

 oxford
advanced
surfaces



Report &
Accounts
2012

science applied  onto
(Just about anything)

About Oxford Advanced Surfaces

Oxford Advanced Surfaces Group plc (OAS) is a research and development company that provides global companies with proprietary technology solutions to create engineered materials and address surface modification applications in the electronics display, solar, ophthalmic and adhesion markets.

Business model

OAS provides our customers with a combination of technology licence and materials supply, depending on the specific application, volume and customer. Our focus is on partnering with global companies with innovative technology requirements for use in growing markets and value added applications.

We target specific applications through analysis of unmet market needs and by demonstrating that Onto™ and VISARC™ can meet specific customer challenges. For each partner we will provide collaborative support to incorporate our technology into their finished products, usually through a joint development agreement.

We have identified suitable outsource manufacturers for both technologies and will utilise this model for volume materials supply on a global basis.

Onto™

Our Onto™ chemistry platform provides highly differentiated technology which allows the development of innovative products through surface modification of industrial materials. Onto™ opens up new markets for the most desirable advanced materials and is applicable across a range of process and materials applications using multiple wet-process application methods.

Our innovative Onto™ technology is focussed on providing enhanced material properties to new and existing materials for a broad range of applications in automotive, aerospace, communications and renewable energy. The primary focus is on cross linking and surface modification applications.

The Onto™ chemistry contains highly reactive molecules that allow chemical bonding 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™ cross-linking capability offers adhesion promotion to inert surfaces and alters the bulk properties of materials offering surface modification, including solvent-resistant oil and water repellence.

VISARC™

Our VISARC™ technology is a wet-process anti-reflective coating (ARC) which incorporates proprietary in-house manufactured nano particles with a low refractive index and anti-reflective properties. VISARC™ technology is applied using dip, spin or roll-to-roll coating techniques and is used with multiple substrates, including glass and polymers, making it suitable for multiple applications including electronic displays, ophthalmics and solar.

VISARC™ anti-reflective coatings provide enhanced product performance combined with the lower capital cost and easy adoption of wet chemistry processes compared to other industry solutions.

VISARC™ technology is in a strong position both to change and expand the current anti-reflective market. We 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 in conjunction with our development team. In addition we have developed in-house formulation skills and know-how to support this process.

Oxford Advanced Surfaces Group PLC designs, develops and manufactures advanced chemistry and nanomaterials for engineered materials and surface modification applications in the electronics display, solar, ophthalmic and adhesion markets.

Contents

Review of the Chairman and Chief Executive Officer	2
Financial Review	4
Board of Directors	5
Corporate Governance	6
Directors' Remuneration Report	11
Directors' Report	15
Independent Auditor's Report to the members of Oxford Advanced Surfaces Group plc	20
Consolidated Statement of Comprehensive Income	22
Consolidated and Company Statement of Financial Position	23
Consolidated and Company Statements of Changes in Equity	24
Consolidated and Company Cash Flow Statements	26
Notes to the Consolidated Financial Statements	27
Notice of the Annual General Meeting	50
Directors and Advisors	ibc

Review of the Chairman and Chief Executive Officer

The year to 31 December 2012 has been one of progress and development for Oxford Advanced Surfaces (OAS). Our new CEO joined in October bringing a strong focus on delivering our technologies to the market.

There are significant markets, applications and commercial potential open to OAS. Our proprietary technology offering, which has strong IP and know-how, along with a focussed team and growing market provides the key elements required to allow us to achieve our commercial and strategic goals.

Market Evolution & Opportunity

OAS addresses growing and evolving markets across multiple industries for both our Onto™ and VISARC™ technologies. Each market segment we address is driven through innovation and the need for increased functionality and value-add as new products and capabilities are developed by customers.

The Onto™ technology and product offering is primarily targeted at the adhesion promotion industry for applications with coatings and films and a wide range of polymer substrates. Market leaders in adhesive technology are focussed on innovative technology trends and the adoption of new materials to provide novel adhesive solutions. Market drivers, such as the need for lighter and more efficient transport solutions, sustainable and renewable technologies and increased global and mobile communications, all contribute to an increased opportunity for adhesion promotion. The use of organic materials continues to expand throughout industry in applications such as printing, flexible displays, solar power generation and printed electronics.

Increased functionality and the need for size, weight and cost reduction is expanding the scope and use of polymer based products leading to larger addressable markets for Onto™. In addition

to this, broader surface modification applications, such as oil and water repellent coatings, all contribute to an expanding marketplace for our products.

Our VISARC™ technology primarily targets the global electronic display market in which the adoption of anti-reflection coatings for reduced glare, increased viewing angle and improved visual performance is growing across all forms of display. Large area televisions, PC display monitors, tablets and smartphones are all being introduced to the consumer and industrial display markets with anti-reflection coatings being used as a key differentiator.

The broader penetration of flat screen televisions, along with the overall increase in display area for televisions, PCs, tablets and smartphones, will generate an estimated anti-reflection coating market of c. US\$1 billion by 2016. This potential market is increased significantly by industrial applications as user interfaces become interactive through optical display technology in transport, manufacturing, medical and test and measurement fields.

Other applications, in solar panel efficiency and ophthalmics, provide us with an evolving multi-billion dollar market for our VISARC™ technology.

Business Development & Strategy

2012 focussed on the continued development and execution of our technology along with product development plans for both the Onto™ and VISARC™ technologies.

Onto™ Technology

Our Onto™ strategy and technology development has concentrated on adhesion promotion for coatings. Our third generation of the Onto™ species – Onto™ XL, with a highly functionalised head – has been evaluated with a broad range of coatings (such as inks and polyvinyl polymers) and substrates (such as PET, PE, PTFE and PC).

Improved performance has been demonstrated against industry standard tests with data packages collected and marketed across multiple industries. This demonstrates significant progress from the performance and applicability demonstrated in 2011 on metal adhesion for use in the electronics industry.

A focussed marketing campaign commenced in the second half of 2012 on adhesion promotion for polymers. This has continued into 2013 and we expect a number of specific and custom projects will be generated with a view to achieving commercial revenues in late 2013. Short term technical milestones need to be met to allow this to happen, along with further development of key customer engagements.

Field trials with Onto™ XL used as an adhesion promoter, which commenced in 2011, were extended in 2012 with a tier one thin film customer completing lifetime testing for an industrial roll-to-roll volume application. Manufacturing trials are expected through 2013 with a view to providing volume demand in 2014.

The XL based solvent-resistant oil and water repellent treatments, where we greatly lower the surface energy of various substrates and which solves many industrial and manufacturing needs, remains a key technology and product offering as a follow on to our adhesion promotion push and strategy execution.

During 2012 volume capable processing, formulation and supply has been demonstrated and engagement with volume capable outsource partners is in progress.

The 2013 priority for the Onto™ technology is the commercialisation of our newly demonstrated performance capability with improved products.

VISARC™ Technology

Our activity during 2012 on the VISARC™ anti-reflective technology has been concerned with developing variants of mesoporous silica nanoparticles, increasing our formulation knowledge, demonstrating high performance coatings and validating our volume manufacturing capability and partners.

Firstly, variants of our nanoparticles have been synthesised with different functionalities to match substrate and formulation/binder systems. Particles tailored to glass and polymer substrates have been made and supplied to customers for evaluation in their formulations and coatings for use in applications such as televisions, PCs, tablets and smartphones.

The ability to functionalise particles in different ways to match individual customer formulation requirements demonstrates further progress in our objectives. It opens up greater flexibility when working with the global customer base and this activity will continue to expand in 2013.

Secondly, we have focussed on increasing our formulation knowledge within development agreements and on our own internal projects. It has become clear that specific formulation knowledge around our various nanoparticles and how they interface with the customer binder systems and the multiple substrates used in the industry is critical in achieving durable, low reflection coatings. We have strengthened our internal knowledge with external consultants and the recently expanded Technical Advisory Board is helping to drive our internal capabilities.

The combination of optimum optical performance with mechanical robustness and durability has been, and remains, a major objective as we enter 2013.

Finally, we have confirmed our volume manufacturing capability and partners and we are now looking at various particle

processing options with a view to selecting the most efficient route forward from both a capital efficiency and process perspective.

As announced in early 2012, we are currently engaged in a non-exclusive joint development agreement with a major global coating and substrate company for electronic displays. Whilst this program has seen some delays in achieving key milestones, mostly around the matching of particles to formulation, we continue to drive critical developments in order to progress this agreement.

Board and Organisation

The OAS Board of Directors has been stable throughout 2012 with no changes other than the appointment of the new CEO in October 2012.

This appointment has added significantly to the breadth and depth of the Board in terms of technology development and new product introduction into consumer driven industrial markets. Active Board involvement in steering the company remains a priority. In early 2013 we enhanced our Technology Advisory Board to accelerate our technology development.

At the end of 2012 employee numbers, excluding non-executive Directors, stood at 20, of which 16 were focussed 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 operational/commercial resources.

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

Outlook

The transition from research and development to full commercial availability of our technology and product offerings remains our top priority and we look to achieve this in the current year.

Strong market pull and emerging applications will provide significant opportunities for the Company when combined with effective technology execution.

Dr Peter Rowley
Non-executive Chairman

Adrian Meldrum
Chief Executive Officer
30 April 2013
Company Number: 5845469

Financial Review

The consolidated financial statements have been prepared for the year to 31 December 2012.

Trading

Group revenue for the year ended 31 December 2012 was £86,000 (2011: £19,000). This was generated from fee paying commercial agreements and individual projects. Grant income received during 2012 was £19,000 (2011: £nil). 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 £1,696,000 (2011: £1,786,000) after charges of £27,000 (2011: £nil) related to share based payments. Excluding share based payment charges the adjusted loss before tax for the year was £1,669,000 (2011: £1,786,000).

Loss before Tax

Research and development costs decreased from £1,041,000 to £909,000 driven by our internal focus on key technologies and also the completion of significant tranches of development work on our mesoporous particle completed in 2011.

Our continued focus on cost and closest to market technologies allowed us to reduce research and development costs in Reactive Chemistry from £419,000 to £316,000 and in Particle Technologies from £622,000 to £587,000.

Other administrative costs increased from £767,000 to £803,000, partly driven by the recruitment of our new CEO.

We continue to review our costs in all areas to ensure that we get full value from both our research and development endeavours and our administrative functions.

Interest from deposits for the year amounted to £126,000 (2011: £153,000). 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.

Taxation

We continue to utilise the benefits from enhanced research and development tax credits and also seek available tax repayments under the Small Company scheme.

For the year to 31 December 2012 this credit amounted to £159,000 (2011: £145,000).

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 forwards. We will continue to develop and enhance our portfolio with additional filings in our key markets and also new applications of our existing technology. We currently have a number of new filings in progress in both technology areas for future product development.

The Group has a robust balance sheet and the Directors believe that it is sufficient to support the business for the foreseeable future. At 31 December 2012 the Group had £4,304,000 (2011: £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 £1,501,000 during the year (2011: £1,675,000).

The net cash outflow from operations amounted to £1,655,000 (2011: £1,685,000) whilst £59,000 (2011: £141,000) was invested in laboratory equipment, computers and office fittings to support business growth and technology development.

Investment in our patent portfolio decreased to £84,000 (2011: £124,000) reflecting the costs incurred in multiple country filings, new patent applications and grants. This is not a reflection of any reduction in investment but the timing of specific costs.

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 17. The balance of maturities is managed to meet the cash flow demands of the business.

Share option scheme and EBT

The Group operates a share option scheme (both EMI and unapproved) and an Employee Benefit Trust (EBT) to provide long-term incentives and reward to key and high performing members of staff.

The option 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.

The EBT is for senior management and is operated for the benefit of individuals who hold jointly owned shares with the trustees under Joint Ownership Agreements (JOA).

Further details of the share option scheme and the EBT are available in note 27 to the financial statements.

Philip Spinks
Chief Financial Officer

30 April 2013

Company Number: 5845469

Board of Directors

Dr Peter Rowley

Non-executive Chairman

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

Adrian Meldrum

Chief Executive Officer

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

Philip Spinks

Chief Financial Officer

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

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

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, Ceres Power Holdings Plc and Oxford Pharmascience Group Plc, all of which are AIM listed.

Dr David Bott

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 of the market place which OAS is targeting, specifically adhesion, coatings, cross-linkers and composites.

Corporate Governance

The Directors recognise the importance of sound corporate governance and intend that the Group complies with the main provisions of the UK Corporate Governance Code insofar as they are appropriate given the Group's size and stage of development. Although the Code is not mandatory for companies admitted to AIM, the Company continues to establish a framework by adopting and implementing policies and procedures designed to comply with the Code. The report below sets out how the principles of the Code have been applied during the year under review.

The Board of Directors and Independence

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

All directors are subject to election by the shareholders at the annual general meeting following their appointment to the Board and to re-election at intervals of not more than three years.

As at 31 December 2012 the Board comprised the three non-executive directors and three executive directors. The names of the current directors together with their biographical details and any other directorships are set out on page 5.

All the directors served throughout the period under review apart from Adrian Meldrum, who joined the Company on 1 October 2012. The non-executive directors constructively challenge and help develop proposals on strategy and bring strong, independent judgement, knowledge and experience to the Board's deliberations.

- Dr Peter Rowley is considered to be able to act as an independent non-executive director by the Board notwithstanding his 0.05% shareholding in Oxford Advanced Surfaces Group plc.
- 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 meets at least nine times a year and the Audit Committee and Remuneration Committee normally meet on a formal basis once to twice a year, depending on requirements.

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

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

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

	Full Board	Audit Committee ¹	Remuneration Committee
Number of meetings in period	9	1	2
Attendance:			
Executive directors			
Adrian Meldrum (appointed 1 October 2012)	1	–	–
Philip Spinks	9	–	–
Mike Edwards	7	–	–
Non-executive directors			
Dr Peter Rowley	9	1	2
Michael Bretherton	8	1	2
Dr David Bott	8	1	2

Note 1: The second Audit Committee of 2012 was deferred until January 2013.

Committees of the Board

Audit Committee

The Audit Committee comprises the three non-executive directors with Michael Bretherton as Chairman. The Committee typically meets twice a year including at least once a year with the external auditors.

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

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

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

Remuneration Committee

The Remuneration Committee comprises the three non-executive directors with Dr David Bott as Chairman. It meets as required and at least annually to consider all aspects of the remuneration of the executive directors of the Group. The Committee is responsible for establishing a formal and transparent procedure for developing policy on executive remuneration and for setting the remuneration of individual directors. Full details of directors' remuneration and a statement on remuneration policy are set out on pages 11 to 14.

Nominations Committee

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

Internal control and risk management

The directors have overall responsibility for ensuring that the Group maintains a system of internal control to provide them with reasonable assurance that the assets of the Group are safeguarded and that shareholders' investments are protected. The system includes internal controls appropriate for a group of the size of the Group, and covers financial, operational, compliance (including health and safety) and risk management. The processes and procedures in place are designed to manage rather than eliminate risk and can therefore only provide a reasonable and not an absolute assurance against material misstatements or losses. The process in place for reviewing

Corporate Governance

systems of internal control includes procedures designed to identify and evaluate failings and weaknesses, and, in the case of any categorised as significant, procedures exist to ensure that necessary action is taken to remedy the failings.

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

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

Control Environment

There is an organisational structure with clearly defined lines of responsibility and delegation of accountability and authority. Some key features of the internal control system are:

- Management accounts information and business risk issues are regularly reviewed by the Board;
- Annual budgets and rolling forecasts (where appropriate) are reviewed and approved by the Board;
- The Group has operational, accounting and employment policies in place;
- There is a clearly defined organisational structure and there are well-established financial reporting and control systems;
- Accounting systems and procedures will be reviewed at least annually as the business grows in order to ensure that they are appropriate to the size and complexity of the business;
- The Group has been accredited and maintains ISO 9001: 2008;
- The Board actively identifies and evaluates risks inherent in the business and ensures that appropriate controls and procedures are in place to manage these risks; and
- The precise accounting controls and procedures to be adopted by the Group following an acquisition of a subsidiary business will be determined at the time an acquisition is made.

Risk Management

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

Financial Information

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

Management of Liquid Resources

The Board is risk averse when investing the Group's surplus cash. The Group's treasury management policy is reviewed periodically and sets out strict procedures and limits on how surplus funds are invested.

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

The roles of the Chairman and Chief Executive

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

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

Senior Management Team

The day-to-day management of the Group is overseen by the Senior Management Team, consisting of the Executive Directors and other senior managers, under the leadership of the Chief Executive.

Information

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

Director dealings in Company shares

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

Investor Relations

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

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

Annual General Meeting (AGM)

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

Going Concern

Information on the business environment and the factors underpinning the Group's future prospects and product portfolio are included in the Review of the Chairman and Chief Executive Officer and the Directors' report on pages 2 and 15. 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 26 March 2013, 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.

Review of Corporate Governance Disclosures

The Board has voluntarily complied with those principal Corporate Governance disclosures of the UK Corporate Governance Code in so far as appropriate given the size of the Company and the nature of its operations. These have not been formally reviewed by the Group's auditors. The auditors' responsibility extends only to reading this report as a part of the Annual Report and Accounts and considering whether it is consistent with the audited financial statements.

Corporate Governance

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

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

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group's and the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and Company and enable them to ensure that the financial statements comply with the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Group and Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

Directors' Remuneration Report

Introduction

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 and Employee Benefit Trust:**
All Executive Directors and employees are eligible for discretionary share option awards to be paid in accordance with the option scheme, as amended on 16 December 2008. This takes into account the need to motivate and retain key individuals, along with similar performance criteria to the discretionary bonus scheme. The Group also operates an Employee Benefit Trust share scheme for the benefit of Senior Management.

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

Remuneration policy for Non-executive Directors

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

Directors' Remuneration Report

DIRECTORS' SHAREHOLDINGS

The interests of the Directors in the shares of the Company at 31 December 2012 were:

	Ordinary shares of 1p each			
	31 December 2012		31 December 2011	
	Number	Per cent	Number	Per cent
Executive				
Philip Spinks	61,500	0.03%	61,500	0.03%
Non-executive				
Dr Peter Rowley	99,502	0.05%	99,502	0.05%
Michael Bretherton	635,000	0.32%	635,000	0.32%
Dr David Bott	36,000	0.02%	36,000	0.02%

DIRECTORS' REMUNERATION

Name of Director	Salaries and fees		Bonus	Pension	Total	Total
	£'000	Benefits			December 2012	December 2011
	£'000		£'000	£'000	£'000	
Executive						
Adrian Meldrum (appointed 1 October 2012)	31	5	–	–	36	–
Philip Spinks	87	–	12	7	106	89
Mike Edwards	90	–	12	–	102	64
Dr Mike Eason (resigned 29 March 2011)	–	–	–	–	–	47
Non-executive						
Dr Peter Rowley	15	–	–	–	15	4
Michael Bretherton	12	–	–	–	12	12
Dr David Bott	12	–	–	–	12	12
	247	5	24	7	283	228

During the year under review a share based payments charge was recognised in the profit and loss account in relation to share options and jointly owned shares made available to the Directors. For 2012 this equated to £9,000 for Adrian Meldrum, £6,000 for Philip Spinks and £5,000 for Mike Edwards. For the year to 31 December 2011 the equivalent charges for Philip Spinks amounted to £25,000 and for Mike Edwards £9,000. The options related to the 2011 charges have subsequently been cancelled.

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, renewed on 12 February 2013, with one months' notice. All Directors are required to put themselves up for re-election as detailed under the Articles of Association and all service contracts and letters of appointment are subject to early termination provisions.

The sums for the services of Dr David Bott are paid via a third party (see note 28).

DIRECTORS' SHARE OPTIONS AND JOINTLY OWNED EMPLOYEE BENEFIT TRUST SHARES

Directors' interests in share options and jointly owned shares to acquire ordinary shares of 1 penny each in the Company at 31 December 2012 were:

Share Options	At 1 January 2012	Cancelled	Issued	Total 31 December 2012	Exercise price	Vesting condition target price	Exercisable from	Date of expiry
Executive								
Adrian Meldrum	–	–	1,200,000	1,200,000	10.0p	15.0p	01/10/2014	30/09/2022
	–	–	1,000,000	1,000,000	10.0p	20.0p	01/10/2015	30/09/2022
Philip Spinks	–	–	400,000	400,000	10.0p	15.0p	01/10/2013	30/09/2022
	–	–	400,000	400,000	10.0p	20.0p	01/10/2014	30/09/2022
	–	–	400,000	400,000	10.0p	25.0p	01/10/2015	30/09/2022
	–	–	400,000	400,000	10.0p	30.0p	01/10/2016	30/09/2022
	135,135	(135,135)	–	–	1.00p	–	03/03/2011	03/03/2018
	934,579	(934,579)	–	–	53.50p	–	03/03/2011	03/03/2018
	200,000	(200,000)	–	–	28.00p	–	31/12/2009	28/05/2019
Mike Edwards	–	–	400,000	400,000	10.0p	15.0p	01/10/2013	30/09/2022
	–	–	300,000	300,000	10.0p	20.0p	01/10/2014	30/09/2022
	–	–	300,000	300,000	10.0p	25.0p	01/10/2015	30/09/2022
	238,235	(238,235)	–	–	16.50p	–	11/08/2011	14/01/2019
	111,765	(111,765)	–	–	1.00p	–	11/08/2011	14/01/2019
	1,619,714	(1,619,714)	4,800,000	4,800,000				

Employee Benefit Trust – Joint Ownership Shares	At 1 January 2012	Cancelled	Issued	Total 31 December 2012	Exercise price	Vesting condition target price	Exercisable from	Date of expiry
Executive								
Adrian Meldrum	–	–	1,000,000	1,000,000	10.0p	25.00p	01/10/2016	30/09/2022
	–	–	1,000,000	1,000,000	10.0p	30.00p	01/10/2017	30/09/2022
	–	–	2,000,000	2,000,000				

On 1 October 2012 Adrian Meldrum, Philip Spinks and Mike Edwards were granted options to subscribe for new ordinary shares under the Company's EMI scheme exercisable at 10 pence per ordinary share. Under the terms of the option agreements, none of the options granted on 1 October 2012 can vest until earliest vesting dates, subject to the employee having not ceased employment with the Group, and the Company's share price on AIM reaching particular target values and remaining at or above those values, for at least 22 consecutive business days each, as detailed above.

On 1 October 2012, Philip Spinks also entered in to a Deed of Cancellation of Options in respect of options over 1,296,714 ordinary shares in the Company representing all options previously granted to him in the period 2008 to 2009 so that his only remaining options are over 1,600,000 ordinary shares as granted to him on 1 October 2012. On 1 October 2012, Michael Edwards also entered in to a Deed of Cancellation of Options in respect of options over 350,000 ordinary shares in the Company representing all options previously granted to him in 2009 so that his only remaining options are over 1,000,000 ordinary shares as granted to him on 1 October 2012.

On 1 October 2012 Adrian Meldrum was awarded the right to purchase a beneficial interest in new ordinary shares pursuant to the terms of the Joint Ownership Agreements ("JOAs") which will be held jointly with the Trust (EBT). Under the rules of the JOAs, employees are entitled to benefit from most of the future growth of the share value of such jointly held shares by way of a right to receive from the Trust, a proportionate number of wholly owned shares equivalent in value to that growth. Adrian Meldrum will be entitled to a proportion of the growth of the share value above 10.0p per share, subject to meeting certain performance criteria as outlined below. Employees are also, under certain circumstances, able to benefit from an increase in the value of the shares, on a takeover, change of control, scheme of arrangement or a voluntary winding-up of the Company. Where these conditions are not met, the Trustee has an option to buy back the employee interests in the shares at a price equal to the original purchase cost paid by the employee so that none of any increase in the value of the shares will accrue to the employee.

Directors' Remuneration Report

Under the terms of the JOAs, no growth can be realised by employees until earliest realisation dates and performance criteria are met for each tranche of jointly owned shares. Adrian Meldrum's beneficial interest in the 2,000,000 new ordinary shares comprises 2 equal tranches for which the earliest realisation dates arise on or after the two consecutive annual anniversaries of four years after the date of acquisition of the interest subject to the employee having not ceased employment with the Group and the Company's share price on AIM reaching particular target values and remaining at or above those values, for at least 22 consecutive business days.

On issue of both the jointly owned shares and new share options the closing mid-market price of the Company's shares was 12 pence and the average closing mid-market price of the shares for the previous 22 business days was 9.48 pence.

The mid-market price of the shares was 10.12 pence at 31 December 2012 and the range during the year was 7.00 pence to 13.75 pence.

On behalf of the Board

David Bott

Chairman of the Remuneration Committee

30 April 2013

Directors' Report

The Directors present their report with the Group financial statements for the year to 31 December 2012.

PRINCIPAL ACTIVITY

Oxford Advanced Surfaces Group plc (OAS) is a research and development company that provides multinational industrial corporations with proprietary technology solutions to create engineered materials and surface modification applications in the electronics displays, solar, ophthalmic and adhesion markets.

BUSINESS REVIEW

A review of the Group's performance and future prospects is included in the Review of the Chairman and Chief Executive Officer on page 2 and the Group Financial Review on page 4.

RESEARCH AND DEVELOPMENT

A review of the Group's research and development activities is included in the Review of the Chairman and Chief Executive Officer 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.

RESULTS AND DIVIDENDS

The consolidated financial statements have been prepared for the year to 31 December 2012. The loss before tax for the year was £1,696,000 (2011: £1,786,000) after charges of £27,000 (2011: £nil) related to share based payments. Excluding share based payment charges the adjusted loss before tax for the year was £1,669,000 (2011: £1,786,000).

The Directors do not recommend a dividend in respect of the year to 31 December 2012 and no dividends were paid during the year under review or the prior year.

DIRECTORS AND THEIR INTERESTS

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

Executive

Adrian Meldrum

Philip Spinks

Mike Edwards

Non-executive

Dr Peter Rowley

Michael Bretherton

Dr David Bott

Biographies of the Directors can be found on page 5. All Directors who are eligible offer themselves for election at the forthcoming Annual General Meeting. The remuneration for the year under review and beneficial interests of the Directors and persons connected with them in the issued share capital of the Company as at 31 December 2012 are shown in the Directors' Remuneration Report on pages 11 to 14. 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.

On 1 October 2012 the Company issued 2,000,000 new shares under the Employee Benefit Trust (the "Trust"). These new shares are held in trust under the rules of a Joint Ownership Agreement (JOA). Details of the Trust and the JOA are included in the Directors' Remuneration Report. The Trust is consolidated in the financial statements and the value of the shares under joint ownership by the Trust are offset against Retained Earnings. Shares held by the Trust are treated as issued and included when calculating earnings per share. The Trust is treated similarly in the financial statements of the parent company.

Directors' Report

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 10 April 2013 an interest in three per cent or more of the issued ordinary share capital of the Company:

Name	Ordinary 1p shares	Per cent
ORA (Guernsey) Limited	49,950,002	25.26%
IP2IPO Limited	28,503,396	14.41%
Robert Quested	23,212,220	11.74%
University of Oxford	17,264,429	8.73%
Richard Griffiths	10,912,998	5.52%
David Norwood	9,801,374	4.96%
Close Brothers Asset Management	8,266,127	4.18%
Dr Mark Moloney	6,620,527	3.35%
Jon-Paul Griffiths	6,620,527	3.35%

RISK REVIEW

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

Operating Risks

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

Technology risk

The Group manages the development of its technology through separate development programmes. Each programme has a specific set of milestones (either internal or external), measurable goals, timeline and budget. Performance against each of these is monitored either weekly or monthly depending on the programme requirements. This enables the Group to identify issues at an early stage and take appropriate mitigating actions.

Funding risk

The Group finances part of its development programmes through partner-funded programmes. Each partner-funded programme is subject to a contract (Joint Development Agreement) and has a pre-defined partner review process and a project manager. Progress of the programme is jointly monitored with the partner. In addition, the Group identifies certain programmes as internal research and development "R&D" to be self-funded. The costs of, and progress on, these programmes are also regularly reviewed.

Performance risk

The risk of not achieving contractual commitments contained within partner contracts is managed as part of the partner review process described above. Regular partner reviews of progress enable issues to be identified at an early stage and to be resolved on a timely basis. In addition, care is taken to ensure that agreements entered into with partners reflect the uncertain nature of technology development and do not contain onerous or unrealistic performance goals. The risk of not achieving internal performance levels set through market requirements is monitored on development programmes and action taken to resolve issues on a timely basis.

Platform technology

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

Commercial success and market acceptance

There can be no assurance that any current or future product development will be successfully developed into any commercially viable product or products. The Group's success will depend on the market's acceptance of its products and there can be no guarantee that

this will be forthcoming or that the Group's technologies will succeed as an alternative to other new products. If a mass market for any product or process fails to develop or develops more slowly than anticipated, the Group may fail to recover the losses incurred in the development process and may never achieve profitability. There is also an inherent risk that unforeseen alternative technologies or market evolution could result in the loss of commercial opportunities for the Group. The Group's strategy of developing products to meet identified market needs and where applicable under joint development agreements with leading companies in large and valuable market applications is designed to maximise the chance of adoption and drive mass market uptake.

Manufacturing

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

Early stage operations

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

Research and development risks

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

Attraction and retention of key employees

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

Intellectual property

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

Financial Risks

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

Credit risk

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

Directors' Report

Interest rate risk

Through the holding of cash and cash equivalents, the Group's activities expose it to the financial risk of changes in interest rates. A proportion of interest bearing assets are held at fixed rate to ensure certainty of cash flows.

Liquidity risk

Group policy is to maintain sufficient cash balances to meet its anticipated requirements over a medium term horizon. Funds are placed on time deposits with cash balances available for immediate withdrawal if required.

Capital management risk

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

Funding

The Group had in excess of £4.3 million of cash funding available at the end of the year and management believes that this provides sufficient funding to complete the product development process and take the business to a commercial stage. However in the event that the development process takes longer, or is more costly than anticipated, the Group may be required to raise further finance in order to complete the development and commercialisation process.

EMPLOYMENT POLICIES

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

POLITICAL AND CHARITABLE CONTRIBUTIONS

The Group has made no payments in respect of political or charitable contributions during 2012. During 2011 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 2012 trade creditor days for the Group were 21 (2011: 20) and for the Company were 20 (2011: 14). 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.

POST BALANCE SHEET EVENTS

Post balance sheet events are disclosed in note 30 of the Annual Report.

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.

ANNUAL GENERAL MEETING NOTICE

The Annual General Meeting of the Company will be held at the Blenheim Room, The Farmhouse, Begbroke Science Park, Begbroke Hill, Woodstock Road, Begbroke OX5 1PF on 13 June 2013 at 10.30 a.m. The notice convening the AGM, together with an explanation of the resolutions to be proposed at the meeting, is contained in the Notice of the Annual General Meeting on pages 50 to 56.

ON BEHALF OF THE BOARD

Philip Spinks
Company Secretary
30 April 2013
Company Number: 5845469

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

We have audited the financial statements of Oxford Advanced Surfaces Group plc for the year ended 31 December 2012 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 30. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

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

Respective responsibilities of Directors and auditors

As explained more fully in the Statement of Directors' Responsibilities set out on page 10, 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 2012 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 matter 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

30 April 2013

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 2012

	Notes	Year to 31 December 2012 £'000	Year to 31 December 2011 £'000
CONTINUING OPERATIONS			
Revenue	7	86	19
Cost of sales		(169)	(150)
GROSS LOSS		(83)	(131)
Research and development costs		(909)	(1,041)
Other administrative costs		(803)	(767)
Share based payments	27	(27)	–
Total administrative costs		(1,739)	(1,808)
LOSS FROM OPERATIONS		(1,822)	(1,939)
Finance income	9	126	153
LOSS BEFORE TAX		(1,696)	(1,786)
Income tax credit	10	159	145
LOSS FOR THE YEAR AND TOTAL COMPREHENSIVE LOSS FOR THE YEAR	11	(1,537)	(1,641)
Loss per share attributable to the equity holders of the Company:			
Total and continuing:			
– Basic and diluted	25	(0.79)	(0.84)

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

There were no items of other comprehensive income for the year to 31 December 2012 or 2011 and therefore the loss for the year is also the total comprehensive loss for the year net of tax.

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

The notes on pages 27 to 49 form an integral part of these consolidated financial statements.

Consolidated and Company Statement of Financial Position

For the year ended 31 December 2012

	Notes	Group		Company	
		31 December 2012 £'000	31 December 2011 £'000	31 December 2012 £'000	31 December 2011 £'000
ASSETS					
NON-CURRENT ASSETS					
Investments	12	–	–	20,469	20,650
Intangible assets	13	396	339	–	–
Plant and equipment	14	191	247	3	2
Loan to subsidiaries	16	–	–	4,934	3,910
		587	586	25,406	24,562
CURRENT ASSETS					
Stocks	15	–	1	–	–
Trade and other receivables	16	295	334	107	120
Short-term investments and cash and cash equivalents	17	4,304	5,805	4,269	5,767
		4,599	6,140	4,376	5,887
LIABILITIES					
CURRENT LIABILITIES					
Trade and other payables	18	145	177	62	51
NET CURRENT ASSETS		4,454	5,963	4,314	5,836
LIABILITIES					
NON-CURRENT LIABILITIES					
Provisions	18	10	10	–	–
NET ASSETS		5,031	6,539	29,720	30,398
SHAREHOLDERS' EQUITY					
Called up share capital	19	1,977	1,957	1,977	1,957
Share premium	20	10,603	10,423	10,603	10,423
Merger reserve	21	6,369	6,369	18,669	18,669
Reverse acquisition reserve	22	(6,831)	(6,831)	–	–
Retained earnings	23	(7,365)	(6,277)	(1,807)	(1,549)
Share based payments reserve	24	278	898	278	898
TOTAL EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY		5,031	6,539	29,720	30,398

The financial statements were approved by the Board of Directors and authorised for issue on 30 April 2013 and were signed on its behalf by:

Adrian Meldrum
Director
Company Number: 5845469

Philip Spinks
Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2012

	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 2011	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
Total comprehensive loss for the year to 31 December 2012	-	-	-	-	(1,537)	-	(1,537)
Issue of share capital	20	180	-	-	-	-	200
Employee benefit trust	-	-	-	-	(198)	-	(198)
Transfer of share based payment charges on cancellation of options	-	-	-	-	647	(647)	-
Share based payments	-	-	-	-	-	27	27
At 31 December 2012	1,977	10,603	6,369	(6,831)	(7,365)	278	5,031

Company Statement of Changes in Equity

For the year ended 31 December 2012

	Share Equity £'000	Share Premium £'000	Merger Reserve £'000	Retained Earnings £'000	Share Based Payment Reserve £'000	Total Equity £'000
At 1 January 2011	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
Total comprehensive loss for the year to 31 December 2012	-	-	-	(520)	-	(520)
Issue of share capital	20	180	-	-	-	200
Employee benefit trust	-	-	-	(198)	-	(198)
Transfer of share based payment charges on cancellation of options	-	-	-	460	(460)	-
Transfer of share based payment charges on cancellation of options – subsidiary companies	-	-	-	-	(187)	(187)
Share based payments	-	-	-	-	21	21
Share based payments – subsidiary companies	-	-	-	-	6	6
At 31 December 2012	1,977	10,603	18,669	(1,807)	278	29,720

Consolidated and Company Cash Flow Statements

For the year ended 31 December 2012

	Notes	Group		Company	
		Year to 31 December 2012 £'000	Year to 31 December 2011 £'000	Year to 31 December 2012 £'000	Year to 31 December 2011 £'000
Loss before tax		(1,696)	(1,786)	(520)	(396)
Depreciation and amortisation charges		141	144	2	2
Write-off of intangible assets		-	22	-	-
Loss/(profit) on disposal of plant and equipment		1	(1)	-	-
Share based payment expense		27	-	21	11
Finance income		(126)	(153)	(126)	(153)
		(1,653)	(1,774)	(623)	(536)
Decrease/(increase) in stocks		1	9	-	-
Decrease/(increase) in trade and other receivables		29	53	(11)	22
(Decrease)/increase in trade and other payables		(32)	27	11	9
Cash outflow from operations		(1,655)	(1,685)	(623)	(505)
Income tax received		145	101	-	-
Net cash outflow from operating activities		(1,510)	(1,584)	(623)	(505)
Cash flows from investing activities					
Proceeds from sale of plant and equipment		-	4	-	-
Purchase of intangible assets		(84)	(124)	-	-
Purchase of plant and equipment		(59)	(141)	(3)	-
Decrease/(increase) in short term investments		1,570	(104)	1,570	(104)
Interest received		150	170	150	170
Net cash inflow/(outflow) from investing activities		1,577	(195)	1,717	66
Net cash from financing activities					
Share issue		2	-	2	-
Outflow from loan to subsidiary		-	-	(1,024)	(1,363)
Net cash inflow/(outflow) from financing activities		2	-	(1,022)	(1,363)
Increase/(decrease) in cash and cash equivalents		69	(1,779)	72	(1,802)
Cash and cash equivalents at beginning of year	17	555	2,334	517	2,319
Cash and cash equivalents at end of year	17	624	555	589	517
Short term investments		3,680	5,250	3,680	5,250
Short-term investments and cash and cash equivalents	17	4,304	5,805	4,269	5,767

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

Notes to the Financial Statements

1. CORPORATE INFORMATION

Oxford Advanced Surfaces Group plc (“the Company”) is a public limited company incorporated, registered and domiciled in England and Wales and its shares are publicly traded on AIM, a market operated by the London Stock Exchange. The Group financial statements consolidate those of the Company and its subsidiaries (together referred to as the “Group” and individually as “Group entities”) for the year ended 31 December 2012.

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 2012 was £520,000 (2011: £396,000).

2. BASIS OF PREPARATION

These consolidated and company financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union, IFRIC Interpretations and the Companies Act 2006 applicable to companies reporting under IFRS. The consolidated financial statements have been prepared under the historical cost convention and all values have been rounded to the nearest thousand, except where otherwise indicated. The 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 5.

The accounting policies adopted are consistent with those followed in the preparation of the Group’s annual financial statements for the year ended 31 December 2011, except for the adoption of new standards and interpretations, none of which resulted in any impact on the accounting policies, financial position or performance of the Group.

3. GOING CONCERN

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Revenue recognition

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

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

Notes to the Financial Statements

Grant funding

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

Taxes

Current income tax

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

Deferred tax

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

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.

Investments in subsidiaries

In the Company's balance sheet investments in subsidiaries are recorded at cost less any provision for impairment. Investments are recognised as an asset and reviewed for impairment if and when indicators of impairment arise and at least annually. Any impairment is recognised immediately in the income statement and is not subsequently reversed.

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.

Notes to the Financial Statements

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

Patents and licenses

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

Plant and equipment

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

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

Impairment of assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, 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.

Stocks

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

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.

Leases

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

Shares held by the Employee Benefit Trust

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

Share-based payments

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

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

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

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

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

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

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

Changes in accounting policy and disclosure

There have been no changes in accounting policy from those of the previous financial year. None of the new or amended standards that were effective as of 1 January 2012 had any material impact on the Group or the presentation of its financial results.

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

Notes to the Financial Statements

Impairment of tangible and intangible assets

The Group tests tangible and intangible assets with definite lives for impairment if and when indicators of impairment arise. Where such an indication exists the Group estimates the fair value less costs to sell of subsidiaries based on either the net present value of future cash flows, or the net assets at the review date.

Share based payments

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

All share-based payment arrangements granted that had not vested prior to 31 December 2012 are recognised in the Group financial statements.

6. STANDARDS ISSUED BUT NOT YET EFFECTIVE

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

IAS 32 Offsetting Financial Assets and Financial Liabilities – Amendments to IAS 32

These amendments clarify the meaning of "currently has a legally enforceable right to set-off". The amendments also clarify the application of the IAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. These amendments are not expected to impact the Group's financial position or performance and become effective for annual periods beginning on or after 1 January 2014.

IFRS 1 Government Loans – Amendments to IFRS 1

These amendments require first-time adopters to apply the requirements of IAS 20 Accounting for Government Grants and Disclosure of Government Assistance, prospectively to government loans existing at the date of transition to IFRS. Entities may choose to apply the requirements of IFRS 9 (or IAS 39, as applicable) and IAS 20 to government loans retrospectively if the information needed to do so had been obtained at the time of initially accounting for that loan. The exception would give first-time adopters relief from retrospective measurement of government loans with a below-market rate of interest. The amendment is effective for annual periods on or after 1 January 2013. The amendment has no impact on the Group.

IFRS 9 Financial Instruments: Classification and Measurement

IFRS 9, as issued, reflects the first phase of the IASB's work on the replacement of IAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in IAS 39. The standard was initially effective for annual periods beginning on or after 1 January 2013, but Amendments to IFRS 9 Mandatory Effective Date of IFRS 9 and Transition Disclosures, issued in December 2011, moved the mandatory effective date to 1 January 2015. In subsequent phases, the IASB will address hedge accounting and impairment of financial assets. The amendment has no impact on the Group.

IFRS 10 Consolidated Financial Statements, IAS 27 Separate Financial Statements

IFRS 10 replaces the portion of IAS 27 Consolidated and Separate Financial Statements that addresses the accounting for consolidated financial statements. It also addresses 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. Based on the preliminary analyses performed, IFRS 10 is not expected to have any impact on the currently held investments of the Group. This standard becomes effective for annual periods beginning on or after 1 January 2014.

IFRS 12 Disclosure of Interests in Other Entities

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, but has no impact on the Group's financial position or performance. This standard becomes effective for annual periods beginning on or after 1 January 2014.

IFRS 13 Fair Value Measurement

IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. The Group is currently assessing the impact that this standard will have on the financial position and performance, but based on the preliminary analyses, no material impact is expected. This standard becomes effective for annual periods beginning on or after 1 January 2013.

Improvements to IFRS 2009 – 2011 cycle

These improvements will not have an impact on the Group, but include:

IFRS 1 First-time Adoption of International Financial Reporting Standards

This improvement clarifies that an entity that stopped applying IFRS in the past and chooses, or is required, to apply IFRS, has the option to re-apply IFRS 1. If IFRS 1 is not re-applied, an entity must retrospectively restate its financial statements as if it had never stopped applying IFRS.

IAS 1 Presentation of Financial Statements

This improvement clarifies the difference between voluntary additional comparative information and the minimum required comparative information. Generally, the minimum required comparative information is the previous period.

IAS 16 Property Plant and Equipment

This improvement clarifies that major spare parts and servicing equipment that meet the definition of property, plant and equipment are not inventory.

IAS 32 Financial Instruments, Presentation

This improvement clarifies that income taxes arising from distributions to equity holders are accounted for in accordance with IAS 12 Income Taxes.

IAS 34 Interim Financial Reporting

The amendment aligns the disclosure requirements for total segment assets with total segment liabilities in interim financial statements. This clarification also ensures that interim disclosures are aligned with annual disclosures.

These improvements are effective for annual periods beginning on or after 1 January 2013.

Notes to the Financial Statements

7. SEGMENTAL REPORTING

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

- The Reactive Chemistry segment is 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.
- The Particle Technology segment is focussed on using and modifying particles for use in a wide range of applications, from optical coatings (VISARC™) through to fast moving consumer goods and agrochemicals.

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.

2012

	Reactive Chemistry £'000	Particle Technologies £'000	Corporate unallocated £'000	Year to 31 December 2012 £'000
Revenue				
Fee paying agreements	32	35	–	67
Grants	–	–	19	19
Total Revenue	32	35	19	86
Cost of sales	(49)	(120)	–	(169)
Research and development costs	(316)	(587)	(6)	(909)
Other administrative costs	(27)	(98)	(678)	(803)
Share based payments	(3)	(3)	(21)	(27)
Finance income	–	–	126	126
Segment loss before tax	(363)	(773)	(560)	(1,696)
Income tax credit	49	110	–	159
Loss for the year	(314)	(663)	(560)	(1,537)

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

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)
Other administrative costs	(50)	(74)	(643)	(767)
Share based payments	22	(10)	(12)	–
Finance income	–	–	153	153
Segment loss before tax	(505)	(779)	(502)	(1,786)
Income tax credit	62	83	–	145
Loss for the year	(443)	(696)	(502)	(1,641)

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.

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

8. EMPLOYEES AND DIRECTORS

	Year to 31 December 2012 £'000	Year to 31 December 2011 £'000
Salaries and fees	766	755
Social security costs	85	79
Pension costs	16	17
Share-based payment (note 27)	27	–
	894	851

The average monthly number of employees of the Group were:

	Year to 31 December 2012	Year to 31 December 2011
Directors	6	5
Technical and administrative staff	16	17
	22	22

Notes to the Financial Statements

Directors' emoluments

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

	Year to 31 December 2012 £'000	Year to 31 December 2011 £'000
Salaries and fees	276	221
Pension costs	7	7
	283	228

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

9. FINANCE INCOME

	Year to 31 December 2012 £'000	Year to 31 December 2011 £'000
Bank interest receivable	126	153

10. INCOME TAX CREDIT

a) Tax credited in the income statement

	Year to 31 December 2012 £'000	Year to 31 December 2011 £'000
UK corporation tax credit	(159)	(145)

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 24.5% (2011: 26.5%). The differences are reconciled below:

	Year to 31 December 2012 £'000	Year to 31 December 2011 £'000
(Loss) before tax	(1,696)	(1,786)
Loss on ordinary activities multiplied by the average standard rate of corporation tax in the UK of 24.5% (2011: 26.5%)	(415)	(473)
Effects of:		
Expenses not deductible for tax purposes	9	7
Additional deduction for R&D expenditure	(190)	(157)
Movement on temporary differences not recognised	13	(5)
Unrelieved tax losses and other deductions arising in the year	239	331
Losses surrendered for research and development	185	152
Tax credit	(159)	(145)

Unrelieved tax losses of £5,747,000 at 31 December 2012 (2011: £5,260,000) remain available indefinitely to offset against future taxable trading profits of the companies in which the losses arose. A further £1,823,000 (2011: £1,327,000) relate to non-trade losses of the Company and can only be offset against future non-trade profits. No deferred tax asset has been recognised in respect of the losses as recoverability is uncertain.

c) Deferred Tax

Unrecognised deferred tax assets at 23% (2011: 25%)

	Year to 31 December 2012 £'000	Year to 31 December 2011 £'000
Tax losses carried forward	1,741	1,647
Accelerated capital allowances	(41)	(59)
Share based payments	20	21
Deferred tax assets (unrecognised)	1,720	1,609

d) Change in Corporation Tax rate

In Budget 2012 on 21 March 2012, the Chancellor of the Exchequer announced a reduction in the UK rate of corporation tax to 24%, effective from 1 April 2012 and a further reduction to 23%, effective from 1 April 2013. A further rate reduction to 22% was also announced and it was intended that this would be effective from 1 April 2014.

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

At the balance sheet date the corporation tax rate substantially enacted was 23% and therefore deferred tax assets and liabilities have been calculated at this rate.

11. LOSS BEFORE TAX

Loss before tax is stated after charging:

	Year to 31 December 2012 £'000	Year to 31 December 2011 £'000
Research and development costs	909	1,041
Share based payments	27	–
Depreciation of property, plant and equipment – owned	114	125
Write-off of intangible assets – patents	–	22
Amortisation of intangible assets – patents	27	19
Operating leases – offices and laboratories	148	146
Auditor's remuneration		
Fees payable to the Company's auditor for audit of the parent and consolidated accounts	13	11
– The audit of the Company's subsidiaries pursuant to legislation	14	13
– Tax services - compliance	7	7

Notes to the Financial Statements

12. INVESTMENTS

Company

	Shares in subsidiary undertakings £'000
COST	
At 1 January 2011	24,506
Disposals	(11)
At 31 December 2011	24,495
Additions	6
Disposals	(187)
At 31 December 2012	24,314
IMPAIRMENT	
At 31 December 2011 and 2012	(3,845)
NET BOOK VALUE	
At 31 December 2011	20,650
At 31 December 2012	20,469

Additions and disposals for the year to 31 December 2012 and 2011 represent the IFRS 2 reversal/charge for share options cancelled/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 Board currently believes that the opportunity for the technologies marketed by both OAS and OET is in excess of the book value. There is an underlying assumption that the technologies will be commercially successfully. 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 4 and the resulting carrying value reduced to reflect this.

In addition the Board do not consider the market value of the Group to be an indicator of impairment. The Group's share price is volatile and illiquid; the Board is of the opinion that the market capitalisation at this stage in the Group's development is not a fair reflection of the opportunity available to the business. At the year end the market capitalisation was £20.1m and since the year end this has ranged between £16.8m and £25.0m.

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

13. INTANGIBLE ASSETS

Group

	Patents & licenses £'000
COST	
At 1 January 2011	310
Write-off	(24)
Additions	124
As 31 December 2011	410
Additions	84
At 31 December 2012	494
AMORTISATION & IMPAIRMENT	
At 1 January 2011	54
Write-off	(2)
Amortisation for year	19
At 31 December 2011	71
Amortisation for year	27
At 31 December 2012	98
NET BOOK VALUE	
At 31 December 2011	339
At 31 December 2012	396

The average remaining life of patent families is 15.1 years. 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

14. 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 2011	395	9	62	466
Additions	123	2	26	151
Disposals	(6)	–	(13)	(19)
At 31 December 2011	512	11	75	598
Additions	54	–	5	59
Disposals	(4)	(1)	(2)	(7)
At 31 December 2012	562	10	78	650
DEPRECIATION				
At 1 January 2011	192	7	43	242
Charge for year	109	2	14	125
Disposals	(3)	–	(13)	(16)
At 31 December 2011	298	9	44	351
Charge for year	99	–	15	114
Disposals	(4)	–	(2)	(6)
At 31 December 2012	393	9	57	459
NET BOOK VALUE				
At 31 December 2011	214	2	31	247
At 31 December 2012	169	1	21	191

Company

	Computer equipment £'000	Totals £'000
COST		
At 1 January 2011	–	–
Additions	5	5
At 31 December 2011	5	5
Additions	3	3
At 31 December 2012	8	8
DEPRECIATION		
At 1 January 2011	1	1
Charge for year	2	2
At 31 December 2011	3	3
Charge for year	2	2
At 31 December 2012	5	5
NET BOOK VALUE		
At 31 December 2011	2	2
At 31 December 2012	3	3

15. STOCKS

	Group		Company	
	31 December 2012 £'000	31 December 2011 £'000	31 December 2012 £'000	31 December 2011 £'000
Raw materials	-	1	-	-

16. TRADE AND OTHER RECEIVABLES

	Group		Company	
	31 December 2012 £'000	31 December 2011 £'000	31 December 2012 £'000	31 December 2011 £'000
Current:				
Trade receivables	-	14	-	-
Interest receivable	75	99	75	99
VAT receivable	34	42	10	7
Corporation tax due	159	145	-	-
Prepayments	27	34	22	14
	295	334	107	120
Non-current:				
Loans to subsidiaries	-	-	4,934	3,910

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 2012 or 31 December 2011 and all trade receivables are not past due.

17. SHORT TERM INVESTMENTS AND CASH AND CASH EQUIVALENTS

	Group		Company	
	31 December 2012 £'000	31 December 2011 £'000	31 December 2012 £'000	31 December 2011 £'000
Short term investments	3,680	5,250	3,680	5,250
Cash at bank and in hand	624	555	589	517
	4,304	5,805	4,269	5,767

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.

Notes to the Financial Statements

18. TRADE AND OTHER PAYABLES

	Group		Company	
	31 December 2012 £'000	31 December 2011 £'000	31 December 2012 £'000	31 December 2011 £'000
Current:				
Trade payables	48	48	15	9
Social security and other taxes	33	27	17	10
Accrued expenses	64	102	30	32
	145	177	62	51
Non-current:				
Dilapidation provisions	10	10	-	-

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

19. CALLED UP SHARE CAPITAL

	Group		Company	
	31 December 2012 £'000	31 December 2011 £'000	31 December 2012 £'000	31 December 2011 £'000
Issued and fully paid Ordinary Shares of £0.01 each				
At beginning of the year	195,740,641	195,740,641	1,957	1,957
New shares issued – EBT	2,000,000	-	20	-
At end of the year	197,740,641	195,740,641	1,977	1,957

On 1 October 2012 2,000,000 new Ordinary Shares of £0.01 each were issued to the Employee Benefit Trust (EBT) at a price of £0.10. The total consideration for this issue was £200,000. The premium of £0.09 was transferred to the Share Premium reserve as disclosed in note 20.

20. SHARE PREMIUM

	Group		Company	
	31 December 2012 £'000	31 December 2011 £'000	31 December 2012 £'000	31 December 2011 £'000
At beginning of the year	10,423	10,423	10,423	10,423
New shares issued – EBT	180	-	180	-
At end of the year	10,603	10,423	10,603	10,423

Details of the new shares issued are disclosed in note 19.

21. MERGER RESERVE

	Group		Company	
	31 December 2012 £'000	31 December 2011 £'000	31 December 2012 £'000	31 December 2011 £'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.

22. REVERSE ACQUISITION RESERVE

	Group		Company	
	31 December 2012 £'000	31 December 2011 £'000	31 December 2012 £'000	31 December 2011 £'000
At beginning and end of the year	(6,831)	(6,831)	-	-

The reverse acquisition reserve relates to the reverse acquisition of Kanyon Plc (now Oxford Advanced Surfaces Group plc) and Solar Labs plc (now Oxford Energy Technologies Limited) by Oxford Advanced Surfaces Limited on 31 December 2007.

23. PROFIT AND LOSS RESERVE

	Group		Company	
	31 December 2012 £'000	31 December 2011 £'000	31 December 2012 £'000	31 December 2011 £'000
At beginning of the year	(6,277)	(4,636)	(1,549)	(1,153)
Trust element of jointly owned shares	(198)	-	(198)	-
Transfer from share based payment reserve	647	-	460	-
Loss during the year	(1,537)	(1,641)	(520)	(396)
At end of the year	(7,365)	(6,277)	(1,807)	(1,549)

24. SHARE BASED PAYMENT RESERVE

	Group		Company	
	31 December 2012 £'000	31 December 2011 £'000	31 December 2012 £'000	31 December 2011 £'000
At beginning of year	898	898	898	898
Transfer to profit and loss reserve on cancellation of options	(647)	-	(460)	-
Transfer from investment in subsidiary companies on cancellation of share options in subsidiary companies	-	-	(187)	11
Charge in respect of share options for the year	27	-	21	-
Charge in respect of share options issued to employees of subsidiary companies	-	-	6	(11)
At end of the year	278	898	278	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 27.

Notes to the Financial Statements

25. 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 2012	Year to 31 December 2011
Loss attributable to equity holders of the Group (£'000)	(1,537)	(1,641)
Weighted average number of ordinary shares in issue	195,740,641	195,740,641
Basic & diluted loss per share (pence)	(0.79)	(0.84)

26. FINANCIAL RISK MANAGEMENT

Capital risk management

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

Significant accounting policies

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

Categories of financial instrument

Financial assets

	Group		Company	
	Year to 31 December 2012 £'000	Year to 31 December 2011 £'000	Year to 31 December 2012 £'000	Year to 31 December 2011 £'000
Loan assets and other receivables (including cash and cash equivalents)	4,379	5,918	9,278	9,776

Maturity profile of financial assets

Group financial assets 2012

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

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	–	76	37	113
Short term investments	–	2,100	3,150	5,250
	555	2,176	3,187	5,918

Company financial assets 2012

	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	589	–	–	–	589
Trade and other receivables	–	51	24	–	75
Short term investments	–	1,615	2,065	–	3,680
Loans to subsidiaries	–	–	–	4,934	4,934
	589	1,666	2,089	4,934	9,278

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	–	62	37	–	99
Short term investments	–	2,100	3,150	–	5,250
Loans to subsidiaries	–	–	–	3,910	3,910
	517	2,162	3,187	3,910	9,776

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 December 2012 £'000	Year to 31 December 2011 £'000	Year to 31 December 2012 £'000	Year to 31 December 2011 £'000
Trade and other payables	91	85	32	19

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 (2011: £10,000) 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.

Notes to the Financial Statements

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 2012		31 December 2011	
	+1% £'000	-1% £'000	+1% £'000	-1% £'000
Loss for year	6	(6)	5	(5)
Equity	6	(6)	5	(5)

27. SHARE BASED PAYMENTS

Equity-settled share option schemes

The Group has two schemes in operation at 31 December 2012; an equity settled EMI/Unapproved Group Option Scheme and an Employee Benefit Trust.

EMI/Unapproved Group Option Scheme

The EMI/Unapproved Scheme covers all employees for the Group. Options are exercisable at a price as agreed in the option documentation, which is typically the mid-market price the day before the day of issue of the option award. For the October 2012 award the price was set at 10 pence. On Friday 28 September 2012, the closing mid-market price of the Company's shares was 12p and the average closing mid-market price of the shares for the previous 22 business days was 9.48p.

Group & Company	2012		2011	
	Weighted average exercise price	Number of options	Weighted average exercise price	Number of options
At beginning of the year	25.03p	3,029,288	23.51p	4,316,288
Granted during the year	10.00p	5,627,000	20.50p	110,000
Lapsed/forfeited	7.75p	(12,000)	19.97p	(1,397,000)
Cancelled	36.54p	(1,932,939)	-	-
At end of the year	9.14p	6,711,349	25.03p	3,029,288

For the options brought forward, and 27,000 of the options issued during the year, there are no vesting conditions, other than continuation of service, attached to the share options. For the October 2012 awards there are, in addition to the continuation of service, performance criteria relating to the achievement of share price targets ranging from 15.0 pence to 30.0 pence over the coming 1 to 5 years.

Of the 6,711,349 options outstanding at 31 December 2012, 871,349 were exercisable (2011: 2,738,203). The weighted average price of the exercisable shares was 1.41 pence (2011: 25.84 pence).

Share options outstanding at the end of the year have the following expiry dates and exercise prices.

Year of expiry	2012			2011	
	Range of exercise price	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
2017	1.00p	848,219	1.00p	848,219	1.00p
2018	1.00p – 73.50p	–	–	1,339,984	44.98p
2019	1.00p – 28.00p	23,130	16.50p	616,085	17.42p
2020	16.00p	130,000	16.00p	130,000	16.00p
2021	12.50p – 23.50p	95,000	20.03p	95,000	20.03p
2022	7.75p – 10.00p	5,615,000	10.00p	–	–
		6,711,349	9.14p	3,029,288	25.03p

The following table lists the inputs to the models used for the years ended 31 December 2012 and 31 December 2011.

Group & Company	Performance linked grants		Non-performance linked grants	
	2012	2011	2012	2011
Expected volatility (%)	50.0%	–	17.0%	16.6% – 17.4%
Risk-free interest rate (%)	0.3% – 2.2%	–	0.5%	0.5%
Expected dividends	nil	–	nil	nil
Expected life of options (years average)	–	–	3.0 years	3.0 years
Expected vesting multiple (of performance target price)	1.0	–	–	–
Weighted average exercise price (pence)	10.00p	–	7.75p	20.03p
Leavers	20%	–	0%	0%
Model used	Trinomial	–	Black-Scholes	Black-Scholes

Historically volatility has been calculated as the annualised standard deviation of the continuously compounded historical rates of return on all the shares listed on AIM. However for the October 2012 award a volatility of 50% has been selected as a more appropriate estimate of the volatility for the Group. The 50% is based on the median volatility percentage of comparable companies in the chemistry industry sector and determined following a benchmarking exercise of companies deemed to be comparable (i.e. companies in the chemical industry sector listed on AIM and for companies who were less established (incorporated within the last 10 years) and based in the UK). The Directors are of the belief that using market based volatilities for any options is a more accurate measure to calculate the fair value as the Group's share price has suffered from unusual volatility due to issues such as liquidity and its stage of development.

The total expense arising in the year for share based payment transactions is £24,000 (2011: £nil). The options outstanding at 31 December 2012 had a weighted average remaining contractual life of 9.1 years (2011: 6.5 years). The fair value of the options issued during the year was £166,000 (2011: £3,000).

Employee Benefit Trust (EBT)

The Group operates a jointly owned EBT share scheme for senior management under which the trustee of the Group-sponsored EBT has acquired shares in the Company jointly with a number of employees. The shares were acquired pursuant to certain conditions set out in Jointly Ownership Agreements (JOAs). Subject to meeting the performance criteria conditions set out in the JOA, the employees are able to exercise an option to acquire the trustee's interests in the jointly owned EBT shares at the option price. The jointly owned EBT shares issued on 1 October 2012 have not yet met the performance conditions.

Notes to the Financial Statements

Group & Company	2012		2011	
	Weighted average exercise price	Number of options	Weighted average exercise price	Number of options
At beginning of the year	–	–	–	–
Granted during the year	10.00p	2,000,000	–	–
At end of the year	10.00p	2,000,000	–	–

Under the terms of the Joint Ownership Agreement, no growth can be realised until earliest realisation dates and performance criteria are met for each tranche of jointly owned shares. The earliest realisation dates arise on or after the two consecutive annual anniversaries of four years after the date of acquisition of the interest subject to the employee having not ceased employment with the Group and the Company's share price on AIM reaching target values of 25 pence and 30 pence and remaining at or above those values for at least 22 consecutive business days each. The earliest realisation dates and performance criteria have not yet been reached.

Year of expiry	Range of exercise price	2012		2011	
		Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
2022	10.00p	2,000,000	10.00p	–	–
		2,000,000	10.00p	–	–

The following table lists the inputs to the models used for the years ended 31 December 2012 and 31 December 2011.

	Performance linked grants	
	2012	2011
Expected volatility (%)	50.0%	–
Risk-free interest rate (%)	0.3% – 2.2%	–
Dividends	nil	–
Expected life of options (years average)	–	–
Expected vesting multiple (of performance target price)	1.0	–
Weighted average exercise price (pence)	10.00p	–
Leavers	20%	–
Model used	Trinomial	–

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

The total expense arising in the year for share based payment transactions under the EBT is £3,000. The share awards at 31 December 2012 had a weighted average remaining contractual life of 9.75 years. The fair value of the options issued during the year was £45,000.

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. The cost was offset against the share premium account as a cost related to the issue of new ordinary shares.

28. 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 £1,200 (2011: £7,000). 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 (2011: £12,000). At the year-end £1,000 was due to EotR (2011: £1,000).

Company

OASG acted as an intermediary due to its position as the provider of financial support to the subsidiaries of the Group. At the year-end interest free loans of £3,151,000 (2011: £2,803,000) to Oxford Advanced Surfaces Limited and £1,784,000 (2011: £1,107,000) 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 8.

29. ULTIMATE CONTROLLING PARTY

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

30. POST BALANCE SHEET EVENTS

In January 2013 the Group issued 1,610,000 new options to employees. These options replaced 240,000 existing options issued to staff, which were duly cancelled. The new options reflect the time and share price performance vesting conditions of the options issued to senior staff in October 2012 and are exercisable in one third tranches in one, two and three years from issue where the share prices equals or exceeds 15 pence, 20 pence and 25 pence respectively, for a continuous period of at least 22 business days.

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 13 June 2013 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 2012 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 Michael Bretherton 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 David Bott who retires in accordance with Article 122 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 Adrian Meldrum 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 £1,305,088.23 (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 £652,544.12 (such amount to be reduced by the nominal amount of any equity securities allotted under paragraph 6.1 above in excess of £652,544.12), provided that (unless previously revoked, varied or renewed) this authority shall expire 15 months from the date of passing this resolution, or, if earlier, the conclusion of the next Annual General Meeting of the Company held after the passing of this resolution save that the Company may before such expiry make an offer or enter into an agreement which would or might require Relevant Securities to be allotted after such expiry and the Directors may allot Relevant Securities in pursuance of such offer or agreement as if the authority conferred hereby had not expired.

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 £296,610.96.

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
Woodstock Road, Begbroke Hill
Begbroke, OX5 1PF

NOTES:**Entitlement to attend and vote**

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

Appointment of proxies

- 2 A member entitled to attend and vote at the Meeting shall be entitled to appoint a proxy (or proxies) to exercise all or any of their rights to attend, speak and vote at the Meeting. A member can appoint more than one proxy in relation to the meeting, provided that each proxy is appointed to exercise the rights attached to a different share(s) held by the member. To appoint more than one proxy you may photocopy the proxy form. Please indicate the proxy holder's name and the number of shares in relation to which they are authorised to act as your proxy (which, in aggregate, should not exceed the number of shares held by you). Please also indicate if the proxy instruction is one of multiple instructions being given. All forms must be signed and should be returned together in the same envelope.
- 3 A proxy form which may be used to make this appointment and give proxy instructions accompanies this notice. You can only appoint a proxy using the procedures set out in these notes and the notes to the proxy form.
- 4 The appointment of a proxy will not prevent a member from subsequently attending and voting at the meeting in person, in which case any votes cast by the proxy will be excluded and your proxy appointment will automatically be terminated.
- 5 A proxy does not need to be a member of the Company but must attend the Meeting to represent the member. Details of how to appoint the Chairman of the Meeting or another person as your proxy using the proxy form are set out in the notes to the proxy form. If you wish your proxy to speak on your behalf at the Meeting you will need to appoint your own choice of proxy (not the Chairman) and give your instructions directly to them.
- 6 A vote withheld is not a vote in law, which means that the vote will not be counted in the calculation of votes for or against the resolution. If no voting indication is given, your proxy will vote or abstain from voting at his or her discretion. Your proxy will vote (or abstain from voting) as he or she thinks fit in relation to any other matter which is put before the Meeting.

Appointment of proxy using hard copy proxy form

- 7 The notes to the proxy form explain how to direct your proxy how to vote on each resolution or withhold their vote.

To appoint a proxy using the proxy form, the form must be:

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

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

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

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

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 **30 April 2013** (the latest practicable date prior to publication of this notice), the Company's issued share capital comprised 197,740,641 ordinary shares of 1 penny each. Each ordinary share carries the right to one vote at a general meeting of the Company and, therefore, the total number of voting rights in the Company as at 6.00 p.m. on 30 April 2013 is 197,740,641.

Communication

- 14 EXCEPT AS PROVIDED ABOVE, MEMBERS WHO HAVE GENERAL QUERIES ABOUT THE MEETING SHOULD CALL THE COMPUTERSHARE SHAREHOLDER HELPLINE ON 0870 873 5844 OR, IF CALLING FROM OUTSIDE THE UK ON +44 870 873 5844. THE HELPLINE IS AVAILABLE BETWEEN THE HOURS OF 8.30 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 2012.

Resolution 2 – Reappointment of Directors

Resolution 2 deals with the reappointment of Michael Bretherton 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 David Bott 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 Adrian Meldrum 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 £1,305,088.23 representing the new guideline limit of approximately 66% of the Company's issued ordinary share capital (excluding treasury shares) as at 30 April 2013 (the latest practicable date prior to publication of this notice). Of this amount, shares up to a nominal amount of £652,544.12, representing approximately 33% of the Company's issued ordinary share capital (excluding treasury shares) can only be allotted pursuant to a rights issue. The power will last until the conclusion of the next AGM in 2014.

Resolution 7 – Disapplication of statutory pre-emption rights

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

- (a) shares up to a nominal amount of £1,305,088.23 (representing two-thirds of the Company's issued ordinary share capital) on an offer to existing shareholders on a pre-emptive basis. However unless the shares are allotted pursuant to a rights issue (rather than an open offer), the Directors may only allot shares up to a nominal amount of £652,544.12 (representing one-third of the Company's issued share capital) (in each case subject to any adjustments, such as for fractional entitlements and overseas shareholders, as the Directors see fit); and
- (b) shares up to a maximum nominal value of £296,610.96, representing approximately 15% of the issued ordinary share capital of the Company as at 30 April 2013 (the latest practicable date prior to publication of this notice) otherwise than in connection with an offer to existing shareholders.

Company Information

DIRECTORS

Dr Peter Rowley (Non-executive Chairman)
Adrian Meldrum (Chief Executive Officer)
Philip Spinks (Chief Financial Officer)
Mike Edwards (Sales & Marketing Director)
Michael Bretherton (Non-executive Director)
Dr David Bott (Non-executive Director)

COMPANY SECRETARY

Philip Spinks

REGISTERED OFFICE

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

BROKER & NOMINATED ADVISOR

W H Ireland Limited
4 Colston Avenue
Bristol BS1 4ST

AUDITOR

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

REGISTRARS

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

COMPANY NUMBER

05845469 (England and Wales)

www.oxfordsurfaces.com



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