KleenAir Systems International plc

Annual report

For the year ended 30 September 2007

Company No. 05075088

Officers and professional advisers

Company registration number	05075088
Registered office	Unit D, Beaver Centre Ashburton Industrial Estate Ross-on-Wye HR9 7BW
Directors	L Simons (Chairman) P M Newell (Managing Director) T W E Downes MBE A M Rentoul G Saxton N Weller R Hayim
Secretary	C M Backhouse
Bankers	Barclays Bank plc 54 Cornmarket Street Oxford OX1 3HS
Solicitors	Dechert LLP 160 Victoria Street London EC4V 4QQ Henmans LLP 5000 Oxford Business Park South Oxford OX4 2BH
Auditor	HW, Chartered Accountants and Registered Auditors 19/23 High Street Kidlington OX5 2DH

CHAIRMAN'S STATEMENT

Sales in the year were £35,102 (9 months to 30 September 2006 Nil) and group costs, which were primarily associated with management infrastructure and the costs of implementing our applications engineering and administrative facility in Ross-on-Wye, amounted to £866,817 (£710,281) The loss for the year was £825,003 (£699,262)

Following the confirmation of the London Low Emission Zone ("LEZ") program, which was signed into effect on 9 May, 2007 by Mayor Livingstone, the company proceeded to submit its product for testing by Transport for London ("TfL") The certification that qualified KleenAir's filter for the LEZ was received in early September As stated in the interim report, initial revenue was expected for the last quarter of 2007

Shipments began in October, just after the end of the financial year These related to the first phase of the LEZ program which required that heavy goods vehicles ("HGVs") over 12 tonnes be upgraded to Euro III standards by 4 February 2008 However, TfL changed the terms of reference such that many vehicles that had been expected to be upgraded were exempted This reduced the potential market size from the previously estimated 24,000 to an estimated number of fewer than 10,000

In addition, confusion in the market place arising from these exemptions resulted in many operators of vehicles significantly delaying the placing of orders The company has been ramping up shipments to complete the first phase and is commencing shipments for the second phase of the programme, which relates to HGVs of 3 5 – 12 tonnes The current level of shipments represents a market share of about 8 per cent, which is in the range of the company's expectations

The adoption of LEZ programmes in other cities in the UK has not progressed as rapidly as hoped and is still under discussion by some 8 major urban local authorities On the other hand, following enabling legislation and directives from the European Commission there are now more than sixty cities throughout Europe investigating or implementing LEZs of their own The company will make a major effort to participate in this market opportunity

The company has negotiated access to a transport refrigeration unit suitable for retrofitting refrigerator trucks operated by the largest food chains, food suppliers and food distributors This will be launched at the Commercial Vehicle Show at the NEC in Birmingham next month While the cabs that haul these trailers meet current standards, the engines that run the refrigeration systems on the trailers do not We aim to resolve the operators' problem created by this anomaly

This month, the company has successfully completed a further offering of shares, raising in excess of £1 million through Charles Street Securities Inc and following this investment, Robert Hayim, Managing Director of CSS Capital Managers LLP has joined the board We are now carrying out the due diligence procedures prior to making an investment of £300,000 in Nonox plc, a company with intellectual property ("IP") relating to stationary source particulate reduction systems applied to oil-fired boilers The company believes that by harnessing its NOx reduction IP with the Nonox technology it can create a combined particulate and NOx reduction package that can be applied to both boilers and stationary electric generators, common in, for example, apartment buildings, office buildings and hospitals This will enable the company to reduce emissions from stationary as well as mobile sources and so diversify its markets

I am confident that the products and technologies in the company's portfolio, together with the technical and marketing team and the physical facilities now in place, will enable the company to become a significant force in meeting the demand for emissions reductions solutions driven by the implementation of the LEZs both in the UK and on the continent

Lionel Simons

Lionel Simons 28 March 2008

Report of the directors

The directors present their report and the financial statements of the group for the year ended 30 September 2007

Principal activities and business review

The principal activity of the group during the period was the development of vehicle emission reduction devices

The business review is included in the chairman's statement on page 4

The financial statements of the group for the year ending 30 September 2008 will be prepared in accordance with International Financial Reporting Standards ("IFRS") The directors have initiated plans for the conversion from UK GAAP to IFRS

Results and dividends

The trading results for the period and the group's financial position at the end of the period are shown in the attached financial statements

The directors have not recommended a dividend

The directors

The directors who served the company during the year were as named on page 2, with the exception of Mr Robert Hayim who was appointed to the board on 26 February 2008

Policy on the payment of creditors

It is the company's policy to settle the terms of payment with suppliers when agreeing the terms of the transaction, to ensure that suppliers are aware of these terms and to abide by them Trade creditors at the period end amounted to 120 days of average supplies for the period (2006 28)

Substantial Shareholders

As at 30 September 2007 the following shareholders held in excess of 3% of the company's issued share capital

Mr L Simons and connected persons - 4,882,500 shares

Mr L Simons (together with his wife and daughter) are discretionary beneficiaries of a trust, the trustees of which own Bramley Limited (882,500 shares), Guideline Securities Inc (1,000,000 shares) and a trust, the trustees of which own Pollution Control Inc, a 80% shareholder of KleenAir Systems Inc (3,000,000 shares)

Pershing Keen Nominees Ltd - 4,540,125 shares

Jim Nominees Ltd - 4,065,601 shares

Donations

No donations were made during the year for either charitable or political purposes (2006 - Nil)

Summary of Key Performance Indicators

Since the company had minimal turnover, there are no performance indicators relative to revenue and gross margin In view of the gradually increasing turnover during the first half of the year ending 30 September 2008, these measures are now under consideration

There was no significant capital expenditure in the period and none is planned

As the group is in the early stages of development, there are no non-financial performance indicators being used at present

Financial risk management of activities and policies

The group raised funds through a private equity placing in January 2005 and by way of accession to the Alternative Investment Market in March 2006 As set out in note 14 below, further funds have been raised during and subsequent to the year ended 30 September 2007, totalling in excess of £1 3m (before expenses) The main use of the funds raised has been to commercialise the company's own technology and the related technology to which it has access

With limited turnover and consequent cash flow, whilst cash reserves are managed closely the company's main risk arises from the need to raise additional capital in the foreseeable future, so as to ensure that the company's technology can successfully be brought to the market

The group has minimal financial exposure to foreign currency transactions and where these do occur the policy is to match income and expenditure transactions, wherever possible, in the same currency in which they are incurred There are currently no hedging instruments in place, but with growth in the business imminent, the company is reviewing how best to manage the exchange rate risks to which it may be exposed and a more detailed treasury policy is now being developed

Post balance sheet events

There are no significant post balance sheet events to report, except the fund raising in February 2008 referred to in the chairman's statement and in further detail in note 14 below

Corporate Governance

The company has appointed three non-executive directors to the audit committee and two non-executive directors to the remuneration committee of the board The audit committee meets twice yearly and is responsible for ensuring that the appropriate financial reporting procedures are properly maintained and reported on, and for meeting the auditors and reviewing their reports relating to the group's accounts and internal control systems

The remuneration committee meets twice yearly and is responsible for reviewing the performance of the executive directors and other senior executives and for determining appropriate levels of remuneration

The directors do not consider it appropriate to appoint a nomination committee but will keep the possibility under review Appointments of directors and senior staff are approved by the board

The board regularly reviews key business risks in addition to the financial risks facing the group in the operation of its business

Directors' responsibilities

The directors are responsible for preparing the Annual Report and the financial statements in accordance with United Kingdom law and accounting standards (United Kingdom Generally Accepted Accounting Practice)

United Kingdom company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and of the group at the end of the period and of the group's profit or loss for the period then ended In preparing those financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently
- make judgements and estimates that are reasonable and prudent
- state whether applicable United Kingdom Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group will continue in business

The directors are responsible for keeping proper accounting records, for safeguarding the assets of the group and for taking reasonable steps for the prevention and detection of fraud and other irregularities and to ensure that the financial statements comply with the Companies Act 1985

Statement of disclosure of information to the auditors

In so far as the directors are aware

- there is no relevant audit information of which the company's auditor is unaware, and
- the directors have taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditor is aware of that information

Auditor

Grant Thornton UK LLP resigned in 12 February 2008 and HW Chartered Accountants was appointed by the board as the new auditor It offers itself for reappointment as auditor in accordance with section 385 of the Companies Act 1985

BY ORDER OF THE BOARD

C M Backhouse
Secretary
28 March 2008

Group profit and loss account

	Note	Year to 30 Sep 07 £	9 month period ended 30 Sep 06 £
Turnover	1	**35,102**	-
Other operating charges	2	**866,817**	710,281
Operating loss	3	**(830,883)**	(710,281)
Interest receivable		**5,880**	11,019
Loss on ordinary activities before taxation		**(825,003)**	(699,262)
Tax on loss on ordinary activities	6	-	-
Loss for the financial period		**(825,003)**	(699,262)
Loss per share			
Basic and diluted loss per share	8	(4 10)p	(4 00)p

All of the activities of the company are classed as continuing

The company has no recognised gains or losses other than the results for the period as set out above

The company has taken advantage of section 230 of the Companies Act 1985 not to publish its own Profit and Loss Account

Report of the independent auditor to the members of KleenAir Systems International plc

Opinion

In our opinion

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the group's and parent company's affairs as at 30 September 2007, and of the group's loss and cash flows for the year then ended,

- 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

Going Concern

In forming our opinion, which is not qualified, we have considered the adequacy of the disclosures made in Note 1 of the financial statements concerning the group's ability to continue as a going concern The group incurred a net loss of £825,003 during the year ended 30 September 2007 (£699,262 9 months ended 30 September 2006) This condition indicates the existence of a material uncertainty which casts significant doubt about the company's ability to continue as a going concern The financial statements do not include the adjustments that would result if the company were unable to continue as a going concern

HW, Chartered Accountants

HW, Chartered Accountants
and Registered Auditors

19/23 High Street
Kidlington
Oxford, OX5 2DH

28 March 2008

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Group balance sheet

	Note	30 Sep 07 £	30 Sep 06 £
Fixed assets			
Intangible assets	9	186,772	88,334
Tangible assets and Investments	10	46,879	17,201
		233,651	105,535
Current assets			
Debtors	12	67,456	90,071
Stock of finished goods		178,643	-
Cash at bank		9,166	483,808
		255,265	573,879
Creditors: amounts falling due within one year	13	(323,075)	(160,036)
Net current (liabilities)/assets		(67,810)	413,843
Creditors: amounts falling due after one year		(100,000)	-
Total assets less current liabilities		65,841	519,378
Capital and reserves			
Called-up share capital	14	206,885	189,235
Share premium account	15	1,985,074	1,705,699
Other reserves	15	86,891	12,450
Profit and loss account	15	(2,213,009)	(1,388,006)
Shareholders' funds	16	65,841	519,378

These financial statements were approved by the directors on 28 March 2008 and are signed on their behalf by

L Simons
Director

The accompanying accounting policies and notes form part of these financial statements.

Company balance sheet

	Note	30 Sep 07 £	30 Sep 06 £
Fixed assets			
Intangible assets	9	78,334	88,334
Investments	11	20	20
		78,354	88,354
Current assets			
Debtors	12	1,946,046	1,669,149
Cash at bank		798	7,041
		1,946,844	1,676,190
Creditors: amounts falling due within one year	13	(31,027)	(47,143)
Net current assets		1,915,817	1,629,047
Long term creditors falling due after one year		(100,000)	-
Total assets less current liabilities		1,894,171	1,717,401
Capital and reserves			
Called-up share capital	14	206,885	189,235
Share premium account	15	1,985,074	1,705,699
Other reserve	15	86,891	12,450
Profit and loss account	15	(384,679)	(189,983)
Shareholders' funds		1,894,171	1,717,401

These financial statements were approved by the directors on 28 March 2008 and are signed on their behalf by

L Simons
Director

The accompanying accounting policies and notes form part of these financial statements.

Group cash flow statement

	Note	Year to 30 Sep 07 £	9 month period ended 30 Sep 06 £
Net cash outflow from operating activities	17	(839,707)	(684,483)
Returns on investments and servicing of finance			
Interest received		5,880	11,019
Net cash inflow from returns on investments and servicing of finance		5,880	11,019
Capital expenditure			
Payments to acquire fixed assets		(37,860)	(17,377)
Net cash outflow from capital expenditure		(37,860)	(17,377)
Cash outflow before financing		(871,687)	(690,841)
Financing			
Issue of equity share capital		17,670	59,797
Share premium on issue of equity share capital		282,375	1,599,679
Directors loan		100,000	-
Issue costs		(3,000)	(531,673)
Net cash inflow from financing		397,045	1,127,803
(Decrease)/increase in cash		(474,642)	436,962

Reconciliation of net cash flow to movement in net funds

(Decrease)/increase in cash in the period	(474,642)	436,962
Movement in net funds in the period	(474,642)	436,962
Net funds at 1 October	483,808	46,846
Net funds at 30 September	9,166	483,808

The accompanying accounting policies and notes form part of these financial statements.

Notes to the financial statements

1. Accounting Policies

The financial statements have been prepared in accordance with the Companies Act 1985 and with applicable United Kingdom Accounting Standards (UK GAAP)

Accounting convention

The financial statements are prepared under the historical cost convention and on a going concern basis because in the view of the directors and despite losses to date, sales have now commenced and the company has been successful in raising funds to support its growth

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the company and all group undertakings These are adjusted, where appropriate, to conform to group accounting policies Acquisitions are accounted for under the acquisition method and goodwill on consolidation is capitalised The results of companies acquired are included in the profit and loss account after the date that control passes As a consolidated profit and loss account is published, a separate profit and loss account for the parent company is omitted from the group financial statements by virtue of section 230 of the Companies Act 1985

Related parties transactions

The company is the parent company of the group and consolidated accounts have been prepared Accordingly, the group has taken advantage of the exemption in FRS 8 'Related Party Disclosures' from disclosing transactions with members of the group

Turnover

Turnover represents amounts receivable in the course of the company's ordinary activities arising from the supply of vehicle filters for use in the London Low Emission Zone, exclusive of VAT, and therefore, in one business segment and geographical region, the United Kingdom

Intangible assets

Research and development

Research expenditure is written off to the profit and loss account as incurred Development expenditure is written off in the same way unless the directors are satisfied as to the technical, commercial and financial viability of individual projects In this situation, the expenditure is deferred and amortised over the period during which the company is expected to benefit

Other intangible assets

Intellectual property rights are included at cost and amortised on a straight-line basis over their useful economic lives

Notes to the financial statements

Amortisation

Amortisation is calculated so as to write off the cost of an asset over the useful economic life of that asset as follows

Goodwill	- 10 years
Intellectual property rights	- 10 years
Research and development	- 5 years

Tangible Fixed Assets

All tangible fixed assets are initially recorded at cost

Depreciation

Depreciation is calculated so as to write off the cost of an asset, less its estimated residual value, over the useful economic life of that asset as follows

Leasehold improvements	- over the term of the lease
Plant and equipment	- 4 years straight line
Fixtures and fittings	- 4 years straight line

Investments

Investments are recorded at cost less amounts written off

Deferred taxation

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or a right to pay less or to receive more, tax except that deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date

Foreign currencies

Monetary assets and liabilities in foreign currencies are translated into sterling at the rates of exchange ruling at the balance sheet date Transactions in foreign currencies are translated into sterling at the rate of exchange ruling at the date of the transaction Exchange differences are taken into account in arriving at the operating profit

Operating lease agreements

Rentals applicable to operating leases where substantially all of the benefits and risks of ownership remain with the lessor are charged against profits on a straight line basis over the period of the lease

Notes to the financial statements

Financial Instruments

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into

Where the contractual obligations of financial instruments (including share capital) are equivalent to a similar debt instrument, those financial instruments are classed as financial liabilities Financial liabilities are presented as such in the balance sheet

Where none of the contractual terms of share capital meets the definition of a financial liability then this is classed as an equity instrument

Share-based payment

Equity-settled share-based payment

All share-based payment arrangements granted since the company's incorporation on 16th March 2004 that had not vested prior to 1 October 2006 are recognised in the 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)

All equity-settled share-based payments are ultimately recognised as an expense in the profit and loss account with a corresponding credit to "other 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 revised subsequently 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 that have vested are not exercised

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

2 Other operating income and charges

Other operating income and charges include

	Year to 30 Sep 07 £	9 month period ended 30 Sep 06 £
Administrative expenses	536,037	707,447

Notes to the financial statements (Continued)

3 Operating loss

Operating loss is stated after charging:

	Year to 30 Sep 07 £	9 month period ended 30 Sep 06 £
Depreciation	8,182	176
Amortisation	37,110	19,801
Auditors' remuneration		
Audit fees	8,500	12,500
Write off of consolidated goodwill	-	118,909
Operating lease rentals	52,237	7,949

4 Particulars of employees

The average number of staff employed by the group during the financial period amounted to

	Year to 30 Sep 07 No	9 month period ended 30 Sep 06 No
Management	2	2
Design staff	1	-
Executive directors	2	2
Non-executive directors	5	4
	10	8

The aggregate payroll costs of the above were

	Year to 30 Sep 07 £	9 month period ended 30 Sep 06 £
Wages and salaries	289,790	172,229
Social security costs	31,165	16,832
	320,955	189,061

Notes to the financial statements (Continued)

5 Directors

Remuneration in respect of directors was as follows

	Year to 30 Sep 07	9 month period ended 30 Sep 06
	£	£
Emoluments receivable	142,250	102,180

No options were granted to a director of Kleenair Systems International Plc during the year (9 months to 30 September 2006 200,000) and the number outstanding at 30 September 2007 was 200,000

6 Taxation on loss on ordinary activities

Due to the losses in the period, no corporation tax liability has arisen

Factors affecting current tax charge
The tax assessed on the loss on ordinary activities for the period is different from the standard rate of corporation tax in the UK of 19% (2006 - 19%)

	Year end 30 Sep 07	9 month period ended 30 Sep 06
	£	£
Loss on ordinary activities before taxation	(825,003)	(699,262)
Loss on ordinary activities by rate of tax	(156,751)	(132,702)
Unrelieved tax losses	156,751	132,702
Total current tax	–	–

7 Loss attributable to members of the parent company

The loss dealt with in the accounts of the parent company was £119,421 (2006 £174,188)

8 Earnings (loss) per share

Loss per ordinary share has been calculated using the weighted average number of shares in issue during the relevant financial periods The calculations of both basic and diluted earnings per share for the year are based upon a loss after tax of £825,003 (2006 loss of £699,262)

The weighted number of equity shares used in the basic calculation is 19,953,067 (2006 17,424,682) The weighted average number of shares used in the dilution calculation is 19,953,067 (2006 17,424,682) As the potential ordinary shares issued are deemed anti-dilutive they have been excluded from the calculation of the weighted average number of shares, for the purposes of the dilution

Notes to the financial statements (Continued)

9 Intangible assets

Group

	R & D Capitalised	Intellectual property rights £	Total £
Cost			
At 30 September 2006	-	100,000	100,000
Additions and disposals	135,548	-	135,548
At 30 September 2007	**135,548**	**100,000**	**235,548**
Amortisation			
At 30 September 2006	-	11,666	11,666
Charge for the period	27,110	10,000	37,110
At 30 September 2007	27,110	21,666	48,776
Net book value			
At 30 September 2007	108,438	78,334	186,772
At 30 September 2006	-	88,334	88,334

Company

	Intellectual property rights and R & D Capitalisation £
Cost	
At 30 September 2006	100,000
At 30 September 2007	**100,000**
Amortisation	
At 30 September 2006	11,666
Charge for the period	10,000
At 30 September 2007	21,666
Net book value	
At 30 September 2007	78,334
At 30 September 2006	88,334

Notes to the financial statements (Continued)

10 Tangible assets

Group	Leasehold property	Plant and equipment and MV	Furniture and Fittings	Total
	£	£	£	£
Cost				
At 30 September 2006	9,850	5,820	1,707	17,377
Additions	14,500	20,654	2,706	37,860
At 30 September 2007	24,350	26,474	4,413	55,237
Depreciation				
At 30 September 2006	-	126	50	176
Charge for the period	3,000	4,582	600	8,182
At 30 September 2007	3,000	4,708	650	8,358
Net book value				
At 30 September 2007	21,350	21,766	3,763	46,879
At 30 September 2006	9,850	5,694	1,657	17,201

The company does not hold any fixed asset

11 Investments

At 30 September 2007 KleenAir Systems International Plc held 100% of the issued ordinary share capital of the company named below (whose results are included in these financial statements)

	Country of incorporation	Proportion of share capital held	Nature of business
KleenAir Systems Limited	England and Wales	100%(Direct)	Trading

12 Debtors

	The group 30 Sep 07	The group 30 Sep 06	The company 30 Sep 07	The company 30 Sep 06
	£	£	£	£
Trade debtors	5,118	20,011	-	-
Amounts owed by group undertakings	–	–	1,940,898	1,641,691
VAT recoverable	32,897	19,551	2,881	19,551
Other debtors	5,600	11,925	-	-
Prepayments and accrued income	23,841	38,585	2,267	7,928
	67,456	90,072	1,946,046	1,669,170

Notes to the financial statements (Continued)

13 Creditors: amounts falling due within one year

	The group		The company	
	30 Sep 07	30 Sep 06	30 Sep 07	30 Sep 06
	£	£	£	£
Trade creditors	229,592	62,920	19,492	20,143
Amounts owed to related undertakings	-	19,011	–	–
Other creditors	27,433	10,271	-	-
Accruals and deferred income	66,050	67,834	11,535	27,000
	323,075	160,036	31,027	47,143

Creditors: amounts falling due after one year

	The group		The company	
	30 Sep 07	30 Sep 06	30 Sep 07	30 Sep 06
	£	£	£	£
Other creditors	100,000	-	100,000	-

During the year a loan of £100,000 was made from Mr L Simons to the company The loan carries interest at 2% above Barclays Bank's base rate and is repayable by 31 December 2008, or earlier, subject to certain terms and conditions which are set out at Note 21 below

14 Share capital

Authorised share capital

	30 Sep 07	30 Sep 06
	£	£
30,000,000 (2006 30,000,000) Ordinary shares of £0 01 each	300,000	300,000

Allotted, called up and fully paid

	30 Sep 07		30 Sep 06	
	No	£	No	£
Ordinary shares of £0 01 each	20,688,480	206,885	18,923,484	189,235

Allotments during the year

In March 2007 882,500 ordinary shares were issued to Pershing Keen Nominees Ltd at £0 17 per share, followed by the issue of 882,500 ordinary shares to Bramley Ltd for £150,025

Further to an announcement made on 5 February 2008, the Company has to date, completed the placing of 6,595,503 new ordinary 1p shares ("Ordinary Shares") at 15 75p per share, raising £1,038,792 (the "Placing") before expenses

Notes to the financial statements (Continued)

14 Share capital (continued)

Subscribers to the Placing have in addition been granted warrants Each warrant, which will be exercisable, generally, until 4 April 2009, entitles its holder to subscribe for new Ordinary Shares ("Warrant Shares") at par to ensure that the price per share paid by subscribers in the Placing, taking into account the Warrant Shares, will be the equivalent to a twenty five per cent discount to the placing price per Ordinary Share in any placing of Ordinary Shares (or any other securities with rights to subscribe or convert into Ordinary Shares) with third party investors in relation to which trading in the relevant placing shares or securities commences on AIM on or prior to 31 December 2008 ("Subsequent Placing") and, in the absence of a Subsequent Placing, a twenty five per cent discount to the average mid-market closing price of the Ordinary Shares on AIM for the 90 trading days prior to 31 December 2008

Share Option Scheme

In accordance with an agreement dated 31 August 2005, the company established an approved share option scheme under the Enterprise Management Incentive Option Agreement on behalf of its directors and employees No options were issued during the year As at 30 September 2007 options over 501,658 shares were outstanding, including 200,000 in respect of directors of the group The earliest possible vesting date for these options is three years from grant date To date no options have been exercised

Given the volatility of the shares, the directors believe that the fair value of the options is not materially different from the maximum value (market value of shares at grant date)

The directors have adopted a vesting period of three years for the pre 1 Jan 2006 options and a charge of £74,441 has been made during the year (2006 £12,450) On the grounds of immateriality, no prior year adjustment has been made

The exercise prices of the outstanding options as at 1 January 2006 and 30 September 2007 are

	Option price number	Option price (pence)	Exercise period from	Exercise period to
EMI Options	25,000	30	11 Aug 2008	10 Aug 2015
	8,333	30	31 Aug 2008	30 Aug 2015
	8,333	30	31 Oct 2008	31 Oct 2015
	8,333	30	30 Nov 2008	30 Nov 2015
	8,333	30	31 Dec 2008	31 Dec 2015
Non EMI shares	59,999	30	11 Aug 2008	30 Nov 2015
Issued at 01 Jan 06	**118,331**			
Issued in the ye Sept 06	408,326	26	15 Sept 2009	15 Sept 2016
Forfeited in the ye Sept 06	(24,999)			
Issued at 30 Sept 07	**501,658**			

Notes to the financial statements (Continued)

15 Reserves

Group	Share premium account £	Other reserve £	Profit and loss account £
At 30 September 2006	1,705,699	12,450	(1,388,006)
Loss for the period	-	-	(825,003)
Other	-	74,441	
New share capital subscribed	282,375	-	-
Issue and similar costs	(3,000)	-	-
At 30 September 2007	1,985,074	86,891	(2,213,009)

Company	Share premium account £	Other reserve £	Profit and loss account £
At 30 September 2006	1,705,699	12,450	(190,816)
Loss for the period	-	-	(119,422)
Other movements FRS 20	-	74,441	(74,441)
New equity share capital subscribed	282,375	-	-
Issue and similar costs	(3,000)	-	
At 30 September 2007	1,985,074	86,891	(384,679)

16 Reconciliation of movements in shareholders' funds

	Year end 30 Sep 07 £	9 month period ended 31 Dec 06 £
Loss for the financial period	(825,003)	(699,262)
New share capital subscribed	17,670	59,797
Premium on new share capital subscribed/Shares to be issued	282,375	1,599,679
Issue and similar costs	(3,000)	(531,673)
Share Option charge	74,441	12,450
Net addition/(reduction) to shareholders' equity funds	(453,517)	440,991
Opening shareholders' equity funds	519,378	78,387
Closing shareholders' equity funds	65,861	519,378

Notes to the financial statements (Continued)

17 Reconciliation of operating loss to net cash outflow from operating activities

	Year end 30 Sep 07 £	9 month period ended 30 Sep 06 £
Operating loss	(830,883)	(710,281)
Write off of goodwill/Capitalise R & D	(135,548)	118,909
Other reserves	74,441	12,450
Amortisation	37,110	19,801
Depreciation	8,182	176
Decrease/(Increase) in debtors	22,595	(36,016)
(Increase) in stock	(178,643)	-
Increase/(Decrease) in creditors	163,039	(89,522)
Net cash outflow from operating activities	(839,707)	(684,483)

Some of the comparative figures appearing in the financial statements for the 9 month period ended 30 September 2006 were presented incorrectly, in error These comparative figures have been amended in this set of financial statements These errors did not impact on the movement in net funds shown in the group cash flow statement, nor the increase in cash, as originally set out in the financial statements for the 9 month period ended 30 September 2006 The table below shows those figures which were materially incorrect and which have now been amended

	9 month period ended 30 Sep 06 As amended £	9 month period ended 30 Sep 06 As stated originally £
(Decrease)/ Increase in creditors (Note 17)	(89,522)	88,022
Net cash outflow from operating activities (Note 17)	(684,483)	(504,105)
Cash outflow before financing (page 13)	(690,841)	(510,464)
Share premium on issue of equity share capital (page 13)	1,599,679	1,419,302
Net cash inflow from financing (page 13)	1,127,803	943,327

18 Commitments

At 30 September 2007 the group had annual commitments under operating leases as set out below

	2007		2006	
	£	£	£	£
Operating leases which expire	Buildings	Other	Buildings	Other
In more than 5 years	16,600	-	16,600	
Between one and five years	-	5,119		5,119
Within 1 year	7,630	-	7,510	-
	24,230	5,119	24,110	5,119

The group had no other capital commitments contracted for at the balance sheet date (2006 £nil) There were no capital commitments authorised at the balance sheet date

Notes to the financial statements (Continued)

19 Financial instruments

The group has no significant derivatives or financial instruments other than bank accounts held with variable rates of interest Where in the future the directors perceive exposure to financial risk regarding financial instruments, they will seek to obtain appropriate hedging instruments to limit the group's exposure to such risks

Short term debtors and creditors or current asset investments are not treated as financial assets or liabilities respectively for the purpose of Financial Reporting Standard 13 disclosures

20 Currency Exposure

The group has minimal business transactions in foreign currencies and therefore incurs minimal transaction risk If commercially viable such risk will be hedged in the future

The group does not hold monetary assets in foreign currency

The group had no open foreign exchange contracts at the balance sheet date

21 Related party transactions

During the year, no consultancy fees (2006 £12,245) were paid to Osney Consulting Limited, a company in which Mr P M Newell, a director, has a controlling interest

Nor during the year was any management fee (2006 £9,000) paid to KleenAir Systems Inc , a company in which Mr L Simons, a director, has a controlling interest

During the year a loan of £100,000 was made from Mr Simons to the company This loan bears interest at 2% above Barclays Bank Plc base rate The loan is repayable on the earlier of

(a) 31st December 2008, or

(b) the company raising new funding in excess of £400,000 between receipt of the loan and the end of 2008 (the "loan period"), subject to investor agreement, but excluding the placing referred to in Note 1, or,

(c) the moving average of the company's share price exceeding 50p for a period of 60 days during the loan period, in which case the directors shall authorise the sale of sufficient shares to repay the loan, or

(d) the group's net cash flow in any month during the loan period exceeding £100,000, in which case £25,000 of the loan shall be immediately repayable

In March 2007, a loan for £150,025 from Bramley Ltd was satisfied and settled in full by way of the issue of 882,500 ordinary shares to Bramley Ltd Mr Simons (together with his wife and daughter) are discretionary beneficiaries of a trust, the trustees of which own Bramley Limited

No other transactions with related parties such as are required to be disclosed under Financial Reporting Standard 8 'Related Party Disclosures' occurred