

**OXFORD ENERGY TECHNOLOGIES LIMITED**  
**REPORT OF THE DIRECTORS AND**  
**AUDITED FINANCIAL STATEMENTS**  
**FOR THE YEAR TO 31 DECEMBER 2012**

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# OXFORD ENERGY TECHNOLOGIES LIMITED

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# OXFORD ENERGY TECHNOLOGIES LIMITED

## **COMPANY INFORMATION** For the year to 31 December 2012

### **DIRECTORS**

Adnan Meldrum  
Mike Edwards  
Philip Spinks

### **SECRETARY**

Philip Spinks

### **REGISTERED OFFICE**

Centre for Innovation and Enterprise  
Begbroke Science Park  
Woodstock Road, Begbroke Hill  
Begbroke  
Oxfordshire OX5 1PF

### **AUDITORS**

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

### **REGISTERED NUMBER**

05955337 (England and Wales)

**OXFORD ENERGY TECHNOLOGIES LIMITED**  
**REPORT OF THE DIRECTORS**  
**For the year ended 31 December 2012**

The directors present their report with the financial statements of the company for the year to 31 December 2012

**PRINCIPAL ACTIVITY**

Oxford Energy Technologies Limited (OET) is a research and development company that provides global companies with proprietary technology solutions to create engineered materials and address surface modification applications in the electronics display, solar and ophthalmic markets

**VISARC™ Anti-Reflective Coatings**

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

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

VISARC™ technology is in a strong position both to change and expand the current anti-reflective market. We sample and supply the core nanoparticle behind the VISARC™ technology (under supply agreement / license) such that end customers can formulate their own ARC tailored for their products in conjunction with our development team. In addition we have developed in-house formulation skills and know-how to support this process

**REVIEW OF BUSINESS**

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

Firstly, variants of our nanoparticles have been synthesised through 2012 with different functionalities to match substrate and formulation / binder systems. Particles tailored to glass and polymer substrates have been made and supplied to customers for evaluation in their formulations and coatings

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

Secondly, we have focussed on increasing our formulation knowledge within development agreements and on our own internal projects. It has become clear that specific formulation knowledge around our various nanoparticles and how they interface with the customer binder systems and the multiple substrates used in the industry is critical in achieving durable, low reflection coatings

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

Finally, we have confirmed our volume manufacturing capability and partners and are now looking at various particle processing options with a view to selecting the most efficient route forward from both a capital efficiency and process perspective

The year ended 31 December 2012 delivered revenues of £35,000 (2011 £19,000) from charged for samples and research. This resulted in a loss of £657,000 (2011 loss of £669,000). Research and development costs reduced to £583,000 (2011 £618,000) whilst other administration costs increased to £96,000 (2011 £51,000). OET currently employs 10 full time research and development staff

**Outlook**

The transition from research and development to full commercial availability of our technology and product offerings remains our top priority. Strong market pull and emerging applications will provide significant opportunities for the Company when combined with effective technology execution

**BASIS OF PREPARATION**

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union

**RISK REVIEW**

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

**OXFORD ENERGY TECHNOLOGIES LIMITED**  
**REPORT OF THE DIRECTORS**  
For the year ended 31 December 2012

**Operating Risks**

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

**Technology Risk**

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

**Funding Risk**

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

**Performance Risk**

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

**Platform Technology**

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

**Commercial success and market acceptance**

There can be no assurance that any current or future product development will be successfully developed into any commercially viable product or products. The Company'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 Company'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 Company may fail to recover the losses incurred in the development process and may never achieve profitability. There is also an inherent risk that unforeseen alternative technologies or market evolution could result in the loss of commercial opportunities for the Company. The Company's strategy of developing products to meet identified market needs and where applicable under joint development agreements with leading companies in large and valuable market applications is designed to maximise the chance of adoption and drive mass market uptake.

**Manufacturing**

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

**Early stage operations**

The Company is at an early stage of development. It is difficult to predict if and when material revenues will arise and the Company faces risks frequently encountered by developing companies. The Company'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 Company's business model involves focusing development on identified market needs and seeking commercial agreements to take the products to market.

**Research and development risks**

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

**Attraction and retention of key employees**

The Company depends on its directors and other key employees and whilst it has entered into contractual arrangements with these individuals with the aim of securing the services of each of them, retention of these services cannot be guaranteed. The Company 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 Company's future development and growth depends on its intellectual property. If intellectual property is inadequately protected, the Company's future success could become adversely affected. The Company may not be able to protect and preserve its intellectual property or to exclude competitors with competing technology products. The Company continues to invest in the protection and expansion of its intellectual property portfolio. In addition the Company utilises internal procedures and controls to identify and capture new intellectual property and to prevent unauthorised disclosure to third parties.

**OXFORD ENERGY TECHNOLOGIES LIMITED**  
**REPORT OF THE DIRECTORS**  
For the year ended 31 December 2012

**Financial Risks**

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

**Funding**

The Company is currently reliant on the cash funding available from its' parent company, Oxford Advanced Surfaces Group plc. At the end of the year management believes that this provides sufficient funding to complete the product development process and take the business to a commercial stage. However in the event that the development process takes longer, or is more costly than anticipated, the Company may be required to raise further finance in order to complete the development and commercialisation process.

**DIVIDENDS**

No dividends were distributed during the period under review (2011: £nil).

**DIRECTORS**

The directors during the period under review were:

Adnan Meldrum (appointed 1 October 2012)

Mike Edwards

Philip Spinks

**DIRECTORS' INTERESTS**

At 31 December 2012 the directors hold no interest in the shares of the company, which are held in their entirety by the ultimate parent company, Oxford Advanced Surfaces Group plc.

**DIRECTORS' REMUNERATION**

The directors did not receive any remuneration for their work with Oxford Energy Technologies Limited.

**EMPLOYMENT POLICIES**

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

**RESULTS**

The trading loss for the year was £657,000 (2011: £669,000 loss) which has been transferred to reserves. Charges for share based payments amounted to £3,000 for the year (2011: £10,000).

**POLICY ON PAYMENT OF CREDITORS**

It is company policy to agree and clearly communicate the terms of payment as part of the commercial arrangements negotiated with suppliers and then to pay according to those terms based on the timely receipt of an accurate invoice.

For the year ended 31 December 2012 trade creditor days stood at 9 (2011: 26).

**GOING CONCERN**

The directors believe that the diversity of both the technology portfolio and customer base should allow the company to continue to operate under the current economic climate. The directors confirm that they are satisfied that the company has access to adequate resources to continue in business for the foreseeable future, mainly through continued funding from the parent company via a loan. The loan will not become repayable until sufficient funds exist. For this reason they continue to adopt the going concern basis in preparing the financial statements.

**OXFORD ENERGY TECHNOLOGIES LIMITED**  
**REPORT OF THE DIRECTORS**  
For the year ended 31 December 2012

**STATEMENT OF DIRECTORS' RESPONSIBILITIES**

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

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

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

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

**STATEMENT AS TO DISCLOSURE OF INFORMATION TO AUDITORS**

The directors who were in office at the date of approval of these financial statements have confirmed that, as far as they are aware, there is no relevant audit information (as defined by Section 418(2) of the Companies Act 2006) of which the company's auditors are unaware, and that each director has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

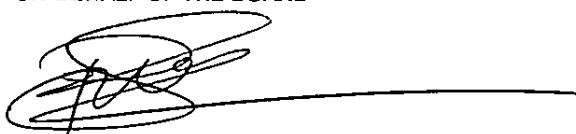
**THIRD PARTY INDEMNITY PROVISION FOR DIRECTORS**

Qualifying third party indemnity provision is in place for the benefit of all directors of the company.

**AUDITORS**

The auditors, Ernst & Young LLP, have indicated their willingness to continue in office and a resolution for re-appointment in accordance with Section 489(1) of the Companies Act 2006 will be proposed at the annual general meeting.

**ON BEHALF OF THE BOARD**



**Philip Spinks**  
Director  
30 April 2013

## REPORT OF THE INDEPENDENT AUDITORS TO THE SHAREHOLDERS OF OXFORD ENERGY TECHNOLOGIES LIMITED

We have audited the financial statements of Oxford Energy Technologies Limited for the year ended 31 December 2012 which comprise the statement of comprehensive income, the statement of changes in equity, the statement of financial position, the cash flow statement and the related notes 1 to 19. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

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

### **Respective responsibilities of directors and auditors**

As explained more fully in the Statement of Directors' Responsibilities set out on page 6, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

### **Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the report of the directors to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

### **Opinion on financial statements**

In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 31 December 2012 and of its loss for the year then ended,
- have been properly prepared in accordance with IFRSs as adopted by the European Union, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

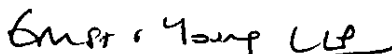
### **Opinion on other matter prescribed by the Companies Act 2006**

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

### **Matters on which we are required to report by exception**

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

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



Debbie O'Hanlon (Senior statutory auditor)  
for and on behalf of Ernst & Young LLP, Statutory Auditor  
Reading  
30 April 2013



OXFORD ENERGY TECHNOLOGIES LIMITED

**STATEMENT OF COMPREHENSIVE INCOME**  
For the year to 31 December 2012

		Year to 31 December 2012 £'000	Year to 31 December 2011 £'000
	Notes		
<b>CONTINUING OPERATIONS</b>			
Revenue		35	19
Cost of sales		(120)	(92)
<b>GROSS LOSS</b>		<b>(85)</b>	<b>(73)</b>
Research and development costs		(583)	(618)
Other administrative costs		(96)	(51)
Share based payments		(3)	(10)
<b>Total administrative costs</b>		<b>(682)</b>	<b>(679)</b>
<b>LOSS BEFORE TAX</b>	4	<b>(767)</b>	<b>(752)</b>
Income tax credit	5	110	83
<b>LOSS FOR THE YEAR AND TOTAL COMPREHENSIVE LOSS FOR THE YEAR</b>		<b>(657)</b>	<b>(669)</b>

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

OXFORD ENERGY TECHNOLOGIES LIMITED

STATEMENT OF CHANGES IN EQUITY  
For The Year to 31 December 2012

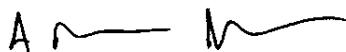
	Share Equity £'000	Share Premium £'000	Share Based Payment Reserve £'000	Retained Earnings £'000	Total Equity £'000
At 1 January 2011	152	470	133	(887)	(132)
Total comprehensive loss for the year to 31 December 2011	-	-	-	(669)	(669)
Share based payments	-	-	10	-	10
<b>At 31 December 2011</b>	<b>152</b>	<b>470</b>	<b>143</b>	<b>(1,556)</b>	<b>(791)</b>
Total comprehensive loss for the year to 31 December 2012	-	-	-	(657)	(657)
Cancellation of share options	-	-	(140)	140	-
Share based payments	-	-	3	-	3
<b>At 31 December 2012</b>	<b>152</b>	<b>470</b>	<b>6</b>	<b>(2,073)</b>	<b>(1,445)</b>

OXFORD ENERGY TECHNOLOGIES LIMITED

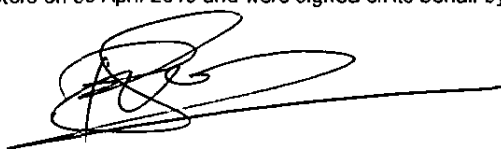
STATEMENT OF FINANCIAL POSITION  
31 December 2012

	Notes	31 December 2012 £'000	31 December 2011 £'000
<b>ASSETS</b>			
<b>NON-CURRENT ASSETS</b>			
Intangible assets	6	85	56
Plant and equipment	7	149	180
		<b>234</b>	<b>236</b>
<b>CURRENT ASSETS</b>			
Trade and other receivables	8	126	123
Cash and cash equivalents	9	18	18
		<b>144</b>	<b>141</b>
<b>LIABILITIES</b>			
<b>CURRENT LIABILITIES</b>			
Trade and other payables	10	32	54
		<b>112</b>	<b>87</b>
<b>NET CURRENT ASSETS</b>			
<b>LIABILITIES</b>			
<b>NON-CURRENT LIABILITIES</b>			
Provisions	10	7	7
Loan from parent	10	1,784	1,107
		<b>(1,445)</b>	<b>(791)</b>
<b>NET LIABILITIES</b>			
<b>SHAREHOLDERS DEFICIT</b>			
Called up share capital	11	152	152
Share premium	12	470	470
Retained earnings	13	(2,073)	(1,556)
Share based payments reserve	14	6	143
		<b>(1,445)</b>	<b>(791)</b>
<b>TOTAL DEFICIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY</b>			

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



Adnan Meldrum  
Director



Philip Spinks  
Director

OXFORD ENERGY TECHNOLOGIES LIMITED

**CASH FLOW STATEMENT**  
For the year to 31 December 2012

	Notes	Year to 31 December 2012 £'000	Year to 31 December 2011 £'000
Loss before tax		(767)	(752)
Depreciation and amortisation charges		83	66
Write-off of intangible assets		-	7
Loss on disposal of plant and equipment		1	-
Share based payment expense		3	10
		(680)	(669)
Decrease/(increase) in trade and other receivables		24	(12)
Decrease/(increase) in trade and other payables		(22)	17
<b>Cash outflow from operations</b>		(678)	(664)
Income tax received		83	50
<b>Net cash outflow from operating activities</b>		(595)	(614)
<b>Cash flows from investing activities</b>			
Purchase of intangible assets		(33)	(36)
Purchase of plant and equipment		(49)	(118)
<b>Net cash outflow from investing activities</b>		(82)	(154)
<b>Net cash from financing activities</b>			
Inflow from loan from parent		677	776
<b>Net cash inflow from financing activities</b>		-	776
<b>Increase in cash and cash equivalents</b>		-	8
<b>Cash and cash equivalents at beginning of year</b>		18	10
<b>Cash and cash equivalents at end of year</b>	9	18	18

**OXFORD ENERGY TECHNOLOGIES LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
For the year to 31 December 2012

**1 ACCOUNTING POLICIES**

**GENERAL INFORMATION**

Oxford Energy Technologies Limited (OET) is a research and development company that provides global companies with proprietary technology solutions to create engineered materials and address surface modification applications in the electronics display, solar and ophthalmic markets

**VISARCTM Anti-Reflective Coatings**

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

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VISARC™ technology is in a strong position both to change and expand the current anti-reflective market. We sample and supply the core nanoparticle behind the VISARC™ technology (under supply agreement / license) such that end customers can formulate their own ARC tailored for their products in conjunction with our development team. In addition we have developed in-house formulation skills and know-how to support this process.

**Going Concern**

Information on the business environment and the factors underpinning the company's financial position, future prospects and product portfolio are included in the Directors' Report. 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 company has adequate resources to continue in business for the foreseeable future, mainly through continued funding from the parent company via a loan. The loan will not become repayable until sufficient funds exist. For this reason they continue to adopt the going concern basis in preparing the financial statements.

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union, IFRIC Interpretations and the Companies Act 2006 applicable to companies reporting under IFRS. The consolidated financial statements have been prepared under the historical cost convention. The company's functional and reporting currency is Sterling.

The preparation of financial statements in conformity with IFRS as adopted by the European Union requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the company financial statements are disclosed later in this note.

**Revenue recognition**

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

**Sale of goods**

Revenue from the sale of goods is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer, usually on delivery of the goods.

**Development agreements**

Revenue from joint development agreements is recognised following contractual entitlement. This typically comprises either time based fees, time and materials expended or time and technical milestones achieved, as agreed between the parties.

**Grant funding**

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

**OXFORD ENERGY TECHNOLOGIES LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
For the year to 31 December 2012

**Taxes**

**Current income tax**

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

**Deferred tax**

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

Deferred tax liabilities are recognised for all taxable temporary differences, except

- Where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss, and
- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised, except

- Where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss, and
- In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax relating to items recognised outside profit or loss is recognised outside profit or loss. Deferred tax items are recognised in correlation to the underlying transaction either in other comprehensive income or directly in equity.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Tax benefits acquired as part of a business combination, but not satisfying the criteria for separate recognition at that date, would be recognised subsequently if new information about facts and circumstances changed. The adjustment would either be treated as a reduction to goodwill (as long as it does not exceed goodwill) if it occurred during the measurement period or in profit or loss.

**Sales tax**

Revenues, expenses and assets are recognised net of the amount of sales tax, except

- Where the sales tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the sales tax is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable, and

- Receivables and payables that are stated with the amount of sales tax included.

The net amount of sales tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

**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 company. 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 company intends to complete the intangible asset and use or sell it,
- The company 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 company 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 company can reliably measure the expenditure attributable to the intangible asset during its development.

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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.

**Patents and licenses**

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

**Plant and equipment**

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

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

**Impairment of assets**

The company assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required (as is the case for indefinite life intangible assets), the company 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.

**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.

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**Share-based payments**

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

Share options are valued at the date of grant using the Trinomial or 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. Where an equity-settled award is forfeited, no expense is recognised and any expense recognised up to the date of the forfeiture is reversed through the income statement.

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

**Changes in accounting policy and disclosures**

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

**Standards issued but not yet effective**

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

***IAS 32 Offsetting Financial Assets and Financial Liabilities — Amendments to IAS 32***

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

***IFRS 1 Government Loans – Amendments to IFRS 1***

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

***IFRS 9 Financial Instruments Classification and Measurement***

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

***IFRS 10 Consolidated Financial Statements, IAS 27 Separate Financial Statements***

IFRS 10 replaces the portion of IAS 27 Consolidated and Separate Financial Statements that addresses the accounting for consolidated financial statements. It also addresses the issues raised in SIC-12 Consolidation — Special Purpose Entities. IFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by IFRS 10 will require management to exercise significant judgement to determine which entities are controlled and therefore are required to be consolidated by a parent, compared with the requirements that were in IAS 27. Based on the preliminary analyses performed, IFRS 10 is not expected to have any impact on the currently held investments of the Company. This standard becomes effective for annual periods beginning on or after 1 January 2014.

***IFRS 12 Disclosure of Interests in Other Entities***

IFRS 12 includes all of the disclosures that were previously in IAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in IAS 31 and IAS 28. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required, but has no impact on the Company's financial position or performance. This standard becomes effective for annual periods beginning on or after 1 January 2014.

***IFRS 13 Fair Value Measurement***

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



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**Improvements in IFRS 2009 – 2011 cycle**

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

**IFRS 1 First-time Adoption of International Financial Reporting Standards**

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

**IAS 1 Presentation of Financial Statements**

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

**IAS 16 Property Plant and Equipment**

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

**IAS 32 Financial Instruments, Presentation**

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

**IAS 34 Interim Financial Reporting**

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

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

**CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS**

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

**Share based payments**

Employee and director compensation in the form of shares are provided under share option schemes. The fair value of the employee services received in exchange for the grant of options is recognised as an expense. The expense is based on a number of assumptions disclosed in note 18. The selection of different assumptions could affect the future results of the company. All share-based payment arrangements granted that had not vested prior to 31 December 2012 are recognised in the company financial statements.

**2 SEGMENTAL REPORTING**

The company only operates one class of business. At 31 December 2012 the company has one segment of operation – the development and commercialisation of advanced materials and technology solutions. The company's operations are all based in the UK and services are all performed in the UK. There is no geographic split of revenues by location of customer, as most customers are global corporations and the business is not considered to be seasonal.

Revenue for 2012 comprised customer fees of £35,000 (2011 grant income of £19,000).

**3 EMPLOYEES AND DIRECTORS**

	Year to 31 December 2012 £'000	Year to 31 December 2011 £'000
Wages and salaries	312	237
Social security costs	33	25
Pension costs	3	3
Share-based payment (note 18)	3	10
	351	275

The average monthly number of employees of the Company (including executive directors) during the period were

	Year to 31 December 2012	Year to 31 December 2011
Technical	10	8
	10	8

No remuneration was earned by directors for either year in relation to this company. No pension contributions were made on behalf of the directors. Details regarding the share option scheme can be found under note 18.

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**4 LOSS FROM OPERATIONS**

The loss from operations is stated after charging

	Year to 31 December 2012 £'000	Year to 31 December 2011 £'000
Research and development costs	583	618
Share based payments	3	10
Depreciation of property, plant and equipment – owned	79	64
Write-off of intangible assets - patents	-	7
Amortisation of intangible assets – patents	4	2
<b>Auditor's remuneration</b>		
Fees payable to the company's auditor for audit of the company accounts	7	7
Fees payable to the company's auditor and its associates for other services	2	2

**5 INCOME TAX CREDIT**

**a) Tax credited in the income statement**

	Year to 31 December 2012 £'000	Year to 31 December 2011 £'000
UK corporation tax credit	(110)	(83)

**b) Current tax**

The current tax credit in the income statement for the year is detailed below. Current tax credit is lower than the standard rate of corporation tax in the UK of 24.5% (2011: 26.5%). The differences are reconciled below.

	Year to 31 December 2012 £'000	Year to 31 December 2011 £'000
Loss before tax	(767)	(752)
Loss on ordinary activities multiplied by the average standard rate of corporation tax in the UK of 24.5% (2011: 26.5%)	(188)	(199)
Effects of:		
Expenses not deductible for tax purposes	1	5
Additional deduction for R&D expenditure	(132)	(95)
Movement on temporary differences not recognised	7	(14)
Unrelieved tax losses and other deductions arising in the year	74	134
Losses surrendered for research and development	128	86
<b>Tax credit</b>	<b>(110)</b>	<b>(83)</b>

Unrelieved tax losses of £1,346,000 at 31 December 2011 (£1,042,000) 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.

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**c) Deferred tax**

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

	Year to 31 December 2012 £'000	Year to 31 December 2011 £'000
Tax losses carried forward	310	261
Accelerated capital allowances	(33)	(43)
Share based payments	-	2
<b>Deferred tax assets (unrecognised)</b>	<b>277</b>	<b>220</b>

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

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

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

**6 INTANGIBLE ASSETS**

	Patents & licenses £'000
<b>COST</b>	
At 1 January 2011	31
Additions	36
Write-off	(8)
As 31 December 2011	59
Additions	33
<b>At 31 December 2012</b>	<b>92</b>
<b>AMORTISATION &amp; IMPAIRMENT</b>	
At 1 January 2011	2
Amortisation for year	2
Write-off	(1)
At 31 December 2011	3
Amortisation for year	4
<b>At 31 December 2012</b>	<b>7</b>
<b>NET BOOK VALUE</b>	
At 31 December 2011	56
<b>At 31 December 2012</b>	<b>85</b>

The average remaining life of patents is 18.3 years.

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**7 PLANT AND EQUIPMENT**

No assets were held under finance leases

	Plant & machinery £'000	Computer equipment £'000	Totals £'000
<b>COST</b>			
At 1 January 2011	175	8	183
Additions	110	15	125
Disposals	(1)	-	(1)
At 31 December 2011	284	23	307
Additions	48	1	49
Disposals	(1)	-	(1)
<b>At 31 December 2012</b>	<b>331</b>	<b>24</b>	<b>355</b>
<b>DEPRECIATION</b>			
At 1 January 2011	60	4	64
Charge for year	60	4	64
Disposals	(1)	-	(1)
At 31 December 2011	119	8	127
Charge for year	72	7	79
<b>At 31 December 2012</b>	<b>191</b>	<b>15</b>	<b>206</b>
<b>NET BOOK VALUE</b>			
At 31 December 2011	165	15	180
<b>At 31 December 2012</b>	<b>140</b>	<b>9</b>	<b>149</b>

**8 TRADE AND OTHER RECEIVABLES**

	31 December 2012 £'000	31 December 2011 £'000
Current		
Trade debtors	-	14
Corporation tax due	110	83
VAT receivable	15	18
Prepayments	1	8
	<b>126</b>	<b>123</b>

The directors consider that the carrying amount of trade and other receivables approximates to their fair values. There was no provision for impairment at 31 December 2012 or 31 December 2011. There are no trade receivables past due.

**9 CASH AND CASH EQUIVALENTS**

	31 December 2012 £'000	31 December 2011 £'000
Cash at bank and in hand	18	18

**10 TRADE AND OTHER PAYABLES**

	31 December 2012 £'000	31 December 2011 £'000
Current		
Trade payables	9	30
Social security and other taxes	10	11
Accrued expenses	13	13
	<b>32</b>	<b>54</b>
Non-current		
Dilapidations Provisions	7	7
Loans from parent	1,784	1,107

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

Oxford Advanced Surfaces Group plc provides working capital financing to Oxford Energy Technologies Limited on an as needs basis. No interest is charged on the loan and the loan is repayable as and when Oxford Energy Technologies Limited has available cash that is not required for working capital investment or growth.

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11 **CALLED UP SHARE CAPITAL**

	Number of Shares	Share Capital £'000
Issued and fully paid At 1 January and 31 December 2012 & 2011	15,222,502	152

12 **SHARE PREMIUM**

	31 December 2012 £'000	31 December 2011 £'000
At beginning and end of the year	470	470

13 **PROFIT AND LOSS RESERVE**

	31 December 2012 £'000	31 December 2011 £'000
At beginning of the year	(1,556)	(887)
Cancellation of share options	140	-
Loss during the year	(657)	(669)
At end of the year	(2,073)	(1,556)

14 **SHARE BASED PAYMENTS RESERVE**

	31 December 2012 £'000	31 December 2011 £'000
At beginning of year	143	133
Cancellation of share options	(140)	-
Charge in respect of share options for the year	3	10
At end of the year	6	143

15 **FINANCIAL RISK MANAGEMENT**

**Capital risk management**

The Company manages its capital to ensure that it will be able to continue as a going concern while maximising the return to stakeholders. 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.

**Categories of financial instrument**

	Year to 31 December 2012	Year to 31 December 2011
<b>Financial assets</b>		
Trade and other receivables (including cash and cash equivalents)	144	141
<b>Financial liabilities</b>		
Trade and other payables	1,823	1,168

Financial assets maturity - 2012	On demand £'000	Less than 3 months £'000	3 to 12 months £'000	Total £'000
Trade and other receivables	-	16	110	126
Cash at bank and in hand	18	-	-	18
	18	16	110	144

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<b>Financial assets maturity - 2011</b>	<b>On demand</b>	<b>Less than 3 months</b>	<b>3 to 12 months</b>	<b>Total</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Trade and other receivables	-	40	83	123
Cash at bank and in hand	18	-	-	18
	<b>18</b>	<b>40</b>	<b>83</b>	<b>141</b>
<b>Financial liabilities maturity - 2012</b>	<b>On demand</b>	<b>Over 1 year</b>		<b>Total</b>
	<b>£'000</b>	<b>£'000</b>		<b>£'000</b>
Trade and other payables	32	-		32
Dilapidations provisions	-	7		7
Loans from parent company	-	1,784		1,784
	<b>32</b>	<b>1,791</b>		<b>1,823</b>
<b>Financial liabilities maturity - 2011</b>	<b>On demand</b>	<b>Over 1 year</b>		<b>Total</b>
	<b>£'000</b>	<b>£'000</b>		<b>£'000</b>
Trade and other payables	54	-		54
Dilapidations provisions	-	7		7
Loans from parent company	-	1,107		1,107
	<b>54</b>	<b>1,114</b>		<b>1,168</b>

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

**Liquidity risk**

The Company carries a liquidity risk from the loans it carries from the parent company. In order to repay these loans the Company will need to successfully commercialise its technology. There is no fixed repayment period for these loans.

**Credit risk**

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 Company assesses the likelihood of payment from various factors including external credit ratings, financial records and other relevant factors.

**Interest Rate Sensitivity**

Due to the minimal cash and cash equivalent balances held in the company the impact of any likely change in interest rates is immaterial.

**16 RELATED PARTY DISCLOSURES**

At the year-end an interest free loan from the parent, Oxford Advanced Surfaces Group plc, of £1,784,000 (2011: £1,107,000) was outstanding. The outstanding loan is repayable on demand and carries no interest charge.

At the year end the Board did not consider any employees to be key to the Company other than the Directors. The Directors received no remuneration for the year or the prior period.

**17 ULTIMATE CONTROLLING PARTY**

The immediate parent company is Oxford Advanced Surfaces Group plc, a company registered in England and Wales. The directors are of the opinion there is no ultimate controlling party.

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**18 SHARE-BASED PAYMENT TRANSACTIONS**

**EMI/Unapproved Group Option Scheme**

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

	2012		2011	
	Weighted average exercise price	Number of options	Weighted average exercise price	Number of options
At beginning of the year	29.70p	430,397	31.50p	375,397
Granted during the year	9.92p	415,000	17.50p	55,000
Cancelled	35.80p	(294,134)	-	-
At end of the year	11.59p	551,263	29.70p	430,397

For the options brought forward there are no vesting conditions other than continuation of service. For the October 2012 awards there are, in addition to the continuation of service, performance criteria relating to the achievement of share price targets ranging from 15.0 pence to 25.0 pence over the coming 1 to 3 years.

Of the 551,263 options outstanding at 31 December 2012, 16,263 were exercisable (2011: 310,397). The weighted average price of the exercisable shares was 16.5 pence (2011: 34.80 pence).

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

	2012			2011	
Year of expiry	Range of exercise price	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
2018	1.00p – 74.00p	-	-	270,270	37.50p
2019	1.00p – 16.50p	16,263	16.50p	40,127	16.50p
2020	16.00p	65,000	16.00p	65,000	16.00p
2021	12.50p – 23.50p	55,000	17.50p	55,000	17.50p
2022	7.75p – 10.00p	415,000	9.92p	-	-
		551,263	11.59p	430,397	29.70p

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

	Performance linked grants		Non-performance linked grants	
	2012	2011	2012	2011
Expected volatility (%)	50.0%	-	17.0%	16.6% - 17.4%
Risk-free interest rate (%)	0.3% - 2.2%	-	0.5%	0.5%
Expected dividends	nil	-	nil	nil
Expected life of options (years average)	-	-	3.0 years	3.0 years
Expected vesting multiple (of performance target price)	1.0	-	-	-
Weighted average exercise price (pence)	10.00p	-	7.75p	23.50p
Leavers	20.0%	-	0.0%	0.0%
Model used	Trinomial	-	Black-Scholes	Black-Scholes

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

The total expense arising in the year for share based payment transactions is £3,000 (2011: £10,000). The options outstanding at 31 December 2012 had a weighted average remaining contractual life of 9.2 years. The fair value of the options issued during the year was £12,000.

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19 **POST BALANCE SHEET EVENTS**

In January 2013 the Company issued 1,000,000 new options to staff. These options replaced 151,000 existing options issued to staff, which were duly cancelled. The new options reflect the time and share price performance vesting conditions of the options issued to senior staff in October 2012 and are exercisable in one third tranches in one, two and three years from issue where the share price equals or exceeds 15 pence, 20 pence and 25 pence respectively, for a continuous period of at least 22 business days.