



18 September 2006

Oxonica plc

Interim results for the six months ended 30 June 2006

Oxonica plc, a leading international nanomaterials group, today announces interim results for the six months ended 30 June 2006.

Highlights

- Turnover rose 87% to £1.280m (1H05: £0.684m)
- Gross profit increased by 105% to £0.770 (1H05: £0.375m)
- Operating loss was £3.107m (1H05: £1.919m)
- Optisol™ was incorporated into Boots Soltan Once and Tesco Finest sun care product lines
- The acquisition of Nanoplex Technologies Inc. was completed in February, and the company, now renamed Oxonica Inc. has been fully integrated into the Group
- Post period end, Oxonica Energy signed a key supply agreement for Envirox™ with Petrol Ofisi A.S., the leading national oil company in Turkey, which is expected to generate sales worth US\$ 12.7 m this year
- In August, Oxonica signed a licence agreement and a research collaboration agreement with Becton Dickinson in connection with Oxonica's proprietary Nanoplex™ technology for the clinical in-vitro diagnostics market. At the same time, Becton Dickinson subscribed for new ordinary shares in Oxonica to a value of US\$ 2 million.

Commenting on today's announcement, Dr Kevin Matthews, Chief Executive, said:

"Oxonica is continuing to successfully establish itself as an international multi-sector business. In the light of the major step forward for Envirox™ with Petrol Ofisi, along with sound progress for Optisol™ and the exciting developments with Becton Dickinson in diagnostics, the Board continues to look to the future with a high degree of confidence. We remain on track for the full year."

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Notes to Editors

About Oxonica plc - www.oxonica.com

Oxonica (AIM: OXN.L) is one of the leading International nanomaterials groups with products already launched into international markets and is listed in London on AIM. It was spun-out from Oxford University in 1999 and currently employs 56 professional staff. Oxonica's mission is to focus on the development of innovative commercial solutions for international markets using its expertise in the design and application of nanomaterials. It owns a portfolio of demand driven products that offer substantial benefits to the target markets of energy, healthcare, materials and security.

The Group currently has four operating divisions: Oxonica Energy, Oxonica Healthcare, Oxonica Materials and Oxonica Security. Oxonica has already launched products into international markets. Lead products include:

- Envirox™ Fuel Borne Nanocatalyst – a nanocatalyst improving fuel economy and reducing emissions
- Optisol™ UV Absorber – a revolutionary photostable UV protection system designed to optimise the performance of quality sunscreens and anti-premature aging products

Oxonica is also active in searching for the next generation of products and is already engaged in developing transformational detection technologies which will enable a new generation of ultrasensitive multiplex diagnostic tools for the clinical diagnostic life science and security markets. In addition, the company is developing other UV absorber technologies into polymer systems and coatings, based on similar technologies to that used in Optisol™.

Chief Executive's Review

Introduction

Oxonica has continued to make substantial progress in the first half of 2006, completing the acquisition and integration of Nanoplex Technologies Inc., negotiating a key supply agreement for Envirox™ with the leading national oil company in Turkey, and agreeing a technology licence and cooperative research arrangement with a leading global medical technology company in relation to the Group's nanoparticle-based detection systems for the clinical in-vitro diagnostics market. In addition to achieving these key commercial milestones, Oxonica was successful in obtaining ISO 9001 accreditation in the UK, in February 2006.

Results

In the six months ended 30 June 2006 turnover was £1,280,000, an increase of 87% compared with the same period last year. This does not include grant income received of £252,000 (2005: £79,000). Development, sales and marketing and administration costs increased by 74% to £4,129,000 mainly as a result of the acquisition of Nanoplex. The operating loss increased by 62% to £3,107,000 and the cash outflow before financing was up 3% at £2,716,000 (2005: £2,644,000). Cash balances, including short term deposits, at the end of the period were £2,756,000 (2005: £498,000).

Business overview

Oxonica Energy:

During the first half of 2006, Oxonica Energy was focused on the negotiation of a supply agreement with Petrol Ofisi A.S., the leading national oil company in Turkey, to supply Envirox™, a nanocatalyst improving fuel economy and reducing emissions, for use in a new enhanced diesel fuel across its nationwide distribution network. This agreement, which was signed shortly after the half-year end, provides for an initial supply of Envirox™ which will be used by Petrol Ofisi to evaluate market acceptance of the new fuel within its national market. This deal is in line with the company's strategy of targeting major oil companies following the successful demonstration of the performance of Envirox™ in fleet trials. In addition to the supply agreement, Oxonica will be collaborating with Petrol Ofisi and Oxford University to develop new catalysts for the petrochemical industry.

Throughout the period, Oxonica Energy continued to supply Envirox™ to Stagecoach in the UK and to Infratil in New Zealand, and fleet trials continue in a number of countries. In February 2006, Rozone, a subsidiary of Rubery Owen, was appointed as exclusive authorized reseller of Envirox™ in the UK. The company has significantly strengthened its technical and customer support team with the appointment of a global technical services manager and a process and product development manager.

The company has continued to pursue its submission for US EPA registration, providing the additional data requested by the EPA during the period. A response to this additional data is anticipated during the second half; however, the EPA may require further testing to be carried out.

Oxonica Healthcare:

Optisol™, a revolutionary photostable UV protection system which improves the performance of sunscreens and anti-ageing products, was launched successfully in Boots' Soltan facial sun defence cream in 2005. In March 2006, Boots incorporated Optisol™ into Soltan Once and sales have again exceeded plans resulting in repeat orders for Optisol™. Optisol™ was also

incorporated into Tesco's Finest suncream and a range of sun care products launched by Correana in Korea. Overall, sales for the first half of 2006 comfortably exceeded those for the whole of the previous year. Following the signing of an exclusive agreement with Croda International plc in December 2005 to distribute Optisol™ into the international personal care market, Oxonica Healthcare has been working closely with Croda to provide technology transfer, product development and marketing support to Croda's worldwide sales teams.

The acquisition of Nanoplex Technologies Inc. was completed on 7 February 2006 and this company, now renamed Oxonica Inc., has been successfully integrated into the Group. The first product based on the technology developed by Nanoplex, a quantitative, multiplexed lateral flow immunoassay, was showcased shortly after the acquisition.

In August the Group signed a licence agreement with Becton Dickinson and Company ('BD') in connection with its proprietary Nanoplex™ technology for the clinical in-vitro diagnostics market. This technology can provide ultra-sensitive and simultaneous detection of a number of diseases in the same test and in a simple format, giving the technology significant advantages over current diagnostic techniques, which typically use fluorescent and chemiluminescent markers. Under the terms of the agreement, a cooperative research programme has commenced to apply Oxonica's technology for use in diagnostics by BD. In addition, BD has subscribed for 829,356 new ordinary shares in Oxonica plc at a price of 127.4 pence per share. BD is a leader in the clinical diagnostics field, focused on enhancing the quality and speed of diagnosis. We are looking forward to continuing to work together to develop products for use in both hospital laboratories and at the point-of-care.

Oxonica Security:

Subsequent to the acquisition of Nanoplex, Oxonica established Oxonica Security in order to pursue a number of commercial applications for nanotechnology based marker systems for anti-counterfeiting and brand protection. Significant progress has been made on key customer development programmes and the Group is evaluating the strategic options for the further development of this activity.

Oxonica Materials:

Oxonica Materials is focused on developing the Group's UV protection technology into industrial markets, in particular plastics and coatings. During the period, Oxonica continued its technical programme in this area and has initiated discussions with a number of potential strategic partners.

Future outlook

The supply agreement with Petrol Ofisi for Envirox™ is expected to generate increased sales for Oxonica in the second half of this year and this will underpin the Group's second half performance. Following the marketing evaluation, Oxonica expects to be in a position to assess the likely level of ongoing sales early in 2007. In the light of the major step forward for Envirox™ with Petrol Ofisi, along with sound progress for Optisol™ and the exciting developments with Becton Dickinson in diagnostics, the Board continues to look to the future with a high degree of confidence. We remain on track for the full year.

K R K Matthews
Chief Executive Officer

Consolidated profit and loss account

For the period ended 30 June 2006

	<u>Six months to</u> <u>30 June 2006</u> <u>Unaudited</u> £'000	<u>Six months to</u> <u>30 June 2005</u> <u>Unaudited</u> <u>Restated</u> £'000	<u>Year to</u> <u>31 December</u> <u>2005</u> <u>Audited</u> <u>Restated</u> £'000
Group turnover	1,280	684	1,247
Cost of sales	(510)	(309)	(586)
Gross profit	770	375	661
Development, sales and marketing and administration costs	(4,129)	(2,373)	(5,406)
Other operating income	252	79	241
Operating loss	(3,107)	(1,919)	(4,504)
Interest receivable	72	21	157
Interest payable	(27)	(105)	(86)
Loss on ordinary activities before taxation	(3,062)	(2,003)	(4,433)
Tax (charge)/credit on loss on ordinary activities	(9)	-	(93)
Loss on ordinary activities after taxation and retained for the period	(3,071)	(2,003)	(4,526)
Basic and fully diluted loss per share	(7.49)p	(9.50)p	(16.38)p

Consolidated statement of total recognised gains and losses

For the period ended 30 June 2006

	<u>Six months to</u> <u>30 June 2006</u> <u>Unaudited</u> £'000	<u>Six months to</u> <u>30 June 2005</u> <u>Unaudited</u> <u>Restated</u> £'000	<u>Year to</u> <u>31</u> <u>December</u> <u>2005</u> <u>Audited</u> <u>Restated</u> £'000
Loss on ordinary activities after taxation and retained for the period	(3,071)	(2,003)	(4,526)
Loss on foreign currency translation of equity investments in overseas subsidiaries	(214)	-	-
Total recognised losses relating to the period	(3,285)	(2,003)	(4,526)

Consolidated balance sheet

As at 30 June 2006

	30 June 2006 <u>Unaudited</u> £'000	30 June 2005 <u>Unaudited</u> <u>Restated</u> £'000	31 December 2005 <u>Audited</u> <u>Restated</u> £'000
Fixed assets			
Goodwill	10,059	-	-
Other intangible assets	3,086	185	173
Intangible assets	13,145	185	173
Tangible assets	783	661	734
	13,928	846	907
Current assets			
Inventories	417	233	412
Debtors	920	991	901
Short term deposits	1,900	-	5,000
Cash at bank and in hand	856	498	66
	4,093	1,722	6,379
Creditors: amounts falling due within one year	(1,600)	(1,269)	(1,119)
Net current assets	2,493	453	5,260
Total assets less current liabilities	16,421	1,299	6,167
Creditors: amounts falling due after more than one year	(47)	(2,437)	(168)
Net assets/(liabilities)	16,374	(1,138)	5,999
Capital and reserves			
Called-up share capital	418	3	368
Share premium account	17,888	10,210	9,499
Merger reserve	9,953	-	9,953
Shares to be issued	4,225	-	-
Profit and loss account	(16,110)	(11,351)	(13,821)
Equity shareholders' funds/(deficiency)	16,374	(1,138)	5,999

Consolidated cashflow statement

For the period ended 30 June 2006

	<u>Six months to</u> <u>30 June 2006</u> <u>Unaudited</u> £'000	<u>Six months to</u> <u>30 June 2005</u> <u>Unaudited</u> <u>Restated</u> £'000	<u>Year to</u> <u>31 December</u> <u>2005</u> <u>Audited</u> <u>Restated</u> £'000
Net cash outflow from operating activities	(2,541)	(2,384)	(4,795)
Returns on investments and servicing of finance			
Interest received	72	21	157
Interest paid	(27)	(105)	(82)
Net cash inflow/(outflow) from returns on investments and servicing of finance	45	(84)	75
Taxation			
Overseas tax paid	(9)	-	-
Capital expenditure and financial investment			
Acquisition of subsidiaries	(66)	-	-
Purchase of tangible fixed assets	(145)	(176)	(410)
Net cash outflow from capital expenditure and financial investment	(211)	(176)	(410)
Net cash outflow before management of liquid resources	(2,716)	(2,644)	(5,130)
Management of liquid resources			
Decrease/(increase) in term deposits	3,100	-	(5,000)
Financing activities			
Issue of ordinary share capital	-	2,587	12,191
New loans advanced	514	-	-
Repayment of loans	(46)	(6)	(2,457)
Decrease in finance leases	(51)	(39)	(138)
Net cash inflow from financing	417	2,542	9,596
Increase/(decrease) in cash in the period	801	(102)	(534)
Opening cash balances	66	600	600
Effect of exchange rate changes	(11)	-	-
Closing cash balances	856	498	66

Notes to the interim financial information

1. Basis of preparation

This financial information comprises the group interim balance sheets as at 30 June 2006 and 30 June 2005, related group interim statements of profit and loss, cash flows and related notes for the six months then ended of Oxonica plc (hereinafter referred to as 'financial information').

The financial information contained in this interim report does not constitute statutory accounts as defined on section 240 of the Companies Act 1985. The interim financial information is unaudited. The financial information for the year ended 31 December 2005 has been extracted from the statutory accounts of Oxonica plc for that period, on which the auditors issued an unqualified opinion. These figures have been restated to include the share options charge under FRS 20 in accordance with note 3.

The financial information has been prepared using the same accounting policies as the audited accounts of Oxonica plc for the year ended 31 December 2005, with the exception of share options which are now accounted for under FRS 20 – see note 3.

The interim report for the six months ended 30 June 2006 was approved by the Board on 15 September 2006.

Copies of this statement are being posted to shareholders and will also be available on the investor relations page of the Group's website (www.oxonica.com). Further copies are available from the Company Secretary at 7 Begbroke Science Park, Sandy Lane, Yarnton, Kidlington, Oxfordshire, OX5 1PF.

2. Earnings per share

Basic loss per share is calculated by dividing the loss attributable to ordinary shareholders by the weighted average number of ordinary shares in issue during each period. Options over 4,657,349 ordinary shares (2005: 3,202,294) would have formed part of the dilutive calculation but were not included because of the continuing loss.

	<u>30 June</u> <u>2006</u> <u>Unaudited</u> £'000	<u>30 June</u> <u>2005</u> <u>Unaudited</u> <u>Restated</u> £'000	<u>31 December</u> <u>2005</u> <u>Audited</u> <u>Restated</u> £'000
Basic and diluted loss for the period attributable to ordinary shareholders	(3,071)	(2,003)	(4,526)
	No.	No.	No.
Weighted average number of ordinary shares	40,991,621	21,078,929	27,631,595
Loss per share – basic and diluted	(7.49)p	(9.50)p	(16.38)p

3. Share based payments

The Company has adopted FRS 20 for the first time in this period and accordingly, development, sales and marketing and administration costs includes a charge of £114,000 (2005: £53,000) in respect of share options issued to employees. A further cost of £882,000 in connection with share options in Nanoplex, which were assumed by the Company as part of the acquisition has been capitalised as part of the acquisition cost – see note 4.

4. Acquisitions

On 7 February 2006 the Company acquired the entire share capital of Nanoplex Technologies Inc (“Nanoplex”), a developer of nanoparticle based detection systems for healthcare and security markets, which was then renamed Oxonica Inc. The initial consideration for the acquisition was satisfied by the issue of 5,426,432 new ordinary shares in the Company. 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.

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

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

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

Oxonica Inc contributed £326,000 revenue and £703,000 operating loss before interest and tax to the Group’s results between the date of acquisition and the balance sheet date.

5. Cash generated from operations

	<u>Six months to</u> <u>30 June 2006</u> <u>Unaudited</u> £'000	<u>Six months to</u> <u>30 June 2005</u> <u>Unaudited</u> <u>Restated</u> £'000	<u>Year to</u> <u>31 December</u> <u>2005</u> <u>Audited</u> <u>Restated</u> £'000
Operating loss for the period	(3,107)	(1,919)	(4,504)
Amortisation of intangible fixed assets and goodwill	389	13	25
Depreciation charges	131	83	244
Share-based payment expense	114	53	106
(Increase) in inventories	(5)	(73)	(253)
Decrease/(increase) in debtors	301	(489)	(494)
(Decrease)/increase in creditors	(364)	(52)	81
Net cash outflow from operating activities	<u>(2,541)</u>	<u>(2,384)</u>	<u>(4,795)</u>

6. Statement of changes in equity

	<u>Share</u> <u>capital</u> £'000	<u>Share</u> <u>premium</u> <u>account</u> £'000	<u>Merger</u> <u>reserve</u> £'000	<u>Shares</u> <u>to be</u> <u>issued</u> £'000	<u>Profit</u> <u>and loss</u> <u>account</u> £'000	<u>Total</u> £'000
At 1 January 2006	368	9,499	9,953	-	(13,821)	5,999
Shares issued/to be issued in connection with acquisition of Nanoplex	50	8,389	-	4,225	-	12,664
Exchange rate adjustments	-	-	-	-	(214)	(214)
Share options – value of employee service	-	-	-	-	996	996
Retained loss for the period	-	-	-	-	(3,071)	(3,071)
At 30 June 2006	<u>418</u>	<u>17,888</u>	<u>9,953</u>	<u>4,225</u>	<u>(16,110)</u>	<u>16,374</u>

7. Post balance sheet events

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