

 oxford
advanced surfaces
group plc



science applied



Oxford Advanced
Surfaces Group plc

Report & Accounts
for the year ended
31 December 2008

Business Overview

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

Science applied ONTO[®] just about anything[®]

We develop and commercialise advanced material solutions that are cost effective and simple to implement via our platform surface modification technology.

The company's ONTO[®] technology can be used to modify a broad range of materials to deliver enhanced performance and enable new opportunities.

Initial applications include particle delivery, advanced adhesion, barrier properties and anti-reflective coatings in markets including fast moving consumer goods, lighting and displays and advanced composites.

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

The company is working with commercial partners to develop advanced material solutions for a range of applications including:

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

Oxford Advanced Surfaces Limited was originally spun out of Oxford University in 2006 and is now listed on London's Alternative Investment Market (AIM) through the reverse acquisition of Oxford Advanced Surfaces Group Plc (formerly Kanyon Plc).

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

Business Overview

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.

Our Mission

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

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Chairman's Statement

This is my second report to shareholders as Chairman of Oxford Advanced Surfaces Group Plc, and I am pleased to report significant progress, both technically and commercially. OAS is developing a number of leading technologies to deliver a high value change to current materials and processes which will enable innovation, cost reduction or environmental improvement for our customers.

The Group has continued to build on its initial business development work leading to a number of joint development agreements and individual development projects with major companies around the world. In addition, the Group has commenced a number of in-house development projects in solid state lighting and optical coatings, leveraging our existing technology in fast growing innovative and valuable new markets.

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 exploit fully our proprietary technology both in the opportunities that already exist and those that will be created by the current market and economic conditions. We offer high value opportunities to our customers in areas such as cost reduction, better performance and environmental benefit.

At the end of 2008 employee numbers, excluding non-executive directors, had risen from 7 to 22, of which 17 were focused on research and development programmes. In early 2009 we carried out a review of our activities and implemented a restructuring programme which reduced these employee numbers to 17 (13 focused on research and development). This was combined with a refocusing of our strategy to prioritise leading applications whilst responding to the tougher economic climate and preserving our cash resources for the future.

The executive management team was completed in 2008 with the recruitment of the Chief Financial Officer in February, Vice President Sales & Marketing in August and finally a Chief Technology Officer in December.

We also reviewed the composition of the Board; Dave Norwood resigned as a non-executive director on 31 December 2008 and Mark Moloney resigned on 7 January 2009 to take up the role of chair of the Group's Scientific Advisory Board. I would like to thank both for their dedication and support in getting the Group to its current position.

In August 2008 we successfully raised an additional £5 million in new capital, securing our immediate future in a difficult economic environment. We have instilled an efficient and cost conscious ethos into the business along with a robust control environment and regular oversight by the Board, Audit and Remuneration Committees.

Outlook

We are confident that we will continue to build on 2008's performance. Future activities for 2009 include the filing of new patents to protect our intellectual property, expanding and protecting our offering and value to our customers and the continued development and commercialisation of our technologies with key customers.

I would like to thank all our employees for their dedication and hard work which have made possible significant technical and commercial progress in 2008 and has created a strong foundation for continued progress in 2009.

Jeremy Scudamore
Chairman
23 April 2009

Chief Executive Officer's Review

Introduction

I am delighted to report on the progress made by the Group during 2008. We have engaged in a number of joint development agreements with leading global corporations, established a robust set of demonstrated lead applications, built a world class management and technical team and secured a strong balance sheet.

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

In 2008 we focused on growing our capability and resources rapidly to support engagements with our growing customer base as well as to seek aggressively new opportunities for our technology. 2008 was a year of developing and fine tuning our strategy, identifying and focusing on those opportunities of greatest value and those fastest to market.

Commercial Development

During 2008 the Group continued to build a development portfolio across a broad range of applications and sectors, primarily through joint development agreements and single project engagements with leading players in a variety of markets. In addition the Group embarked on in-house development of selected applications, specifically of optical coatings and barrier materials for solid state lighting.

Given the sensitive nature of the programmes in which we are engaged the Group has been unable to announce the majority of these due to confidentiality clauses and publicity restrictions. An exception to this is DuPont Fiber Systems and in April 2008 we signed a joint development agreement to develop novel applications for their fibres and membranes business. During the year we commenced two further joint development agreements with major corporations and two single project engagements with high technology businesses. In addition we are engaged in discussions and sample exchange with a number of leading companies across North America, Europe and Asia.

The company continues to be actively engaged in 10-15 projects at any point in time in sectors as diverse as consumer goods, industrial materials, electronics, displays and lighting. There are significant technical benefits to the Group in this approach as we can apply similar platform technology to a wide variety of applications. In addition a diverse portfolio has allowed us to assess various market opportunities as well as expand and strengthen our technology portfolio thereby minimising risk and maximising potential upside.

While we will carry a portfolio going forward, in 2009 we will focus on those technologies that have demonstrated the highest technical likelihood of success and for which there is strong commercial traction in the current business environment. Specifically we are focusing on applications where bench-scale technical proof of concept has been established and which deliver dramatic performance enhancement with significantly improved economics for our customers.

Lead Applications

We are giving particular focus to four lead applications which provide compelling propositions to our partners and which position us uniquely in the market place. All of these applications represent sizable market opportunities for the Group.

- Controlled particle deposition:** Particles or encapsulates are utilised to protect and deliver high value active ingredients across a broad range of industries, e.g. consumer products, agrochemicals, pharmaceuticals, etc. Our technology allows particles or encapsulates to be deposited more efficiently and selectively to surfaces during product use. Initial demonstration in consumer goods provides a step change in performance, significant cost savings and reduced environmental impact. Potential applications include laundry, hair and beauty products, fertiliser nutrients and agrochemical formulations.
- Super-adhesion:** Creating efficient bonding between two materials is a key requirement in many advanced industrial applications, for example between a polymer and a curable lacquer on a display screen or between incompatible materials in a laminate or composite. The ONTO® technology provides a range of effective and practical solutions and can be applied both as a primer to facilitate adhesion to a curable lacquer or adhesive system or as a direct adhesive between incompatible materials. Given the reactive nature of ONTO® our solutions achieve superior bonding performance while simplifying processing and reducing cost. Potential applications include consumer electronics, automotive, aerospace and engineering.
- Barrier coatings for solid state lighting:** Because of its higher efficiency, solid state lighting reduces the amount of heat produced for a given light output, resulting in significant energy savings and resultant carbon emission reduction. While regulation is in place to drive full conversion to solid state lighting by the end of the next decade, there are major technical barriers to the widespread uptake of solid state lighting. Our technology addresses a number of key problems in the industry, for example, increasing device lifetime by preventing the tarnishing of silver used as reflectors and improving luminescence, particularly in red phosphors that are required in white warm-light LED lamps. Potential applications include industrial, household and automotive LED based lighting systems.
- Anti-reflective optical coatings:** This is a growth segment within the large market for optical coatings. We have developed a superior optical coating that achieves similar performance to that achieved by current multi-layer batch deposition technologies via a one layer wet coating approach. We are initially focusing on LCD screens for indoor use but long term we are interested in the photovoltaics market where our technology will help increase device efficiency. Potential applications include display screens for mobile phones, computers and TVs through to solar cells.

We expect further projects currently in development to achieve successful proof of concept during 2009. Whilst attrition will occur, our pipeline is strong and we hope to drive a number of projects through to the next stage of development with the goal of validating the technology for a commercial scale-up environment.

Chief Executive Officer's Review

Technology and Intellectual Property

During 2008 we were able to carry a number of projects from very early stage to bench-scale proof of concept, meeting technical requirements for a number of highly commercial applications. In so doing we have expanded and strengthened our technology and intellectual property ("IP") base.

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. Since the year end we have strengthened our IP positions still further with two more product application filings.

We have filed a new base technology patent extending our ONTO[®] technology to work with polymers to generate cross-linked networks across surfaces for a variety of new applications, including the modification of particles for tailored controlled deposition. We have also recently submitted an application patent filing covering the use and modification of particles to form controlled nanometre thin layers on surfaces for optical coatings.

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. We expanded the company from seven employees at the end of 2007 to 22, plus five non-executive directors by the end of 2008.

Responding to the tough economic environment, at the beginning of the year we have streamlined the business focusing on leading opportunities and almost halving our projected cash burn for 2009. We now have 17 staff, excluding non-executive directors, of which 13 are focused on research and development. We now have three non-executive directors.

Three members of the management team were recruited during 2008, namely Philip Spinks (Chief Financial Officer and Board Director), Mike Edwards (Vice President of Sales & Marketing) and Mike Eason (Chief Technology Officer). The executive management team has over 80 years of combined experience both in major multinationals and in technology start-ups and across sectors including chemistry and materials, fast moving consumer goods and electronics. All other employees are in research and development, organised around key technologies and supporting our commercial development programmes. We have put in place processes and best practices 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.

During 2008 we secured offices and laboratories at the Begbroke Science Park to support our operations. We now have access to fully equipped laboratories providing facilities for initial material development and synthesis through to coatings and applications development. We have sufficient space to cover our current needs and immediate growth plans.

Significantly, in August 2008 we completed a funding round raising £5 million via the placement of 7.7 million ordinary shares at a price of 65 pence. With £9.7 million

of cash on deposit at the year end we have a strong balance sheet to support the business through a tough economic climate.

Outlook

While 2009 is proving to be the most challenging business environment in many decades we begin the year with optimism and believe we bring to the market place what is most necessary now: innovation that is both simple to implement and cost effective.

We have a lean, focused and highly capable team and a blue chip roster of commercial partners combined with outstanding technology. We have put on hold the more speculative work on longer-term and technically challenging areas such as biomedical materials and we are seeking new commercial engagements only in areas where we have already demonstrated proof of concept in the laboratory.

We are in advanced discussions with several major companies around the world and expect to sign further partners to new engagements for our lead applications during the year, whilst driving a number of lead projects through to the next level of development.

Marcelo Bravo
Chief Executive Officer
23 April 2009

Group Financial Review

The consolidated financial statements have been prepared for the year to 31 December 2008. The comparatives are for the five month period to 31 December 2007 and are therefore not directly comparable. In addition, the 2007 comparative figures have been restated for a prior period adjustment which should have been recorded in 2007 to include the immediate impairment of the goodwill created on the acquisition of Kanyon Plc and its subsidiary Solar Labs Plc by Oxford Advanced Surfaces Limited.

The goodwill impairment is a non cash item and does not impact any of the Group's key developments in its ONTO[®] based technology applications nor projects in solid state lighting and optical coatings.

Trading

The year ended 31 December 2008 resulted in Group revenue of £337,000 (2007: £65,000).

£292,000 of this was generated from fee paying joint development agreements and individual projects. A further £45,000 was generated from grant income. The Group also undertakes a number of fee-free projects, particularly at the initial 'proof of concept' stage, in order to generate interest in the Group's technology offerings.

The loss before tax for the year was £3,149,000. Of this £1,854,000 (2007: £394,000) related to share based payments charges. Following a prior period adjustment relating to goodwill impairment the loss before tax for 2007 (5 months) is £16,760,000 (Restated – note 1).

Excluding share based payments charges and the prior period adjustment for goodwill impairment (note 1) the adjusted loss before tax for the year was £1,295,000 (2007 (5 months): £221,000).

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, with The Carbon Trust, addresses the key material limitations that currently prevent the uptake of solid-state lighting technology into widespread commercial and household use and should generate additional grant income in 2009.

The Group also entered into a 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.

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 which are fully detailed in note 24.

Research and development costs increased from £150,000 (5 month period) to £843,000 driven by the significant expansion in the volume of work in the development pipeline and the growth of the business, including people and

laboratory space. Similar growth in cost was reflected in other administrative costs, increasing from £136,000 (5 month period) to £1,068,000.

There was a significant increase in interest received from deposits during the year due to the increase in cash balances generated by the reverse acquisition in December 2007 and the additional fundraising in August 2008. Interest from deposits for the year amounted to £399,000 (2007 (5 months): £11,000).

Balance Sheet

At the year end the Group has a robust balance sheet and the Directors believe that it is sufficient to support the business for the foreseeable future. In particular the Group has £9,661,000 of cash held in instant access and term deposits specifically for developing and commercialising its technology.

Prior period adjustment

The 2007 comparative figures for the Consolidated financial statements have been restated for a prior period adjustment which should have been recorded in 2007 to include the immediate impairment of the goodwill created on the acquisition of Kanyon Plc ("Kanyon") and its subsidiary Solar Labs Plc ("Solar") by Oxford Advanced Surfaces Limited ("OAS"). Kanyon was subsequently renamed as Oxford Advanced Surfaces Group Plc and Solar as Oxford Energy Technologies Limited.

The impairment should have been recorded at the time of the acquisition in December 2007. The initial assessment of the supporting value for the goodwill was made using the recoverable amount of the entire group and not that of the cash-generating unit, Solar, to which the goodwill was allocated. Testing the goodwill at the Solar cash-generating unit level indicated that the goodwill was fully impaired. The recoverable amount at the date of acquisition for the Solar cash-generating unit is limited to the net assets of that cash-generating unit only, as there were no contracted revenue streams due to the early stage of development of potential solar-related applications.

Details of the impairment reviews performed at 31 December 2007 and 31 December 2008 are disclosed in notes 7 and 8.

The 2007 comparative amounts for the Group have been restated as follows:

- The administrative costs for the period to 31 December 2007 have been increased by £16,145,000 to reflect the impairment of the goodwill created on acquisition to zero value. The loss for the period has increased from £615,000 to £16,760,000.
- Goodwill on the consolidated balance sheet has been reduced to nil.
- The loss created by the immediate impairment of the goodwill has been transferred to the Merger Reserve. The Profit and Loss Reserve at 31 December 2007 remains unchanged, whilst the Merger Reserve has reduced by £16,145,000 to £6,369,000.
- Total equity has reduced by £16,145,000 to £6,772,000.
- The loss per share has increased from 0.83 pence to 22.54 pence.

Group Financial Review

Financing

On 1 August 2008 the Company raised an additional £5,002,000 through the placing of 7,695,600 ordinary shares to new and existing shareholders. Of this, £250,000 was subscribed by Directors of the Company.

The costs of the fundraising equated to £277,000 plus the issue of a warrant instrument over 230,868 ordinary shares at an exercise price of 65 pence per share to the Company's broker, Novum Securities Limited. These warrants carried a fair value of £42,000 at the date of issue. The costs of the fundraising, including the fair value of the warrants, have been taken to the Share Premium account.

Cash flow

The Group's cash position increased by £2,877,000 during the year. Of this, £4,725,000 (net of cash costs) was due to the fundraising in August 2008.

The net cash outflow from operating activities amounted to £1,902,000 whilst £194,000 was invested in laboratory equipment, computers and office fittings to support business growth and technology development.

Treasury activities and policies

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

Share option scheme

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

Philip Spinks

Chief Financial Officer

23 April 2009

Directors and Advisors

Jeremy Scudamore (62)

Non Executive Chairman

Jeremy worked for ICI, Zeneca, AstraZeneca and Avecia for 35 years in a number of senior positions, latterly as chairman and chief executive of the Avecia Group and previously as chief executive of Zeneca Specialities, managing director of Zeneca Seeds and business director of Zeneca Agrochemicals. He has held various general manager and international roles including that of Zeneca Group regional executive for Eastern Europe and general manager in Brazil. Jeremy was educated at Nottingham University and INSEAD, France. Currently Jeremy is non executive chairman of SkyePharma Plc, senior independent director of ARM Holdings Plc and a non executive director of Plant Health Care Limited and Oxford Catalysts Group Plc.

Marcelo Bravo (49)

Chief Executive Officer

Marcelo has a background in chemistry and chemical engineering and business development experience with major blue-chip companies. Marcelo worked for the Procter & Gamble company for 16 years commencing in 1983 and subsequently with Boots (now Boots Alliance Plc) for three years commencing in 2000 in various operational and strategic roles and has significant experience in developing, launching and growing new products and services across a range of both geographic and product markets. Marcelo is also an experienced entrepreneur having founded three start-up businesses in the past 15 years. He is currently a director of Oxford Nutrascience Limited. Marcelo holds a BA in Chemistry from the College of Wooster, USA and a BSc in Chemical Engineering from Case Western Reserve University, USA and an MSc in Management from the London Business School.

Philip Spinks (38)

Chief Financial Officer and Company Secretary

Philip joined the Board on 27 February 2008. He worked as an accountant at Brooking, Knowles & Lawrence (now part of TENON Plc) 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 in the UK and Germany, including divisional finance director and global controller after the acquisition by The Linde Group AG. He is a Chartered Accountant and associate of the Association of Corporate Treasurers.

Michael Bretherton (53)

Non Executive Director

Michael Bretherton worked as an accountant and manager with Price Waterhouse for seven years in both London and the Middle East before joining The Plessey Company Plc in 1985 as a corporate financial manager. Michael was appointed finance director of the fully listed Bridgend Group Plc in 1988 where he was involved in the strategic evaluation and commercial implementation of a broad range of business initiatives over a twelve year period, including acquisitions, disposals and company restructuring. He subsequently worked at the property and services company, Mapeley Limited, as financial operations director until he was recruited to the entertainment software games developer, Lionhead Studios Limited, in 2002 where he helped to complete a venture capital syndicate funding and also a trade sale of the business to Microsoft in 2006. Michael Bretherton is currently the finance director of Ora Capital Partners Limited.

Directors and Advisors

Dr Andrew Naylor (36)

Non Executive Director

Dr Andrew Naylor has extensive experience with university spin-out companies in a number of roles. Andrew is currently Chief Executive Officer of Pembroke House Technologies Limited, an intellectual property commercialisation company based in Oxford. Andrew was with IP Group Plc from 2001 to 2007 and prior to that he was with IndexIT Partnership Limited and Beeson Gregory. Andrew received a first class degree and PhD in Physics from the University of Nottingham.

Directors and Advisors

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COMPANY NUMBER

05845469 (England and Wales)

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

Jeremy Scudamore is considered to be able to act as an independent non-executive director by the Board, notwithstanding his 0.39% share holding, and share options.

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 0.23% shareholding.

Dr Andrew Naylor is considered to be able to act as an independent non-executive director by the Board, notwithstanding his 0.46% shareholding and share options.

The Board

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

Audit Committee

The Board has established an Audit Committee with formally delegated duties and responsibilities. The Audit Committee comprises the three non-executive directors: Jeremy Scudamore and Dr Andrew Naylor 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 audit.

Remuneration Committee

The Remuneration Committee comprises the three non-executive directors: Jeremy Scudamore and Michael Bretherton with Dr Andrew Naylor 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.

The Directors' Remuneration Report is set out on pages 18 – 20.

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 Chief Executive'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 both the technology portfolio and customer base should allow it to continue to operate under 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.

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 7A of the Companies Act 1985. 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 three non-executive directors: Jeremy Scudamore and Michael Bretherton with Dr Andrew Naylor 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 plus an additional fee for chairmanship of a committee.

DIRECTORS' REMUNERATION

Name of Director	Salaries and Fees	Expenses	Total December 2008	Total December 2007
	£'000		£'000	£'000
Executive				
Marcelo Bravo	100	–	100	43
Philip Spinks (appointed 27 February 08)	83	1	84	–
Non-executive				
Jeremy Scudamore	25	–	25	2
Michael Bretherton	10	–	10	–
Dr Mark Moloney (resigned 7 January 09)	22	–	22	2
Dr Andrew Naylor	25	–	25	4
David Norwood (resigned 31 December 08)	25	–	25	–
	290	1	291	51

In line with the cost reduction programme the Directors have taken salary reductions in 2009.

DIRECTORS' SHARE OPTIONS

Name of Director	At 1 January 2008	Granted	Total December 2008	WAEP ¹	Exercisable at 31 December 2008
Executive					
Marcelo Bravo	5,386,502	–	5,386,502	1.00p	2,693,251
Philip Spinks	–	1,069,704	1,069,704	46.87p	–
Non-executive					
Jeremy Scudamore	3,886,282	–	3,886,282	1.00p	2,736,114
Dr Mark Moloney	848,219	–	848,219	1.00p	424,110
Dr Andrew Naylor	848,219	–	848,219	1.00p	424,110

1. Weighted average exercise price

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 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.

Directors' Remuneration Report

DIRECTORS' SHAREHOLDINGS

The interest of the Directors in the shares of the Company at 31 December 2008 were:

Name of Director	Total December 2008 £'000	Total December 2007 £'000
Executive		
Marcelo Bravo	5,425,002	5,386,502
Philip Spinks (appointed 27 February 08)	11,500	–
Non-executive		
Jeremy Scudamore	729,790	714,390
Michael Bretherton	435,000	435,000
Dr Mark Moloney (resigned 7 January 09)	10,120,527	10,120,527
Dr Andrew Naylor	859,719	848,219
David Norwood (resigned 31 December 08)	10,061,374	9,753,674

The market price of the shares was 16.5 pence at 31 December 2008 and the range during the year was 14 pence to 93.5 pence.

Directors' Report

The directors present their report with the financial statements of the Group for the year to 31 December 2008.

PRINCIPAL ACTIVITY

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

BUSINESS REVIEW

A review of the Group's performance and future prospects is included in the Chairman's Statement, Chief Executive Officer's Review and the Group Financial 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 1 of the financial statements.

RESULTS AND DIVIDENDS

The consolidated financial statements have been prepared for the year to 31 December 2008. The comparatives are for the five month period to 31 December 2007 and therefore are not directly comparable. In addition, the 2007 comparative figures have been restated for a prior period adjustment which should have been recorded in 2007 to include the immediate impairment of the goodwill created on the acquisition of Canyon Plc and its subsidiary Solar Labs Plc by Oxford Advanced Surfaces Limited.

The goodwill impairment is a non cash item and does not impact any of the Group's key developments in its ONTO[®] based technology applications and projects in solid state lighting and optical coatings.

The loss before tax for the year was £3,149,000. Of this £1,854,000 (2007: £394,000) related to share based payments charges. Following a prior period adjustment relating to goodwill impairment the loss before tax for 2007 (5 months) is £16,760,000 (Restated – note 1).

Excluding share based payments and the prior period adjustment for goodwill impairment (note 1) the loss before tax for the year was £1,295,000 (2007 (5 months): £221,000).

The directors do not recommend a dividend in respect of the period to 31 December 2008 and no dividends were paid during the period under review.

Directors' Report

DIRECTORS AND THEIR INTERESTS

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

Executive

Marcelo Bravo

Philip Spinks (appointed 27 February 2008)

Non-executive

Jeremy Scudamore

Michael Bretherton

Dr Mark Moloney (resigned 7 January 2009)

Dr Andrew Naylor

David Norwood (resigned 31 December 2008)

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

The interests of the directors (all of which are beneficial) and persons connected with them in the issued share capital of the Company as at 31 December 2008 were as follows:

Name	Ordinary £0.01 shares	Percentage of share capital
Executive		
Marcelo Bravo	5,425,002	2.92
Philip Spinks	11,500	0.01
Non-executive		
Jeremy Scudamore	729,790	0.39
Michael Bretherton	435,000	0.23
Dr Mark Moloney	10,120,527	5.45
Dr Andrew Naylor	859,719**	0.46
David Norwood	10,061,374*	5.42

* 678,671 of these Ordinary Shares are held by IP2IPO Nominees Limited on behalf of David Norwood.

** 848,219 these Ordinary Shares are held by IP2IPO Nominees Limited on behalf of Dr Andrew Naylor.

David Norwood and Michael Bretherton are in addition interested in 3,000,000 and 60,000 shares respectively in Ora Capital Partners Limited ("Ora"), representing 3 per cent and 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	26.91
IP2IPO Limited	27,995,045	15.08
Oxford University	17,264,429	9.30
Jon-Paul Griffiths	10,120,527	5.45
Richard Griffiths	9,709,998	5.23
Close Private Asset Mgmt	5,982,397	3.22
Bainunah Trading Limited	5,795,000	3.12
IP2IPO Nominees Limited*	5,938,487	3.20

* 678,671 of these Ordinary Shares are held by IP2IPO Nominees Limited on behalf of David Norwood and 848,219 on behalf of Dr Andrew Naylor.

RISK REVIEW

Given the current straight forward nature of the business, the Group's Directors are of the opinion that analysis of Key Performance Indicators ("KPIs") is not necessary for an understanding of the development, performance and position of the entity. However, the Directors believe that relevant KPIs for internal measurement are size and quality of development pipeline, progress towards income and cash burn rate.

The 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 revenue generation through product development under joint development agreements or similar arrangements. These activities are all undertaken with appropriate commercial agreements.

Research and development risks

The Group is engaged in developing novel coating reagents to develop new materials and technological solutions to address identified market needs. The Group is, therefore, 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.

Directors' Report

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 and processes under joint development agreements with major companies in large and valuable market applications is designed to facilitate adoption of the products and drive mass market uptake.

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 period ended 31 December 2008 trade creditor days for the Group were 33 (2007: 34) and for the company were 20 (2007: 38). The trade creditors' days are based upon total annualised cost of sales and administrative expenses excluding wages and salaries, and trade creditors have been adjusted for the cost of acquisition.

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 234ZA of the Companies Act 1985) of which the company's auditors are unaware, and that each Director has taken all the steps that he ought to have taken as a Director in order to make himself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

THIRD PARTY INDEMNITY PROVISION FOR DIRECTORS

Qualifying third party indemnity provision is in place for the benefit of all Directors of the Company.

AUDITORS

Ernst & Young LLP were appointed as auditors during the period and will be proposed for re-appointment in accordance with Section 385 of the Companies Act 1985.

ON BEHALF OF THE BOARD

Philip Spinks
Company Secretary
23 April 2009

Statement of Directors' Responsibilities

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

UK company law requires the directors to prepare Group and Company financial statements for each financial year. Under that law the directors are required to prepare Group financial statements in accordance with International Financial Reporting Standards ("IFRS") as adopted by the EU and have elected to prepare the Company financial statements in accordance with International Financial Reporting Standards ("IFRS") as adopted by the EU.

The Group financial statements are required by law and IFRS adopted by the European Union to present fairly the financial position and performance of the group; the Companies Act 1985 provides in relation to such financial statements that references in the relevant part of that Act to financial statements giving a true and fair view are references to their achieving a fair presentation.

The Company financial statements are required by law to give a true and fair view of the state of affairs of the company.

In preparing each of the Group and Company financial statements, the directors are required to:

- a) select suitable accounting policies and then apply them consistently;
- b) make judgements and estimates that are reasonable and prudent;
- c) state whether they have been prepared in accordance with IFRS adopted by the EU;
- d) prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and the company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the requirements of the Companies Act 1985. They are also responsible for safeguarding the assets of the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are also responsible for the maintenance and integrity of the Oxford Advanced Surfaces Group Plc website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

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

We have audited the consolidated and parent company financial statements (the "financial statements") of Oxford Advanced Surfaces Group plc for the year ended 31 December 2008 which comprise the Consolidated Income Statement, the Consolidated and Parent Company Balance Sheets, the Consolidated and Parent Company Statements of Changes in Equity, the Consolidated and Parent Company Cash Flow Statements and the related notes 1 to 27. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985. 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

The directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable United Kingdom law and International Financial Reporting Standards (IFRSs) as adopted by the European Union are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements have been properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements. The information given in the Directors' Report includes that specific information presented in the Chairman's Statement, Chief Executive Officer's Review and Group Financial Review that is cross referred from the Business Review section of the Directors' Report.

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions are not disclosed.

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. The other information comprises only the Chairman's Statement, the Chief Executive Officer's Review, the Group Financial Review, the Corporate Governance Statement, the Directors' Remuneration Report and the Directors' Report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

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

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group's and company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion:

- the group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the group's affairs as at 31 December 2008 and of its loss for the year then ended;
- the parent company financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union as applied in accordance with the provisions of the Companies Act 1985, of the state of the parent company's affairs as at 31 December 2008;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the directors' report is consistent with the financial statements.

Ernst & Young LLP

Registered Auditor
Reading
23 April 2009

Notes:

1. The maintenance and integrity of the Oxford Advanced Surfaces Group plc web site is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.
2. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Consolidated Income Statement

For the year ended 31 December 2008

	Notes	Year to 31 December 2008 £'000	(Restated – note 1) Period to 31 December 2007 £'000
Continuing Operations			
Revenue		337	65
Cost of sales		(120)	(11)
Gross Profit		217	54
Research and development costs		(843)	(150)
Other administrative costs		(1,068)	(136)
Share based payments	24	(1,854)	(394)
Impairment of goodwill	8	–	(16,145)
Total administrative costs		(2,922)	(16,675)
Loss from Operations		(3,548)	(16,771)
Finance income	4	399	11
Loss Before Tax		(3,149)	(16,760)
Income tax expense	5	–	–
Loss for Period Attributable to Equity Holders of the Company	6	(3,149)	(16,760)
Loss per share attributable to the equity holders of the Company:			
Total and continuing:			
– Basic and diluted	20	(1.74)p	(22.54)p
– Adjusted Basic and diluted (pre impairment of goodwill)	20	(1.74)p	(0.83)p

Consolidated and Company Balance Sheets

For the year ended 31 December 2008

	Notes	Group 31 December 2008 £'000	Group (Restated – note 1) 31 December 2007 £'000	Company 31 December 2008 £'000	Company (Restated – note 1) 31 December 2007 £'000
Assets					
Non-Current Assets					
Investments	7	–	–	20,501	20,457
Intangible assets	8	185	195	–	–
Property, plant and equipment	9	195	52	–	–
Loan to subsidiaries	11	–	–	1,065	–
		380	247	21,566	20,457
Current Assets					
Stocks	10	13	–	–	–
Trade and other receivables	11	415	109	187	67
Cash and cash equivalents	12	9,661	6,866	9,612	6,107
		10,089	6,975	9,799	6,174
Liabilities					
Current Liabilities					
Trade and other payables	13	267	368	58	246
Bank overdrafts	12	–	82	–	82
		267	450	58	328
Net Current Assets					
		9,822	6,525	9,741	5,846
Liabilities					
Non-Current Liabilities					
Loan from subsidiaries		–	–	401	–
Net Assets					
		10,202	6,772	30,906	26,303
Shareholders Equity					
Called up share capital	14	1,856	1,779	1,856	1,779
Share premium	15	10,423	5,817	10,423	5,817
Merger reserve	16	6,369	6,369	18,669	18,669
Reverse acquisition reserve	17	(6,831)	(6,831)	–	–
Retained earnings	18	(3,898)	(749)	(2,325)	(349)
Share based payments reserve	19	2,283	387	2,283	387
Total equity attributable to equity holders of the Company					
		10,202	6,772	30,906	26,303

The financial statements were approved by the Board of Directors and authorised for issue on 23 April 2009 and were signed on its behalf by:

Marcelo Bravo
Director

Philip Spinks
Director

Consolidated Statement of Changes in Shareholders' Equity

For the year ended 31 December 2008

	Share Equity £'000	Share Premium £'000	Share Based Payment Reserve £'000	Reverse Acquisition Reserve £'000	(Restated – note 1) Merger Reserve £'000	(Restated – note 1) Retained Earnings £'000	(Restated – note 1) Total Equity £'000
At 31 July 2007	2	694	1	–	–	(142)	555
Loss for the period to 31 December 2007	–	–	–	–	–	(16,760)	(16,760)
Share based payments	–	–	394	–	–	–	394
Share options cancelled or exercised	–	–	(8)	–	–	8	–
Reverse acquisition (note 1)	1,777	5,123	–	(6,831)	22,514	–	22,583
Impairment of goodwill (notes 1 and 8)	–	–	–	–	(16,145)	16,145	–
At 31 December 2007 (Restated)	1,779	5,817	387	(6,831)	6,369	(749)	6,772
Loss for the period to 31 December 2008	–	–	–	–	–	(3,149)	(3,149)
Shares issued – cash consideration (note 14)	77	4,925	–	–	–	–	5,002
Shares issued – cash expenses (note 14)	–	(277)	–	–	–	–	(277)
Shares issued – warrants issued (note 14)	–	(42)	42	–	–	–	–
Share based payments (note 24)	–	–	1,854	–	–	–	1,854
At 31 December 2008	1,856	10,423	2,283	(6,831)	6,369	(3,898)	10,202

Company Statement of Changes in Shareholders' Equity

For the year ended 31 December 2008

	Share Equity £'000	Share Premium £'000	Share Based Payment Reserve £'000	(Restated – note 1) Merger Reserve £'000	(Restated – note 1) Retained Earnings £'000	(Restated – note 1) Total Equity £'000
At 31 January 2007	450	2,937	–	–	(2)	3,385
Loss for the period to 31 December 2007	–	–	–	–	(4,192)	(4,192)
Shares issued on acquisition of Oxford Energy Technologies Limited	434	–	–	3,904	–	4,338
Shares issued – cash consideration	120	2,880	–	–	–	3,000
Shares issued on acquisition of Oxford Advanced Surfaces Limited	775	–	–	18,610	–	19,385
Share based payment	–	–	387	–	–	387
Impairment of investment (notes 1 and 7)	–	–	–	(3,845)	3,845	–
At 31 December 2007 (Restated – note 1)	1,779	5,817	387	18,669	(349)	26,303
Loss for the period to 31 December 2008	–	–	–	–	(1,976)	(1,976)
Shares issued – cash consideration (note 14)	77	4,925	–	–	–	5,002
Shares issued – cash expenses (note 14)	–	(277)	–	–	–	(277)
Shares issued – warrants issued (note 14)	–	(42)	42	–	–	–
Share based payments – subsidiary companies	–	–	44	–	–	44
Share based payments	–	–	1,810	–	–	1,810
At 31 December 2008	1,856	10,423	2,283	18,669	(2,325)	30,906

Consolidated and Company Cash Flow Statements

For the year ended 31 December 2008

	Notes	Group Year to 31 December 2008 £'000	Group Period to 31 December 2007 £'000	Company Year to 31 December 2008 £'000	Company Period to December 2007 £'000
Cash flows from operating activities					
Cash generated from operations	22	(1,892)	(197)	(700)	37
Income tax paid		(10)	–	(10)	–
Net cash outflow from operating activities		(1,902)	(197)	(710)	37
Cash flows from investing activities					
Purchase of intangible assets		–	(15)	–	–
Purchase of property, plant and equipment		(194)	(20)	–	–
Acquisition of subsidiaries		–	6,633	–	(579)
Interest received		248	11	236	186
Net cash inflow from investing activities		54	6,609	236	(393)
Net cash from financing activities					
Share issue		77	–	77	120
Share premium		4,925	6	4,925	2,880
Expenses of issue of share capital		(277)	–	(277)	–
Proceeds from loan from subsidiary		–	–	401	–
Outflow from loan to subsidiary		–	–	(1,065)	–
Net cash inflow from financing activities		4,725	6	4,061	3,000
Increase in cash and cash equivalents		2,877	6,418	3,587	2,644
Cash and cash equivalents at beginning of period	12	6,784	366	6,025	3,381
Cash and cash equivalents at end of period	12	9,661	6,784	9,612	6,025

Notes to the Financial Statements

1. ACCOUNTING POLICIES AND BASIS OF PREPARATION

General information

Oxford Advanced Surfaces Group Plc develops and commercialises advanced material solutions which are cost effective and simple to implement via our platform surface modification technology. We use proprietary highly reactive chemistry, ONTO[®], in combination with polymers and/or particles to deliver solutions that deliver enhanced performance and enable new opportunities which are highly cost effective. The Company is a public limited company registered and domiciled in England and Wales and its shares are publicly traded on AIM, a market operated by the London Stock Exchange.

Prior period adjustment

The 2007 comparative figures for the Consolidated Accounts have been restated for a prior period adjustment, which should have been recorded in 2007, to include the immediate impairment of the goodwill created on the acquisition of Kanyon Plc ("Kanyon") and its subsidiary Solar Labs Plc ("Solar") by Oxford Advanced Surfaces Limited ("OAS"). Kanyon was subsequently renamed as Oxford Advanced Surfaces Group Plc ("OASG") and Solar as Oxford Energy Technologies Limited ("OET"). The 2007 comparative figures for the OASG company accounts have likewise been restated for a prior period adjustment to include an impairment, but only of the Solar business. The Directors do not consider the investment in OAS to be impaired.

The impairment should have been recorded at the time of the acquisition. The initial assessment of the supporting value for the goodwill was made using the recoverable amount of the entire group and not that of the cash-generating unit, Solar, to which the goodwill was allocated. Testing the goodwill at the Solar cash-generating unit level indicated that the goodwill was fully impaired. The recoverable amount at the date of acquisition for the Solar cash-generating unit is limited to the net assets of that cash-generating unit only, as there were no contracted revenue streams due to the early stage of development of potential solar-related applications. The impairment of the investment in Solar by OASG in the company accounts' comparatives for 2007 also reflects the net asset position at the date of acquisition. The Directors do not consider any further impairment in Solar (now OET) to be necessary at 31 December 2008.

Details of the impairment reviews performed at 31 December 2007 and 31 December 2008 are disclosed in notes 7 and 8.

The 2007 comparative amounts for the Group have been restated as follows:

- The administrative costs for the period to 31 December 2007 have been increased by £16,145,000 to reflect the impairment of the goodwill created on acquisition to zero value. The loss for the period has increased from £615,000 to £16,760,000.
- Goodwill on the consolidated balance sheet has been reduced to nil.
- The loss created by the immediate impairment of the goodwill has been transferred to the Merger Reserve. The Profit and Loss Reserve at 31 December 2007 remains unchanged, whilst the Merger Reserve has reduced by £16,145,000 to £6,369,000.
- Total Equity has reduced by £16,145,000 to £6,772,000.
- The loss per share has increased from 0.83 pence to 22.54 pence.

The 2007 comparative amounts for the Company have been restated as follows:

- The administrative costs for the period to 31 December 2007 have been increased by £3,845,000 to reflect the impairment of the investment in Solar based on an impairment review at 31 December 2007. The loss for the period has increased from £347,000 to £4,192,000.
- The investments in subsidiaries in the Company balance sheet have been reduced to £20,457,000.
- The loss created by the immediate impairment of the investment in Solar has been transferred to the Merger Reserve. The Profit and Loss Reserve at 31 December 2007 remains unchanged, whilst the Merger Reserve has reduced by £3,845,000 to £18,669,000.

Reclassification

The 2007 figures for cost of sales and administrative expenses have been reclassified to provide consistency with the 2008 presentation. In the 2007 financial statements as originally presented, cost of sales reflected materials costs only. As re-presented, cost of sales now includes all direct costs including license fees amortisation and commissions payable. Research and development costs and share based payments were previously all included in the category “administrative expenses”, along with other administrative costs. Now, research and development costs and share-based payment charges are separately identified from administrative expenses.

Going Concern

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

Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union. The financial statements have been prepared under the historical cost convention. The Group’s functional and reporting currency is Sterling.

The Group’s consolidated financial statements and related notes are for the year to 31 December 2008 and the comparatives (restated) are for the 5 month period from 1 August 2007 to 31 December 2007.

The Company’s financial statements and related notes are for the year to 31 December 2008 and present comparative information (restated) for the period from 1 February 2007 to 31 December 2007. In accordance with the provisions of Section 230 of the Companies Act 1985, no separate income statement has been presented for the Company. The results for the Company are also presented under IFRS.

Critical accounting estimates and judgements

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 below.

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the present circumstances.

i) Basis of Consolidation and 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. The following accounting treatment has been applied in respect of the reverse acquisition.

- a) The assets and liabilities of the legal parent, Oxford Advanced Surfaces Group Plc, are recognised and measured in the Group financial statements at the pre-combination carrying amounts, which are considered to reflect their fair value. The excess of the combination cost over the fair value of the assets and liabilities acquired is accounted for as goodwill.

Notes to the Financial Statements

- b) The retained (loss)/earnings and other equity balances recognised in the Group financial statements to the date of the business combination reflect the retained (loss)/earnings and other equity balances of Oxford Advanced Surfaces Limited immediately before the business combination, and its results for the period from 14 June 2006 to the date of the business combination. However, the equity structure appearing in the Group financial statements reflects the equity structure of the legal parent, including the equity instruments issued under the share for share exchange to effect the business combination on 31 December 2007. The effect of using the equity structure of the legal parent gives rise to the reverse acquisition reserve.
- c) Comparative numbers presented in the Group financial statements (Consolidated income statement and cash flow statement) are those of the legal subsidiary, Oxford Advanced Surfaces Limited, for the period from 1 August 2007 to 31 December 2007. Oxford Advanced Surfaces Limited changed its accounting reference date from 31 July to 31 December, subsequent to filing its financial statements for the period to 31 July 2007.
- d) The cost of the acquisition has been determined from the perspective of Oxford Advanced Surfaces Limited. As there was no readily available fair value of the legal subsidiaries' equity instruments at the date of the acquisition the total fair value of all the issued equity instruments of the legal parent, Oxford Advanced Surfaces Group Plc, before the business combination was used as the basis for determining the combination's cost. Immediately before the acquisition the legal parent had 88,384,131 ordinary 1 penny shares in issue. The Directors have placed a fair value on these shares of 25 pence each valuing the combination at £22,096,000. The fair value per share used by the Directors is based on the cash price paid to subscribe for 12,000,000 shares during the reverse acquisition, rather than the AIM market price of Kanyon plc pre-acquisition, as those shares were closely held and there was limited trading prior to the acquisition. The resulting goodwill was immediately impaired to zero in 2007, recorded as a prior period adjustment.

ii) Impairment of goodwill and intangible assets

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated later in this note. The recoverable amounts of cash-generating units have been determined based on fair value less costs to sell. The fair value less costs to sell requires estimates to be made - the Group currently uses the net assets of the cash-generating unit, since future cash flow forecasts cannot reliably be predicted due to the early stage of development of the Group's technologies.

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.

iii) Share-based payment

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 24. The selection of different assumptions could affect the future results of the Group.

Business combinations

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 period 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.

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. Grant income is recognised as earned based on contractual conditions, generally as expenses are incurred, or in the case of capital expenditure grants, as the equipment purchased is used over the life of the grant.

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.

Goodwill

Goodwill arising on consolidation represents the difference between the cost of the business combination and the net fair value of identified assets and liabilities. 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.

Research and development

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

The criteria for recognising expenditure as an asset are:

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

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

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

Notes to the Financial Statements

Patents and licenses

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

Plant and equipment (and related grant funding)

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

Grants received to fund plant and equipment purchases are recognised in the income statement over the life of the grant, to offset related depreciation.

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 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 periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. 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.

Stocks

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

Financial assets and liabilities

Trade and other receivables

Trade and other receivables are recognised initially at their fair value and subsequently measured at amortised cost using the effective interest method less any provision for impairment.

Trade and other payables

Trade and other payables are recognised initially at their fair value and subsequently measured at amortised cost using the effective interest method.

Cash and cash equivalents

Cash and cash equivalents comprise cash at hand and 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.

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.

Taxation

The tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the period. The Group's liability for the current tax year is calculated by using tax rates that have been enacted or substantively enacted by 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 period 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.

Share-based payments

All share-based payment arrangements granted that had not vested prior to 31 December 2008 are recognised in the Group financial statements.

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.

Notes to the Financial Statements

Accounting standards and interpretations not applied

At the date of authorisation of these financial statements, the following Standards and Interpretations that have not been applied in these financial statements were in issue but not yet effective or endorsed (unless otherwise stated):

- IFRS 1: Cost of an Investment in a Subsidiary.
- IFRS 2: Share based payment – Amendments relating to vesting conditions and cancellations.
- IFRS 3R: Business Combinations – Amendments.
- IFRS 8: Operating Segments (endorsed).
- IAS 1R: Presentation of Financial Statements – Revised.
- IAS 1: Presentation of Financial Statements – Amendments relating to Puttable Financial Instruments and obligations arising on liquidation.
- IAS 23R: Borrowing Costs – Amendment.
- IAS 27: Consolidated and separate Financial Statements – Consequential amendments arising from amendments from IFRS 3.
- IAS 32: Presentation of Financial Instruments – Amendments relating to Puttable Financial Instruments and obligations arising on liquidation.
- IFRIC 13: Customer loyalty programmes.
- IFRIC 15: Agreements for the Construction of Real Estate.

The directors anticipate that the adoption of these Standards and Interpretations in future periods will have no material impact on the financial statements of the Group.

2. SEGMENTAL REPORTING

The Group only operates one class of business. At 31 December 2008 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.

Grant income recognised in revenue totalled £45,000 for the year to 31 December 2008 (2007 – nil). All other revenue comprised customer fees (as described in note 1).

3. EMPLOYEES AND DIRECTORS

	Year to 31 December 2008 £'000	Period to 31 December 2007 £'000
Wages and salaries	850	118
Social security costs	94	13
Share-based payment (note 24)	1,854	394
	2,798	525

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

	Year to 31 December 2008 £'000	Period to 31 December 2007 £'000
Administration	4	1
Technical	11	6
	15	7

Directors' emoluments

The following disclosures are in respect of the emoluments paid to the directors of the Company for the year to 31 December 2008. The comparatives relate to the period from 1 August 2007 to 31 December 2007.

	Year to 31 December 2008 £'000	Period to 31 December 2007 £'000
Salaries	290	36
Expenses	1	–
Bonuses	–	15
	291	51

No pension contributions were made on behalf of the directors. 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 2008	Number of options at 31 December 2007
Marcelo Bravo	5,386,502	5,386,502
Philip Spinks	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
Matthew Sutcliffe	–	125,000

Matthew Sutcliffe's share options were not exercised within the vesting period and expired on 31 December 2008.

Further details regarding the share option scheme can be found in note 24 of the accounts.

4. FINANCE INCOME

	Year to 31 December 2008 £'000	Period to 31 December 2007 £'000
Bank interest receivable	399	11

Notes to the Financial Statements

5. INCOME TAX EXPENSE

a) Current Tax

Both the deferred tax and current tax expense in the income statement for the year are nil. Current tax expense is lower than the standard rate of corporation tax in the UK of 28.5% (2007: 30%). The differences are reconciled below:

	Year to 31 December 2008 £'000	(Restated – note 1) Period to 31 December 2007 £'000
(Loss) before tax	(3,149)	(16,760)
Loss on ordinary activities multiplied by the standard rate of corporation tax in the UK of 28.5% (2007: 30%)	(897)	(5,028)
Effects of:		
Expenses not deductible for tax purposes	528	4,962
Additional deduction for R&D expenditure	(89)	(6)
Capital allowances in advance of depreciation	(38)	(2)
Unrelieved tax losses and other deductions arising in the period	496	74
Tax due	–	–

Unrelieved tax losses of £3,190,384 at 31 December 2008 (2007: £2,211,685) 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.

At the date of signing the balance sheet the Group had started the process of reclaiming research and development tax credits from HM Revenue & Customs in respect of the period ended 31 December 2008 of £114,000. No benefit of this has been recorded in the statutory accounts as these will be the first claims submitted by the relevant Group companies and will be subject to agreement by HM Revenue & Customs.

b) Deferred Tax

Unrecognised deferred tax assets at 28%:

	Year to 31 December 2008 £'000	Period to 31 December 2007 £'000
Tax losses carried forward	893	619
Accelerated capital allowances	(46)	(13)
Share based payments	627	108
Deferred tax assets (unrecognised)	1,474	714

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

6. OPERATING LOSS

Operating loss is stated after charging:

	Year to 31 December 2008 £'000	(Restated – note 1) Period to 31 December 2007 £'000
Research and development costs	843	150
Share based payments	1,854	394
Depreciation of property, plant and equipment – owned	51	5
Amortisation of intangible assets – patents	10	4
Impairment of goodwill	–	16,145
Auditor's remuneration		
Fees payable to the Company's auditor for audit of the parent and consolidated accounts	15	10
Fees payable to the Company's auditor and its associates for other services		
– The audit of the Company's subsidiaries pursuant to legislation	20	20
– Tax services	9	–

7. INVESTMENTS

Company

	(Restated – note 1) Shares in Subsidiary Undertakings £'000
Cost and net book value	
At 1 February 2007	4,433
Additions	19,869
Impairment of investment	(3,845)
At 31 December 2007 (Restated – note 1)	20,457
Additions	44
At 31 December 2008	20,501

Additions for the year to 31 December 2008 represent the IFRS2 charge for share options granted to the employees of the Group's subsidiaries, Oxford Advanced Surfaces Limited ("OAS") and Oxford Energy Technologies Limited ("OET").

On 31 December 2007 the Company acquired 100 per cent of the issued share capital of OAS for cash consideration of £50,000 and the issue of 77,539,907 ordinary shares of 1 penny each issued at a premium of 24 pence each and incurred directly attributable acquisition costs of £434,000. The total consideration amounted to £19,869,000.

On 27 April 2007 the Company acquired 100 per cent of the issued share capital of Solar Labs Plc ("Solar") (subsequently renamed as OET) in consideration for the issue of 433,841,307 ordinary shares of 0.1 pence each at a premium of 0.9 pence per share and incurred directly attributable costs of £95,000. The total consideration amounted to £4,433,000.

The impairment at 31 December 2007 of the Company's investment in Solar reflects the Directors' view that the recoverable amount of the subsidiary acquired was lower than the cost of investment at that date. The recoverable amount, determined based on a fair value less costs to sell calculation, has been estimated as the fair value of the net assets of Solar at 31 December 2007.

Notes to the Financial Statements

The impairment has been recorded as a prior period adjustment. Full details are included in note 1 – Prior period adjustment. At 31 December 2008 no further impairment of the investment in Solar is considered necessary by the Directors. No impairment of OAS is considered necessary at either balance sheet date.

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

8. INTANGIBLE ASSETS

	(Restated – note 1) Goodwill £'000	Patents & licences £'000	(Restated – note 1) Total £'000
COST			
At 1 August 2007	–	194	194
Additions	–	15	15
Arising on acquisition of subsidiaries	16,145	–	16,145
At 31 December 2007	16,145	209	16,354
Additions	–	–	–
At 31 December 2008	16,145	209	16,354
AMORTISATION & IMPAIRMENT			
At 1 August 2007	–	10	10
Amortisation for period	–	4	4
Impairment	16,145	–	16,145
At 31 December 2007 (Restated – note 1)	16,145	14	16,159
Amortisation for period	–	10	10
At 31 December 2008	16,145	24	16,169
NET BOOK VALUE			
At 31 December 2007	–	195	195
At 31 December 2008	–	185	185

All the goodwill in the Group arose on the reverse acquisition of Kanyon Plc (“Kanyon”) including its subsidiary Solar Labs Plc (“Solar”) by Oxford Advanced Surfaces Limited (“OAS”). All goodwill arising from the reverse acquisition has therefore been 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. The impairment loss of £16,145,000 represents the write-down of goodwill to its recoverable amount. The impairment has been included in the loss for the year from continuing operations

in 2007. The recoverable amount of the Solar cash-generating unit has been determined based on an assessment of fair value less costs to sell. Fair value less costs to sell was determined as the net assets of Solar. A value-in-use calculation could not be performed reliably based on expected future cashflows, as there were no contracted revenue streams at 31 December 2007 and, due to the early stage of development of potential solar technology applications, reliable estimates of future revenues could not be made.

The impairment of goodwill should have been recorded in 2007 and has therefore been recorded as a prior period adjustment. Full details of the impact of the adjustment are disclosed in note 1 – Prior period adjustment.

Company

The Company had no intangible assets during the period.

9. PROPERTY, PLANT AND EQUIPMENT

	Plant and machinery £'000	Fixtures & fittings £'000	Computer equipment £'000	Totals £'000
COST				
At 1 August 2007	28	4	9	41
Additions	13	–	7	20
At 31 December 2007	41	4	16	61
Additions	158	6	30	194
At 31 December 2008	199	10	46	255
DEPRECIATION				
At 1 August 2007	3	1	–	4
Charge for period	3	–	2	5
At 31 December 2007	6	1	2	9
Charge for period	38	2	11	51
At 31 December 2008	44	3	13	60
NET BOOK VALUE				
At 31 December 2007	35	3	14	52
At 31 December 2008	155	7	33	195

No assets were held under finance leases. During the year grant funding for capital investment amounting to £10,000 was received of which £4,000 was released into the income statement against related depreciation.

During the year the Group amended its method of depreciation on plant & machinery and fixtures & fittings from the reducing balance to straight line depreciation method. The impact on the consolidated financial statements of this change in methodology is a £2,000 increase in depreciation for the current year.

Company

The Company had no fixed assets during the period.

10. STOCKS

	Group 31 December 2008 £'000	Group 31 December 2007 £'000	Company 31 December 2008 £'000	Company 31 December 2007 £'000
Raw materials	13	–	–	–
	13	–	–	–

Notes to the Financial Statements

11. TRADE AND OTHER RECEIVABLES

	Group 31 December 2008 £'000	Group 31 December 2007 £'000	Company 31 December 2008 £'000	Company 31 December 2007 £'000
Current:				
Trade receivables	124	19	–	–
Other receivables	244	78	165	59
Prepayments	47	12	22	8
	415	109	187	67
Non-current:				
Loans to subsidiaries	–	–	1,065	–
	–	–	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 2008 or 31 December 2007.

12. CASH AND CASH EQUIVALENTS AND BANK OVERDRAFTS

	Group 31 December 2008 £'000	Group 31 December 2007 £'000	Company 31 December 2008 £'000	Company 31 December 2007 £'000
Cash at bank and in hand	9,661	6,866	9,612	6,107
Overdrafts	–	(82)	–	(82)
	9,661	6,784	9,612	6,025

13. TRADE AND OTHER PAYABLES

	Group 31 December 2008 £'000	Group 31 December 2007 £'000	Company 31 December 2008 £'000	Company 31 December 2007 £'000
Current:				
Trade payables	101	107	12	53
Social security and other taxes	49	26	13	3
Other payables	6	9	–	–
Accrued expenses	111	216	33	180
Current tax liabilities	–	10	–	10
	267	368	58	246
Non-current:				
Loans from subsidiaries	–	–	401	–
	–	–	401	–

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

14. CALLED UP SHARE CAPITAL

Group & Company	Number of Shares No.	Share Capital £'000
Authorised		
Oxford Advanced Surfaces Group Plc		
At 1 February and 1 August 2007 (1,000,000,000 at £0.001 each)	1,000,000,000	1,000
1 for 10 consolidation (100,000,000 at £0.01 each)	(900,000,000)	-
Increase in authorised share capital	200,000,000	2,000
At 31 December 2007 and 2008	300,000,000	3,000
Issued and fully paid		
Oxford Advanced Surfaces Group Plc		
At 1 February 2007	450,000,000	450
Shares issued to acquire Solar Labs Plc	433,841,307	434
At 1 August 2007	883,841,307	884
Consolidation (1 for 10)	(795,457,176)	-
Share subscription	12,000,000	120
Shares issued to acquire Oxford Advanced Surfaces Limited	77,539,907	775
At 31 December 2007	177,924,038	1,779
Issue of new ordinary shares	7,695,600	77
At 31 December 2008	185,619,638	1,856

Under reverse acquisition accounting principles the share capital presented at 31 December 2007 is that of the legal parent, Oxford Advanced Surfaces Group Plc (formerly Kanyon Plc).

On 21 December 2007 the authorised share capital was increased from £1,000,000 to £3,000,000 by the creation of 2,000,000,000 ordinary shares of 0.1 pence each.

On 21 December 2007 the ordinary shares of 0.1 pence each were consolidated so that every ten ordinary shares of 0.1 pence each were consolidated into one new ordinary share of 1 penny each.

On 31 December 2007 the Company issued 77,539,907 ordinary shares of 1 penny each in consideration for Oxford Advanced Surfaces Limited at a premium of 24 pence per share and a further 12,000,000 ordinary shares of 1 penny each at a premium of 24 pence per share for cash consideration.

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 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.

15. SHARE PREMIUM

	Group 31 December 2008 £'000	Group 31 December 2007 £'000	Company 31 December 2008 £'000	Company 31 December 2007 £'000
At beginning of period	5,817	694	5,817	2,937
Reverse acquisition	-	5,123	-	-
Shares issued for cash	4,925	-	4,925	2,880
Expenses relating to share issue – cash	(277)	-	(277)	-
Expenses relating to share issue – warrants	(42)	-	(42)	-
At end of the period	10,423	5,817	10,423	5,817

Notes to the Financial Statements

16. MERGER RESERVE

	Group 31 December 2008 £'000	Group (Restated – note 1) 31 December 2007 £'000	Company 31 December 2008 £'000	Company (Restated – note 1) 31 December 2007 £'000
At beginning of period	6,369	–	18,669	–
Shares issued on acquisition of Oxford Energy Technologies Limited	–	3,904	–	3,904
Shares issued on acquisition of Oxford Advanced Surfaces Limited	–	18,610	–	18,610
Transfer from Profit and Loss reserve – Impairment of goodwill/investment in subsidiaries	–	(16,145)	–	(3,845)
At end of the period	6,369	6,369	18,669	18,669

The merger reserve arises 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. The transfer of the impairment from the Profit and Loss Reserve is in relation to Solar Labs Plc.

17. REVERSE ACQUISITION RESERVE

	Group 31 December 2008 £'000	Group 31 December 2007 £'000	Company 31 December 2008 £'000	Company 31 December 2007 £'000
At beginning of period	(6,831)	–	–	–
Reverse acquisition reserve following the acquisition of Oxford Advanced Surfaces Limited	–	(6,831)	–	–
At end of the period	(6,831)	(6,831)	–	–

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

18. PROFIT AND LOSS RESERVE

	Group 31 December 2008 £'000	Group (Restated – note 1) 31 December 2007 £'000	Company 31 December 2008 £'000	Company (Restated – note 1) 31 December 2007 £'000
At beginning of the period	(749)	(142)	(349)	(2)
Loss during the period	(3,149)	(16,760)	(1,976)	(4,192)
Share options exercised or cancelled during the period	–	8	–	–
Transfer to Merger Reserve – Impairment of goodwill/investment in subsidiary	–	16,145	–	3,845
At end of the period	(3,898)	(749)	(2,325)	(349)

19. SHARE BASED PAYMENT RESERVE

	Group 31 December 2008 £'000	Group 31 December 2007 £'000	Company 31 December 2008 £'000	Company 31 December 2007 £'000
At beginning of period	387	1	387	–
Share options issued during the period	1,854	394	1,810	387
Share options issued to employees of subsidiary companies	–	–	44	–
Warrants issued on issue of shares	42		42	
Share options cancelled or exercised during the period	–	(8)	–	–
At end of the period	2,283	387	2,283	387

20. LOSS PER SHARE (BASIC AND DILUTED)

The basic and diluted loss per share is based on the loss after tax of £3,149,000 (2007 (Restated – note 1): £16,760,000 loss) and 181,128,781 (2007: 74,341,761) ordinary shares of 1 penny each, being the weighted average number of shares in issue during the period. The adjusted loss per share (pre goodwill impairment) is based on the adjusted loss after tax of £3,149,000 (2007 (Restated – note 1): £615,000 loss) and 181,128,781 (2007: 74,341,761) ordinary shares of 1 penny each, being the weighted average number of shares in issue during the period.

The weighted average number of shares for the period ended 31 December 2007 is based on the number of shares issued by Oxford Advanced Surfaces Group Plc to acquire Oxford Advanced Surfaces Limited for the period up to the acquisition and the weighted average number of shares in issue for the period since the acquisition.

	31 December 2008	(Restated – note 1) 31 December 2007
Loss attributable to equity holders of the Group (£'000)	(3,149)	(16,760)
Weighted average number of ordinary shares in issue	181,128,781	74,341,761
Basic & diluted loss per share (pence)	(1.74)	(22.54)
Less: Goodwill impairment (2007: £16,145,000) (pence)	–	21.71
Adjusted Basic & diluted loss per share (pre goodwill impairment) (pence)	(1.74)	(0.83)

The share options and warrants in issue are anti-dilutive and, therefore, diluted loss per share is equivalent to the basic loss per share.

21. 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 1 in the financial statements.

Notes to the Financial Statements

Categories of financial instrument

Financial assets

	31 December 2008 £'000	31 December 2007 £'000
Loans and other receivables (including cash and cash equivalents)	10,029	6,881

Financial liabilities

	31 December 2008 £'000	31 December 2007 £'000
Trade and other payables	156	142

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 period and equity to a reasonably possible change in interest rates of 1% with effect from the beginning of the period. 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 cash Balance Sheet date. All other variables are held constant.

	31 December 2008 +1% £'000	31 December 2008 -1% £'000	31 December 2007 +1% £'000	31 December 2007 -1% £'000
Loss for year	97	(97)	29	(29)
Equity	97	(97)	29	(29)

Company

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

22. NOTES TO THE GROUP AND COMPANY CASH FLOW STATEMENTS

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

	Group Year to 31 December 2008 £'000	Group (Restated – note 1) Period to 31 December 2007 £'000	Company Year to 31 December 2008 £'000	Company (Restated – note 1) Period to 31 December 2007 £'000
(Loss) before tax	(3,149)	(16,760)	(1,976)	(4,182)
Depreciation and amortisation charges	61	9	–	–
Impairment charges	–	16,145	–	3,845
Share based payment expense	1,854	394	1,810	387
Finance income	(399)	(11)	(387)	(186)
	(1,633)	(223)	(553)	(136)
(Increase) in stocks	(13)	–	–	–
(Increase)/decrease in trade and other receivables	(155)	54	31	(46)
(Decrease)/Increase in trade and other payables	(91)	(28)	(178)	219
Cash (used in)/generated from operations	(1,892)	(197)	(700)	37

b. Major Non-Cash Transactions

Group and Company

The Company issued 230,868 warrants to Novum Securities Limited as part of their consideration for the fundraising in August 2008. The warrants are priced at 65 pence and have a life of five years from 31 July 2008.

The Company also issued share options as disclosed in note 24.

23. ACQUISITION OF SUBSIDIARY UNDERTAKINGS

On 31 December 2007 the Company (formerly Kanyon Plc) acquired 100% of the issued share capital of Oxford Advanced Surfaces Limited for cash consideration of £50,000 and 77,539,907 ordinary shares of 1 penny each issued at a premium of 24 pence each and incurred directly attributable acquisition costs of £434,000. The total cost of the combination was £19,869,000. Under IFRS 3, this transaction was accounted for as a reverse acquisition of Kanyon Plc (“Kanyon”) and its subsidiary Solar Labs Plc (“Solar”) by Oxford Advanced Surfaces Limited (“OAS”). Kanyon was subsequently renamed as Oxford Advanced Surfaces Group Plc and Solar as Oxford Energy Technologies Limited.

The cost of the acquisition was determined from the perspective of OAS. As there was no readily available fair value of the legal subsidiary’s equity instruments at the date of the acquisition the total fair value of all the issued equity instruments of the legal parent, Kanyon, before the business combination was used as the basis for determining the combination’s cost. Immediately before the acquisition the legal parent had 88,384,131 ordinary 1 penny shares in issue. The directors placed a fair value on these shares of 25 pence each valuing the combination at £22,096,000. Including the cash consideration and the acquisition costs the total amount deemed to have been paid for the Company was £22,580,000.

Notes to the Financial Statements

	Kanyon plc 2007 £'000
Net assets acquired:	
Bank and cash	6,633
Trade and other receivables	67
Trade and other payables	(265)
Net assets acquired	6,435
Goodwill on acquisition	16,145
Total consideration	22,580
Satisfied by:	
Cash	50
Shares issued	19,385
Costs associated with acquisition	434
	19,869
Reverse acquisition adjustment	2,711
	22,580

The fair value of the assets acquired was assessed as the book value on the date of acquisition. Assets included £16,145,000 of goodwill which was allocated to the Solar cash-generating unit as it arose on the acquisition of Kanyon and Solar. The reverse acquisition adjustment represent the difference between the cost of the consolidation as recognised in the Company compared to the cost as calculated under reverse acquisition accounting.

As the financial statements have been prepared under reverse acquisition accounting rules the results of Kanyon were included in the consolidated financial statements from 31 December 2007. Kanyon and its subsidiary, Solar, did not contribute any material revenues or losses since the date of acquisition. If Kanyon had been a member of the Group from 1 August 2007 it would have contributed £nil revenue and £369,000 loss for the period to 31 December 2007.

The reverse acquisition reserve arises due to the treatment of equity on a reverse acquisition which uses the equity structure of the legal parent rather than that of Oxford Advanced Surfaces Limited.

24. SHARE-BASED PAYMENTS

Equity-settled share option scheme

During the period to 31 December 2008, Oxford Advanced Surfaces Group Plc had the following share-based payment arrangements:

Name of Director	At 1 January 2008	Granted / (lapsed)	Total December 2008	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
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
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
Matthew Sutcliffe (Unapproved)	125,000	(125,000)	–	10.00p	–	–
Employee						
EMI	–	135,135	135,135	1.00p	03/03/2011	03/03/2018
Unapproved	–	135,135	135,135	74.00p	03/03/2011	03/03/2018
EMI	–	238,235	238,235	16.50p	11/08/2011	14/01/2019
EMI	–	270,000	270,000	16.50p	11/12/2011	14/01/2019
EMI	–	111,765	111,765	1.00p	11/08/2011	14/01/2019
EMI	–	80,000	80,000	1.00p	11/12/2011	14/01/2019
EMI	–	81,618	81,618	16.50p	31/12/2011	14/01/2019

There are no vesting conditions attached to the share options other than that of continuation of service. The vesting conditions of the Matthew Sutcliffe share options have been met but the options expired on 31 December 2008 as they were not exercised.

The estimated fair value of the options has been calculated using the Black-Scholes-Merton model. The model inputs were an exercise price of between 1 penny and 74 pence, expected volatility of between 50% and 123% (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 2.0% and 4.5%. The total fair value of the options granted to be included in the financial statements to 31 December 2008 is £1,854,000. The options outstanding at 31 December 2008 had a weighted average remaining contractual life of 9.08 years.

The option scheme is used to provide 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.

In addition to the above options, 230,868 warrants were issued to Novum Securities Limited in consideration for services performed in respect of the funding round in August 2008. These warrants were vestable immediately on issue and expire on 31 July 2013. The exercise price is 65.0 pence. The estimated fair value of the warrants has been calculated using the Black-Scholes-Merton model. The model inputs were an exercise price of 65 pence, expected volatility of 50%, a share price of 83 pence and a risk free interest rate of 4.5%. The total fair value of the warrants granted to be included in the financial statements to 31 December 2008 is £42,000, which has been taken to the share premium account as a cost related to the issue of new ordinary shares.

The fair value of the options issued during the year was £674,000.

Notes to the Financial Statements

25. RELATED PARTIES AND DIRECTORS' TRANSACTIONS

Group

During the period under review Dr Mark Moloney received fees through Oxford University Consulting in relation to technical support to the Group for the sum of £17,000 (2007: £9,000). There were no amounts due at the end of the period (2007: £nil). In addition 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 period (2007: £nil). David Norwood and Michael Bretherton are Directors of Ora Capital Limited.

Company

A sum of £2,000 was paid to Ora Capital Limited in relation to taxation services (2007: £13,000 in relation to management fees). There were no amounts due at the end of the period (2007: £2,000). David Norwood and Michael Bretherton are Directors 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 3.

26. ULTIMATE CONTROLLING PARTY

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

27. PARENT COMPANY INCOME STATEMENT

The Company has taken advantage of section 230 of the Companies Act 1985 and has not included its own profit and loss account in these financial statements. The parent Company's loss for the period to 31 December 2008 was £1,976,000 (2007 (Restated – note 1): loss £4,192,000).



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