Company Registration No. 05075088

KleenAir Systems International Plc

ANNUAL REPORT

30 September 2008

CONTENTS

OFFICERS AND ADVISERS

DIRECTORS	L.Simons (Chairman) P.M.Newell A.M.Rentoul G.Saxton R.Hayim
SECRETARY	C.M Backhouse (appointed 29 February 2008)
REGISTERED OFFICE	Third Floor 3 Field Court Gray's Inn London WC1R 5AF
REGISTERED NUMBER	05075088
AUDITORS	Jeffreys Henry LLP Finsgate 5-7 Cranwood Street London EC1V 9EE
REGISTRARS	Share Registrars Limited Craven House West Street, Farnham Surrey GU9 7EN
SOLICITORS	Dechert LLP 160 Victoria Street London EC4V 4QQ Henmans LLP 5000 Oxford Business Park South Oxford OX4 2BH

CHAIRMAN'S STATEMENT

Financial Results

The accounts for the period to 30 September 2008 show an operating loss of £323,129; loss per share was 14.5p per share. There was also an exceptional cost of £2,756,376 relating to provisions against assets under a Company Voluntary Arrangement (CVA).

Board Appointment

On 26 February 2008 Mr R Hayim, aged 52, joined the board as a non-executive director. Mr Hayim is a managing director with CSS Capital Managers LLP ("CSSCM") where he is responsible for the supervision of private equity portfolio investments. He is also involved in an investment monitoring capacity to approximately eight early stage companies for CSSCM. Mr Hayim has a BA in economics from the University of Leeds (1977) and an MBA in management and finance from the Bradford Management Centre (1981).

Business Review

The company announced on 11 September 2007 that it had won formal approval from Transport for London ("TfL") to supply its free flow filters to all heavy goods vehicles operators needing to comply with London's Low Emission Zone ("LEZ") requirements.

On 9 February 2009 the directors became aware that Mayor Boris Johnson had cancelled the next phase of the London Low Emission Zone programme for which the company had been gearing up and in preparation for which it had made considerable investment. The directors immediately requested the suspension of trading in the Ordinary Shares on AIM pending clarification of the company's financial position and the board resolved to appoint an insolvency practitioner to advise as the company no longer had the prospect of meeting its liabilities.

On 2 March 2009 the company announced that, on the advice of the insolvency practitioner appointed in February, the board had resolved to appoint a liquidator to the company's operating subsidiary, KleenAir Systems Limited.

On 12 May 2009, the directors appointed Mr Antony Batty of Antony Batty & Company LLP to complete the CVA proposal, act as nominee of the proposal and, if the CVA were approved, act as supervisor of the CVA.

On 29 May 2009 the company posted a circular to shareholders detailing the statement of affairs relating to the proposed CVA and the creation of a new class of shares, B Ordinary Shares, upon which shareholders were asked to vote at a general meeting to be held on 24 June 2009.

The creditors were offered new Ordinary Shares, and in certain cases new B Ordinary Shares, in satisfaction of amounts owed to them by the company in order to eliminate the company's indebtedness and liabilities and provide it with the requisite solvency to conduct a CVA, to seek a restoration of trading on AIM (following completion of a post-CVA audit) and to fund the associated working capital requirements.

The company announced on 26 June 2009 that the CVA had been approved by creditors at a meeting of creditors held on 19 June 2009 and that all resolutions proposed to shareholders at the general meeting held on 24 June 2009 had been duly passed. The Company expects to complete the CVA and issue new ordinary shares to creditors by mid-October 2009.

CHAIRMAN'S STATEMENT (Continued)

Further to publication of the accounts for the year ended 30 September 2008 (including a pro-forma balance sheet reflecting the implications for the company of the CVA) and notification to the market of the company's interim results for the six month period ended 31 March 2009, the company's Ordinary Shares resumed trading on AIM this morning.

Outlook

The strategy of the directors is to seek suitable consultancy and appropriate acquisition opportunities in the environmental and green energy sectors in the United Kingdom. The directors believe that their broad collective experience in the proposed sectors, and in acquisitions, accounting, corporate and financial management, together with their wide industry contacts, will enable the company to achieve its objectives.

Lionel Simons
Chairman and Chief Executive
20 July 2009

KleenAir Systems International Plc
Directors' Report

The directors present their annual report and audited financial statements for the year ended 30 September 2008.

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The principal activity of the company during the period was that of a holding company with investments in companies whose principal activity was the development of vehicle emission reduction devices. The trade ceased on 17 March 2009 when the trading subsidiary, KleenAir Systems Limited, went into liquidation.

The company then initiated a Company Voluntary Arrangement "CVA" process on 12 May 2009 which was approved by creditors on 19 June 2009 and members on 24 June 2009. Under the CVA shares will be issued in due course to satisfy all obligations in full and final settlement.

The business review is included in the chairman's statement on page 2.

The financial statements of the company for the year ending 30 September 2008 have been prepared in accordance with International Financial Reporting Standards ("IFRS"), and note 22 to the accounts explains the transition from UK GAAP to IFRS.

SUMMARY OF KEY PERFORMANCE INDICATORS

Since the company had no turnover, there are no performance indicators relative to revenue and gross margin.

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

There are no non-financial performance indicators being used at present.

FINANCIAL RISK MANAGEMENT OF ACTIVITIES AND POLICIES

With no turnover and limited cash flow, whilst cash reserves are managed closely the company's main risk arises from the need to raise additional capital, so as to ensure that the company's technology can successfully be brought to the market.

RESULTS AND DIVIDENDS

The results for the company for the year are as set out in the income statement on page 11. The directors do not recommend the payment of a dividend.

DIRECTORS AND OTHER INTERESTS

The following directors have held office since 1 October 2007:

L Simons (Chairman)
T.W.E. Downes (resigned 12 May 2008)
P.M.Newell
A.M.Rentoul
G.Saxton
W.N.V. Weller (resigned 18 June 2008)
R.Hayim (appointed 26 February 2008)

KleenAir Systems International Plc
Directors' Report

DIRECTORS AND THEIR INTERESTS (CONTINUED...)

The interests of the directors who were in office as at 30 September 2008 in the shares of the company were as follows:

	Ordinary shares of 1p	
	30.9.08	30.9.07
L Simons	4,408,196*	4,408,196
P M Newell	420,000	420,000
A M Rentoul	483,500	483,500

*L Simons is the beneficial holder of shares held by KleenAir Systems Inc (3,000,000), Guideline Securities Inc (1,000,000) and Bramley Ltd (408,196).

POLITICAL AND CHARITABLE DONATIONS

The company made no political or charitable contributions during the year.

PAYMENT OF CREDITORS

Although the company does not follow a formal code, the company's policy is to negotiate payment terms with its suppliers in all sectors to ensure that they know the terms on which payment will take place when the business is agreed, and, unless the payment is in dispute, to abide by those terms of payment.

CORPORATE GOVERNANCE

The board has an audit committee comprising two non-executive directors and a remuneration committee also comprising two non-executive directors. The audit committee normally 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 normally 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 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.

FINANCIAL INSTRUMENTS

The principal financial risks faced by the company are liquidity and credit risk. The company's financial instruments included variable borrowings and cash which it used to finance its operations, but it has no borrowings at present.

The company has no significant concentrations of credit risk.

AUDITORS

In accordance with Section 406 of the Companies Act 2006, a resolution to appoint Jeffreys Henry LLP as auditors will be put to the members at the annual general meeting.

POST BALANCE SHEET EVENTS

As mentioned above the company initiated a CVA process on 12 May 2009, which was finally approved on 24 June 2009. A pro-forma balance sheet reflecting the implications for the company of the CVA is shown below:

	As at 31 March 2009 Unaudited	CVA *	Pro forma as at 31 March 2009 Unaudited
	£	£	£
Assets			
Non-Current Assets			
Intangibles	-	-	-
	-	-	-
Current assets			
Trade and other receivables	-	-	-
Cash and cash equivalents	533	-	533
	533	-	533
Total assets	533	-	533
Equity and liabilities			
Capital and reserves			
Share capital	278,812	528,270	807,082
Share premium	2,778,727	-	2,778,727
Other reserves	86,891	-	86,891
Retained loss	(3,620,029)	(60,138)	(3,680,167)
Total equity	(475,599)	468,132	(7,467)
Current liabilities			
Trade and other payables	476,132	(468,132)	8,000
	476,132	(468,132)	8,000
Total equity and liabilities	533	-	533

* CVA satisfied by issuing 40,615,000 New Ordinary shares and 12,212,000 B Ordinary shares of 1p each to satisfy CVA creditors.

KleenAir Systems International Plc
Directors' Report

DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRS) as adopted by the European Union.

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 profit or loss for that period. In preparing those financial statements, the directors are required to:

a. select suitable accounting policies and then apply them consistently;

b. make judgements and estimates that are reasonable and prudent;

c. state whether applicable accounting standards have been followed subject to any material departures disclosed and explained in the financial statements; and

d. prepare the accounts on the going concern basis unless it is inappropriate to presume that the company will continue in business.

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

INDEMNITY OF OFFICERS

The company may purchase and maintain, for any director or officer, insurance against any liability and the company does maintain appropriate insurance cover against legal action bought against its directors and officers.

SUBSTANTIAL SHAREHOLDERS

As at 3 July 2009, the company had been notified of the following beneficial interests in 3% or more of the issued share capital:

Ordinary 1p shares	No of Ordinary shares	% of issued share capital
JIM Nominees Limited*	5,569,696*	19.98%
Pershing Nominees Limited	4,124,591	14.79%
KleenAir Systems Inc**	3,000,000**	10.76%

*Included within JIM Nominees Ltd are the beneficial interests of L Simons held through Bramley Limited of 408,196 shares and Guideline Securities Inc of 1,000,000 shares.

** L Simons is also the beneficial holder of KleenAir Systems Inc.

KleenAir Systems International Plc
Directors' Report

DIRECTORS' RESPONSIBILITIES

STATEMENT OF DISCLOSURE TO AUDITORS

So far as the directors are aware

(a) there is no relevant audit information of which the company's auditors are unaware; and

(b) they have taken all the steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information.

On behalf of the board

L Simons
Director
20 July 2009

Independent Auditors' Report to the members of KleenAir Systems International Plc

We have audited the company financial statements of KleenAir Systems International Plc for the year ended 30 September 2008 which comprise the income statement, statement of changes in equity, balance sheet, cash flow statement, and the related notes. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRS) as adopted for use in the European Union are set out on page 7.

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

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Report of the Directors is consistent with the financial statements.

In addition, we report to you if, in our opinion, the company has not kept proper accounting records and if we have not received all the information and explanations we require for our audit.

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

Basis of audit opinion

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

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

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Independent Auditors' Report to the members of KleenAir Systems International Plc

Continued....

Adverse Opinion arising from departure from IAS 27- Consolidated and Separate Financial Statements

No group accounts have been prepared for the year ended 30 September 2008 as the only subsidiary went into liquidation on 17 March 2009 and the directors believe presenting group accounts would be costly and of little benefit to the users.

This is contrary to the requirements of IAS 27- Consolidated and Separate Financial Statements and S227 of the Companies Act 1985. As a consequence the financial statements do not give all the information required about the economic activities of the group of which the company is the parent. It is not practical to quantify the effects of the departure from this requirement.

In view of the failure to prepare group accounts as referred above, in our opinion the financial statements do not give a true and fair view of the state of the group's affairs as at 30 September 2008 and of its loss for the year then ended. In all other respects, in our opinion:

- the parent company financial statements give a true and fair view in accordance with IFRSs as adopted by the European Union as applied in accordance with provisions of the Companies Act 1985, of the state of the affairs of the parent company as at 30 September 2008 and its loss for the year then ended,
- the information given in the directors' report is consistent with the financial statements

Jeffreys Henry LLP

Chartered Accountants and
Registered Auditors

20 July 2009

Finsgate
5-7 Cranwood Street
London EC1V 9EE

KleenAir Systems International Plc

INCOME STATEMENT
for the year ended 30 September 2008

	Notes	2008 £	2007 £
REVENUE	4		
Cost of sales		-	-
GROSS PROFIT		-	-
Administrative expenses		(323,129)	(218,995)
Other operating income		-	24,000
OPERATING LOSS		(323,129)	(194,995)
Provisions against assets	7	(2,756,376)	-
Other interest receivable		1,324	299
LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION	7	(3,078,181)	(194,696)
Taxation	8	-	-
LOSS FOR THE YEAR		(3,078,181)	(194,696)
LOSS PER ORDINARY SHARE	9	14.5p	0.98p

The income statement has been prepared on the basis that all operations are continuing operations.

KleenAir Systems International Plc

STATEMENT OF CHANGES IN EQUITY
for the year ended 30 September 2008

	Share Capital £	Share Premium £	Other Reserve £	Retained Loss £
At 1 October 2007	206,885	1,985,074	86,891	(384,679)
Movement in shares issued	71,109	1,044,998	-	-
Issue costs of placing		(268,517)	-	-
Loss after tax for the period	-	-	-	(3,078,181)
At 30 September 2008	277,994	2,761,555	86,891	(3,462,860)

Share capital is the amount subscribed for shares at nominal value.

Share premium represents the excess of the amount subscribed for share capital over the nominal value of the respective shares.

Retained loss represents the cumulative loss of the company attributable to equity shareholders.

KleenAir Systems International Plc

BALANCE SHEET
30 September 2008

	Notes	2008 £	2007 £
Non-Current Assets			
Tangible assets		-	78,334
Intangible assets		-	20
		-	78,354
Current Assets			
Trade and other receivables	12	11,798	1,946,046
Cash and cash equivalents		1,864	798
		13,662	1,946,844
CURRENT LIABILITIES			
Trade and other payables	13	(350,082)	(131,027)
NET CURRENT ASSETS		(336,420)	1,815,817
TOTAL ASSETS LESS CURRENT LIABILITIES		(336,420)	1,894,171
SHAREHOLDERS' EQUITY			
Called up share capital		277,994	206,885
Share premium account	15	2,761,555	1,985,074
Other reserve	15	86,891	86,891
Retained loss	15	(3,462,860)	(384,679)
TOTAL EQUITY		(336,420)	1,894,171

Approved by the board and authorised for issue on 20 July 2009.

L Simons
Director

KleenAir Systems International Plc

CASH FLOW STATEMENT
for the year ended 30 September 2008

	Notes	2008 £	2007 £
Net Cash utilised by		(922,848)	(403,567)
Investing activities			
Interest received		1,324	299
Net cash from activities		1,324	299
Cash Flows from Financing			
Net proceeds from issue of shares		847,590	297,025
Loan from Bramley Ltd		75,000	100,000
Net cash from financing		922,590	397,025
Net cash inflow/(outflow)		1,066	(6,243)
Cash and cash equivalent at beginning of year		798	7,041
Cash and cash equivalent at end of year		1,864	798

Notes to Cash Flow Statement

Loss in year	(3,079,505)	(194,995)
(Increase)/decrease in receivables	1,934,248	(276,897)
Increase/(decrease) in payables	144,056	(16,116)
Loss on write off of intangibles and investments	78,353	10,000
Provision for share options charge	-	74,441
	(922,848)	(403,567)

1. GENERAL INFORMATION

KleenAir Systems International Plc is a company incorporated in England & Wales. The company's shares were traded on AIM, a market operated by the London Stock Exchange, but the quotation was suspended on 9 February 2009 when the company announced that it had resolved to appoint an insolvency practitioner to advise KleenAir Systems International Plc and its main operating subsidiary, KleenAir Systems Limited, as the company no longer had the prospect of meeting its liabilities due to its inability to secure additional working capital. On 24 June 2009 the members of the company approved the CVA. The address of the registered office is disclosed on page 1 of the financial statements. The principal activities of the company are described in the directors' report.

2. ACCOUNTING POLICIES

2.1 Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs and IFRIC interpretations) issued by the International Accounting Standards Board (IASB), as adopted by the European Union, and as applied in accordance with the provisions of the Companies Act 1985 applicable to companies preparing their accounts under IFRS. The financial statements have been prepared under the historical cost convention.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statement, are disclosed within the accounting policies note.

(a) Interpretations effective in 2008

IFRIC 14, 'IAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction', provides guidance on assessing the limit in IAS 19 on the amount of the surplus that can be recognised as an asset. It also explains how the pension asset or liability may be affected by a statutory or contractual minimum-funding requirement. This interpretation does not have any impact on the company's financial statements, as the Company does not have any pension liabilities.

IFRIC 11, 'IFRS 2 – Group and treasury share transactions', provides guidance on whether share-based transactions involving treasury shares or involving group entities (for example, options over a parent's shares) should be accounted for as equity-settled or cash-settled share-based payment transactions in the stand-alone accounts of the parent and group companies. These issues are not relevant to these financial statements.

(b) Standards and amendments early adopted by the Company

The Company has not early adopted any standards or amendments.

(c) Interpretations effective in 2008 but not relevant

The following interpretation to published standards is mandatory for accounting periods beginning on or after 1 January 2008 but is not relevant to the company's operations:

- IFRIC 12, 'Service concession arrangements'; and,
- IFRIC 13, 'Customer loyalty programmes'.
- FRIC 16, 'Hedges of a net investment in a foreign operation' (effective from 1 October 2008).

2. ACCOUNTING POLICIES (Continued...)

(d) Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Company

The following standards and amendments to existing standards have been published and are mandatory for the Company's accounting periods beginning on or after 1 January 2009 or later periods, but the Company has not early adopted them:

- IAS 1 (Revised), 'Presentation of financial statements' (effective from 1 January 2009).
- IAS 39 (Amendment), 'Financial instruments: Recognition and measurement' (effective from 1 January 2009).
- There are a number of minor amendments to IFRS 7, 'Financial instruments: Disclosures', IAS 8, 'Accounting policies, changes in accounting estimates and errors', IAS 10, 'Events after the reporting period', IAS 18, 'Revenue' and IAS 34, 'Interim financial reporting'.

(e) Interpretations and amendments to existing standards that are not yet effective and not relevant for the Company's operations

The following interpretations and amendments to existing standards have been published and are mandatory for the Company's accounting periods beginning on or after 1 January 2009 or later periods but are not relevant for the Company's operations:

- IFRS 1 (Amendment) 'First time adoption of IFRS', and IAS 27 'Consolidated and separate financial statements' (effective from 1 January 2009).
- IFRS 2 (Amendment), 'Share-based payment' (effective from 1 January 2009).
- IFRS 3 (Revised), 'Business combinations' (effective from 1 July 2009).
- IFRS 5 (Amendment), 'Non-current assets held-for-sale and discontinued operations' (and consequential amendments to IFRS 1, 'First-time adoption')(effective from 1 July 2009).
- IFRS 8, 'Operating segments', (effective from 1 January 2009).
- IAS 1 (Amendment), 'Presentation of financial statements' – 'Puttable financial instruments and obligations arising on liquidation' (effective from 1 January 2009).
- IAS 16 (Amendment), 'Property, plant and equipment' (and consequential amendment to IAS 7, 'Statement of cash flows') (effective from 1 January 2009).
- IAS 19 (Amendment), 'Employees benefits' (effective from 1 January 2009).
- IAS 20 (Amendment), 'Accounting for government grants and disclosure of government assistance' (effective from 1 January 2009).
- IAS 23 (Amendment), 'Borrowing costs' (effective from 1 January 2009).
- IAS 27 (Amendment), 'Consolidated and separate financial statements' (effective from 1 January 2009).
- IAS 28 (Amendment), 'Investments in associates' (and consequential amendments to IAS 32, 'Financial Instruments: Presentation' and IFRS 7, 'Financial instruments: Disclosures') (effective from 1 January 2009).

2. ACCOUNTING POLICIES (Continued...)

- IAS 29 (Amendment), 'Financial reporting in hyperinflationary economies' (effective from 1 January 2009).
- IAS 31 (Amendment), 'Interest in joint ventures' (and consequential amendments to IAS 32 and IFRS 7) (effective from 1 January 2009).
- IAS 36 (Amendment), 'Impairment of assets' (effective from 1 January 2009).
- IAS 38 (Amendment), 'Intangible assets' (effective from 1 January 2009).
- IAS 40 (Amendment), 'Investment property' (and consequential amendments to IAS 16) (effective from 1 January 2009).
- IAS 41 (Amendment), 'Agriculture' (effective from 1 January 2009).
- IFRIC 13, 'Customer loyalty programmes' (effective from 1 July 2008).
- IFRIC 15, 'Agreements for construction of real estate' (effective from 1 January 2009).
- The minor amendments to IAS 20 'Accounting for government grants and disclosure of government assistance', and IAS 20, 'Financial reporting in hyperinflationary economies', IAS 40, ' Investment property', and IAS 41, 'Agriculture'.

Going Concern
The directors believe that the company is a going concern on the basis that they have in place an arrangement with a company specialising in green technologies to the effect that it will make an injection of new funding of not less than £3,000,000 by way of a convertible loan note or equity within the next 6 months. £200,000 of this funding will immediately be made available to the company subject to the company's shares being restored to trading on AIM. The directors believe that there are no other conditions on which the £200,000 funding are dependent other than the re-admission to AIM and on the basis that this funding is received, the financial statements have been prepared on a going concern basis.

Functional and presentation currency
Items included in the financial statements of the company are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The consolidated financial statements are presented in Pounds Sterling (£), which is the Company's functional and presentation currency.

Taxation
The taxation credit is based on the loss for the period and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes. Except where it is otherwise required by accounting standards, full provision is made for temporary timing differences which have arisen but not yet reversed at the balance sheet date.

Revenue
Revenue 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.

2. ACCOUNTING POLICIES (Continued...)

Intangible assets

Other tangible assets

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

Amortisation

Amortisation is calculated so as to write off the cost of an asset over the useful economic life of that asset as follows: Intellectual Property Rights – 10 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.

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.

Financial instruments

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

2. ACCOUNTING POLICIES (Continued...)

Financial instruments (continued)

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 16 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 payments 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 adjustments 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 cost would be credited to share capital, and where appropriate share premium.

Cash and cash equivalents
Cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

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

Provisions
A provision is recognised when:

- the company has a legal or constructive obligation as a result of a past event; and
- it is probable that an outflow of economic benefits will be required to settle the obligation; and
- the effect is material; and

Expected future cash flows are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability.

2. ACCOUNTING POLICIES (Continued...)

Equity instruments
Instruments that evidence a residual interest in the assets of the company after deducting all of its liabilities are classified as equity instruments. Issued equity instruments are recorded at proceeds received net of direct issue costs.

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of value added tax, from the proceeds.

3. RISK AND SENSITIVITY ANALYSIS

The company's activities expose it to a variety of financial risks: interest rate risk, liquidity risk and capital risk. The company's overall risk management programme focuses on unpredictability and seeks to minimise the potential adverse effects on the company's financial performance. The board reviews key risks on a regular basis and, where appropriate, action is taken to mitigate the key risks identified.

3.1. Interest rate risk

The company does not have formal policies on interest rate risk. However, the company's exposure in these areas as at the balance sheet date was minimal.

3.2. Liquidity risk

The company prepares periodic working capital forecasts for the foreseeable future, allowing an assessment of the cash requirements of the company, to manage liquidity risk. The directors have considered the risk posed by liquidity and are satisfied that there is sufficient growth and equity in the company.

3.3. Capital risk

The company's objectives when managing capital are to safeguard the ability to continue as a going concern in order to provide returns for shareholders and benefits to other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

4. REVENUE

There was no income earned during the year.

5 PARTICULARS OF EMPLOYEES

	2008 Number	2007 Number
The average number of staff employed by the company during the financial period amounted to:		
Executive directors	2	2
Non-executive directors	5	5
	7	7

The aggregate payroll cost of the above were:

	2008 £	2007 £
Wages and salaries	120,068	289,790
Social Security costs	-	31,165
	120,068	320,955

6. DIRECTORS

Remuneration in respect of directors was as follows:-

	2008 £	2007 £
Emoluments receivable	136,268	142,250

No options were granted to any director of KleenAir Systems International Plc during the year (2007: nil).

7. LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION

	2008 £	2007 £
Loss on ordinary activities before taxation is stated after charging:		
Auditors' remuneration in respect of audit services	8,000	8,500
Amortisation	10,000	10,000

Provisions of £2,756,376 represents amounts provided against Intellectual Property Rights, Investments, Intercompany loan and cost of investment in subsidiary.

8. TAXATION

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 20% (2007-20%).

	2008 £	2007 £
Loss on ordinary activities before taxation	(3,078,181)	(825,003)
Loss on ordinary activities by rate of tax	(615,636)	(156,751)
Other tax adjustments	615,636	156,751
Total current tax	-	-

9. 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 basis and diluted earnings per share for the year are based upon a loss after tax of £3,078,181 (2007: loss of £194,696).

The weighted number of equity shares used in the basic calculation is 21,174,748 (2007: 19,953,067). The weighted average number of shares used in the dilution calculation is 21,174,748 (2007: 19,953,067). As the potential ordinary shares to be issued are deemed anti-dilutive, for the purpose of the dilution they have been excluded from the calculation of the weighted number of shares.

10. INTANGIBLE ASSETS

	Intellectual property rights and R & D Capitalisation
Cost	**£**
At 30 September 2007	100,000
Impairment	(100,000)
At 30 September 2008	-
Amortisation	
At 30 September 2007	21,666
Charge for the period	10,000
Impairment	(31,666)
At 30 September 2008	-
Net Book Value	
At 30 September 2008	-
At 30 September 2007	78,334

	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

11. Investments

At 30 September 2007 KleenAir Systems International Plc held 100% of the issued ordinary share capital of the company named below.

	County of incorporation	Proportion of Share capital held	Nature of Business
KleenAir Systems Limited*	England and Wales	100% (direct)	In liquidation

*The company went into liquidation on the 17 March 2009.

12. RECEIVABLES

	2008 £	2007 £
Amounts owed by group undertakings (Note 21)	-	1,940,898
Other receivables	3,928	2,881
Prepayments and accrued income	7,870	2,267
	11,798	1,946,046

13. PAYABLES: Amounts falling due within one year

	2008 £	2007 £
Trade payables	73,312	19,492
Accruals and deferred income	101,770	11,535
Other payables	175,000	100,000
	350,082	131,027

Under the CVA which was approved on 24 June 2009, in order to eliminate the company's indebtedness the creditors are to be offered new Ordinary Shares, and in certain cases B Ordinary Shares, in satisfaction of amounts owed to them by the company.

The creditors and the supervisor have, in aggregate, been offered 40,615,000 new Ordinary Shares and 12,212,000 B Ordinary Shares which will be divided among creditors who make a claim within three months of the date of the CVA being approved.

14. SHARE CAPITAL

	2008 £	2007 £
Authorised share capital:		
100,000,000 (2007: 30,000,000) ordinary shares of £0.01 each	1,000,000	300,000

	2008 No	2007 £	2008 No	2007 £
Ordinary shares of £0.01 each	27,799,424	277,994	20,688,480	206,885

14. SHARE CAPITAL (Continued...)

Allotments during the year
On 5 December 2007 370,000 Ordinary Shares and on 28 January 2008 145,437 Ordinary Shares were issued, the allotments on both dates being at a share price of 15p per Ordinary Share. These allotments raised £77,315 before expenses.

In February 2008, the company allotted 6,595,503 Ordinary Shares at 15.75p, raising £1,036,520 before expenses.

On 24 March 2008, the company increased its authorised share capital by £700,000 to £1,000,000 denominated into 100,000,000 ordinary shares of 1p each.

Subscribers to the Placing were in addition granted warrants. Each warrant, which was exercisable, generally, until 4 April 2009, entitled 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, would have been equivalent to a twenty five per cent discount to the placing price per Ordinary Shares 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 commenced 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. No warrants were exercised at the year end nor by 4 April 2009. The warrants subsequently expired.

On 12 December 2008, the company allotted a further 81,818 Ordinary Shares at 22p raising £18,000 before expenses.

Share Option Scheme
On 31 August 2005, the company established an approved share option scheme under the Enterprise Management Incentive for the benefit 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 January 2006 options and no charge has been made during the year (2007: £74,441).

The options and warrants outstanding at 30 September 2008 are as follows:-

Outstanding at beginning of year	501,658
Forfeited/lapsed in year	(501,658)
Outstanding at end of year	Nil

14. SHARE CAPITAL (Continued...)

The warrants and options outstanding at 30 September 2007:

	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
Non EMI Shares	59,999	30	11 Aug 2008	30 Nov 2015
Issued in the year Sept 06	408,326	26	15 Sept 2009	15 Sept 2016
	501,658			

15. RESERVES

	Share premium account £	Other reserves £	Profit and loss account £
At 30 September 2007	1,985,074	86,891	(384,679)
Loss for the period	-	-	(3,078,181)
New equity share capital subscribed	1,044,998	-	-
Issue and similar costs	(268,517)	-	-
At 30 September 2008	2,761,555	86,891	(3,462,860)

16. FINANCIAL COMMITMENT

Capital commitment

There was no capital expenditure that had been contracted for at the balance sheet date but not yet incurred.

17. CONTINGENT LIABILITIES

The company has no contingent liabilities.

A legal charge in favour of L Simons was created on 9 August 2007 and registered on 23 August 2007 over the company's patents and patent application to secure the company's indebtedness to Mr L Simons of £101,350.

18. ULTIMATE CONTROLLING PARTY

In the opinion of the directors, there is no controlling party at the balance sheet date.

19. FINANCIAL INSTRUMENTS

The company 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.

20. CURRENCY EXPOSURE

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

The company does not hold monetary assets in foreign currency.

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

21. RELATED PARTY TRANSACTIONS

During the year a further loan of £75,000 was made by Bramley Limited (a company beneficially owned by Mr L Simons) to the company. The 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 company'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.

At the year end, the outstanding loan amount due to Bramley Limited was £185,000. No repayment has been made on the outstanding loan balance.

No other transactions with related parties such as are required to be disclosed under International Financial Reporting Standard 24 'Related Party Disclosures' occurred.

At the end of the year, the company was owed £2,525,068 by its subsidiary, KleenAir Systems Limited. Following the liquidation of the subsidiary on 17 March 2009, the entire loan was provided against in the year.

22. EXPLANATION OF TRANSITION TO IFRS

There has been no adjustment to the reported financial statements position, financial performance and cash flows of the company resulting from the transition to IFRS from UK GAAP with effect from 1 October 2006.

23. POST BALANCE SHEET EVENTS

The company initiated a CVA process on 12 May 2009 which was formally approved at a creditors' meeting on 19 June 2009 and a shareholders' meeting on 24 June 2009.