

Annual Report
Oxford Advanced
Services Group plc



2009

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

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

Company Information

EXECUTIVE DIRECTORS

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

NON-EXECUTIVE DIRECTORS

Michael Bretherton (Chairman)
Dr David Bott

REGISTERED OFFICE

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REGISTRARS

Capita IRG Plc
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BROKER

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LEGAL ADVISORS

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Francis House
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Charles Russell LLP
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COMPANY NUMBER

05845469 (England and Wales)

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Chairman's Statement

This is my first report to shareholders as the new Chairman of Oxford Advanced Surfaces Group plc. 2009 has been a year of many changes; focus and strategy, IP, and the composition of the Board.

Following a critical review of the business in early 2009 we instigated a number of changes and cost containment programmes to ensure that the business would survive the recession and come out the other side in a strong position to take advantage of any return to growth. We focused the attention of the research team on leading products with external support. The efforts of our cost reduction programme can be seen in the results as set out in the group financial review later in this annual report.

We continued to concentrate on securing IP to ensure that our technology was well protected, both for our benefit and that of our future customers. We have filed a further five patents in 2009 and we are still expanding the patent families to cover our new developments in anti-reflective coatings, particle deposition and the use of polymers in our formulations. All these new patents provide license potential and many are the subject of our current technology development and license negotiations.

In addition to these changes we have changed the Board composition. Marcelo, after his significant input into building the company, has moved on to new challenges. We would like to thank him for his efforts and the company he has left behind that is now well positioned to move to commercialisation. Marcelo has been replaced by Dr Mike Eason, who previously held the role of Chief Technical Officer. We are happy to welcome Mike to the Board and wish him every success. His review of the business and the future opportunities for the group appears on the following pages.

In addition, at the start of 2010 we also said farewell to Jeremy Scudamore and Andy Naylor. They were both influential in the foundation of the business and its funding success and development. Again, I would like to thank them for their contribution.

I also have the pleasure of welcoming Dr David Bott to the Board. His experience in technology growth businesses, the Technology Strategy Board and his former career are all beneficial to our business in its current stage of development. He is also a highly beneficial technical advisor to the management team, along with Dr Mark Moloney who continues to support the business in his role on the Scientific Advisory Board.

We have continued to increase the focus of our technology and are now concentrating on three key markets; adhesion, composites and anti-reflective coatings. These markets are both those where we have made most technical progress and where we also have strong commercial traction driven by customer need. All areas offer the opportunity of multiple licenses for various applications across a range of market sectors.

The group has recruited a leading team of scientists and executives with the breadth and depth of experience and skills to ensure that we are well placed to fully exploit our proprietary technology, both in the opportunities that already exist and those that will be created by the current market and economic conditions.

At the end of 2009 employee numbers excluding non-executive directors, had fallen from 22 to 17, of which 14 were focused on research and development programmes. We expect employee numbers to increase back up to around the 20 headcount level by the end of 2010 in order to manage our commercialisation and scale-up programme.

Outlook

The progress from research into commercialisation continues, and we believe that we are well positioned to agree initial license deals on our technology in 2010. We are well capitalised and agile enough to take advantage of the market opportunities as they present themselves.

I would like to thank all our employees for their dedication and hard work which have made possible significant technical and commercial progress in 2009 and has created a strong foundation for our advance to commercialisation in 2010.

Michael Bretherton
Chairman

26 April 2010

Company Number: 5845469

Managing Director's Review

Introduction

It is my pleasure to write my first annual review as Managing Director of Oxford Advanced Surfaces Group plc (OAS) in which I will share the management teams' vision and passion for our business, and the products that our world class team of technologists are moving towards commercialisation.

2009 has been a year of focused commercial development and one requiring tough decisions.

We have narrowed the existing product development pipeline to focus on three high value, high growth markets where we have identified unmet needs that can be solved using our technologies. The technology we offer will provide our customers a strong competitive advantage in their respective market places.

The initial markets we have identified for our technologies are:

- Adhesion
- Composites
- Anti-Reflective Coatings

We have been uncompromising in our pursuit of commercial success in these markets; we gained strong technical confidence, market knowhow and customer pull and have acted decisively and aggressively to control the IP in these sectors. We have also made changes in senior management to guarantee our preparedness for these targeted markets. Where we are carrying out preliminary technical work in other markets, we have been cautious and acted to protect our shareholder capital by closing programmes, or by sharing risk through fee paying collaborations.

We have concentrated resources to build technical credibility in our key target markets, sufficiently for us to engage at the most senior level with the respective market leaders. We have exchanged samples in both adhesive and anti-reflective coating applications and are progressing towards license deals.

Only the highest standards of commercial operations are acceptable within our business. We have now secured ISO 9001: 2008 accreditation for our quality systems, demanded more from our employees and brought in new talent to drive the business forwards.

The addition of Professor David Bott as non-executive director to the OAS board is a key appointment. David is a globally respected technologist who has led product development within our targeted key customer base at VP level. David brings with him a wealth of experience in successfully valuing and

developing technologies such as ours, and a worldwide network of director level contacts within the adhesives, composites and electronics markets.

Commercial Development

In 2008 and through early 2009 the company had 10-15 projects covering many diverse markets. Most of these projects were focused on specific customers with little opportunity to translate learning to another customer or market. We have now developed the pipeline such that each internal project must address a known unmet need in one of the three key strategic markets where the dominant market leaders are known and where the need is shared across the market.

This has enabled the number of projects in the pipeline to be cut to just 5 while allowing the management team to target multiple global organisations for each project.

We have stopped work on all projects that do not fit with this more focused strategy. For example, our solid state lighting project, which was funded in part by the Carbon Trust, was successfully completed. However, to secure commercial interest would require significant further resource so we have stopped this work until such time as we have established revenue from the initial three markets in focus.

Lead Markets

We have identified significant, high value unmet product needs in our three key target markets. Just a few of the many product needs are listed below:

Adhesives: Adhesives are one of the most fundamental technologies in any physical product. On average each new car contains -21Kg of adhesive and sealant. Structural adhesives are especially important and can replace welds and rivets and reduce the weight of body panels; for every 1Kg of structural adhesives used in a car, 25Kg in total weight is saved.

The removal of weight and stronger adhesive bonds offer the automotive industry more fuel efficient cars along with improved safety. There are on average 5000 welds per car; half of these could be replaced by adhesive – improving strength and corrosion resistance and reducing cost. The demand for adhesives in automotive applications is therefore strong.

However, the challenge for an adhesive to be adopted in the automotive sector is limited by a need for an adhesive which can glue the many different types of material used. Plastics are desired in preference to metals as a fabrication material due to advantages in both weight and material properties, however, adhesive bonds that join the most desirable plastics are difficult to achieve with current technology. Onto® technology provides

Managing Director's Review

ultra-strong adhesion to almost every material and therefore the opportunity exists to address and dominate this unmet need.

Onto® adhesion can also facilitate faster production times and miniaturisation of electronic devices. 1.5 billion mobile phones will be manufactured in 2010 and product lifetimes are as little as 6 months. Every new phone requires new tooling to manufacture the housing, and components. These are costly due to the need for precise structural design where screws and pins are attached to connect components together.

Adhesives offer portable electronic manufacturers cheaper and faster product development through cheaper and faster retooling, they also improve impact resistance of products in use. Mobile phones, blood glucose meters, MP3 players and satellite navigation devices will continue to be subject to greater in-use demands requiring lighter weight and rugged design which in turn will require use of lighter high performance plastics.

Onto® adhesives uniquely offer a solution that can address both existing and new high performance materials to give high strength durable bonds. The replacement of pins and fasteners also enables devices to be thinner and lighter.

Composites: Composites materials typically have fibres embedded throughout their structure. Fibres are glued intimately into a plastic during manufacture to provide the inherent strength of the composite product. Any impact on a composite material is dissipated throughout the structure by the fibres. The largest barrier to adoption of composite materials in higher volume sectors is the prohibitive manufacturing cost.

The preferred method to manufacture composites is to pour adhesive into a mould containing fibres, however, at present this is prohibitively expensive as fibres (such as carbon and polyethylene) are very inert and repel adhesive, dramatically increasing the time taken for the adhesive to infuse into the mould.

Onto® technology can modify fibre surfaces to change this interaction and dramatically accelerate infusion. Additionally, the increased contact of the adhesive with the fibre can also lead to increased strength in the composite. A key target market is for large wind turbine blades which presently require complex and expensive manufacturing and very high strength composite materials.

Anti-Reflective Coatings: Anti-reflective coatings have a strong market demand for applications as diverse as reducing reflections from ophthalmic coatings for eyewear, eliminating

reflections from display screens, and for improving transmission of light into solar cells.

Commercially available anti-reflective coatings for these markets use expensive batch processing vapour deposition techniques and performance is dependent on the complexity of the surface treatment.

OAS' anti-reflective treatment is based on a nano material that can be applied as a wet coat – a desirable technique for high speed manufacturing. These coatings can be uniquely formulated to enable adhesion to many different base materials from glass for solar cells, to polycarbonate for eyewear. We are targeting our first license deals at ophthalmic applications. This is a large market that will have fast and continued growth driven by the increasing average age of the global population.

Technology and intellectual property

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

During the year we have strengthened our IP positions still further with five more product application filings. Filings cover applications of the initial chemistry and the development of the use of modified polymers in various applications, including adhesion and particle deposition and the anti-reflective coating technology. We intend to continue filing key IP to defend our technology as we develop the platform chemistries into commercial products.

Resources

We have been successful at attracting top talent and establishing a lean and focused team. This is a testament to the strength of our technology and to the attractiveness of our prospects going forward.

Responding to the tough economic environment, at the beginning of the year we streamlined the business, focusing on leading opportunities. We now have 18 staff, excluding non-executive directors, of which 15 are focused on research and development. We also now have two non-executive directors.

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

2009 was a challenging business environment. The group has sharpened its products and strategy, along with removing cost. We have a lean, focused and highly capable team and a blue chip roster of commercial partners. Our outstanding technology combined with a number of developed products, that deliver value against known market needs, leaves us well positioned for 2010.

In 2010 we expect to deliver demonstrable evidence that our technologies have significant commercial value by securing at least two license deals for our technology.

Following license we expect our anti-reflective coatings 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 other Onto[®] chemistry applications in adhesion and composites we expect that, post license deals, a further development 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. At the end of 2009 we remain well capitalised and our low cash burn leaves us ideally placed to take advantage of these license opportunities and deliver commercial products to market.

Mike Eason

Managing Director

26 April 2010

Company Number: 5845469

Group Financial Review

The consolidated financial statements have been prepared for the year to 31 December 2009.

Trading

Group revenue for the year ended 31 December 2009 was £383,000 (2008: £337,000).

Of this £142,000 was generated from fee paying joint development agreements and individual projects. A further £241,000 was generated from grant income. The group also undertook 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.

The loss before tax for the year was £1,854,000 (2008: £3,149,000) after charges of £816,000 (2008: £1,854,000) related to share based payments. Excluding share based payment charges the adjusted loss before tax for the year was £1,038,000 (2008: £1,295,000).

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 second grant, which was successfully completed during the year, was with The Carbon Trust and addresses the key material limitations that currently prevent the uptake of solid-state lighting technology into widespread commercial and household use. Further development of this project is currently on hold whilst we concentrate on the delivery of our anti-reflective coatings and adhesive technologies.

The group also continued with the Knowledge Transfer Partnership with the Department of Materials at the University of Oxford to develop advanced materials which will enhance efficiency of current solar cells as well as increase efficiency for next generation cells. We believe that this presents longer term opportunities for the group and is part of our development pipeline with anti-reflective coatings.

Loss before Tax

Share based payments charges arise on a number of equity settled options that were in issue during the year. A number of new options were issued during the year and these are fully detailed in note 25.

Research and development costs reduced from £843,000 to £773,000 driven by focusing of the development pipeline on the three key technologies that we believe are closest to license. Similar cost reduction was reflected in other administrative

costs, falling from £1,068,000 to £860,000. This was driven by our restructuring and cost reduction programme in January 2009.

Interest from deposits for the year amounted to £322,000 (2008: £399,000). 12 month deposit rates from 2008 were maintained during much of 2009 but similar rates are no longer available in the market and ongoing interest will reflect current available rates.

Balance Sheet

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 £8,778,000 of cash held in instant access and term deposits specifically for developing and commercialising its technology.

Cash flow

The group's cash position reduced by £883,000 during the year (2008: increase of £2,877,000 due to the £5m fundraising).

The net cash outflow from operations amounted to £1,200,000 (2008: £1,892,000) whilst £84,000 (2008: £194,000) was invested in laboratory equipment, computers and office fittings to support business growth and technology development. Investment in new patents amounted to £62,000.

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 options were exercised post year end as part of the change in the group's board. Further details are available in note 28.

Philip Spinks

Chief Financial Officer

26 April 2010

Company Number: 5845469

Directors

Michael Bretherton (54)

Non-executive Chairman

Michael Bretherton graduated in Economics from University of Leeds and then worked as an accountant and manager with Pricewaterhouse 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. Michael has a depth of business experience and has been involved in the strategic evaluation and commercial implementation of a broad range of business initiatives, including acquisitions, disposals, restructurings, company start-ups, venture capital fundings and IPO floatation listings. He is currently finance director of AIM listed ORA Capital Partners Limited which he joined at its inception in early 2006. In addition, Michael is Chairman of Oxeco Plc and is a director of Nanoco Group Plc, Obtala Resources Plc and Oxford Nutrascience Group Plc, all of which are also AIM listed.

Philip Spinks (39)

Chief Financial Officer and Company Secretary

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

Dr. Mike Eason (35)

Managing Director

Mike Eason has a decade of experience in R&D management delivering innovation and leading high performance R&D teams. He has a Ph.D. in the development and application of advanced polymer materials from Warwick University. His experience spans from product concept development, initial technology idea generation, technology partnering, licence deal brokering all the way through to final commercialisation and product launch. Mike worked for Unilever for 7 years where he set up and led their Polymer research group and ran product development for various brands including Comfort. Subsequently Mike worked for Reckitt Benckiser for 3 years, initially as an external technology scout/broker and latterly as product innovation manager for Veet. Mike joined Oxford Advanced Surfaces in December 2008 as Chief Technology Officer.

Dr David Bott (56)

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 Statement

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

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

The company has established audit and remuneration committees of the board with formally delegated duties and responsibilities.

Independence

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.

Dr David Bott is considered to be able to act as an independent non-executive director by the board, notwithstanding his 0.02% shareholding.

The Board

The board currently comprises two executive and two non-executive directors.

Audit Committee

The audit committee comprises the two non-executive directors with Michael Bretherton as Chairman.

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

Remuneration Committee

The composition and role of the remuneration committee is set out in the directors' remuneration report on pages • and •. Full details of directors' remuneration and a statement on remuneration policy are set out in the report.

Nominations Committee

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

Internal Control

The board is responsible for maintaining a sound system of internal control. The board's measures are designed to manage,

not eliminate risk and such a system provides reasonable but not absolute assurance against material misstatement or loss.

Some key features of the internal control system are:

- Management accounts information and business risk issues are regularly reviewed by the Board who meet at least quarterly;
- The group has operational, accounting and employment policies in place;
- There is a clearly defined organisational structure and there are well-established financial reporting and control systems;
- Accounting systems and procedures will be reviewed at least annually as the business grows in order to ensure that they are appropriate to the size and complexity of the business;
- The board actively identifies and evaluates risks inherent in the business and ensures that appropriate controls and procedures are in place to manage these risks; and
- The precise accounting controls and procedures to be adopted by the group following an acquisition of a subsidiary business will be determined at the time an acquisition is made.

Going Concern

Information on the business environment and the factors underpinning the group's future prospects and product portfolio are included in the managing director's review and the directors' report.

The directors have considered their obligations in relation to the assessment of the going concern of the group and each statutory entity within it, and have reviewed the current forecasts and assumptions. The specific matters and assumptions included were discussed and minuted, including current customers and license opportunities, future development pipeline, scale-up and regulatory costs and cash burn.

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

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

Directors' Remuneration Report

Introduction

Companies with securities listed on AIM do not need to comply with either of the Directors' Remuneration Report Regulations 2002 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 company.

Remuneration Committee

The remuneration committee comprises the two non-executive directors with Dr David Bott as Chairman. It meets as required and at least biannually to consider all aspects of the remuneration of the executive directors of the group.

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

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

- **Basic annual salary (including directors' fees):**
The base salary is reviewed annually at the beginning of each year. The review process is undertaken by the remuneration committee and takes into account several factors, including the current position and development of the group, individual contribution and market salaries for comparable organisations.
- **Discretionary annual bonus:**
All executive directors and senior managers are eligible for a discretionary annual bonus which is paid in accordance with a bonus scheme developed by the remuneration committee. This takes into account individual contribution, business performance and technical and commercial progress, along with financial results.
- **Discretionary share option scheme:**
All executive directors and senior managers 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.
- **Other benefits:**
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. 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. Non-executives do not receive any pension payments or other benefits, nor do they participate in bonus schemes. Fees are based on a fixed fee.

Directors' Remuneration Report

DIRECTORS' REMUNERATION

Name of Director	Salaries and Fees £'000	Expenses £'000	Pension £'000	Total	Total
				December 2009 £'000	December 2008 £'000
Executive					
Marcelo Bravo (resigned 31 December 2009)	96	–	–	96	100
Dr Mike Eason (appointed 1 October 2009)	23	–	–	23	–
Philip Spinks	85	1	7	93	84
Non-executive					
Jeremy Scudamore (resigned 8 February 2010)	18	–	–	18	25
Michael Bretherton	10	–	–	10	10
Dr Mark Moloney (resigned 7 January 09)	–	–	–	–	22
Dr Andrew Naylor (resigned 8 February 2010)	15	–	–	15	25
David Norwood (resigned 31 December 08)	–	–	–	–	25
	247	1	7	255	291

The pension scheme is a salary sacrifice scheme that the group established for the benefit of all directors and employees.

DIRECTORS' SHARE OPTIONS

Name of Director	1 January 2009	Granted/ (lapsed)	Total 31 December 2009	Exercise price	Exercisable from	Date of expiry
Executive						
Marcelo Bravo (EMI)	2,693,251	–	2,693,251	1.00p	31/12/2008	31/12/2017
Marcelo Bravo (EMI)	2,693,251	–	2,693,251	1.00p	31/12/2009	31/12/2017
Dr Mike Eason (EMI)	270,000	–	270,000	16.50p	11/12/2011	14/01/2019
Dr Mike Eason (EMI)	80,000	–	80,000	1.00p	11/12/2011	14/01/2019
Dr Mike Eason (EMI)	–	276,666	276,666	22.50p	01/12/2012	01/12/2019
Dr Mike Eason (Unapproved)	–	723,334	723,334	22.50p	01/12/2012	01/12/2019
Philip Spinks (EMI)	135,135	–	135,135	1.00p	03/03/2011	03/03/2018
Philip Spinks (Unapproved)	934,579	–	934,579	53.50p	03/03/2011	03/03/2018
Philip Spinks (Unapproved)	–	200,000	200,000	28.00p	31/12/2009	28/05/2019
Non-executive						
Jeremy Scudamore (Unapproved)	1,585,946	–	1,585,946	1.00p	31/12/2007	31/12/2017
Jeremy Scudamore (Unapproved)	1,150,168	–	1,150,168	1.00p	31/12/2008	31/12/2017
Jeremy Scudamore (Unapproved)	1,150,168	–	1,150,168	1.00p	31/12/2009	31/12/2017
Dr Mark Moloney (Unapproved)	424,110	–	424,110	1.00p	31/12/2008	31/12/2017
Dr Mark Moloney (Unapproved)	424,109	–	424,109	1.00p	31/12/2009	31/12/2017
Dr Andrew Naylor (Unapproved)	424,110	–	424,110	1.00p	31/12/2008	31/12/2017
Dr Andrew Naylor (Unapproved)	424,109	–	424,109	1.00p	31/12/2009	31/12/2017
	12,388,936	1,200,000	13,588,936			

All options have a contractual life of 10 years from the date of issue. The options held by executive and non-executive directors, other than Dr Mike Eason and Philip Spinks, were originally issued by Oxford Advanced Surfaces Limited and on the reverse acquisition were replaced by new options in Oxford Advanced Surfaces Group plc.

The new options issued to Dr Mike Eason on 1 December 2009 carry both time and performance vesting criteria. They will vest in one third tranches on 1 December 2012, 2013 and 2014 and will only vest if the share price has increased by a compound rate of 15% from the price at the date of grant and remained there for 30 consecutive days during the year prior to the date of vesting. If any cumulative share price target is missed but any of the following cumulative targets are reached during the following years, then the options for both the current tranche and any previously unvested tranches will vest.

The number of options held by directors has reduced following the change in the composition of the board made in February 2010. Details of the options that have been exercised are disclosed in note 28.

DIRECTORS' SHARE HOLDINGS

The interest of the directors in the shares of the company at 31 December 2009 were:

Name of Director	Total December 2009 £'000	Total December 2008 £'000
Executive		
Marcelo Bravo (resigned 31 December 2009)	5,425,002	5,425,002
Mike Eason (appointed 1 October 2009)	–	–
Philip Spinks	11,500	11,500
Non-executive		
Jeremy Scudamore (resigned 8 February 2010)	729,790	729,790
Michael Bretherton	435,000	435,000
Dr Mark Moloney (resigned 7 January 09)	10,120,527	10,120,527
Dr Andrew Naylor (resigned 8 February 2010)	859,719	859,719
David Norwood (resigned 31 December 08)	10,061,374	10,061,374

The market price of the shares was 21.5 pence at 31 December 2009 and the range during the year was 6 pence to 30 pence.

Since the year end the holdings of the directors have changed due to sales and purchases following the change in the composition of the board. Details of the new directors' holdings are disclosed in note 28.

Directors' Report

The directors present their report with the financial statements of the group for the year to 31 December 2009.

PRINCIPAL ACTIVITY

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.

BUSINESS REVIEW

A review of the group's performance and future prospects is included in the chairman's statement, managing director's review and the group financial review.

RESEARCH AND DEVELOPMENT

A review of the group's research and development activities is included in the managing director's review.

BASIS OF PREPARATION

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union. In accordance with IFRS, the combination of Oxford Advanced Surfaces Group Plc and Oxford Advanced Surfaces Limited in 2007 has been accounted for as a reverse acquisition. Further details are provided in note 3.1 of the financial statements.

RESULTS AND DIVIDENDS

The consolidated financial statements have been prepared for the year to 31 December 2009.

The loss before tax for the year was £1,854,000 (2008: £3,149,000). Of this £816,000 (2008: £1,854,000) related to share based payment charges. Excluding share based payments the loss before tax for the year was £1,038,000 (2008: £1,295,000).

The directors do not recommend a dividend in respect of the year to 31 December 2009 and no dividends were paid during the year under review.

DIRECTORS AND THEIR INTERESTS

The directors who have held office during the year and the subsequent period to signing were as follows:

Executive

Marcelo Bravo (resigned 1 October 2009)
Dr Mike Eason (appointed 1 October 2009)
Philip Spinks

Non-executive

Jeremy Scudamore (resigned 8 February 2010)
Michael Bretherton
Dr David Bott (appointed 8 February 2010)
Dr Mark Moloney (resigned 7 January 2009)
Dr Andrew Naylor (resigned 8 February 2010)

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

The beneficial interests of the directors and persons connected with them in the issued share capital of the company as at 31 December 2009 were as follows:

Name	Ordinary £0.01 shares	Percentage of share capital
Executive		
Marcelo Bravo	5,425,002	2.92
Dr Mike Eason	–	0.00
Philip Spinks	11,500	0.01
Non-executive		
Jeremy Scudamore	729,790	0.39
Michael Bretherton	435,000	0.23
Dr David Bott	–	0.00
Dr Mark Moloney	10,120,527	5.45
Dr Andrew Naylor	859,719	0.46

Michael Bretherton is in addition interested in 60,000 shares in ORA Capital Partners Limited (“ORA”), representing 0.06 per cent of ORA’s issued ordinary share capital. ORA are a major shareholder as detailed below.

Details of directors’ share options are shown in the Directors’ Remuneration Report.

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 date of this document an interest in three percent or more of the issued ordinary share capital of the company:

Name	Ordinary £0.01 shares	Percentage of share capital
ORA (Guernsey) Limited	49,950,002	25.52
IP2IPO Limited	28,503,396	14.56
Oxford University	17,264,429	8.82
Dr Mark Moloney	10,120,527	5.17
Jon-Paul Griffiths	10,120,527	5.17
David Norwood	10,061,374	5.14
Richard Griffiths	9,709,998	4.96
Close Asset Management Limited	8,801,500	4.50

RISK REVIEW

Given the current straightforward nature of the business, the group’s directors are of the opinion that analysis of key performance indicators (“KPIs”) is not necessary for an understanding of the development, performance and position of the entity. However, the directors believe that relevant KPIs for internal measurement are size and quality of development pipeline, progress towards income and cash burn rate.

Directors' Report

The key business risks affecting the group are set out below:

Early stage operations

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

Research and development risks

The group is involved in complex scientific areas and industry experience in such areas indicates a high incidence of delay or failure to produce results. In addition, novel chemical reagents may face potential regulatory barriers which by their nature will vary, for example, by application, geography, volume of business and which are therefore difficult to anticipate at present.

Attraction and retention of key employees

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

Intellectual Property

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

Commercial success and market acceptance

There can be no assurance that any current or future product development will be successfully developed into any commercially viable product or products. The group's success will depend on the market's acceptance of its products and there can be no guarantee that this will be forthcoming or that the group's technologies will succeed as an alternative to other new products. If a mass market for any product or process fails to develop or develops more slowly than anticipated, the group may fail to recover the losses incurred in the development process and may never achieve profitability.

The group's strategy of developing products to meet identified market needs and where applicable under joint development agreements with leading companies in large and valuable market applications is designed to maximise the chance of adoption and drive mass market uptake.

OUTLOOK

2009 was a challenging business environment. The group has focused its products and strategy, along with removing cost. We have a blue chip roster of commercial partners combined with outstanding technology, and now a number of developed products that deliver value against market needs.

In 2010 we expect to deliver demonstrable evidence that our technologies have significant commercial value by securing at least two license deals for our technology.

We are well placed to move through these key commercialisation milestones. At the end of 2009 we remain well capitalised and our low cash burn leaves us ideally placed to take advantage of these license opportunities and deliver products to market.

POST BALANCE SHEET EVENTS

Post balance sheet events are disclosed in note 28.

EMPLOYMENT POLICIES

The group supports employment of disabled people wherever possible through recruitment, by retention of those who become disabled and generally through training, career development and promotion.

POLITICAL AND CHARITABLE CONTRIBUTIONS

The group has made no payments in respect of political and charitable contributions during the year.

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 2009 trade creditor days for the group were 15 (2008: 33) and for the company were 62 (2008: 20). The trade creditors' days are based upon total annualised cost of sales and administrative expenses excluding wages and salaries.

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.

Directors' 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.

ON BEHALF OF THE BOARD

Philip Spinks

Company Secretary

26 April 2010

Company Number: 5845469

Statement of Directors' Responsibilities

The directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that year. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- state whether applicable IFRSs as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

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

The directors are responsible for the maintenance and integrity of the group web site and legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Directors' statement pursuant to the Disclosure and Transparency Rules

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

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

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

By order of the Board

Philip Spinks

Company Secretary

Independent Auditors' 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 2009 which comprise the group income statement, group statement of comprehensive income, the group and parent company statement of financial position, the group and parent statement of changes in equity, the group and parent cash flow statement and the related notes 1 to 28. 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.

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

Respective responsibilities of directors and auditors

As explained more fully in the directors' responsibilities statement set out on page 15, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit 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.

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 2009 and of the group's loss for the year then ended;

- the group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion 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 matters where the Companies Act 2006 requires us to report to you if, in our opinion:

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

Debbie O'Hanlon (Senior statutory auditor)

for and on behalf of Ernst & Young LLP, Statutory Auditor
Reading
26 April 2010

Consolidated Income Statement and Statement of Comprehensive Income

For the year ended 31 December 2009

	Notes	Year to 31 December 2009 £'000	Year to 31 December 2008 £'000
CONTINUING OPERATIONS			
Revenue		383	337
Cost of sales		(110)	(120)
GROSS PROFIT			
		273	217
Research and development costs		(773)	(843)
Other administrative costs		(860)	(1,068)
Share based payments	25	(816)	(1,854)
Total administrative costs		(2,449)	(2,922)
LOSS FROM OPERATIONS			
		(2,176)	(3,548)
Finance income	6	322	399
LOSS BEFORE TAX			
		(1,854)	(3,149)
Income tax credit	7	247	–
LOSS FOR THE YEAR AND TOTAL COMPREHENSIVE LOSS FOR THE YEAR			
	8	(1,607)	(3,149)
Loss per share attributable to the equity holders of the company:			
Total and continuing:			
– Basic and diluted	22	(0.87)	(1.74)

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

The company has taken advantage of Section 408 of the Companies Act 2006 and has not included its own profit and loss account in these financial statements.

The parent company's loss for the year to 31 December 2009 was £859,000 (2008: £1,976,000).

There were no items of comprehensive income for the year to 31 December 2009 or 2008 and therefore the loss for the year is also the total comprehensive loss for the year net of tax.

Consolidated and Company Statement of Financial Position

For the year ended 31 December 2009

	Notes	Group		Company	
		31 December 2009 £'000	31 December 2008 £'000	31 December 2009 £'000	31 December 2008 £'000
ASSETS					
NON-CURRENT ASSETS					
Investments	9	–	–	20,581	20,501
Intangible assets	10	234	185	–	–
Property, plant and equipment	11	197	195	–	–
Loan to subsidiaries	13	–	–	1,523	1,065
		431	380	22,104	21,566
CURRENT ASSETS					
Stocks	12	6	13	–	–
Trade and other receivables	13	371	415	168	187
Short-term investments and cash and cash equivalents	14	8,778	9,661	8,709	9,612
		9,155	10,089	8,877	9,799
LIABILITIES					
CURRENT LIABILITIES					
Trade and other payables	15	175	267	60	58
NET CURRENT ASSETS		8,980	9,822	8,817	9,741
LIABILITIES					
NON-CURRENT LIABILITIES					
Loan from subsidiaries		–	–	58	401
NET ASSETS		9,411	10,202	30,863	30,906
SHAREHOLDERS EQUITY					
Called up share capital	16	1,856	1,856	1,856	1,856
Share premium	17	10,423	10,423	10,423	10,423
Merger reserve	18	6,369	6,369	18,669	18,669
Reverse acquisition reserve	19	(6,831)	(6,831)	–	–
Retained earnings	20	(5,505)	(3,898)	(3,184)	(2,325)
Share based payments reserve	25	3,099	2,283	3,099	2,283
TOTAL EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY		9,411	10,202	30,863	30,906

The financial statements were approved by the board of directors and authorised for issue on 26 April 2010 and were signed on its behalf by:

Dr Mike Eason
Director

Philip Spinks
Director

Company Number: 5845469

Consolidated Statement of Changes in Equity

For the year ended 31 December 2009

	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 2008	1,779	5,817	6,369	(6,831)	(749)	387	6,772
Loss for the year to 31 December 2008	-	-	-	-	(3,149)	-	(3,149)
Shares issued – cash consideration (note 16)	77	4,925	-	-	-	-	5,002
Shares issued – cash expenses (note 16)	-	(277)	-	-	-	-	(277)
Shares issued – warrants issued (note 16)	-	(42)	-	-	-	42	-
Share based payments (note 25)	-	-	-	-	-	1,854	1,854
At 31 December 2008	1,856	10,423	6,369	(6,831)	(3,898)	2,283	10,202
Loss for the year to 31 December 2009	-	-	-	-	(1,607)	-	(1,607)
Share based payments (note 25)	-	-	-	-	-	816	816
At 31 December 2009	1,856	10,423	6,369	(6,831)	(5,505)	3,099	9,411

Company Statement of Changes in Equity

For the year ended 31 December 2009

	Share Equity £'000	Share Premium £'000	Merger Reserve £'000	Retained Earnings £'000	Share Based Payment Reserve £'000	Total Equity £'000
At 1 January 2008	1,779	5,817	18,669	(349)	387	26,303
Loss for the year to 31 December 2008	-	-	-	(1,976)	-	(1,976)
Shares issued – cash consideration (note 16)	77	4,925	-	-	-	5,002
Shares issued – cash expenses (note 16)	-	(277)	-	-	-	(277)
Shares issued – warrants issued (note 16)	-	(42)	-	-	42	-
Share based payments – subsidiary companies (note 25)	-	-	-	-	44	44
Share based payments (note 25)	-	-	-	-	1,810	1,810
At 31 December 2008	1,856	10,423	18,669	(2,325)	2,283	30,906
Loss for the year to 31 December 2009	-	-	-	(859)	-	(859)
Share based payments – subsidiary companies (note 25)	-	-	-	-	80	80
Share based payments (note 25)	-	-	-	-	736	736
At 31 December 2009	1,856	10,423	18,669	(3,184)	3,099	30,863

Consolidated and Company Cash Flow Statements

For the year ended 31 December 2009

	Notes	Group		Company	
		Year to 31 December 2009 £'000	Period to 31 December 2008 £'000	Year to 31 December 2009 £'000	Period to December 2008 £'000
Cash flows from operating activities					
Cash outflow from operations	24	(1,200)	(1,892)	(450)	(700)
Income tax paid		115	(10)	–	(10)
Net cash outflow from operating activities		(1,085)	(1,902)	(450)	(710)
Cash flows from investing activities					
Purchase of intangible assets		(62)	–	–	–
Purchase of property, plant and equipment		(84)	(194)	–	–
Increase in cash placed on deposit		(4,000)	–	(4,000)	–
Interest received		348	248	348	236
Net cash inflow from investing activities		(3,798)	54	(3,652)	236
Net cash from financing activities					
Share issue		–	77	–	77
Share premium		–	4,925	–	4,925
Expenses of issue of share capital		–	(277)	–	(277)
Proceeds/(repayment) from loan from subsidiary		–	–	(343)	401
Outflow from loan to subsidiary		–	–	(458)	(1,065)
Net cash inflow/(outflow) from financing activities		–	4,725	(801)	4,061
(Decrease)/increase in cash and cash equivalents		(4,883)	2,877	(4,903)	3,587
Cash and cash equivalents at beginning of year	14	9,661	6,784	9,612	6,025
Cash and cash equivalents at end of year	14	4,778	9,661	4,709	9,612

Notes to the Financial Statements

1. GENERAL INFORMATION

Oxford Advanced Surfaces Group plc (“the company”) and its subsidiaries (together “the group”) 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 intellectual property (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 managing director’s review and the directors’ report. The financial position of the group is outlined in the group financial review. The directors believe that the diversity of the technology portfolio and customer base should allow it to continue to operate in the current economic climate. The directors confirm that they are satisfied that the group has adequate resources to continue in business for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These 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. The group’s presentation and functional currency of the parent 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 3.

2.1 Business combinations and goodwill

Business combinations prior to 1 January 2009

On acquisition, the assets and liabilities and contingent liabilities of subsidiaries are measured at their fair values at the date of acquisition. Any excess of cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill. The results of the subsidiaries acquired during the year are included in the group income statement from the effective date of acquisition. When necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by the group. All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Goodwill is initially measured at cost being the excess of the consideration transferred over the group’s net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the group’s cash generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units. Goodwill is recognised as an asset and reviewed for impairment at least annually. Any impairment is recognised immediately in the income statement and cannot subsequently be reversed.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Business combinations from 1 January 2009

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs incurred are expensed.

When the group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value as at the acquisition date through profit and loss.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability will be recognised in accordance with IAS 39 either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it shall not be re-measured until it is finally settled within equity.

Goodwill is initially measured at cost being the excess of the consideration transferred over the group's net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the group's cash generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

2.2 Revenue recognition

Revenue is measured as the fair value of the consideration received or receivable in the normal course of business, net of discounts, VAT and other sales related taxes and is recognised to the extent that it is probable that the economic benefits associated with the transaction will flow in to the group.

The group's revenues to date comprise customer fees earned under joint development agreements and individual project development programmes, and grant income recognised. Revenues from customers are recognised following contractual entitlement. This typically comprises either time based fees, time and materials expended or time and technical milestones achieved, as agreed between the parties.

2.3 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.

Notes to the Financial Statements

Where the group receives non-monetary grants, the asset and the grant are recorded at nominal amounts and released to the income statement over the expected useful life of the relevant asset by equal annual instalments.

2.4 Investments in subsidiaries

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

2.5 Research and development

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

The criteria for recognising expenditure as an asset are:

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

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

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

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

2.6 Patents and licenses

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

2.7 Plant and equipment

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

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

2.8 Impairment of assets

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

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

2.9 Stocks

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

2.10 Financial assets and liabilities

2.10.1 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.

2.10.2 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.

2.11 Cash and cash equivalents

Cash and cash equivalents comprise cash at hand and term deposits. Some of these deposits are for longer than 3 months, but these deposits are recoverable at an interest penalty and thus are considered to be cash equivalents. 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.

Notes to the Financial Statements

2.12 Leases

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

2.13 Taxation

The tax expense or credit represents the sum of both current tax and deferred tax arising during the period. The company's receivable for the current tax year is calculated by using tax rates and legislation that is enacted or substantively enacted at the balance sheet date.

Deferred income tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Deferred tax is calculated using tax rates that have been enacted or substantially enacted by the balance sheet date and are expected to apply to the year when the asset is realised or the liability is settled. Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised. Deferred tax is charged or credited in the income statement, except when it relates to items credited or charged directly to equity, in which case the deferred tax is also dealt with in equity.

2.14 Share-based payments

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 the Black–Scholes Merton option pricing model 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.

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

2.15 Changes in accounting policy and disclosures

The accounting policies adopted are consistent with those of the previous financial year except as follows:

The group has adopted the following new and amended IFRS and IFRIC interpretations as of 1 January 2009:

- IFRS 2 Share-based Payment: Vesting Conditions and Cancellations effective 1 January 2009
- IFRS 2 Share-based Payment: Group Cash-settled Share-based Payment Transactions effective 1 January 2010 (early adopted)
- IFRS 3 Business Combinations (Revised) and IAS 27 Consolidated and Separate Financial Statements (Amended) effective 1 July 2009 (early adopted) including consequential amendments to IFRS 7, IAS 21, IAS 28, IAS 31 and IAS 39
- IFRS 8 Operating Segments effective 1 January 2009
- IAS 1 Presentation of Financial Statements effective 1 January 2009
- Improvements to IFRSs (May 2008)
- Improvements to IFRSs (April 2009, early adopted)

The adoption of the above standards or interpretations had no impact on the financial statements or performance of the group.

Improvements to IFRSs

In May 2008 and April 2009 the IASB issued a number of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard. The adoption of the following amendments resulted in changes to accounting policies but did not have any impact on the financial position or performance of the group.

- IFRS 8 Operating Segment Information
- IAS 1 Presentation of Financial Statements
- IAS 36 Impairment of Assets.

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

- IFRS 7 Financial Instruments: Disclosures
- IAS 8 Accounting Policies, Change in Accounting Estimates and Error
- IAS 10 Events after the Reporting Period
- IAS 19 Employee Benefits
- IAS 23 Borrowing Costs (Revised)
- IAS 27 Consolidated and Separate Financial Statements
- IAS 32 Financial Instruments: Presentation and IAS 1 Puttable Financial Instruments and Obligations Arising on Liquidation
- IAS 34 Interim Financial Reporting
- IAS 38 Intangible Assets
- IAS 39 Financial Instruments: Recognition and Measurement
- IFRIC 9 Reassessment of Embedded Derivatives
- IFRIC 16 Hedges of a Net Investment in a Foreign Operation
- IFRIC 18 Transfers of Assets from Customers

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

3.1 Reverse acquisition accounting

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

3.2 Impairment of goodwill and intangible assets

The group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in note 2.8. The recoverable amounts of cash-generating units have been determined based on value in use. The value in use assessment requires estimates to be made, including likely cash flows derived from license opportunities.

The group tests other intangible assets and tangible assets with definite lives for impairment if and when indicators of impairment arise. Again, in considering potential impairment of investments in subsidiaries, the group estimates the fair value less costs to sell of subsidiaries based on either the net present value of future cashflows, or the net assets at the review date.

Notes to the Financial Statements

3.3 Share based payments

Employee and director compensation in the form of shares are provided under share option schemes. The fair value of the employee services received in exchange for the grant of options is recognised as an expense. The expense is based on a number of assumptions disclosed in note 25. The selection of different assumptions could affect the future results of the group.

All share-based payment arrangements granted that had not vested prior to 31 December 2009 are recognised in the group financial statements.

4. SEGMENTAL REPORTING

The group only operates one class of business. At 31 December 2009 the group has one segment of operation – the development and commercialisation of advanced materials and technology solutions. The group's operations are all based in the UK and services are all performed in the UK. There is no geographic split of revenues by location of customer, as most customers are global corporations, and the business is not considered to be seasonal.

Grant income recognised in revenue totalled £241,000 for the year to 31 December 2009 (2008 – £45,000). All other revenue comprised customer fees (as described in note 2.2).

5. EMPLOYEES AND DIRECTORS

	Year to 31 December 2009 £'000	Period to 31 December 2008 £'000
Wages and salaries	860	850
Social security costs	87	94
Pension costs	15	–
Share-based payment (note 21)	816	1,854
	1,778	2,798

The average monthly number of employees of the group (including executive directors) were:

	Year to 31 December 2009 £'000	Year to 31 December 2008 £'000
Administration	4	4
Technical	14	11
	18	15

Directors' emoluments

The following disclosures are in respect of the emoluments paid to the directors of the company for the year to 31 December 2009.

	Year to 31 December 2009 £'000	Year to 31 December 2008 £'000
Salaries	247	290
Expenses	1	1
Pension	7	–
	255	291

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.

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

	Number of options at 31 December 2009 £'000	Number of options at 31 December 2008 £'000
Marcelo Bravo	5,386,502	5,386,502
Dr Mike Eason	1,350,000	–
Philip Spinks	1,269,714	1,069,714
Dr Andrew Naylor	848,219	848,219
Jeremy Scudamore	3,886,282	3,886,282
Dr Mark Moloney	848,219	848,219

Further details regarding the share option scheme can be found in note 25 of the accounts.

6. FINANCE INCOME

	Year to 31 December 2009 £'000	Year to 31 December 2008 £'000
Bank interest receivable	322	399

7. INCOME TAX EXPENSE

a) Current Tax

The current tax credit in the income statement for the year is detailed below. Current tax expense is lower than the standard rate of corporation tax in the UK of 28.0% (2008: 28.5%). The differences are reconciled below:

	Year to 31 December 2009 £'000	Year to 31 December 2008 £'000
(Loss) before tax	(1,854)	(3,149)
Loss on ordinary activities multiplied by the standard rate of corporation tax in the UK of 28% (2008: 28.5%)	(519)	(897)
Effects of:		
Expenses not deductible for tax purposes	223	528
Additional deduction for R&D expenditure	(99)	(89)
Capital allowances in advance of depreciation	4	(38)
Unrelieved tax losses and other deductions arising in the year	495	496
Prior year adjustment	143	–
Tax credit	247	–

Notes to the Financial Statements

Unrelieved tax losses of £3,674,416 at 31 December 2009 (2008: £3,190,384) remain available indefinitely to offset against future taxable trading profits of the companies in which the losses arose. No deferred tax asset has been recognised in respect of the losses as recoverability is uncertain.

The company has successfully reclaimed research and development tax credits (£143,000 as shown above) from HM Revenue & Customs in respect of prior periods. The tax credits above represent the claims for 2008 and 2009 and have been recognised in the income statement.

b) Deferred Tax

Unrecognised deferred tax assets at 28%:

	Year to 31 December 2009 £'000	Year to 31 December 2008 £'000
Tax losses carried forward	1,029	893
Accelerated capital allowances	(53)	(46)
Share based payments	664	627
Deferred tax assets (unrecognised)	1,640	1,474

Deferred tax assets have not been recognised as the recoverability is uncertain.

8. OPERATING LOSS

Operating loss is stated after charging:

	Year to 31 December 2009 £'000	Year to 31 December 2008 £'000
Research and development costs	773	843
Share based payments	816	1,854
Depreciation of property, plant and equipment – owned	82	51
Amortisation of intangible assets – patents	13	10
Auditor's remuneration		
Fees payable to the company's auditor for audit of the parent and consolidated accounts	15	15
Fees payable to the company's auditor and its associates for other services	7	–
– The audit of the company's subsidiaries pursuant to legislation	20	20
– Tax services	9	9

9. INVESTMENTS

Company

	Shares in Subsidiary Undertakings £'000
COST AND NET BOOK VALUE	
At 1 January 2008	20,457
Additions	44
At 31 December 2008	20,501
Additions	80
At 31 December 2009	20,581

Additions for the year to 31 December 2009 and 2008 represent the IFRS 2 charge for share options granted to the employees of the group's subsidiaries, Oxford Advanced Surfaces Limited ("OAS") and Oxford Energy Technologies Limited ("OET").

No impairment of either OAS or OET is considered necessary at either balance sheet date. The recoverable amounts of the investments were assessed using value in use calculations. These calculations use pre-tax cash flow projections based on the board's view of cash flows derived from technology license and future royalties over a five year period. Cash flows beyond five years are extrapolated with a growth rate of 3%. The pre-tax discount rate applied is 20%.

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

Notes to the Financial Statements

10. INTANGIBLE ASSETS

Group

	Goodwill £'000	Patents & licences £'000	Total £'000
COST			
At 1 January 2008	16,145	209	16,354
Additions	–	–	–
As 31 December 2008	16,145	209	16,354
Additions	–	62	62
At 31 December 2009	16,145	271	16,416
AMORTISATION & IMPAIRMENT			
At 1 January 2008	16,145	14	16,159
Amortisation for year	–	10	10
At 31 December 2008	16,145	24	16,169
Amortisation for year	–	13	13
At 31 December 2009	16,145	37	16,182
NET BOOK VALUE			
At 31 December 2008	–	185	185
At 31 December 2009	–	234	234

All the goodwill in the group arose on the reverse acquisition of Kanyon Plc (“Kanyon”) including its only subsidiary Solar Labs Plc (“Solar”) by Oxford Advanced Surfaces Limited (“OAS”). All goodwill arising from the reverse acquisition was allocated for impairment testing purposes to the Solar cash-generating unit. The OAS cash-generating unit has no goodwill allocated to it. Kanyon was subsequently renamed as Oxford Advanced Surfaces Group Plc (“OASG”) and Solar as Oxford Energy Technologies Limited (“OET”).

An impairment review of goodwill was performed at 31 December 2007 and an impairment loss of £16,145,000 was recognised which represents the write-down of goodwill to its recoverable amount which was the net assets of Solar at the date of acquisition.

The average remaining life of patents is 18 years.

Company

The company had no intangible assets during the year.

11. PROPERTY, PLANT AND EQUIPMENT**Group**

	Plant and machinery £'000	Fixtures & fittings £'000	Computer equipment £'000	Totals £'000
COST				
At 1 January 2008	41	4	16	61
Additions	158	6	30	194
At 31 December 2008	199	10	46	255
Additions	82	–	2	84
At 31 December 2009	281	10	48	339
DEPRECIATION				
At 1 January 2008	6	1	2	9
Charge for year	38	2	11	51
At 31 December 2008	44	3	13	60
Charge for year	64	2	16	82
At 31 December 2009	108	5	29	142
NET BOOK VALUE				
At 31 December 2008	155	7	33	195
At 31 December 2009	173	5	19	197

No assets were held under finance leases. During the year grant funding for capital investment amounting to £16,000 was received in addition to the £6,000 carried forward from 2008. Of this £20,000 was released into the income statement against related depreciation.

Company

The company had no property, plant and equipment during the year.

12. STOCKS

	Group		Company	
	31 December 2009 £'000	31 December 2008 £'000	31 December 2009 £'000	31 December 2008 £'000
Raw materials	6	13	–	–

Notes to the Financial Statements

13. TRADE AND OTHER RECEIVABLES

	Group		Company	
	31 December 2009 £'000	31 December 2008 £'000	31 December 2009 £'000	31 December 2008 £'000
Current:				
Trade receivables	–	124	–	–
Other receivables	316	244	151	165
Prepayments	55	47	17	22
	371	415	168	187
Non-current:				
Loans to subsidiaries	–	–	1,523	1,065
	–	–	1,523	1,065

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 2009 or 31 December 2008.

14. SHORT TERM INVESTMENTS AND CASH EQUIVALENTS

	Group		Company	
	31 December 2009 £'000	31 December 2008 £'000	31 December 2009 £'000	31 December 2008 £'000
Short term investments	4,000	–	4,000	–
Cash at bank and in hand	4,778	9,661	4,709	9,612
	8,778	9,661	8,709	9,612

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

15. TRADE AND OTHER PAYABLES

	Group		Company	
	31 December 2009 £'000	31 December 2008 £'000	31 December 2009 £'000	31 December 2008 £'000
Current:				
Trade payables	26	101	19	12
Social security and other taxes	28	49	13	13
Other payables	1	6	–	–
Accrued expenses	120	111	28	33
	175	267	60	58
Non-current:				
Loans from subsidiaries	–	–	58	401
	–	–	58	401

The directors consider that the carrying amounts of trade and other payables approximates to their fair values.

16. CALLED UP SHARE CAPITAL

Group & Company	Number of Shares No.	Share Capital £'000
Issued and fully paid		
At 1 January 2008	177,924,038	1,779
Issue of new ordinary shares 1 August 2008	7,695,600	77
At 31 December 2008 and 2009	185,619,638	1,856

On 1 August 2008 the company issued 7,311,000 ordinary shares of 1 penny each for cash consideration at a premium of 64 pence per share. The shares were issued to the open market. The directors subscribed for a further 384,600 ordinary shares of 1 penny each for cash consideration at a premium of 64 pence per share. The market price on the date of issue was 83 pence.

17. SHARE PREMIUM

	Group		Company	
	31 December 2009 £'000	31 December 2008 £'000	31 December 2009 £'000	31 December 2008 £'000
At beginning of year	10,423	5,817	10,423	5,817
Arising on shares issued for cash	–	4,925	–	4,925
Expenses relating to share issue – cash	–	(277)	–	(277)
Expenses relating to share issue – warrants	–	(42)	–	(42)
At end of the year	10,423	10,423	10,423	10,423

18. MERGER RESERVE

	Group		Company	
	31 December 2009 £'000	31 December 2008 £'000	31 December 2009 £'000	31 December 2008 £'000
At beginning of year	6,369	6,369	18,669	18,669
At 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 and is still applicable under the Companies Act 2006.

19. REVERSE ACQUISITION RESERVE

	Group		Company	
	31 December 2009 £'000	31 December 2008 £'000	31 December 2009 £'000	31 December 2008 £'000
At beginning of year	(6,831)	(6,831)	–	–
At end of the year	(6,831)	(6,831)	–	–

As disclosed in note 1, the reverse acquisition reserve relates to the reverse acquisition of Canyon Plc and Solar Labs Plc by Oxford Advanced Surfaces Limited on 31 December 2007.

Notes to the Financial Statements

20. PROFIT AND LOSS RESERVE

	Group		Company	
	31 December 2009 £'000	31 December 2008 £'000	31 December 2009 £'000	31 December 2008 £'000
At beginning of the year	(3,898)	(749)	(2,325)	(349)
Loss during the year	(1,607)	(3,149)	(859)	(1,976)
At end of the year	(5,505)	(3,898)	(3,184)	(2,325)

21. SHARE BASED PAYMENT RESERVE

	Group		Company	
	31 December 2009 £'000	31 December 2008 £'000	31 December 2009 £'000	31 December 2008 £'000
At beginning of year	2,283	387	2,283	387
Charge in respect of share options for the year	816	1,854	736	1,810
Charge in respect of share options issued to employees of subsidiary companies	–	–	80	44
Charge in respect of share warrants for the year	–	42	–	42
At end of the year	3,099	2,283	3,099	2,283

Further details on the above share based payment charges are given in note 25.

22. LOSS PER SHARE (BASIC AND DILUTED)

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 penny each in issue during the year. The exercise prices of share options and warrants in issue are below the year end market price of the Company's shares and are anti-dilutive. Diluted loss per share is therefore the same as basic loss per share.

	Year to 31 December 2009 £'000	Year to 31 December 2008 £'000
Loss attributable to equity holders of the group (£'000)	(1,607)	(3,149)
Weighted average number of ordinary shares in issue	185,619,638	181,128,781
Basic & diluted loss per share (pence)	(0.87)	(1.74)

23. FINANCIAL RISK MANAGEMENT

Capital risk management

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

Significant accounting policies

Details of significant accounting policies and methods adopted, including criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset and financial liability are disclosed in note 2 in the financial statements.

Categories of financial instrument

Financial assets

	Year to 31 December 2009 £'000	Year to 31 December 2008 £'000
Loan assets and other receivables (including cash and cash equivalents)	9,094	10,029

Financial liabilities

	Year to 31 December 2009 £'000	Year to 31 December 2008 £'000
Trade and other payables	55	156

The carrying amount reflected above represents the group's maximum exposure to credit risk for such loans and receivables. There were no out of term financial assets or liabilities.

Currently the group does not undertake any material transactions denominated in foreign currencies.

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.

	31 December 2009 £'000		31 December 2008 £'000	
	+1%	-1%	+1%	-1%
	£'000	£'000	£'000	£'000
Loss for year	48	(48)	97	(97)
Equity	48	(48)	97	(97)

Company

The financial risk factors faced by the company are similar to those of the group and are not disclosed separately.

Notes to the Financial Statements

24. NOTES TO THE GROUP AND COMPANY CASH FLOW STATEMENTS

a. Reconciliation of loss before tax to cash flows from operations

	Group		Company	
	31 December 2009 £'000	31 December 2008 £'000	31 December 2009 £'000	31 December 2008 £'000
Loss before tax	(1,854)	(3,149)	(859)	(1,976)
Depreciation and amortisation charges	95	61	–	–
Share based payment expense	816	1,854	736	1,810
Finance income	(322)	(399)	(322)	(387)
	(1,265)	(1,633)	(445)	(553)
(Increase)/decrease in stocks	7	(13)	–	–
(Increase)/decrease in trade and other receivables	150	(155)	(7)	31
(Decrease)/Increase in trade and other payables	(92)	(91)	2	(178)
Cash outflow from operations	(1,200)	(1,892)	(450)	(700)

b. Major Non-Cash Transactions

Group and company

The company has non-cash share based payment transactions as disclosed in note 25.

25. SHARE BASED PAYMENTS

Equity-settled share option scheme

During the year to 31 December 2009, Oxford Advanced Surfaces Group Plc had the following share-based payment arrangements:

Vesting and exercise dates	At 1 January 2009	Granted/ (lapsed)	Total December 2009	Exercise price	Exercisable at 31 December 2008	Exercisable at 31 December 2009
31/12/2007 – 31/12/2017	10,969,222	–	10,969,222	1.00p	6,277,585	10,969,222
03/03/2011 – 03/03/2018	270,270	–	270,270	1.00p	–	–
03/03/2011 – 03/03/2018	934,579	–	934,579	53.50p	–	–
03/03/2011 – 03/03/2018	135,135	–	135,135	74.00p	–	–
11/08/2011 – 14/01/2019	238,235	–	238,235	16.50p	–	–
11/08/2011 – 14/01/2019	111,765	–	111,765	1.00p	–	–
11/12/2011 – 14/01/2019	270,000	–	270,000	16.50p	–	–
11/12/2011 – 14/01/2019	80,000	–	80,000	1.00p	–	–
31/12/2011 – 14/01/2019	81,618	(7,041)	74,775	16.50p	–	–
31/12/2009 – 28/05/2019	–	200,000	200,000	28.00p	–	200,000
01/12/2012 – 01/12/2019	–	1,000,000	1,000,000	22.50p	–	–
	13,090,824	1,192,959	14,283,783		6,277,585	11,169,222

There are no vesting conditions, other than continuation of service, attached to the share options apart from the options issued in 2009 to Dr Mike Eason. This is covered in the Directors' Remuneration Report.

The new options issued to Dr Mike Eason on 1 December 2009 carry both time and performance vesting criteria. They will vest in one third tranches on 1 December 2012, 2013 and 2014 and will only vest if the share price has increased by a compound rate of 15% from the price at the date of grant and remained there for 30 consecutive days during the year prior to the date of vesting. If any cumulative share price target is missed but any of the following cumulative targets are reached during the following years, then the options for both the current tranche and any previously unvested tranches will vest.

The estimated fair value of the options (other than the new options for Dr Mike Eason) has been calculated using the Black-Scholes-Merton model. The model inputs were an exercise price of between 1 penny and 74 pence, expected volatility of between 50% and 133% (using an annualised standard deviation of the continuously compounded historical rates of return on the share), a share price of between 16.5 pence and 74 pence and a risk free interest rate of between 0.5% and 4.5%.

The estimated fair value of the 1 December 2009 options issued to Dr Mike Eason has been calculated using the Binomial model. The model inputs were an exercise and share price of 22.5 pence, vesting prices of 34.2 pence to 45.3 pence, and expected volatility of 50% (using an annualised standard deviation of the continuously compounded historical rates of return on all the shares listed on AIM), and an risk free interest rate of 0.5%. The directors are of the belief that using a market based volatility for any options is a more accurate measure to calculate the fair value as the group's share price has suffered from unusual volatility due to issues such as liquidity.

The total fair value of the options granted to be included in the financial statements to 31 December 2009 is £816,000. The options outstanding at 31 December 2009 had a weighted average remaining contractual life of 8.2 years. The fair value of the options issued during the year was £117,000.

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

Notes to the Financial Statements

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 was 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 £42,000. This was taken to the share premium account as a cost related to the issue of new ordinary shares.

26. RELATED PARTIES AND DIRECTORS' TRANSACTIONS

Group

During the year under review Dr Mark Moloney received fees for chairing the Scientific Advisory Board for the group. This amounted to £22,000. In 2008 Dr Mark Moloney received fees through Oxford University Consulting in relation to technical support to the group for the sum of £17,000 in addition to his non-executive director's fees. There were no amounts due at the end of either year. In addition in 2008 a sum of £2,000 was paid to ORA Capital Limited in relation to taxation services. There were no amounts due at the end of the year. Michael Bretherton was and remains a director of ORA Capital Limited.

In addition Oxford Advanced Surfaces Group plc made pension contributions on behalf of employees of Oxford Advanced Surfaces Limited amounting to £8,460. These contributions represent the salary sacrifice element made by employees under the defined contribution scheme operated by the Group on behalf of all employees.

Company

In 2008 a sum of £2,000 was paid to ORA Capital Limited in relation to taxation services. There were no amounts due at the end of the year. Michael Bretherton was and remains a director of ORA Capital Limited.

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 5.

27. ULTIMATE CONTROLLING PARTY

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

28. POST BALANCE SHEET EVENTS

On 9 February 2010 the former directors, Marcelo Bravo, Jeremy Scudamore and Andy Naylor indicated a desire exercise and sell all of the options held by them together with a proportion of their existing shareholdings.

	Options Exercised		Shares sold, including options		Shares held following disposal	
	Number	Price	Number	Price	Number	%
Marcelo Bravo	5,386,502	1p	8,000,000	5p	2,811,504	1.44%
Jeremy Scudamore	3,886,282	1p	4,386,282	5p	229,790	0.12%
Andy Naylor	848,219	1p	1,507,938	5p	200,000	0.10%

The former directors all indicated that they had no current intention of undertaking any further disposals and Marcelo Bravo has given an undertaking that he will not sell any of his remaining shareholding for a period of 12 months without the company's prior permission. In addition Marcelo Bravo has indicated that he will gift 125,000 to the London Business School following this transaction, reducing his holding to 2,686,504 (1.37%).

Also on 9 February 2010 the current board of directors agreed to purchase shares from the former directors as set out below:

	Previous Holding		Shares purchased		New Holding	
	Number	Price	Number	Price	Number	%
Mike Eason	–	0.00%	20,000	5p	20,000	0.01%
Philip Spinks	11,500	0.01%	50,000	5p	61,500	0.03%
Michael Bretherton	435,000	0.22%	200,000	5p	635,000	0.32%
David Bott	–	0.00%	36,000	5p	36,000	0.02%

The 10,121,003 new ordinary shares of 1 penny each were admitted to trading on AIM on 12 February 2010. The total issued share capital of the company following admission of these shares was 195,740,641 ordinary shares of 1 penny each.

On 15 February 2010 162,000 options were issued to staff members of OAS and OET as part of the group's reward and retention policy. The options were issued at the market price of 16.00p 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.

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 Charles Russell LLP, 7600 The Quorum, Oxford Business Park North, Oxford OX4 2JZ on 25 May 2010 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 resolutions 7 and 8 will be proposed as special resolutions.

ORDINARY BUSINESS

1 Report and accounts

To receive and adopt the Company's annual accounts for the financial year ended 31 December 2009 together with the directors' report and Independent Auditors' report on those accounts.

2 Re-election of a director

To re-elect as a director Philip Spinks who retires in accordance with Article 122 of the Company's Articles of Association and is eligible for re-election.

3 Re-election of a director

To re-elect as a director Dr Mike Eason who retires in accordance with Article 128 of the Company's Articles of Association and is eligible for re-election.

4 Re-election of a director

To re-elect as a director Dr David Bott who retires in accordance with Article 128 of the Company's Articles of Association and is eligible for re-election.

5 Re-appointment of auditors

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

SPECIAL BUSINESS

6 Directors authority to allot shares

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

- 6.1 comprising equity securities (as defined by section 560 of the 2006 Act) up to an aggregate nominal amount of £1,291,888.23 (such amount to be reduced by the nominal amount of any Relevant Securities allotted under paragraph 6.2 below) in connection with an offer by way of a rights issue:
- (a) to holders of ordinary shares in proportion (as nearly as may be practicable) to their respective holdings; and
 - (b) to holders of other equity securities as required by the rights of those securities or as the directors otherwise consider necessary,

but subject to such exclusions or other arrangements as the Board may deem necessary or expedient in relation to treasury shares, fractional entitlements, record dates, legal or practical problems in or under the laws of any territory or the requirements of any regulatory body or stock exchange; and

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

provided that (unless previously revoked, varied or renewed) this authority shall expire 15 months from the date of passing this resolution, or, if earlier, the conclusion of the next Annual General Meeting of the Company held after the passing of this

resolution save that the Company may before such expiry make an offer or enter into an agreement which would or might require Relevant Securities to be allotted after such expiry and the directors may allot Relevant Securities in pursuance of such offer or agreement as if the authority conferred hereby had not expired.

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

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

- (a) a share in the Company other than a share allotted pursuant to:
 - (i) an employee share scheme (as defined by section 1166 of the 2006 Act);
 - (ii) a right to subscribe for a share or shares in the Company where the grant of the right itself constituted a Relevant Security under paragraph (b) below; or
 - (iii) a right to convert securities into a share or shares in the Company where the grant of the right itself constituted a Relevant Security under paragraph (b) below.
- (b) any right to subscribe for or to convert any security into a share or shares in the Company other than a right to subscribe for or convert any security into a share or shares allotted pursuant to an employee share scheme (as defined by section 1166 of the 2006 Act).

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

7 To disapply statutory pre-emption rights

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

- 7.1 the allotment of equity securities in connection with an offer by way of a rights issue:
 - (a) to holders of ordinary shares in proportion (as nearly as may be practicable) to their respective holdings; and
 - (b) to holders of other equity securities as required by the rights of those securities or as the directors otherwise consider necessary,

but subject to such exclusions or other arrangements as the Board may deem necessary or expedient in relation to treasury shares, fractional entitlements, record dates, legal or practical problems in or under the laws of any territory or the requirements of any regulatory body or stock exchange; and
- 7.2 the allotment of equity securities up to an aggregate nominal value of £41,627.80 to directors, former directors and employees of the Company in connection with the grant and exercise of share options under the Company's Enterprise Management Investment Scheme and Unapproved Option Scheme as adopted at the general meeting of the Company on 21 December 2007 and revised on 16 December 2008; and
- 7.3 the allotment of equity securities (otherwise than pursuant to paragraphs 7.1 and 7.2 above) up to a maximum aggregate nominal amount of £293,610.96.

This authority shall expire 15 months from the date of passing this resolution, or, if earlier, the conclusion of the next Annual General Meeting of the Company held after the passing of this resolution, provided that the Company may, before the expiry

Notice of the Annual General Meeting

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.

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.

8 That:

8.1 the Articles of Association of the Company be amended by deleting all the provisions of the Company's Memorandum of Association which, by virtue of section 28 CA 2006, are to be treated as provisions of the Company's Articles of Association; and

8.2 the Articles of Association produced to the meeting and initialled by the chairman of the meeting for the purpose of identification be adopted as the Articles of Association of the Company in substitution for, and to the exclusion of, the existing Articles of Association.

By Order of the Board

Philip Spinks
Company Secretary

Oxford Advanced Surfaces Group plc

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

NOTES:**Entitlement to attend and vote**

- 1 Pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001, the Company specifies that to be entitled to attend and vote at the Meeting, only those members registered in the Register of Members of the Company at 10.30 a.m. on 23 May 2010 (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 If you are not a member of the Company but you have been nominated by a member of the Company to enjoy information rights, you do not have a right to appoint any proxies under the procedures set out in these notes.
- 6 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.
- 7 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 you either select the "Discretionary" option or 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

- 8 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 Capita Registrars, PXS, 34 Beckenham Road, Beckenham, BR3 4TU; and
- received by Capita Registrars not less than 48 hours before the time for the holding of the Meeting or adjourned meeting together (except in the case of appointments made electronically) with any authority (or a certified copy of such authority) under which it is signed.

CREST members should use the CREST electronic proxy appointment service and refer to note 9 below in relation to the submission of a proxy appointment via CREST.

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

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

Notice of the Annual General Meeting

Electronic appointment of proxies

- 9 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: RA10) 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

- 10 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

- 11 To change your proxy instructions simply submit a new proxy appointment using the methods set out above. Note the cut-off time for receipt of proxy appointments (see above) also apply in relation to amended instructions; any amended proxy appointment received after the cut-off time will be disregarded

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 Capita Registrars, PXS, 34 Beckenham Road, Beckenham, BR3 4TU.

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

- 12 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 Capita Registrars, PXS, 34 Beckenham Road, Beckenham, BR3 4TU 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

13 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

14 As at 6.00 p.m. on Friday, 24 April 2010, the Company's issued share capital comprised 195,740,641 ordinary shares of 1 penny each. Each ordinary share carries the right to one vote at a general meeting of the Company and, therefore, the total number of voting rights in the Company as at 6.00 p.m. on Friday, 24 April 2010 is 195,740,641.

Communication

15 EXCEPT AS PROVIDED ABOVE, MEMBERS WHO HAVE GENERAL QUERIES ABOUT THE MEETING SHOULD CALL THE CAPITA REGISTRARS SHAREHOLDER HELPLINE ON 0871 664 0300 OR, IF CALLING FROM OUTSIDE THE UK ON +44 208 639 3399 (CALLS COST 10P PER MINUTE PLUS NETWORK EXTRAS). 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 ANNUAL GENERAL MEETING

Resolutions 1 to 6 are proposed as ordinary resolutions. This means that for each of those resolutions to be passed, more than half of the votes cast must be in favour of the resolution. Resolutions 7 and 8 are proposed as special resolutions. This means that for each of these resolutions 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 2009.

Resolution 2 – Reappointment of Directors

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

Resolution 3 – Reappointment of Directors

Resolution 3 deals with the reappointment of Dr Mike Eason 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 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 5 – Reappointment of Auditors

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

Resolution 6 – Allotment of share capital

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

In December 2008, the Association of British Insurers ("ABI") revised its guidelines on directors' authority to allot shares (in line with the recommendations of the report issued in November 2008 by the Rights issue Review Group). The ABI's guidelines previously stated that the directors' general authority to allot shares should be limited to an amount equal to one-third of the Company's issued share capital. The new guidelines state that ABI members will permit, and treat as routine, resolutions seeking authority to allot shares representing up to two-thirds of the Company's issued share capital. The guidelines provide that the extra routine authority (that is the authority to allot shares representing the additional one-third of the Company's issued share capital) can only be used to allot shares pursuant to a fully pre-emptive rights issue.

In light of these revised guidelines, the Board considers it appropriate that directors be granted authority to allot shares in the capital of the Company up to a maximum nominal amount of £1,291,888.23 representing the new guideline limit of approximately 66% of the Company's issued ordinary share capital (excluding treasury shares) as at Friday, 24 April 2010 (the latest practicable date prior to publication of this notice). Of this amount, shares up to a nominal amount of £645,944.12, representing approximately 33% of the Company's issued ordinary share capital (excluding treasury shares) can only be allotted pursuant to a rights issue. The power will last until the conclusion of the next AGM in 2011.

Resolution 7 – Disapplication of statutory pre-emption rights

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

- (a) shares up to a nominal amount of £1,291,888.23 (representing two-thirds of the Company's issued ordinary share capital) on an offer to existing shareholders on a pre-emptive basis. However unless the shares are allotted pursuant to a rights issue (rather than an open offer), the directors may only allot shares up to a nominal amount of £645,944.12 (representing one-third of the Company's issued share capital) (in each case subject to any adjustments, such as for fractional entitlements and overseas shareholders, as the directors see fit); and

- (b) shares up to a maximum nominal value of £293,610.96, representing approximately 15% of the issued ordinary share capital of the Company as at 24 April 2010 (the latest practicable date prior to publication of this notice) otherwise than in connection with an offer to existing shareholders.

Resolution 8 – Adoption of new articles of association

It is proposed in resolution 8 to adopt new articles of association (the “New Articles”) in order to update the Company’s current articles of association (the “Current Articles”) primarily to take account of the implementation on 1 October 2009 of the last parts of the Companies Act 2006.

The principal changes introduced in the New Articles are summarised below. Other changes, which are of a minor, technical or clarifying nature and also some more minor changes which merely reflect changes made by the Companies Act 2006 or conform the language of the New Articles with that used in the model articles for public companies produced by the Department for Business, Enterprise and Regulatory Reform have not been noted below. The New Articles showing all the changes to the Current Articles are available for inspection at the offices of the Company at Centre for Innovation & Enterprise, Begbroke Science Park, Sandy Lane, Yarnton, OX5 1PF from and until the time of the Meeting and at the offices of Charles Russell LLP at 7600 The Quorum, Oxford Business Park North, Oxford OX4 2JZ from 15 minutes before the Meeting until it ends.

Summary of principal changes to the Company’s Articles of Association

1. The Company’s objects

The provisions regulating the operations of the Company are currently set out in the Company’s memorandum and articles of association. The Company’s memorandum contains, among other things, the objects clause which sets out the scope of the activities the Company is authorised to undertake. This is drafted to give a wide scope.

The Companies Act 2006 significantly reduces the constitutional significance of a company’s memorandum. The Companies Act 2006 provides that a memorandum will record only the names of subscribers and the number of shares each subscriber has agreed to take in the company. Under the Companies Act 2006 the objects clause and all other provisions which are contained in a company’s memorandum, for existing companies at 1 October 2009, are deemed to be contained in the company’s articles of association but the company can remove these provisions by special resolution.

Further the Companies Act 2006 states that unless a company’s articles provide otherwise, a company’s objects are unrestricted. This abolishes the need for companies to have objects clauses. For this reason the Company is proposing to remove its objects clause together with all other provisions of its memorandum which, by virtue of the Companies Act 2006, are treated as forming part of the Company’s articles of association as from 1 October 2009. Resolution 8.1 confirms the removal of these provisions for the Company. As the effect of this resolution will be to remove the statement currently in the Company’s memorandum of association regarding limited liability, the New Articles also contain an express statement regarding the limited liability of shareholders.

2. Authorised share capital and unissued shares

The Companies Act 2006 abolishes the requirement for a company to have an authorised share capital and the New Articles reflect this. Directors will still be limited as to the number of shares they can at any time allot because allotment authority continues to be required under the Companies Act 2006, save in respect of employee share schemes. As such the New Articles contain no reference to authorised share capital.

3. Conflicts of interest

The Companies Act 2006 sets out directors’ general duties which largely codify the existing law but with some changes. Under the Companies Act 2006 a director must avoid a situation where he has, or can have, a direct or indirect interest that conflicts, or possibly may conflict with the company’s interests. The requirement is very broad and could apply, for example, if a director becomes a director of another company or a trustee of another organisation. The Companies Act 2006 allows directors of public companies to authorise conflicts and potential conflicts, where appropriate, where the articles of association contain a provision to this effect. The Companies Act 2006 also allows the articles of association to contain other provisions for dealing with directors’

EXPLANATORY NOTES TO THE NOTICE OF THE ANNUAL GENERAL MEETING

conflicts of interest to avoid a breach of duty. The New Articles give the directors authority to approve such situations and to include other provisions to allow conflicts of interest to be dealt with in an appropriate way.

There are safeguards which will apply when directors decide whether to authorise a conflict or potential conflict. First, only directors who have no interest in the matter being considered will be able to take the relevant decision, and secondly, in taking the decision the directors must act in a way they consider, in good faith, will be most likely to promote the company's success. The directors will be able to impose limits or conditions when giving authorisation if they think this is appropriate.

4. Electronic and web communications

Provisions of the Companies Act 2006 enable companies to communicate with members by electronic and/or website communications. The New Articles continue to allow communications to members in electronic form and, in addition, they also permit the Company to take advantage of the new provisions relating to website communications. Before the Company can communicate with a member by means of website communication, the relevant member must be asked individually by the Company to agree that the Company may send or supply documents or information to him by means of a website, and the Company must either have received a positive response or have received no response within the period of 28 days beginning with the date on which the request was sent. The Company will notify the member (either in writing, or by other permitted means) when a relevant document or information is placed on the website and a member can always request a hard copy version of the document or information.

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