Oxford Catalysts Group PLC
Annual Report and Accounts 2008

Oxford Catalysts Group PLC designs and develops technology for the production of clean fuels from both conventional fossil fuels and renewable sources such as biowaste.

The Group is primarily focused on the emerging market for distributed smaller scale production of synthetic fuels (via Fischer-Tropsch) – a market that has the potential of producing as much as 25 million barrels of fuel a day.

The Fischer-Tropsch ("FT") reaction is used when converting natural gas, coal or biomass into virtually sulphur-free liquid synthetic fuels, known as GTL, CTL and BTL respectively. The Group is the recognised world leader in the design and development of high-activity catalysts and associated novel chemical reactors for the small-scale production of synthetic fuels. (The Group's reactor technology – known as microchannel process technology – is currently marketed under the brand name of Velocys).

Other applications of the Group's technology include hydro-desulphurisation ("HDS"), the most commonly used process in the multi-billion dollar refining industry for the removal of sulphur from crude oil fractions. The Group has developed a novel class of highly active HDS catalysts with significantly better performance characteristics than traditional catalysts.

Oxford Catalysts' strategy is to license its technologies for commercial application by entering into co-development partnerships with leading manufacturers, producers and suppliers in the petroleum, alternative fuels and catalysis markets.

Oxford Catalysts Group PLC is listed on London's AIM market (LSE: OCG). The Group has some 90 employees with facilities near Abingdon, Oxfordshire, UK and Columbus, Ohio, USA.

Highlights

- Focus on synthetic fuels market greatly enhanced by acquisition of Velocys, Inc. for $35.0 million
    - Velocys is the recognised world leader in microchannel process technology for production of synthetic fuels
    - Combined performance of both companies' technology proven at pilot scale, paving way for smaller scale GTL applications such as for flared and stranded gas reserves
    - Successfully raised £10.3 million in challenging financial market conditions
    - Acquisition provides critical mass, particularly in smaller scale synthetic fuels production – a potential market of up to 25 million barrels of fuel a day
- Substantial increase in revenue to £1,298,000 (2007: £163,000)
- Year-end cash and short term investments at £16.3 million (2007: £15.6 million)
- Sizeable US presence qualifies Group for new US Recovery Programme grant applications
- Strong group of core partnerships including Toyo Engineering, MODEC and PTT
- Commercial scale demonstrations beginning in 2009
- Well positioned to weather economic downturn and build significant market share

Pierre Jungels, CBE, Chairman of Oxford Catalysts, said:
"2008 was a transformational year for the Group as we become one of the world leaders in the exciting small scale synthetic fuels market.

"Our mission is clear – working with our core partners to achieve successful demonstration of our technologies in the field, thereby clearing the path to commercial adoption. Delivering on this will create significant value for our shareholders.

"Notwithstanding the deteriorating macroeconomic environment, interest in the Group's technology for synthetic fuels has never been stronger and the prospects pipeline remains strong."

Chairman's Statement

The Board is pleased with the Group's position, three years after its flotation on the AIM market of the London Stock Exchange. We have built a strong team and an exciting business, and are well positioned to take advantage of the major changes that are taking place in the world's energy markets.

Of particular note during the reporting period, was the completion, in November, of the acquisition of Velocys, Inc. ("Velocys"), the recognised world leader in microchannel process technology for the production of synthetic fuels. At the same time, we raised £10.3 million (before expenses) in challenging financial markets – a strong endorsement of Oxford Catalysts' business and the logic of the acquisition.

This acquisition was a transformational event for Oxford Catalysts. The enlarged Group is now primarily focussing on the emerging market for synthetic fuels (via Fischer-Tropsch), and on delivering successful demonstrations of the technology with our existing partners. Whilst the Group has numerous other opportunities by virtue of its platform technologies, several of which are currently being pursued, the Board believes that the size of the synthetic fuels opportunity, combined with the Group's potential competitive advantage, means that maximum shareholder value can be created by concentrating efforts on this market.

The acquisition has strengthened our position as a leading innovator in clean fuel technologies, especially in the market for smaller scale synthetic fuels production. Importantly, it has enabled Oxford Catalysts to attain critical mass with some 90 employees internationally. I am pleased to report that the integration and realisation of synergies is progressing well.

Following the acquisition, the Battelle Memorial Institute is now the Group's largest single shareholder with 17.5% of the issued share capital. Battelle is the world's leading independent science and technology organisation, conducting over $4 billion of annual R&D and managing many of the US National Laboratories, including the National Renewable Energy Laboratory. We are delighted to have such a major force in science and technology on our shareholder register.

Group revenues for the year, excluding contribution from the acquisition of Velocys, were ahead of expectations at £524,000, up 221% on the previous year (2007: £163,000). Including contribution from the Velocys acquisition, revenues were up substantially on the previous year at £1,298,000. Cash and short term deposits at period end were £16.3 million, up on the previous year (2007: £15.6 million).

People

The Group expanded significantly during the period; I would like to welcome our new colleagues from Velocys, a strong complementary team with core competencies in chemical engineering, process development and material science, who complement our existing capabilities in catalytic chemistry.

Velocys brings to the Group additional depth in both management and technical expertise, combining industry veterans with exceptional scientists, engineers and technicians. To highlight just a couple of examples: Tom Hickey, Managing Director of Velocys, has over 30 years of experience at ABB Lummus, one of the leading process licensors to the petrochemical industry, whilst Jan Lerou, Group CTO, has nearly 30 years industry experience in catalysis and chemical engineering, 16 of which were gained at DuPont.

During the period, we welcomed Susan Robertson, Oxford Catalysts' CFO, to the Board of Directors of the Group. At the same time, the Board's composition was streamlined to better meet corporate governance best practice guidelines; with three non-executives out of a total of five directors, the Board now has a good balance of non-executives to executives and is a suitable size for effective decision making. Professor Malcolm Green, Dr Tiancun Xiao and Dr Will Barton were directors of the Group through the initial IPO and building up phase. I thank them for their contribution to the process.

The Board is supported by an Executive Management Committee, led by the Group CEO, that is in charge of implementing strategy, monitoring performance, managing risks, and making key decisions relating to the day-to-day operations of the Group.

2008 was a good year for the Group, with significant technical and commercial progress made. The Board is grateful to the whole Oxford Catalysts team for their continued dedication, hard work and intelligence.

Outlook

The Group is on course to capitalise on the significant growth expected in the synthetic fuels market. We have key partnerships and routes to market in place; we remain on track for commercial scale demonstrations of our technology; and the Group's cash position remains strong.

The outlook for the Group is very positive – the Board is looking to the future with confidence.

Dr Pierre Jungels, CBE
Chairman
27 March 2009

Chief Executive's Report

In 2008, the Group made substantial progress both technically and commercially. Revenues more than trebled from 2007 (even excluding contribution from the Velocys acquisition), both the Fischer-Tropsch ("FT") and hydro-desulphurisation ("HDS") catalysts reached the manufacturing scale-up stage, the Group's customer relationships were strengthened, such as with PTT – the Thai National Oil and Gas company – where several separate projects are now in progress, and the acquisition of Velocys was successfully completed.

The Group is pursuing a market-led, IP-based, licensing business model, with the aim of forging a small number of key strategic partnerships in each of the Group's target markets, whilst continuing to capitalise on its core competencies in catalyst and microchannel technology development.

We have an established base of partners with whom we are jointly pursuing commercialisation of our technology. Some are large multinational companies that tend to be reliable, secure, but slower moving; others are fast moving, smaller or earlier stage businesses. This balanced approach is being pursued to best deliver timely commercialisation, whilst securing maximum long-term value for the Group's shareholders; however, since the reduced availability of credit has the potential to adversely impact smaller and earlier stage companies, management is closely monitoring the Group's exposure to counter-parties, with a view to maintaining a mix of partners that is best suited to the present realities.

Oxford Catalysts is well positioned to gain market share in the current economic conditions, and emerge as a leader in the technology market for next generation clean synthetic fuels. Our objectives and priorities are clear, and the team is fully engaged delivering on the significant promise of the newly enlarged business. We have a solid base of existing partners and the prospects pipeline for 2009 remains strong.

Market Conditions
Interest in the Group's technology for synthetic fuels has never been stronger, aided by such factors as regulation, environmental and energy security concerns. To date, we have not witnessed any material change in the way major companies are regarding the market, if anything, there seems to be heightened interest in smaller scale opportunities, for which the Group's technology is ideally suited.

The offshore oil exploration and production market, which the Group is targeting through its partnership with Toyo Engineering and MODEC, is experiencing strong growth as more production shifts to deeper waters (Infield predicts that sub-sea sector expenditure will exceed $80 billion between 2009 and 2013, up from $46 billion in the previous five years).

Furthermore, synthetic fuel technologies are poised to benefit from various government support initiatives, and in particular from the new US Administration's Recovery Programme and its commitment to the environment. With its sizeable presence in the US, the Group is well positioned to apply for the large amounts of funding expected to be made available for renewable energy technologies.

Some of the markets of lesser importance to the Group are experiencing softness; the commodity chemicals market is undergoing a severe cyclical downturn, although in the longer term this could benefit the Group by driving restructuring and replacement of older plants with new, more efficient, smaller ones. In the short term, however, management is planning for few developments from this market.

In the Group's Instant Steam market, consumer goods companies appear to be in the process of re-appraising their investment in innovation, with some companies slowing down product development cycles, whilst others are pursuing a more aggressive pipeline.

Finally, the HDS market, which is primarily regulatory driven, remains robust, although the expected slowdown in processing of tar sands may lead to excess catalyst production capacity. This could benefit the Group in its current quest for suitable manufacturing partners.

Acquisition of Velocys
A major achievement for the Group during 2008 was the acquisition of Velocys, a company which Oxford Catalysts had been working productively with since May 2007.

With over $160 million invested in its technology to date, Velocys now has the world's largest microchannel patent portfolio and is the recognised leader in its application to synthetic fuels. One of the key drivers for the acquisition was the strong complementarity between Oxford Catalysts' high activity catalyst technology and the Velocys microchannel reactors (microchannel reactors need high activity catalysts to be competitive, whilst high activity catalyst cannot operate in conventional reactors). Together they help enable the economic production at smaller scales of next generation clean synthetic fuels from captured

Chief Executive's Report (continued)

flare gas, gas that is currently re-injected, stranded gas reserves, biomass and municipal waste.

The acquisition is also expected to benefit Oxford Catalysts by accelerating its time to market, broadening its product portfolio to appeal to a wider group of potential partners and customers, strengthening competitiveness and achieving critical mass.

Integration of Velocys is well underway, with some early wins identified and synergies already being realised, particularly in technology and business development. As part of the integration process, two new Group-level roles have been created (Chief Technology Officer and Director of IP and Licensing), as well as an Executive Management Committee comprising key management from both the UK and US operations.

Commercialisation

Synthetic Fuels

Demand for liquid transportation fuels is expected to rise over the next twenty years, driven by growing need from Non-OECD Asian countries and the Middle East. To help satisfy this growing demand, production of alternative fuels is set to increase faster than conventional fuels, with a sizeable proportion of the growth coming from sectors addressable by FT.

Within the synthetic fuels market, there is increasing demand for smaller scale processes (less than 5,000 bpd) that could help monetise flare gas, unlock a greater proportion of the world's stranded gas reserves, reduce feedstock transport costs and increase security of supply for Biomass-to-Liquid ("BTL"), and convert carbon-containing wastes into synthetic fuel. In total, smaller scale synthetic fuels production has the potential to produce as much as 25 million barrels of fuel a day.

The Group has two key technologies for the synthetic fuels market, a combined reactor/catalyst package for FT and another for steam methane reforming ("SMR"). The FT package is the Group's offering to the BTL, Waste-to-Liquid ("WTL") and Coal-to-Liquid ("CTL") markets, whilst an integrated FT and SMR package will be offered to the Gas-to-Liquid ("GTL") market, including for flare gas monetisation. In addition, the Group can offer FT catalysts for conventional reactor systems.

Oxford Catalysts is concentrating its efforts on successfully demonstrating these technologies, with commercial scale demonstrations of FT due to commence in the latter part of 2009, and demonstration of FT and SMR in combination in 2010.

The first FT demonstration will be using equipment destined for the US Air Force, followed by a separate demonstration for the Group's BTL partner. The combined FT and SMR demonstration for GTL will be on behalf of the Group's partners Toyo Engineering (a global EPC company) and MODEC (the world's second largest owner/provider of FPSO's to the oil industry). Relationships with both of these partners remain strong.

Opportunities also exist to leverage some of Oxford Catalysts' pre-acquisition relationships, for example with PTT, into broader engagement with the enlarged Group's technology portfolio.

During 2008, our high activity FT catalyst was demonstrated successfully by Velocys for over 4,000 hours in a nominal two gallon per day microchannel pilot unit. This included successful demonstration of catalyst activity, selectivity, stability and regeneration, as well as recovery from upset conditions. The performance of the catalyst was better than any other catalyst Velocys had previously tested, including expensive, high performance catalysts provided by other catalyst companies. The extended pilot run also successfully demonstrated the design of the Velocys FT reactor.

Also during the period, a full length SMR microchannel was successfully operated for over 1,000 hours, meeting commercial performance targets.

Key technical milestones for 2009 include: delivery of the FT demonstration skid ultimately destined for the Air Force; completion of the SMR demonstration reactor (ready for shipping); qualification of microchannel reactor manufacturers; and successful scale up of the FT catalyst with the Group's catalyst manufacturing partner. Key commercial milestones for 2009 include obtaining formal authorisation to proceed with commercial scale demonstration plant construction (as opposed to simply reactor construction), from both the Group's BTL and GTL partners.

Other Markets
Our HDS catalysts continue to show improved performance compared to competing products. During the period, this competitive advantage was independently verified by a major refiner. The Group is focused on scaling up the manufacture of its HDS catalysts during 2009, as a precursor to more significant commercial deployment.

In the area of natural gas upgrading, we have delivered to our partner, PTT, the necessary scaled-up quantity of material to be tested in side streams on their commercial plants. Testing of the material will begin during the next turn-around cycle, expected during the second quarter of 2009, and will last some four to six months, depending on the efficacy of the material. Success in these trials will lead to demonstration in a full scale commercial unit.

In 2008, the Instant Steam fuel mixture was tested by an independent laboratory and was assessed as safe for transportation. The Group's main project in this area involves a major consumer goods company; during the period we successfully progressed past the first "go/no go" milestone of the product development cycle and have now moved to an extensive safety evaluation, by our partner, of the technology 'in use'. In the meantime, the Group's technical development work has continued to focus on safety. Whilst business development activities have centred on the consumer goods market, we continue to evaluate the technology's commercial potential alongside the required investment and general economic environment, for a number of markets including industrial applications.

Novus Energy, Oxford Catalysts' Strategic Alliance Partner, completed construction of their pilot plant in the summer of 2008, including the reforming process specified by Oxford Catalysts. During a protracted commissioning period, it became clear that the alcohols synthesis catalyst licensed by Novus Energy from a third party, was not scaling up effectively from the laboratory to the pilot plant. This led Novus Energy, in due course, to request the assistance of Oxford Catalysts in the development of an alternative catalyst for their process. The Group has taken on this challenge, after first demonstrating that its initial catalyst designs produced credible results. This step will strengthen the Strategic Alliance between the companies and increase the proportion of the income from future plants that will flow to Oxford Catalysts. In the short term, Oxford Catalysts will see an increase in development revenues from Novus Energy as this second programme is taken on, in part offsetting the delay in commercial rollout.

Lastly, Velocys was recently successful at demonstrating the efficacy of its emulsification technology for a top 10 global cosmetics company. During 2009, the team is aiming to formulate and then pursue a clear marketing strategy for capitalising on this promising technology across the range of its potential markets.

Intellectual Property
Following the acquisition of Velocys, the Group now has a very substantial intellectual property portfolio, numbering over 500 patent filings (of which 121 have already been granted), and more than 750 invention records. The portfolio is professionally managed by dedicated internal resources, using specialised IP management tools and selected external resources, under the leadership of the Group Director of IP and Licensing.

The Group's patent strategy is to ensure that it captures the intellectual property it develops, and protects it for its own use in its current or anticipated business areas, including high-value applications of microchannel-based chemical processing and advanced catalysts. The portfolio is managed with a view to maximizing quality and minimizing cost; all IP generated through partner funded developments is assigned to the Group, whilst partners share the cost of maintaining those patents that are relevant to their application areas. The Group aims, where possible, to file broad, thematic patents, which cross multiple application areas and cover a variety of technologies. Patent enforcement outside the Group's core business areas is addressed by a contingent-fee patent enforcement law firm.

Resources
Oxford Catalysts Group now has the critical mass and resources to become a major leader in the emerging market for synthetic fuel technologies, including: strength and depth of management; relevant industry experience; technical expertise; customised facilities; and cash reserves.

The Group has a highly skilled workforce with close to 90 employees (30% in the UK, 70% in the US), of which

Chief Executive's Report (continued)

30% hold PhDs. The team, whose average age is 39, is managed by experienced industry veterans with an average age of 49.

The combined post-acquisition team brings together a highly complementary set of core competencies, ranging from process engineering, material science, microchannel design and computational fluid dynamics, through to catalyst design, characterisation and scale up.

Our UK operation completed a major laboratory and office expansion in 2008, which included investment in additional state-of-the-art experimental and analytical equipment. The expansion involved a total investment of £1.6 million, and resulted in a doubling of the laboratory and office space.

The Group now has some 35,000 sq. ft. of facilities, customised for the development of catalysts and microchannel process technology, that have had several £ million invested in them to date.

Financial Review
Revenue during the year was ahead of expectations, increasing to £1,298,000 (2007: £163,000), including a contribution of £774,000 from the Velocys business, owned for 6 weeks during 2008. The loss for the period was £3,297,000 (2007 £1,744,000), including a loss of £523,000 from the consolidation of Velocys and £379,000 of depreciation and amortisation expenses.

Financial resources continue to be managed prudently with £16.3 million of cash and short term investments at year end (2007: £15.6 million). Management believes that this is sufficient for several years of operation, however, in light of the broader economic uncertainties, it is continually reviewing the Group's cash burn with a view to minimising expenditure without adversely impacting time to market or the long term value of the business.

Roy Lipski
Chief Executive
27 March 2009

Directors' Report

The Directors present their annual report on the affairs of the Group, together with the audited financial statements, for the year ended 31 December 2008.

Principal Activities
The principal activities of the Group (Oxford Catalysts Group PLC and its subsidiaries) during the year were the design and development of catalysts and, following the acquisition of Velocys, Inc. ("Velocys") in November 2008, microchannel systems and the exploitation of its platform technologies.

The principal activity of the Company (Oxford Catalysts Group PLC) is a holding company.

Business Review
A review of the Company's activities during the year is dealt with in the Chairman's Statement and the Chief Executive's Report.

Key Performance Indicators
At the current stage of the business, the Directors consider that performance is best measured by achievement against various technical and business development milestones which are referred to in the Chief Executive's report.

Operating Risks
These include the timing of developing products to meet the requirements of new customer agreements, the successful implementation of new contracts, the achievement of the demanding service levels included in customer contracts, obtaining any necessary regulatory approvals for the deployment of products, prolonged disruption to the Group's laboratories, the Group's ability to attract and retain the right quality and quantity of personnel, the failure of a product supplied by the Group and the ability to develop and commercialise its technology in such a way as to produce a satisfactory level of profitability.

External Risks
The Group's performance is also subject to external macroeconomic conditions and changes in factors such as exchange rates, interest rates and inflation.

Operations in emerging or new markets may have a higher than average risk of political or economic instability, and may carry increased credit and financial risk.

Financial Risks
The Group's activities expose it to a number of financial risks including price risk, credit risk, cash flow risk, liquidity risk and exchange rate risk. The use of financial derivatives is governed by the Group's policies approved by the Board of Directors, which provide written principles on the use of financial derivatives to manage these risks. At present the Group does not use financial derivatives in the normal course of business.

The Group's and the Company's financial instruments comprise investments in subsidiaries, cash and cash equivalents, short-term investments, trade receivables and trade payables.

The main purpose of these financial instruments is to fund the Group's activities. It has been the Group's policy throughout the year under review that no trading in financial instruments shall be undertaken.

Credit Risk
The Group's principal financial assets are cash and short-term investments, trade and other receivables. The Group's credit risk is primarily attributable to its trade receivables, which are concentrated in a small number of high value customer accounts.

The credit risk on liquid funds is limited to counterparties (banks) with high credit ratings assigned by international credit rating agencies.

Interest Rate Risk
The Group's activities expose it to the financial risk of changes in interest rates. A proportion of interest bearing assets are held at fixed rate to ensure certainty of cash flows.

Liquidity Risk
Group policy is to maintain sufficient cash balances to meet its anticipated requirements over a two to three year period. Funds are placed on time deposits, with cash balances available for immediate withdrawal if required.

Exchange Rate Risk
Since the acquisition of Velocys, a significant part of the Group's activities are located in the US and the funding requirements for these activities are denominated in US dollars. In order to minimise exposure to foreign exchange volatility, the Group holds a portion of its liquid assets in US dollar denominated accounts.

Placing and Readmission to AIM
In November 2008, the Company raised a further £9,774,000 (net of costs) through the placing of 8,251,888 ordinary shares of 1p each at 125p which were successfully admitted to trading on the Alternative Investments Market of the London Stock Exchange ("AIM"). These funds were raised to allow the Group to acquire Velocys and to provide working capital for the development activities of Velocys.

Future Developments
The Board aims to continue its corporate strategies as set out in the Chairman's Statement and Chief Executive's Report.

Directors' Report (continued)

Group Research and Development Activities
The Group continues to invest in development. The catalysts and microchannel technology currently being developed are expected to make significant contribution to the growth of the business. The Directors regard investment in this area as important for success in the medium to long term.

Directors
The Directors who served throughout the year and in the subsequent period to signing, except as noted, were as follows:

Dr Pierre Jungels
Mr Roy Lipski
Dr William Barton (resigned 14 May 2008)
Prof. Malcolm Green (resigned 14 May 2008)
Mrs Susan Robertson (appointed 14 May 2008)
Mr Jeremy Scudamore
Dr Jan Verloop
Dr Tiancun Xiao (resigned 14 May 2008)

Directors' Interests
The Directors who held office at 31 December 2008 had the following interests in the shares and debentures of Group undertakings (as recorded in the Register of Directors' Interests and including those of the spouse or civil partner and children under 18):

Name of Director	**Oxford Catalysts Group PLC 31 December 2008 Ordinary £0.01 shares**	Oxford Catalysts Group PLC 31 December 2007 or on appointment Ordinary £0.01 shares
Dr Pierre Jungels	223,031	211,031
Mr Roy Lipski	12,000	–
Mrs Susan Robertson	9,600	–
Mr Jeremy Scudamore	24,000	–
Dr Jan Verloop	150,837	140,437

There were no changes in Directors' shareholdings between 31 December 2008 and the date of this report. Details of the Directors' share options and service contracts are shown in the Directors' Remuneration Report.

Substantial Shareholdings
On 1 March 2009 the Company had been notified of the following holdings of 3% or more of the issued share capital of the Company.

	Number of shares held	%
Battelle Memorial Institute	10,442,207	17.51
Lansdowne Partners	10,109,568	16.95
Pioneer Investments	9,112,195	15.28
IP2IPO Management Limited	7,709,193	12.92
Dr Tiancun Xiao	4,130,500	6.92
Prof. Malcolm Green	3,368,900	5.65
University of Oxford	2,339,661	3.92
New Star Asset Management	1,981,037	3.32
Credit Suisse	2,041,999	3.42

Supplier Payment Policy
The Group's policy is to settle terms of payment with suppliers when agreeing the terms of each transaction, to ensure that suppliers are made aware of the terms of payment and to abide by the terms of payment. Trade payables of the Group at 31 December 2008 were equivalent to 26 (2007: 16) days' purchases, based on the average daily amount invoiced by suppliers during the year. The Company had no trade payables at 31 December 2008 (2007: nil).

Annual General Meeting
The annual general meeting of the Company will be held at the Company's Milton Park Premises at 10.45am on 12 May 2009.

Auditors
Each of the persons who is a Director at the date of approval of this report confirms that:

- So far as the Director is aware, there is no relevant audit information of which the Company's auditors are unaware; and
- The Director has taken all the steps that he/she ought to have taken as a Director in order to make himself/herself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s234ZA of the Companies Act 1985.

During the year, Deloitte & Touche LLP resigned as auditors and PricewaterhouseCoopers LLP were appointed to fill the casual vacancy.

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

Approved by the Board and signed on its behalf by:

Roy Lipski
Chief Executive
27 March 2009

Corporate Governance Report

Corporate Governance
Companies who have their securities traded on AIM are not required to comply with the disclosure requirements of the Combined Code. The Board, however, has determined that the Company should maintain high standards of corporate governance and whilst not fully complying with the Combined Code, has adopted procedures and has taken steps to adopt the underlying principles, in so far as is appropriate given the size of the Company and the nature of its operations.

Board of Directors
The Company is controlled by the Board of Directors which comprises two Executives, one of whom is the Chief Executive Officer, and three Non-executive Directors. All of the Non-executive Directors are independent. The roles of Chief Executive Officer and Chairman are separate.

All Directors are able to take independent advice to assist them in their duties if necessary.

The Board is responsible to shareholders for the proper management of the Group and meets formally at least eight times a year to set the overall direction and strategy of the Group, to review operating and financial performance and to consider and advise on senior management appointments. The Board also monitors and approves financial policy and budgets, including capital expenditure. All key operational decisions are subject to Board approval. The Company Secretary is responsible for ensuring that Board procedures are followed and that any and all applicable rules and regulations are complied with.

Directors are subject to election by shareholders at the first opportunity after their appointment. In addition, one third of the Directors are subject to retirement by rotation at each Annual General Meeting.

Committees of the Board
Remuneration Committee
The Remuneration Committee comprises the Non-executive Directors, under the chairmanship of Dr Jan Verloop. It reviews, inter-alia, the performance of the Executive Directors and sets the scale and structure of their remuneration and basis of their service agreements, having due regard to the interests of shareholders. The Remuneration Committee also determines the allocation of share options to Executive Directors. No Director has a service agreement exceeding one year.

One of the policies of the Remuneration Committee is that no individual participates on discussions or decisions concerning his own remuneration.

The Directors' Remuneration Report is set out on pages 12 to 14.

Audit Committee
The Audit Committee comprises the Non-executive Directors, under the Chairmanship of Mr Jeremy Scudamore. Under its terms of reference it meets at least three times a year, and amongst other duties it reviews the monitoring of the Group's internal controls, accounting policies and financial reporting, and provides a forum through which the external auditors report. It meets at least once a year with the external auditors without Executive Directors present.

Nominations Committee
The Nominations Committee consists of the Non-executive Directors, under the chairmanship of Dr Pierre Jungels. It meets at least once per year, and amongst its other duties it reviews the composition of the Board and its succession planning, and keeps under review the leadership needs of the Company with a view to ensuring the continued ability of the Group to compete effectively in the marketplace.

During the year, the Nominations Committee reviewed the composition of the Board and made recommendations for its restructuring which were implemented at the AGM in May 2008. The restructuring was designed to streamline the Board and to ensure it complied with best practice corporate governance principles of having non-executives as the majority of directors.

The day to day management of the Group is overseen by the Executive Management Committee.

Executive Management Committee
The Executive Management Committee consists of the Executive Directors and other key management of the two subsidiaries, under the leadership of the Group CEO. The role of this committee is to monitor the management of operations in terms of objectives, performance and action plans.

Relations with Shareholders
The Board considers effective communication with shareholders to be very important and encourages regular dialogue with investors. The Board responds promptly to questions received verbally or in writing. Directors regularly attend meetings with shareholders and analysts throughout the year. Shareholders will be given at least 21 days notice of the Annual General Meeting at which they will be given the opportunity to discuss the Group's developments and performance.

The Company's web site www.oxfordcatalysts.com contains full details of the Group's activities, press releases and other details, as well as a link to the relevant web page of the London Stock Exchange web site for share price details, share trading activities and graphs, and Regulatory News Service ("RNS") announcements.

Maintenance of a Sound System of Internal Control
The Directors have overall responsibility for ensuring that the Group maintains a system of internal control to provide them with reasonable assurance that the assets of the Group are safeguarded and that shareholders' investments are protected. The system includes internal controls appropriate for a Group of the size of Oxford Catalysts, and covers financial, operational, compliance (including health and safety) and risk management. There are limitations in any system of internal control, which can provide reasonable but not total assurance with respect to the preparation of financial information, the safeguarding of assets and the possibility of misstatement or loss.

The Board has considered its policies with regard to internal controls, as set out in the Turnbull Report, and undertook an assessment of the major areas of the business and methods used to monitor and control them. In addition to financial risk, the review covered operational, commercial, regulatory and health and safety risks. The risk review is an ongoing process with reviews being undertaken on a regular basis.

The key procedures designed to provide an effective system of internal controls that are operating up to the date of sign-off of this report are set out below.

Control Environment
There is an organisational structure with clearly defined lines of responsibility and delegation of accountability and authority.

Risk Management
The Group employs Directors and senior personnel with the appropriate knowledge and experience for a business engaged in activities in its field of operations, and undertakes regular risk assessments and reviews of its activities.

Financial Information
The Group prepares detailed budget and working capital projections, which are approved annually by the Board and are maintained and updated regularly throughout the year. Detailed management accounts and working capital cash flows are prepared on a monthly basis and compared to budgets and projections to identify any significant variances.

Management of Liquid Resources
The Board is risk averse when investing the Group's surplus cash funds. The Group's treasury management policy which was adopted in July 2006, and is reviewed periodically, sets out strict procedures and limits on how surplus funds are invested.

The Board has considered it inappropriate to establish an internal audit function, given the size of the Group. However, this decision will be reviewed as the operations of the Group develop.

Review of Corporate Governance Disclosures
The Board has voluntarily complied with the principal Corporate Governance disclosures of the Combined Code. These have not been formally reviewed by the Company's auditors. The auditors' responsibility extends only to reading this report as a part of the Annual Report and Accounts and considering whether it is consistent with the audited financial statements.

Directors' Remuneration Report

Introduction
It is not a requirement for companies that have securities listed on AIM to comply with the disclosure requirements of Directors' Remuneration Report Regulations 2002 or to comply with the UKLA Listing Rules and the disclosure provisions under schedule 7A of the Companies Act 1985. The Remuneration Committee, however, is committed to maintaining high standards of corporate governance and has taken steps to comply with the principles of best practice in so far as it can be applied practically given the size of the Group and the nature of its operations.

Unaudited Information
Remuneration Report
The Board has applied the principles of good governance relating to Directors' remuneration as described below.

Remuneration Committee
The Remuneration Committee comprises the Non-executive Directors under the chairmanship of Dr Jan Verloop. The Committee's constitution and operation is compliant with the provisions of the Combined Code on Corporate Governance. When setting its remuneration policy for Executive Directors, the Committee gives consideration to the provisions and principles of the Combined Code.

Remuneration Policy for Executive Directors
The remuneration policy has been designed to ensure that Executive Directors receive appropriate incentive and reward given their performance, responsibility and experience. When assessing this, the Remuneration Committee looks to ensure that the policy aligns the interests of the Executive Directors with those of shareholders.

The Company's remuneration policy for Executive Directors is to:

- consider the individual's experience and the nature, complexity and responsibilities of their work in order to set a competitive salary that attracts and retains management of the highest quality;
- link individual remuneration packages to the Group's long-term performance through both bonus schemes and share option plans;
- provide post-retirement benefits through payment into defined contribution pension schemes; and
- provide employment related benefits including provision of life assurance and medical insurances.

Remuneration Package for Executive Directors
Executive Directors' remuneration packages are considered annually and comprise a number of elements as follows:

Base Salary
The base salary is reviewed annually at the beginning of each year. The review process undertaken by the Remuneration Committee has regard to the development of the Group and the contribution that individuals will continue to make. Consideration is also given to the need to retain and motivate individuals and available information on the package levels in comparable organisations. To assist in this process the Remuneration Committee draws on the findings of external salary surveys and undertakes its own research.

Annual Performance Incentive
All Executive Directors are eligible, at the discretion of the Remuneration Committee, for an annual bonus. The Remuneration Committee sets targets for bonus awards at the beginning of each year; awards are determined by both the performance of the individual and the Group as a whole at the end of each year. The performance targets for the Group comprise measures of revenue, expenses, technical and business development, as well as share price performance. For the year ended 31 December 2008, the Remuneration Committee decided that a proportion of the bonus of the Executive Directors would be paid in nominal value exercise price share options in order to preserve the cash reserves of the Group.

Pensions and Other Benefits
The Group contributes to individuals' defined contribution pension plans.

Other benefits provided are life assurance and private medical insurance. No company car is provided, but Directors are paid an allowance for business miles travelled in accordance with HMRC guidelines.

Share Options
Executive Directors may, at the discretion of the Remuneration Committee, be awarded share options. Where share options are to be granted, they will be granted at the closing mid-market value of the Company's ordinary shares on the day prior to grant and vest over a period of up to three years (except where they relate to bonus and LTIP awards which are granted at nominal price).

LTIP Awards
Executive Directors may be awarded long term incentive (LTIP) share options which will only vest to the extent that predetermined performance conditions are satisfied at the end of a three year period. The maximum number of these performance shares that can be awarded to an executive in any one year will be at the discretion of the Remuneration Committee.

Remuneration Policy for Non-executive Directors
The remuneration of the Non-executive Directors is determined by the Board as a whole, based on a review of current practices in other equivalent companies. The Non-executive Directors do not receive any pension payments towards private arrangements, nor do they participate in any of the bonus schemes. Fees are based on a fixed fee plus a fee for chairmanship of a committee.

The Non-executive Directors each have service agreements which are reviewed annually by the Board. They are included in the one third of Directors subject to retirement by rotation at each Annual General Meeting.

Audited Information
Directors' Remuneration
The Directors received the following remuneration during the year to 31 December 2008.

Name of Director	Salary and fees £	Bonus £	Bonus share options £	Other benefits £	Pension contributions £	**2008** Totals £	2007 Totals £
Executive							
Mr Roy Lipski	149,967	57,938	173,813	711	10,498	392,927	194,604
Dr William Barton*	45,045	15,075	15,075	459	3,153	78,807	161,415
Dr Tiancun Xiao*	40,541	7,601	–	331	2,838	51,311	145,167
Mr Paul Barnes*	–	–	–	–	–	–	40,249
Mrs Susan Robertson*	75,000	31,275	31,275	559	5,250	143,359	–
Non-executive							
Dr Pierre Jungels	40,000	–	–	–	–	40,000	38,173
Prof. Malcolm Green*	9,327	–	–	–	–	9,327	25,000
Dr Andrew Naylor*	–	–	–	–	–	–	5,596
Mr Jeremy Scudamore*	30,000	–	–	–	–	30,000	24,006
Dr Jan Verloop	37,463	–	–	–	–	37,463	30,701
Aggregate emoluments and pension contributions	427,343	111,889	220,163	2,060	21,739	783,194	664,911

* The figures shown above relate to remuneration of directors whilst in office. Dr William Barton, Dr Tiancun Xiao and Prof. Malcolm Green all resigned and Mrs Susan Robertson was appointed as director on 14 May 2008. Mr Paul Barnes resigned on 28 December 2007 and Dr Andrew Naylor resigned on 14 May 2007. Mr Jeremy Scudamore was appointed on 1 March 2007.

Directors' Share Options
Aggregate emoluments disclosed above do not include any amounts for the value of the options to acquire ordinary shares in the Company granted to or held by the Directors, other than options which were granted after the year end as part of the annual bonus. The bonus shares to be issued are at nominal value (1p) exercise price and are immediately vested at date of issue. They expire 10 years after date of issue.

Directors' Remuneration Report (continued)

Details of options held by the Directors at 31 December 2008 are as follows:

Name of Director	At 1 January 2008	Granted	Exercised	Lapsed	At 31 December 2008	Exercise price	Earliest date of exercise	Date of expiry	Exercisable at 31 December 2008
Mr Roy Lipski									
Pre-IPO options	1,404,370	–	–	–	1,404,370	4.89p	26/04/06	16/03/16	1,404,370
LTIP	–	600,000	–	–	600,000	1.0p	19/11/08	19/11/18	400,000
Mrs Susan Robertson									
EMI	–	62,893	–	–	62,893	159.0p	29/10/10	01/04/18	–
LTIP	–	160,000	–	–	160,000	1.0p	19/11/08	19/11/18	106,667

Vesting of the LTIP options is subject to achievement of performance conditions which have been set by the Remuneration Committee.

The market price of the Company's shares as at 31 December 2008 was 95p, and the range during the year was 95p –173p. Details of options and the cost of such share-based payments are given in note 12.

Statement of Directors' Responsibilities

The Directors are responsible for preparing the Annual Report, Directors' Remuneration Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law that directors have prepared the group and parent company financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union. The financial statements are required by law to give a true and fair view of the state of affairs of the Company and the Group and of the profit or loss of the Group for that period.

In preparing those financial statements the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state that the financial statements comply with IFRSs as adopted by the European Union;
- prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the Group will continue in business, in which case there should be supporting assumptions or qualifications as necessary.

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

The Directors are responsible for the maintenance and integrity of the Company's web site and legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

By order of the Board:

Roy Lipski.

Roy Lipski
Chief Executive

Independent Auditors' Report
to the members of Oxford Catalysts Group PLC

We have audited the Group and parent company financial statements (the "financial statements") of Oxford Catalysts Group PLC for the year ended 31 December 2008 which comprise the Consolidated Income Statement, the Consolidated and Company Balance Sheets, the Consolidated and Company Cash Flow Statements, the Consolidated Statement of Recognised Income and Expense and the related notes. These financial statements have been prepared under the accounting policies set out therein. We have also audited, at the request of the Directors, the information in the Directors' Remuneration Report that is described as having been audited.

Respective Responsibilities of Directors and Auditors
The Directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and International Financial Reporting Standards ("IFRSs") as adopted by the European Union are set out in the Statement of Directors' Responsibilities. The Directors are also responsible for preparing the Directors' Remuneration Report (because the Company applies the requirements, as considered appropriate by the Directors for a company of its size, of Schedule 7A to the Companies Act 1985 as if it were a listed company).

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). We also, at the request of the Directors, audit the part of the Directors' Remuneration Report to be audited (because the Company applies the requirements, as considered appropriate by the Directors for a company of its size, of Schedule 7A to the Companies Act 1985 as if it were a listed company). This report, including the opinion, has been prepared for, and only for, the Company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements. The information given in the Directors' Report includes that information presented in the Chairman's Statement and Chief Executive's Report that is cross referred from the Business Review section of the Directors' Report.

In addition we report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and other transactions is not disclosed.

We read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. The other information comprises only the contents pages, the Directors' Report, the unaudited part of the Directors' Remuneration Report, the Chairman's Statement, the Chief Executive's Report and the Corporate Governance Report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any further information.

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

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

Opinion
In our opinion:

- the Group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the Group's affairs as at 31 December 2008 and of its loss and cash flows for the year then ended;

- the parent company financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union as applied in accordance with the provisions of the Companies Act 1985, of the state of the parent company's affairs as at 31 December 2008 and of its cash flows for the year then ended;

- the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985; and

- the information given in the Directors' Report is consistent with the financial statements.

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
27 March 2009

Consolidated Income Statement
for the year ended 31 December 2008

	Note	2008 £'000	2007 £'000
Revenue	5	1,298	163
Cost of sales		(768)	(131)
Gross profit		530	32
Unfunded research and development costs		(1,607)	(773)
Share-based payments	12	(1,248)	(199)
Other administrative expenses		(2,644)	(1,620)
Total administrative expenses		(3,892)	(1,819)
Operating loss		(4,969)	(2,560)
Finance income	6	1,505	791
Finance costs	7	(12)	(21)
Loss on ordinary activities before tax	8	(3,476)	(1,790)
Tax credit on ordinary activities	11	179	46
Loss for the financial year attributable to the equity holders of the Company		(3,297)	(1,744)
Loss per share attributable to the equity holders of the Company			
Basic and diluted (pence)	13	(7.72)	(4.49)

The notes on pages 24 to 44 are an integral part of these consolidated financial statements.

The Company has elected to take the exemption under Section 230 of the Companies Act 1985 to not present the parent company profit and loss account. The profit for the parent company for the year was £272,000 (2007: loss £206,000).

All amounts relate to continuing operations.

Consolidated Statement of Recognised Income and Expense
for the year ended 31 December 2008

	2008 £'000	2007 £'000
Share-based payments	1,248	199
Foreign currency translation differences	638	–
Net income recognised directly in equity	1,886	199
Loss for the financial year	(3,297)	(1,744)
Total recognised expense for the year	(1,411)	(1,545)

There are no movements to be recognised through the Company Statement of Recognised Income and Expense for the year ended 31 December 2008 other than profit for the year of £272,000 (2007: loss for the year of £206,000).

Consolidated Balance Sheet
as at 31 December 2008

	Note	2008 £'000	2007 £'000
Assets			
Non-current assets			
Intangible assets	14	26,570	205
Property, plant and equipment	15	2,493	860
		29,063	1,065
Current assets			
Trade and other receivables	17	2,579	398
Current income tax asset		172	46
Short term investments – cash held on long-term deposit	18	8,645	7,000
Cash and cash equivalents	18	7,667	8,630
		19,063	16,074
Total assets		48,126	17,139
Liabilities			
Current liabilities			
Trade and other payables	19	(2,521)	(484)
Borrowings	21	(10)	–
		(2,531)	(484)
Non-current liabilities			
Trade and other payables	20	(1,319)	(122)
Borrowings	21	(22)	–
		(1,341)	(122)
Total liabilities		(3,872)	(606)
Net assets		44,254	16,533
Capital and reserves attributable to equity holders of the Company			
Called up share capital	22	596	405
Share premium account	23	45,047	17,865
Merger reserve	23	369	369
Share-based payment reserve	23	3,764	–
Retained earnings (deficit)	23	(5,522)	(2,106)
Total equity		44,254	16,533

The financial statements on pages 18 to 44 were approved by the Board of Directors and authorised for issue on 27 March 2009. They were signed on its behalf by:

Roy Lipski
Chief Executive
27 March 2009

Company Balance Sheet
as at 31 December 2008

	Note	**2008** £'000	2007 £'000
Assets			
Non-current assets			
Investments	16	49,364	1,044
Trade and other receivables	17	–	17,728
Total assets		49,364	18,772
Liabilities			
Current liabilities			
Trade and other payables	19	–	(60)
Net assets		49,364	18,712
Capital and reserves attributable to equity holders of the company			
Called up share capital	22	596	405
Share premium account	23	45,047	17,865
Share-based payment	23	3,764	757
Retained earnings (deficit)	23	(43)	(315)
Total equity		49,364	18,712

The financial statements on pages 18 to 44 were approved by the Board of Directors and authorised for issue on 27 March 2009. They were signed on its behalf by:

Roy Lipski
Chief Executive
27 March 2009

Consolidated Cash Flow Statement
for the year ended 31 December 2008

	Note	**2008** £'000	2007 £'000
Cash flows from operating activities			
Cash consumed by operations	24	(5,526)	(2,048)
Tax credit received		53	–
Net cash used in operating activities		(5,473)	(2,048)
Cash flows from investing activities			
Acquisition of subsidiary (net of cash acquired)	4	(3,041)	–
Purchase of property, plant and equipment	15	(1,387)	(485)
Purchase of intangible fixed assets	14	(82)	(31)
Interest received		517	666
Increase in cash placed on deposit		(1,645)	–
Net cash (used in)/generated from investing activities		(5,638)	150
Cash flows generated from financing activities			
Proceeds of issuance of ordinary shares	23	9,774	4,000
Net cash from financing activities		9,774	4,000
Net (decrease)/increase in cash and cash equivalents		(1,337)	2,102
Cash and cash equivalents at beginning of year		8,630	6,528
Exchange gains on cash balances		374	–
Cash and cash equivalents at end of year		7,667	8,630

Company Cash Flow Statement
for the year ended 31 December 2008

	Note	**2008** £'000	2007 £'000
Profit before income tax		272	(206)
Changes in working capital:			
– Trade and other receivables		–	(3,794)
– Trade and other payables		(60)	–
Net cash generated from/(used in) operating activities		212	(4,000)
Cash flows from investing activities			
Acquisition of subsidiary	4	(3,484)	–
Investment in subsidiaries		(6,502)	–
Cash flows from financing activities			
Proceeds of issuance of ordinary shares	23	9,774	4,000
Net increase in cash and cash equivalents		–	–
Cash and cash equivalents at beginning of year		–	–
Cash and cash equivalents at end of year		–	–

Notes to the Accounts
for the year ended 31 December 2008

1 General Information

Oxford Catalysts Group PLC is a company incorporated in the UK under the Companies Act 1985 and domiciled in the UK. The address of the registered office is given on the inside back cover page. The nature of the Group's operations and its principal activities are set out in the summary on the inside front cover and in the Chairman's Statement and Chief Executive's Report on pages 2 to 6.

The Company is a public limited company which is listed on AIM.

2 Accounting Policies

The principal accounting policies applied in the preparation of these consolidated financial statements are summarised below. The policies have been consistently applied to all the years presented unless otherwise stated.

Basis of Preparation

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU), IFRIC Interpretations and the Companies Act 1985 applicable to companies reporting under IFRS. The consolidated financial statements have been prepared under the historical cost convention.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in note 3.

Accounting Developments

Interpretations effective in 2008 and relevant to the Group

None.

Interpretations effective in 2008 but not relevant to the Group

The following interpretations to published standards are mandatory for accounting periods beginning on or after 1 January 2008, but are not relevant to the Group's operations:

- IFRIC 14, 'IAS 19 – the limit on a defined benefit asset, minimum funding requirements and their interaction';
- IFRIC 11, 'IFRS 2 – Group and treasury share transactions';
- IFRIC 12, 'Service concession arrangements'.

Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group

The following standards and amendments to existing standards have been published and are mandatory for the Group's accounting periods beginning on or after 1 January 2009 or later periods, but the Group has not early adopted them:

- IFRS 8, 'Operating segments' (effective from 1 January 2009);
- IAS 1 (revised), 'Presentation of financial statements' (effective from 1 January 2009);
- IFRS 2 (amendment), 'Share-based payment' (effective from 1 January 2009);
- IAS 32 (amendment), 'Financial instruments: Presentation', and IAS 1 (amendment), 'Presentation of financial statements' – 'Puttable financial instruments and obligations arising on liquidation' (effective from 1 January 2009);
- IFRS 1 (amendment), 'First time adoption of IFRS', and IAS 27, 'Consolidated and separate financial statements', (effective from 1 January 2009);
- IAS 27 (revised), 'Consolidated and separate financial statements', (effective from 1 July 2009);
- IAS 27 (amendment), 'Consolidated and separate financial statements' (effective from 1 January 2009);

- IFRS 3 (revised), 'Business combinations' (effective from 1 July 2009);
- IFRS 5 (amendment), 'Non-current assets held-for-sale and discontinued operations' (and consequential amendment to IFRS 1, 'First-time adoption') (effective from 1 July 2009);
- IAS 23 (amendment), 'Borrowing costs' (effective from 1 January 2009);
- IAS 28 (amendment), 'Investments in associates' (and consequential amendments to IAS 32, 'Financial Instruments: Presentation', and IFRS 7, 'Financial instruments: Disclosures') (effective from 1 January 2009);
- IAS 36 (amendment), 'Impairment of assets', (effective from 1 January 2009);
- IAS 38 (amendment), 'Intangible assets', (effective from 1 January 2009);
- IAS 19 (amendment), 'Employee benefits', (effective from 1 January 2009);
- IAS 39 (amendment), 'Financial instruments: Recognition and measurement' (effective from 1 January 2009);
- IAS 1 (amendment), 'Presentation of financial statements', (effective from 1 January 2009);
- There are a number of minor amendments to IFRS 7, 'Financial instruments: Disclosures', IAS 8, 'Accounting policies, changes in accounting estimates and errors', IAS 10, 'Events after the reporting period', IAS 18, 'Revenue', and IAS 34, 'Interim financial reporting', which are part of the IASB's annual improvements project published in May 2008 (not addressed above). The amendments to these standards are still subject to endorsement by the EU. These amendments, subject to endorsement by the EU, are unlikely to have an impact on the Group or Company's accounts and have, therefore, not been analysed in detail;
- IFRIC 16, 'Hedges of a net investment in a foreign operation' (effective from 1 October 2008).

Interpretations and amendments to existing standards that are not yet effective and not relevant for the Group's operations
The following interpretations and amendments to existing standards have been published and are mandatory for the Group's accounting periods beginning on or after 1 January 2009 or later periods but are not relevant for the Group's operations:

- IFRIC 13, 'Customer loyalty programmes' (effective from1 July 2008);
- IAS 16 (amendment), 'Property, plant and equipment' (and consequential amendment to IAS 7, 'Statement of cash flows') (effective from 1 January 2009);
- IAS 29 (amendment), 'Financial reporting in hyperinflationary economies' (effective from 1 January 2009);
- IAS 31 (amendment), 'Interests in joint ventures', (and consequential amendments to IAS 32 and IFRS 7) (effective from 1 January 2009);
- IAS 40 (amendment), 'Investment property' (and consequential amendments to IAS 16) (effective from 1 January 2009);
- IAS 41 (amendment), 'Agriculture' (effective from 1 January 2009);
- IAS 20 (amendment), 'Accounting for government grants and disclosure of government assistance' (effective from 1 January 2009);
- IFRIC 15, 'Agreements for construction of real estates' (effective from 1 January 2009).

Notes to the Accounts (continued)

Consolidation – Subsidiaries
The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement. Acquired subsidiaries are consolidated from the date on which control of the subsidiary is transferred to the Group.

Inter-company transactions, balances and unrealised gains and losses on transactions between group companies are eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Segment Reporting
The Group has two segments based upon its proprietary technology – catalysts and equipment. The Group operates in three main geographical areas, determined by location of customer – Europe, the USA and Asia.

Foreign Currency Translation
Functional and Presentation Currency
Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in UK sterling (£), which is the Company's functional and the Group's presentation currency.

Transactions and Balances
Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the income statement within 'finance income or cost'.

Group Companies
The results and financial position of all the Group entities (none of which has the currency of a hyper-inflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(a) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

(b) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and

(c) all resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations are taken to shareholders' equity.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

Cash and Cash Equivalents
Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

The Group leases certain property, plant and equipment. Leases of property, plant and equipment where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments.

Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in other long-term payables. The interest element of the finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases is depreciated over the shorter of the useful life of the asset and the lease term.

Revenue Recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of trade discounts, VAT and other sales related taxes.

Revenue from development contracts is measured in accordance with the Group's policy on development contracts. Where the outcome of a development contract can be estimated reliably, revenue and costs are recognised by reference to the stage of completion of the contract activity at the balance sheet date. This is normally measured by the proportion that costs incurred for work performed to date bear to the estimated total costs except where this would not be representative of the stage of completion.

Where the outcome of a development contract cannot be estimated reliably, contract revenue is recognised to the extent of contract costs incurred where it is probable that they will be recoverable. Contract expenses are recognised as costs in the period in which they are incurred. When it is probable that total contract costs will exceed revenue, the expected loss is recognised as an expense immediately.

Contracts for development work may include either upfront payments or milestone payments, payable on successful attainment of defined milestones. Where upfront non-refundable payments are received on signing of an agreement, such payments are deferred and amortised over the life of the agreement to which it relates. For milestone payments, revenue is only recognised when the milestone has been successfully achieved and no further obligations remain.

Grants are recognised as income over the periods necessary to match them, on a systematic basis, with the costs which they are intended to compensate. Grant income is not recognised until the conditions for their receipt have been complied with and there is reasonable assurance that the grant will be received. In the event that a grant appears to have to be repaid, provision is made for the estimated liability.

Interest income is accrued on a time basis by reference to the principal outstanding and at the effective interest rate applicable.

Intangible Assets

Licences

Licences are capitalised at the present value of the minimum licence payments. Amortisation will commence when related revenue starts to be earned and it will be charged in equal annual instalments over the life of the patents to which the licences relate. Provision is made for any impairment.

Patents

Patents and trademarks are included at cost and amortised in equal annual instalments over a period of 20 years, which is their estimated useful economic life. Provision is made for any impairment. Where patent expenditure is funded by arrangements with development partners, the costs of such patents are not capitalised.

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the identifiable net assets of the acquired subsidiary at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in 'Intangible assets'. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses.

Notes to the Accounts (continued)

Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose, identified according to operating segment.

Software
Purchased software is measured initially at cost and is amortised on a straight-line basis over its estimated useful life of 3 years. Provision is made for any impairment.

Purchased Intangibles
Intangibles are recognised when they have been acquired separately for cash or other monetary assets or as part of a business combination and are amortised through cost of sales over their estimated useful lives from the time they are available for use. In process technology acquired as part of a business combination is valued using discounted cash flow valuations of the projected future benefits arising from the technology acquired.

Research and Development
Development costs are charged to the income statement in the year they are incurred except in those circumstances where, during the development phase of a project, the Company is able to identify an intangible asset and demonstrate that the asset will generate probable future economic benefits. In such cases, provided the criteria defined under IAS 38 are met then the costs are capitalised. The costs in respect of funded projects are recognised to the extent that the costs meet the relevant criteria, net of any amounts reimbursed by research partners.

Development costs are amortised, from the point the asset is available for use in the manner intended by management, on a straight-line basis over the period of its expected benefit.

Expenditure on research and development that does not meet the above criteria is charged to the income statement in the year in which it is incurred.

Impairment of Non-financial Assets
Assets that have an indefinite useful life, for example goodwill, are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

Property, Plant and Equipment
Property, plant and equipment are stated at cost or valuation, net of depreciation and any provision for impairment. Depreciation is provided on all property, plant and equipment at rates calculated to write off the cost or valuation, less estimated residual value, of each asset on a straight-line basis over its expected useful life, as follows: plant and machinery, 3-5 years. No depreciation is provided on assets under construction. Residual value is calculated on prices prevailing at the date of acquisition.

Investments
Fixed asset investments are shown at cost less provision for impairment.

Share-based Payment
The Group issues share options to certain employees which are accounted for as equity settled. Equity settled share-based payments are measured at fair value (excluding the effect of non market-based vesting conditions) at the date of grant. The fair value determined at the grant date of the equity settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest and adjusted for the effect of non market based vesting conditions.

Fair value is measured by use of the Black-Scholes pricing model. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations. When options are exercised the proceeds received, net of attributable transaction costs, are credited to share capital and premium.

The grant by the Company of options over its equity instruments to employees of subsidiary undertakings in the Group is treated as a capital contribution. The fair value of employee services received, measured by reference to the grant date fair value, is recognised over the vesting period as an increase to investments in subsidiary undertakings with a corresponding credit to equity.

Short Term Employee Benefits
Accruals are included to reflect the cost of short term compensation to employees for absences such as paid leave.

Pension Costs
The Group operates various defined contribution pension schemes for its employees. The amount charged to the income statement in respect of pension costs and other post-retirement benefits is the contributions payable in the year. Differences between contributions payable and contributions actually paid are shown as either accruals or prepayments in the balance sheet.

Taxation
Current tax, including UK corporation tax and foreign tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised using the liability method, on temporary timing differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of transaction affects neither accounting not taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Financial Instruments
Trade Receivables
Trade receivables are stated at nominal value (which approximates to fair value) less impairment for estimated irrecoverable amounts. Customer prepayments are netted against individual customer receivables to the extent that there is the right of set-off.

Trade Payables
Trade payables are stated at their nominal value (which approximates to fair value).

Financial Liabilities and Equity Instruments
Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

Borrowings
Interest bearing loans and overdrafts are initially recorded at fair value, taken as proceeds received net of direct issue costs and thereafter at amortised cost. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are recognised in the income statement using the effective interest method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

3 Critical Accounting Estimates and Judgements
The preparation of financial information in conformity with IFRS requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the reporting date and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results ultimately may differ from those estimates. The estimates and assumptions that have a significant risk of causing material adjustment to the carrying amounts of assets and liabilities within the next financial period are discussed below.

Notes to the Accounts (continued)

Revenue Recognition
The Company and its subsidiaries recognise revenue generally at the time of delivery and when collection of the resulting receivable is reasonably assured. Should management consider that the criteria for revenue recognition are not met for a transaction, revenue recognition would be delayed until such time as the benefit becomes fully earned. Payments received in advance of revenue recognition are recorded as deferred income.

Execution of certain agreements will sometimes allow the Company and its subsidiaries to charge an upfront payment. These are recorded as deferred income and recognised in revenue over the period of the agreement to which they relate. Management reviews, on a periodic basis, progress performed on such agreements and adjusts the proportion recorded in revenue accordingly.

The length of an agreement can be dependent on achievement of certain technical milestones and as such is uncertain when the agreement is signed. In such cases, management recognise income based on their best estimate of the agreement duration and review this estimate at each period end.

Share Options
The fair value calculation of share-based payments requires several assumptions and estimates. Their details are disclosed in note 12. Such assumptions and estimates could change and could affect the amount recorded.

Capitalised Development Costs
The Company undertakes a significant number of research projects in which it incurs development costs. These costs are assessed against the capitalisation policy as set out in note 2. There is a high degree of judgement in assessing whether and when the costs on such projects meet the criteria for capitalisation under IAS 38. Those costs which have been assessed as meeting these criteria for capitalisation are disclosed within note 14.

Acquired Intangible Assets
Estimation of the fair values of acquired intangible assets requires assumptions as to value, future life and future cash flows for impairment tests. There is a high degree of judgement required in making these assumptions which impact both the initial fair value acquired and the carrying value as at the balance sheet date.

4 Acquisition of a Subsidiary
On 20 November 2008, the Group acquired 100% of the share capital of Velocys, Inc. ("Velocys"). Velocys is a US-based company engaged in the research, development and commercialisation of microchannel process technologies with customers in the US, Europe and Asia. Velocys contributed revenues of £774,000 and a net loss of £523,000 to the Group for the period from 20 November 2008 to 31 December 2008. If the acquisition had occurred on 1 January 2008, Group revenue would have been £5,000,000 and a net loss of £5,401,000 would have been incurred for the year. The amounts have been calculated using the Group's accounting policies and by adjusting the results of the subsidiary to reflect the additional amortisation that would have been charged assuming the fair value adjustments to intangible assets had applied from 1 January 2008. The net loss includes costs of £1,128,000 which arose in Velocys as a result of the acquisition, prior to change of control. These include restructuring costs and acquisition related expenses.

Details of total purchase consideration are as follows:

	£'000
Purchase consideration	
Cash paid	1,797
Direct costs relating to the acquisition	1,687
Fair value of shares issued (note 22)	17,599
Fair value of replacement share options issued (note 23)	1,759
Total purchase consideration	22,842

The assets and liabilities as at 20 November 2008 arising from the acquisition and the resulting goodwill, provisionally determined, are as follows:

	Fair value £'000	Acquiree's carrying amount £'000
Cash and cash equivalents	443	443
Property, plant and equipment (note 15)	592	592
In process technology (note 14)	20,860	262
Intangible assets (note 14)	61	61
Trade and other receivables	1,120	1,120
Trade and other payables	(4,766)	(5,219)
Fair value of net assets	18,310	(2,741)
Goodwill	4,532	
Total purchase consideration	22,842	
Purchase consideration settled in cash	3,484	
Cash and cash equivalents in subsidiary acquired	(443)	
Cash outflow on acquisition	3,041	

The goodwill is attributable to Velocys' assembled workforce of scientists and engineers.

The fair value of the shares issued was based upon the Oxford Catalysts Group PLC published share price on 20 November 2008.

The fair value adjustment to in process technology carrying values is based on discounted cash flow valuation of the technologies acquired. The adjustment to trade and other payables fair value relates to a credit for deferred income which was considered to have no fair value.

There were no acquisitions in the year ended 31 December 2007.

5 Segmental Information

Primary Reporting Segment – Business Segments

At 31 December 2008 the Group is organised on a worldwide basis into two main business segments:

- Catalyst – the business of Oxford Catalysts Ltd
- Equipment – the business of Velocys, Inc.

The segment results for the year ended 31 December are as follows:

	2008			2007		
	Catalyst £'000	**Equipment** £'000	**Group** £'000	Catalyst £'000	Equipment £'000	Group £'000
Sale of goods and services	470	683	1,153	108	–	108
Grant revenue	54	91	145	55	–	55
Revenue	524	774	1,298	163	–	163
Operating loss/segment result	(4,446)	(523)	(4,969)	(2,560)	–	(2,560)
Finance income			1,505			791
Finance costs			(12)			(21)
Loss before income tax			(3,476)			(1,790)
Income tax credit			179			46
Loss for the year			(3,297)			(1,744)

Notes to the Accounts (continued)

	2008			2007		
	Catalyst £'000	**Equipment** £'000	**Group** £'000	Catalyst £'000	Equipment £'000	Group £'000
Other segmental items						
Depreciation and amortisation	353	26	379	155	–	155
Capital expenditure	1,456	13	1,469	516	–	516

Segment assets comprise primarily of property, plant and equipment, trade and other receivables and cash and cash equivalents.

Segment liabilities comprise operating liabilities. Capital expenditure comprises additions to property, plant and equipment and intangible assets (notes 14 and 15).

	2008			2007		
	Catalyst £'000	**Equipment** £'000	**Group** £'000	Catalyst £'000	Equipment £'000	Group £'000
Goodwill	–	4,606	4,606	–	–	–
Other assets	18,360	25,160	43,520	17,139	–	17,139
Liabilities	(815)	(3,057)	(3,872)	(606)	–	(606)
Net assets	17,545	26,709	44,254	16,533	–	16,533

Secondary Reporting Format – Geographical Segments
The Group's two business segments operate in three main geographical areas. Revenue is allocated based on the country in which the customer is located.

	2008			2007		
	Europe £'000	**USA** £'000	**Asia** £'000	Europe £'000	USA £'000	Asia £'000
Revenue by geographic location of customer						
Sale of goods and services	143	466	544	45	30	33
Grant revenue	54	91	–	55	–	–
Total	197	557	544	100	30	33

6 Finance Income

	2008 £'000	2007 £'000
Interest income on bank deposits	810	791
Foreign exchange gains	695	–
	1,505	791

7 Finance Costs

	2008 £'000	2007 £'000
Unwinding of discount on deferred licence payments creditor	12	21

8 Expenses by Nature

	2008 £'000	2007 £'000
Employee benefit expense (see note 10)	3,512	1,261
Sub-contractor and consultant costs	334	83
Depreciation of tangible fixed assets: owned (note 15)	366	150
Depreciation of tangible fixed assets: leased (note 15)	1	–
Amortisation of intangible assets (note 14)	12	5
Operating lease payments – plant and machinery	28	–
Operating lease payments – other	169	33
Other expenses	1,845	1,191
Total costs of sales, unfunded research and development costs and administrative expenses	6,267	2,723

9 Auditor Remuneration

During the year the Group (including its overseas subsidiaries) obtained the following services from the Company's auditor:

Group	**2008** £'000	2007 £'000
Fees payable to Company's auditor for the audit of parent company and consolidated financial statements	33	–
Fees payable to the Company's auditor for other services:		
– The audit of Company's subsidiaries pursuant to legislation	32	27
– Other services pursuant to legislation	5	13
– Services relating to completed corporate finance transaction	283	–
	353	40

Fees payable for other services pursuant to legislation and fees for 2007 were paid to the Company's previous auditor, Deloitte & Touche LLP, for services received in the period when they acted as the Company's auditor.

10 Employee Benefit Expense

The average monthly number of employees (including the Executive Directors) was:

Group	**2008** Number	2007 Number
Research, design and development	21	11
Administration	9	6
Total average headcount	30	17

The figures above include Velocys employees from the date of acquisition. Total employees as at 31 December 2008 were 85 of which 64 were engaged in research, design and development and 21 in administration. Their aggregate remuneration comprised:

	2008 £'000	2007 £'000
Wages and salaries	1,879	907
Social security costs	211	104
Medical insurance	79	–
Pension costs	95	51
Share-based payments granted to directors and employees	1,248	199
	3,512	1,261

The Company did not employ any staff (2007: nil) during the year.

Details of Directors' remuneration are given in the Directors' Remuneration Report on pages 12 to 14 and form part of these financial statements.

Notes to the Accounts (continued)

11 Income Tax

Current Tax

Due to the availability of losses incurred in the year, there is no charge to corporation tax. The Company recovered £179,000 through R&D tax credits (2007: £46,000).

Deferred Tax

At 31 December 2008 the Group has a net unrecognised deferred tax asset of £5,981,000 (2007: £745,451) arising from trading losses from incorporation. No recognition of the net deferred tax asset has been made at 31 December 2008 on the grounds of uncertainty over its recoverability in light of the Company's nascent revenue streams and commitment to continued investment in research and development, and therefore there is no impact on the current or prior year income statement.

Reconciliation to Current Tax Credit

The actual tax charge for the current and previous year is different to the standard rate of tax for the reasons set out in the following reconciliation.

	2008 £'000	2007 £'000
Loss on ordinary activities before tax	(3,476)	(1,790)
Tax calculated at domestic tax rates applicable to losses in the respective countries	(1,020)	(537)
Tax effects of:		
– Expenses not deductible for tax purposes	4	2
– Unutilised tax losses	1,016	535
– R&D tax credit – prior year claim	(179)	(46)
Current tax credit for year (see above)	(179)	(46)

12 Share-based Payments

Equity Settled Share Option Scheme

The Group has four share option schemes.

EMI Executive Scheme

The EMI Executive Scheme granted share options to two Directors on 16 March 2006 with an exercise price of 4.89p and an expiration date of 16 March 2016. The exercise price was based upon the estimated market value of the Company on the date of grant. The options are forfeited if the Director leaves the Group before the options vest. Mr. Roy Lipski, was granted 1,404,370 share options of which fifty percent vested upon the Company's listing on AIM (26 April 2006) and the balance on 26 October 2007. Dr. William Barton was issued 702,185 share options of which one-sixth vested upon the Company's listing on AIM with one-third of the balance vesting on 31 January 2007, 2008 and 2009 respectively. None of the shares granted have been forfeited, exercised or expired.

2,106,555 options were outstanding at 31 December 2008 and 2007. 1,911,503 were exercisable at 31 December 2008. 1,716,452 were exercisable at December 2007.

The Group recognised total expenses of £28,000 in 2008 (2007: £177,000) related to the EMI Executive Scheme.

EMI Scheme

The EMI Scheme covers all UK based employees of the Group. Options are exercisable at a price equal to the mid-market value of the Company's ordinary shares on the day prior to grant and generally vest after the earlier of three years from grant or date of joining the Group. Options expire after 10 years and are forfeited if the employee leaves the Group before the options vest.

Movements in the number of share options outstanding and their related weighted average exercise prices are as follows:

	2008		2007	
	Weighted average exercise price	Number of options	Weighted average exercise price	Number of options
At 1 January	125.30p	382,903	–	–
Granted	159.51p	125,385	125.30p	399,032
Forfeited	124.00p	(96,774)	125.30p	(16,129)
At 31 December	136.08p	411,514	125.30p	382,903

Of the 411,514 options outstanding at 31 December 2008 (2007: 382,903), none were exercisable.

Share options outstanding at the end of the year have the following expiry date and exercise prices:

		2008		2007	
Year of expiry	Range of exercise price	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
2017	124.00 – 150.00p	286,129	125.82p	382,903	125.30p
2018	146.50 – 171.50p	125,385	159.50p	–	–
Total	124.00 – 171.50p	411,514	136.08p	382,903	125.30p

The weighted average fair value of options granted during the year determined using the Black-Scholes valuation model was 38.50p (2007: 30.86p) per option. The significant inputs into the model were:

	2008	2007
Weighted average share price at grant date	159.50p	125.30p
Weighted average exercise price	159.50p	125.30p
Expected volatility [i]	30%	30%
Annual risk free rate	3%	5.0%
Dividend yield	0%	0%
Expected life	2.8 Years	2.6 Years

(i) The expected volatility was determined by reference to comparable companies and review of historic actual volatility based on statistical analysis of daily share prices since date of the Company's listing on AIM.

Total expense recognised in the income statement for share options granted to directors and employees was £40,000 in 2008 (2007: £22,000).

Executive Long Term Incentive Plan (ELTIP)
On 19 November 2008, the Board of Directors authorised the ELTIP Scheme to grant 600,000 share options to Mr Roy Lipski with an exercise price of 1p. Of the grant, 400,000 options vested immediately and the remainder will vest on 31 January 2010 if Mr Lipski achieves certain performance metrics set by the Board of Directors. The options expire 10 years after grant.

The Board of Directors also authorised on 19 November 2008 the ELTIP Scheme to grant Mrs Susan Robertson, Group CFO, 160,000 share options with an exercise price of 1p. Two-thirds of the grant vested on 19 November 2008 and the balance will have vested on 31 January 2009 if Mrs Robertson achieves certain performance metrics set by the Board of Directors. The options expire 10 years after grant.

These awards were recommended by the Remuneration Committee in December 2007, but could not be granted due to the company being in a closed period until after the announcement of the acquisition of Velocys.

As of 31 December 2008, none of the options granted under the ELTIP were forfeited or exercised and 506,667 were exercisable.

Notes to the Accounts (continued)

The weighted average fair value of options granted during the year determined using the Black-Scholes valuation model was 158p per option. The significant inputs into the model were:

	For the year ended 31 December 2008
Weighted average share price at grant date	158.00p
Weighted average exercise price	1.00p
Expected volatility [i]	30%
Annual risk free rate	3%
Dividend yield	0%
Expected life	5 years

(i) The expected volatility was determined by reference to comparable companies and review of historic actual volatility based on statistical analysis of daily share prices since date of the Company's listing on AIM.

Total expense recognised in the income statement for share options granted under the ELTIP was £865,544 in 2008. No share options existed under the ELTIP scheme during 2007.

Velocys Scheme

The Velocys, Inc. Stock Compensation Plan ("Velocys Scheme") was acquired as part of the acquisition of Velocys, Inc. on 20 November 2008. The scheme was started in 2001 and covers all US based employees. Prior to the acquisition, Velocys' board of directors granted nonqualified share options to employees that expire 10 years from grant date. The options' exercise price was equal to the stock's fair market value at the date of grant. Options are forfeited if an employee leaves the Group. Generally, options vest as follows:

After 1 year of service from vest start date:	25% of grant
Each month subsequent to 1 year of service:	1/48th of grant

Pursuant to the terms and conditions of the acquisition of Velocys, each vested and unvested Velocys Scheme option existing on the acquisition date was converted into 0.3659 of an Oxford Catalyst Limited option (the ratio of the value of one share of Velocys stock (converted to sterling) to one share of Oxford Catalyst Limited stock) with a corresponding increase to the exercise price. Details of the share options outstanding under the Velocys Scheme are as follows:

	2008	
	Weighted average exercise price	Number of Options
At 20 November	80.40p	1,203,716
Granted	–	–
Forfeited	170.18p	(3,365)
Exercised	–	–
Expired	–	–
At 31 December	79.62p	1,200,351

Of the options presented above as outstanding as of 31 December 2008, 1,014,187 were exercisable.

Share options outstanding at the end of the year have the following expiry date and exercise prices:

	2008		
Year of expiry	Range of exercise price per share	Number of options	Weighted average exercise price
2011	92.67p	158,879	92.67p
2012	92.67p	34,313	92.67p
2013	50.67p	266,796	50.67p
2014	50.67p	119,854	50.67p
2015	50.67p	359,121	50.67p
2016	147.33p	189,164	147.33p
2017	147.33p – 169.33p	51,227	164.46p
2018	169.33 – 173.33p	20,997	171.19p
Total		1,200,351	79.62p

The Velocys Scheme options were revalued as of the acquisition date using the Black-Scholes valuation model.

Significant assumptions used to value the options are as follows:

	At 20 November 2008
Velocys, Inc. share price at date of transaction	$0.952
Weighted average exercise price per Velocys share option	$0.44
Expected volatility [i]	102-129%
Annual risk free rate	3.1%
Dividend yield	0%
Average expected life	6.1 years

(i) The volatility measured at the standard deviation of continuously compounded share returns is based on statistical analysis of daily share prices of a number of comparable companies over the last three years.

Total expense recognised in the income statement for share options granted under the Velocys plan was £13,700 in 2008.

Bonus Shares

The share-based payment expense for the year also includes a cost of £300,000 (2007: nil) for nominal value share options which will be issued after the year end to satisfy the bonus share awards for certain executives of the Group. These options will be issued at nominal value exercise price (1p), will vest on date of grant and will expire 10 years after date of grant.

Share-based Payments Charge

The total charge for share-based payments during the year was £1,248,000 (2007: £199,000) of which £1,103,000 (2007: £177,000) relates to options granted to directors and the remainder to other employees.

13 Loss Per Share

The basic loss per share is calculated by dividing the loss attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year.

	2008	2007
Loss attributable to equity holder of the Company (£'000)	(3,297)	(1,744)
Weighted average number of ordinary shares in issue	42,710,480	38,808,262
Basic and diluted loss per share (pence)	(7.72)	(4.49)

Diluted loss per share is calculated by adjusting the weighted average number of shares in issue to assume conversion of all potential dilutive shares. Share options have not been included in the number of shares used for the purpose of calculating diluted loss per share since these would be anti-dilutive for the period presented. Other than share options and the Put and Call Option (see note 28), there are no other potentially dilutive instruments. Details of share options are given in note 12.

Notes to the Accounts (continued)

14 Intangible

Group	Goodwill £'000	In process technology £'000	Patents, licence and trademarks £'000	Software £'000	Intangible fixed assets £'000
Cost					
At 1 January 2008	–	–	214	–	214
Additions	–	–	71	11	82
Assets acquired on acquisition of subsidiary (note 4)	4,532	20,860	–	61	25,453
Foreign exchange gain	74	766	–	2	842
At 31 December 2008	4,606	21,626	285	74	26,591
Aggregate amortisation					
At 1 January 2008	–	–	9	–	9
Charge for the year	–	–	8	4	12
At 31 December 2008	–	–	17	4	21
Net book value					
At 31 December 2008	4,606	21,626	268	70	26,570
At 31 December 2007	–	–	205	–	205

For the year ended 31 December 2007, the Group had only one class of intangible assets as below:

Group	Licences, patents and trademarks £'000
Cost	
At 1 January 2007	183
Additions	31
At 31 December 2007	214
Aggregate Amortisation	
At 1 January 2007	3
Charge for the year	6
At 31 December 2007	9
Net book value	
At 31 December 2007	205

Goodwill and intangible assets that are not yet ready for use are subject to impairment review at least annually. Intangible assets in use are amortised over their expected useful lives and are reviewed when there is an indication that an impairment may have occurred. If the balance sheet carrying amount of the asset exceeds the higher of its value in use to the Group or its anticipated fair value less cost of sale, an impairment loss for the difference is recognised.

The impairment analysis is principally based upon estimated discounted future cash flows. Actual outcomes could vary significantly from such estimates of discounted future cash flows. Especially, the development of discounted future cash flows for intangible assets under development involves highly sensitive assumptions specific to the nature of the Group's activities, primarily relating to long-term sales forecasts for the Group's products.

Value in use calculations are generally utilised to calculate recoverable amounts. Value in use is calculated as the net present value of the projected risk-adjusted, pre-tax cash flows of the cash generating unit (being the related products) relating to the intangible asset, and applying a discount rate of the Group post-tax weighted average cost of capital of approximately 25%. This approximates to applying a pre-tax discount rate to pre-tax cash flows. The cash flows projected are over the expected useful lives of the products which extend over 20 years.

The determination of these underlying assumptions relating to the recoverability of intangible assets is subjective and requires the exercise of considerable judgement. Any changes in key assumptions about the business, expected development of technology, or changes in market conditions, could result in an impairment change.

Company
The Company has no intangible assets.

15 Property, Plant and Equipment

Group 2008	Assets under construction £'000	Plant and machinery £'000	Total £'000
Cost or valuation			
At 1 January 2008	254	786	1,040
Additions	41	1,346	1,387
Transfers to plant and machinery	(258)	258	–
Assets acquired on acquisition of subsidiary	4	588	592
Foreign exchange gain	–	21	21
At 31 December 2008	41	2,999	3,040
Accumulated depreciation			
At 1 January 2008	–	180	180
Charge for the year	–	367	367
At 31 December 2008	–	547	547
Net book value			
At 31 December 2008	41	2,452	2,493

Group 2007	Assets under construction £'000	Plant and machinery £'000	Total £'000
Cost or valuation			
At 1 January 2007	–	555	555
Additions	254	231	485
At 31 December 2007	254	786	1,040
Depreciation			
At 1 January 2007	–	30	30
Charge for the year	–	150	150
At 31 December 2007	–	180	180
Net book value			
At 31 December 2007	254	606	860

The net book value of leased assets included above is £31,000 (2007: nil).

Company
The Company has no property, plant or equipment.

As at 31 December 2008, the Group had entered into contractual commitments for the acquisition of property, plant and equipment amounting to £41,000 (2007: £766,000).

16 Investments

Investment in subsidiaries	**2008** £'000	2007 £'000
Company		
Shares in Group undertakings at 1 January	1,044	845
Capital contributions relating to share based payments	1,248	199
Loan to subsidiary	24,230	–
Purchase consideration for acquisition of Velocys (note 4)	22,842	–
At 31 December	49,364	1,044

The loan to subsidiary consists of loans to both Velocys, Inc. made at the time of acquisition and to Oxford Catalysts Ltd. In 2007, the loan to Oxford Catalysts Ltd was classified as a trade and other receivable. The Directors have reclassified this loan as investment in subsidiary as, in their opinion, this more accurately reflects the nature of this loan.

Notes to the Accounts (continued)

The Company has investments in the following subsidiary undertakings.

Subsidiary undertakings	Country of incorporation or principal business address	Principal activity	% Holding
Oxford Catalysts Ltd	England and Wales	Design and development of catalysts, and exploitation of its platform catalyst technologies	100
Velocys, Inc.	Delaware, USA	Design, development and exploitation of its microchannel technologies	100

17 Trade and Other Receivables

	Group		Company	
	2008 £'000	2007 £'000	**2008** £'000	2007 £'000
Amounts falling due after more than one year				
Amounts owed by Group undertakings	–	–	–	17,728

	Group		Company	
	2008 £'000	2007 £'000	**2008** £'000	2007 £'000
Amounts falling due within one year				
Trade receivables	1,263	15	–	–
Prepayments and accrued income	1,156	333	–	–
Other receivables	160	50	–	–
	2,579	398	–	–

The fair value of trade and other receivables is not materially different to the book value above. The majority of the trade receivables are due from large multinational groups and hold a low credit risk. The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivable. The Group does not hold any collateral as security.

As at 31 December 2008 trade receivables of £552,000 (2007: nil) were past due but not impaired. These relate to a number of large key partners for whom there is no recent history of default. The ageing analysis of these trade receivables past the due date is as follows:

	Group		Company	
	2008 £'000	2007 £'000	**2008** £'000	2007 £'000
Up to 3 months	543	–	–	–
3 to 6 months	9	–	–	–
	552	–	–	–

The average credit period on sales is 30 days (2007: 30 days).

The Group believes that the full amount of trade debtors is recoverable and no allowance has been made for doubtful debts. At 31 December 2008, the Company had no overdue trade debtors. The other classes within trade and other receivables do not contain impaired assets.

The carrying amount of the Group's trade and other receivables are denominated in the following currencies:

	2008 £'000	2007 £'000
UK sterling	1,010	398
US dollar	1,569	–
	2,579	398

18 Short Term Investments and Cash Equivalents

	2008 £'000	2007 £'000
Short term investments – cash held on long-term deposit	8,645	7,000
Cash	7,667	8,630
	16,312	15,630

Under IFRS 7, cash held on long-term deposit has been classified as a short term investment since these are on term deposits of greater than three months.

All short term investments are in sterling denominated accounts. Cash is held in both dollar and sterling denominated accounts as follows:

	2008 £'000	2007 £'000
Sterling accounts	3,150	8,630
US dollar accounts	4,517	–
	7,667	8,630

19 Trade and Other Payables: Amounts Falling Due Within One Year

	Group		Company	
	2008 £'000	2007 £'000	2008 £'000	2007 £'000
Trade payables	739	69	–	–
Other payables	–	60	–	60
Other taxation and social security	68	47	–	–
Accruals and deferred income	1,714	308	–	–
	2,521	484	–	60

20 Trade and Other Payables: Amounts Falling Due After More than One Year

	Group		Company	
	2008 £'000	2007 £'000	2008 £'000	2007 £'000
Accruals and deferred income	1,184	–	–	–
Deferred licence payments	135	122	–	–
	1,319	122	–	–

The deferred licence payments creditor represents the discounted value of the minimum licence payments due under the terms of a licence agreement between Oxford Catalysts and ISIS Innovations Limited, the technology transfer office of the University of Oxford. Under this agreement, ISIS granted Oxford Catalysts the worldwide rights for the duration of the patents to certain intellectual property and is entitled to a royalty of 4% of direct sales and 11% of any indirect sales incorporating the licensed intellectual property. In addition there are certain minimum payments. The first of these payments of £5,000 is payable in 2009. Thereafter, the minimum payment rises by £5,000 per annum for the next 3 years then remains at £20,000 for the remainder of the contract. The discounted value of these payments is included in intangible assets.

The fair value of trade and other payables are not materially different from the carrying values above.

Notes to the Accounts (continued)

21 Borrowings
Maturity of borrowings is as follows:

	Group	
	2008 £'000	2007 £'000
Within 1 year	10	–
Within 2 to 5 years	22	–
	32	–

All borrowings arise from finance lease obligations. The Company had no borrowings at 31 December 2008 (2007: nil).

22 Share Capital

Company	**2008** £'000	2007 £'000
Authorised		
100,000,000 ordinary shares of £0.01 each	1,000	750
Allotted, called up and fully-paid		
59,649,281 (2007: 40,566,990) ordinary shares of £0.01 each	596	405

In November 2008, the Company placed 8,251,888 new ordinary shares of £0.01 each at a price of £1.25 per share with various investors in order to fund the cash element of the acquisition of Velocys and to provide working capital, raising a net £9,774,000 after expenses. In addition, the remainder of the acquisition purchase price was settled by the issue of 10,830,403 shares in the Company. The share price on the date of acquisition was £1.625 giving a fair value of the new shares issued of £17,599,000.

A total of 4,478,420 options to subscribe for ordinary shares of the Company have been granted and are outstanding at 31 December 2008 under the employee options schemes operated within the Group. Details are given in note 12.

23 Changes in Share Capital and Reserves

Group	Called up share capital £'000	Share premium £'000	Share-based payment £'000	Merger reserve £'000	Retained earnings (deficit) £'000	Total £'000
At 1 January 2008	405	17,865	–	369	(2,106)	16,533
Share issues (cash net of expenses)	83	9,691	–	–	–	9,774
Share issues (non-cash)	108	17,491	–	–	–	17,599
Fair value of Velocys options	–	–	1,759	–		1,759
Foreign exchange gain	–	–	–	–	638	638
Loss for the financial year	–	–	–	–	(3,297)	(3,297)
Share-based payments	–	–	2,005	–	(757)	1,248
At 31 December 2008	596	45,047	3,764	369	(5,522)	44,254

In prior years, share-based payment reserves were included within retained earnings. In order to provide fuller disclosure, these reserves are now shown separately. £757,000 of share-based payment reserves were included in retained earnings reserves as at 31 December 2007 and have been moved to the share-based payments reserve in 2008.

Company	Share capital £'000	Share premium £'000	Share-based payments £'000	Retained earnings (deficit) £'000	Total £'000
At 1 January 2008	405	17,865	757	(315)	18,712
Share issues (cash net of expenses)	83	9,691	–	–	9,774
Share issues (non-cash)	108	17,491	–	–	17,599
Fair value of Velocys share options	–	–	1,759	–	1,759
Share-based payments	–	–	1,248	–	1,248
Profit for the financial year	–	–	–	272	272
At 31 December 2008	596	45,047	3,764	(43)	49,364

As explained in note 12, on acquisition of Velocys, the Company converted existing share options granted to employees of Velocys into options in Oxford Catalysts Group. The fair value of the vested element of these options has been treated as part of the purchase consideration for Velocys and has been calculated under the Black-Scholes method using the assumptions set out in note 12.

24 Cash Outflow from Operating Activities

	2008 £'000	2007 £'000
Operating loss	(4,969)	(2,560)
Depreciation and amortisation	379	155
Changes in working capital (excluding the effects of acquisition and exchange differences on consolidation):		
– Trade and other receivables	(262)	(15)
– Trade and other payables	(1,709)	173
– Foreign exchange differences	(213)	–
– Share-based payments	1,248	199
Net cash consumed by operations	(5,526)	(2,048)

25 Commitments

Capital commitments are disclosed in note 15.

Operating Lease Commitments

The Group leases various offices under non-cancellable operating lease agreements. The lease terms are between 2 and 5 years and the majority of lease agreements are renewable at the end of the lease period at market rate.

	2008 £'000	2007 £'000
The future aggregate minimum lease payments under non-cancellable property leases are as follows:		
– Within one year	424	81
– Between one and five years	1,068	657
– After more than five years	–	3
	1,492	741
Future commitments under non-cancellable operating plant and equipment leases:		
– Within one year	111	–
– Between one and five years	124	–
– After more than five years	–	–
	235	–

Licence from Battelle

As part of the diligence requirements set forth in one of the licence agreements by and between Velocys, Inc. the subsidiary acquired from The Battelle Memorial Institute ("Battelle") in 2008 and Battelle, Velocys is required to pay annual licence payments of $150,000 to Battelle for each of four separate fields of use commencing in the year ending 30 September 2013. Failure to make the payment could result in the loss of exclusivity in that particular field of use. Licence payments continue to be required until the earlier of the expiration of the licence or from the date that the Company wishes the field of use to become non-exclusive. Battelle can, at its own discretion defer the licence requirements. Since the licence payments remain at the discretion of the Group, they are not capitalised.

26 Pension Arrangements

The Group also operates a number of defined contribution schemes for which the pension cost charge for the year amounted to £95,000 (2007: £51,000).

27 Related Party Transactions

Transactions with the Directors of the Company are disclosed in the Remuneration Report. In addition, Oxford Catalysts Ltd has a consultancy arrangement with Professor Malcolm Green under which Professor Green is paid fees based on a daily rate for services which from time to time the Company may request. No fees were paid under this arrangement in 2008 (2007: £3,750).

Notes to the Accounts (continued)

Prior to the acquisition of Velocys, Oxford Catalysts Ltd had entered into an MOU with Velocys under which Velocys contracted to pay Oxford Catalysts Ltd for certain development work. Revenues from this contract of £256,000 which relate to the period prior to the acquisition are included within the turnover of the Group. Revenues deriving from this MOU for the period after the acquisition are eliminated on consolidation and are therefore not included within these results.

28 Put and Call Option

In order to provide potential back-up funding for the Velocys development activities, at the time of the acquisition fund raising the Company entered into a put and call option (the "Put and Call Option") dated 31 October 2008 between the Company and Avenir Finances S.A. Under this agreement either Avenir Finances S.A. may, in the period of 24 months following completion of the Velocys transaction which occurred on 20 November 2008, exercise a call option to acquire 1,600,000 Ordinary Shares in the Company at the price of £1.25 per share or the Company may, in the period from 12 months from the completion of the Velocys transaction up to 24 months after this date, exercise a put option to require Avenir Finances S.A. to acquire 1,600,000 Ordinary shares in the Company at the price of £1.25 per share. Under the Put and Call Option agreement, the Company has agreed to pay Innovator Capital Ltd a fee of £100,000 which is payable upon exercise of the put or call option.

Directors, Secretary and Advisors to the Group

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Registered office	115e Milton Park Oxford OX14 4RZ
Directors	Dr Pierre Jungels (Non-executive Chairman) Mr Roy Lipski (Chief Executive Officer) Mrs Susan Robertson (Chief Financial Officer) Mr Jeremy Scudamore (Non-executive Director) Dr Jan Verloop (Non-executive Director)
Company Secretary	Mrs Susan Robertson
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