**Oxonica Limited (formerly Oxonica PLC)**
Annual Report and Accounts 2010

Oxonica

## Directors' report

The directors present their report and audited financial statements for the year ended 31st December 2010.

## Principal activities

Oxonica Limited (formerly Oxonica plc) Group ("the Group") is an advanced materials business whose principal activity during the year was the development and commercialisation of nanomaterials. The Group now derives the majority of its income from licensing and patent assignment agreements following the disposal of its US-based division, Oxonica Materials Inc. ("OMI") in July 2010. The Group is headquartered in Haddenham, Bucks., UK. The principal activity of the Company is that of a holding company.

## Review of the business

Group turnover for the year was £4.23 million (2009: £3.26 million). Excluding discontinued operations, turnover was £0.17 million, a decrease of 93.7% over the previous year reported turnover (2009: £2.60 million), due primarily to the sale of OMI. Gross profit increased to £4.13 million (2009: £2.89 million). Other operating income (primarily grants) decreased to £120,000 (2009: £807,000). After a reduction in expenses to £4.61 million (2009: £9.69 million) which included £2.1 million profit on disposal of subsidiary (2009; £0.27 million) and impairment charges of £4.75 million (2009: £3.44 million), the operating loss was £0.36 million (2009: £5.99 million ). After financial income/expenses and taxation, the loss for the year was £0.76 million (2009: £6.36 million).

Cash and cash equivalents increased to £1.64 million at the year-end (2009: £0.40 million) due primarily to the profit on the sale of OMI of £2.1 million and after capital expenditure of £6,000 and repayment of loan premiums of £400,000.

## Key events

On 28th July 2010, the Group completed the sale of Oxonica Materials Inc. to Cabot Corporation for a cash consideration of US$5.2 million. After payment of staff retention bonuses and consideration for the employee share option scheme, the sale realised net proceeds of US$4 million.

At the Company's AGM held on 24 September 2010, the Board declared its intention to return cash to shareholders in the form of a return of capital, following re-registration of the Company as a private limited company. This process was completed with the approval of shareholders at separate meetings on 14th January 2011 and 23rd February 2011 and a payment of 1p per share was subsequently made to all shareholders.

In line with the Group's plan to reduce operating expenses to a minimum, Oxonica Inc., a US subsidiary, was closed on 23rd December 2010.

The key performance indicators for the Group during 2010 are shown below:

| | 2010 | 2009 |
|---|---|---|
| Turnover | £4,231,000 | £3,264,000 |
| Gross Profit | £4,133,000 | £2,888,000 |
| Gross Profit as % of Turnover | 97.7% | 88.5% |
| Loss before interest (EBIT) | (£359,000) | (£5,991,000) |
| EBIT as % of Turnover | (8.5%) | (184.5%) |

## Risks and uncertainties

The key business risks are set out below:

The current adverse economic conditions are likely to impact the Group's business, particularly if they are prolonged, resulting in a slower rate of adoption of the Group's products by licensed customers and greater pressure on pricing.

Receipt of royalties from the agreement with BD will depend on a lengthy period of product development, trial and evaluation. Delays in the development cycle or in product adoption or acceptance by customers could materially affect the Group's future operating results or financial condition. The Group has no control over any such delays.

The Group receives revenue and incurs costs in foreign currency which may affect the Group's competitiveness and/or profitability should there be an exchange rate movement.

Claims by others that the Group infringes on their intellectual property rights could be costly to defend and could harm the Group's business and licensing arrangements.

The Group has significant contractual agreements with third parties which are subject to interpretation and disputes may arise resulting in legal costs and an inability to enforce all its rights. There is no guarantee that the Group will be able to enforce all its rights under its agreements or arrangements with third parties and disputes may result.

The Group's strategy has been formulated in the light of the current regulatory and legal environment. However, due to the early nature of this industry the regulatory and legal environment may change both rapidly and significantly in the near term. Any such changes to, or increases in, regulation or legal requirements may have a material adverse effect on the Group

**Impairment charges**
During the year, provisions of £4.75 million (2009: £3.44 million) were made against goodwill and other intangible assets arising on acquisition of Oxonica Inc. (formerly Nanoplex Technologies Inc.) on 7 February 2006, following review of the estimated timescale for release by BD of products relevant to the Assignment and License Agreement. The movement in these provisions is detailed in Note 9 to the financial statements.

**Taxation**
The Group had a tax charge in the year of £3,000 relating primarily to the financial results of OMI in the US. The Group has substantial tax losses available in the UK for carry forward against future profits.

**Currency**
The Group has both translational and transactional currency exposures. Translational exposures arise on the translation of overseas results into sterling. Transactional exposures arise where the currency of sale or purchase invoices differs from the functional currency in which each Group company prepares its local accounts. The transactional exposures include situations where foreign currency denominated trade debtor, trade creditor and cash balances are held. The largest transactional and translational exposures are to the US dollar. Translational currency exposures are not hedged. However, transactional currency exposures will be hedged to the extent that they become sufficiently material.

**Accounting standards and policies**
This annual report complies with all Adopted IFRSs applicable to the financial statements at 31 December 2010. Oxonica's accounting policies are set out on pages 13 to 17 and are consistent with previous years.

**Future developments**
The Group has now (July 2011) completed its restructuring programme, reduced its cost base to a minimum and holds cash reserves. All future revenues will be generated solely from royalties and will depend on the agreements with Croda and BD. It is anticipated that, under the Croda agreement, royalties will grow gradually over the next two years. The Board intends to evaluate further the timing and level of royalties anticipated from the BD agreement, which are likely to be post-2015, in order to determine the cash requirements of the Group until such time as a significant royalty stream develops. It remains the Board's objective to achieve a cash break-even position with a sustainable, relatively low-risk business model.

**Proposed dividend**
The directors do not recommend the payment of a dividend for the year under review. (2009: £nil).

**Directors**
The directors in office during the year are listed below. Their beneficial interests in the Group's issued ordinary share capital are listed in Note 24 to the financial statements.

**Richard Farleigh**
B Comm (age 50)
Non-executive Chairman
Richard worked at Australia's central bank and then pursued a career in finance, including designing derivatives, proprietary trading and hedge fund management. He then established himself as an investor in early stage businesses in emerging technologies and markets and was a founder investor in Oxonica when it was spun-out from the University of Oxford in 1999. Other companies in which he has invested include Wolfson Microelectronics plc, Arc International plc, Cmed Group Ltd, Celoxica Holdings plc, Radiation Watch Ltd, Net-A-Porter Ltd, Green Chemicals plc, Spectral Fusion Technologies plc and ClearSpeed Technology plc. Richard is non-executive chairman of Spectral Fusion Technologies plc and ClearSpeed Technology plc. He has also served as a panellist on BBC 2's popular business show, Dragon's Den.

**George Elliott**
BA CA (age 58)
Non-executive Director
George is non-executive Chairman of Craneware plc (CRW), Cupid plc (CUP) (formerly EasyDate plc), and Kewill plc (KWL). He is also a non-executive Director of Summit Corporation plc (SUMM) and Corsair Components, Inc (formerly Corsair Memory, Inc). From 2000-2007 George was Chief Financial Officer of Wolfson Microelectronics plc (WLF), a leading global provider of high performance mixed-signal semiconductors to the consumer electronics industry. Previously, he was Business Development Director at McQueen International Ltd (now Sykes), where he was responsible for strategic sales and marketing. George, formerly a partner of Grant Thornton, is a member of the Institute of Chartered Accountants of Scotland and has a degree in Accountancy and Finance from Herriot-Watt University. He joined the Board in 2009.

**Graham Shaw**
BA Hons London (age 61)
Chief Executive
Graham joined Oxonica in September 2009 to assume the role of Chief Executive. Graham is a director of Signum Technologies Ltd. and part-time Chief Executive of the DIPEx charity. Graham has held senior positions in technology companies over the last 20 years, including Crosfield Electronics Ltd. and SoftPress, and has particular expertise in the management and commercial exploitation of intellectual property through Group sales and licensing agreements. Graham is a graduate of London University with postgraduate qualifications in international marketing.

**Charitable Donations**
During the year, the Group made no political or charitable donations (2009: £nil).

**Creditor Days**
During the year, creditor days averaged 33 days (2009: 33 days)

**Statement of directors' responsibilities in respect of the Annual Report and the financial statements**
The directors are responsible for preparing the Annual Report and the Group and Parent Company financial statements in accordance with applicable law and regulations. Company law requires the directors to prepare Group and Parent Company financial statements for each financial year. The Group and Parent Company financial statements are required by law and IFRSs as adopted by the EU to present fairly the financial position of the Group and the Parent Company and the performance for that period; the Companies Act 2006 provides in relation to such financial statements that references in the relevant part of that Act to financial statements giving a true and fair view are references to their achieving a fair presentation.

In preparing each of the Group and Parent Company financial statements, the directors are required to:
• select suitable accounting policies and then apply them consistently;
• make judgments and estimates that are reasonable and prudent;
• state whether they have been prepared accordance with IFRSs as adopted by the EU; and
• prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the Parent Company will continue in business.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Group and Parent Company and enable them to ensure that its financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

**Disclosure of information to auditors**

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Group's auditors are unaware; and each director has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the Group's auditors are aware of that information.

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

**Graham Shaw**
**Chief Executive Officer**

# INDEPENDENT AUDITOR'S REPORT

# TO THE MEMBERS OF OXONICA LIMITED (FORMERLY OXONICA PLC)

We have audited the Group and Parent Company financial statements of Oxonica plc (formerly Oxonica Limited) for the year ended 31 December 2010 set out on pages 7 to 32. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the Parent Company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

## Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on pages 3 and 4, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

## Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's and the Parent Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements.

## Qualified opinion on financial statements arising from limitation in audit scope

Regarding the statement of comprehensive income transactions and statement of financial position for the period to the date of disposal, 28 July 2010, of the company's subsidiary undertaking Oxonica Materials Inc, the audit evidence available to us was limited to a trial balance and nominal ledger transactions.

The directors did not have access to the underlying source documents as these had been transferred to the new owners following the sale of the subsidiary. Therefore, our audit work was limited to analytical review procedures and reliance on explanations provided by management.

Except for the financial affects of such adjustments, if any, as might have been determined to be necessary had we been able to verify the transactions to the underlying source documents, in our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2010 and of the Group's loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the Parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

## Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

## Matters on which we are required to report by exception

In respect solely of the limitation on our work relating to Oxonica Materials Inc, described above:

- we have not obtained all the information and explanations that we considered necessary for the purposes of our audit; and
- we were unable to determine whether adequate accounting records have been kept.

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you, in our opinion:

- returns adequate for our audit have not been received from the branches not visited by us; or
- the Parent Company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made

Rouse Audit LLP

Bindi Palmer, Senior Statutory Auditor
For and on behalf of Rouse Audit LLP

28 July 2011

Chartered Accountants
Statutory Auditor

55 Station Road
Beaconsfield
Bucks
HP9 1QL

## Statement of Comprehensive Income

***for the year ended 31 December 2010***

| | Note | 2010 Before intangible amortisation and exceptional items £'000 | 2010 Intangible amortisation and exceptional items (Note 3) £'000 | 2010 Discontinued Operations £'000 | 2010 Total £'000 | 2009 Before intangible amortisation and exceptional items Restated £'000 | 2009 Intangible amortisation and exceptional items (Note 3) Restated £'000 | 2009 Discontinued Operations Restated £'000 | 2009 Total Restated £'000 |
|---|---|---|---|---|---|---|---|---|---|
| **Revenue from** | 1 | | | | | | | | |
| Continued Operations | | **165** | **-** | **-** | **165** | 244 | - | - | 244 |
| Discontinued Operations | | **-** | **-** | **4,066** | **4,066** | - | - | 3,020 | 3,020 |
| Cost of sales | | **(98)** | **-** | **-** | **(98)** | (212) | - | (164) | (376) |
| **Gross profit** | | **67** | **-** | **4,066** | **4,133** | 32 | - | 2,856 | 2,888 |
| Other operating income | 2 | **14** | **-** | **106** | **120** | 93 | - | 714 | 807 |
| Administration Expense - Research and development | | **(45)** | **-** | **(391)** | **(436)** | (571) | - | (1,711) | (2,282) |
| Administration Expense - Sales, marketing and other | | **(459)** | **-** | **(1,051)** | **(1,510)** | (989) | (236) | (3,014) | (4,239) |
| Gain on sale of discontinued operations | 9 | **2,082** | **-** | **-** | **2,082** | 275 | - | - | 275 |
| Impairment Charges | 9 | **-** | **(4,748)** | **-** | **(4,748)** | - | (3,440) | - | (3,440) |
| **Operating loss** | | **1,659** | **(4,748)** | **2,730** | **(359)** | (1,160) | (3,676) | (1,155) | (5,991) |
| Financial income | 6 | **1** | **-** | **1** | **2** | 27 | - | - | 27 |
| Financial expense | 6 | **(400)** | **-** | **-** | **(400)** | (192) | - | - | (192) |
| **Net financial income** | | **(399)** | **-** | **1** | **(398)** | (165) | - | - | (165) |
| **Loss before tax** | | **1,260** | **(4,748)** | **2,731** | **(757)** | (1,325) | (3,676) | (1,155) | (6,156) |
| Taxation | 7 | **-** | **-** | **(3)** | **(3)** | - | - | (201) | (201) |
| **Loss for the year attributable to equity holders of the parent** | 20 | **1,260** | **(4,748)** | **2,728** | **(760)** | (1,325) | (3,676) | (1,356) | (6,357) |
| Basic and diluted loss per share | 21 | | | | **(1.2)p** | | | | (9.70)p |

## Other Comprehensive Income

| | 2010 Group £'000 | 2010 Company £'000 | 2009 Group £'000 | 2009 Company £'000 |
|---|---|---|---|---|
| Exchange differences on translation of foreign operations | (39) | - | (120) | - |
| | **(39)** | **-** | **(120)** | **-** |
| **Loss for the year** | **(760)** | **(4,973)** | **(6,357)** | **(10,821)** |
| **Total comprehensive income for the year attributable to equity holders of the parent** | **(799)** | **(4,973)** | **(6,477)** | **(10,821)** |

## Statement of Financial Position

***at 31 December 2010***

| | *Note* | **2010 Group £'000** | **2010 Company £'000** | 2009 Group £'000 | 2009 Company £'000 |
|---|---|---|---|---|---|
| **ASSETS** | | | | | |
| **Non current assets** | | | | | |
| Intangible assets | *9* | **-** | **-** | 4,748 | - |
| Investments in subsidiaries | *10* | **-** | **-** | - | 4,748 |
| Property, plant and equipment | *11* | **7** | **-** | 473 | - |
| **Total non current assets** | | **7** | **-** | 5,221 | 4,748 |
| **Current assets** | | | | | |
| Trade and other receivables | *12* | **160** | **134** | 600 | 1,635 |
| Cash and cash equivalents | | **1,641** | **1,425** | 403 | 37 |
| **Total current assets** | | **1,801** | **1,559** | 1,003 | 1,672 |
| **TOTAL ASSETS** | | **1,808** | **1,559** | 6,224 | 6,420 |
| **EQUITY** | | | | | |
| Issued share capital | *17* | **656** | **656** | 656 | 656 |
| Share premium | *20* | **26,310** | **26,310** | 26,310 | 26,310 |
| Exchange reserve | *20* | **(225)** | **-** | (186) | - |
| Other reserves | *20* | **9,953** | **-** | 9,953 | - |
| Retained earnings | *20* | **(35,830)** | **(25,537)** | (35,047) | (20,560) |
| **Total equity attributable to the shareholders of the parent** | *20* | **864** | **1,429** | 1,686 | 6,406 |
| **LIABILITIES** | | | | | |
| **Current liabilities** | | | | | |
| Trade and other payables | *13* | **944** | **130** | 4,538 | 14 |
| **Total current liabilities** | | **944** | **130** | 4,538 | 14 |
| **Total liabilities** | | **944** | **130** | 4,538 | 14 |
| **TOTAL EQUITY AND LIABILITIES** | | **1,808** | **1,559** | 6,224 | 6,420 |

Company No: 05363273

These financial statements were approved by the Board of Directors on 28 July 2011 and were signed on its behalf by:

Mr G Shaw, Chief Executive Officer

## Statement of Cash Flows
***for the year ended 31 December 2010***

| | **2010 Group £'000** | **2010 Company £'000** | 2009 Group Restated £'000 | 2009 Company £'000 |
|---|---|---|---|---|
| **Cash flows from continuing operations** | | | | |
| Loss before tax | **1,260** | **(4,973)** | (1,325) | (10,821) |
| *Adjustments for:* | | | | |
| Depreciation, amortisation, impairment and loss on disposal | **(2,271)** | **2,147** | 46 | 5,015 |
| Foreign exchange (gains) | **-** | **-** | - | (1) |
| Equity settled share-based payment expenses | **23** | **5** | 26 | - |
| Financial income and expense | **399** | **398** | 165 | 192 |
| **Operating cash flow before changes in working capital, interest and taxes** | **(589)** | **(2,423)** | (1,088) | (5,615) |
| (Increase)/decrease in trade and other receivables | **(25)** | **1,501** | 94 | 4,088 |
| Decrease in inventories | **-** | **-** | 1 | - |
| Increase/(decrease) in trade and other payables | **(65)** | **116** | (1,231) | (27) |
| **Cash utilised in operations** | **(679)** | **(806)** | (2,224) | (1,554) |
| Interest received | **1** | **1** | 27 | - |
| Interest paid | **(400)** | **(399)** | (192) | (192) |
| **Net cash inflow (outflow) from operating activities** | **(1,078)** | **(1,204)** | (2,389) | (1,746) |
| **Cash flows from investing activities** | | | | |
| Capital expenditure | **(2)** | **-** | (9) | - |
| Disposal of Subsidiary | **2,592** | **2,592** | 548 | - |
| **Net cash used in investing activities** | **2,590** | **2,592** | 539 | - |
| **Free cash flow** | **1,512** | **1,388** | (1,850) | (1,746) |
| **Cash flows from financing activities** | | | | |
| Proceeds from the issue of share capital | **-** | **-** | - | - |
| New loans | **200** | **200** | - | - |
| Proceeds from the sale of fixed assets | **1** | **-** | 39 | - |
| Repayment of loans | **(200)** | **(200)** | (1,200) | (1,200) |
| **Net cash from/(used in) financing activities** | **1** | **-** | (1,161) | (1,200) |
| Net decrease in cash and cash equivalents | **1,513** | **1,388** | (3,011) | (2,946) |
| Cash and cash equivalents at 1 January | **92** | **37** | 3,103 | 2,983 |
| **Cash and cash equivalents at 31 December** | **1,605** | **1,425** | 92 | 37 |

## Statement of Cash Flows
***for the year ended 31 December 2010***

| | 2010 Group £'000 | 2010 Company £'000 | 2009 Group Restated £'000 | 2009 Company £'000 |
|---|---|---|---|---|
| **Cash flows from discontinued operations** | | | | |
| Loss before tax | **(2,017)** | - | (4,831) | - |
| *Adjustments for:* | | | | |
| Depreciation, amortisation, impairment and loss on disposal | **4,848** | - | 5,027 | - |
| Foreign exchange (gains) | **(39)** | | (120) | |
| Equity settled share-based payment expenses | - | - | (4) | - |
| Financial income and expense | **(1)** | - | - | - |
| **Operating cash flow before changes in working capital, interest and taxes** | **2,791** | - | 72 | - |
| Decrease in trade and other receivables | **465** | - | 277 | - |
| Decrease in inventories | - | | 186 | |
| (Decrease) in trade and other payables | **(3,529)** | - | 319 | - |
| (Decrease) in provisions | - | - | (550) | |
| **Cash utilised in operations** | **(273)** | - | 304 | - |
| Interest received | **1** | - | - | - |
| Interest paid | - | - | - | - |
| Tax Paid | **(3)** | - | (201) | - |
| **Net cash outflow from operating activities** | **(275)** | - | 103 | - |
| **Cash flows from investing activities** | | | | |
| Capital expenditure | - | - | (286) | - |
| **Net cash used in investing activities** | **(275)** | - | (183) | - |
| **Free cash flow** | **(275)** | - | (183) | - |
| Net decrease in cash and cash equivalents | **(275)** | - | (183) | - |
| Cash and cash equivalents at 1 January | **311** | - | 494 | - |
| **Cash and cash equivalents at 31 December** | **36** | - | 311 | - |

| Notes to Consolidated Cash Flow Statement | **2010** |
|---|---|
| **Sale of Oxonica Materials Inc.** | **£** |
| Tangible Assets | 390,468 |
| Intangible Assets | 174,766 |
| Current Assets | 428,319 |
| Current Liabilities | (482,806) |
| Long term borrowings | - |
| Net Assets disposed of | **510,747** |
| Cumulative exchange gain | - |
| Net gain on disposal | 2,081,651 |
| Net Sale proceeds after disposal costs | **2,592,398** |
| Less: Bank balances (net of borrowings) | (35,763) |
| Net Cash inflow on sale | **2,556,635** |

On 28 July 2010 the Group completed the sale of its 100% interest in Oxonica Materials Inc.

| Notes to Consolidated Cash Flow Statement | **2009** |
|---|---|
| **Sale of Oxonica Energy Limited** | **£** |
| Tangible Assets | 252,207 |
| Intangible Assets | - |
| Current Assets | 113,537 |
| Current Liabilities | (92,261) |
| Long term borrowings | - |
| Net Assets disposed of | **273,483** |
| Net gain on disposal | 274,919 |
| Sale proceeds | **548,402** |
| Less: Bank balances (net of borrowings) | (149) |
| Net Cash inflow on sale | **548,253** |

On 29 September 2009 the Group completed the sale of its 100% interest in Oxonica Energy Limited.

## Notes to the financial statements
***(forming part of the financial statements)***

### 1 Accounting policies

Oxonica Limited (formerly Oxonica plc the "Company") is a company domiciled in the UK. The consolidated financial statements as at, and for, the year ended 31 December 2010 comprise the Company and its subsidiaries (together referred to as the "Group"). The Parent Company financial statements present information about the Company as a separate entity and not about its Group. Both the Parent Company financial statements and the Group financial statements have been prepared and approved by the directors in accordance with International Financial Reporting Standards as adopted by the EU ("Adopted IFRSs").

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements. In publishing the Parent Company financial statements here, together with Group financial statements, the Company is taking advantage of the exemption in section 408 of the Companies Act 2006 not to present its individual Statement of Comprehensive Income and related notes that form a part of these approved financial statements.

**Measurement convention**
The financial statements are prepared on the historical cost basis. Non-current assets are stated at the lower of previous carrying amount and recoverable amount.

**Going concern**
The financial statements are prepared on a going concern basis which the directors believe to be appropriate. The Company and Group meets its day to day to working capital requirements through existing cash resources.

On 28 July 2010, the Company sold its entire share capital in Oxonica Materials Inc to Cabot Corporation for sales proceeds of $5.2 million.

The directors have prepared projected cash flow forecasts for the period ending twelve months from the date of their approval of these financial statements. On the basis of these cash flow forecasts 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.

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

**Revenue**
Revenue represents the total amount receivable by the Group for goods supplied and services provided, excluding value added tax and other sales-related taxes. Revenue from product sales is recognised when substantially all the risks and rewards have been transferred to the customer. Revenue from funded development contracts is recognised on a percentage of completion basis.

Revenue received under assignment and license agreements is accounted for as deferred revenue and will be released to the Statement of Comprehensive Income on a straight line basis over the estimated life of the agreement.

**Expenses**

*Net financing costs*
Net financing costs comprise interest payable, interest receivable on funds invested and foreign exchange gains and losses that are recognised in the Statement of Comprehensive Income.

Interest income and interest payable are recognised in the Statement of Comprehensive Income as they accrue, using the effective interest method.

**Employee benefits**
*Defined contribution plans*

Obligations for contributions to defined contribution pension plans are recognised as an expense in the Statement of Comprehensive Income as incurred.

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

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

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

**Taxation**
Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the Statement of Comprehensive Income except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

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

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

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

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

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

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

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

Investments are impaired when the carrying value exceeds the recoverable amount, typically the net realisable value of the investment.

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

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

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

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

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

**Intangible assets**
(i) Goodwill

Goodwill arose on the acquisition of Oxonica Inc on 7 February 2006 and represents the excess of the cost of the acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of Oxonica Inc.

(ii) Other intangible assets

The other intangible asset relates to the patents and technology acquired at fair value with the acquisition of Oxonica Inc on 7 February 2006. These patents and technology were deemed to have an estimated useful life of 15 years.

Amortisation is charged to the Statement of Comprehensive Income on a straight-line basis over the estimated useful lives of intangible assets. Goodwill is systematically tested for impairment at each balance sheet date.

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

For goodwill, the recoverable amount is estimated at each balance sheet date.

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

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

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

**Cash and cash equivalents**
Cash and cash equivalents comprise cash balances and short term deposits.

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

**Trade and other payables**
Trade and other payables are stated at their fair value.

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

**Government grants**
Grants that compensate the Group for expenses incurred are recognised in the Statement of Comprehensive Income on a systematic basis in the same periods in which the expenses are recognised. Grants that compensate the Group for the cost of an asset are deducted from the cost of the related asset. Depreciation is based on the net carrying amount of the asset. Government grants are recognised initially as deferred income when there is reasonable assurance that they will be received and that the Group will comply with the conditions associated with the grant.

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

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

**Compound instruments**
A compound instrument was issued by the Group in the form of a secured loan with an option to purchase shares at a specified future date and price. The liability component of the compound instrument was recognised at the fair value of a similar liability that does not have the attached options. The equity component is recognised initially at the difference between the fair value of the compound instrument as a whole and the fair value of the liability component. Subsequent to recognition the liability component of a compound instrument is measured at amortised cost using the effective interest method. The equity component of the compound instrument is not remeasured subsequent to initial recognition. The unwinding of the discount on the liability component is accounted for as an interest expense.

**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 US$5.6 million 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.

## 2 Other operating income

| | **2010** | 2009 |
|---|---|---|
| | **£'000** | £'000 |
| Grant Income Received | **115** | 729 |
| Profit / (Loss) on Sale of Fixed Assets | **(8)** | (9) |
| Rental Income / Rent Rebate | **9** | 42 |
| Consultancy | **2** | 45 |
| Other | **2** | - |
| | **120** | 807 |

## 3 Intangible amortisation and exceptional items

The following items have been described as "exceptional" as they are significant by size and/or nature and are expected to be non–recurring.

| | **2010** | 2009 |
|---|---|---|
| | **£'000** | £'000 |
| Intangible amortisation (note 9) | **-** | 236 |
| Impairment (note 9) | **4,748** | 3,440 |
| Profit on Sale of Subsidiary (Oxonica Energy) | **-** | (275) |
| Profit on Sale of Subsidiary (Oxonica Materials Inc.) | **(2,082)** | - |
| | **2,666** | 3,401 |

| | **2010** | 2009 |
|---|---|---|
| **Sale of Subsidiary – Oxonica Energy** | | |
| Sale Proceeds | **-** | 548 |
| Less: Net assets at point of disposal | **-** | (273) |
| Profit on Disposal | **-** | 275 |

| | **2010** | 2009 |
|---|---|---|
| **Sale of Subsidiary – Oxonica Materials Inc.** | | |
| Sale Proceeds | 2,593 | - |
| Less: Net assets at point of disposal | (511) | - |
| Profit on Disposal | 2,082 | - |

## 4 Expenses and auditors' remuneration

| | 2010 £'000 | 2009 £'000 |
|---|---|---|
| **Included in operating loss are the following:** | | |
| Auditors' remuneration | | |
| audit of these financial statements | **6** | 17 |
| audit of subsidiaries' financial statements | **11** | 20 |
| other services relating to taxation | **4** | 60 |
| other advisory services | **-** | - |
| Depreciation | **94** | 297 |
| Amortisation of intangibles | **-** | 236 |
| (Profit)/loss on disposal of non current assets | **8** | 9 |
| Government grants | **(115)** | (729) |
| Net (profit)/loss on foreign exchange transactions | **(94)** | 399 |

## 5 Remuneration

***Staff numbers and costs***

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

| | 2010 Group | 2010 Company | 2009 Group | 2009 Company |
|---|---|---|---|---|
| Technical staff | **6** | **-** | **17** | - |
| Sales and marketing | **1** | **-** | **3** | - |
| Management and administration | **6** | **1** | **15** | 2 |
| | **13** | **1** | **35** | 2 |

The aggregate payroll costs of these persons were as follows:

| | Group £'000 | Company £'000 | Group £'000 | Company £'000 |
|---|---|---|---|---|
| Wages and salaries | **794** | **68** | 2,200 | 302 |
| Social security costs | **68** | **8** | 201 | 36 |
| Pension costs | **4** | **-** | 115 | 16 |
| Company contribution to share incentive plan | **-** | **-** | 2 | 1 |
| Share based payments | **-** | **-** | (22) | (1) |
| | **866** | **76** | 2,496 | 354 |

## 6 Financial income and expense

| | 2010 £'000 | 2009 £'000 |
|---|---|---|
| **Financial income** | | |
| Bank interest receivable | **2** | 27 |
| **Financial expense** | | |
| Other loans | **(400)** | (192) |

On 28th May 2010, the Group entered into a secured loan agreement with Richard Farleigh for the amount of £200,000 in order to meet critical creditor obligations and to enable continued discussions with Cabot Corporation regarding the sale of OMI. The loan carried a redemption premium of two-times the original loan capital and was repaid on 3rd August 2010, following the sale of OMI.

## 7 Taxation

**Recognised in the Statement of Comprehensive Income**

| | **2010** | 2009 |
|---|---|---|
| | **£'000** | £'000 |
| **Current tax expense** | | |
| Overseas tax | **(3)** | (201) |
| Total tax (charge)/ credit in Statement of Comprehensive Income | **(3)** | (201) |

| | | **2010** | | 2009 |
|---|---|---|---|---|
| | | **£'000** | | £'000 |
| **Reconciliation of effective tax rate** | | | | |
| Loss for the year | | **(783)** | | (6,357) |
| Total income tax | | **(3)** | | (201) |
| Loss before income tax | | **(780)** | | (6,156) |
| **Income tax using the Company's domestic tax rate** | *28.0%* | **(218)** | *28.0%* | (1,724) |
| *Effects of:* | | | | |
| Expenses not deductible for tax purposes | | **1,216** | | 866 |
| Capital Allowances in excess of depreciation | | **16** | | (0) |
| Reversal of research and development tax credit | | **0** | | 0 |
| Overseas taxation | | **3** | | (201) |
| Increase / (decrease)in tax losses carried forward | | **(1,014)** | | 858 |
| Total current tax (charge)/ credit (see above) | | **3** | | 201 |

There is no taxation charge for the period due to losses incurred. At 31 December 2010 the Group had tax losses, subject to the agreement of HM Revenue and Customs of approximately £5.0 million (2009: £8.2m) available for offset against future taxable profits of the same trade.

**Provision for deferred taxation**

The Group's and the Company's UK net deferred tax, calculated under the liability method at 28% (2009: 28%), is £nil (2009: £nil). A US deferred tax liability of £nil (2009: £1,144,000) has been recognised on the temporary timing differences created by the fair value adjustment on consolidation that recognises the patents. An equal amount of deferred tax asset has been recognised to offset this.

A deferred tax asset has not been recognised in respect of the remaining 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.

| | **Restated** | **Restated** | **Restated** | | |
|---|---|---|---|---|---|
| **Movement in unrecognised deferred tax assets** | **Balance at 1 January 2009** | **Movement** | **Balance at 31 December 2009** | **Movement** | **Balance at 31 December 2010** |
| | **£'000** | **£'000** | **£'000** | **£'000** | **£'000** |
| Tax losses | 5,637 | 2,606 | 8,243 | (3,622) | **4,621** |

## 8 Loss of the parent company

As permitted by section 408 of the Companies Act 2006, the Statement of Comprehensive Income of the Parent Company is not presented as part of these financial statements. The Parent Company's loss for the financial year amounted to £4,973,000 (2009: £10,821,000).

## 9 Intangible assets

| | Goodwill | Patents and Technology | Licences | Total |
|---|---|---|---|---|
| | £'000 | £'000 | £'000 | £'000 |
| **Cost** | | | | |
| At 1 January 2009 | 12,487 | 3,867 | - | 16,354 |
| Amount written-off | - | - | - | - |
| Foreign Exchange adjustment | (480) | (419) | - | (899) |
| At 31 December 2009 | 12,007 | 3,448 | - | 15,455 |
| At 1 January 2010 | 12,007 | 3,448 | - | 15,455 |
| At 31 December 2010 | **12,007** | **3,448** | **-** | **15,455** |
| **Amortisation and impairment** | | | | |
| At 1 January 2009 | 6,367 | 752 | - | 7,119 |
| Charge for the year | - | 236 | - | 236 |
| Amount written-off | 3,440 | - | - | 3,440 |
| Foreign Exchange adjustment | - | (88) | | (88) |
| At 31 December 2009 | **9,807** | **900** | **-** | **10,707** |
| At 1 January 2010 | 9,807 | 900 | - | 10,707 |
| Amount written-off | 2,200 | 2,548 | - | 4,748 |
| At 31 December 2010 | **12,007** | **3,448** | **-** | **15,455** |
| **Net book value** | | | | |
| At 1 January 2009 | 6,120 | 3,115 | - | 9,235 |
| At 31 December 2009 | 2,200 | 2,548 | - | 4,748 |
| At 1 January 2010 | 2,200 | 2,548 | - | 4,748 |
| **At 31 December 2010** | **-** | **-** | **-** | **-** |

The goodwill, patents and technology comprises intangible assets acquired with Nanoplex Technologies Inc (formerly Oxonica Inc) on 7 February 2006.

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

Goodwill is deemed to be a dual purpose asset which is not attributable to a specific cash generating unit. The Group's goodwill was reviewed at the balance sheet date, as in prior periods, using the methodology described below.

The recoverable amount of goodwill has been calculated with reference to its value in use. Cash flow projections, which were based on a ten year business plan due to the long-term nature of the agreements, were used to calculate the value in use. These are based on management's best estimations, reflecting on past experiences and future expectations. The growth rate applied beyond the ten year forecast was 5%. The pre-tax discount rate used was 24% (2009: 24%). The discount rate was estimated based on the Group's weighted average cost of capital, adjusted to reflect the risks specific to the asset being assessed.

Part of the Goodwill recorded in 2009 was associated with realisable value of one of the US Subsidiaries, Oxonica Materials Inc. This was valued in the 2009 accounts at £2.8m and was subsequently sold during 2010 for £3.4m. The remaining Goodwill of £1.4m which has now been fully impaired relates to the future cashflows that may arise from technology sold in the US in 2008. As this is outside the control of the Group and the future cashflows are subjective, the Board feels that the remaining Goodwill should be fully impaired.

The discount rate was estimated based on the Group's weighted average cost of capital, adjusted to reflect the risks specific to the asset being assessed. Based on this assessment, an impairment loss of £4,748,000 (2009: £3,440,000) was recognised in the Statement of Comprehensive Income in the year.

### 10 Investments in subsidiaries

| | **Company 2010 £'000** | Company 2009 **£'000** |
|---|---|---|
| Cost | | |
| At 1 January | **4,748** | 9,763 |
| Impairment | **(4,748)** | (5,015) |
| At 31 December | **-** | 4,748 |

Management have impaired the Company's investment by £4,748,000 (2009 £5,015,000) to its recoverable amount. The recoverable amount is based on management's best estimates of its value in use. The key assumptions in the estimate is the future expected cash flows of the subsidiaries which is discussed above and the Directors' report.

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

| | **Country of incorporation** | **Principal activity** |
|---|---|---|
| Oxonica Materials Limited | England | Development and commercialisation of advanced nanomaterials for UV protection |
| Oxonica Healthcare Limited | England | Dormant |
| Oxonica Overseas Holdings Limited | England | Holding company |
| Oxonica Singapore Pte Limited* | Singapore | Sales and marketing of fuel additive products |

*Owned by Oxonica Overseas Holdings Limited

The Company sold its entire shareholding in Oxonica Materials Inc to Cabot Corporation on 28 July 2010. Oxonica Inc was dissolved on 23 December 2010.

## 11 Property, plant and equipment

### Group

| | Short Leasehold improvements £'000 | Plant, machinery & laboratory equipment £'000 | Fixtures, fittings & computer equipment £'000 | Total £'000 |
|---|---|---|---|---|
| **Cost** | | | | |
| Balance at 1 January 2009 | **107** | **2,134** | **425** | **2,666** |
| Additions | **-** | **243** | **12** | **255** |
| Disposals | **(92)** | **(1,288)** | **(205)** | **(1,585)** |
| Foreign Exchange adjustment | **4** | **(114)** | **(35)** | **(145)** |
| Balance at 31 December 2009 | **19** | **975** | **197** | **1,191** |
| Balance at 1 January 2010 | 19 | 975 | 197 | 1,191 |
| Additions | - | - | 6 | 6 |
| Disposals | (19) | (986) | (82) | (1,087) |
| Foreign Exchange adjustment | - | 30 | 2 | 32 |
| Balance at 31 December 2010 | **-** | **19** | **123** | **142** |
| **Depreciation** | | | | |
| Balance at 1 January 2009 | **107** | **1,383** | **334** | **1,824** |
| Charge for year | - | 248 | 49 | 297 |
| Disposals | (92) | (1,031) | (191) | (1,314) |
| Foreign Exchange adjustment | 4 | (60) | (33) | (89) |
| Balance at 31 December 2009 | **19** | **540** | **159** | **718** |
| Balance at 1 January 2010 | **19** | **540** | **159** | **718** |
| Charge for year | - | 82 | 12 | 94 |
| Disposals | (19) | (617) | (56) | (692) |
| Foreign Exchange adjustment | - | 13 | 2 | 15 |
| Balance at 31 December 2010 | **-** | **18** | **117** | **135** |
| **Net book value** | | | | |
| At 1 January 2009 | - | 751 | 91 | 842 |
| At 31 December 2009 | **-** | **435** | **38** | **473** |
| At 1 January 2010 | - | 435 | 38 | 473 |
| **At 31 December 2010** | **-** | **1** | **6** | **7** |

## 12 Trade and other receivables

| | 2010 Group £'000 | 2010 Company £'000 | 2009 Group £'000 | 2009 Company £'000 |
|---|---|---|---|---|
| Trade receivables | **5** | **-** | 290 | - |
| Amounts owed by Group undertakings | **-** | **-** | - | 1,631 |
| VAT receivable | **4** | **3** | 7 | 1 |
| Prepayments and accrued income | **3** | **3** | 54 | 3 |
| Sundry receivables | **148** | **128** | 249 | - |
| | **160** | **134** | 600 | 1,635 |

## 13 Trade and other payables

| | 2010 Group £'000 | 2010 Company £'000 | 2009 Group £'000 | 2009 Company £'000 |
|---|---|---|---|---|
| **Current** | | | | |
| Trade payables | **92** | **-** | **266** | **-** |
| Other taxation and social security | **4** | **-** | **13** | **-** |
| Accruals and deferred income | **720** | **-** | **4,012** | **14** |
| Other creditors | **128** | **130** | **247** | **-** |
| | **944** | **130** | **4,538** | **14** |

Accruals and deferred revenue includes £674,175 (2009: £4,011,000) which relates to the deferral of the cash payments received from BD at the start of the licensing agreement. This revenue will be recognised over the 15 year estimated life of the licence agreement.

## 14 Financial instruments

The Group's financial instruments comprise loans, 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 credit risk disclosures.

The main risks arising from the Group's financial instruments are credit 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 (2009: nil).

### Interest rate risk

Interest risk is the risk that changes in market prices will affect the Group's income or the value of its holdings of financial instruments.

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

| | Assets floating rate £'000 | Assets fixed rate £'000 | Liabilities floating rate £'000 | Liabilities fixed rate £'000 | Total £'000 |
|---|---|---|---|---|---|
| At 31 December 2009 | | | | | |
| Cash at bank | **403** | **-** | **-** | **-** | **403** |
| Other loans | **-** | **-** | **-** | **-** | **-** |
| Total | **403** | **-** | **-** | **-** | **403** |
| **At 31 December 2010** | | | | | |
| Cash at bank | **1,491** | **150** | **-** | **-** | **1,641** |
| Other loans | **-** | **-** | **-** | **-** | **-** |
| Total | **1,491** | **150** | **-** | **-** | **1,641** |

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

| | **Assets floating rate £'000** | **Assets fixed rate £'000** | **Liabilities floating rate £'000** | **Liabilities fixed rate £'000** | **Total £'000** |
|---|---|---|---|---|---|
| At 31 December 2009 | | | | | |
| Cash at bank | 37 | - | - | - | 37 |
| Total | 37 | - | - | - | 37 |
| **At 31 December 2010** | | | | | |
| Cash at bank | **1,425** | **-** | **-** | **-** | **1,425** |
| Total | **1,425** | **-** | **-** | **-** | **1,425** |

*Sensitivity analysis*

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

This analysis assumes that all other variables, in particular foreign currency rates, remain constant and considers the effect of financial instruments with variable interest rates, financial instrument at fair value through profit or loss or available for sale with fixed interest rates and the fixed rate element of interest rate swaps. The analysis is performed on the same basis for 2009.

| | **2010 Group £'000** | **2010 Company £'000** | 2009 Group £'000 | 2009 Company £'000 |
|---|---|---|---|---|
| **Profit or loss** | | | | |
| Increase | **16** | **14** | 2 | - |
| Total | **16** | **14** | 2 | - |

**Foreign currency risk**

Foreign exchange risk is the risk that changes in market prices will affect the Group's income or the value of its holdings of financial instruments.

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

*Sensitivity analysis*

A 10 percent weakening of the following currencies against the pound sterling at 31 December 2010 would have increased / (decreased) profit or loss by the amounts shown below. This calculation assumes that the change occurred at the balance sheet date and had been applied to risk exposures existing at that date.

This analysis assumes that all other variables, in particular other exchange rates and interest rates, remain constant. The analysis is performed on the same basis for 31 December 2009.

| | | **Profit or loss** | | Profit or loss |
|---|---|---|---|---|
| | **2010** | **2010** | 2009 | 2009 |
| | **Group** | **Company** | Group | Company |
| | **£'000** | **£'000** | £'000 | £'000 |
| Euro | **(3)** | **-** | (4) | - |
| USD | **(48)** | **(32)** | (37) | (2) |
| SGD | **-** | **-** | (2) | - |
| AUD | **(8)** | **-** | 5 | - |
| CAD | **-** | **-** | (1) | - |

A 10 percent strengthening of the above currencies against the pound sterling at 31 December 2010 would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

**Liquidity risk**

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due.

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

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the effect of netting agreements:

| | | | **2010** | | | | | | | 2009 |
|---|---|---|---|---|---|---|---|---|---|---|
| | **Carrying amount £000** | **Contractual cash flows £000** | **1 year or less £000** | **1 to <2years £000** | **2 to <5years £000** | Carrying amount £000 | Contractual cash flows £000 | 1 year or less £000 | 1 to <2years £000 | 2 to <5years £000 |
| **Non-derivative financial liabilities** | | | | | | | | | | |
| Trade and other payables | **944** | **944** | **944** | **-** | **-** | 4,538 | 4,538 | 4,538 | - | - |
| | **944** | **944** | **944** | **-** | **-** | 4,538 | 4,538 | 4,538 | - | - |

**Credit risk**

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers and investment securities.

| | Carrying Amount | |
|---|---|---|
| | **2010** | 2009 |
| | **£'000** | £'000 |
| Trade Receivables | 5 | **266** |
| Cash and Cash equivalents | 1,641 | **403** |
| Total | 1,646 | **669** |

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

| | Carrying Amount | |
|---|---|---|
| | **2010** | 2009 |
| | **£'000** | £'000 |
| Domestic | **4** | 65 |
| Euro-zone countries | **-** | - |
| United States | **1** | 190 |
| Australasia | **-** | - |
| Rest of world | **-** | 11 |
| Total | **5** | 266 |

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

| | Carrying Amount | |
|---|---|---|
| | **2010** | 2009 |
| | **£'000** | £'000 |
| Distributors | **4** | 15 |
| End-user customers | **1** | 251 |
| Total | **5** | 266 |

The ageing of trade receivables at the reporting date was:

| | **2010 Gross £'000** | **2010 Impairment £'000** | 2009 Gross £'000 | 2009 Impairment £'000 |
|---|---|---|---|---|
| Not past due | **1** | **-** | 81 | - |
| Past due 0-30 days | **4** | **-** | 123 | - |
| Past Due 31-60 days | **-** | **-** | 5 | - |
| Past Due 61-120 days | **-** | **-** | 233 | 167 |
| Past Due 120-365 days | **-** | **-** | 201 | 186 |
| Past due more than one year | **390** | **390** | 12 | 12 |
| Total | **395** | **390** | 655 | 365 |

The Company had no trade receivables in either 2010 or 2009 and therefore had no credit risk exposure.

**Impairment losses**

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

| | Carrying Amount | |
|---|---|---|
| | **2010** | 2009 |
| | **£'000** | £'000 |
| Balance at 1 January 2009 | **365** | 251 |
| Impairment loss created | **-** | 82 |
| Foreign exchange adjustment | **25** | 32 |
| Balance at 31 December 2010 | **390** | 365 |

The impairment loss created during the year relates to amounts owed by a Russian distributor which are more than 90 days old. An additional impairment was created to cover trade debts that were assigned to Oxonica Materials on the sale of Oxonica Energy which remain unpaid and are over 90 days old.

**Currency risk**

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

| | **31 December 2010** | | | | | | 31 December 2009 | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **£000's** | **GBP** | **AUD** | **USD** | **Euro** | **SGD** | **CAD** | GBP | AUD | USD | Euro | SGD | CAD |
| Cash and cash equivalents | **1,263** | **-** | **353** | **25** | **-** | - | 29 | - | 322 | 36 | 16 | - |
| Trade Receivables | **4** | **-** | **1** | **-** | **-** | - | 50 | - | 190 | 15 | - | 11 |
| Trade Payables | **(38)** | **-** | **(12)** | **-** | **-** | - | (99) | (60) | (107) | - | - | - |
| Gross Balance sheet Exposure | **1,229** | **-** | **342** | **25** | **-** | - | (20) | (60) | 405 | 51 | 16 | 11 |

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

The exchange rates that were applied during the year were:

| | **Average Rate** | | **Reporting Date Spot Rate** | |
|---|---|---|---|---|
| | **2010** | 2009 | **2010** | 2009 |
| USD | **1.541** | 1.573 | **1.567** | 1.615 |
| Euro | **1.168** | 1.127 | **1.167** | 1.126 |
| SGD | **2.092** | 2.282 | **2.006** | 2.267 |
| AUD | **1.678** | 1.99 | **1.527** | 1.795 |
| CAD | **1.594** | 1.783 | **1.556** | 1.693 |

**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.

**Guarantees and security**

The Group has no Guarantees or Securities in place over the assets of the Company or the Group

**Capital management**

The board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. There were no changes in the Group's approach to capital management during the year.

## 15 Operating leases

**Non-cancellable operating lease rentals are payable as follows:**

| | **2010 Group £'000** | **2010 Company £'000** | 2009 Group £'000 | 2009 Company £'000 |
|---|---|---|---|---|
| Annual commitments which expire: | | | | |
| Later than one year and not later than five years | **4** | **4** | 12 | 12 |

## 16 Capital commitments

The Group had no capital commitments outstanding at the year end (2009: £nil).

## 17 Called up share capital

| | **2010** | | 2009 | |
|---|---|---|---|---|
| | **Number of shares** | **£** | Number of shares | £ |
| **Allotted, called up and fully paid** | | | | |
| Ordinary shares of £0.01p each | **65,559,943** | **655,599** | 65,559,943 | 655,599 |

## 18 Share based payments

The Group has adopted IFRS 2 and accordingly, sales and marketing and administration costs include a charge of £0 (2009: £8,090) in respect of share based payments issued to employees.

(a) Share option scheme
Under the Company's share option scheme, employees held options at 31 December 2010 over unissued ordinary shares as follows:

| Options held at 1 January 2010 | Options granted | Options exercised | Options lapsed | Options held at 31 December 2010 | Exercise price | Earliest exercise date | Date options lapse |
|---|---|---|---|---|---|---|---|
| 876,736 | - | - | (876,736) | - | £0.447 | Between 15/05/08 & 01/01/07 | Between 21/11/12 & 15/07/15 |
| 68,500 | - | - | (68,500) | - | $0.227 | Between 01/01/02 & 01/12/05 | Between 01/01/13 & 29/11/15 |
| 945,236 | - | - | (945,236) | - | | | |

The fair values calculated are inherently subjective and uncertain due to the assumptions made and the limitations of the options model

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

| Date of grant | Estimated fair value | Share price | Exercise price | Expected volatility | Expected Life | Risk free rate | Expected dividends |
|---|---|---|---|---|---|---|---|
| 15 July 2005 | £0.7636 | £0.958 | £0.447 | 52% | 1 yrs 5 mths | 4.5% | 0% |
| 8 February 2006 | £1.5512 | £1.68 | £0.134 | 52% | 0 yrs | 4.5% | 0% |

(b) Share Incentive Plan (SIP)
All UK employees are eligible to participate in the UK Share Incentive Plan which is a HM Revenue and Customs approved share incentive plan for UK employees. Until 1 January 2009 the Group also operated an International Share Incentive Plan for employees outside of the UK. Employees are able to buy shares through the plan ("Invest Shares") and these shares are held in trust on behalf of the employee. For every Invest Share bought the Company will give the employee one matching share for free ("Plus Shares"). Employees have to take their shares out of the plan on leaving the Company and will not be entitled to all the Plus Shares if they leave within 3 years of acquiring the linked Invest Shares.

Under the SIP, the Company can also make awards of Free Shares to employees. Under the UK SIP employees are awarded shares which are subject to three year holding period. Under the International Plan employees were awarded rights to acquire a maximum number of shares at the beginning of a holding period set by the Company.

For the purposes of IFRS 2 the fair value of the Plus and Free Shares is determined as the market value of the shares at the date of grant. In determining the charge to the Statement of Comprehensive Income the Company has assumed that the number of Plus Share awards that will ultimately be released is reduced by 5% per annum.

Details of the SIP Awards (Plus and Free Shares) outstanding during the year are as follows:

| | **2010 Number of Free shares** | **2010 Number of Plus shares** | 2009 Number of Free shares Restated | 2009 Number of Plus shares |
|---|---|---|---|---|
| At 1 January | 54,613 | 81,470 | 54,613 | 62,001 |
| Granted during the year | - | - | - | 19,469 |
| Forfeited during the year | - | (23,468) | - | - |
| Released during the year | (54,613) | (58,002) | - | - |
| Outstanding at 31 December | - | - | 54,613 | 81,470 |

## 19 Pension scheme

The Company operates a defined contribution pension scheme. The pension cost charge for the period represents contributions payable by the Company to the scheme and amounted to £4,249 (2009: £115,109). At the year end, £354 accruals were outstanding in relation to pension contributions (2009: £1,176).

## 20 Capital and reserves

**Reconciliation of movement in capital and reserves**
**Group**

| | **Share capital £000** | **Share premium £000** | **Merger Reserve * £000** | **Exchange reserve Restated £000** | **Retained Earnings Restated £000** | **Total Parent equity £000** |
|---|---|---|---|---|---|---|
| Balance at 1 January 2009 | 655 | 26,310 | 9,953 | (66) | (28,668) | 8,184 |
| Total recognised income and expense | - | - | - | (120) | (6,357) | (6,477) |
| Issue of shares | 1 | - | - | - | - | 1 |
| Equity-settled share based payment transactions | - | - | - | - | (22) | (22) |
| Balance at 31 December 2009 | 656 | 26,310 | 9,953 | (186) | (35,047) | 1,686 |
| Balance at 1 January 2010 | 656 | 26,310 | 9,953 | (186) | (35,047) | 1,686 |
| Total recognised income and expense | - | - | - | (39) | (760) | (799) |
| Equity-settled share based payment transactions | - | - | - | - | (23) | (23) |
| **Balance at 31 December 2010** | **656** | **26,310** | **9,953** | **(225)** | **(35,830)** | **(864)** |

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

**Company**

| | Share capital £000 | Share premium £000 | Retained Earnings £000 | Total parent equity £000 |
|---|---|---|---|---|
| Balance at 1 January 2009 | 655 | 26,310 | (9,737) | 17,228 |
| Total recognised income and expense | - | - | (10,821) | (10,821) |
| Issue of shares | 1 | - | - | 1 |
| Equity-settled share based payment transactions | - | - | (2) | (2) |
| Balance at 31 December 2009 | 656 | 26,310 | (20,560) | 6,406 |
| Balance at 1 January 2010 | 656 | 26,310 | (20,560) | 6,406 |
| Total recognised income and expense | - | - | (4,973) | (4,973) |
| Equity-settled share based payment transactions | - | - | (4) | (4) |
| **Balance at 31 December 2010** | **656** | **26,310** | **(25,537)** | **1,429** |

## 21 Loss per ordinary share

Basic loss per share is calculated by dividing the loss attributable to ordinary shareholders by the weighted average number of ordinary shares in issue during the year. Options over nil ordinary shares (2009: 3,219,460) are not included in the calculation of diluted loss per share as their effect is anti-dilutive.

| | **2010** | 2009 |
|---|---|---|
| | **£'000** | £'000 |
| Basic and diluted loss attributable to ordinary shareholders | **(760)** | (6,357) |
| | **No.** | No. |
| Weighted average number of ordinary shares | **65,559,943** | 65,559,943 |
| Loss per share – basic and diluted | **(1.2)p** | (9.7)p |

## 22 Contingent liabilities

The Company and its subsidiaries are, from time to time, parties to legal proceedings and claims which arise in the ordinary course of business. There are no Contingent Liabilities as at the date of signing these financial statements

## 23 Financial Commitments

Following the sale of Oxonica Materials Inc to Cabot Corporation on 28 July 2010, Oxonica plc (formerly Oxonica Limited) indemnifies the purchaser up to an amount not to exceed $1,100,000 for claims under warranties arising in the period of 18 months from the date of sale. At the date these financial statements were signed, no claims had been lodged.

## 24 Related party disclosures

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

| | **2010** **No of shares** | 2009 No of shares |
|---|---|---|
| Richard Farleigh | **13,218,995** | 13,218,995 |
| Kevin Matthews | **-** | 60,110 |
| Richard Clarke | **-** | 44,588 |
| Martin Hagen | **-** | - |
| Gordon Ringold | **-** | 467,503 |
| Alavita, Inc (a Company of which Gordon Ringold is a director) | **-** | 4,287,371 |

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

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

| | **2010** **£'000** | 2009 £'000 |
|---|---|---|
| Remuneration | **103** | **225** |
| Social security costs | **7** | **35** |
| Equity settled transactions | **-** | **-** |
| Company contribution to share incentive plan | **-** | **1** |
| Pension costs | **-** | **16** |
| | **110** | **277** |

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