

Unaudited Interim Condensed  
Consolidated Financial Statements  
Oxford Advanced  
Surfaces Group plc



2010

## Business Overview

### **Science applied Onto® just about anything**

Oxford Advanced Surfaces Group plc (OAS) provides multinational industrial corporations with intellectual property (IP) solutions as a 'tool kit' to create engineered surface coatings and advanced materials. Our Onto® chemistry platform provides everything needed to create innovative products through the transformation of commodity industrial materials, and by opening new markets for the most desirable advanced materials.

OAS is the IP supplier of Onto® technology. Onto® was first developed in the University of Oxford Chemistry Department and is a proprietary technology that uniquely reacts with almost anything.

The power of our technology enables materials to be transformed for use in applications where they cannot currently be used, and can also enhance material performance properties. Lead applications of the technology include:

- development of adhesives to enable the use of high performance plastics in aerospace, automotive, electronics and engineering sectors;
- anti-reflective coatings to eliminate reflection from laptop screens and eye wear; and,
- composite materials to enable the strongest advanced fibres to be used in high performance products such as wind turbine blades.

OAS has an innovative business model. We will license our technology to major industrial corporations for exclusive use in their products. This model allows us to partner with companies with strong brands in dominant market positions. It enables OAS to focus on our core strength in the protection and development of our intellectual property, and transfers the manufacturing and regulatory requirements to our partners.

We target specific applications through analysis of unmet market needs and by demonstrating that Onto® can differentiate materials to meet these challenges. For each partner we will provide an Onto® 'tool kit' and collaborative

support to incorporate our chemistry into their finished products. We aspire to be the technology partner of choice for industrial product manufacturers who need to utilise advanced materials to develop their products.

### **Our Values**

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

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

### **Our Principles**

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

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

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## Chairman and Managing Director's Review

### Introduction

Progress during the first half of 2010 has been in line with our expectations. The five projects that the company focussed on at the start of the year are moving forwards on-plan. We have made particularly strong progress with our flagship anti-reflective coating (ARC) and adhesive products, running successful pilot product trials in each area.

Our ARC has passed the key optics and durability tests which are mandatory to launch a product for eyewear applications. Our adhesive technology continues to attract strong interest across the sector and we have made strides towards validating the technology for full commercial use.

Both technologies have been de-risked considerably since the beginning of the year and through the latter half of the year we will focus our attention on taking these compelling products to our target customers. For ARC this will initially be for eye wear applications, and for adhesives this will be for hot melt products.

As was expected, revenues for the half year were lower than those for the corresponding period in 2009. This is a natural consequence of sacrificing income from grants and speculative collaborations in a move to focus development on product and IP generation that will create license income more rapidly. The management team view this as an essential step that will stand the company in a strong position going forward.

### Commercial Development

As stated in our 2009 annual report we have focussed our development on three technology sectors. These are ARC, adhesion and composite materials. The 5 projects in our pipeline addressing these technology sectors are:

- Nanoparticle ARC: Ophthalmic and eyewear
- Reactive Onto® cross-linking: Hot melt adhesives
- Onto® controlled surface adhesion: Electronic displays/plastic electronics
- Onto® adhesion promotion of reinforcement materials: Composite materials
- Controlled particle modification and adhesion: Industrial chemicals

Nanoparticle ARC, reactive Onto® cross-linking and Onto® controlled surface adhesion are the most advanced technologies in the company pipeline. We expect these technologies to yield first license deals for the group, and each has potential to yield multiple license deals through roll out to different industry sectors and partners.

### Nanoparticle ARC:

- We have successfully completed our internal product development for eyewear applications with data showing a clear cost/performance benefit over existing marketed technologies.
- We have demonstrated superior processing flexibility that uniquely enables adoption into both high and low volume manufacturing environments with high quality optics.
- We have engaged and are conducting trials with several market leaders to qualify our product for license.
- Our ARC affords the opportunity for multiple licenses beyond eyewear. Additional sectors for adoption include, but are not limited to, reducing glare for display screens and improving light absorption into solar cells.

### Reactive Onto® cross-linking:

- We have developed a platform cross-linking technology that can increase the strength of plastics, including adhesives, creating new market space for hot melt adhesives to be used in applications where high load or increased operating temperatures occur.
- We have high level engagement with major adhesive companies and are progressing with trials to validate our technology. We expect a period of exclusive development will be required with one or more partners to bring this technology to market.
- Our cross-linker technology offers multiple license opportunities for subsequent roll out within reactive adhesives and as a material performance enhancer for engineering thermoplastics.

**Onto® controlled surface adhesion:**

- We have successfully completed our objectives for the TSB funded project on Customised Adhesion of Interlayers for Plastic Electronics (CAIPE). The project aimed to develop a much needed solution to the persistent interlayer delamination problems facing device manufacturers in Plastic Electronics.
- In collaboration with our project partner PETEC (Printable Electronics Technology Centre), our technology has delivered robust adhesion between the different interfaces in the multilayer flexible electronic devices. Impressively, this has been achieved using a solution printing process. A second phase of work will now commence with our partner to reach pilot scale and to market the technology to the global electronics sector.

**Onto® adhesion promotion of reinforcement materials and controlled particle modification and adhesion:**

- Technical development on composites and controlled particle modification and adhesion is also progressing in line with plan. These projects are considered likely to yield exclusive partnerships for pre-license product development in 2011.

**Technology and intellectual property**

We have commissioned and completed independent professional studies on the strength of our intellectual property (IP) in the ARC and hot-melt adhesion sectors. These reports were commissioned for sharing with parties interested in taking licenses for these products.

In the first half of 2010 we have also continued to strengthen our IP portfolio. We have filed one new patent in ARC and have another filing in draft for cross-linking. We intend to continue filing key IP patents to defend our technology as we develop the platform chemistries into commercial products.

**Resources**

Staff numbers have increased from 18 to 20 full time employees through the addition of full time technicians to support our product sampling and product specification initiatives.

Overall employee costs have dropped in the first half of 2010 compared to 2009 chiefly due to the reduction in the number of executive staff and a decrease in the size of the board.

We have put in place processes and best practices, including ISO 9001: 2008 accreditation, to deliver world class innovation with quality and speed and are well on our way to creating an enthusiastic and highly motivated high performance organisation.

**Outlook**

We remain in a strong position to deliver first commercial license deals and exclusive partnerships in the second half of 2010.

Following license we expect our ARC technology to require up to 12 months of further development for each specific application before first commercial product is available to the market.

For our Onto® chemistry applications in adhesion and composites we expect that, post license deals being signed, a further development period of up to 30 months will be required before first product launch due to the need for specific formulation design, scaled manufacturing, and completion of local and specific market regulatory clearance.

We are well placed to move through these key commercialisation milestones. We remain well capitalised and our low cash burn leaves us ideally placed to take advantage of these license opportunities and to deliver commercial products to market.

Michael Bretherton  
Chairman

Dr Mike Eason  
Managing Director

29 September 2010

Company Number: 5845469

## Group Financial Review

The unaudited interim consolidated financial statements have been prepared for the period to 30 June 2010.

### Trading

Group revenue for the period was £152,000 (2009: £217,000).

Of this £84,000 was generated from fee paying joint development agreements and individual projects. A further £68,000 was generated from grant income. The group continues to undertake a number of fee-free projects, particularly at the initial 'proof of concept' stage, in order to generate interest in the group's technology offerings.

### Grants

The group is engaged in a number of grant funded projects. The first is with the Technology Strategy Board which is a collaborative research project in the field of plastic electronics utilising the group's Onto® technology. The grant concludes at the end of September 2010 and we have met our objectives.

The second grant was a TSB Beacons grant supporting our research on anti-reflective coatings (ARC), specifically transferring the technology to polymer substrates rather than glass. This was successfully completed during the period.

The group also continued the Knowledge Transfer Partnership with the Department of Materials at the University of Oxford. We believe that this presents longer term opportunities for the group and is part of our development pipeline with ARC, particularly related to solar cells.

### Loss before Tax

Research and development costs increased to £467,000 from £403,000 driven by our investment in our key projects. A reduction in administrative expenses, falling to £378,000 from £464,000, was driven by our scale back in market research and business development, again flowing from our focus on the identified key products and customers.

Interest from deposits for the period amounted to £100,000 compared to the same period in 2009 at £196,000. This reduction is due to the expiry of previous

higher long-term deposit rates that are no longer available in the current market.

The loss before tax for the period was £795,000 (2009: £897,000) after charges of £127,000 (2009: £398,000) related to share based payments. Excluding share based payment charges the adjusted loss before tax for the year was £668,000 (2009: £499,000).

### Financial Position

The group has a robust balance sheet and the directors believe that it is sufficient to support the business for the foreseeable future. In particular the group has £8,172,000 of cash held in a combination of instant access and term deposits specifically for developing and commercialising its technology.

### Treasury activities and policies

The group carries a significant cash sum, which is managed prudently. In order to minimise the risk to the group's capital, the funds are invested across a number of financial institutions with strong credit ratings. The deposits range from instant access to 12 month term deposits and are regularly monitored by the Board.

### Share option scheme

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

A number of share options were exercised during the period. Further details are available in note 5 and 7.

**Philip Spinks**  
**Chief Financial Officer**

29 September 2010

Company Number: 5845469

## Condensed Consolidated Income Statement and Statement of Comprehensive Income

	Notes	Six months to 30 June 2010 (Unaudited) £'000	Six months to 30 June 2009 (Unaudited) £'000	Year to 31 December 2009 (Audited) £'000
<b>Continuing Operations</b>				
Revenue		152	217	383
Cost of sales		(75)	(45)	(110)
<b>Gross Profit</b>		77	172	273
Research and development costs		(467)	(403)	(773)
Other administrative costs		(378)	(464)	(860)
Share based payments		(127)	(398)	(816)
Total administrative costs		(972)	(1,265)	(2,449)
<b>Loss from Operations</b>		(895)	(1,093)	(2,176)
Finance income		100	196	322
<b>Loss Before Tax</b>	3	(795)	(897)	(1,854)
Income tax credit		–	–	247
<b>Loss for the Year and Total Comprehensive Loss for the Year</b>		(795)	(897)	(1,607)
Loss per share attributable to the equity holders of the company				
Total and continuing:				
– Basic and diluted	6	(0.41)	(0.48)	(0.87)

The notes on pages 9 to 11 form an integral part of these consolidated financial statements.

There were no items of comprehensive income for the periods covered by these statements and therefore the loss for the period is also the total comprehensive loss for the period net of tax.

## Condensed Consolidated Statement of Financial Position

	Notes	30 June 2010 (Unaudited) £'000	30 June 2009 (Unaudited) £'000	31 December 2009 (Audited) £'000
<b>Assets</b>				
<b>Non-Current Assets</b>				
Intangible assets		254	237	234
Property, plant and equipment		219	216	197
		473	453	431
<b>Current Assets</b>				
Stocks		17	21	6
Trade and other receivables		381	433	371
Short-term investments and cash and cash equivalents	4	8,172	9,017	8,778
		8,570	9,471	9,155
<b>Liabilities</b>				
<b>Current Liabilities</b>				
Trade and other payables		199	221	175
<b>Net Current Assets</b>		8,371	9,250	8,980
<b>Net Assets</b>		<b>8,844</b>	<b>9,703</b>	<b>9,411</b>
<b>Shareholders Equity</b>				
Called up share capital	5	1,957	1,856	1,856
Share premium		10,423	10,423	10,423
Merger reserve		6,369	6,369	6,369
Reverse acquisition reserve		(6,831)	(6,831)	(6,831)
Retained earnings		(3,864)	(4,795)	(5,505)
Share based payments reserve		790	2,681	3,099
<b>Total Equity Attributable to Equity Holders of the Company</b>		<b>8,844</b>	<b>9,703</b>	<b>9,411</b>



## Condensed Consolidated Statement of Changes in Equity

	Notes	Share equity £'000	Share premium £'000	Merger reserve £'000	Reverse acquisition reserve £'000	Retained earnings £'000	Share based payments reserve £'000	Total equity £'000
<b>At 1 January 2009</b>		1,856	10,423	6,369	(6,831)	(3,898)	2,283	10,202
Loss for the period to 30 June 2009		-	-	-	-	(897)	-	(897)
Share based payments		-	-	-	-	-	398	398
<b>At 30 June 2009</b>		1,856	10,423	6,369	(6,831)	(4,795)	2,681	9,703
Loss for period to 31 December 2009		-	-	-	-	(710)	-	(710)
Share based payments		-	-	-	-	-	418	418
<b>At 31 December 2009</b>		1,856	10,423	6,369	(6,831)	(5,505)	3,099	9,411
Shares issued on option exercise								
– cash consideration	5	101	-	-	-	-	-	101
Exercise of options								
– share based payments		-	-	-	-	2,436	(2,436)	-
Loss for the period to 30 June 2010		-	-	-	-	(795)	-	(795)
Share based payments		-	-	-	-	-	127	127
<b>At 30 June 2010</b>		1,957	10,423	6,369	(6,831)	(3,864)	790	8,844

## Condensed Consolidated Statement of Cash Flows

	Notes	Six months to 30 June 2010 (Unaudited) £'000	Six months to 30 June 2009 (Unaudited) £'000	Year to 31 December 2009 (Audited) £'000
<b>Cash flows from operating activities</b>				
Loss before tax		(795)	(897)	(1,854)
Depreciation and amortisation charges		55	32	95
Share based payment charges		127	398	816
Finance income		(100)	(196)	(322)
		(713)	(663)	(1,265)
(Increase)/decrease in stocks		(11)	(8)	7
(Increase)/decrease in trade and other receivables		(66)	51	150
(Decrease)/increase in trade and other payables		24	(46)	(92)
<b>Cash utilised by operations</b>				
		(766)	(666)	(1,200)
Income tax received		28	–	115
<b>Net cash outflow from operating activities</b>				
		(738)	(666)	(1,085)
<b>Cash flows from investing activities</b>				
Purchase of intangible assets		(27)	(58)	(62)
Purchase of property, plant and equipment		(70)	(47)	(84)
Increase in cash placed on deposit		(1,996)	(6,126)	(4,000)
Interest received		128	127	348
<b>Net cash outflow from investing activities</b>				
		(1,965)	(6,104)	(3,798)
<b>Net cash from financing activities</b>				
Share issue		101	–	–
<b>Net cash inflow from financing activities</b>				
		101	–	–
<b>Decrease in cash and cash equivalents</b>				
		(2,602)	(6,770)	(4,883)
<b>Cash and cash equivalents at beginning of period</b>				
		4,778	9,661	9,661
<b>Cash and cash equivalents at end of period</b>				
	4	2,176	2,891	4,778

# Notes to the Condensed Consolidated Financial Statements

## 1. GENERAL INFORMATION

Oxford Advanced Surfaces Group plc ("OAS" or "the company") and its subsidiaries (together "the group") provide multinational industrial corporations with intellectual property (IP) solutions as a 'tool kit' to create engineered surface coatings and advanced materials. Our Onto® chemistry platform provides everything needed to create innovative products through the transformation of commodity industrial materials, and by opening new markets for the most desirable advanced materials.

OAS is the IP supplier of Onto® technology. Onto® was first developed in the University of Oxford Chemistry Department and is a proprietary technology that uniquely reacts with almost anything.

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

### 1.1 Going Concern

Information on the business environment and the factors underpinning the group's future prospects and product portfolio are included in the chairman and managing director's review. 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 interim condensed consolidated financial statements.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These interim condensed consolidated financial statements have been prepared on the basis of the accounting policies expected to apply for the financial year to 31 December 2010 which are based on the recognition and measurement principles of International Financial Reporting Standards (IFRS) as adopted by the European Union (EU), and in accordance with the provisions of the Companies Act 2006 applicable to companies reporting under IFRS. The consolidated financial statements have been prepared under the historical cost convention. The group's presentation and functional currency is Sterling.

The interim financial statements do not include all of the information required for full annual financial statements and do not comply with all the disclosures in IAS 34 'Interim Financial Reporting'. Accordingly, whilst the interim statements have been prepared in accordance with IFRS, they cannot be construed as being in full compliance with IFRS.

The financial information for the year ended 31 December 2009 does not constitute statutory financial statements within the meaning of section 435 of the Companies Act 2006. A copy of the audited financial statements for that year has been delivered to the Registrar of Companies. The Auditors' opinion on those financial statements was unqualified, did not draw attention to any matters by way of an emphasis of matter paragraph, and it contained no statement under section 498(2) or section 498(3) of the Companies Act 2006.

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 accounting policies adopted are consistent with those followed in the preparation of the group's annual financial statements for the year ended 31 December 2009 which included implementation of the improvements to IFRSs issued in May 2008 and April 2009, except for the re-assessment of reportable operating segments as explained further in note 3. There are no new standards and interpretations to be adopted in these financial statements.

## Notes to the Condensed Consolidated Financial Statements

### 3. SEGMENTAL REPORTING

Following the group's focus on its leading technologies, management is of the opinion that the business operates two distinct reportable operating segments, effective from 1 January 2010. These are as follows:

- The reactive chemistry segment is focussed on developing and licensing novel chemistry that provides advances in cross-linking, adhesion and surface modification leading to new and advanced materials and material solutions. Our adhesion and composites projects sit within this segment.
- The particle technology segment is focussed on using and modifying particles for use in a wide range of applications, from optical coatings through to fast moving consumer goods and agrochemicals. Our anti-reflective coatings projects sit within this segment.

No operating segments have been aggregated to form the above reportable operating segments.

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 are regularly reviewed by the board of directors.

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

	<b>Reactive chemistry (Unaudited) £'000</b>	<b>Particle technologies (Unaudited) £'000</b>	<b>Corporate unallocated (Unaudited) £'000</b>	<b>Six months to 30 June 2010 (Unaudited) £'000</b>
<b>Revenue</b>				
Fee paying agreements	44	40	–	84
Grants	49	19	–	68
<b>Total revenue</b>	<b>93</b>	<b>59</b>	<b>–</b>	<b>152</b>
Cost of sales	(43)	(32)	–	(75)
Research and development costs	(291)	(176)	–	(467)
<b>Segment loss before tax</b>	<b>(241)</b>	<b>(149)</b>	<b>(405)</b>	<b>(795)</b>

The corporate unallocated loss before tax includes other administrative costs at £378,000 and share based payments at £127,000 offset by interest income at £100,000.

No other information is currently presented to the managing director on a segmental basis. Comparatives are not provided as the two reportable operating segments were not recognised, or measured prior to, 1 January 2010.

**4. SHORT TERM INVESTMENTS AND CASH AND CASH EQUIVALENTS**

	<b>30 June 2010 (Unaudited) £'000</b>	<b>30 June 2009 (Unaudited) £'000</b>	<b>31 December 2009 (Audited) £'000</b>
Short term investments	5,996	6,126	4,000
Cash and cash equivalents	2,176	2,891	4,778
	<b>8,172</b>	<b>9,017</b>	<b>8,778</b>

Under IFRS 7, cash held on long-term deposits that cannot readily be converted into cash has been classified as a short term investment. The maturities of these investments range between three and twelve months from the date of investment.

**5. CALLED UP SHARE CAPITAL**

<b>Issued and fully paid</b>	<b>Number of shares Number</b>	<b>Share capital £'000</b>
At 30 June 2009 and 31 December 2009	185,619,638	1,856
Issue of new ordinary shares 12 February 2010	10,121,003	101
	<b>195,740,641</b>	<b>1,957</b>

On 12 February 2010 the company issued 10,121,003 ordinary shares of 1 pence per share for cash consideration at par to satisfy the exercise of certain options held by former directors. The former directors also sold the shares received on exercise of the options held by them, together with a proportion of their existing shareholdings.

**6. LOSS PER SHARE (BASIC AND DILUTED)**

	<b>Six months to 30 June 2010 (Unaudited) £'000</b>	<b>Six months to 30 June 2009 (Unaudited) £'000</b>	<b>Year to 31 December 2009 (Audited) £'000</b>
Loss attributable to equity holders of the group	(795)	(897)	(1,607)
Weighted average number of shares in issue	193,336,204	185,619,638	185,619,638
<b>Basic and diluted loss per share (pence)</b>	<b>(0.41)</b>	<b>(0.48)</b>	<b>(0.87)</b>

The basic and diluted loss per share is based on the loss after tax for the year and the weighted average number of ordinary shares of 1 pence each in issue during the period. Diluted loss per share is the same as basic loss per share in a loss-making year since all potential shares from share options and warrants would be anti-dilutive.

**7. SHARE BASED PAYMENTS**

On 15 February 2010 options over 162,000 ordinary shares were granted to staff members of Oxford Advanced Surfaces Limited and Oxford Energy Technologies Limited as part of the group's reward and retention policy. The options were granted at the market price of 16.00p per share and vest 3 years from the date of issue. There are no performance criteria attached to the options and they expire 10 years from the date of issue if not exercised.



## Company Information

### EXECUTIVE DIRECTORS

Dr Mike Eason (Managing Director)  
Philip Spinks (Chief Financial Officer)

### NON-EXECUTIVE DIRECTORS

Michael Bretherton (Chairman)  
Dr David Bott

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