oxford
advanced surfaces
group plc

Report & Accounts 2011

science applied onto
(Just about anything)

Oxford Advanced Surfaces Group Plc

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Business Overview

Oxford Advanced Surfaces Group plc (OAS) is a unique research and development company that provides multinational industrial corporations with intellectual property solutions and associated materials as a 'tool kit' to create engineered surface coatings and advanced materials.

OAS is the supplier of Onto™ and VISARC™ technology and materials.

Science applied Onto™ just about anything

Our Onto™ chemistry platform provides everything needed to create innovative products through the transformation of commodity industrial materials, and by opening new markets for the most desirable advanced materials. Onto™, a highly reactive chemistry, is applicable across a range of process and materials applications using multiple wet-process application methods. Onto™ was first developed in the University of Oxford chemistry department and is a proprietary technology that uniquely reacts with almost anything.

Everything becomes clear with VISARC™

Our VISARC™ technology is a wet-process anti-reflective coating (ARC) for use on multiple substrates. A single layer formulation can be applied using dip, spin or roll-to-roll coating and is adaptable for use with multiple substrates, including glass, polymers and plastics, making it suitable for multiple applications from ophthalmic to electronic displays and potentially solar.

Current business focus

The power of our Onto™ technology enables materials to be transformed for use in applications where they cannot currently be used, and can also enhance material performance properties. The Group remains focussed on surface functionalisation and cross-linking applications of the core technology. The chemistry can bond to a wide range of organic and inorganic materials (such as polyethylene, polypropylene and PTFE), in many different forms (such as films, membranes, particles, powders and fibres). Onto™ can deliver surface functionalisation, including hydrophobicity, hydrophilicity and oeleophobicity, to inert surfaces and the cross-linking capability can offer adhesion promotion to similarly inert surfaces or alter the bulk properties of materials.

VISARC™ provides manufacturers with a wet process ARC that can be used in applications from ophthalmics and display screens through to solar panels. The product performance, which is comparable to, or better than, current market leading coatings, combined with the lower capital cost and easy adoption of wet chemistry processes puts VISARC™ in a strong position both to change and expand the current anti-reflective market. We are now in a position to sample and supply the core nanoparticle behind the VISARC™ technology (under supply agreement/license) such that end customers can formulate their own ARC tailored for their products. This is of particular interest to the displays market and also for forging partnerships with formulation partners who can take our technology to a far wider market than we could address on our own.

Business model

OAS has an innovative business model. We will license our technology to major industrial corporations for exclusive use in their products. This model allows us to partner with companies with strong brands in dominant market positions. It enables OAS to focus on our core strength in the development and protection of our intellectual property. In addition we can license the manufacture of Onto™ to customers who have sufficient in-house capability to manufacture the core compounds. We will also be the scale manufacturer of the nanoparticle behind VISARC™ and will supply this around the world to customers.

We target specific applications through analysis of unmet market needs and by demonstrating that Onto™ and VISARC™ can meet these challenges. For each partner we will provide a tool kit and collaborative support to incorporate our technology into their finished products. In addition we can provide both the Onto™ chemistry and the nanoparticle behind VISARC™. We aspire to be the technology partner of choice for industrial product manufacturers who need to utilise advanced materials to develop their products, reduce costs and open new markets.

Our values

We are passionate about what we do and we strive to be the best in the world at it. We share a common set of core values. We are:

- Entrepreneurial and enthusiastic
- Cooperative and inclusive
- Driven and results oriented
- Responsible and ethical

Our principles

- We are customer focussed and market driven, pursuing viable opportunities that address important market needs and where we can access the market via our partners.
- We understand what drives value and use this to make decisions at all levels of the business, focusing on maximising shareholder value, customer satisfaction and benefitting all other stakeholders.
- We continually develop and improve, adapting to meet the changing needs of our customers and the world around us.
- We are passionate about science and technology and believe that extraordinary innovation will be required to solve the biggest problems facing the world.
- We recognise and reward outstanding individual and team performance in a cooperative and supportive environment.

We aspire to become a world class advanced materials operation delivering extraordinary innovation that makes a significant impact in the world.

Contents

Chairman's Statement and Business Review

This is my first report to shareholders as the newly appointed Chairman of Oxford Advanced Surfaces Group plc.

I joined the Group in 2011 because I believe that it possesses two exciting platform technologies that offer significant commercial potential. Since the start of 2011 the Group has made significant steps toward making the move from development to commercialisation a reality, which I shall address below. As the Group is currently without a Chief Executive Officer I shall cover the business review in my report.

Business Development

We have continued to develop the key technologies within Onto™ and now have a number of projects in surface functionalisation and adhesion promotion that we hope to convert to development agreements and/or sales during 2012.

We are now on our third generation of the Onto™ species – Onto™ XL. The continued technical development behind XL delivers significantly more efficient mass scale production potential whilst also ensuring that global transportation of the finished product is simplified. In addition we retain the ease of use and ability to apply the chemistry through established wet chemical processing techniques.

In December 2011 we announced our XL based solvent resistant oleophobic and hydrophobic (repels oil and water) treatment. This treatment can greatly lower the surface energy of various substrates and solves many industrial and manufacturing needs. A common approach for imparting both hydrophobic and oleophobic functionality into a surface is to coat it directly with a fluoropolymer but there are often associated problems with the solvent stability of the film, especially on plastic substrates. Using Onto™ in conjunction with a fluoropolymer prevents delamination resulting in a modified surface that is stable to solvent exposure. We are now marketing this solution to interested parties, mainly focussed on electronics.

At the start of 2012 we successfully completed a customer field trial of our Onto™ Chemistry, and this also demonstrated that we could coat film substrates using roll-to-roll processes at a commercial scale. This is a key proof-of-concept for us. We are now engaged with the customer on potential development opportunities and exploring target markets.

Onto™ XL has further opened the adhesion promotion market. We have completed a segment of work on metal adhesion for use in the electronics industry, particularly the adhesion of gold in the increasingly important and developing printed electronics market. We also continue to work on the highly successful results from our previously completed grant funded project on printed electronics and flexible displays, along with the Printed Electronics Technology Centre (PETEC). We continue to provide samples and technical support to those interested in developing these technologies.

In addition we are now reaching a stage where we can provide an off-the-shelf adhesion promoter for a wide base of substrates for use in applications involving low surface energy interfaces. The main markets are industrial, general assembly and transport. We hope to be able to sample a product later in the year.

Onto™ Chemistry remains a key long-term value creator; however it will not commercialise as early as the VISARC™ technology.

We have been active in three areas involving our VISARC™ technology. Firstly we have decided to scale-up and manufacture the core nanoparticle that forms the basis of our ARC technology. We have selected a scale-up partner who can bring the relevant technical and manufacturing skills and experience to our business and can also manage the logistical issues surrounding the global shipment of this product. We have commenced scale-up work and testing of intermediate batch production to prepare us for commercial scale. So far the project has proceeded well and we believe that manufacture of this key material is achievable within the timeframes and scales specified by our customers. Further scale-up investment will be supported by commercial agreements with our customers.

Secondly, in addition to our own base formulations for ARC, we have been providing numerous samples of the particle in various forms to a number of original equipment manufacturers and the producers of ARCs in the displays and ophthalmic industries. We are now working closely with a number of potential licensees and hope to develop these relationships into commercial arrangements.

Our third development area is that of formulation partners. The strategy here will enable OAS to reach far more markets more quickly than it could achieve on its own. We are currently in discussion with two formulation partners and have also introduced them to end users for whom we cannot currently provide resource, or who do not have in-house formulation expertise. These partners are skilled in formulation and, working alongside OAS, will be able to create tailored ARCs for specific applications outside the current displays and ophthalmic areas. OAS will seek a license of the technology, along with the supply of the core nanoparticle for the coatings.

Technology

Onto™ Cross-Linking Technology

Onto™ Highly Reactive Chemistry is a unique surface modification technology proprietary to OAS. The product reacts

with the surface to form a permanently bonded layer of material, allowing rapid and convenient modification. Whilst it will bond with almost any type of substrate, we believe it provides the most compelling, cost-effective benefits with organic materials, where alternative technologies are less effective. Onto™ can be used in surface functionalisation applications as well as in the adhesion of a coating to a substrate.

Onto™ is processed from solution using standard wet chemical processes such as spin, roll-to-roll and dip coating and is cured using heat or UV irradiation. It is manufacturing friendly, allowing our customers simply to integrate the chemistry into their existing processes. All Onto™ species contain a reactive head, a group which is capable of forming strong bonds with most materials. OAS has developed two types of Onto™ species – Onto™ SM (single molecule) and Onto™ XL (cross-linker).

Onto™ SM compounds are single molecules that include a reactive head and a functional tail; a group that has a useful property as a result of its chemical nature. These products are used specifically for delivering tailored surface functionalisation. If required, the modification of the surface can be carried out to micron precision allowing the preparation of highly patterned materials with multiple, discrete, functionalities.

Onto™ XL delivers both surface functionalisation and inter-layer adhesion. These compounds have multiple heads per molecule but do not contain a functional group. To add surface functionalisation they are blended with an off-the-shelf polymer that contains the desired functionality. On curing, a bonded network is formed between the functional material and the XL, creating a layer of material which is strongly bonded to the surface. To improve interfacial adhesion between a coating and a surface, XL can be used 'neat' and the multiple reactive heads can form a network that continues throughout the Onto™ layer.

VISARC™ Anti-Reflective Coatings

An anti-reflective coating (ARC) is a thin film of material that is processed on to a substrate in order to significantly reduce its visible light reflection. Typical glass and polymer substrates reflect a fair proportion of the light falling directly on them, with the reflectance increasing as the viewing angle increases. This occurs at both surfaces so in total at least 9-10% of sunlight is reflected from the substrate. There is a strong and existing market demand for applications as diverse as reducing reflections from ophthalmic coatings for eyewear and thus reducing eyestrain, eliminating reflections from display screens to improve ease of viewing and reduce power usage, and for improving transmission of light into solar cells and therefore increasing efficiency.

VISARC™ delivers high performance, broad band anti-reflection with just a single layer of material. The formulations contain nanoparticles immobilised in a binder which is chosen for its compatibility to the substrate of interest. The formulations can be processed using common wet chemistry techniques such as spin, dip and roll-to-roll coating. VISARC™ can be customised for use on a range of rigid and flexible substrates. The technology has several applications including solar cells, display screens and ophthalmic lenses for eyewear.

Commercially available anti-reflective coatings in ophthalmic applications typically use expensive batch processing vapour deposition techniques and these are applied to lenses at central hubs or at the lens manufacturer. This results in long lead times delivering a final product to the customer.

Our high-performance wet-coat ARC provides a lower-cost alternative with similar optical and durability performance. The wet-coat process requires the use of spin-coating machines already widely used in ophthalmics. This equipment is a fraction of the cost of physical vapour deposition to both purchase and operate. We believe the combination of performance and application process provides the ophthalmic market with an opportunity to introduce ARCs at the point of sale and thus improve turn-around to hours rather than days. We are in discussion with a number of early adopters for this market.

The displays market has been an early adopter of ARCs for televisions through to the current introduction of ARCs for mobile devices. The ARC market for large panel displays is currently in the region of $800 million per year, and continues to grow. We believe that this growth will be significantly enhanced in the coming years by the need to get ARCs on phones, tablets and other mobile devices.

The coatings are wet-coat formulations using nanoparticle technology applied through roll-to-roll techniques onto the film that becomes the outer layer of the display screen. Existing market leading technologies have demonstrated a performance of 1.0% reflection. Similar ARC coatings using the VISARC™ technology have shown that reflection can be reduced to 0.3% whilst maintaining other performance properties – a significant improvement on the current market leader.

Board changes

As we had previously communicated, on 22 February 2011 our Managing Director, Dr Mike Eason, gave notice to leave the Group and he resigned on 29 March 2011. On the same day Mike Edwards joined the Board as Sales and Marketing Director. I took up the role of Chairman on 17 October 2011. I would like to thank Mike Bretherton for his work as Chairman prior to that, and for his continued advice and support having returned to the

Chairman's Statement and Business Review

role of non-executive Director. We are currently in the process of recruiting a new Chief Executive Officer to steer the Group though commercialisation and technology scale-up, and I hope to be able to release news about this key appointment later in the year.

Resources

At the end of 2011 employee numbers, excluding non-executive Directors, stood at 18, of which 15 were focused on research and development. We expect employee numbers to remain fairly constant until commercial deals are completed, at which point we will require additional scale-up and account management resources.

Our process and systems were re-audited by British Standards and we successfully retained our ISO 9001: 2008 accreditation.

Outlook

In conjunction with our technological developments, we are actively seeking to improve our visibility in the investment community and improve the liquidity of our shares. To this end we have appointed a new broker and NOMAD. We hope that this, along with continued news flow, will better communicate our story and the opportunity we present to current and new investors.

We expect our VISARC™ technology to complete development so that we can manufacture and deliver sufficient scale of particle to start mass manufacture at the customers' facilities within six to 12 months. Our Onto™ chemistry applications will require a longer development period before the first royalty bearing product launch, due to the need for specific formulation design, scaled manufacturing, and completion of local and specific market regulatory clearance. We expect combinations of development and advanced licence fees to supplement our expenditure before actual commercial product launch.

We anticipate continued progress in commercial and technical development throughout 2012 and a clear demonstration of our move towards successful establishment in our key markets.

Dr Peter Rowley
Chairman
24 April 2012
Company Number: 5845469

Group Financial Review

The consolidated financial statements have been prepared for the year to 31 December 2011.

Trading

Group revenue for the year ended 31 December 2011 was £19,000 (2010: £259,000). This was solely generated from fee paying commercial agreements and individual projects. No grant income was sought or received during 2011 (2010: £83,000 of the total revenue was derived from grants). The Group continued to work on a number of 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 £1,786,000 (2010: £1,634,000) after charges of £nil (2010: £235,000) related to share based payments. Excluding share based payment charges the adjusted loss before tax for the year was £1,786,000 (2010: £1,399,000).

Loss before Tax

The net share based payment charges were £nil in 2011 as the costs of the equity settled options that were in issue during the year were offset by the reversal of cancelled share options relating to Dr Mike Eason, who resigned in March 2011. A number of new options were issued to staff during the year and these are fully detailed in note 23.

Research and development costs increased from £913,000 to £1,041,000 driven by the additional investment required in VISARC™ as the product approaches commercialisation and production scale. VISARC™ costs increased from £356,000 to £622,000 whilst those associated with Onto™ reduced from £557,000 to £419,000 as the Group increased focus on the closest-to-market technology.

Other administrative costs increased by four per cent to £767,000, and a number of cost reduction plans have been completed at the end of 2011 and the start of 2012 to ensure that we get full value from our administrative and support functions.

Interest from deposits for the year amounted to £153,000 (2010: £187,000). This reduction was mainly driven by a lower cash balance, partly offset by increasing deposit rates that were available to the Group during the year.

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. There are two core VISARC™ technology patents, both of which are now published and moving to the next phase. We believe we have a strong patent portfolio which will support the business going forward. We will continue to develop and enhance our portfolio with additional filings in our key markets and also new applications of our existing technology.

A write-off amounting to £22,000 was taken during the year on three patent families that the Group has decided not to pursue. This was based on our assessment that the inventions did not offer sufficient economic opportunity.

The Group has a robust balance sheet and the Directors believe that it is sufficient to support the business for the foreseeable future. In particular the Group has £5,805,000 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 £1,675,000 during the year (2010: £1,298,000). The net cash outflow from operations amounted to £1,685,000 (2010: £1,529,000) whilst £141,000 (2010: £140,000) was invested in laboratory equipment, computers and office fittings to support business growth and technology development.

Investment in our patent portfolio increased to £124,000 (2010: £39,000) reflecting the costs incurred in multiple country filings and grants.

Treasury activities and policies

The Group carries a significant cash sum, which is managed prudently. In order to minimise the risk to the Group's capital, the funds are invested across a number of independent financial institutions with strong credit ratings. The deposits range from instant access to 12 month term deposits and are regularly monitored by the Board. The current allocation between cash and short term investments is detailed in note 13. The balance of maturities is managed to meet the cash flow demands of the business.

Share option scheme

The Group operates a share option scheme (both EMI and unapproved) to provide long-term incentives and reward to key and high performing members of staff. The scheme is an equity settled scheme and is operated for the benefit of employees of the Group. As a result certain employees of the Group's subsidiaries, Oxford Advanced Surfaces Limited and Oxford Energy Technologies Limited, hold options in the scheme.

Further details of the share option schemes are available in note 23.

Philip Spinks
Chief Financial Officer
24 April 2012
Company Number: 5845469

Directors

Dr Peter Rowley (68)
Non-executive Chairman

Dr Rowley is an experienced Chairman of AIM listed companies and is currently also Chairman 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 Ph.D. in organic chemistry from King's College London.

Philip Spinks (41)
Chief Financial Officer and Company Secretary

Philip joined the Board in February 2008. He worked as an accountant at Brooking, Knowles & Lawrence and Coopers & Lybrand before joining The BOC Group Plc in 1997. In his 10 years at BOC, Philip held a number of senior finance roles including corporate finance manager, treasury manager and divisional finance director before being appointed a global controller after the acquisition of BOC by The Linde Group AG. He is a Chartered Accountant and associate of the Association of Corporate Treasurers.

Mike Edwards (53)
Sales & Marketing Director

Mike joined the Board in March 2011, after being responsible for the Company's sales and marketing activities since joining in May 2008. He graduated in Electronics from the University of Wales Institute of Science and Technology, Cardiff and then spent five years designing microprocessors, semiconductors and computer systems at Ferranti. Mike subsequently spent fifteen years at Toshiba in various international executive sales, marketing and general manager roles before driving global sales divisions in a number of start-up companies including Antenova and SMART Modular Technologies. Mike is a Chartered Engineer and holds a Masters degree in Business Administration.

Michael Bretherton (56)
Non-executive Director

Michael Bretherton graduated in Economics from University of Leeds and then worked as an accountant and manager with Price Waterhouse for 7 years in both London and the Middle East. Michael subsequently worked for the Plessey Company Plc before being appointed finance director of the fully listed Bridgend Group Plc in 1988 where he held the position for 12 years. More recently, he has worked at the property and services company, Mapeley Limited, and at the entertainment software games developer, Lionhead Studios Limited. He is also a director of ORA Capital Partners Limited, Nanoco Group Plc, Obtala Resources Limited, Tissue Regenix Group Plc and Oxford Nutrascience Group Plc, all of which are AIM listed.

Dr David Bott (58)
Non-executive Director

David 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, Apaclara Limited, Spineless Design Limited and EotR Solutions Limited. He is also Director of Innovation Programmes for the Technology Strategy Board, a non-departmental public body sponsored by the Department of Innovation, Universities and Skills. He has considerable experience of many areas in the market place which OAS is targeting, specifically adhesion, coatings, cross-linkers and composites.

Corporate Governance Statement

The Directors recognise the importance of sound corporate governance and intend that the Group complies with the main provisions of the Quoted Companies Alliance (QCA) Guidelines on Corporate Governance insofar as they are appropriate given the Group's size and stage of development.

The Board is responsible for formulating, reviewing and approving the Group's strategy, budgets and corporate actions. The Directors hold board meetings at least quarterly and at other times as and when required.

The Company has established audit and remuneration committees of the Board with formally delegated duties and responsibilities.

Independence

Dr Peter Rowley is considered to be able to act as an independent non-executive director by the Board. He currently has no shareholding in Oxford Advanced Surfaces Group plc.

Michael Bretherton is considered to be able to act as an independent non-executive director by the Board (other than in matters pertaining to ORA Capital Partners Limited, where he is not entitled to vote) notwithstanding his 0.32% 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.

The Board

The Board currently comprises two executive and three non-executive Directors.

Audit Committee

The Audit Committee comprises the three non-executive Directors with Michael Bretherton as Chairman.

It meets as required and at least biannually to consider all aspects of the planning and completion of the annual external audit.

Remuneration Committee

The composition and role of the Remuneration Committee is set out in the Directors' remuneration report on page 8. Full details of Directors' remuneration and a statement on remuneration policy are set out in the report.

Nominations Committee

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

Internal Control

The Board is responsible for maintaining a sound system of internal control. The Board's measures are designed to manage, not eliminate, risk and such a system provides reasonable but not absolute assurance against material misstatement or loss.

Some key features of the internal control system are:

- Management accounts information and business risk issues are regularly reviewed by the Board who meet at least quarterly;
- 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.

Going Concern

Information on the business environment and the factors underpinning the Group's future prospects and product portfolio are included in the Chairman's statement and business review and the Directors' report on pages 2 and 11.

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 March 2012, including current customers and license opportunities, future development pipeline, scale-up and regulatory costs and cash burn.

The financial position of the Group is outlined in the Group financial review. The Directors believe that the diversity of both the technology portfolio and customer base, together with the Group's strong balance sheet, will enable it to continue to operate for the foreseeable future under the current economic climate.

The Directors therefore consider the going concern basis of preparing the accounts to be appropriate.

Directors' Remuneration Report

Introduction

Companies with securities listed on AIM do not need to comply with the Directors' Remuneration Report Regulations 2008 or the UKLA Listing Rules and the provisions under schedule 15 of the Companies Act 2006. The remuneration committee is however 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:
  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 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 is in place for all 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' REMUNERATION

	Salaries and Fees £'000	Pension £'000	*Total December 2011 £'000	*Total December 2010 £'000
Name of Director				
Executive				
Dr Mike Eason (resigned 29 March 2011)	47	–	47	90
Philip Spinks	82	7	89	89
Mike Edwards (appointed 29 March 2011)	64	–	64	–
Marcelo Bravo (resigned 8 February 2010)	–	–	–	24
Non-executive				
Dr Peter Rowley (appointed 17 October 2011)	4	–	4	–
Michael Bretherton	12	–	12	12
Dr David Bott (appointed 8 February 2010)	12	–	12	14
Jeremy Scudamore (resigned 8 February 2010)	–	–	–	6
Dr Andrew Naylor (resigned 8 February 2010)	–	–	–	5
	221	7	228	240

* Philip Spinks holds share options in the Company for which a fair value share based charge of £25,000 has been recognised in the consolidated statement of comprehensive income (2010: £146,000). Mike Edwards also holds share options in the Company for which a fair value share based charge of £9,000 has been recognised in the consolidated statement of comprehensive income.

Executive Directors have continuing service contracts with six months notice. Mike Bretherton has a continuing letter of appointment with three months notice and Dr David Bott has a letter of appointment with a three year term, commencing 8 February 2010, 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 pension scheme is a salary sacrifice scheme that the Group established for the benefit of all Directors and employees.

The sums for the services of Dr David Bott are paid via a third party (see note 24).

DIRECTORS' SHARE OPTIONS

	At 1 January 2011	Forfeited	Exercised	Total 31 December 2011	Exercise price	Exercisable from	Date of expiry
Name of Director							
Executive							
Dr Mike Eason (EMI)	270,000	(270,000)	–	–	16.50p	11/12/2011	14/01/2019
Dr Mike Eason (EMI)	80,000	(80,000)	–	–	1.00p	11/12/2011	14/01/2019
Dr Mike Eason (EMI)	276,666	(276,666)	–	–	22.50p	01/12/2012	01/12/2019
Dr Mike Eason (Unapproved)	723,334	(723,334)	–	–	22.50p	01/12/2012	01/12/2019
Philip Spinks (EMI)	135,135	–	–	135,135	1.00p	03/03/2011	03/03/2018
Philip Spinks (Unapproved)	934,579	–	–	934,579	53.50p	03/03/2011	03/03/2018
Philip Spinks (Unapproved)	200,000	–	–	200,000	28.00p	31/12/2009	28/05/2019
Mike Edwards (EMI)	238,235	–	–	238,235	16.50p	11/08/2011	14/01/2019
Mike Edwards (EMI)	111,765	–	–	111,765	1.00p	11/08/2011	14/01/2019
	2,969,714	(1,350,000)	–	1,619,714			

All options have a contractual life of 10 years from the date of issue and have time vesting performance criteria.

Directors' Remuneration Report

DIRECTORS' SHARE HOLDINGS

The interests of the Directors in the shares of the Company at 31 December 2011 were:

	Total December 2011 £'000	Total December 2010 £'000
Name of Director		
Executive		
Philip Spinks	61,500	61,500
Non-executive		
Michael Bretherton	635,000	635,000
Dr David Bott	36,000	36,000

The mid market price of the shares was 7.75 pence at 31 December 2011 and the range during the year was 5.75 pence to 24.00 pence.

Directors' Report

The Directors present their report with the Group financial statements for the year to 31 December 2011.

PRINCIPAL ACTIVITY

Oxford Advanced Surfaces Group plc (OAS) is a unique research and development company that provides multinational industrial corporations with intellectual property solutions and associated materials as a 'tool kit' to create engineered surface coatings and advanced materials.

BUSINESS REVIEW

A review of the Group's performance and future prospects is included in the Chairman's statement and business review on page 2 and the Group financial review on page 5.

RESEARCH AND DEVELOPMENT

A review of the Group's research and development activities is included in the Chairman's statement and business review on page 2.

BASIS OF PREPARATION

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union. In accordance with IFRS, the combination of Oxford Advanced Surfaces Group Plc and Oxford Advanced Surfaces Limited in 2007 has been accounted for as a reverse acquisition. Further details are provided in note 2.3.14 of the financial statements.

RESULTS AND DIVIDENDS

The consolidated financial statements have been prepared for the year to 31 December 2011. The loss before tax for the year was £1,786,000 (2010: £1,634,000) after charges of £nil (2010: £235,000) related to share based payments. Excluding share based payment charges the adjusted loss before tax for the year was £1,786,000 (2010: £1,399,000).

The Directors do not recommend a dividend in respect of the year to 31 December 2011 and no dividends were paid during the year under review.

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	
Dr Mike Eason	(resigned 29 March 2011)
Philip Spinks	
Mike Edwards	(appointed 29 March 2011)
Non-executive	
Dr Peter Rowley	(appointed 17 October 2011)
Michael Bretherton	
Dr David Bott	

All directors who are eligible offer themselves for election at the forthcoming Annual General Meeting.

Directors' Report

The beneficial interests of the Directors and persons connected with them in the issued share capital of the Company as at 31 December 2011 were as follows:

Name	Ordinary £0.01 shares	Percentage of share capital
Executive		
Philip Spinks	61,500	0.03
Non-executive		
Michael Bretherton	635,000	0.32
Dr David Bott	36,000	0.02

Michael Bretherton is in addition interested in 2,060,000 shares in ORA Capital Partners Limited ("ORA"), representing 3.33 per cent of ORA's issued ordinary share capital. ORA are a major shareholder as detailed below.

Details of Directors' share options are shown in the Directors' Remuneration Report on page 8.

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 31 March 2012 an interest in three percent or more of the issued ordinary share capital of the Company:

Name	Ordinary £0.01 shares	Percentage of share capital
ORA (Guernsey) Limited	49,950,002	25.52
IP2IPO Limited	28,503,396	14.56
Oxford University	17,264,429	8.82
Miss Nora Powell	13,840,220	7.07
Richard Griffiths	10,700,998	5.47
David Norwood	9,801,374	5.01
Barclays Capital	9,405,000	4.80
Close Brothers Asset Management	8,913,544	4.55
Dr Mark Moloney	6,620,527	3.38
Jon-Paul Griffiths	6,620,527	3.38
Stephen James	5,950,000	3.04

RISK REVIEW

Given the current straightforward nature 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 relevant KPIs for internal measurement are size and quality of development pipeline, progress towards income and cash burn rate.

The principal risks and uncertainties affecting the Group are set out below and the financial risks are considered in note 22.

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. 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.

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.

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.

OUTLOOK

The challenging business environment has continued into 2011. The Group has faced this challenge by continuing to focus time and resource on the most promising technologies that are closest to market and ensuring that their development is suitable for commercial adoption.

We have made significant steps towards commercialisation and also the manufacture and supply of associated materials, particularly the nanoparticle used in the VISARC™ technology.

Directors' Report

At the end of 2011 we remain well capitalised and our low cash burn leaves us ideally placed to take advantage of these license opportunities and deliver products to market.

POST BALANCE SHEET EVENTS

Post balance sheet events are disclosed in note 26.

EMPLOYMENT POLICIES

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.

POLITICAL AND CHARITABLE CONTRIBUTIONS

The Group has made no payments in respect of political contributions during the year. During the year the Board introduced a scheme to support staff who undertake charitable ventures. In the year under review the Company provided matched giving to staff supported charities amounting to £298.

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 2011 trade creditor days for the Group were 20 (2010: 26) and for the Company were 14 (2010: 15). 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

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 re-appointment in accordance with Section 489(1) of the Companies Act 2006 will be proposed at the annual general meeting.

ON BEHALF OF THE BOARD

Philip Spinks
Company Secretary
24 April 2012
Company Number: 5845469

Statement of Directors' Responsibilities

The Directors are responsible for preparing the 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 Company and of the profit or loss of the Company for that year. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments 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; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the 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 Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Directors' statement pursuant to the Disclosure and Transparency Rules

Each of the Directors, whose names and functions are listed in the Directors' Report confirm that, to the best of each person's knowledge and belief:

- The financial statements, prepared in accordance with IFRSs adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and loss of the Group and Company; and
- The Directors' report contained in the annual report includes a fair review of the development and performance of the business and the position of the Company and Group, together with a description of the principle risks and uncertainties that they face.

The Directors are responsible for the maintenance and integrity of the Group web site www.oxfordsurfaces.com. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

By order of the Board
Philip Spinks
Company Secretary

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 2011 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 26. 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 Directors' Responsibilities Statement set out on page 15, 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. 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 2011 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 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 matters prescribed by the Companies Act 2006

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and

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

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

Under the Companies Act 2006 we are required 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 Company financial statements and the part of the Directors' Remuneration Report to be audited 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.

Debbie O'Hanlon (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
Reading
24 April 2012

Notes:

1. The maintenance and integrity of the Oxford Advanced Surfaces Group plc web site 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 web site.

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 2011

	Notes	Year to 31 December 2011 £'000	Year to 31 December 2010 £'000
CONTINUING OPERATIONS			
Revenue	3	19	259
Cost of sales		(150)	(197)
GROSS (LOSS)/PROFIT		(131)	62
Research and development costs		(1,041)	(913)
Other administrative costs		(767)	(735)
Share based payments	23	–	(235)
Total administrative costs		(1,808)	(1,883)
LOSS FROM OPERATIONS		(1,939)	(1,821)
Finance income	5	153	187
LOSS BEFORE TAX		(1,786)	(1,634)
Income tax credit	6	145	67
LOSS FOR THE YEAR AND TOTAL COMPREHENSIVE LOSS FOR THE YEAR	7	(1,641)	(1,567)
Loss per share attributable to the equity holders of the Company:			
Total and continuing:			
– Basic and diluted	21	(0.84)	(0.81)

The notes on pages 23 to 43 form an integral part of these consolidated financial statements.

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 2011 was £396,000 (2010: £405,000).

There were no items of other comprehensive income for the year to 31 December 2011 or 2010 and therefore the loss for the year is also the total comprehensive loss for the year net of tax.

Consolidated and Company Statement of Financial Position

For the year ended 31 December 2011

	Notes	Group 31 December 2011 £'000	Group 31 December 2010 £'000	Company 31 December 2011 £'000	Company 31 December 2010 £'000
ASSETS					
NON-CURRENT ASSETS					
Investments	8	–	–	20,650	20,661
Intangible assets	9	339	256	–	–
Plant and equipment	10	247	224	2	4
Loan to subsidiaries	12	–	–	3,910	2,547
		586	480	24,562	23,212
CURRENT ASSETS					
Stocks	11	1	10	–	–
Trade and other receivables	12	334	360	120	159
Short-term investments and cash and cash equivalents	13	5,805	7,480	5,767	7,465
		6,140	7,850	5,887	7,624
LIABILITIES					
CURRENT LIABILITIES					
Trade and other payables	14	177	150	51	42
NET CURRENT ASSETS		5,963	7,700	5,836	7,582
LIABILITIES					
NON-CURRENT LIABILITIES					
Provisions	14	10	–	–	–
NET ASSETS		6,539	8,180	30,398	30,794
SHAREHOLDERS EQUITY					
Called up share capital	15	1,957	1,957	1,957	1,957
Share premium	16	10,423	10,423	10,423	10,423
Merger reserve	17	6,369	6,369	18,669	18,669
Reverse acquisition reserve	18	(6,831)	(6,831)	–	–
Retained earnings	19	(6,277)	(4,636)	(1,549)	(1,153)
Share based payments reserve	20	898	898	898	898
TOTAL EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY		6,539	8,180	30,398	30,794

The financial statements were approved by the Board of Directors and authorised for issue on 24 April 2012 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 2011

	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 2010	1,856	10,423	6,369	(6,831)	(5,505)	3,099	9,411
Total comprehensive loss for the year to 31 December 2010	–	–	–	–	(1,567)	–	(1,567)
Shares issued on option exercise – cash consideration	101	–	–	–	–	–	101
Exercise of options – share based payments	–	–	–	–	2,436	(2,436)	–
Share based payments	–	–	–	–	–	235	235
At 31 December 2010	1,957	10,423	6,369	(6,831)	(4,636)	898	8,180
Total comprehensive loss for the year to 31 December 2011	–	–	–	–	(1,641)	–	(1, 641)
At 31 December 2011	1,957	10,423	6,369	(6,831)	(6,277)	898	6,539

Company Statement of Changes in Equity

For the year ended 31 December 2011

	Share Equity £'000	Share Premium £'000	Merger Reserve £'000	Retained Earnings £'000	Share Based Payment Reserve £'000	Total Equity £'000
At 1 January 2010	1,856	10,423	18,669	(3,184)	3,099	30,863
Total comprehensive loss for the year to 31 December 2010	–	–	–	(405)	–	(405)
Shares issued on option exercise – cash consideration	101	–	–	–	–	101
Exercise of options – share based payments	–	–	–	2,436	(2,436)	–
Share based payments – subsidiary companies	–	–	–	–	80	80
Share based payments	–	–	–	–	155	155
At 31 December 2010	1,957	10,423	18,669	(1,153)	898	30,794
Total comprehensive loss for the year to 31 December 2011	–	–	–	(396)	–	(396)
Share based payments – subsidiary companies	–	–	–	–	(11)	(11)
Share based payments	–	–	–	–	11	11
At 31 December 2011	1,957	10,423	18,669	(1,549)	898	30,398

Consolidated and Company Cash Flow Statements

For the year ended 31 December 2011

	Notes	Group Year to 31 December 2011 £'000	Group Year to 31 December 2010[1] £'000	Company Year to 31 December 2011 £'000	Company Year to 31 December 2010[1] £'000
Loss before tax		(1,786)	(1,634)	(396)	(405)
Depreciation and amortisation charges		144	122	2	1
Write-off of intangible assets		22	–	–	–
(Profit)/loss on disposal of plant and equipment		(1)	4	–	–
Share based payment expense		–	235	11	155
Finance income		(153)	(187)	(153)	(187)
		(1,774)	(1,460)	(536)	(436)
Decrease/(increase) in stocks		9	(4)	–	–
Decrease/(increase) in trade and other receivables		53	(40)	22	(11)
Increase/(decrease) in trade and other payables		27	(25)	9	(18)
Cash outflow from operations		(1,685)	(1,529)	(505)	(465)
Income tax received		101	98	–	–
Net cash outflow from operating activities		(1,584)	(1,431)	(505)	(465)
Cash flows from investing activities					
Proceeds from sale of plant and equipment		4	4	–	–
Purchase of intangible assets		(124)	(39)	–	–
Purchase of plant and equipment		(141)	(140)	–	(5)
Increase in short term investments		(104)	(1,146)	(104)	(1,146)
Interest received		170	207	170	207
Net cash inflow from investing activities		(195)	(1,114)	66	(944)
Net cash from financing activities					
Share issue		–	101	–	101
Repayment of loan from subsidiary		–	–	–	(58)
Outflow from loan to subsidiary		–	–	(1,363)	(1,024)
Net cash inflow/(outflow) from financing activities		–	101	(1,363)	(981)
(Decrease)/increase in cash and cash equivalents		(1,779)	(2,444)	(1,802)	(2,390)
Cash and cash equivalents at beginning of year	13	2,334	4,778	2,319	4,709
Cash and cash equivalents at end of year	13	555	2,334	517	2,319
Short term investments[1]		5,250	5,146	5,250	5,146
Short-term investments and cash and cash equivalents[1]	13	5,805	7,480	5,767	7,465

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

Note:

1 The allocation of cash and cash equivalents and short term investments has been amended in the comparative figures to align appropriate presentation. There is no change to the overall cash balance or assets of the Group and Company.

Notes to the Financial Statements

1. CORPORATE INFORMATION

Oxford Advanced Surfaces Group plc (OAS) is a unique research and development company that provides multinational industrial corporations with intellectual property solutions and associated materials as a 'tool kit' to create engineered surface coatings and advanced materials.

OAS is the supplier of Onto™ and VISARC™ technology and materials.

The Company is a public limited company registered and domiciled in England and Wales and its shares are publicly traded on AIM, a market operated by the London Stock Exchange.

2.1 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 Group and 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 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 2.3.14.

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 2010, except for the adoption of new standards and interpretations as outlined in note 2.3.13, none of which resulted in any impact on the accounting policies, financial position or performance of the Group.

2.2 Going concern

Information on the business environment and the factors underpinning the Group's future prospects and product portfolio are included in the Chairman's statement and business review and the Directors' report. The financial position of the Group is outlined in the Group financial review. The Directors believe that the diversity of the technology portfolio and 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 foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

2.3 Summary of significant accounting policies

2.3.1 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.

2.3.2 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

Notes to the Financial Statements

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.

2.3.3 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.

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, associates and interests in joint ventures, 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, associates and interests in joint ventures, 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.

Tax benefits acquired as part of a business combination, but not satisfying the criteria for separate recognition at that date, would be recognised subsequently if new information about facts and circumstances changed. The adjustment would either be treated as a reduction to goodwill (as long as it does not exceed goodwill) if it occurred during the measurement period or in profit or loss.

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.

2.3.4 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 at least annually. Any impairment is recognised immediately in the income statement and is not subsequently reversed.

2.3.5 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.

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.

Notes to the Financial Statements

2.3.6 Patents and licenses

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

2.3.7 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 reducing balance 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

2.3.8 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, or when annual impairment testing for an asset is required (as is the case for indefinite life intangible assets), 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, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation reserve movement.

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 unless the asset is carried at a revalued amount, in which case the reversal is treated as a revaluation increase. 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.

2.3.9 Stocks

Stocks are stated at the lower of cost or net realisable value. Cost is determined using the first in, first out method.

2.3.10 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.

2.3.11 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.

2.3.12 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 Binomial 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.

2.3.13 Changes in accounting policy and disclosure

The following new and amended IFRS and IFRIC interpretations are mandatory as of 1 January 2011 unless otherwise stated and the impact is described below. The changes listed are the ones considered applicable to the Group.

IAS 24 Related Party Disclosures (Amendment): The IASB issued an amendment to IAS 24 that clarifies the definitions of a related party. The new definitions emphasise a symmetrical view of related party relationships and clarifies the circumstances in which persons and key management personnel affect related party relationships of an entity. In addition, the amendment introduces an exemption from the general related party disclosure requirements for transactions with government and entities that are controlled, jointly controlled or significantly influenced by the same government as the reporting entity. The adoption of the amendment did not have any impact on the financial position or performance of the Group.

Improvements to IFRS (issued in May 2010): In May 2010, the IASB issued its third omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each

Notes to the Financial Statements

standard. The adoption of the following amendments resulted in changes to accounting policies but no impact on the financial position or performance of the Group.

- IFRS 7 Financial Instruments – Disclosures: The amendment emphasises the interaction between quantitative and qualitative disclosures and the nature and extent of risks associated with financial instruments. Financial instruments have been disclosed in note 22.

- IAS 1 Presentation of Financial Statements: The amendment clarifies that an entity may present an analysis of each component of other comprehensive income may be either in the statement of changes in equity or in the notes to the financial statements. The Company does not expect any impact on its financial position or performance.

Other amendments resulting from Improvements to IFRSs to the following standards did not have any impact on the accounting policies, financial position or performance of the Group:

- IFRS 3 Business Combinations (Contingent consideration arising from business).

Standards and interpretations issued but not yet applied
The following standards and interpretations have an effective date after the date of these financial statements and the company has not early adopted them.

IAS 1 Financial Statement Presentation – Presentation of Items of Other Comprehensive Income (effective 1 July 2012): The amendments to IAS 1 change the grouping of items presented in OCI. Items that could be reclassified to profit or loss at a future point in time would be presented separately from items that will never be reclassified. The amendment will affect presentation only and has no impact on the Company's financial position or performance.

IAS 27 Separate Financial Statements (as revised in 2011) (effective 1 January 2013): As a consequence of the new IFRS 10 and IFRS 12, what remains in IAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and associates in separate financial statements.

IFRS 7 Financial Instruments: Disclosures - Enhanced Derecognition Disclosure Requirements (effective 1 July 2011): The amendment requires additional disclosure about financial assets that have been transferred but not derecognised to enable the user of the Group's financial statements to understand the relationship with those assets that have not been derecognised and their associated liabilities. In addition, the amendment requires disclosures about continuing involvement in derecognised assets to enable the user to evaluate the nature of, and risks associated with, the entity's continuing involvement in those derecognised assets. The amendment affects disclosure only and has no impact on the Group's financial position or performance.

IFRS 9 Financial Instruments: Classification and Measurement (effective 1 January 2013): IFRS 9 as issued reflects the first phase of the IASBs work on the replacement of IAS 39 and applies to classification and measurement of financial assets as defined in IAS 39. In subsequent phases, the IASB will address classification and measurement of financial liabilities, hedge accounting and derecognition. The adoption of the first phase of IFRS 9 will have an effect on the classification and measurement of the Group's financial assets. The Group will quantify the effect in conjunction with the other phases, when issued, to present a comprehensive picture.

IFRS 10 Consolidated Financial Statements (effective 1 January 2013): IFRS 10 replaces the portion of IAS 27 Consolidated and Separate Financial Statements that addresses the accounting for consolidated financial statements. It also includes the issues raised in SIC-12 Consolidation — Special Purpose Entities.

IFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by IFRS 10 will require management to exercise significant judgement to determine which entities are controlled, and therefore are required to be consolidated by a parent, compared with the requirements that were in IAS 27. The Group is currently assessing the full impact of this standard.

IFRS 12 Disclosure of Involvement with Other Entities (effective 1 January 2013): IFRS 12 includes all of the disclosures that were previously in IAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in IAS 31 and IAS 28. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required.

IFRS 7 & IAS 32 Offsetting of Financial Instruments: The amendments to IAS 32 and IFRS 7 on offsetting of financial instruments are intended to clarify existing application issues relating to the offsetting rules and reduce the level of diversity in current practice. The clarifying amendments to IAS 32 are effective for the annual periods beginning on or after 1 January 2014. The new disclosures in IFRS 7 are required for annual periods beginning on or after 1 January 2013. The Group is currently assessing the impact that these amendments will have on the financial position.

2.3.14 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.

Reverse acquisition accounting

The combination in 2007 was accounted for as a reverse acquisition as if Oxford Advanced Surfaces Limited acquired Oxford Advanced Surfaces Group Plc. There are a number of judgemental factors to be considered for a combination to be deemed a reverse acquisition. Although these Group financial statements have been issued in the name of the legal parent, the Directors consider that the Group's activity is in substance a continuation of that of the legal subsidiary, Oxford Advanced Surfaces Limited, because after the transaction the former Board of Oxford Advanced Surfaces Limited were deemed to have control of the Group and of the legal parent. For this key reason, reverse acquisition accounting has been applied.

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. In considering potential impairment of investments in subsidiaries, the Group estimates the fair value less costs to sell of subsidiaries based on either the net present value of future cashflows, or the net assets at the review date.

Share based payments

Employee and director compensation in the form of shares are provided under share option schemes. The fair value of the employee services received in exchange for the grant of options is recognised as an expense. The expense is based on a number of assumptions disclosed in note 23. The selection of different assumptions could affect the future results of the Group.

All share-based payment arrangements granted that had not vested prior to 31 December 2011 are recognised in the Group financial statements.

3. 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 focussed 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. Included within this segment are:
    - Onto™ SM compounds – single molecule compounds used for surface functionalisation
    - Onto™ XL compounds – cross-linking, polymer based compounds used for surface functionalisation and inter-layer adhesion

Notes to the Financial Statements

- The Particle Technology segment is focussed on using and modifying particles for use in a wide range of applications, from optical coatings through to fast moving consumer goods and agrochemicals.
  - o VISARC™ Anti-Reflective Coatings projects sit within this segment.

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.

Segment performance is measured by reference to revenue, cost of sales, research and development costs and segment loss before tax. Administrative costs, financing and income tax are managed centrally and are not allocated to segments. Assets and liabilities are not measured or assessed on a segment basis.

2011

	Reactive chemistry £'000	Particle technologies £'000	Corporate unallocated £'000	Year to 31 December 2011 £'000
Revenue				
Fee paying agreements	–	19	–	19
Grants	–	–	–	–
Total Revenue	–	19	–	19
Cost of sales	(58)	(92)	–	(150)
Research and development costs	(419)	(622)	–	(1,041)
Corporate unallocated	–	–	(614)	(614)
Segment loss before tax	(477)	(695)	(614)	(1,786)

The corporate unallocated loss before tax includes other administrative costs of £767,000 and share based payments of £nil offset by interest income at £153,000. 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 no revenue or grant income for the period under review.

2010

	Reactive chemistry £'000	Particle technologies £'000	Corporate unallocated £'000	Year to 31 December 2010 £'000
Revenue				
Fee paying agreements	86	90	–	176
Grants	64	19	–	83
Total Revenue	150	109	–	259
Cost of sales	(64)	(133)	–	(197)
Research and development costs	(557)	(356)	–	(913)
Corporate unallocated	–	-	(783)	(783)
Segment loss before tax	(471)	(380)	(783)	(1,634)

The corporate unallocated loss before tax includes other administrative costs at £735,000 and share based payments at £235,000 offset by interest income at £187,000. Within Particle Technologies, the revenue from fee paying agreements represents income from one customer. Reactive Chemistry fee paying agreements include income from two separate customers, both representing more than 10% of the income.

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. The business is not considered to be seasonal.

4. EMPLOYEES AND DIRECTORS

	Year to 31 December 2011 £'000	Year to 31 December 2010 £'000
Wages and salaries	755	792
Social security costs	79	83
Pension costs	17	15
Share-based payment (note 20/note 23)	–	235
	851	1,125

The average monthly number of employees of the Group were:

	Year to 31 December 2011	Year to 31 December 2010
Administration (including executive Directors)	3	4
Technical	16	16
	19	20

Directors' emoluments

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

	Year to 31 December 2011 £'000	Year to 31 December 2010 £'000
Salaries and fees	221	233
Pension	7	7
	228	240

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.

Notes to the Financial Statements

Oxford Advanced Surfaces Group plc has granted the following options to the following persons:

	Number of options at 31 December 2011	Number of options at 31 December 2010
Dr Mike Eason	–	1,350,000
Philip Spinks	1,269,714	1,269,714
Mike Edwards	350,000	–

Further details regarding the share option scheme can be found in note 23 of the accounts.

5. FINANCE INCOME

	Year to 31 December 2011 £'000	Year to 31 December 2010 £'000
Bank interest receivable	153	187

6. INCOME TAX CREDIT

a) Tax credited in the income statement

	Year to 31 December 2011 £'000	Year to 31 December 2010 £'000
UK corporation tax credit	(145)	(101)
Amounts overprovided in previous years	-	34
	(145)	(67)

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 26.5% (2010: 28.0%). The differences are reconciled below:

	Year to 31 December 2011 £'000	Year to 31 December 2010 £'000
(Loss) before tax	(1,786)	(1,634)
Loss on ordinary activities multiplied by the average standard rate of corporation tax in the UK of 26.5% (2010: 28%)	(473)	(458)
Effects of:		
Expenses not deductible for tax purposes	7	66
Additional deduction for R&D expenditure	(157)	(104)
Movement on temporary differences not recognised	(5)	(8)
Share scheme deduction	–	(113)
Unrelieved tax losses and other deductions arising in the year	331	415
Losses surrendered for research and development	152	101
Prior year adjustment	–	34
Tax credit	(145)	(67)

Unrelieved tax losses of £6,587,000 at 31 December 2011 (2010: £5,339,000) remain available indefinitely to offset against future taxable trading profits of the companies in which the losses arose. No deferred tax asset has been recognised in respect of the losses as recoverability is uncertain.

c) Deferred Tax

Unrecognised deferred tax assets at 25% (2010: 27%)

	Year to 31 December 2011 £'000	Year to 31 December 2010 £'000
Tax losses carried forward	1,647	1,442
Accelerated capital allowances	(59)	(58)
Share based payments	21	96
Deferred tax assets (unrecognised)	1,609	1,510

d) Change in Corporation Tax rate

In Budget 2011 on 23 March 2011, the Chancellor of the Exchequer announced a reduction in the UK rate of corporation tax to 26%. This reduced rate applied from 1 April 2011. A further 1% rate reduction to 25% was also announced and it was intended that this would be effective from 1 April 2012.

However, in his budget of 21 March 2012, 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 25% to 24% effective from 1 April 2012 (and substantively enacted as of 26 March 2012). The UK government intends to further reduce the UK corporate income tax rate, to 22%, in annual increments of 1% per annum which will be enacted in successive Finance Bills. 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 25% and therefore deferred tax assets and liabilities have been calculated at this rate.

7. LOSS BEFORE TAX

Loss before tax is stated after charging

	Year to 31 December 2011 £'000	Year to 31 December 2010 £'000
Research and development costs	1,041	913
Share based payments	–	235
Depreciation of property, plant and equipment – owned	125	105
Write-off of intangible assets – patents	22	–
Amortisation of intangible assets – patents	19	17
Auditor's remuneration		
Fees payable to the Company's auditor for audit of the parent and consolidated accounts	11	15
– The audit of the Company's subsidiaries pursuant to legislation	13	20
– Tax services	7	12

Notes to the Financial Statements

8. INVESTMENTS

Company

	Shares in subsidiary undertakings £'000
COST	
At 1 January 2010	24,426
Additions	80
At 31 December 2010	24,506
Disposals	(11)
At 31 December 2011	24,495
IMPAIRMENT	
AT 31 December 2010 and 2011	(3,845)
NET BOOK VALUE	
AT 13 December 2010	20,661
At 31 December 2011	20,650

(Disposals)/additions for the year to 31 December 2011 and 2010 represent the IFRS 2 reversal/charge for share options lapsed/granted to the employees of the Group's subsidiaries, Oxford Advanced Surfaces Limited ("OAS") and Oxford Energy Technologies Limited ("OET").

No impairment of either OAS or OET is considered necessary at either balance sheet date. The recoverable amounts of the investments were assessed using value in use calculations. These calculations use post-tax cash flow projections based on the Board's view of cash flows derived from technology license, future royalties and material sales over a ten year period to 2022. No account is taken of revenues past this date. The post-tax discount rate applied is 20%, which the Board believes fairly reflects the risks of the businesses at their current stage of commercial development.

In the Board's opinion the main sensitivities affecting the recoverable amounts of the investments are commercial success and market acceptance, as outlined in the Directors' Report on page 11. The Board currently believes that the technologies marketed by both OAS and OET will be commercially successful, and this is reflected in the value in use calculations. Should future developments suggest that either technology will not successfully commercialise an impairment review will be undertaken in line with accounting policies as outlined in note 2.3.8.

Another factor in assessing any potential impairment in the value of investments is the market value of the Group's equity. At the time of the impairment review on 27 March 2012 the Group had a market value of £26.4 million. The range during the year was £11.3 million to £47.0 million, and at the balance sheet date the market value was £15.2 million. The Group's share price suffers from unusual volatility due to issues such as liquidity and general market trends. The Board does not consider the current market value to indicate any potential impairment however any long-term trends will be considered in future impairment reviews.

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

9. INTANGIBLE ASSETS

Group

	Patents & licenses £'000
COST	
At 1 January 2010	271
Additions	39
As 31 December 2010	310
Additions	124
Write-off	(24)
At 31 December 2011	410
AMORTISATION & IMPAIRMENT	
At 1 January 2010	37
Amortisation for year	17
At 31 December 2010	54
Amortisation for year	19
Write-off	(2)
At 31 December 2011	71
NET BOOK VALUE	
At 31 December 2010	256
At 31 December 2011	339

The average remaining life of patent families is 14.6 years. The write-off represents patent costs in three non-core technologies that are not considered to have future economic value. Additions in the year are continued investment in existing patent families and also the costs related to new patent family filings.

Company

The Company had no intangible assets during the year.

Notes to the Financial Statements

10. PLANT AND EQUIPMENT

Group

(note: no assets were held under finance leases)	Plant & machinery £'000	Fixtures & fittings £'000	Computer equipment £'000	Totals £'000
COST				
At 1 January 2010	281	10	48	339
Additions	124	–	16	140
Disposals	(10)	(1)	(2)	(13)
At 31 December 2010	395	9	62	466
Additions	123	2	26	151
Disposals	(6)	–	(13)	(19)
At 31 December 2011	512	11	75	598
DEPRECIATION				
At 1 January 2010	108	5	29	142
Charge for year	87	2	16	105
Disposals	(3)	–	(2)	(5)
At 31 December 2010	192	7	43	242
Charge for year	109	2	14	125
Disposals	(3)	–	(13)	(16)
At 31 December 2011	298	9	44	351
NET BOOK VALUE				
At 31 December 2010	203	2	19	224
At 31 December 2011	214	2	31	247

Company

	Computer equipment £'000	Totals £'000
COST		
At 1 January 2010	–	–
Additions	5	5
At 31 December 2010	5	5
Additions	–	–
At 31 December 2011	5	5
DEPRECIATION		
At 1 January 2010	–	–
Charge for year	1	1
At 31 December 2010	1	1
Charge for year	2	2
At 31 December 2011	3	3
NET BOOK VALUE		
At 31 December 2010	4	4
At 31 December 2011	2	2

11. STOCKS

	Group		Company	
	31 December 2011 £'000	31 December 2010 £'000	31 December 2011 £'000	31 December 2010 £'000
Raw materials	1	10	–	–

12. TRADE AND OTHER RECEIVABLES

	Group		Company	
	31 December 2011 £'000	31 December 2010 £'000	31 December 2011 £'000	31 December 2010 £'000
Current:				
Trade receivables	14	43	–	25
Grant income due	–	30	–	–
Interest receivable	99	116	99	116
VAT receivable	42	29	7	7
Other receivables	–	–	–	–
Corporation tax due	145	101	–	–
Prepayments	34	41	14	11
	334	360	120	159
Non-current:				
Loans to subsidiaries	–	–	3,910	2,547

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 2011 or 31 December 2010 and all trade receivables are current.

13. SHORT TERM INVESTMENTS AND CASH AND CASH EQUIVALENTS

	Group		Company	
	31 December 2011 £'000	31 December 2010[1] £'000	31 December 2011 £'000	31 December 2010[1] £'000
Short term investments[1]	5,250	5,146	5,250	5,146
Cash at bank and in hand[1]	555	2,334	517	2,319
	5,805	7,480	5,767	7,465

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

Note:

1. The allocation of cash and cash equivalents and short term investments has been amended in the comparative figures to align appropriate presentation. There is no change to the overall cash balance or assets of the Group and Company.

Notes to the Financial Statements

14. TRADE AND OTHER PAYABLES

	Group		Company	
	31 December 2011 £'000	31 December 2010 £'000	31 December 2011 £'000	31 December 2010 £'000
Current:				
Trade payables	48	57	9	6
Social security and other taxes	27	24	10	7
Other payables	–	–	–	–
Accrued expenses	102	69	32	29
	177	150	51	42
Non-current:				
Dilapidation provisions	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.

15. CALLED UP SHARE CAPITAL

Group & company	Number of Shares	Share Capital £'000
Issued and fully paid shares of 1 penny each		
At 1 January and 31 December 2011	195,740,641	1,957

16. SHARE PREMIUM

	Group		Company	
	31 December 2011 £'000	31 December 2010 £'000	31 December 2011 £'000	31 December 2010 £'000
At beginning and end of the year	10,423	10,423	10,423	10,423

17. MERGER RESERVE

	Group		Company	
	31 December 2011 £'000	31 December 2010 £'000	31 December 2011 £'000	31 December 2010 £'000
At beginning and end of the year	6,369	6,369	18,669	18,669

The merger reserve arose under Section 131 of the Companies Act 1985 on the shares issued by the Company to acquire Oxford Energy Technologies Limited (formerly Solar Labs Plc) and Oxford Advanced Surfaces Limited on 31 December 2007 and is still applicable under the Companies Act 2006.

18. REVERSE ACQUISITION RESERVE

	Group		Company	
	31 December 2011 £'000	31 December 2010 £'000	31 December 2011 £'000	31 December 2010 £'000
At beginning and end of the year	(6,831)	(6,831)	–	–

As disclosed in note 2.3.14, the reverse acquisition reserve relates to the reverse acquisition of the Company and Solar Labs plc by Oxford Advanced Surfaces Limited on 31 December 2007.

19. PROFIT AND LOSS RESERVE

	Group		Company	
	31 December 2011 £'000	31 December 2010 £'000	31 December 2011 £'000	31 December 2010 £'000
At beginning of the year	(4,636)	(5,505)	(1,153)	(3,184)
Transfer from share based payment reserve	–	2,436	–	2,436
Loss during the year	(1,641)	(1,567)	(396)	(405)
At end of the year	(6,277)	(4,636)	(1,549)	(1,153)

20. SHARE BASED PAYMENT RESERVE

	Group		Company	
	31 December 2011 £'000	31 December 2010 £'000	31 December 2011 £'000	31 December 2010 £'000
At beginning of year	898	3,099	898	3,099
Transfer to profit and loss reserve on exercise of options	–	(2,436)	–	(2,436)
Charge in respect of share options for the year	–	235	11	155
Charge in respect of share options issued to employees of subsidiary companies	–	–	(11)	80
At end of the year	898	898	898	898

The amount transferred to the profit and loss reserve represents the share based payment charges relating to the options exercised by former Directors. Further details on the above share based payment charges are given in note 23.

21. LOSS PER SHARE (BASIC AND DILUTED)

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 2011	Year to 31 December 2010
Loss attributable to equity holders of the Group (£'000)	(1,641)	(1,567)
Weighted average number of ordinary shares in issue	195,740,641	194,548,304
Basic & diluted loss per share (pence)	(0.84)	(0.81)

Notes to the Financial Statements

22. 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 2.3 in the financial statements.

Categories of financial instrument

Financial assets

	Group		Company	
	Year to 31 31 December 2011 £'000	Year to 31 31 December 2010 £'000	Year to 31 31 December 2011 £'000	Year to 31 31 December 2010 £'000
Loan assets and other receivables (including cash and cash equivalents)	6,139	7,840	9,797	10,171

Maturity profile of financial assets

Group financial assets 2011

	On demand £'000	Less than 3 months £'000	3 to 12 months £'000	Total £'000
Cash at bank and in hand	555	-	-	555
Trade and other receivables	-	152	182	334
Short term investments	-	2,100	3,150	5,250
	555	2,252	3,332	6,139

Group financial assets 2010

	On demand £'000	Less than 3 months £'000	3 to 12 months £'000	Total £'000
Cash at bank and in hand	2,334	–	–	2,334
Trade and other receivables	–	224	136	360
Short term investments	–	2,030	3,116	5,146
	2,334	2,254	3,252	7,840

Company financial assets 2011

	On demand £'000	Less than 3 months £'000	3 to 12 months £'000	Over 1 year £'000	Total £'000
Cash at bank and in hand	517	–	–	–	517
Trade and other receivables	–	83	37	–	120
Short term investments	–	2,100	3,150	–	5,250
Loans to subsidiaries	–	–	–	3,910	3,910
	517	2,183	3,187	3,910	9,797

Company financial assets 2010

	On demand £'000	Less than 3 months £'000	3 to 12 months £'000	Over 1 year £'000	Total £'000
Cash at bank and in hand	2,319	–	–	–	2,319
Trade and other receivables	–	124	35	–	159
Short term investments	–	2,030	3,116	–	5,146
Loans to subsidiaries	–	–	–	2,547	2,547
	2,319	2,154	3,151	2,547	10,171

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.

Financial liabilities

	Group		Company	
	Year to 31 31 December 2011 £'000	Year to 31 31 December 2010 £'000	Year to 31 31 December 2011 £'000	Year to 31 31 December 2010 £'000
Trade and other payables	187	150	51	42

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 (2010: £nil) which are due between 1 and 5 years.

The carrying amount reflected above represents the Group and Company'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.

Group and Company

	31 December 2011		31 December 2010	
	+1% £'000	-1% £'000	+1% £'000	-1% £'000
Loss for year	5	(5)	52	(52)
Equity	5	(5)	52	(52)

Notes to the Financial Statements

23. SHARE BASED PAYMENTS

Equity-settled share option scheme

During the year to 31 December 2011, Oxford Advanced Surfaces Group Plc had the following share-based payment arrangements:

Vesting and exercise dates	At 1 January 2011	Granted	Forfeited	At 31 December 2011	Exercise price	Exercisable at 31 December 2010	Exercisable at 31 December 2011
31/12/2007 – 31/12/2017	848,219	–	–	848,219	1.00p	848,219	848,219
03/03/2011 – 03/03/2018	270,270	–	–	270,270	1.00p	–	270,270
03/03/2011 – 03/03/2018	934,579	–	–	934,579	53.50p	–	934,579
03/03/2011 – 03/03/2018	135,135	–	–	135,135	74.00p	–	135,135
11/08/2011 – 14/01/2019	238,235	–	–	238,235	16.50p	–	238,235
11/08/2011 – 14/01/2019	111,765	–	–	111,765	1.00p	–	111,765
11/12/2011 – 14/01/2019	270,000	–	(270,000)	–	16.50p	–	–
11/12/2011 – 14/01/2019	80,000	–	(80,000)	–	1.00p	–	–
31/12/2011 – 14/01/2019	66,085		–	66,085	16.50p	–	–
31/12/2009 – 28/05/2019	200,000	–	–	200,000	28.00p	200,000	200,000
01/12/2012 – 01/12/2019	1,000,000	–	(1,000,000)	–	22.50p	–	–
15/02/2013 – 15/02/2020	162,000	–	(32,000)	130,000	16.00p	–	–
01/01/2014 – 01/01/2021	–	80,000	(15,000)	65,000	23.50p	–	–
01/07/2014 – 01/07/2021	–	30,000	–	30,000	12.50p	–	–
	4,316,288	110,000	(1,397,000)	3,029,288		1,048,219	2,738,203
Weighted average exercise price	£0.235	£0.205	£0.200	£0.250		£0.062	£0.258

There are no vesting conditions, other than continuation of service, attached to the share options.

The estimated fair value of the options has been calculated using the Black-Scholes-Merton model. The model inputs were an exercise price of between 1 penny and 74 pence, expected volatility of between 16% and 133% (using an annualised standard deviation of the continuously compounded historical rates of return on the share until 31 December 2009 and from then on using an annualised standard deviation of the continuously compounded historical rates of return on all the shares listed on AIM), a share price of between 12.5 pence and 74 pence and a risk free interest rate of between 0.5% and 4.5%.

The Directors are of the belief that using a market based volatility 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.

The total expense arising in the year for share based payment transactions is £nil (2010: £235,000). The options outstanding at 31 December 2011 had a weighted average remaining contractual life of 6.5 years. The fair value of the options issued during the year was £3,000.

The option scheme is used to provide an additional incentive to all employees of the Group. As such the options issued to employees are for employees of the Group's subsidiary undertakings, Oxford Advanced Surfaces Limited and Oxford Energy Technologies Limited.

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 expire on 31 July 2013. The exercise price is 65.0 pence. The estimated fair value of the warrants has been calculated using the Black-Scholes-Merton model. The model inputs were an exercise price of 65 pence, expected volatility of 50%, a share price of 83 pence and a risk free interest

rate of 4.5%. The total fair value of the warrants granted was included in the financial statements to 31 December 2008 and amounted to £42,000. This was taken to the share premium account as a cost related to the issue of new ordinary shares.

24. RELATED PARTIES AND DIRECTORS' TRANSACTIONS

Group

During the year under review Dr Mark Moloney, who is a significant shareholder, received fees for chairing the Scientific Advisory Board for the Group. This amounted to £7,000 (2010: £18,000). 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 (2010: £14,000). At the year-end £1,000 was due to EotR (2010: £1,000).

In addition Oxford Advanced Surfaces Group plc made pension contributions on behalf of employees of Oxford Advanced Surfaces Limited amounting to £6,000 (2010: £8,000) and Oxford Energy Technologies Limited of £3,000 (2010: £1,000). These contributions represent the salary sacrifice element made by employees under the defined contribution scheme operated by the Group on behalf of all employees.

Company

During the year Oxford Advanced Surfaces Group plc (OASG) paid costs amounting to £37,000 (2010: £33,000) relating to the Knowledge Transfer Partnership with the University of Oxford via the Technology Strategy Board. 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 £2,803,000 (2010: £2,216,000) to Oxford Advanced Surfaces Limited and £1,107,000 (2010: £331,000) to OET were outstanding.

Key Employees

At the year end the Board did not consider any employees to be key to the Group and Company other than the Directors. The remuneration of the Directors is disclosed in the Directors' remuneration report and note 4.

25. ULTIMATE CONTROLLING PARTY

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

26. POST BALANCE SHEET EVENTS

On 3 January 2012 27,000 options were issued to various staff members as part of the Group's reward and retention policy. The options were issued at the market price of 7.75 pence per share and vest 3 years from the date of issue. There are no performance conditions attached to the options and they expire ten years from the date of issue.

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 29 May 2012 at 10.30 a.m. 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 2011 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 Philip Spinks 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 Dr Peter Rowley who retires in accordance with Article 128 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 Mike Edwards who retires in accordance with Article 128 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

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 Comprising equity securities (as defined by section 560 of the 2006 Act) up to an aggregate nominal amount of £1,291,888.23 (such amount to be reduced by the nominal amount of any Relevant Securities allotted under paragraph 6.2 below) in connection with an offer by way of a rights issue:

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

(b) 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

6.2 In any other case, up to an aggregate nominal amount of £645,944.12 (such amount to be reduced by the nominal amount of any equity securities allotted under paragraph 6.1 above in excess of £645,944.12), 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.

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.

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

(a) 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 (b) 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 (b) below.

(b) 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).

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

7 To disapply statutory pre-emption rights

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

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

(b) 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

7.2 The allotment of equity securities (otherwise than pursuant to paragraph 7.1 above) up to a maximum aggregate nominal amount of £293,610.96.

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.

Notice of the Annual General Meeting

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

Oxford Advanced Surfaces Group plc
Centre for Innovation & Enterprise
Begbroke Science Park
Sandy Lane
Yarnton, 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 6.00 p.m. on 27 May 2012 (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 9 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.

Notice of the Annual General Meeting

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:

(a) 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

(b) 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 6.00 p.m. on **24 April 2012** (the latest practicable date prior to publication of this notice), the Company's issued share capital comprised 195,740,641 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 6.00 p.m. on **24 April 2012** is 195,740,641.

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 8.30 A.M. AND 5.30 P.M. MONDAY TO FRIDAY EXCLUDING PUBLIC HOLIDAYS.

Explanatory Notes to the Notice of the AGM

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 2011.

Resolution 2 – Reappointment of Directors

Resolution 2 deals with the reappointment of Philip Spinks who retires as a director in accordance with the Articles of Association and being eligible offers himself for re-election as a director of the Company.

Resolution 3 – Reappointment of Directors

Resolution 3 deals with the reappointment of Dr Peter Rowley who retires as a director in accordance with the Articles of Association and being eligible offers himself for re-election as a director of the Company.

Resolution 4 – Reappointment of Directors

Resolution 4 deals with the reappointment of Mike Edwards who retires as a director in accordance with the Articles of Association and being eligible offers himself for re-election as a director 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 £1,291,888.23 representing the new guideline limit of approximately 66% of the Company's issued ordinary share capital (excluding treasury shares) as at 24 April 2012 (the latest practicable date prior to publication of this notice). Of this amount, shares up to a nominal amount of £645,944.12, 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 2013.

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 £1,291,888.23 (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 £645,944.12 (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 £293,610.96, representing approximately 15% of the issued ordinary share capital of the Company as at 24 April 2012 (the latest practicable date prior to publication of this notice) otherwise than in connection with an offer to existing shareholders.

Company Information

EXECUTIVE DIRECTORS

Philip Spinks (Chief Financial Officer)
Mike Edwards (Sales & Marketing Director)

NON-EXECUTIVE DIRECTORS

Dr Peter Rowley (Chairman)
Michael Bretherton
Dr David Bott

REGISTERED OFFICE

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REGISTRARS

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