



Oxford Advanced
Surfaces Group plc

Unaudited Interim Condensed Consolidated
Financial Statements 30 June 2009

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Group Profile

SCIENCE APPLIED ONTO® JUST ABOUT ANYTHING

Oxford Advanced Surfaces Group Plc develops and commercialises advanced material solutions which are cost effective and simple to implement via our proprietary coupling and cross-linking chemistry, Onto®. Our platform technology, in combination with polymers and particles, provides novel technical solutions that deliver enhanced performance and generate new opportunities.

Technology

Our Onto® technology exploits highly reactive chemistry allowing the rapid and convenient modification of the surface properties of a wide range of materials with a high degree of control over processing parameters. Onto® can be applied using standard commercial coating and curing techniques and is a versatile, effective, yet simple approach to deliver intelligent advanced materials. This delivers permanent, dramatic and highly valuable changes to surface functionality.

Initial applications include:

- Particle delivery
- Advanced adhesion
- Barrier properties
- Anti-reflective coatings

We operate in markets as diverse as fast moving consumer goods, electronics, adhesives and advanced composites. The Group is currently working with commercial partners to develop solutions for a range of applications including:

- Displays for computers, TVs, phones and PDAs;
- Electronics (PCBs, plastic electronics, solid state lighting);
- Industrial specialties (specialty fibres, laminates and composites);
- Fast moving consumer goods.

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

Group Profile

Principles

- We are customer focused 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 company delivering extraordinary innovation that makes a significant impact in the world.

Chairman and Chief Executive Officer's Review

Introduction

We are delighted to report on the progress made by the Group during the first half of 2009. We continue to develop our business through our joint development agreements with leading global corporations, whilst building on our technology platform. In fact, since the start of the year we have filed five new patents, taking our total to eight. We manage and target our resources carefully and are well positioned in the current business environment due to our strong balance sheet and our ability to provide solutions that enable our customers to differentiate, innovate and reduce costs.

Commercial Development

The Group is actively engaged in 12 projects with ten partners in sectors as diverse as consumer goods, industrial materials, electronics, displays and lighting. Of these ten partners five are major global leaders in their fields. There are significant technical benefits to the Group in this approach as we can apply similar chemistry to a wide variety of applications.

We have focussed on those technologies that combine highest technical success and strongest commercial traction. Specifically we are focusing on applications where bench-scale technical proof of concept has been established and which deliver either significant technological development or significantly improved economics for our customers.

In addition we have developed internal projects in areas we believe are desirable to our target markets, particularly in adhesion. Whilst these projects are at an early stage and require scale up development and full field trials we are already marketing them to likely licensing partners. We hope to see some commercial progress in these applications in the next 6 months.

We also have a significant number of partly developed and undeveloped applications for the technology that we will continue to roll out once commercial success has been achieved in one or more of the lead applications.

Lead Applications

Our lead applications provide compelling propositions to our partners. All present sizable market opportunities for the Group.

Our main focus is adhesion promoters and direct adhesives and 80% of the Group's technical resources are currently dedicated to delivering this technology across a number of areas.

Chairman and Chief Executive Officer's Review

Adhesion promoters and adhesives: Creating efficient bonding between two materials is a key requirement in many advanced industrial applications, including composites, coatings and layered materials and films. Onto® technology provides a range of effective and practical solutions and can be applied either as a promoter to facilitate adhesion or as a direct adhesive system.

We have developed and announced an initial set of adhesion promoters for smooth and/or low surface energy materials. Compelling data has been generated with major adhesive types. Our initial commercial target for this technology is in the composite sector. Both reinforcement fibres, such as carbon fibre, and engineering laminates have significant unmet needs due to poor adhesion of these components with commercial engineering and aerospace adhesives. We are developing this technology with a number of potential partners and have completed an initial factory trial for a chemistry/reinforcement fibre combination that has validated our coating and curing process.

We have independently demonstrated the use of our chemistry to modify thermoplastic elastomers to transform these into high value-add thermoset elastomers, initially for engineering adhesives. An example is an adhesive platform that can bind solid surfaces with no reactive surface chemistry and/or low surface energy without the need for priming or roughening the surface of the substrates. We are approaching leading global players in the thermoplastic elastomer industry with this technology.

Likely applications include consumer electronics, automotive, aerospace and engineering.

Controlled particle deposition: Particles or encapsulates are utilised to protect and deliver high value active ingredients across a broad range of industries, including consumer products, agrochemicals and pharmaceuticals. Our technology enables selective targeting of particles and encapsulates to surfaces during product use. Testing in consumer goods applications demonstrated a marked step change in performance combined with potential cost savings and reduced environmental impact. We are presently in discussion with a number of potential partners regarding possible joint development.

Likely applications include home care and agrochemical formulations.

Anti-reflective optical coatings ("ARC"): We have developed a superior optical coating that delivers tunable, broad wavelength optical performance through a simple wet coating technique. Initial focus is on

Chairman and Chief Executive Officer's Review

LCD screens and laser applications, although long term there is potential in photovoltaics. This was initially developed for use on glass; however we have made good progress on developing the technology for use on plastics, which significantly expands the market potential. There is increasing interest from potential customers and we are now providing samples for initial POC.

Likely applications include display screens for various electronic devices, laser applications and potentially solar cells.

Silver anti-tarnish: We have developed a 1nm thick, environmentally friendly coating that acts to protect silver against tarnishing. Furthermore, the coating does not impede electrical connection through the coating and is thermally stable up to 250°C.

Likely applications include LED based lighting systems, silver conductors and other applications where silver or other valuable metals need to be protected from tarnishing.

Technology and Intellectual Property

We have patents granted in all major global markets covering the initial Onto[®] technology. We have two further patent filings at examination and national phase which cover improvements to the base technology with additional end-use applications.

We continually invest to strengthen our IP position and have filed five further patents covering our adhesion, particle deposition and ARC applications.

Outlook

While 2009 is proving to be a challenging business environment we continue the year with optimism and believe we bring to the market place what it wants; step-change innovation that is both simple to implement and cost effective.

Our research continues to deliver new and valuable solutions to the continuing issues and challenges of the materials market and we will continue to grow and protect our valuable IP.

Chairman and Chief Executive Officer's Review

In line with the continuing succession plan for the company's development, we are pleased to announce that Mike Eason, currently the Chief Technical Officer, has agreed to succeed Marcelo Bravo as the Company's Managing Director with effect from 1 October 2009. Mike's background in polymer chemistry and commercialisation of research and development as well as his outstanding management skills position him ideally to take Oxford Advanced Surfaces to the next stage of development.

Jeremy Scudamore
Chairman
25 September 2009

Marcelo Bravo
Chief Executive Officer

Group Financial Review

The consolidated financial statements have been prepared for the half year to 30 June 2009. The 30 June 2008 balance sheet has been restated for a prior period adjustment which should have been recorded in 2007 to include the immediate impairment of the goodwill created on the acquisition of Kanyon Plc and its subsidiary Solar Labs Plc by Oxford Advanced Surfaces Limited. The goodwill impairment is a non cash item and does not impact any of the Group's developments in its Onto[®] technology applications nor projects in solid state lighting and optical coatings.

Trading

The half-year ended 30 June 2009 resulted in Group revenue of £217,000 (2008: £84,000). Revenues are generated from a combination of fee paying development agreements and grant income. The first milestone of The Carbon Trust grant in solid state lighting technology was achieved during the period. The Group also undertakes a number of fee-free projects, particularly at the initial 'proof of concept' stage, in order to generate interest in the Group's technology offerings.

Research and development costs increased from £329,000 to £403,000 driven by the expansion in the volume of work in the development pipeline and the growth of the business, including people and laboratory space. Other administrative costs were slightly lower at £464,000 compared to £494,000 for the comparative period.

The loss before tax for the period was £897,000 (2008: £1,547,000). Of this £398,000 (2008: £929,000) related to share based payments charges. Excluding share based payments charges the adjusted loss before tax for the period was £499,000 (2008: £618,000).

Balance Sheet

At the half year 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 £9,017,000 of cash held in instant access and term deposits specifically for developing and commercialising its technology.

Prior period adjustment

The June 2008 balance sheet comparative figures have been restated for a prior period adjustment, which was reported in the 2008 Annual Report. Further information is included in note 1.

Group Financial Review

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 financial institutions with strong credit ratings. The deposits range from instant access to 12 month term deposits and are regularly monitored by the Board.

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.

Philip Spinks

Chief Financial Officer

25 September 2009

Consolidated Income Statement

		Six Months to 30 June 2009 (Unaudited) £'000	Six Months to 30 June 2008 (Unaudited) £'000	Year to 31 December 2008 (Audited) £'000
	Notes			
Continuing Operations				
Revenue		217	84	337
Cost of sales		(45)	(32)	(120)
Gross Profit				
		172	52	217
Research and Development		(403)	(329)	(843)
Other administrative costs		(464)	(494)	(1,068)
Share based payments		(398)	(929)	(1,854)
Total administrative costs		(862)	(1,423)	(2,922)
Loss from Operations	2	(1,093)	(1,700)	(3,548)
Finance income		196	153	399
Loss Before Tax				
		(897)	(1,547)	(3,149)
Income tax expense		-	-	-
Loss for the Period Attributable to Equity Holders of the Company				
		(897)	(1,547)	(3,149)
Loss per share attributable to the equity holders of the Company during the period:				
Total and continuing:				
- Basic and diluted	3	(0.48)p	(0.87)p	(1.74)p

Consolidated Statement of Comprehensive Income

		Six Months to 30 June 2009 (Unaudited) £'000	Six Months to 30 June 2008 (Unaudited) £'000	Year to 31 December 2008 (Audited) £'000
	Notes			
Loss for the Period and Total Comprehensive Income for the Period Net of Tax				
		(897)	(1,547)	(3,149)

Consolidated Statement of Financial Position

	30 June 2009 (Unaudited) £'000	30 June 2008 (Unaudited) £'000 (Restated)	31 December 2008 (Audited) £'000
Assets			
Non-current Assets			
Intangible assets	237	190	185
Property, plant and equipment	216	181	195
	453	371	380
Current Assets			
Stocks	21	–	13
Trade and other receivables	433	141	415
Cash and cash equivalents	9,017	5,967	9,661
	9,471	6,108	10,089
Liabilities			
Current Liabilities			
Trade and other payables	221	325	267
	221	325	267
Net Current Assets	9,250	5,783	9,822
Net Assets	9,703	6,154	10,202
Shareholders Equity			
Called up share capital	1,856	1,779	1,856
Share premium	10,423	5,817	10,423
Merger reserve	6,369	6,369	6,369
Reverse acquisition reserve	(6,831)	(6,831)	(6,831)
Retained earnings	(4,795)	(2,296)	(3,898)
Share based payments reserve	2,681	1,316	2,283
Total Equity Attributable to Equity Holders of the Company	9,703	6,154	10,202

The financial statements were approved by the Board of Directors and authorised for issue on 25 September 2009 and were signed on its behalf by:

Marcelo Bravo
Director

Philip Spinks
Director

Consolidated Statement of Changes in Equity

	Share Equity £'000	Share Premium £'000	Share Based Payment Reserve £'000	(Restated Reverse Reserve £'000	(Restated – note 1) Merger Reserve £'000	Retained Earnings £'000	(Restated – note 1) Total Equity £'000
At 1 January 2008 (Restated)	1,779	5,817	387	(6,831)	6,369	(749)	6,772
Loss for the period to 30 June 2008	–	–	–	–	–	(1,547)	(1,547)
Share based payments	–	–	929	–	–	–	929
At 30 June 2008	1,779	5,817	1,316	(6,831)	6,369	(2,296)	6,154
Loss for the period to 31 December 2008	–	–	–	–	–	(1,602)	(1,602)
Shares issued – cash consideration	77	4,925	–	–	–	–	5,002
Shares issued – cash expenses	–	(277)	–	–	–	–	(277)
Shares issued – warrants issued	–	(42)	42	–	–	–	–
Share based payments	–	–	925	–	–	–	925
At 31 December 2008	1,856	10,423	2,283	(6,831)	6,369	(3,898)	10,202
Loss for the period to 30 June 2009	–	–	–	–	–	(897)	(897)
Share based payments	–	–	398	–	–	–	398
At 30 June 2009	1,856	10,423	2,681	(6,831)	6,369	(4,795)	9,703

Consolidated Cashflow Statement

		Six Months to 30 June 2009 £'000 (Unaudited)	Six Months to 30 June 2008 £'000 (Unaudited)	Year to 31 December 2008 £'000 (Audited)
	Notes			
Cash flows from operating activities				
Cash utilised by operations	4	(666)	(823)	(1,892)
Income tax paid		-	-	(10)
Net cash (outflow) from operating activities		(666)	(823)	(1,902)
Cash flows from investing activities				
Purchase of intangible assets		(58)	-	-
Purchase of property, plant and equipment		(47)	(148)	(194)
Interest received		127	154	248
Net cash inflow from investing activities		22	6	54
Net cash from financing activities				
Share issues		-	-	77
Share premium		-	-	4,925
Expenses of issue of share capital		-	-	(277)
Net cash inflow from financing activities		-	-	4,725
(Decrease)/Increase in cash and cash equivalents		(644)	(817)	2,877
Cash and cash equivalents at beginning of period		9,661	6,784	6,784
Cash and cash equivalents at end of period		9,017	5,967	9,661

Notes to the Interim Condensed Consolidated Financial Statements

1. ACCOUNTING POLICIES AND BASIS OF PREPARATION

General information

Oxford Advanced Surfaces Group Plc develops and commercialises advanced material solutions which are cost effective and simple to implement via our platform surface modification technology. We use proprietary highly reactive chemistry, Onto[®], in combination with polymers and/or particles to deliver solutions that deliver enhanced performance and enable new opportunities which are highly cost effective. 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.

The interim condensed consolidated financial statements of the Group for the six months ended 30 June 2009 were authorised for issue in accordance with a resolution of the directors on 25 September 2009.

The condensed consolidated financial statements do not constitute statutory accounts. The statutory accounts for the period to 31 December 2008 have been reported on by the Company's auditors and have been filed with the Registrar of Companies. The report of the auditors was unqualified and did not contain a statement under section 237(2) or 237(3) of the Companies Act 1985.

Basis of preparation

The interim financial statements of Oxford Advanced Surfaces Group Plc are unaudited condensed consolidated financial statements for the six months to 30 June 2009. These include unaudited comparatives for the six month period to 30 June 2008 as restated for the prior period adjustment referred to below, together with audited comparatives for the year to 31 December 2008. They do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements as at 31 December 2008.

These statements have been prepared in accordance with IAS 34 Interim Financial Reporting. The Group's functional and reporting currency is Sterling.

Going Concern

Information on the business environment and the factors underpinning the Group's future prospects and product portfolio are included in the Chairman and Chief Executive Officer's Review and 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.

Significant Accounting Policies

The condensed consolidated financial statements have been prepared under the historical cost convention and the accounting policies adopted are consistent with those followed in the preparation of the Group's annual financial statements for the period ended 31 December 2008, except as described below:

Notes to the Interim Condensed Consolidated Financial Statements

IFRS 8 – Segmental Reporting

This standard requires disclosure of operating segments to be based on information used internally by management to assess performance and direct and allocate resources. This replaces the requirement to determine the primary (business) and secondary (geographical) reporting segments of the Group. Adoption of this standard did not have any effect on the financial position or the performance of the Group. The Group determined that it has one operating segment and this was the same as identified by the business under IAS 14 Segmental Reporting.

IAS 1 – Revised presentation of Financial Statements

The revised standard introduces the statement of comprehensive income: it presents all items of recognised income and expense, either in one single statement, or in two linked statements. The Group has elected to present two statements.

Other amendments of IFRS

Other amendments to IFRS, applicable to periods commencing from 1 January 2009 have had no effect on the results or disclosures of the Group.

Prior period adjustment

The June 2008 balance sheet comparative figures have been restated for a prior period adjustment, which should have been recorded in 2007, to include the immediate impairment of the goodwill created on the acquisition of Kanyon Plc (“Kanyon”) and its subsidiary Solar Labs Plc (“Solar”) by Oxford Advanced Surfaces Limited (“OAS”). Kanyon was subsequently renamed as Oxford Advanced Surfaces Group Plc (“OASG”) and Solar as Oxford Energy Technologies Limited (“OET”).

The June 2008 comparative figures for the Group have been restated as follows:

- Goodwill on the consolidated balance sheet has been reduced to nil.
- The loss created by the immediate impairment of the goodwill has been transferred to the Merger Reserve. The Profit and Loss Reserve remains unchanged, whilst the Merger Reserve has reduced by £16,145,000 to £6,369,000.
- Total equity has reduced by £16,145,000 to £6,154,000.

Reclassification

The June 2008 figures for cost of sales and administrative expenses have been reclassified to provide consistency with the December 2008 presentation. In the 2008 half year financial statements as originally presented, cost of sales reflected materials costs only. As re-presented, cost of sales now includes all direct costs including commissions payable. Research and development costs and share based payments were previously all included in the category “administrative expenses”, along with other administrative costs. Now, research and development costs and share-based payment charges are separately identified from other administrative expenses.

2. SEGMENTAL REPORTING

The Group only operates one class of business. At 30 June 2009 the Group has one segment of operation – the development and commercialisation of advanced materials and technology solutions. The Group's operations are all based in the UK and services are all performed in the UK. The business is not considered to be seasonal.

3. LOSS PER SHARE (BASIC AND DILUTED)

The basic and diluted loss per share is based on the loss after tax for the period and the weighted average number of ordinary shares of 1 penny each in issue during the period. The share options and warrants in issue are anti-dilutive and, therefore, diluted loss per share is equivalent to the basic loss per share.

	Period to 30 June 2009	Period to 30 June 2008	Year to 31 December 2008
Loss attributable to equity holders of the Group (£'000)	(897)	(1,547)	(3,149)
Weighted average number of ordinary shares in issue	185,619,638	177,924,038	181,128,781
Basic & diluted loss per share (pence)	(0.48)	(0.87)	(1.74)

4. RECONCILIATION OF LOSS BEFORE TAX TO CASH FLOWS FROM OPERATIONS

	Period to 30 June 2009 £'000	Period to 30 June 2008 £'000	Year to 31 December 2008 £'000
(Loss) before tax	(897)	(1,547)	(3,149)
Depreciation and amortisation charges	32	24	61
Share based payment expense	398	929	1,854
Finance income	(196)	(153)	(399)
	(663)	(747)	(1,633)
(Increase)/Decrease in stocks	(8)	–	(13)
(Increase)/Decrease in trade and other receivables	51	(33)	(155)
Increase/(Decrease) in trade and other payables	(46)	(43)	(91)
Cash generated from operations	(666)	(823)	(1,892)

Notes to the Interim Condensed Consolidated Financial Statements

5. POST BALANCE SHEET EVENTS

Since the end of the half year the Group has been successful in reclaiming research and development tax credits from HM Revenue & Customs in respect of the period to 31 July 2007. This amounted to £9,000. At the date of signing the balance sheet the Group had started the process of reclaiming research and development tax credits from HM Revenue & Customs in respect of the period ended 31 December 2008 of £114,000. No benefit of this has been recorded in the financial statements as they were uncertain at that date.

6. HALF YEARLY REPORT

The half yearly report will be distributed to shareholders and is also available on the company's website at www.oxfordsurfaces.com.

Company Information

EXECUTIVE DIRECTORS

Marcelo Bravo (Chief Executive Officer)
Philip Spinks (Chief Financial Officer)

NON-EXECUTIVE DIRECTORS

Jeremy Scudamore (Chairman)
Michael Bretherton
Andrew Naylor

REGISTERED OFFICE

Centre for Innovation & Enterprise
Begbroke Science Park
Sandy Lane
Yarnton OX5 1PF

NOMINATED ADVISOR

Zimmerman Adams International Limited
New Broad Street House
35 New Broad Street
London EC2 1NH

AUDITOR

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

REGISTRARS

Capita Registrars
Northern House
Woodsome Park
Fenay Bridge
Huddersfield HD8 0GA

BROKER

Novum Securities Limited
47 Park Lane
London W1K 1PR

LEGAL ADVISORS

Mills & Reeve LLP
Francis House
112 Hills Road
Cambridge CB2 1PH

Charles Russell LLP
7600 The Quorum
Oxford Business Park North
Oxford OX4 2JZ

COMPANY NUMBER

05845469 (England and Wales)



Oxford Advanced Surfaces Group plc
Centre for Innovation & Enterprise
Begbroke Science Park
Sandy Lane
Yarnton
OX5 1PF

www.oxfordsurfaces.com

Company no: 5845469