24. Capital commitments

The Group had the following capital commitments as at 31 December 2005:

	<i>2005</i>	<i>2004</i>
	<i>£'000</i>	<i>£'000</i>
Authorised and contracted for	Nil	Nil

25. Pension scheme

The Group operates a defined contribution pension scheme. The pension cost charge for the period represents contributions payable by the Group to the scheme and amounted to £55,000 (2004: £36,000). There were no outstanding contributions at the beginning or the end of the year.

26. Related party disclosures

As at 31 December 2005:

Christopher Moore owned 131,483 ordinary shares in Oxonica plc. Mr Moore is also a director of TriVest VCT plc, which held 5,115,947 ordinary shares in the Company.

Kevin Matthews owned 46,968 ordinary shares in Oxonica plc.

Richard Clarke owned 7,636 ordinary shares in Oxonica plc.

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

27. Post balance sheet events

On 8 February 2006, the Company completed the acquisition of Nanoplex Technologies Inc for a total consideration of up to 7,516,442 fully paid ordinary shares in Oxonica plc, representing approximately 17% of the equity of the enlarged Group. The initial consideration for the acquisition was satisfied as to £9.12 million by the issue of 5,426,432 new ordinary shares in the Company. Deferred consideration of up to 1,338,366 new ordinary shares may be issued during the 18 months after completion contingent on the achievement of revenue milestones together with 751,644 shares issued 12 months after completion subject to there being no claims under Nanoplex's representations and warranties.

Directors

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

Secretary

R J G Clarke

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Oxonica plc

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