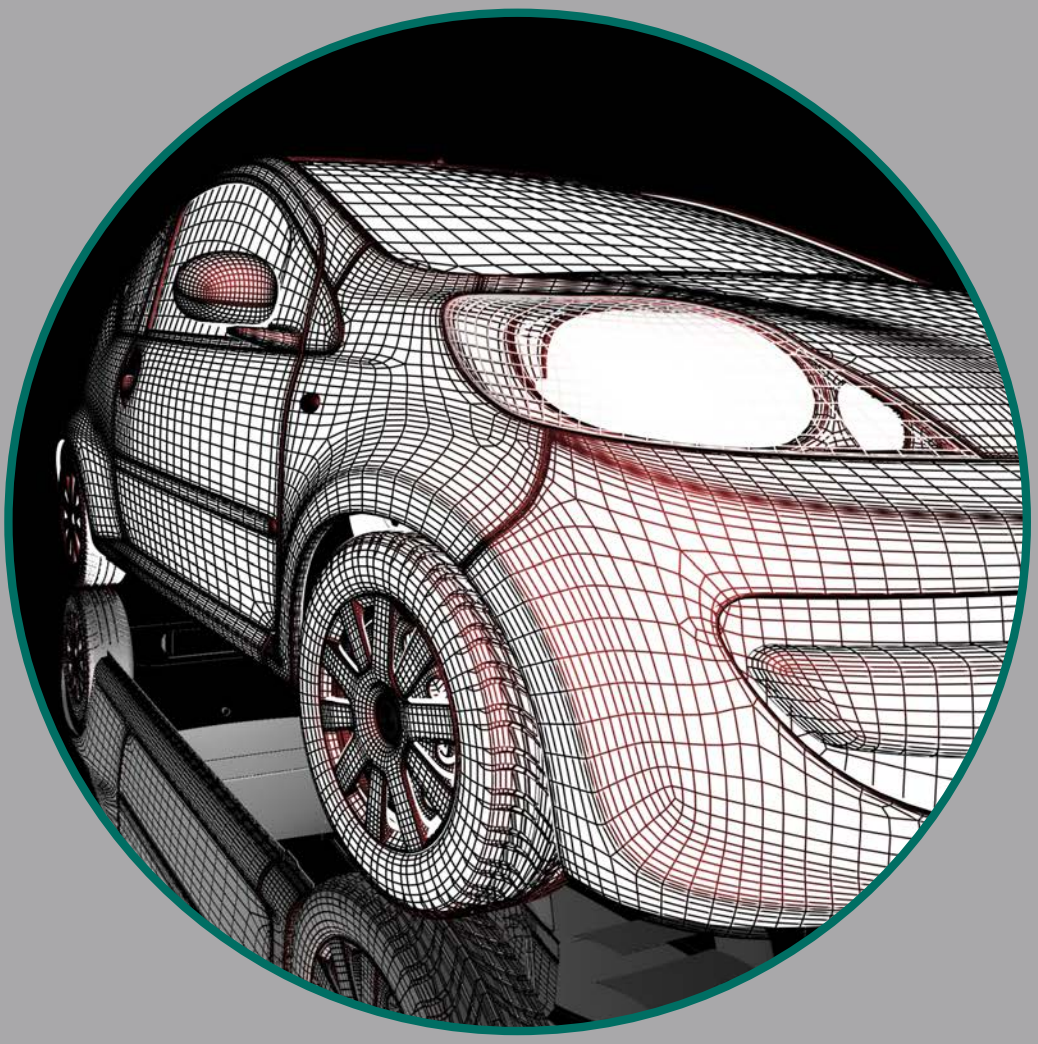
Report & Accounts 2013



oxford advanced surfaces

science applied Onto

(just about anything)

About Oxford Advanced Surfaces

Oxford Advanced Surfaces Group plc (OAS) designs, develops and manufactures proprietary technology solutions to create engineered materials and address surface modification applications across many markets, including automotive, aerospace, electronics and renewable energy. Our primary focus is on the adhesion promotion of difficult-to-bond substrates.

Onto™ EP1000 adhesion promotion

This is our functional surface treatment that can be used to promote adhesion of two-part polyurethane and epoxy coatings (used as final coatings, finishes and adhesives throughout our target markets) to difficult-to-bond substrates such as engineering polymers, high performance (speciality) plastics and thermoplastic composites. The treatment can be applied to a substrate from solution using a range of coating methods and has been shown to prevent delamination even under severe weathering conditions.

There is a continuing drive in industry to use more plastic and composite materials; the problem with these materials is not the material itself but with joining components and decorating them for use. These are the adhesion promotion problems for which we provide proprietary and effective solutions.

Why Onto™ EP1000?

- It can enable the use of and/or extend the economic life of existing coatings, paints and adhesives, eliminating the need to develop new products and thus reducing costs in development and qualification
- It can speed the adoption of advanced materials and composites into end products
- It can enable the use of cheaper materials that have been previously rejected in many applications due to difficulties with adhesion
- It can address the various issues often attached to existing adhesion promotion technologies (chemical, surface activation and mechanical):
  - It is simple to use and apply with repeatable results
  - We offer a low VOC system that is neither harmful to the environment nor difficult to handle
  - We can modify chemically inert or solvent resistant substrates without introducing surface roughness
  - It has a long shelf life
  - We only modify the surface thus avoiding substrate damage, such as fibre exposure in composites

Onto™ graphene functionalisation

Graphene holds massive promise and possesses a unique portfolio of desirable properties, including excellent conductivity, mechanical strength, gas barrier, thermal and biocompatibility. One of the obstacles to realising graphene's potential is the need to functionalise with minimum disruption to the intrinsic properties. This can be achieved by using Onto™ chemical modification to impart the desired chemical properties to the graphene platelets.

In order to use graphene in a commercially viable application, functionality is essential so that the material can be processed using conventional manufacturing techniques such as injection moulding, roll to roll coating or printing. Functionalisation brings:

- Controlled increase in solubility for processing in solvents/water and polymers; there are a limited number of solvents and materials into which graphene will disperse without the need for additives such as surfactants
- Controlled compatibility with the surface-surrounding matrix (e.g. polymers); pristine graphene platelets can be considered to be chemically inert to most standard chemistries. This means when mixed into a coating or binder there will be little to no strong chemical interaction between the graphene and the matrix

OAS is now developing the use of its Onto™ technology to modify graphene chemically for multiple applications. The ability to modify both the dispersibility/affinity of the graphene for a solvent or coating, and to improve the chemical interaction and adhesion of the graphene within a coating, is a powerful tool in the production of commercially relevant graphene-based applications and products.

Onto™ platform

Our Onto™ chemistry provides a highly differentiated and proprietary technology platform for adhesion promotion. Onto™ opens up new markets for the most desirable advanced materials and is applicable across a range of processes and materials applications using multiple industry standard wet-process application methods.

The Onto™ chemistry is based on highly reactive molecules that allow chemical bonding to a wide range of organic and inorganic materials (such as engineering polymers, high performance (speciality) plastics and thermoplastic composites) in many different forms (such as sheets, films, membranes, particles, powders and fibres). The key advantages of our chemistry are that it can bond with materials that are inert or untouched by other adhesion promoters or it has distinct benefits over existing surface treatments.

Our technology has applications in all areas of adhesion promotion, whether that be of coatings, paints and adhesives to substrates through to improving the adhesion between composite reinforcement structures and the composite matrix. It can be applied as a coating and cured (pre or post coating applications) or for specialist applications it can be included within the actual coating to be applied as an all-in-one solution.

Our innovative Onto™ technology is focussed on providing enhanced material properties for a broad range of high value applications in automotive, aerospace, electronics and renewable energy. Following the launch of our first product line we are now looking to expand our product offering within the same target markets. Our initial focus is on acrylate coatings and graphene functionalisation.

Oxford Advanced Surfaces Group plc designs, develops and manufactures surface modification technology to address the bonding challenges of advanced materials in the automotive, aerospace, electronics and renewable energy markets.

Our proprietary platform technology, Onto™ highly reactive chemistry, provides manufacturers with versatile solutions for even to the most difficult-to-bond substrates such as engineering plastics, thermoplastic composites and carbon-based materials. Onto™ surface treatments can be integrated into existing manufacturing facilities for use in a wide range of surface functionalisation and adhesion promotion applications.

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Chairman's Statement

The year to 31 December 2013 has been one of focus and change for Oxford Advanced Surfaces Group ("OAS") as we boldly realigned our strategy for delivering our technologies to the market: OAS has made the transition from a research & development company that provided bespoke solutions for customers to a product-driven company that offers a portfolio of generic commercial products available for customer testing that address a broad range of applications and which have potential for further customisation. After extensive preparation in the fourth quarter, our first evaluation product launched early in 2014.

This fundamental repositioning was driven by a strategic review in August 2013 which concluded that further investment in the VISARC™ antireflection coating technology would be suspended due to market and competitive changes that occurred during our technical development period. A full evaluation of how best to generate value both from our mesoporous silica (MPS) nanoparticle manufacture know-how which had underpinned VISARC™, and the intellectual property portfolio we had established for this technology, is ongoing.

Additional resource was therefore available to commercialise our highly differentiated and proprietary Onto™ technology platform, for which we believe there is significant market potential. This growth opportunity is being driven by an increased use of plastics and polymers, with surface functionalisation and adhesion requirements, in automotive, aerospace, communications and renewable energy markets. OAS now has a pipeline of products in development and believes that this, along with our first evaluation product, has resulted in increased traction and credibility in the markets we address.

Board and Organisation

The Technical Advisory Board ("TAB") was afforced by the appointment of Professor Steven Abbott in January 2013. Steven has a wealth of industrial, scientific and commercial knowledge both from research posts and from a long commercial career at ICI and MacDermid Autotype, covering all areas of the OAS target markets. Since September 2013 the TAB has been under the chairmanship of Non-executive Director Dr David Bott. The TAB membership is completed by Professor Mark Moloney.

The shift to commercial execution and refocus on Onto™ also resulted in the opportunity to restructure corporate governance roles and to make substantial cost savings.

In September 2013 Mike Edwards and Michael Bretherton left the OAS Board of Directors, the latter after seven years of service and following his relocation to Guernsey earlier in the year. In November 2013 Adrian Meldrum switched roles from Chief Executive to Non-executive Director, Philip Spinks stepping up to the Chief Executive position after six years with OAS and with continuing responsibility for the Group's finances.

The technical team were reduced from 16 down to seven and we also reduced the commitments we had in laboratory space. This also provided significant cost savings ensuring that we have sufficient funds to reach commercialisation of our Onto™ technology.

At the end of 2013 employee numbers, excluding Non-executive Directors, stood at 9.2 FTE, of which seven were focused on product development. We expect employee numbers to remain fairly constant until commercial deals are completed, at which point we will require additional scale-up and operational/commercial resources.

Adrian Meldrum has decided not to stand for re-election at this year's AGM. Adrian was a key driver behind the strategic review in August 2013 and has helped shape the business going forward. I would like to thank Adrian for his significant contribution and wish him well for the future.

I would like to take this opportunity to thank the staff for their diligence, fortitude and continuing enthusiasm during a testing period for the Company. The OAS Board of Directors has also provided valuable insightful and challenging input this year and it is thanks to both groups that OAS now finds itself in a stronger position than ever to accelerate and deliver on our development and customer engagement plans in areas where we hold differentiating and enabling technology.

Dr Peter Rowley
Non-executive Chairman
16 June 2014
Company Number: 5845469

Chief Executive's Report

Overview

In the second half of 2013, OAS's outlook underwent a paradigm shift from a research focus to market led, product based strategy. This has been enabled by significant progress in our Onto™ development programme where we are now in a position to offer a more generic adhesion promotion solution to the market. Historically we were restricted to bespoke and potentially costly solutions for each customer. Now we can target multiple customers with multiple requirements with one product family – EP1000. This key advance is due to the development of our third generation of Onto™ cross-linker during the last few years which, along with our original technology, forms the chemistry platform that we are using to develop additional product families.

The decision to suspend development of our VISARC™ technology platform, driven by market and competitive changes, enabled us to increase investment in our proprietary Onto™ technology. Efforts are therefore focused on Onto™ products, initially EP1000, with a defined pipeline for new products including Onto™ graphene functionalisation. In addition we have been through a significant cost reduction exercise and reduced our cash burn rate to ensure that we utilise our cash resources as effectively as possible.

We believe there is strong market potential for the Onto™ chemistry platform. This opportunity is being driven by an ever increasing use of plastics and polymers, with their related adhesion promotion requirements. We are currently targeting the automotive, aerospace, electronics and renewable energy markets.

The markets we target are significant in both value and volume – the coatings market for aerospace and automotive runs into billions of dollars. Motor manufacturers, for example, are continually looking to remove weight and increase recyclability of vehicles – the extended use of composites and engineering plastics is essential to deliver this. The trend in aerospace design is a greater and greater incorporation of composite materials in aircraft: in the 1970s aircraft design contained around 5% advanced composites, today new aircraft such as the Boeing 787 and Airbus A350 XWB contain in excess of 50%.

However the problem often lies not with the suitability of the materials but in joining them and decorating them for use. Many of these materials are difficult-to-bond as they have no surface chemistry. Onto™ adhesion promotion provides a neat solution to this problem as it can react with these inert surfaces and provide a chemical surface modification that allows bonding and decorating. In addition, where people currently use easy-to-bond but more expensive materials, Onto™ adhesion promotion provides an opportunity to move to other materials that are often much cheaper.

Adhesion promotion can also be of use within the bulk rather than on the surface of materials. For example it can be applied to the manufacture of advanced composite materials where increased adhesion between the reinforcement fibres or particles with the supporting matrix is needed. Onto™ EP1000 can help companies develop new and exciting composite materials with a range of different properties or economic targets.

Our Onto™ EP1000 product family is being targeted on these applications and is currently being trialled by over 15 global and speciality businesses in our chosen markets.

Another use of adhesion promotion is within a coating such that the coating can be used without a pre-applied adhesion promoter or binder. This is a more complex solution but the Onto™ platform can also deliver this and we are currently engaged with Sun Chemical on such a project. There is more detail on this project later in my report.

Onto™ Technology Offering

The EP1000 family are Onto™ based surface treatments which provide manufacturers with versatile solutions for even the most difficult-to-bond substrates such as engineering plastics, thermoplastic composites and carbon-based materials primarily to two-part polyurethane and epoxy coatings. Onto™ adhesion promotion treatments can be integrated into existing manufacturing facilities for use in a wide range of applications. OAS is already primed for mid-stage and bulk production of the core Onto™ chemistry once customer demand begins.

Our Onto™ EP1000 evaluation pack contains a ready-formulated treatment designed for easy use; customers can assess the product in their own laboratories with their own coatings, be that paints, primers or adhesives. A marketing campaign is under way with a number of packs being assessed and being proven to work in customer hands.

The evaluation pack contains our core proprietary chemistry and associated formulations for small scale in-lab application and testing. We are currently extending the evaluation product range to cover alternative coating methodologies (spray and dip) and from these evaluation products we will be able to provide a commercial Onto™ EP1000 product family that will meet customer requirements for various curing and coating methodologies. Feedback from the initial evaluation of our packs has already indicated a need to expand the offering to cover low-VOC and VOC free EP1000 variants and so these are also under development in our labs.

We believe this strategy will result in commercial traction and in market demand for other surface functionalisation applications, including Onto™ systems for other coatings. We have already started development of a system for the adhesion promotion of acrylates.

Market Evolution & Opportunity

We have recently demonstrated we can modify graphene using the Onto™ chemistry platform and on that basis have issued a technical paper outlining industry's need for graphene functionalisation and our initial capabilities in this area. Graphene holds massive promise. Possessing a unique portfolio of desirable properties, including excellent conductivity, mechanical strength, gas barrier, thermal and biocompatibility, graphene is an intriguing material. One of the obstacles to realising graphene's potential is the need to functionalise with minimum disruption to the intrinsic properties. This can be achieved by the chemical modification of graphene to impart the desired properties to the platelets. The use of functional graphene is a fundamental part of new product design and should be factored into the plan for the product in the earliest stages of development.

The OAS paper has generated an encouraging level of interest and responses from graphene manufacturers, those involved in intermediate products (such as composites) and companies looking to develop end products incorporating graphene. OAS is actively seeking partners across these groups along with grant funding to support future development costs.

OAS began a Technology Strategy Board-funded development project with Sun Chemicals Limited in February 2014, which utilises Onto™ cross-linker based formulations for radiation curable ("radcure") coatings. The project aims to create a novel radcure coating platform that can bring differentiation to inkjet printable inks for the graphic signage and packaging market areas. The radcure coatings market is an area of significant growth and continues to gain popularity due to the fast cure times and environmentally friendly credentials the products offer. Success in the inkjet market will lead to further exploitation in the graphic arts market and more broadly in other UV-curable coating markets. This also uses the Onto™ chemistry platform to remove the need for pre-applied adhesion promoters and primers and thus provide a one-pot system.

Outlook

OAS is now in a strong position to exploit its chemistry through a market led, product based approach. We have seen strong interest in our Onto™ EP1000 evaluation packs and we intend to increase our offering during 2014 through variants on EP1000 and the addition of the new product lines described above. The partnership with Sun Chemicals is also a significant opportunity for the Group and we hope this will lead to further collaborations.

OAS already holds good patent coverage in these areas, but we will seek to strengthen this further during the coming year. There will be ongoing investigation of adjacent and synergistic technology offerings aimed at strengthening the OAS technology portfolio.

Philip Spinks
Chief Executive Officer
16 June 2014
Company Number: 5845469

Board of Directors

Dr Peter Rowley
Non-executive Chairman
Dr Peter Rowley is an experienced Chairman of AIM listed companies and is currently a director of Nanoco Group Plc, a world leader in the development and manufacture of cadmium free quantum dots and other nanomaterials. Previously Peter led the management buyout of Victrex from ICI in 1993, followed by the successful listing of Victrex PLC on the London Stock Exchange in 1995. He joined ICI in 1968 and progressed through a number of positions in the organisation. In 1983 he became International Business Manager for the widely used polymer PTFE and in 1989 he was appointed General Manager for ICI Advanced Materials Asia Pacific. Peter has a PhD in organic chemistry from King's College London.

Philip Spinks
Chief Executive Officer
Philip joined the Board in February 2008 as the Chief Financial Officer before becoming the Chief Executive Officer on 15 November 2013 following the restructuring of OAS. He previously worked as a chartered accountant at Brooking, Knowles & Lawrence before moving to Coopers & Lybrand in the London Middle Markets division, supporting high growth and entrepreneurial business in audit, M&A, due diligence and corporate taxation. Philip then joined The BOC Group Plc in 1997. In his 10 years at BOC he held a number of senior finance roles within group reporting, corporate finance and treasury before becoming the finance director for BOC Europe Bulk & Tonnage division. Following the acquisition of BOC by The Linde Group in 2006 Philip was appointed as Financial Controller – Global Lines of Business for the newly combined Gasses division, based in Munich, and supported the new Group through the integration process. He is a Chartered Accountant and an associate member of the Association of Corporate Treasurers.

Dr David Bott
Non-executive Director
Dr David Bott started his career with British Petroleum and subsequently worked for Courtaulds with roles including Director of Strategic Research, Research Manager of Courtaulds Grafil and Vice President (Technology) for the Performance Films division. He then joined ICI Acrylics as Research Director before moving to National Starch & Chemical where he held the role of Vice President for Research and Development in the Speciality Synthetic Polymers Division, then moving back to ICI as a Director for Group Technology. David is presently a director of Oxford Biomaterials Limited and EotR Solutions Limited. He has considerable experience of many areas of the marketplace which OAS is targeting, specifically adhesion, coatings, cross-linkers and composites.

Adrian Meldrum
Non-executive Director
Adrian joined the Board on 1 October 2012 as the Chief Executive Officer. Following the restructuring of OAS in 2013 Adrian stepped down as CEO and became a Non-executive Director. He is currently the Executive Vice President Worldwide Sales for Oclaro Inc. Adrian was previously the Business Development Director and a Board member of IQE Plc, a leading global supplier of advanced semiconductor wafers. Adrian has an extensive background in sales, general management and business development. His previous positions include Executive Vice-President and General Manager of the Telecoms Division of Bookham Incorporated (now Oclaro Inc) and VP Sales & Marketing and VP Business development at Bookham Plc. Prior to that Adrian was Product and Development Engineer and Product Line and Commercial Manager at JDSU. Adrian has a first class degree in Physics and Mathematics from Manchester Metropolitan University.

Corporate Governance

The Directors recognise the importance of sound corporate governance and has established a corporate governance framework that reflects the main provisions of the UK Corporate Governance Code insofar as they are appropriate given the Group's size and stage of development. The Code is not mandatory for companies admitted to AIM, however the Group continues to review, adopt and implement policies and procedures designed to comply with the Code as deemed necessary. The report below sets out how the principles of the Code have been applied during the year under review.

The Board of Directors and Independence

The Group is controlled through its Board of Directors. The Board is responsible for formulating, reviewing and approving the Group's strategy, budgets and corporate actions and ensure that the necessary financial and other resources are made available to enable those objectives to be met. It has a schedule of matters reserved for its approval including but not limited to, decisions on strategy and risk management, approval of budgets, acquisitions and disposals, major capital expenditure, legal and insurance issues, Board structure and the appointment of advisors. In some areas responsibility is delegated to committees of the Board within clearly defined terms of reference.

All Directors are subject to election by the shareholders at the Annual General Meeting following their appointment to the Board and to re-election at intervals of not more than three years.

As at 31 December 2013 the Board comprised of three Non-executive Directors and one executive Director who acts as the Chief Executive Officer and also takes responsibility for the finances and financial control of the Group. The names of the current Directors together with their biographical details and any other directorships are set out on page 5. All the Directors apart from Michael Bretherton and Mike Edwards (who resigned during the year) served throughout the period under review. The Non-executive Directors constructively challenge and help develop proposals on strategy and bring strong, independent judgement, knowledge and experience to the Board's deliberations.

- Dr Peter Rowley is considered to be able to act as an independent Non-executive Director by the Board notwithstanding his 0.05% shareholding in Oxford Advanced Surfaces Group plc.
- Dr David Bott is considered to be able to act as an independent Non-executive Director by the Board, notwithstanding his 0.02% shareholding in Oxford Advanced Surfaces Group plc.
- Adrian Meldrum is considered to be able to act as an independent Non-executive Director by the Board.

The Board meets at least nine times a year and the Audit Committee and Remuneration Committee normally meet on a formal basis once to twice a year, depending on requirements.

The Board receives appropriate and timely information prior to each meeting, with a formal agenda and Board and committee papers being distributed several days before meetings take place. Any Director may challenge Group proposals, and decisions are taken democratically after discussion. Any Director who feels that any concern remains unresolved after discussion may ask for that concern to be noted in the minutes of the meeting. Any specific actions arising from such meetings are agreed by the Board and then followed up by management.

The Group maintains, for its Directors and officers, liability insurance for any claims against them in that capacity. The Group has effective procedures in place to deal with conflicts of interest. The Board is aware of other commitments of its Directors and changes to these commitments are reported to the Board.

The number of Board and Committee meetings attended by each of the Directors during the year are shown below:

	Full Board	Audit Committee	Remuneration Committee
Number of meetings in period	11	2	1
Attendance:			
Executive Directors			
Philip Spinks	11	–	–
Mike Edwards (resigned 13 September 2013)	7	–	–
Non-executive Directors			
Dr Peter Rowley	11	2	1
Michael Bretherton (resigned 24 September 2013)	8	2	–
Dr David Bott	9	2	–
Adrian Meldrum	11	1	–

Committees of the Board

Audit Committee

The Audit Committee comprises the three Non–executive Directors with Adrian Meldrum as Chairman. The Committee typically meets twice a year including at least once a year with the external auditors.

The Audit Committee's primary responsibilities are to review and monitor:

- the annual report and accounts and preliminary and interim results and statements of the Group;
- the appropriateness of accounting policies and the critical judgements and estimates;
- the relevance of developments in accounting and reporting requirements;
- the effectiveness of internal controls and risk management systems;
- the auditor's plan for the year-end audit;
- the formal engagement terms, performance, objectivity and independence of the auditors including the extent of non-audit work undertaken by the auditors; and
- the audit and non-audit fees of the auditors.

The committee has recommended to the Board that a resolution reappointing Ernst and Young LLP as external auditors be put to the shareholders at the forthcoming AGM.

Remuneration Committee

The Remuneration Committee comprises the three Non–executive Directors with Dr David Bott as Chairman. It meets as required and at least annually to consider all aspects of the remuneration of the executive Directors of the Group. The Committee is responsible for establishing a formal and transparent procedure for developing policy on executive remuneration and for setting the remuneration of individual Directors. Full details of Directors' remuneration and a statement on remuneration policy are set out on pages 10 and 11.

Nominations Committee

The Directors consider that given the size of the Board and the stage of development of the Group it is not appropriate at this time to have a nominations committee. However, this will be kept under regular review by the Board.

Internal control and risk management

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 this size, and covers financial, operational, compliance (including health and safety) and risk management. The processes and procedures in place are designed to manage rather than eliminate risk and can therefore only provide a reasonable and not an absolute assurance against material misstatements or losses. The process in place for reviewing systems of internal control includes procedures designed to identify and evaluate failings and weaknesses, and, in the case of any categorised as significant, procedures exist to ensure that necessary action is taken to remedy the failings.

Executive Directors have a close involvement with all day-to-day operations and also meet with staff on a regular basis to identify and review business risks, the controls needed to minimise those risks and the effectiveness of controls in place. Business risks are monitored and updated 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. Some key features of the internal control system are:

- Management accounts information and business risk issues are regularly reviewed by the Board;
- Annual budgets are reviewed and approved by the Board;
- The Group has operational, accounting and employment policies in place;
- There is a clearly defined organisational structure and there are well-established financial reporting and control systems;
- Accounting systems and procedures will be reviewed at least annually as the business grows in order to ensure that they are appropriate to the size and complexity of the business;
- The Group has been accredited and maintains ISO 9001: 2008;

- The Board actively identifies and evaluates risks inherent in the business and ensures that appropriate controls and procedures are in place to manage these risks; and
- The precise accounting controls and procedures to be adopted by the Group following an acquisition of a subsidiary business will be determined at the time an acquisition is made.

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. The Group's treasury management policy is reviewed periodically and 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.

The roles of the Chairman and Chief Executive
The division of responsibilities between the Chairman of the Board and the Chief Executive is clearly defined. The Chairman leads the Board in the determination of its strategy and in the achievement of its objectives. The Chairman is responsible for organising the business of the Board, ensuring its effectiveness and setting its agenda. The Chairman is a Non-executive Director and has no involvement in the day-to-day business of the Group. The Chairman facilitates the effective contribution of Non-executive Directors and constructive relations between executive and Non-executive Directors, ensures Directors receive accurate, timely and clear information and facilitates effective communication with shareholders.

The Chief Executive has direct charge of the Group on a day-to-day basis and is accountable to the Board for the financial and operational performance of the Group.

Technical Advisory Board
The Group operates a Technical Advisory Board (TAB) who meet four to eight times a year. The role of the TAB is to support product development with both commercial and technical direction and advice. The TAB employs leading experts and currently consist of Dr David Bott (Chairman), Professor Steven Abbott and Professor Mark Moloney, one of the founders of Oxford Advanced Surfaces Limited.

Information
Board reports and papers are circulated to the Directors in advance of the relevant Board or committee meeting. These papers are supplemented by information specifically requested by the Directors from time to time. Minutes of Board and committee meetings are circulated to all Board members. The Non-executive Directors receive monthly management accounts and regular management reports and information which enable them to scrutinise the Group's and management's performance against agreed objectives.

Director dealings in Company shares
The Group has adopted a model code for Directors' dealings in securities of the Company which is appropriate for a company quoted on AIM. The Directors comply with Rule 21 of the AIM Rules relating to Directors' dealings and also take all reasonable steps to ensure compliance by the Group's "applicable employees" as defined in the AIM Rules.

Investor Relations
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 have the opportunity to discuss the Group's developments and performance.

The Company's website www.oxfordsurfaces.com contains full details of the Group's activities, press releases and other details, as well as a link to the relevant share price details, share trading activities and graphs, as well as Regulatory News Service ("RNS") announcements.

Annual General Meeting (AGM)

At the AGM, separate resolutions will be proposed for each substantially different issue. The outcome of the voting on AGM resolutions is disclosed by means of an announcement on the London Stock Exchange.

Going Concern

Information on the business environment and the factors underpinning the Group's future prospects and product portfolio are included in the Chief Executive's Review, Strategic Report and the Directors' Report. The Directors have considered their obligations in relation to the assessment of the going concern of the Group and each statutory entity within it, and have reviewed the current forecasts and assumptions. The specific matters and assumptions included were discussed and minuted at a Board meeting on 27 May 2014, including current customers and license opportunities, future development pipeline, scale-up and regulatory costs and future cash burn.

The financial position of the Group is outlined in the Strategic Report. The Directors believe that the diversity of both the technology portfolio and potential customer base, together with the current cash resources available, will enable it to continue to operate for the medium term (next two years). The Directors therefore consider the going concern basis of preparing the accounts to be appropriate.

Review of Corporate Governance Disclosures

The Board has voluntarily complied with those principal Corporate Governance disclosures of the UK Corporate Governance Code insofar as appropriate given the size of the Company and the nature of its operations. These have not been formally reviewed by the Group'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.

Statement of Directors' Responsibilities

The Directors are responsible for preparing the Strategic Report, Directors' 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 the Directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Company and of the profit or loss of the Group and Company for that year.

In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable IFRSs as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group's and the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and Company and enable them to ensure that the financial statements comply with the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Group and Company 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 Group's website (www.oxfordsurfaces.com) and legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Directors' Remuneration Report

Introduction

The Remuneration Committee is committed to maintaining high standards of corporate governance and disclosure and has applied the guidelines as far as practical given the current size and development of the Group.

Remuneration Committee

The Remuneration Committee comprises the three Non-executive Directors with Dr David Bott as Chairman. It meets as required and at least annually to consider all aspects of the remuneration of the executive Directors of the Group.

The policy of the Remuneration Committee is to reward executive Directors in line with the current development of the Group and with the current remuneration of Directors in comparable businesses in order to recruit, motivate and retain high quality executives in a competitive marketplace.

There are three main elements of the remuneration packages for executive Directors and senior management:

- Basic annual salary (including Directors' fees):
  The base salary is reviewed annually at the beginning of each year. The review process is undertaken by the remuneration committee and takes into account several factors, including the current position and development of the Group, individual contribution and market salaries for comparable organisations.
- Discretionary annual bonus:
  All executive Directors and senior managers are eligible for a discretionary annual bonus which is paid in accordance with a bonus scheme developed by the Remuneration Committee. This takes into account individual contribution, business performance and technical and commercial progress, along with financial results.
- Discretionary share option scheme and Employee Benefit Trust:
  All executive Directors and employees are eligible for discretionary share option awards to be paid in accordance with the option scheme, as amended on 16 December 2008. This takes into account the need to motivate and retain key individuals, along with similar performance criteria to the discretionary bonus scheme. The Group also operates an Employee Benefit Trust share scheme for the benefit of senior management.

The Group does not currently operate a Group pension scheme. It does however offer a salary sacrifice scheme, which is open to all executive Directors and employees. In addition a death in service policy and an income protection scheme is in place for all executive Directors and employees. There are no other benefits currently offered by the Group.

Remuneration policy for Non-executive Directors

Remuneration for Non-executive Directors is set by the Board as a whole. These are on a fixed fee basis and are currently set at an annual rate of £12,000 and £15,000 for the Group's Chairman. Non-executives do not receive any pension payments or other benefits nor do they participate in bonus schemes.

Directors' Shareholdings

The interests of the Directors in the shares of the Company at 31 December 2013 were:

	Ordinary shares of 1p each			
	31 December 2013		31 December 2012	
	Number	Per cent	Number	Per cent
Executive Directors				
Philip Spinks	61,500	0.03%	61,500	0.03%
Non-executive Directors				
Dr Peter Rowley	99,502	0.05%	99,502	0.05%
Michael Bretherton	635,000	0.32%	635,000	0.32%
Dr David Bott	36,000	0.02%	36,000	0.02%

Directors' Remuneration

Name of Director	Salaries and fees £'000	Benefits £'000	Pension £'000	Total December 2013 £'000	Total December 2012 £'000
Executive Directors					
Philip Spinks	93	–	7	100	106
Mike Edwards (resigned 13 September 2013)	116	–	–	116	102
Non-executive Directors					
Dr Peter Rowley	15	–	–	15	15
Michael Bretherton (resigned 24 September 2013)	8	–	–	8	12
Dr David Bott	12	–	–	12	12
Adrian Meldrum (appointed 15 November 2013)	114	17	–	131	36
	358	17	7	382	283

On 15 November 2013 Adrian Meldrum resigned as an executive Director and became a Non-executive Director. All remuneration disclosed covers both appointments. During the year under review a share-based payments charge was recognised in the profit and loss account in relation to share options and jointly owned shares made available to the Directors. For 2013 this equated to £22,000 for Philip Spinks and £9,000 for Mike Edwards. For the year to 31 December 2012 this equated to £9,000 for Adrian Meldrum, £6,000 for Philip Spinks and £5,000 for Mike Edwards.

Executive Directors have continuing service contracts with six months' notice. Dr David Bott has a letter of appointment with a three year term, renewed on 12 February 2013, with one months' notice. All Directors are required to put themselves up for re-election as detailed under the Articles of Association and all service contracts and letters of appointment are subject to early termination provisions. The sums for the services of Dr David Bott are paid via a third party (see note 22).

Directors' Share Options and Jointly Owned Employee Benefit Trust Shares

Directors' interests in share options and jointly owned shares to acquire ordinary shares of 1 penny each in the Company at 31 December 2013 were:

Share Options	At 1 January 2013	Forfeited	Issued	Total 31 December 2013	Exercise price	Vesting condition target price	Exercisable from	Date of expiry
Executive Directors								
Adrian Meldrum	1,200,000	(1,200,000)	–	–	10.0p	15.0p	01/10/2014	30/09/2022
	1,000,000	(1,000,000)	–	–	10.0p	20.0p	01/10/2015	30/09/2022
Philip Spinks	400,000	–	–	400,000	10.0p	15.0p	01/10/2013	30/09/2022
	400,000	–	–	400,000	10.0p	20.0p	01/10/2014	30/09/2022
	400,000	–	–	400,000	10.0p	25.0p	01/10/2015	30/09/2022
	400,000	–	–	400,000	10.0p	30.0p	01/10/2016	30/09/2022
Mike Edwards	400,000	–	–	400,000	10.0p	15.0p	01/10/2013	30/09/2022
	300,000	(300,000)	–	–	10.0p	20.0p	01/10/2014	30/09/2022
	300,000	(300,000)	–	–	10.0p	25.0p	01/10/2015	30/09/2022
	4,800,000	(2,800,000)	–	2,000,000				

Employee Benefit Trust – Joint Ownership Shares	At 1 January 2013	Forfeited	Issued	Total 31 December 2013	Exercise price	Vesting condition target price	Exercisable from	Date of expiry
Executive Director								
Adrian Meldrum	1,000,000	(1,000,000)	–	–	10.0p	25.00p	01/10/2016	30/09/2022
	1,000,000	(1,000,000)	–	–	10.0p	30.00p	01/10/2017	30/09/2022
	2,000,000	(2,000,000)	–	–				

Following the resignation of Adrian Meldrum as an Executive Director on 15 November 2013 his options along with his benefits under the Employee Benefit Trust were forfeited. In addition Mike Edwards also forfeited his entitlement to his options on his resignation on 13 September 2013, apart from 400,000 options that contractually remain available until 16 June 2014, whereupon they must be exercised if the performance conditions on grant are met, otherwise the options are forfeited.

The mid-market price of the shares in Oxford Advanced Surfaces Group plc was 4.50 pence at 31 December 2013 and the range during the year was 4.50 pence to 12.63 pence.

On behalf of the Board

David Bott
Chairman of the Remuneration Committee
16 June 2014

Strategic Report

The Directors present their Strategic Report with the Group Financial Statements for the year to 31 December 2013 and their assessment of the risks faced by the Group.

Principal Activity

Oxford Advanced Surfaces Group plc (OAS) designs, develops and manufactures proprietary technology solutions to create engineered materials and address surface modification applications in the automotive, aerospace, communications, electronics and renewable energy markets.

Business Review

A review of the Group's performance and future prospects is included in the Chairman's Statement and Chief Executive's Report on pages 2 and 3.

The year to 31 December 2013 has been one of focus and change for Oxford Advanced Surfaces Group ("OAS"). OAS has made the transition from a research & development company to a product-driven company that offers commercial products for a broad range of applications. After extensive preparation in the fourth quarter the first evaluation product launched early in 2014. This fundamental repositioning was driven by a strategic review in August 2013 which concluded that further investment in the VISARC™ antireflection coating technology would be suspended due to market and competitive changes that occurred during our technical development period.

The Group made significant progress with its Onto™ development programme and is now in a position to offer a more generic adhesion promotion solution to the market. Historically OAS was restricted to bespoke and potentially costly solutions for each customer. Now the Group can target multiple customers with multiple requirements with one product family.

The decision to suspend development of the VISARC™ technology platform was driven by market and competitive changes which limited the Group's ability to commercialise the technology. Efforts are now solely focused on Onto™ products, initially EP1000, with a defined pipeline for new products including Onto™ graphene functionalisation. In addition the Group has been through a significant cost reduction exercise and reduced the cash burn rate to ensure that we utilise our cash resources as effectively as possible and extend our ability to fund our expenses in the medium term.

Financial Review

The Consolidated Financial Statements have been prepared for the year to 31 December 2013.

Trading

Group revenue for the year ended 31 December 2013 was £3,000 (2012: £86,000). This was generated from paid for sampling. The revenues from 2012 were from individual project funding and grant income totalling £19,000. The Group continued to work on a number of internally generated projects and external strategically targeted fee-free projects and product sampling in order to generate further interest in the Group's technology offerings. The loss before tax for the year was £1,931,000 (2012: £1,696,000).

Research and development costs increased from £909,000 to £969,000 driven by our increased internal focus on the Onto™ technology platform and related products. Administrative costs increased from £830,000 to £1,029,000. We continue to review our costs in all areas to ensure that we get full value from both our research and development endeavours and our administrative functions. The results of our strategic realignment in August 2013 and the streamlining of our Board in September and November 2013 will lead to a significantly lower cost base in 2014.

Interest from deposits for the year amounted to £65,000 (2012: £126,000). This reduction was driven by a lower cash balance and the availability of attractive interest rates in the current market.

Balance Sheet

We currently have four active patent families in the Onto™ technology space, three of which have been granted in multiple territories, the fourth is published and being inspected. We are currently maintaining two core nanomaterial and VISARC™ technology patents; a full evaluation of how best to generate value from this intellectual property portfolio is ongoing. We believe we have a strong patent portfolio for our key Onto™ platform which will support the business going forwards. We will continue to develop and enhance our portfolio with additional filings for key applications of our existing technology platform.

The Group has a strong balance sheet and the Directors believe that this is sufficient, along with our significantly reduced cost base, to support the business for the foreseeable future. At 31 December 2013 the Group had £2,760,000 (2012: £4,304,000) of cash held in instant access and term deposits specifically for developing and commercialising its technology.

Cash flow

The Group's overall cash and short-term investment position reduced by £1,544,000 during the year (2012: £1,501,000). The net cash outflow from operations amounted to £1,714,000 (2012: £1,655,000) whilst £47,000 (2012: £59,000) was invested in laboratory equipment, computers and office fittings to support business growth and technology development. Investment in our patent portfolio decreased to £81,000 (2012: £84,000) reflecting the costs incurred in multiple country filings, new patent applications and grants.

Risk Review

Given the current nature and commercial position of the business, the Group's Directors are of the opinion that analysis of key performance indicators ("KPIs") is not necessary for an understanding of the development, performance and position of the entity. However, the Directors believe that performance is best measured by achievement against technical and business development milestones which are referred to in the Review of the Chairman and Chief Executive. These include progress towards commercial readiness including having in place manufacturing capability and capability to support new projects, the size and quality of development pipeline, progress towards income and cash burn rate.

Employment Policies

The Group is committed to the health and safety of its employees in the workplace and has process and procedures, combined with appropriate training and risk assessment, to ensure the same. The Group supports employment of disabled people wherever possible through recruitment, by retention of those who become disabled and generally through training, career development and promotion. The Group is committed to keeping employees as fully informed as possible with regard to the Group's performance and prospects and seeks their views, wherever possible, on matters which affect them as employees.

Operating Risks

The key operating risks of the Group and the measures taken to manage these are summarised below.

Technology Risk

There is a risk that technology development is delayed or specific programme targets cannot be met. The Group manages the development of its technology through separate development programmes. Each programme has a specific set of milestones (either internal or external), measurable goals, timeline and budget. Performance against each of these is monitored regularly, depending on the programme requirements. This enables the Group to identify issues at an early stage and take appropriate mitigating actions.

Platform Technology

The Directors consider that the broad range of applications across multiple industries to which the Group's technology can be applied provides a significant mitigation against the risk of failure of any one application within individual industries.

Commercial success and market acceptance

There can be no assurance that any current or future product development will be successfully developed into any commercially viable product or products. The Group's success will depend on the market's acceptance of its products and there can be no guarantee that this will be forthcoming or that the Group's technologies will succeed as an alternative to other new products. If a mass market for any product or process fails to develop or develops more slowly than anticipated, the Group may fail to recover the losses incurred in the development process and may never achieve profitability. There is also an inherent risk that unforeseen alternative technologies or market evolution could result in the loss of commercial opportunities for the Group. The Group's strategy of developing products to meet identified market needs and where applicable under joint development agreements with leading companies in large and valuable market applications is designed to maximise the chance of adoption and drive mass market uptake.

Manufacturing

There is a risk that we are unable to meet customer requirements within set timescales for individual market opportunities. The Group is working with leading manufacturers of speciality chemicals to develop the manufacturing capability for commercial sales of its products. By using manufacturing partners with proven track-records in their fields, rather than developing capability in-house, the Directors consider that the manufacturing risk is significantly reduced.

Early stage operations

The Group is at an early stage of development. It is difficult to predict if and when material revenues will arise and the Group faces risks frequently encountered by developing companies. The Group's success will depend on its ability to develop a portfolio of products and services which address specific market needs and develop suitable licensing, royalty and contract manufacture models and capture value from business opportunities. The Group's business model involves focusing development on identified market needs and seeking commercial agreements to take the products to market.

Research and development risks

The Group is involved in complex scientific areas and industry experience in such areas indicates a high incidence of delay or failure to produce results. Delays in achieving required results may result in the loss of an opportunity due to alternative competitive technologies or changing industry requirements and specifications. In addition, novel chemical reagents may face potential regulatory barriers which by their nature will vary, for example, by application, geography, volume of business and which are therefore difficult to anticipate at present.

Attraction and retention of key employees

The Group depends on its Directors and other key employees and whilst it has entered into contractual arrangements with these individuals with the aim of securing the services of each of them, retention of these services cannot be guaranteed. The Group has attempted to reduce this risk by offering competitive remuneration packages including the opportunity to participate in a share option scheme and investment in training, development and succession planning.

Intellectual Property

A significant part of the Group's future development and growth depends on its intellectual property. If intellectual property is inadequately protected, the Group's future success could become adversely affected. The Group may not be able to protect and preserve its intellectual property or to exclude competitors with competing technology products. The Group continues to invest in the protection and expansion of its intellectual property portfolio. In addition the Group utilises internal procedures and controls to identify and capture new intellectual property and to prevent unauthorised disclosure to third parties.

Financial Risks

The Group's activities expose it to a number of financial risks including credit risk, interest rate risk and liquidity risk. The Group is not currently exposed to significant exchange rate 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 cash and cash equivalents, short-term investments, trade and other receivables and trade and other payables. The main purpose of these financial instruments is the funding of the Group's activities.

Credit Risk

The Group's principal financial assets are cash, cash equivalents and short-term investments, trade and other receivables. The Group's credit risk is primarily attributable to its cash and cash equivalents. The credit risk on liquid funds is limited to counterparties (banks) with high credit ratings assigned by international credit rating agencies. The Group has a treasury policy designed to ensure that cash, cash equivalents and short-term investments are only placed with high credit rated institutions and that the spread of such assets is sufficient that it is not overly exposed to any one institution.

Interest Rate Risk

Through the holding of cash and cash equivalents, the Group's activities expose it to the financial risk of changes in interest rates. Where practical 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 the coming 12 to 24 months. Funds are placed on time deposits with cash balances available for immediate withdrawal if required.

Capital Management Risk

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

Funding

The Group had in excess of £2.7 million of cash funding available at the end of the year and management believes that this provides sufficient funding to complete the product development process and take the business to a commercial stage. However in the event that the development process takes longer, or is more costly than anticipated, the Group may be required to raise further finance in order to complete the development and commercialisation process.

Future Developments

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

Company Development Activities

The Company continues to invest in development. The Onto™ platform and associated product offerings are expected to make significant contributions to the growth of the business. The Directors regard investment in development as important for success in the medium to long term.

On behalf of the Board

Philip Spinks
Chief Executive Officer
16 June 2014
Company Number: 5845469

Directors' Report

The Directors present their report with the Group Financial Statements for the year to 31 December 2013.

Research and Development

A review of the Group's research and development activities is included in the Chief Executive's Report on page 3.

Business Risks

A full explanation of the Company's risks and its risk management policies is made in the Strategic Report on page 12.

Future Developments and Company Development Activities

A review of the future developments and Company development activities is included in the Chief Executive's Report and the Strategic Report.

Basis of Preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union.

Results and Dividends

The Consolidated Financial Statements have been prepared for the year to 31 December 2013. The loss before tax for the year was £1,931,000 (2012: £1,696,000). The Directors do not recommend a dividend in respect of the year to 31 December 2013 and no dividends were paid during the year under review or the prior year.

Directors and their interests

The Directors who have held office during the year and in the subsequent period to the signing of these financial statements were as follows:

Executive Directors
Philip Spinks
Mike Edwards (resigned 13 September 2013)

Non-executive Directors
Dr Peter Rowley
Michael Bretherton (resigned 24 September 2013)
Dr David Bott
Adrian Meldrum

Biographies of the Directors can be found on page 5. All Directors who are eligible offer themselves for election at the forthcoming Annual General Meeting. The remuneration for the year under review and beneficial interests of the Directors and persons connected with them in the issued share capital of the Company as at 31 December 2013 are shown in the Directors' Remuneration Report on pages 10 and 11.

On 1 October 2012 the Company issued 2,000,000 new shares under the Employee Benefit Trust (the "Trust"). The Trust is consolidated in the financial statements and the value of the shares held by the Trust are offset against Retained Earnings. Shares held by the Trust are treated as issued and included when calculating earnings per share. Shares in the Trust were previously held under a Joint Ownership Agreement, however this was forfeited during the year and the shares are now held under Trust for the future benefit of employees. The Trust is treated similarly in the financial statements of the parent company.

Substantial Shareholders

The Company is aware that in addition to the holders disclosed under Directors' interests in shares above, the following persons have at the 9 May 2014 an interest in 3% or more of the issued ordinary share capital of the Company:

Name	Ordinary 1p shares	Per cent
Richard Griffiths	52,753,722	26.68%
IP2IPO Limited	28,503,396	14.41%
Robert Quested	23,735,369	12.00%
University of Oxford	17,264,429	8.73%
David Norwood	11,597,727	5.87%
Close Brothers Asset Management	7,731,939	3.91%
Dr Mark Moloney	6,620,527	3.35%
Jon-Paul Griffiths	6,620,527	3.35%

Policy on Payment of Creditors

It is Group policy to agree and clearly communicate the terms of payment as part of the commercial arrangements negotiated with suppliers and then to pay according to those terms based on the timely receipt of an accurate invoice.

For the year ended 31 December 2013 trade creditor days for the Group were 14 (2012: 21) and for the Company were 8 (2012: 20). The trade creditors' days are based upon total cost of sales, research and development costs and other administrative expenses excluding wages and salaries and depreciation and amortisation.

Statement as to Disclosure of Information to Auditors

The Directors who were in office at the date of approval of these financial statements have confirmed that, as far as they are aware, there is no relevant audit information (as defined by Section 418(2) of the Companies Act 2006) of which the Company's auditors are unaware, and that each Director has taken all the steps that he ought to have taken as a Director in order to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Third Party Indemnity Provision for Directors

A qualifying third party indemnity provision is in place for the benefit of all Directors of the Company.

Auditors

The auditors, Ernst & Young LLP, have indicated their willingness to continue in office and a resolution for their reappointment in accordance with Section 489(1) of the Companies Act 2006 will be proposed at the Annual General Meeting.

Annual General Meeting Notice

The Annual General Meeting of the Company will be held at the Blenheim Room, The Farmhouse, Begbroke Science Park, Begbroke Hill, Woodstock Road, Begbroke OX5 1PF on 14 July 2014 at 10.30am. The notice convening the AGM, together with an explanation of the resolutions to be proposed at the meeting, is contained in the Notice of the Annual General Meeting on pages 46 to 51.

On behalf of the Board

Philip Spinks
Company Secretary
16 June 2014
Company Number: 5845469

Independent Auditor's Report to the Members of Oxford Advanced Surfaces Group plc

We have audited the financial statements of Oxford Advanced Surfaces Group plc for the year ended 31 December 2013 which comprise the consolidated statement of comprehensive income, the consolidated and Company statement of financial position, the consolidated and Company statement of changes in equity, the consolidated and Company cash flow statement and the related notes 1 to 23 and 1 to 10. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

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

Respective responsibilities of Directors and auditors

As explained more fully in the Statement of Directors' Responsibilities set out on page 9, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's and the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and the parent Company's affairs as at 31 December 2013 and of the Group's loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

Opinion on other matter prescribed by the Companies Act 2006

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

Matters on which we are required to report by exception

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

- adequate accounting records have not been kept by the Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Marcus Butler (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
Reading
16 June 2014

Notes:

1. The maintenance and integrity of the Oxford Advanced Surfaces Group plc website is the responsibility of the Directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.
2. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Consolidated Statement of Comprehensive Income
For the year ended 31 December 2013

	Notes	Year to 31 December 2013 £'000	Year to 31 December 2012 £'000
Continuing operations			
Revenue		3	86
Cost of sales		(1)	(169)
Gross profit/(loss)		2	(83)
Research and development costs	11	(969)	(909)
Administrative costs	11	(1,029)	(830)
Operating loss		(1,996)	(1,822)
Finance income	9	65	126
Loss before tax		(1,931)	(1,696)
Income tax credit	10	142	159
Total loss for the year		(1,789)	(1,537)
Loss per share attributable to the equity holders of the Company:			
Total and continuing			
– Basic and diluted (pence):	19	(0.91)	(0.79)

The loss for the year arises from the Group's continuing operations.

There were no items of other comprehensive income for the year to 31 December 2013 or 2012 and therefore the loss for the year is also the total comprehensive loss for the year net of tax.

The basic and diluted loss per share are the same as the effect of share options is anti-dilutive.

The notes on pages 22 to 35 form an integral part of these consolidated financial statements.

Consolidated Statement of Financial Position
For the year ended 31 December 2013

	Notes	31 December 2013 £'000	31 December 2012 £'000
Assets			
Non-current assets			
Intangible assets	13	316	396
Plant and equipment	14	136	191
		452	587
Current assets			
Trade and other receivables	15	57	136
Corporation tax due	10	140	159
Short-term investments and cash and cash equivalents	16	2,760	4,304
		2,957	4,599
Liabilities			
Current liabilities			
Trade and other payables	17	120	145
Net current assets		2,837	4,454
Liabilities			
Non-current liabilities			
Provisions	17	10	10
Net assets		3,279	5,031
Shareholders' equity			
Called up share capital	18	1,977	1,977
Share premium		10,603	10,603
Merger reserve		6,369	6,369
Reverse acquisition reserve		(6,831)	(6,831)
Retained earnings		(9,147)	(7,365)
Share-based payments reserve		308	278
Total equity attributable to equity holders of the Company		3,279	5,031

The financial statements were approved by the Board of Directors and authorised for issue on 16 June 2014 and were signed on its behalf by:

Philip Spinks
Director
Company Number: 5845469

Consolidated Statement of Changes in Equity
For the year ended 31 December 2013

	Share equity £'000	Share premium £'000	Merger reserve £'000	Reverse acquisition reserve £'000	Retained earnings £'000	Share-based payment reserve £'000	Total equity £'000
At 1 January 2012	1,957	10,423	6,369	(6,831)	(6,277)	898	6,539
Total comprehensive loss for the year to 31 December 2012	–	–	–	–	(1,537)	–	(1,537)
Issue of share capital	20	180	–	–	–	–	200
Employee benefit trust	–	–	–	–	(198)	–	(198)
Transfer of share-based payment charges on cancellation of options	–	–	–	–	647	(647)	–
Share-based payments	–	–	–	–	–	27	27
At 31 December 2012	1,977	10,603	6,369	(6,831)	(7,365)	278	5,031
Total comprehensive loss for the year to 31 December 2013	–	–	–	–	(1,789)	–	(1,789)
Employee benefit trust	–	–	–	–	(2)	–	(2)
Transfer of share-based payment charges on cancellation of options	–	–	–	–	9	(9)	–
Share-based payments	–	–	–	–	–	39	39
At 31 December 2013	1,977	10,603	6,369	(6,831)	(9,147)	308	3,279

Consolidated Statement of Cash Flows
For the year ended 31 December 2013

	Notes	Year to 31 December 2013 £'000	Year to 31 December 2012 £'000
Loss before tax		(1,931)	(1,696)
Depreciation and amortisation charges		129	141
Impairment of intangible assets	13	129	–
Loss/(profit) on disposal of plant and equipment		4	1
Share-based payment expense		39	27
Finance income		(65)	(126)
		(1,695)	(1,653)
Decrease/(increase) in stocks		–	1
Decrease/(increase) in trade and other receivables		6	29
(Decrease)/increase in trade and other payables		(25)	(32)
Cash outflow from operations		(1,714)	(1,655)
Income tax received		161	145
Net cash outflow from operating activities		(1,553)	(1,510)
Cash flows from investing activities			
Proceeds from sale of plant and equipment		1	–
Purchase of intangible assets	13	(81)	(84)
Purchase of plant and equipment	14	(47)	(59)
Decrease/(increase) in short-term investments		3,680	1,570
Interest received		138	150
Net cash inflow/(outflow) from investing activities		3,691	1,577
Net cash from financing activities			
Share issue		–	2
Funds repaid on forfeiture of EBT jointly owned shares		(2)	–
Net cash inflow/(outflow) from financing activities		(2)	2
Increase/(decrease) in cash and cash equivalents		2,136	69
Cash and cash equivalents at beginning of year		624	555
Cash and cash equivalents at end of year	16	2,760	624
Short-term investments		–	3,680
Short-term investments and cash and cash equivalents	16	2,760	4,304

Under IAS 7, cash held on long-term deposits that cannot readily be converted into cash, has been classified as a short-term investment. These investments range between 3 and 12 months.

1. Corporate information

Oxford Advanced Surfaces Group plc ("the Company") is a public limited company incorporated, registered and domiciled in England and Wales and its shares are publicly traded on AIM, a market operated by the London Stock Exchange. The Group financial statements consolidate those of the Company and its subsidiaries (together referred to as the "Group" and individually as "Group entities") for the year ended 31 December 2013.

2. Basis of preparation

These consolidated and Company financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union, IFRIC Interpretations and the Companies Act 2006 applicable to companies reporting under IFRS. The consolidated financial statements have been prepared under the historical cost convention and all values have been rounded to the nearest thousand, except where otherwise indicated. The functional currency of the Group and all the subsidiaries is Sterling.

The preparation of financial statements in conformity with IFRS as adopted by the European Union 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 Group financial statements are disclosed in note 5.

The accounting policies adopted are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2012, except for the adoption of new standards and interpretations, none of which resulted in any impact on the accounting policies, financial position or performance of the Group.

3. Going concern

Information on the business environment and the factors underpinning the Group's future prospects and product portfolio are included in the Chief Executive's Review, Strategic Report and the Directors' Report. The Directors believe that the diversity of the technology portfolio and potential customer base should allow it to continue to operate in the current economic climate. The Directors confirm that they are satisfied that the Group has adequate resources to continue in business for the medium term (next two years), based on the current cash resources available. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

4. Summary of significant accounting policies

Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured, regardless of when the payment is being made. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty. The following specific recognition criteria must also be met before revenue is recognised.

- Sale of goods Revenue from the sale of goods is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer, usually on delivery of the goods.
- Development agreements Revenue from joint development agreements is recognised following contractual entitlement. This typically comprises either time based fees, time and materials expended or time and technical milestones achieved, as agreed between the parties.

Grant funding

Grants are recognised where there is reasonable assurance that the grant will be received and all attached conditions will be complied with. When the grant relates to an expense item, it is recognised as income over the year necessary to match the grant on a systematic basis to the costs that it is intended to compensate. Where the grant relates to an asset, it is recognised as deferred income and released to income in equal amounts over the expected useful life of the related asset. Where the Group receives non-monetary grants, the asset and the grant are recorded at nominal amounts and released to the income statement over the expected useful life of the relevant asset by equal annual instalments.

Taxes

Current income tax

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date in the countries where the Group operates and generates taxable income.

Deferred tax

Deferred tax is provided using the liability method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

4. Summary of significant accounting policies continued

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- Where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss;
- In respect of taxable temporary differences associated with investments in subsidiaries where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised, except:

- Where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss;
- In respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date. Deferred tax relating to items recognised outside profit or loss is recognised outside profit or loss. Deferred tax items are recognised in correlation to the underlying transaction either in other comprehensive income or directly in equity. Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Sales tax

Revenues, expenses and assets are recognised net of the amount of sales tax, except:

- Where the sales tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the sales tax is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable;
- Receivables and payables that are stated with the amount of sales tax included.

The net amount of sales tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

Research and development

Research costs are charged against income as they are incurred. Certain development costs are capitalised as intangible assets, when it is probable that future economic benefits will flow to the Group. Such intangible assets are amortised on a straight-line basis from the point at which the assets are ready for use over the period of the expected benefit, and are reviewed for impairment at each balance sheet date. Other development costs are charged against income as incurred since the criteria for their recognition as an asset are not met.

The criteria for recognising expenditure as an asset are:

- Completion of the intangible asset is technically feasible so that it will be available for use or sale;
- The Group intends to complete the intangible asset and use or sell it;
- The Group has the ability to use or sell the intangible asset;
- The intangible asset will generate probable future economic benefits. Among many other things, this requires that there is a market for the output from the intangible asset or for the intangible asset itself, or, if it is to be used internally, the asset will be used in generating such benefits;
- That the Group has available to it adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- That the Group can reliably measure the expenditure attributable to the intangible asset during its development.

4. Summary of significant accounting policies continued

- The costs of an internally generated intangible asset comprise all directly attributable costs necessary to create, produce and prepare the asset to be capable of operating in the manner intended by management. Directly attributable costs include employee (other than Directors) costs incurred on technical development, testing and certification, materials consumed and any relevant third party costs. The costs of internally generated developments are recognised as intangible assets and are subsequently measured in the same way as externally acquired intangible assets. However, until completion of the development project, the assets are subject to impairment testing only.

Careful judgement by the Directors is applied when deciding whether the recognition requirements for development costs have been met. This is necessary as the economic success of any product development is uncertain and may be subject to future technical problems at the time of recognition. Judgements are based on the information available at each balance sheet date which includes the progress with third party pilot plants, testing and certification and progress on, for example, establishment of commercial arrangements with third parties. In addition, all internal activities related to research and development of new products are continuously monitored by the Directors.

No development costs have been capitalised as intangible assets to date.

Patents and licenses

Patent costs and licensing rights are amortised over their estimated useful economic life of 20 years.

Plant and equipment

Plant and equipment are stated at cost, net of depreciation and provision for any impairment. Depreciation is calculated to write off the cost of all plant and equipment to estimated residual value on a straight-line basis over their expected useful lives as follows:

- Plant and machinery 4 years
- Office furniture and fittings 4 years
- Computer and IT equipment 3 years

Impairment of assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is recognised as an expense immediately.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the income statement. After such a reversal the depreciation charge is adjusted in future years to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

Financial assets and liabilities

- Trade and other receivables Trade and other receivables are recognised initially at their fair value and subsequently measured at amortised cost using the effective interest method less any provision for impairment.
- Trade and other payables Trade and other payables are recognised initially at their fair value and subsequently measured at amortised cost using the effective interest method.
- Cash and cash equivalents Cash and cash equivalents comprise cash at hand and short-term deposits of less than three months. The Group's funds are held for the purpose of funding the future growth of the business. Deposits are made with banks and financial institutions with a good credit rating, and such investments are regularly reviewed by the Board.
- Short-term investments Short-term investments comprise deposits of between 3 and 12 months. The Group's funds are held for the purpose of funding the future growth of the business. Deposits are made with banks and financial institutions with a good credit rating, and such investments are regularly reviewed by the Board.

4. Summary of significant accounting policies continued

Leases

Leases in which a significant portion of the risks and rewards of the 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.

Shares held by the Employee Benefit Trust

The Employee Benefit Trust ("the Trust") is consolidated in the financial statements and the value of the shares under joint ownership by the Trust are offset against Retained Earnings. Shares held by the Trust are treated as issued but excluded when calculating earnings per share.

Share-based payments

Employees (including senior executives) of the Group receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments (equity-settled transactions).

All goods and services received in exchange for the grant of any share-based payment are measured at their fair values. Where employees are rewarded using share-based payments, the fair values of employees' services are determined indirectly by reference to the fair value of the instrument granted to the employee. This fair value is appraised at the grant date and excludes the impact of non-market vesting conditions (for example, profitability and sales growth targets).

Share options are valued at the date of grant using either the Black-Scholes Merton model or the Trinomial model, depending on the vesting criteria, and are charged to operating profit over the vesting period of the award with a corresponding credit to the share-based payment reserve.

If vesting periods or other non-market vesting conditions apply, the expense is allocated over the vesting period, based on the best available estimate of the number of share options expected to vest. Estimates are subsequently revised if there is any indication that the number of share options expected to vest differs from previous estimates. Any cumulative adjustment prior to vesting is recognised in the current period. No adjustment is made to any expense recognised in prior periods if share options ultimately exercised are different to that estimated on vesting.

Where the terms of an equity-settled transaction award are modified, the minimum expense recognised is the expense as if the terms had not been modified, if the original terms of the award are met. An additional expense is recognised for any modification that increases the total fair value of the share-based payment transaction, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the entity or the employee are not met. However, if a new award is substituted for the cancelled award, and designated as replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph. All cancellations of equity-settled transaction awards are treated equally. Where an equity-settled award is forfeited, no expense is recognised and any expense recognised up to the date of the forfeiture is reversed through the income statement.

Upon exercise of share options the proceeds received net of attributable transaction costs are credited to share capital, and where appropriate, share premium.

Changes in accounting policy and disclosure

There have been no changes in accounting policy from those of the previous financial year. None of the new or amended standards that were effective as of 1 January 2013 had any material impact on the Group or the presentation of its financial results.

5. Critical Accounting Estimates and Judgements

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

Impairment of tangible and intangible assets

The Group tests tangible and intangible assets with definite lives for impairment if and when indicators of impairment arise. Where such an indication exists the Group estimates the fair value less costs to sell of assets based on the net present value of future cash flows (see note 13).

Share-based payments

The estimation of share-based payments requires: the selection of an appropriate valuation method; consideration as to the inputs necessary for the valuation model chosen; assumptions regarding when and if performance conditions will be met; and the estimation of the number of awards that will ultimately vest. Inputs required for this arise from judgements relating to the future volatility of the share price of comparable companies, the Company's expected dividend yields, risk free interest rates and expected lives of the options. The Directors draw on a variety of sources to aid in the determination of the appropriate data to use in such calculations (see note 21).

All share-based payment arrangements granted that had not vested prior to 31 December 2013 are recognised in the Group financial statements.

6. Standards issued but not yet effective

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group's financial statements are disclosed below. The Group intends to adopt these standards, if applicable, when they become effective. Those disclosed below are considered to be relevant to the Group.

IFRS 9 Financial Instruments

The first phase of IFRS 9, which addressed classification and measurement of financial assets was published in November 2009, and was subsequently amended in October 2010 and November 2013, to include classification and measurement requirements for financial liabilities and hedge accounting requirements. IFRS 9 does not currently have a mandatory effective date. A mandatory effective date will be set when the IASB completes the impairment phase of the project. However, the IASB has tentatively decided that the mandatory effective date of IFRS 9 will be for annual periods beginning on or after 1 January 2018. The Group will quantify the impact of IFRS 9 when the final standard, including all phases, is issued.

IFRS 10 Consolidated Financial Statements, IAS 27 Separate Financial Statements

IFRS 10 replaces the portion of IAS 27 that addresses the accounting for consolidated financial statements. IAS 27, as revised, is limited to the accounting for investments in subsidiaries, joint ventures, and associates in separate financial statements. IFRS 10 does not change consolidation procedures (i.e., how to consolidate an entity). Rather, IFRS 10 changes whether an entity is consolidated by revising the definition of control. IFRS 10 also provides a number of clarifications on applying the new definition of control. This change is not expected to impact the Group.

IFRS 12 Disclosure of interests in other entities

IFRS 12 sets out the disclosure requirements for an entity's interests in subsidiaries, joint arrangements, associates and/or structured entities. The objective of the new disclosure requirements is to help the users of financial statements understand the effects of an entity's interests in other entities on its financial position, financial performance and cash flows and the nature of, and the risks associated with, the entity's interest in other entities. This change is not expected to materially alter the disclosures provided by the Group.

IAS 32 Offsetting financial assets and financial liabilities – Amendments to IAS 32

These amendments clarify the meaning of "currently has a legally enforceable right to set-off" and the criteria for non-simultaneous settlement mechanisms of clearing houses to qualify for offsetting. These are effective for annual periods beginning on or after 1 January 2014. These amendments are not expected to be relevant to the Group.

7. Segmental Reporting

Following the Group's focus on its leading technologies, the Board is of the opinion that the business operates two distinct reportable operating segments. These are as follows:

- The Reactive Chemistry segment is focused on developing and licensing novel Onto™ chemistry that provides advances in cross-linking, adhesion and surface modification leading to new and advanced materials and material solutions.
- The Particle Technology segment is focused on using and modifying particles for use in a wide range of applications, from optical coatings (VISARC™) through to fast moving consumer goods and agrochemicals. Work in this segment has been suspended at the present time.

No operating segments have been aggregated to form the above reportable operating segments. Individual projects do not meet the definition of segments, and as such the revenues and costs of individual projects are not formally separated. In addition, due to the research and development nature of the business, many projects are transitory, depending on success, and thus no meaningful data can be provided through such analysis. Each segment has a Group manager who is responsible for leading the technical research and development. They have individual budgets and the performance against budget and other non-financial targets is regularly reviewed by the Board of Directors.

2013	Reactive Chemistry £'000	Particle Technologies (suspended) £'000	Corporate unallocated £'000	Year to 31 December 2013 (Total) £'000
Fee paying agreements	3	–	–	3
Grants	–	–	–	–
Total Revenue	3	–	–	3
Cost of sales	(1)	–	–	(1)
Research and development costs	(434)	(525)	(10)	(969)
Administrative costs	(77)	(169)	(783)	(1,029)
Finance income	–	–	65	65
Segment loss before tax	(509)	(694)	(728)	(1,931)
Income tax credit	59	83	–	142
Loss for the year	(450)	(611)	(728)	(1,789)
Included in the above are:				
Depreciation and amortisation	49	77	3	129
Impairment of intangible assets – patents	–	129	–	129

Within Reactive Chemistry, the revenue from fee paying agreements represents income from one customer.

2012	Reactive Chemistry £'000	Particle Technologies (suspended) £'000	Corporate unallocated £'000	Year to 31 December 2012 (Total) £'000
Fee paying agreements	32	35	–	67
Grants	–	–	19	19
Total Revenue	32	35	19	86
Cost of sales	(49)	(120)	–	(169)
Research and development costs	(316)	(587)	(6)	(909)
Administrative costs	(30)	(101)	(699)	(830)
Finance income	–	–	126	126
Segment loss before tax	(363)	(773)	(560)	(1,696)
Income tax credit	49	110	–	159
Loss for the year	(314)	(663)	(560)	(1,537)
Included in the above are:				
Depreciation and amortisation	54	84	3	141

Within Particle Technologies, the revenue from fee paying agreements represents income from two customers, both representing more than 10% of the income. Reactive chemistry secured revenue from three customers, two of which represent more than 10% of the income.

All non-current assets are held in the UK. No other information is currently presented to the Board on a segmental basis. The Group's operations are all based in the UK and services are performed in the UK. There is no geographic split of revenues by location of customer as most customers are global corporations. Assets and liabilities are not measured or assessed on a segment basis. The business is not considered to be seasonal.

8. Employee Benefit Expense

	Year to 31 December 2013 £'000	Year to 31 December 2012 £'000
Salaries and fees	864	766
Social security costs	96	85
Pension costs	15	16
Share-based payment (note 21)	39	27
	1,014	894

The average monthly number of employees of the Group were:

	Year to 31 December 2013 £'000	Year to 31 December 2012 £'000
Directors	5	6
Technical and administrative staff	15	16
	20	22

Directors' emoluments

The following disclosures are in respect of the emoluments paid to the Directors of the Company

	Year to 31 December 2013 £'000	Year to 31 December 2012 £'000
Salaries and fees	375	276
Pension costs	7	7
	382	283

The pension contributions were made under a salary sacrifice pension scheme set up for the benefit of the Directors and employees of the Company. Full details of Directors' remuneration, including that of the highest paid Director, are shown in the Directors' Remuneration Report.

9. Finance Income

	Year to 31 December 2013 £'000	Year to 31 December 2012 £'000
Bank interest receivable	65	126

10. Income Tax Credit

a) Tax credited in the income statement

	Year to 31 December 2013 £'000	Year to 31 December 2012 £'000
UK corporation tax credit	(142)	(159)

b) Current tax

The current tax credit in the income statement for the year is detailed below. Current tax credit is lower than the standard rate of corporation tax in the UK of 23.25% (2012: 24.5%). The differences are reconciled below:

	Year to 31 December 2013 £'000	Year to 31 December 2012 £'000
(Loss) before tax	(1,931)	(1,696)
Loss on ordinary activities multiplied by the average standard rate of corporation tax in the UK of 23.25% (2011: 24.5%)	(449)	(415)
Effects of:		
Expenses not deductible for tax purposes	10	9
Additional deduction for R&D expenditure	(164)	(190)
Depreciation in excess of capital allowances	24	13
Unrelieved tax losses and other deductions arising in the year	283	239
Losses surrendered for research and development	156	185
Adjustments for prior year	(2)	–
	(142)	(159)

Unrelieved tax losses of £6,251,000 at 31 December 2013 (2012: £5,747,000) remain available indefinitely to offset against future taxable trading profits of the companies in which the losses arose. A further £2,524,000 (2012: £1,823,000) relate to non-trade losses of the Company and can only be offset against future non-trade profits. No deferred tax asset has been recognised in respect of the losses as recoverability is uncertain.

c) Deferred Tax

	Year to 31 December 2013 £'000	Year to 31 December 2012 £'000
Tax losses carried forward	1,755	1,741
Accelerated capital allowances	(17)	(41)
Share-based payments	7	20
	1,745	1,720

d) Change in Corporation Tax rate

In his budget of 21 March 2013, the Chancellor of the Exchequer announced a number of further changes to the UK Corporation Tax rate. These included a reduction in the UK corporation tax rate from 22% to 21% effective from 1 April 2014 with a further 1% reduction from 1 April 2015 to 20%. Consequently the Company will only recognise the impact of the rate change which is substantively enacted at that time in its financial statements.

At the balance sheet date the corporation tax rate substantially enacted was 20% and therefore deferred tax assets and liabilities have been calculated at this rate.

11. Expenses by Nature

	Year to 31 December 2013 £'000	Year to 31 December 2012 £'000
Employee benefit expense (see note 8)	1,014	894
Depreciation of property, plant and equipment – owned	97	114
Impairment of intangible assets – patents	129	–
Amortisation of intangible assets – patents	32	27
Patent and other IP costs	28	28
Operating leases – offices and laboratories	151	148
Other costs	547	528
	1,998	1,739

12. Auditors' Remuneration

During the year the Company obtained the following services from the Company's auditors.

	Year to 31 December 2013 £'000	Year to 31 December 2012 £'000
Fees payable to the Company's auditor for audit of the parent and consolidated accounts	16	13
– The audit of the Company's subsidiaries pursuant to legislation	16	14
– Tax services – compliance	–	7

13. Intangible Assets

	Patents & Licenses £'000
Cost	
At 1 January 2012	410
Additions	84
As 31 December 2012	494
Additions	81
At 31 December 2013	575
Amortisation & Impairment	
At 1 January 2012	71
Amortisation for year	27
At 31 December 2012	98
Impairments	129
Amortisation for year	32
At 31 December 2013	259
Net Book Value	
At 31 December 2012	396
At 31 December 2013	316

The average remaining life of patent families is 11 years. Additions in the year are continued investment in existing patent families and also the costs related to new patent family filings. Impairments for the year reflect the suspension of investment in the Particle Technologies segment and the related patents in VISARC™ and novel nanomaterials and amounts to £129,000 (included within Administrative Costs). The Group is reviewing the future application of these technologies and how it will recover value from the investments made. As the results of this review are uncertain the Group has fully impaired the related patents.

14. Plant and Equipment

	Plant & machinery £'000	Fixtures & fittings £'000	Computer equipment £'000	Totals £'000
Cost				
At 1 January 2012	512	11	75	598
Additions	54	–	5	59
Disposals	(4)	(1)	(2)	(7)
At 31 December 2012	562	10	78	650
Additions	45	–	2	47
Disposals	(31)	–	(11)	(42)
At 31 December 2013	576	10	69	655
Depreciation				
At 1 January 2012	298	9	44	351
Charge for year	99	–	15	114
Disposals	(4)	–	(2)	(6)
At 31 December 2012	393	9	57	459
Charge for year	83	–	14	97
Disposals	(27)	–	(10)	(37)
At 31 December 2013	449	9	61	519
Net Book Value				
At 31 December 2012	169	1	21	191
At 31 December 2013	127	1	8	136

15. Trade and other Receivables

	31 December 2013 £'000	31 December 2012 £'000
Current:		
Interest receivable	2	75
VAT receivable	27	34
Prepayments	28	27
	57	136

The Directors consider that the carrying amount of trade and other receivables approximates to their fair values. There was no provision for impairment at 31 December 2013 or 31 December 2012 and all trade receivables are not past due.

16. Short-Term Investments and Cash and Cash Equivalents

	31 December 2013 £'000	31 December 2012 £'000
Short-term investments	–	3,680
Cash at bank and in hand	2,760	624
	2,760	4,304

Under IAS 7, cash held on long-term deposits that cannot readily be converted into cash, have been classified as short-term investments. These investments range between 3 and 12 months.

17. Trade and other Payables

	31 December 2013 £'000	31 December 2012 £'000
Current:		
Trade payables	29	48
Social security and other taxes	13	33
Accrued expenses	78	64
	120	145
Non-current:		
Dilapidation provisions	10	10

The Directors consider that the carrying amounts of trade and other payables approximates to their fair values. Dilapidation provisions relate to anticipated costs related to short-term leases on laboratories and offices to return them to their pre-lease condition.

18. Called-up Share Capital

	31 December 2013 Number	31 December 2012 Number	31 December 2013 £'000	31 December 2012 £'000
At beginning of the year	197,740,641	195,740,641	1,977	1,957
New shares issued – EBT	–	2,000,000	–	20
At end of the year	197,740,641	197,740,641	1,977	1,977

On 1 October 2012 2,000,000 new ordinary shares of £0.01 each were issued to the Employee Benefit Trust (EBT) at a price of £0.10. The total consideration for this issue was £200,000. The premium of £0.09 was transferred to the Share Premium reserve.

19. Loss per share

Basic loss per share is based on the loss after tax for the year and the weighted average number of ordinary shares of 1 penny each in issue during the year. Diluted loss per share is calculated by adjusting the average number of ordinary shares in issue during the period to assume conversion of all dilutive potential ordinary shares. The Company has share options and warrants in issue which are potentially dilutive but there is no dilutive effect as there is a loss for each of the periods concerned. Diluted loss per share is therefore the same as basic loss per share.

	Year to 31 December 2013	Year to 31 December 2012
Loss attributable to equity holders of the Group (£'000)	(1,789)	(1,537)
Weighted average number of ordinary shares in issue	195,740,641	195,740,641
Basic & diluted loss per share (pence)	(0.91)	(0.79)

20. Financial Risk Management

Capital risk management

The Group's capital is comprised solely of issued ordinary shares of 1 penny per share. The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders. This is achieved through careful investment of surplus cash and tight budgetary control.

Significant accounting policies

Details of significant accounting policies and methods adopted, including criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset and financial liability are disclosed in note 4 in the financial statements.

Categories of financial instrument

Financial assets	31 December 2013 £'000	31 December 2012 £'000
Loan assets and other receivables (including cash and cash equivalents)	2,762	4,379

Maturity profile of financial assets

Financial assets 2013	On demand £'000	Less than 3 months £'000	3 to 12 months £'000	Total £'000
Cash at bank and in hand	2,760	–	–	2,760
Trade and other receivables	–	2	–	2
	2,760	2	–	2,762

Financial assets 2012	On demand £'000	Less than 3 months £'000	3 to 12 months £'000	Total £'000
Cash at bank and in hand	624	–	–	624
Trade and other receivables	–	51	24	75
Short-term investments	–	1,615	2,065	3,680
	624	1,666	2,089	4,379

Financial Liabilities	31 December 2013 £'000	31 December 2012 £'000
Trade and other payables	52	91

Interest Rate Sensitivity	31 December 2013		31 December 2012	
	+1% £'000	-1% £'000	+1% £'000	-1% £'000
Loss for year	28	(28)	6	(6)
Equity	28	(28)	6	(6)

All financial liabilities for both the Group and the Company are payable on demand, apart for the dilapidation provisions in the Group of £10,000 (2012: £10,000) which are due between 1 and 5 years.

The carrying amount reflected above represents the Group's maximum exposure to credit risk for such loans and receivables. There were no out of term financial assets or liabilities. Currently the Group does not undertake any material transactions denominated in foreign currencies.

Liquidity risk

The Group does not consider that it carries any significant liquidity risk at the present time.

Credit risk

Credit risk is managed on a Group basis. Credit risk arises from cash and cash equivalents, deposits with banks and financial institutions, as well as credit exposures to customers. For banks and financial institutions only independently rated parties with a strong credit rating are used. For credit exposures to customers the Group assesses the likelihood of payment from various factors including external credit ratings, financial records and other relevant factors.

Interest Rate Sensitivity

The following table illustrates the sensitivity of the consolidated loss for the year and equity to a reasonably possible change in interest rates of 1% with effect from the beginning of the year. These changes are considered to be reasonably possible based on observation of current market conditions. The calculations are based on the Group's cash and cash equivalents held at the balance sheet date. All other variables are held constant.

21. Share-based payments

Equity-settled share option schemes

The Group has two schemes in operation at 31 December 2013; an equity settled EMI/Unapproved Group Option Scheme and an Employee Benefit Trust.

EMI/Unapproved Group Option Scheme

The EMI/Unapproved Scheme covers all employees for the Group. Options are exercisable at a price as agreed in the option documentation, which is typically the mid-market price the day before the day of issue of the option award.

	2013		2012	
Group & Company	Weighted average exercise price pence	Number of options	Weighted average exercise price pence	Number of options
At beginning of the year	9.14	6,711,349	25.03	3,029,288
Granted during the year	10.00	1,610,000	10.00	5,627,000
Lapsed/forfeited	10.00	(3,900,000)	7.75	(12,000)
Cancelled	17.03	(263,130)	36.54	(1,932,939)
At end of the year	8.16	4,158,219	9.14	6,711,349

In January 2013 the Group issued 1,610,000 new options to employees. These options replaced 263,130 existing options issued to staff, which were duly cancelled. The new options are exercisable in one third tranches in one, two and three years from issue where the share price equals or exceeds 15 pence, 20 pence and 25 pence respectively, for a continuous period of at least 22 business days.

For all current options there are, in addition to continuation of service, performance criteria relating to the achievement of share price targets ranging from 15.0 pence to 30.0 pence over the coming 1 to 5 years. Of the 4,158,219 options outstanding at 31 December 2013, 1,798,219 were exercisable (2012: 871,349). The weighted average price of the exercisable shares was 5.75 pence (2012: 1.41 pence). Share options outstanding at the end of the year have the following expiry dates and exercise prices:

Options Outstanding

		2013		2012	
Year of expiry	Range of exercise price pence	Weighted average exercise price pence	Number of options	Weighted average exercise price pence	Number of options
2017	1.00	1.00	848,219	1.00	848,219
2019	1.00 - 28.00	16.50	0	16.50	23,130
2020	16.00	16.00	0	16.00	130,000
2021	12.50 - 23.50	20.03	0	20.03	95,000
2022	7.75 - 10.00	10.00	2,400,000	9.99	5,615,000
2023	10.00	10.00	910,000	0.00	0
		8.16	4,158,219	9.14	6,711,349

The total expense arising in the year for share-based payment transactions is £39,000 (2012: £27,000). For continuing operations the expense is £40,000 (2012: £24,000). The options outstanding at 31 December 2013 had a weighted average remaining contractual life of 7.9 years (2012: 9.1 years). The fair value of the options issued during the year was £37,000 (2012: £166,000).

Employee Benefit Trust (EBT)

The Group operates a jointly owned EBT share scheme for senior management under which the trustee of the Group-sponsored EBT has acquired shares in the Company jointly with a number of employees. The shares were acquired pursuant to certain conditions set out in Jointly Ownership Agreements (JOAs). Subject to meeting the performance criteria conditions set out in the JOA, the employees are able to exercise an option to acquire the trustee's interests in the jointly owned EBT shares at the option price. The jointly owned EBT shares issued on 1 October 2012 have now been forfeited and the shares remain in the trust for the future benefit of employees.

21. Share-based payments continued

	2013		2012	
	Weighted average exercise price pence	Number of options	Weighted average exercise price pence	Number of options
At beginning of the year	10.00	2,000,000	0.00	0
Forfeited during the year	10.00	(2,000,000)	10.00	2,000,000
At end of year	0.00	0	10.00	2,000,000

		2013		2012	
Year of expiry	Range of exercise price pence	Weighted average exercise price pence	Number of options	Weighted average exercise price pence	Number of options
2022	10.00	0.00	0	10.00	2,000,000

The total expense arising in the year for share-based payment transactions under the EBT is £nil (2012: £3,000).

The following table lists the inputs to the models used for the years ended 31 December 2013 and 31 December 2012 for both the EMI/Unapproved Group Option Scheme and the Employee Benefit Trust.

	Performance linked grants 2013	2012
Expected volatility (%)	50.0%	50.0%
Risk-free interest rate (%)	0.3% - 2.2%	0.3% - 2.2%
Expected dividends	nil	nil
Expected vesting multiple (of performance target price)	1.0	1.0
Weighted average exercise price (pence)	10.00p	10.00p
Leavers	20%	20%
Model used	Trinomial	Trinomial

The volatility of 50% is based on the median volatility percentage of comparable companies in the chemistry industry sector and determined following a benchmarking exercise of companies deemed to be comparable (i.e. companies in the chemical industry sector listed on AIM and for companies who were less established (incorporated within the last 10 years) and based in the UK). The Directors are of the belief that using market based volatilities for any options is a more accurate measure to calculate the fair value as the Group's share price has suffered from unusual volatility due to issues such as liquidity and its stage of development.

Equity settled fundraising costs

During 2008 230,868 warrants were issued to Novum Securities Limited in consideration for services performed in respect of the funding round in August 2008. These warrants were vestable immediately on issue and expired on 31 July 2013 without being exercised. The total fair value of the warrants granted was included in the financial statements to 31 December 2008 and amounted to £42,000. The cost was offset against the share premium account as a cost related to the issue of new ordinary shares.

22. Related Parties and Directors' Transactions

Group

During the year under review Dr Mark Moloney, who is a significant shareholder, received fees for participating in the Scientific Advisory Board for the Group. This amounted to £1,200 (2012: £1,200). There were no amounts due at the end of either year.

Dr David Bott received fees for his services as a Non-executive Director through a service company, EotR Solutions Limited, for which he is the ultimate owner, amounting to £12,000 (2012: £12,000). At the year-end £1,000 was due to EotR (2012: £1,000).

Company

OASG acted as an intermediary due to its position as the provider of financial support to the subsidiaries of the Group. At the year-end interest free loans of £3,575,000 (2012: £3,151,000) to Oxford Advanced Surfaces Limited and £nil (2012: £1,784,000) to Oxford Energy Technologies Limited were outstanding. The loan to Oxford Energy Technologies Limited was waived on suspension of the current business activities in that business.

Key employees

At the year end the Board did not consider any employees to be key to the Group other than the Directors. The remuneration of the Directors is disclosed in the Directors' Remuneration Report on page 10 and note 8.

23. Ultimate Controlling Party

In the opinion of the Directors, there is no ultimate controlling party.

Company Statement of Financial Position
For the year ended 31 December 2013

	Notes	31 December 2013 £'000	31 December 2012 £'000
Assets			
Non-current assets			
Investments	4	18	20,469
Plant and equipment	5	4	3
Loan to subsidiaries	6	3,575	4,934
		3,597	25,406
Current assets			
Trade and other receivables	6	32	107
Short-term investments and cash and cash equivalents	7	2,739	4,269
		2,771	4,376
Liabilities			
Current liabilities			
Trade and other payables	8	45	62
Net current assets		2,726	4,314
Net assets		6,323	29,720
Shareholders' equity			
Called up share capital	9	1,977	1,977
Share premium		10,603	10,603
Merger reserve		–	18,669
Retained earnings		(6,565)	(1,807)
Share-based payments reserve		308	278
Total equity attributable to equity holders of the Company		6,323	29,720

The financial statements were approved by the Board of Directors and authorised for issue on 16 June 2014 and were signed on its behalf by:

Philip Spinks
Director
Company Number: 5845469

Company Statement of Changes in Equity
For the year ended 31 December 2013

	Share equity £'000	Share premium £'000	Merger reserve £'000	Retained earnings £'000	Share-based Payment reserve £'000	Total equity £'000
At 1 January 2012	1,957	10,423	18,669	(1,549)	898	30,398
Total comprehensive loss for the year to 31 December 2012	–	–	–	(520)	–	(520)
Issue of share capital	20	180	–	–	–	200
Employee benefit trust	–	–	–	(198)	–	(198)
Transfer of share-based payment charges on cancellation of options	–	–	–	460	(460)	–
Transfer of share-based payment charges on cancellation of options – subsidiary companies	–	–	–	–	(187)	(187)
Share-based payments	–	–	–	–	21	21
Share-based payments – subsidiary companies	–	–	–	–	6	6
At 31 December 2012	1,977	10,603	18,669	(1,807)	278	29,720
Total comprehensive loss for the year to 31 December 2013	–	–	–	(23,425)	–	(23,425)
Transfer between reserves of impairment in subsidiaries	–	–	(18,669)	18,669	–	–
Employee benefit trust	–	–	–	(2)	–	(2)
Transfer of share-based payment charges on cancellation of options – subsidiary companies	–	–	–	–	(9)	(9)
Share-based payments	–	–	–	–	23	23
Share-based payments – subsidiary companies	–	–	–	–	16	16
At 31 December 2013	1,977	10,603	–	(6,565)	308	6,323

Company Statement of Cash Flows
For the year ended 31 December 2013

	Notes	Year to 31 December 2013 £'000	Year to 31 December 2012 £'000
Loss before tax		(23,425)	(520)
Depreciation and amortisation charges		2	2
Waiver of intercompany loan	6	2,239	–
Impairment of investments in subsidiaries	4	20,458	–
Share-based payment expense		23	21
Finance income		(65)	(126)
		(768)	(623)
Decrease/(increase) in trade and other receivables		2	(11)
(Decrease)/increase in trade and other payables		(17)	11
Cash outflow from operations and from operating activities		(783)	(623)
Cash flows from investing activities			
Purchase of plant and equipment	5	(3)	(3)
Decrease/(increase) in short-term investments	7	3,680	1,570
Interest received		138	150
Net cash inflow/(outflow) from investing activities		3,815	1,717
Net cash from financing activities			
Share issue		–	2
Funds repaid on forfeiture of EBT jointly owned shares		(2)	–
Outflow from loan to subsidiaries		(880)	(1,024)
Net cash inflow/(outflow) from financing activities		(882)	(1,022)
Increase/(decrease) in cash and cash equivalents		2,150	72
Cash and cash equivalents at beginning of year		589	517
Cash and cash equivalents at end of year	7	2,739	589
Short-term investments		–	3,680
Short-term investments and cash and cash equivalents	7	2,739	4,269

1. Basis of preparation

The Company financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union, IFRIC Interpretations and the Companies Act 2006 applicable to companies reporting under IFRS. The financial statements have been prepared under the historical cost convention and all values have been rounded to the nearest thousand, except where otherwise indicated. The Company's functional currency is Sterling.

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

The accounting policies adopted are consistent with those followed in the preparation of the Company's annual financial statements for the year ended 31 December 2012, except for the adoption of new standards and interpretations, none of which resulted in any impact on the accounting policies, financial position or performance of the Company. A summary of the more important accounting policies which have been applied consistently throughout the year are set out below.

The Company has taken advantage of Section 408 of the Companies Act 2006 and has not included its own profit and loss account in these financial statements. The parent Company's loss for the year to 31 December 2013 was £23,425,000 although this includes impairments of £20,458,000 against investments in subsidiaries and a further charge £2,239,000 related to the waiver of a loan to Oxford Energy Technologies Limited. Excluding these one-off charges the loss for the year was £728,000 (2012: £520,000).

2. Summary of significant accounting policies

Investments in subsidiaries

In the Company's balance sheet investments in subsidiaries are recorded at cost less any provision for impairment. Investments are recognised as an asset and reviewed for impairment if and when indicators of impairment arise and at least annually. Any impairment is recognised immediately in the income statement.

Impairment of assets

The Company assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, the Company makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is recognised as an expense immediately.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the income statement. After such a reversal the depreciation charge is adjusted in future years to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

Shares held by the Employee Benefit Trust

The Employee Benefit Trust ("the Trust") is consolidated in the financial statements and the value of the shares under joint ownership by the Trust are offset against Retained Earnings. Shares held by the Trust are treated as issued but excluded when calculating earnings per share.

Share-based payments

Employees (including senior executives) of the Company receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments (equity-settled transactions). In addition equity settled share options are also issued to employees of the subsidiary companies, Oxford Advanced Surfaces Limited and Oxford Energy Technologies Limited. The share-based payment charges or credits from these options are charged or credited to investments in subsidiaries.

All goods and services received in exchange for the grant of any share-based payment are measured at their fair values. Where employees are rewarded using share-based payments, the fair values of employees' services are determined indirectly by reference to the fair value of the instrument granted to the employee. This fair value is appraised at the grant date and excludes the impact of non-market vesting conditions (for example, profitability and sales growth targets).

Share options are valued at the date of grant using either the Black–Scholes Merton model or the Trinomial model, depending on the vesting criteria, and are charged to operating profit over the vesting period of the award with a corresponding credit to the share-based payment reserve.

If vesting periods or other non-market vesting conditions apply, the expense is allocated over the vesting period, based on the best available estimate of the number of share options expected to vest. Estimates are subsequently revised if there is any indication that the number of share options expected to vest differs from previous estimates. Any cumulative adjustment prior to vesting is recognised in the current period. No adjustment is made to any expense recognised in prior periods if share options ultimately exercised are different to that estimated on vesting.

Where the terms of an equity-settled transaction award are modified, the minimum expense recognised is the expense as if the terms had not been modified, if the original terms of the award are met. An additional expense is recognised for any modification that increases the total fair value of the share-based payment transaction, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the entity or the employee are not met. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph. All cancellations of equity-settled transaction awards are treated equally. Where an equity-settled award is forfeited, no expense is recognised and any expense recognised up to the date of the forfeiture is reversed through the income statement.

Upon exercise of share options the proceeds received net of attributable transaction costs are credited to share capital, and where appropriate, share premium.

Changes in accounting policy and disclosure

There have been no changes in accounting policy from those of the previous financial year. None of the new or amended standards that were effective as of 1 January 2013 had any material impact on the Group or the presentation of its financial results.

3. Critical Accounting Estimates and Judgements

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

Impairment of tangible and intangible assets

The Company tests tangible and intangible assets with definite lives for impairment if and when indicators of impairment arise. Where such an indication exists the Company estimates the fair value less costs to sell off assets or subsidiaries based on the net present value of future cash flows. See note 4.

Share-based payments

The estimation of share-based payments requires: the selection of an appropriate valuation method; consideration as to the inputs necessary for the valuation model chosen; assumptions regarding when and if performance conditions will be met; and the estimation of the number of awards that will ultimately vest. Inputs required for this arise from judgements relating to the future volatility of the share price of comparable companies, the Company's expected dividend yields, risk free interest rates and expected lives of the options. The Directors draw on a variety of sources to aid in the determination of the appropriate data to use in such calculations. See note 10.

All share-based payment arrangements granted that had not vested prior to 31 December 2013 are recognised in the Company financial statements.

4. Investments in Subsidiaries

	Shares in subsidiary undertakings £'000
Cost	
At 1 January 2012	24,495
Additions	6
Disposals	(187)
At 31 December 2012	24,314
Additions	16
Disposals	(9)
At 31 December 2013	**24,321**
Impairment	
At 1 January 2012	(3,845)
At 31 December 2012	(3,845)
Impairments	(20,458)
At 31 December 2013	**(24,303)**
Net Book Value	
At 31 December 2012	20,469
At 31 December 2013	**18**

All investments are in directly owned subsidiaries. Additions to investments in subsidiaries represent the IFRS 2 share-based payments charge for share options granted to the employees of the Group's subsidiaries, Oxford Advanced Surfaces Limited ("OAS") and Oxford Energy Technologies Limited ("OET"). Disposals represent the reversal of any charge on forfeiture or cancellation of the underlying options. The carrying value of investments at 31 December 2013 represents IFRS2 share-based payment charges of Oxford Advanced Surfaces Limited.

There was fundamental repositioning driven by a strategic review in August 2013 which concluded that further investment in the VISARC™ antireflection coating technology would be suspended due to market and competitive changes that occurred during our technical development period. As a result the Board undertook a full impairment review of the carrying investment in OET, our particle technologies business. A full evaluation of how best to generate value from our mesoporous silica (MPS) nanoparticle manufacture know-how which underpinned VISARC™, and the intellectual property portfolio we have established for this technology, is ongoing. However the results of this review remain uncertain and the Board believe the most prudent route is to fully impair the investment in OET at this stage. This impairment has been reflected in the results for the year to 31 December 2013. No impairment was considered necessary at 31 December 2012.

The strategic review included a repositioning in the market for OAS and the Onto™ platform. The commercial positioning of OAS has moved from working on bespoke proof of concept trials and development contracts with a partner to a product based, market led offering. The Board currently believes that the opportunity for the Onto™ related products marketed by OAS is significant. However we are in an early stage of commercial development with our first product. The Board cannot currently provide tangible contracts (although our evaluation product is under trial with a number of businesses across our target markets) or a market value to support the historic investment costs in OAS. Following the requirements of IAS 36 the Board has taken the view that the investment should currently be impaired, subject to an ongoing review of the conditions triggering this impairment. This transaction has no impact on the Consolidated Financial Statements, the cash position or the Board's assessment of going concern for the Group or Company.

The impairment in both OET and OAS has, up to the limit of the reserve, been transferred from the profit and loss reserve to the merger reserve. The merger reserve was originally created on the acquisition of both OET and OAS by the Company in 2007.

4. Investments in Subsidiaries continued

Details of the Company's subsidiaries are as follows:

Name of Company	Holding	% of shares held	Nature of business
Oxford Advanced Surfaces Limited (incorporated in England & Wales)	Ordinary	100	Development and commercialisation of advanced materials technologies
Oxford Energy Technologies Limited (incorporated in England & Wales)	Ordinary	100	Development and commercialisation of advanced materials technologies
Oxford Biomedical Materials Limited (incorporated in England & Wales)	Ordinary	100	Dormant

5. Plant and Equipment

	Fixtures & Fittings £'000	Computer equipment £'000	Totals £'000
Cost			
At 1 January 2012	–	5	5
Additions	–	3	3
At 31 December 2012	–	8	8
Additions	1	2	3
At 31 December 2013	1	10	11
Depreciation			
At 1 January 2012	–	3	3
Charge for year	–	2	2
At 31 December 2012	–	5	5
Charge for year	–	2	2
At 31 December 2013	–	7	7
Net Book Value			
At 31 December 2012	–	3	3
At 31 December 2013	1	3	4

6. Trade Debtors and other Receivables

	31 December 2013 £'000	31 December 2012 £'000
Current:		
Interest receivable	2	75
VAT receivable	6	10
Prepayments	24	22
	32	107
Non-current:		
Loans to subsidiaries	3,575	4,934

The Directors consider that the carrying amount of trade and other receivables approximates to their fair values. There was no provision for impairment at 31 December 2013 or 31 December 2012 and all trade receivables are not past due.

7. Short-Term Investments and Cash and Cash Equivalents

	31 December 2013 £'000	31 December 2012 £'000
Short-term investments	–	3,680
Cash at bank and in hand	2,739	589
	2,739	4,269

Under IAS 7, cash held on long-term deposits that cannot readily be converted into cash, have been classified as short-term investments. These investments range between three and 12 months.

8. Trade and other Payables

	31 December 2013 £'000	31 December 2012 £'000
Current:		
Trade payables	8	15
Social security and other taxes	7	17
Accrued expenses	30	30
	45	62

The loans to subsidiaries are all interest free. The repayment of these loans will be based on future revenues in excess of expenses generated by the subsidiaries. At the balance sheet date the Board have classified these loan commitments as greater than one year. The loan to Oxford Energy Technologies' Limited (OET) was impaired following the strategic review in August 2013. After the suspension of the activities of the Particle Technologies group, and the related nanomaterials and nanomaterial based technologies (VISARC™), the future ability of OET to repay the loan remains uncertain.

The Directors consider that the carrying amounts of trade and other payables approximates to their fair values. Dilapidation provisions relate to anticipated costs related to short-term leases on laboratories and offices to return them to their pre-lease condition.

9. Called-up Share Capital

	31 December 2013 Number	31 December 2012 Number	31 December 2013 £'000	31 December 2012 £'000
At beginning of the year	197,740,641	195,740,641	1,977	1,957
New shares issued – EBT	–	2,000,000	–	20
At end of the year	197,740,641	197,740,641	1,977	1,977

On 1 October 2012 2,000,000 new ordinary shares of £0.01 each were issued to the Employee Benefit Trust (EBT) at a price of £0.10. The total consideration for this issue was £200,000. The premium of £0.09 was transferred to the Share Premium reserve.

10. Share-based payments

Equity-settled share option schemes

The Company has two schemes in operation at 31 December 2013; an equity settled EMI/Unapproved Group Option Scheme and an Employee Benefit Trust.

EMI/Unapproved Group Option Scheme

The EMI/Unapproved Scheme covers all employees for the Company. Options are exercisable at a price as agreed in the option documentation, which is typically the mid-market price the day before the day of issue of the option award.

	2013		2012	
Name of Company	Weighted average exercise price pence	Number of options	Weighted average exercise price pence	Number of options
At beginning of the year	8.65	5,648,219	24.17	2,117,933
Granted during the year	10.00	210,000	10.00	4,800,000
Lapsed/forfeited	10.00	(2,800,000)	–	–
Cancelled	–	–	39.64	(1,269,714)
At end of the year	7.50	3,058,219	8.65	5,648,219

For all current options there are, in addition to continuation of service, performance criteria relating to the achievement of share price targets ranging from 15.0 pence to 30.0 pence over the coming 1 to 5 years. Of the 3,058,219 options outstanding at 31 December 2013, 1,648,219 were exercisable (2012: 848,219). The weighted average price of the exercisable shares was 5.37 pence (2012: 1.00 pence). Share options outstanding at the end of the year have the following expiry dates and exercise prices:

Options outstanding

		2013		2012	
Year of expiry	Range of exercise price pence	Weighted average exercise price pence	Number of options	Weighted average exercise price pence	Number of options
2017	1.00	1.00	848,219	1.00	848,219
2022	10.00	10.00	2,000,000	10.00	4,800,000
2023	10.00	10.00	210,000	0.00	0
		7.50	3,058,219	8.65	5,648,219

The total expense arising in the year for share-based payment transactions is £23,000 (2012: £21,000). The fair value of the options issued during the year was £5,000 (2012: £141,000).

10. Share-based payments continued

Employee Benefit Trust (EBT)

The Company operates a jointly owned EBT share scheme for senior management under which the trustee of the Company-sponsored EBT has acquired shares in the Company jointly with a number of employees. The shares were acquired pursuant to certain conditions set out in Jointly Ownership Agreements (JOAs). Subject to meeting the performance criteria conditions set out in the JOA, the employees are able to exercise an option to acquire the trustee's interests in the jointly owned EBT shares at the option price. The jointly owned EBT shares issued on 1 October 2012 have now been forfeited and the shares remain in the trust for the future benefit of employees.

EBT

	2013		2012	
	Weighted average exercise price pence	Number of options	Weighted average exercise price pence	Number of options
At beginning of the year	10.00	2,000,000	0.00	0
Forfeited during the year	10.00	(2,000,000)	10.00	2,000,000
At end of year	0.00	0	10.00	2,000,000

		2013		2012	
Year of expiry	Range of exercise price pence	Weighted average exercise price pence	Number of options	Weighted average exercise price pence	Number of options
2022	10.00	0.00	0	10.00	2,000,000

The total expense arising in the year for share-based payment transactions under the EBT is £nil (2012: £3,000).

The following table lists the inputs to the models used for the years ended 31 December 2013 and 31 December 2012 for both the EMI/Unapproved Group Option Scheme and the Employee Benefit Trust.

	Performance linked grants 2013	2012
Expected volatility (%)	50.0%	50.0%
Risk-free interest rate (%)	0.3% - 2.2%	0.3% - 2.2%
Expected dividends	nil	nil
Expected vesting multiple (of performance target price)	1.0	1.0
Weighted average exercise price (pence)	10.00p	10.00p
Leavers	20%	20%
Model used	Trinomial	Trinomial

The volatility of 50% is based on the median volatility percentage of comparable companies in the chemistry industry sector and determined following a benchmarking exercise of companies deemed to be comparable (i.e. companies in the chemical industry sector listed on AIM and for companies who were less established (incorporated within the last 10 years) and based in the UK). The Directors are of the belief that using market based volatilities for any options is a more accurate measure to calculate the fair value as the Group's share price has suffered from unusual volatility due to issues such as liquidity and its stage of development.

Equity settled fundraising costs

During 2008, 230,868 warrants were issued to Novum Securities Limited in consideration for services performed in respect of the funding round in August 2008. These warrants were vestable immediately on issue and expired on 31 July 2013 without being exercised. The total fair value of the warrants granted was included in the financial statements to 31 December 2008 and amounted to £42,000. The cost was offset against the share premium account as a cost related to the issue of new ordinary shares.

Notice of the Annual General Meeting

NOTICE IS HEREBY GIVEN that the Annual General Meeting ("Meeting") of **Oxford Advanced Surfaces Group plc** (the "Company") will be held at the Blenheim Room, The Farmhouse, Begbroke Science Park, Begbroke Hill, Woodstock Road, Begbroke OX5 1PF on 14 July 2014 at 10.30am. You will be asked to consider and vote on the resolutions below. Resolutions 1 to 6 will be proposed as ordinary resolutions and resolution 7 will be proposed as a special resolution.

Ordinary business

1. **Report and accounts**
   To receive and adopt the Company's annual accounts for the financial year ended 31 December 2013 together with the Directors' Report and Independent Auditor's report on those accounts.

2. **Re-election of a Director**
   To re-elect as a Director Dr David Bott who retires in accordance with Article 122 of the Company's Articles of Association and is eligible for re-election.

3. **Re-election of a Director**
   To re-elect as a Director Philip Spinks who retires in accordance with Article 123 of the Company's Articles of Association and is eligible for re-election.

4. **Re-election of a Director**
   To re-elect as a Director Dr Peter Rowley who retires in accordance with Article 123 of the Company's Articles of Association and is eligible for re-election.

5. **Re-appointment of auditors**
   To re-appoint Ernst & Young LLP as the auditors of the Company, to hold office from the conclusion of the Meeting until the conclusion of the next Annual General Meeting, and to authorise the Directors to determine their remuneration.

Special business

6. **Directors' authority to allot shares**

   6.1 That the Directors be generally and unconditionally authorised pursuant to section 551 of the Companies Act 2006 (the "2006 Act") to exercise all the powers of the Company to allot and make offers to allot Relevant Securities (as defined below):

   6.1.1 comprising equity securities (as defined by section 560 of the 2006 Act) up to an aggregate nominal amount of £1,305,088.23 (such amount to be reduced by the nominal amount of any Relevant Securities allotted under paragraph 6.1.2 below) in connection with an offer by way of a rights issue:

   (i) to holders of ordinary shares in proportion (as nearly as may be practicable) to their respective holdings; and

   (ii) to holders of other equity securities as required by the rights of those securities or as the Directors otherwise consider necessary, but subject to such exclusions or other arrangements as the Board may deem necessary or expedient in relation to treasury shares, fractional entitlements, record dates, legal or practical problems in or under the laws of any territory or the requirements of any regulatory body or stock exchange; and

   6.1.2 in any other case, up to an aggregate nominal amount of £652,544.12 (such amount to be reduced by the nominal amount of any equity securities allotted under paragraph 6.1.1 above in excess of £652,544.12),

   provided that (unless previously revoked, varied or renewed) this authority shall expire 15 months from the date of passing this resolution, or, if earlier, the conclusion of the next Annual General Meeting of the Company held after the passing of this resolution save that the Company may before such expiry make an offer or enter into an agreement which would or might require Relevant Securities to be allotted after such expiry and the Directors may allot Relevant Securities in pursuance of such offer or agreement as if the authority conferred hereby had not expired.

   6.2 This resolution revokes and replaces all unexercised authorities previously granted to the Directors to allot Relevant Securities but without prejudice to any allotment of shares or grant of rights already made, offered or agreed to be made pursuant to such authorities.

6.3 For the purposes of this resolution, a "Relevant Security" is:

6.3.1 a share in the Company other than a share allotted pursuant to:

(i) an employee share scheme (as defined by section 1166 of the 2006 Act);

(ii) a right to subscribe for a share or shares in the Company where the grant of the right itself constituted a Relevant Security under paragraph 6.3.2 below; or

(iii) a right to convert securities into a share or shares in the Company where the grant of the right itself constituted a Relevant Security under paragraph 6.3.2 below.

6.3.2 any right to subscribe for or to convert any security into a share or shares in the Company other than a right to subscribe for or convert any security into a share or shares allotted pursuant to an employee share scheme (as defined by section 1166 of the 2006 Act).

6.4 References to the allotment of "Relevant Securities" in this resolution shall be construed accordingly.

7. To disapply statutory pre-emption rights

7.1 That subject to the passing of resolution 6 above, the Directors of the Company be authorised and empowered pursuant to section 570 of the 2006 Act to allot equity securities (as defined by section 560 of the 2006 Act) for cash, either pursuant to the authority conferred by resolution 6 or by way of a sale of treasury shares, as if section 561(1) of the 2006 Act did not apply to any such allotment, provided that such power is limited to:

7.1.1 the allotment of equity securities in connection with an offer by way of a rights issue:

(i) to holders of ordinary shares in proportion (as nearly as may be practicable) to their respective holdings; and

(ii) to holders of other equity securities as required by the rights of those securities or as the Directors otherwise consider necessary, but subject to such exclusions or other arrangements as the Board may deem necessary or expedient in relation to treasury shares, fractional entitlements, record dates, legal or practical problems in or under the laws of any territory or the requirements of any regulatory body or stock exchange; and

7.1.2 the allotment of equity securities (otherwise than pursuant to paragraph 7.1.1 above) up to a maximum aggregate nominal amount of £296,610.96.

7.2 This authority shall expire 15 months from the date of passing this resolution, or, if earlier, the conclusion of the next Annual General Meeting of the Company held after the passing of this resolution, provided that the Company may, before the expiry of this power, make an offer or agreement which would or might require equity securities to be allotted after the expiry of this power and the Directors may allot equity securities in pursuance of such an offer or agreement as if the power had not expired.

7.3 This resolution revokes and replaces all unexercised authorities previously granted to the Directors to allot equity securities but without prejudice to any allotment of equity securities already made, offered or agreed to be made pursuant to such authorities.

By Order of the Board

Philip Spinks
Company Secretary
16 June 2014

Oxford Advanced Surfaces Group plc
Centre for Innovation & Enterprise
Begbroke Science Park
Woodstock Road, Begbroke Hill
Begbroke, OX5 1PF

Notes:

Entitlement to attend and vote

1. Pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001, the Company specifies that to be entitled to attend and vote at the Meeting, only those members registered in the Register of Members of the Company at the close of business on the day which is two days before the day of the meeting (or, in the event of any adjournment, on the date which is two days prior to the time of the adjourned meeting).

Appointment of proxies

2. A member entitled to attend and vote at the Meeting shall be entitled to appoint a proxy (or proxies) to exercise all or any of their rights to attend, speak and vote at the Meeting. A member can appoint more than one proxy in relation to the meeting, provided that each proxy is appointed to exercise the rights attached to a different share(s) held by the member. To appoint more than one proxy you may photocopy the proxy form. Please indicate the proxy holder's name and the number of shares in relation to which they are authorised to act as your proxy (which, in aggregate, should not exceed the number of shares held by you). Please also indicate if the proxy instruction is one of multiple instructions being given. All forms must be signed and should be returned together in the same envelope.

3. A proxy form which may be used to make this appointment and give proxy instructions accompanies this notice. You can only appoint a proxy using the procedures set out in these notes and the notes to the proxy form.

4. The appointment of a proxy will not prevent a member from subsequently attending and voting at the meeting in person, in which case any votes cast by the proxy will be excluded and your proxy appointment will automatically be terminated.

5. A proxy does not need to be a member of the Company but must attend the Meeting to represent the member. Details of how to appoint the Chairman of the Meeting or another person as your proxy using the proxy form are set out in the notes to the proxy form. If you wish your proxy to speak on your behalf at the Meeting you will need to appoint your own choice of proxy (not the Chairman) and give your instructions directly to them.

6. A vote withheld is not a vote in law, which means that the vote will not be counted in the calculation of votes for or against the resolution. If no voting indication is given, your proxy will vote or abstain from voting at his or her discretion. Your proxy will vote (or abstain from voting) as he or she thinks fit in relation to any other matter which is put before the Meeting.

Appointment of proxy using hard copy proxy form

7. The notes to the proxy form explain how to direct your proxy how to vote on each resolution or withhold their vote. To appoint a proxy using the proxy form, the form must be:

   - Completed and signed;
   - Sent or delivered to Computershare Investor Services PLC, The Pavilions, Bridgwater Road, Bristol BS99 6ZY; and
   - Received by Computershare Investor Services PLC not less than 48 hours before the time for the holding of the Meeting or adjourned meeting together (except in the case of appointments made electronically) with any authority (or a certified copy of such authority) under which it is signed.

   CREST members should use the CREST electronic proxy appointment service and refer to note 8 below in relation to the submission of a proxy appointment via CREST.

   In the case of a member which is a company, the proxy form must be executed under its common seal or signed on its behalf by an officer of the company or an attorney for the company.

   Any power of attorney or any other authority under which the proxy form is signed (or a duly certified copy of such power or authority) must be included with the proxy form.

Electronic appointment of proxies

8. As an alternative to completing the hard-copy proxy form, CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so for the Annual General Meeting to be held on the above date and any adjournment(s) thereof by using the procedures described in the CREST Manual. CREST Personal Members or other CREST sponsored members, and those CREST members who have appointed a voting service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.

   In order for a proxy appointment or instruction made using the CREST service to be valid, the appropriate CREST message (a "CREST Proxy Instruction") must be properly authenticated in accordance with Euroclear UK & Ireland Limited's ("EUI") specifications and must contain the information required for such instructions, as described in the CREST Manual. The message, regardless of whether it constitutes the appointment of a proxy or an amendment to the instruction given to a previously appointed proxy must, in order to be valid, be transmitted so as to be received by the Company's agent (ID: 3RA50) not less than 48 hours before the time for the holding of the Meeting or adjourned meeting together with the relevant authority (if required). For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Applications Host) from which the Company's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means.

   CREST members and, where applicable, their CREST sponsors or voting service providers should note that EUI does not make available special procedures in CREST for any particular messages. Normal system timings and limitations will therefore apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member or sponsored member or has appointed a voting service provider(s), to procure that his CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting service providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.

   The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.

Appointment of proxy by joint members

9. In the case of joint holders, where more than one of the joint holders purports to appoint a proxy, only the appointment submitted by the most senior holder will be accepted. Seniority is determined by the order in which the names of the joint holders appear in the Company's register of members in respect of the joint holding (the first-named being the most senior).

Changing proxy instructions

10. To change your proxy instructions simply submit a new proxy appointment using the methods set out above. Where you have appointed a proxy using the hard-copy proxy form and would like to change the instructions using another hard-copy proxy form, please contact Computershare Investor Services PLC, The Pavilions, Bridgwater Road, Bristol BS99 6ZY. If you submit more than one valid proxy appointment, the appointment received last before the latest time for the receipt of proxies will take precedence.

Termination of proxy appointments

11. In order to revoke a proxy instruction you will need to inform the Company by sending a signed hard copy notice clearly stating your intention to revoke your proxy appointment to Computershare Investor Services PLC, The Pavilions, Bridgwater Road, Bristol BS99 6ZY to be received by no later than 48 hours before the time for the holding of the Meeting.

    If you attempt to revoke your proxy appointment but the revocation is received after the time specified then, subject to the paragraph directly below, your proxy appointment will remain valid. Appointment of a proxy does not preclude you from attending the Meeting and voting in person. If you have appointed a proxy and attend the Meeting in person, your proxy appointment will automatically be terminated.

Corporate representatives

12. Any corporation which is a member can appoint one or more corporate representatives who may exercise on its behalf all of its powers as a member provided they do not do so in relation to the same shares. In order to facilitate voting by corporate representatives at the Meeting, arrangements will be put in place at the Meeting so that:

    12.1 if a corporate member has appointed the Chairman of the Meeting as its corporate representative with instructions to vote on a poll in accordance with the directions of all the other corporate representatives for that member at the Meeting, then, on a poll, those corporate representatives will give voting directions to the Chairman and the Chairman will vote (or withhold a vote) as corporate representative in accordance with those directions; and

    12.2 if more than one corporate representative for the same corporate member attends the Meeting but the corporate member has not appointed the Chairman of the Meeting as its corporate representative, a designated corporate representative will be nominated, from those corporate representatives who attend, who will vote on a poll and the other corporate representatives will give voting directions to that designated corporate representative.

    Corporate members are referred to the guidance issued by the Institute of Chartered Secretaries and Administrators on proxies and corporate representatives – www.icsa.org.uk – for further details of this procedure. The guidance includes a sample form of representation letter to appoint the Chairman as a corporate representative as described in (a) above.

Issued shares and total voting rights

13. As at 6.00pm on 13 June 2014 (the latest practicable date prior to publication of this notice), the Company's issued share capital comprised 197,740,641 ordinary shares of 1 penny each. Each ordinary share carries the right to one vote at a general meeting of the Company and, therefore, the total number of voting rights in the Company as at 6.00pm on 13 June 2014 is 197,740,641.

Communication

14. Except as provided above, members who have general queries about the Meeting should call the Computershare shareholder helpline on 0870 873 5844 or, if calling from outside the UK on +44 870 873 5844. The helpline is available between the hours of 8.30am and 5.30pm Monday to Friday excluding public holidays.

Explanatory notes to the Notice of the Annual General Meeting

Resolutions 1 to 6 are proposed as ordinary resolutions. This means that for each of those resolutions to be passed, more than half of the votes cast must be in favour of the resolution. Resolution 7 is proposed as a special resolution. This means that for this resolution to be passed, at least three quarters of the votes cast must be in favour of the resolution.

Resolution 1 – Report and Accounts

To receive the Annual Report and Accounts for the year ended 31 December 2013.

Resolutions 2, 3 and 4 – Reappointment of Directors

These resolutions deal with the reappointment of Dr David Bott, Philip Spinks and Dr Peter Rowley, each of whom are retiring as Directors in accordance with the Articles of Association and being eligible, offer themselves for re-election as Directors of the Company.

Resolution 5 – Reappointment of Auditors

Resolution 5 relates to the reappointment of Ernst & Young LLP as the Company's auditors to hold office until the next AGM of the Company and to authorise the Directors to set their remuneration.

Resolution 6 – Allotment of share capital

Resolution 6 deals with the Directors' authority to allot Relevant Securities in accordance with section 551 of the Companies Act 2006.

In December 2008, the Association of British Insurers ("ABI") revised its guidelines on Directors' authority to allot shares (in line with the recommendations of the report issued in November 2008 by the Rights Issue Review Group). The ABI's guidelines previously stated that the Directors' general authority to allot shares should be limited to an amount equal to one-third of the Company's issued share capital. The new guidelines state that ABI members will permit, and treat as routine, resolutions seeking authority to allot shares representing up to two-thirds of the Company's issued share capital. The guidelines provide that the extra routine authority (that is, the authority to allot shares representing the additional one-third of the Company's issued share capital) can only be used to allot shares pursuant to a fully pre-emptive rights issue. In light of these revised guidelines, the Board considers it appropriate that Directors be granted authority to allot shares in the capital of the Company up to a maximum nominal amount of £1,305,088.23, representing the guideline limit of approximately 66% of the Company's issued ordinary share capital (excluding treasury shares) as at 13 June 2014 (the latest practicable date prior to publication of this notice). Of this amount, shares up to a nominal amount of £652,544.12, representing approximately 33% of the Company's issued ordinary share capital (excluding treasury shares) can only be allotted pursuant to a rights issue. The power will last until the conclusion of the next AGM in 2015.

Resolution 7 – Disapplication of statutory pre-emption rights

Resolution 7 will give Directors authority to allot shares in the capital of the Company pursuant to the authority granted under Resolution 6 above for cash without complying with the pre-emption rights in the 2006 Act in certain circumstances. In the light of the new ABI guidelines described in relation to Resolution 6 above, this authority will permit the Directors to allot:

(a) shares up to a nominal amount of £1,305,088.23 (representing two-thirds of the Company's issued ordinary share capital) on an offer to existing shareholders on a pre-emptive basis. However unless the shares are allotted pursuant to a rights issue (rather than an open offer), the Directors may only allot shares up to a nominal amount of £652,544.12 (representing one-third of the Company's issued share capital) (in each case subject to any adjustments, such as for fractional entitlements and overseas shareholders, as the Directors see fit); and

(b) shares up to a maximum nominal value of £296,610.96, representing approximately 15% of the issued ordinary share capital of the Company as at 13 June 2014 (the latest practicable date prior to publication of this notice) otherwise than in connection with an offer to existing shareholders.

Directors and Advisors

Directors
Dr Peter Rowley
(Non-executive Chairman)

Philip Spinks
(Chief Executive Officer)

Dr David Bott
(Non-executive Director)

Adrian Meldrum
(Non-executive Director)

Company Secretary
Philip Spinks

Registered Office
Centre for Innovation & Enterprise
Begbroke Science Park
Begbroke Hill
Woodstock Road
Begbroke OX5 1PF

Broker & Nominated Advisor
W H Ireland Limited
4 Colston Avenue
Bristol BS1 4ST

Auditor
Ernst & Young LLP
Apex Plaza
Forbury Road
Reading RG1 1YE

Registrars
Computershare Investor Services PLC
The Pavilions
Bridgwater Road
Bristol BS13 8AE

Company Number
05845469 (England and Wales)

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