

**Company Registration No. 05075088**

# **KleenAir Systems International Plc**

**ANNUAL REPORT**

**30 June 2010**

# KleenAir Systems International Plc

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# KleenAir Systems International Plc Chairman's Statement (Continued)

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## **OFFICERS, ADVISERS AND COMPANY DETAILS**

<b>DIRECTORS</b>	W. V. Reid (Chairman) L. Simons G. Saxton M. V. Lewis (non-executive)
<b>SECRETARY</b>	S. Pozner
<b>REGISTERED OFFICE</b>	33 Aspect Court Imperial Wharf London SW6 LTN
<b>REGISTERED NUMBER</b>	05075088
<b>AUDITORS</b>	Jeffreys Henry LLP Finsgate 5-7 Cranwood Street London EC1V 9EE
<b>REGISTRARS</b>	Share Registrars Limited Craven House West Street, Farnham Surrey GU9 7EN
<b>SOLICITORS</b>	Nabarro LLP Lacon House 84 Theobald's Road London WC1X 8RW
<b>NOMINATED ADVISER</b>	W.H. Ireland Limited 85-89 Colmore Row Birmingham B3 2BB
<b>WEBSITE</b>	<a href="http://www.kleenair-systems.com">www.kleenair-systems.com</a>

# KleenAir Systems International Plc

## Chairman's Statement (Continued)

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### CHAIRMAN'S STATEMENT

#### Introduction

The last Chairman's Statement, issued on 31 December 2009, covered key business and corporate events throughout the six month period ended 30th June 2009. These accounts relate to the period ending 30<sup>th</sup> June 2010.

#### Financial Results

The accounts for the period to 30th June 2010 show an operating loss of £63,042.

#### Loan Notes and Company Finance

On 28 July 2009, the Company executed a secured convertible loan note instrument creating 220,000 £1 secured convertible loan notes (the "Loan Notes"), of which the full amount was subscribed. The principal terms of the instrument creating Loan Notes intended that they were convertible into Ordinary Shares at the request of the holder of the Loan Notes at a conversion price of £0.10 (the "Conversion Price"). At the same time, the Company entered into an option agreement with GIS (the "GIS Option Agreement") whereby GIS were entitled to purchase a further 220,000 £1 secured convertible loan notes on the same terms at anytime during the period of eighteen months from the date of the GIS Option Agreement.

On 10 November 2009, the Company received notice (the "First Conversion Notice") from certain holders of the Loan Notes requiring that £30,000 principal of the Loan Notes be converted into 300,000 Ordinary Shares (the "First Conversion Shares"). The First Conversion Shares were admitted to trading on AIM on 19 November 2009.

On 20 November 2009, the Company received a second conversion notice from certain holders of the Loan Notes requiring that an additional £30,000 principal of the Loan Notes be converted into a further 300,000 ordinary shares, again at a conversion price of £0.10 per share (the "Second Conversion Shares"). The Second Conversion Shares were admitted to trading on AIM on 26 November 2009.

On 27 November 2009 the Company announced that in accordance with the terms of the GIS Option Agreement, GIS had exercised its option to subscribe for a further 32,248 Loan Notes.

On 13 January 2010, the Company received a third conversion notice from certain holders of Loan Notes requiring the Company to convert an additional £20,573 principal of the Loan Notes into a further 205,734 Ordinary Shares (the "Third Conversion Shares"). The Third Conversion Shares were admitted to trading on AIM on 20 January 2010.

On 19 January 2010, the Company received a fourth conversion notice from the holder of the Loan Notes requiring the Company to convert a further £7,500 principal of the Loan Notes to be converted into a further 75,000 ordinary shares (the "Fourth Conversion Shares"). The Fourth Conversion Shares were placed with unconnected third parties and were admitted to trading on 25 January 2010.

On 1 March 2010 the Company received a notice from GIS that it wished to exercise its option to subscribe for a further 86,254 Loan Notes. The Consideration payable for the issue of Loan Notes had already been satisfied by the payment by GIS of debts owed by the Company.

# KleenAir Systems International Plc

## Chairman's Statement (Continued)

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On 6 April 2010, on behalf of the Company, the board announced that it had received a fifth conversion notice from certain of the Loan Notes holders requiring the Company to convert an additional £25,000 principal of the Loan Notes to be converted into a further 250,000 Ordinary Shares (the "Fifth Conversion Shares"). The Fifth Conversion Shares were admitted to trading on AIM on 7 April 2010.

On 7 June 2010, the Company announced that it had received a sixth conversion notice from certain holders of Loan Notes requiring the Company to convert an additional £161,000 of the outstanding principal of the Loan Notes into a further 1,610,000 Ordinary Shares (the "Sixth Conversion Shares"). The Sixth Conversion Shares were admitted to trading on 11 June 2010.

On 21 June 2010 the Company announced that in accordance with the terms of the GIS Option Agreement, GIS had exercised its option to subscribe for a further 95,588 Loan Notes. Following this subscription, the remaining principal amount of Loan Notes over which GIS holds an option to purchase is £5,910 plus accrued interest at a rate of 5% per annum.

On 22 June 2010, the Company executed another secured convertible loan note instrument creating 1,000,000 £1 secured convertible loan notes (the "Second Loan Notes"), of which £300,000 have been subscribed. The principal terms of the instrument creating the Second Loan Notes include that they were convertible at the request of the holder of the Loan Notes at a conversion price of £0.27 per share or at a discount of 10% to the average market price based on the previous five day's trading whichever is the lower (the "2010 Conversion Price").

### **Business and Corporate Review**

The Company held its annual general meeting on 3 August 2010 at which resolutions to consider inter alia the following were proposed and duly passed.: adoption of new articles of association to take account of recent changes in English company law; the adoption of a new investing policy, the strategy of the Company going forward would be to seek suitable acquisition opportunities in the environmental and energy sectors in the United Kingdom and to receive and adopt the Company's audited financial statements for the period ending 30 June 2009.

On 2 November 2009, the Company confirmed it had entered into a Call Option Agreement ("Call Option") with GlobalTech Marketing Limited ("GTM") on payment of a refundable deposit of £25,000 for the purchase from GTM of 74 per cent. of the issued share capital of Argosec Pty Limited ("Argo"). The Company also confirmed that it did not intend to exercise the Call Option unless and until GTM finalised sufficient long-term financing to enable Argo to establish sustainable commercial production of the coal briquetting business and has recently determined not to exercise the option, as mentioned in the circular dated 9 July 2010.

G. Saxton  
Chairman

12 August 2010

# KleenAir Systems International Plc

## Directors' Report

### For the year ended 30 June 2010

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The directors present their annual report and audited financial statements for the year ended 30 June 2010.

#### **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.

A general meeting on 3 August 2010 approved an investment policy which the company has 12 months to implement.

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

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

#### **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.

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

#### **Risk and Uncertainties**

The main risks and uncertainties that the company face are to find suitable acquisition opportunities in line with the company's business development strategy.

#### **Results and Dividends**

The results for the company for the period 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 July 2009:

W. V. Reid OBE (Chairman) (Appointed 5 August 2009)

L Simons (resigned 3 August 2010)

P.M.Newell (resigned 21 July 2009)

A.M.Rentoul (resigned 21 July 2009)

G.Saxton

R.Hayim (appointed 26 February 2009)

(resigned 4 August 2009)

M.V. Lewis (appointed 13 January 2009)

The interests of the directors who were in office as at 30 June 2010 in the shares of the company were as follows:

	Ordinary shares of 1p each
L Simons	440*

\* L Simons is the beneficial holder of shares held by KleenAir Systems Inc (300), Guideline Securities Inc (100) and Bramley Ltd (40).

# KleenAir Systems International Plc

## Directors' Report

### For the year ended 30 June 2010

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#### **Publication of Accounts on Company Website**

Financial statements are published on the company's website. The maintenance and integrity of the website is the responsibility of the directors. The directors' responsibility also extends to the financial statements contained therein.

#### **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 brought against its directors and officers.

#### **Company's Policy on Payment of Creditors**

It is the company's normal practice to make payments to suppliers in accordance with agreed terms provided that the supplier has performed in accordance with the relevant terms and conditions.

#### **Employee Involvement**

The company places considerable value on the involvement of the employees and has continued to keep them informed on matters affecting the company. This is achieved through formal and informal meetings.

#### **Going Concern**

After making appropriate enquiries, the directors consider that the company has adequate resources to continue in operational existence for the foreseeable future. For this reason they continue to adopt the going concern basis in preparing the financial statements.

#### **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 had no borrowings at the period end.

The company has no significant concentrations of credit risk.

#### **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, as required by the AIM Rules of London Stock Exchange, elected to prepare the company financial statements in accordance with International Financial Reporting Standards as adopted for use in 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 estimates that are reasonable and prudent;
- state whether the company financial statements have been prepared in accordance with IFRSs as adopted by the European Union 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.

# KleenAir Systems International Plc

## Directors' Report

### For the year ended 30 June 2010

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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 to the group financial statements, Article 4 of the IAS regulation. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

#### **Statement as to Disclosure of Information to Auditors**

So far as the directors are aware, there is no relevant audit information (as defined by Section 418 of the Companies Act 2006) of which the company's auditors are unaware, and 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

#### **Re- appointment of auditor**

In accordance with Section 406 of the Companies Act 2006 a resolution reappointing Jeffrey's Henry LLP as auditors is to be proposed at the forthcoming General Meeting.

On behalf of the board

**G. Saxton**  
Director

**12 August 2010**

# KleenAir Systems International Plc

## Corporate Governance

### For the year ended 30 June 2010

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The directors acknowledge the importance of the Principles set out in The Combined Code issued by the Committee on Corporate Governance. Although the Combined Code is not compulsory for AIM companies, the directors have applied the principles as far as practicable and appropriate for a relatively small public company as follows:

#### **The Board of Directors**

The Board is responsible for strategy and performance, approval of major capital projects and the framework of internal controls. To enable the Board to discharge its duties, all Directors receive appropriate and timely information. All directors have access to the advice and services of the Company Secretary, who is responsible for ensuring that Board procedures are followed and that applicable rules and regulations are complied with.

#### **Audit Committee and Remuneration Committee**

The Audit Committee and the Remuneration Committee consists of one non-executive Director and one executive Director. The Audit Committee receives and reviews reports from management and the company's auditors relating to the annual and interim accounts and the accounting and internal control systems of the company. The Audit Committee has unrestricted access to the group's auditors.

The Remuneration Committee reviews the performance of the executive directors, sets their remuneration, determines the payment of bonuses to executive directors and considers the allocation of share options to directors and employees.

#### **Internal Financial Control**

The Board is responsible for establishing and maintaining the group's system of internal financial control and places importance on maintaining a strong control environment. The key procedures which the directors have established with a view to providing effective internal financial control are as follows:

- The company's organisational structure has clear lines of responsibility.
- The Board is responsible for identifying the major business risks faced by the company and for determining the appropriate courses of action to manage those risks.
- The Board is involved with structured operational reporting requirements.

The directors recognise, however, that such a system of internal financial control can provide only reasonable, not absolute, assurance against material misstatement or loss. The directors have reviewed the effectiveness of the system of internal financial control that will be operated by the company.

#### **Service contracts**

The directors have service contracts and letters of appointment, which require not less than 12 months' notice of termination.

#### **Model Code**

The Company has adopted and will operate a share dealing code for directors and senior executives on the same terms as the London Stock Exchange Model Code for companies whose shares have been admitted to AIM.

# KleenAir Systems International Plc

## Corporate Governance

### For the year ended 30 June 2010

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#### **Relations with shareholders**

Communications with shareholders are given high priority. The Board uses the Annual General Meeting to communicate with investors and welcomes their participation. The Chairman aims to ensure that the directors are available at Annual General Meetings to answer questions.

#### **Statement by Directors on Compliance with the Provisions of the Combined Code**

The Board consider that they have complied with the provisions of The Combined Code, as far as practicable and appropriate for a public company of this size.

# KleenAir Systems International Plc

## Report of the Independent Auditors

### To the Shareholders of KleenAir Systems International Plc

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We have audited the financial statements of KleenAir Systems International PLC for the year ended 30 June 2010, which comprise, company statement of financial position, company statement of changes in equity, company statement of cash flows, and the related notes on pages 15 to 30. 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 Section 496 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 auditors' 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 5, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the 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.

#### **Qualified opinion on financial statements arising from limitation in audit scope**

With respect to an amount of £200,000 included within administration expenses in the year to 30 June 2010, the audit evidence available to us was limited because the company was unable to supply any supporting documentation to substantiate the nature of that expenditure. We were unable to obtain sufficient and appropriate audit evidence regarding the nature of this expenditure by using other audit procedures.

Except for the financial effects of such adjustments, if any, as might have been determined to be necessary had we been able to satisfy ourselves as to the nature of that expenditure, in our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 30 June 2010 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.

# KleenAir Systems International Plc

## Report of the Independent Auditors

### To the Shareholders of KleenAir Systems International Plc

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#### **Opinion on other matters 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**

In respect solely of the limitation on our work relating to the expenditure of £200,000 described above:

- We have not obtained all the information and explanations that we considered necessary for the purpose of our audit and
- We were unable to determine whether adequate accounting records had been kept

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

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

**Sanjay Parmar**

#### **SENIOR STATUTORY AUDITOR**

For and on behalf of Jeffreys Henry LLP, statutory auditor

Finsgate  
5-7 Cranwood Street  
London  
EC1V 9EE  
United Kingdom

Date: 12 August 2010

# KleenAir Systems International Plc

## Statement of Comprehensive Income For the year ended 30 June 2010

	Notes	Year to 30 June 2010		Nine months to 30 June 2009	
		£	£	£	£
<b>Revenue</b>	<b>4</b>		-		-
Cost of sales			-		-
<b>Gross profit</b>			-		-
Administrative expenses		464,197		252,267	
Exceptional items: Reduction in liabilities arising from company voluntary arrangements	<b>7</b>	(401,155)		-	
			(63,042)		(252,267)
<b>Operating loss</b>	<b>7</b>		(63,042)		(252,267)
Finance income	<b>7</b>		-		2
<b>Loss before tax for the period</b>					
Tax	<b>8</b>		-		-
<b>Loss after tax for the period</b>			(63,042)		(252,265)
Other comprehensive income			-		-
Total comprehensive income			(63,042)		(252,265)
<b>Total comprehensive income Attributable to:-</b>					
Owners of the company			(63,042)		(252,265)
Loss per share – basic and diluted	<b>9</b>				
Prior to exceptional items			(48.42p)		(62.94p)
After exceptional items			(6.58p)		(62.94p)

There is no difference between basic and diluted loss per share.

# KleenAir Systems International Plc

## Statement of Financial Position For the year ended 30 June 2010

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	Notes	2010 £	2009 £
<b>Assets</b>			
CURRENT ASSETS			
Trade and other receivables	10	4,495	-
Cash and cash equivalents	11	300,000	355
		<u>304,495</u>	<u>355</u>
CURRENT LIABILITIES			
Trade and other payables	12	(77,011)	(448,920)
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>227,484</u>	<u>(448,565)</u>
<b>Non-current liabilities</b>			
CREDITORS: Amounts falling due after more than one year	13	(460,017)	-
		<u>(232,533)</u>	<u>(448,565)</u>
SHAREHOLDERS' EQUITY			
Called up share capital	14	428,390	400,932
Share premium account	15	3,030,353	2,778,737
Other reserve	15	86,891	86,891
Retained loss	15	(3,778,167)	(3,715,125)
TOTAL EQUITY		<u>(232,533)</u>	<u>(448,565)</u>

The financial statements were approved and authorised for issue by the Board of Directors on 12 August 2010 and were signed on its behalf by:

Guy Saxton

Director

Company Registration Number: 05075088

# KleenAir Systems International Plc

## Statement of Changes in Equity For the year ended 30 June 2010

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	<b>Share Capital £</b>	<b>Share Premium £</b>	<b>Other Reserve £</b>	<b>Retained Loss £</b>
At 1 July 2009	400,932	2,778,737	86,891	(3,715,125)
Movement on loans converted to share	27,458	251,616	-	-
Loss after tax for the year	-	-	-	(63,042)
At 30 June 2010	<u>428,390</u>	<u>3,030,353</u>	<u>86,891</u>	<u>(3,778,167)</u>
At 1 July 2008	277,994	2,761,555	86,891	(3,462,860)
Movement in shares issued	818	17,182	-	-
Loss after tax for the period	-	-	-	(252,265)
Conversion of ordinary to 'B' shares	122,120	-	-	-
At 30 June 2009	<u>400,932</u>	<u>2,778,737</u>	<u>86,891</u>	<u>(3,715,125)</u>

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

## Cash Flow Statement

For the year ended 30 June 2010

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	Notes	Year to 30 June 2010 £	Nine months to 30 June 2009 £
<b>Cash Flows from Operating Activities</b>			
Cash consumed by operation		(434,445)	(19,511)
<b>Net cash from operating activities</b>		<u>(434,445)</u>	<u>(19,511)</u>
<b>Cash flows from investing activities</b>			
Interest received		-	2
<b>Net cash from activities</b>		<u>(434,445)</u>	<u>2</u>
<b>Cash Flows from Financing</b>			
Net proceeds from issue of shares		-	18,000
Issue of convertible loan notes		734,090	-
<b>Net cash from financing</b>		<u>734,090</u>	<u>18,000</u>
<b>Net cash inflow/(outflow)</b>		<u>299,645</u>	<u>(1,509)</u>
Cash and cash equivalent at beginning of period		355	1,864
<b>Cash and cash equivalent at end of period</b>		<u>300,000</u>	<u>355</u>
<b>Notes to Cash Flow Statement</b>			
Loss in period		(63,042)	(252,267)
(Increase)/decrease in receivables		(4,494)	11,798
Increase/(decrease) in payables		(366,909)	220,958
		<u>(434,445)</u>	<u>(19,511)</u>

# KleenAir Systems International Plc

## Notes to the Financial Statements For the year ended 30 June 2010

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### 1. GENERAL INFORMATION

KleenAir Systems International Plc is a company incorporated in England & Wales. The company's shares are traded on AIM, a market operated by the London Stock Exchange. The company went into a CVA which was approved by the members on 24 June 2009. 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 and IFRIC interpretations issued by the International Accounting Standards Board (IASB), as adopted by the European Union, and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS. The financial statements have been prepared under the historical cost convention.

#### Going Concern

a) The directors believe that the company is a going concern on the basis that it has entered into a convertible secured loan note instrument dated 22 June 2010 under which Kleenair may issue up to £1 million secured convertible loan notes ("CLN") to Global Investment Strategy (UK) Limited.

The instrument constituting the CLNs (the "Instrument") provides that the CLNs will be redeemed on 22 December 2012 or earlier in the event of a material breach by Kleenair of any of the terms of the Instrument and carry a rate of 5% interest which accrues on a daily basis and is payable in cash on redemption or a by the issue of new ordinary shares in Kleenair on conversion.

The CLNs may be converted into new ordinary shares of Kleenair at any time on notice served by the noteholder in accordance with the terms of the instrument at a price of 27p per share or at a discount of 10 per cent. to the average market price based on the previous five business days trading, whichever is lower.

The purpose of this facility will enable KleenAir to have the ability to draw down funds promptly when required to explore growth opportunities and for general working capital.

Subsequently during the financial year under review, GIS has subscribed to convertible loan notes totalling £300,000 and has placed £300,000 cash facilities in escrow for the benefit of the company, which is reflected on the statement of financial position.

b) Following the agreement entered with Argosec Pty Ltd (Argosec) as announced on 8 September 2009, the company has entered, as the 3 November 2009, into a Call Option Agreement ("Call Option" with Globaltech Marketing Limited (GlobalTech) for the purchase from Global Tech of 74% of the issued share capital of Argosec, and thereby has further formalised and protected its relationship with Argosec. The balance of 26% of the issued share capital of Argosec is intended to be transferred to a South African Black Economic Empowerment Entity on or prior to exercise by the Company of the Call Option. A refundable deposit of £25,000 is payable to GlobalTech for grant of the Call Option.

# KleenAir Systems International Plc

## Notes to the Financial Statements For the year ended 30 June 2010

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### 2. ACCOUNTING POLICIES (Continued...)

#### 2.1 Basis of preparation (continued...)

The company is under no obligation to exercise the Call Option over the Argosec shares, and does not currently intend to exercise the Call Option unless and until GlobalTech has finalised sufficient long-term financing to enable Argosec to establish sustainable commercial production of the coal briquetting business. The long-stop date for exercise of the Call Option is 31 December 2010.

The consideration will be payable annually following the end of each of the 3 years following the commencement of full time commercial production of coal briquettes and calculated as an amount equal to 74% of Argosec's adjusted post-taxation earnings.

**The following new standards and amendments to standards are mandatory for the first time for the financial year beginning 1 January 2009.**

IAS 1 (revised), 'Presentation of financial statements'. The revised standard prohibits the presentation of items of income and expenses (that is 'non-owner changes in equity') in the statement of changes in equity, requiring 'non-owner changes in equity' to be presented separately from owner changes in equity. All 'non-owner changes in equity' are required to be shown in a performance statement.

Entities can choose whether to present one performance statement (the statement of comprehensive income) or two statements (the income statement and statement of comprehensive income).

The Company has elected to present a single statement of comprehensive income.

IFRS 8, 'Operating segments'. IFRS 8 replaces IAS 14, 'Segment reporting'. It requires a 'management approach' under which segment information is presented on the same basis as that used for internal reporting purposes.

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker has been identified as the executive committee that makes strategic decisions.

- IFRS 2 (amendment), 'Share-based payment' (effective from 1 January 2009). It deals with vesting conditions and cancellations. It clarifies that vesting conditions are service conditions and performance conditions only. Other features of a share-based payment are not vesting conditions. These features would need to be included in the grant date fair value for transactions with employees and others providing similar services; they would not impact the number of awards expected to vest or valuation there of subsequent to grant date. All cancellations, whether by the entity or by other parties, should receive the same accounting treatment. The Company will apply IFRS 2 (amendment) from 1 January 2009, subject to endorsement by the EU. It is not expected to have a material impact on the Company's financial statements.

# KleenAir Systems International Plc

## Notes to the Financial Statements For the year ended 30 June 2010

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### 2. ACCOUNTING POLICIES (Continued...)

#### 2.1 Basis of preparation (continued...)

- IFRS 7 'Financial instruments – Disclosures' (amendment) – effective 1 January 2009. The amendment requires enhanced disclosures about fair value measurement and liquidity risk. In particular, the amendment requires disclosure of fair value measurements by level of a fair value measurement hierarchy. As the change in accounting policy only results in additional disclosures, there is no impact on earnings per share.

The following new standards, amendments to standards and interpretations have been issued, but are not effective for the financial year beginning 1 January 2009 and have not been early adopted:

- IFRS 3 (revised), 'Business combinations' and consequential amendments to IAS 27, 'Consolidated and separate financial statements', IAS 28, 'Investments in associates' and IAS 31, 'Interests in joint ventures', effective prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009. Management is assessing the impact of the new requirements regarding acquisition accounting, consolidation and associates on the group. The company does not have any joint ventures.
- The revised standard continues to apply the acquisition method to business combinations, with some significant changes. For example, all payments to purchase a business are to be recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the statement of comprehensive income. There is a choice on an acquisition-by-acquisition basis to measure the minority interest in the acquiree either at fair value or at the minority interest's proportionate share of the acquiree's net assets. All acquisition-related costs should be expensed. The Company will apply IFRS 3 (revised) to all business combinations from 1 January 2010.
- IAS 27 (revised), 'Consolidated and separate financial statements', (effective from 1 July 2009). The revised standard requires the effects of all transactions with non controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is remeasured to fair value, and a gain or loss is recognised in profit or loss. The Company will apply IAS 27 (revised) prospectively to transactions with non-controlling interests from 1 January 2010.
- IAS 38 (amendment), 'Intangible Assets'. The amendment is part of the IASB's annual improvements project published in April 2009 and the company will apply IAS 38 (amendment) from the date IFRS 3 (revised) is adopted. The amendment clarifies guidance in measuring the fair value of an intangible asset acquired in a business combination and it permits the grouping of intangible assets as a single asset if each asset has similar useful economic lives. The amendment will not result in a material impact on Company's financial statements.
- FRIC 17, 'Distributions of non-cash assets to owners', effective for annual periods beginning on or after 1 July 2009. This is not currently applicable to the Company, as it has not made any non-cash distributions.

# KleenAir Systems International Plc

## Notes to the Financial Statements For the year ended 30 June 2010

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### 2. ACCOUNTING POLICIES (Continued...)

#### 2.1 Basis of preparation (continued...)

- IFRIC 18, 'Transfers of assets from customers', effective for transfers of assets received on or after 1 July 2009. This is not relevant to the Company, as it has not received any assets from customers.

The following new standards, amendments to standards and interpretations are mandatory for the first time for the financial year beginning 1 January 2009, but are not currently relevant for the Company:

- IAS 23 (amendment), 'Borrowing costs'.
- IAS 32 (amendment), 'Financial instruments: Presentation'.
- IFRIC 13, 'Customer loyalty programmes'.
- IFRIC 15, 'Agreements for the construction of real estate'.
- IFRIC 16, 'Hedges of a net investment in a foreign operation'.
- IAS 39 (amendment), 'Financial instruments: Recognition and measurement'.

#### 2.2 Consolidation

##### 2.2.1 Subsidiaries

Subsidiaries are all entities over which KleenAir Systems International PLC has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Company controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to KleenAir Systems International PLC. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Company. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Company's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

Inter-company transactions, balances and unrealised gains on transactions between Company companies are eliminated. Unrealised losses are also eliminated but considered an impairment indicator of the asset transferred. Accounting policies of subsidiaries have been changed or adjusted upon consolidation where necessary to ensure consistency with the policies adopted by the Company.

The company has no subsidiaries at present.

# KleenAir Systems International Plc

## Notes to the Financial Statements For the year ended 30 June 2010

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### 2. ACCOUNTING POLICIES (Continued...)

#### 2.2.2 Intangible assets

##### (a) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Company's share of the net identifiable assets of the acquired subsidiary or associate at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in 'intangible assets'. Goodwill on acquisitions of associates is included in 'investments in associates' and is tested for impairment as part of the overall balance. Separately recognised goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or Groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose. The Company allocates goodwill to each business segment in each country in which it operates.

#### 2.2.3 Impairment of non-financial assets

Assets that have an indefinite useful life, for example goodwill, are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

#### 2.2.4 Property, plant and equipment

Tangible non-current assets are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the assets carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the income statement during the financial year in which they are incurred. Depreciation is provided at rates calculated to write off the cost less estimated residual value of each asset over its estimated useful life.

The asset's residual values and useful economic lives are reviewed, and adjusted if appropriate, at each balance sheet date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable value.

# KleenAir Systems International Plc

## Notes to the Financial Statements For the year ended 30 June 2010

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### 2. ACCOUNTING POLICIES (Continued...)

#### 2.2.4 Property, plant and equipment (continued...)

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within other (losses) or gains in the income statement. When revalued assets are sold, the amounts included in other reserves are transferred to retained earnings.

The company has no tangible non-current assets at present.

#### 2.2.5 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of services in the ordinary course of the group's activities. Revenue is shown net of value-added tax, returns, rebates and discounts and after eliminating sales within the group.

#### 2.2.6 Taxation

The tax expense represents the sum of the tax currently payable and deferred tax. The tax currently payable is based on the taxable profit for the year. Taxable profit differed from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The entity's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

#### 2.2.7 Deferred tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

#### 2.2.8 Operating leases

Assets held under finance leases are initially recognised as assets of the Company at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation. Lease payments are treated as reduction of the lease obligation on the remaining balance of the liability. Finance expenses are recognised immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Company's general policy on borrowing costs (see below). Contingent rentals are recognised as expenses in the periods in which they are incurred.

Rental leases in which a significant portion of the risks and rewards of 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.

# KleenAir Systems International Plc

## Notes to the Financial Statements For the year ended 30 June 2010

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### 2. ACCOUNTING POLICIES (Continued...)

#### 2.2.9 Segment reporting

The Company has adopted IFRS 8 Operating Segments with effect from 1 January 2009. IFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Company that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segments and to assess their performance. In contrast, the predecessor Standard (IAS 14 Segment Reporting) required an entity to identify two sets of segments (business and geographical), using a risks and returns approach, with the entity's 'system of internal financial reporting to key management personnel' serving only as the starting point for the identification of such segments. Following the adoption of IFRS 8, the identification of the Group's reportable segments has not changed (See details in Note 5).

#### 2.2.10 Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held on 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.

#### 2.2.11 Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation and default or delinquency in payments is considered indicators that the trade receivable is impaired.

#### 2.2.12 Trade payables

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

#### 2.2.13 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the year of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

#### 2.2.14 Financial Instruments

Non-derivative financial instruments comprise investments in equity and debt securities, trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

Non-derivative financial instruments are recognised initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transactions costs, except as described below. Subsequent to initial recognition non-derivative financial instruments are measured as described below.

# KleenAir Systems International Plc

## Notes to the Financial Statements For the year ended 30 June 2010

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### 2. ACCOUNTING POLICIES (Continued...)

#### 2.2.14 Financial Instruments (continued)

A financial instrument is recognised when the Company becomes a party to the contractual provisions of the instrument. Financial assets are derecognised if the Company's contractual rights to the cash flows from the financial assets expire or if the Company transfers the financial assets to another party without retaining control or substantially all risks and rewards of the asset. Regular way purchases and sales of financial assets are accounted for at trade date, i.e. the date that the Company commits itself to purchase or sell the asset. Financial liabilities are derecognised if the Company's obligations specified in the contract expire or are discharged or cancelled.

#### 2.2.15 Fair values

The carrying amounts of the financial assets and liabilities such as cash and cash equivalents, receivables and payables of the Company at the balance sheet date approximated their fair values, due to relatively short term nature of these financial instruments.

#### 2.2.16 Share-based compensation

The fair value of the employees, directors and suppliers services received in exchange for the grant of the options and warrants are recognised as an expense. The total amount to be expensed over the vesting year is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. At each balance sheet date, the entity revises its estimates of the number of options that are expected to vest. It recognises the impact of the revision to original estimates, if any, in the income statement, with a corresponding adjustment to equity.

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options and warrants are exercised.

#### 2.2.17 Share capital

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 tax, from the proceeds.

#### 2.2.18 Critical accounting estimates and judgements

The preparation of financial statements requires the Company to make estimates and assumptions that affect the application of policies and reported amounts. Estimates and judgements are continually evaluated and are based on historical experience and other factors including expectations of future events that are believed to be reasonable under the circumstances. Actual results may differ from these estimates. The estimates and assumptions which have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities are discussed below:

##### (a) Impairment of intangibles (other than goodwill)

Intangible assets are reviewed for impairment if events or changes in circumstances indicate that the carrying amount may not be recoverable. When a review for impairment is conducted, the recoverable amount is determined based on value in use calculations prepared on the basis of management's assumptions and estimates.

# KleenAir Systems International Plc

## Notes to the Financial Statements For the year ended 30 June 2010

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### 2. ACCOUNTING POLICIES (Continued...)

#### 2.2.18 Critical accounting estimates and judgements (continued)

##### (b) Depreciation of property, plant and equipment

Depreciation is provided so as to write down the assets to their residual values over their estimated useful lives as set out above. The selection of these residual values and estimated lives requires the exercise of management judgement.

##### (c) Share-based compensation

The fair value of options and warrants are determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. At each balance sheet date, the entity revises its estimates of the number of options that are expected to vest. It recognises the impact of the revision to original estimates, if any, in the income statement, with a corresponding adjustment to equity.

### 3. FINANCIAL INSTRUMENTS

#### General objectives, policies and processes

The Board has overall responsibility for the determination of the Company's risk management objectives and policies and, whilst retaining ultimate responsibility for them, it has delegated the authority for designing and operating processes that ensure the effective implementation of the objectives and policies to the Company's finance function. The Board receives regular reports from the Company Financial Controller through which it reviews the effectiveness of the processes put in place and the appropriateness of the objectives and policies it sets.

The Company is exposed through its operations to the following financial risks:

- Liquidity risk;
- Credit risk;
- Cash flow interest rate risk; and

The overall objective of the Board is to set policies that seek to reduce risk as far as possible without unduly affecting the Company's competitiveness and flexibility. There have been no substantive changes in the Company's exposure to financial instrument risks, its objectives, policies and processes for managing those risks or the methods used to measure them from previous periods unless otherwise stated in this note. Further details regarding these policies are set out below:

#### Principal financial instruments

The principal financial instruments used by the Company, from which financial instrument risk arises are as follows:

- Trade and other receivables
- Cash and cash equivalents
- Trade and other payables

#### Liquidity risk

The Company's policy is to ensure that it will always have sufficient cash to allow it to meet its liabilities when they become due. To achieve this aim, it seeks to maintain readily available cash balances to meet expected requirements for a period of at least 60 days. The Company current has no long term borrowings are all in the form of convertible loan notes.

# KleenAir Systems International Plc

## Notes to the Financial Statements For the year ended 30 June 2010

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### 3. FINANCIAL INSTRUMENTS (Continued...)

#### Liquidity risk (continued...)

Rolling cash forecasts identifying the liquidity requirements of the Company are produced frequently. These are reviewed regularly by management and the board to ensure that sufficient financial headroom exists for at least a twelve month period.

### 4. REVENUE

There was no income earned during the period. No segmental analysis is required.

### 5 EMPLOYEES

	Year to 30 June 2010 £	Period to 30 June 2009 £
The average number of staff employed by the company during the financial period amounted to:		
Executive directors	2	2
Non-executive directors	2	4
Other employees	-	-
	<u>4</u>	<u>6</u>

The aggregate payroll cost of the other employees were:

	Year to 30 June 2010 £	Period to 30 June 2009 £
Wages and salaries	-	-
	<u>-</u>	<u>-</u>

### 6. DIRECTORS

Remuneration in respect of directors was as follows:-

	Year to 30 June 2010 £	Period to 30 June 2009 £
Fees	10,000	-
Termination of service agreement	10,000	-
	<u>20,000</u>	<u>-</u>

No options were granted to any director of KleenAir Systems International Plc during the period (2009: nil).

L.Simons was paid £10,000 in respect of the termination of his service agreement.

# KleenAir Systems International Plc

## Notes to the Financial Statements For the year ended 30 June 2010

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<b>7. OPERATING LOSS</b>	<b>Year to 30 June 2010 £</b>	<b>Period to 30 June 2009 £</b>
Loss on ordinary activities before taxation is stated after charging:		
Auditors' remuneration in respect of audit services	7,050	10,400
<b>Exceptional Income</b>	<u>                    </u>	<u>                    </u>
Reduction in liabilities of the company on settlement under the Company Voluntary Arrangements	401,155	-

### 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 21% (2009-21%).

	<b>Year to 30 June 2010 £</b>	<b>Period to 30 June 2009 £</b>
Loss on ordinary activities before taxation	(63,042)	(252,265)
Loss on ordinary activities by rate of tax	(13,239)	(52,976)
Other tax adjustments	13,239	52,976
Total current tax	<u>                    </u> -	<u>                    </u> -

The Company has excess management excess of £1,101,000 (2009:£716,000) to carry forward, capital loss of £150,000 (2009-£150,000) and excess capital allowances of £78,000 (2009-£78,000) to carry forward. No deferred tax asset has been provided on any of them due to uncertainty of recovery.

### 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 before exceptional income of £464,197 and after exceptional income £63,042 (2009: loss of £252,265).

The weighted number of equity shares used in the basic and diluted calculation is 958,698 (2009: 400,806).

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.

# KleenAir Systems International Plc

## Notes to the Financial Statements For the year ended 30 June 2010

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### 10. TRADE AND OTHER RECEIVABLES

	<b>30 June 2010 £</b>	<b>30 June 2009 £</b>
Other receivables	-	-
Prepayments and accrued income	4,495	-
	<u>4,495</u>	<u>-</u>

### 11. CASH AND CASH EQUIVALENT

	<b>30 June 2010 £</b>	<b>30 June 2009 £</b>
Cash held in escrow for the benefit of the company	300,000	-
Prepayments and accrued income	-	-
	<u>300,000</u>	<u>-</u>

### 12. TRADE AND OTHER PAYABLES

	<b>30 June 2010 £</b>	<b>30 June 2009 £</b>
Trade payables	11,966	-
Accruals and deferred income	35,578	448,920
Other payables	29,467	-
	<u>77,011</u>	<u>448,920</u>

### 13. FINANCIAL LIABILITIES BORROWINGS

	<b>30 June 2010 £</b>	<b>30 June 2009 £</b>
At 1 July 2009	-	-
Issued in the year	734,090	-
Converted to ordinary shares of £0.01	(274,073)	-
	<u>460,017</u>	<u>-</u>
At 30 June 2010	460,017	-
Wholly repayable within five years	<u>460,017</u>	<u>-</u>
<b>Maturity Analysis</b>		
Within one year	160,017	-
In more than two years but not more than five years	300,000	-

# KleenAir Systems International Plc

## Notes to the Financial Statements For the year ended 30 June 2010

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### 13. FINANCIAL LIABILITIES BORROWINGS (Continued...)

On 16 March 2010, under the secured loan note agreement dated 29 July 2009 pursuant to a loan note instrument dated 29 July 2009, Global Investment Strategy (UK) Ltd ("GIS") exercised an option to subscribe for a further 86,254 GBP1 convertible loan notes ("CLNs") of the Company.

The subscription for the further CLNs was made in satisfaction of debts owed by the Company totalling £78,413 and is inclusive of 10 per cent commission payable to GIS.

On 21 June 2010, under the secured loan note agreement dated 29 July 2009, GIS exercised an option to subscribe for a further £95,588 CLNs of the Company.

The subscription for the further convertible loan notes was made in satisfaction of debts owed by the company totalling £86,898.44 and is inclusive of 10 per cent commission payable to GIS.

On 30 June 2010, further to the creation of a convertible secured loan note instrument dated 22 June 2010 under which Kleenair may issue up to £1 million secured convertible loan notes ("CLN") to Global Investment Strategy (UK) Limited ("GIS"), GIS purchased £300,000 worth of CLNs.

### 14. SHARE CAPITAL

	Year to 30 June 2010 £	Period to 30 June 2009 £
Authorised		
150,185,574 (2009 - 87,788,000) ordinary shares of £0.01	1,501,856	877,880
122,120 (2009 - 12,212,000) 'B' ordinary shares of £0.01	1,221	122,120
400,932 deferred shares of £0.99	396,923	-
	<u>1,900,000</u>	<u>1,000,000</u>
Issued and fully paid		
3,024,546 (2009 - 27,881,242) ordinary shares of £0.01	30,246	278,812
122,120 (2009 - 12,212,000) "B" ordinary shares of £0.01	1,221	122,120
400,932 deferred shares of £0.99	396,923	-
	<u>428,390</u>	<u>400,932</u>

#### 'B' ordinary shares

At a general meeting held on 24 June 2009, the company created new B ordinary shares by re-designating 12,212,000 ordinary shares into 12,212,000 new B ordinary shares; the rights attaching to them are set out in a new Article 3 of the company's existing articles of association.

The B ordinary shares are credited as fully paid and rank pari passu in all respects with the ordinary shares, save that the holder or holders of B ordinary shares shall not have the right to attend and vote at general meeting of the company (save in respect of resolutions to vary the rights attaching to the B ordinary shares) and have the option to convert their interests in B ordinary shares at any time, and from time to time into ordinary shares on a 1 for 1 basis.

# KleenAir Systems International Plc

## Notes to the Financial Statements For the year ended 30 June 2010

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### 14. SHARE CAPITAL (Continued...)

Re-organisation of authorised and issued share capital

At a general meeting of the company held on 21 August 2009, the following changes were approved to the company's share capital:

- a) Increase in the authorised share capital

The authorised share capital was increased from £1,000,000 to £1,900,000.

- b) Capital re-organisation

The effect of the capital re-organisation was to consolidate every 100 existing ordinary shares into 1 new ordinary share and 1 deferred Share. The capital re-organisation consisted of the following steps:

- i) The company's new authorised share capital was consolidated into ordinary shares of nominal value £1 each as a result of the issued ordinary shares of 1p each and B ordinary shares of 1p each being consolidated into ordinary shares of £1 B ordinary shares of £1, respectively, on the basis of 1 ordinary share of £1 for each ordinary shares of 1p;

- c) Capital re-organisation

- ii) Each of the issued ordinary shares of nominal value of £1 arising by reason of (i) above was then sub-divided into one new ordinary share of 1 penny and one deferred share of 99p; and

- iii) Each of the issued B ordinary shares of nominal value £1 arising by reason of (i) above was sub-divided into one new ordinary Share of 99p each.

The new ordinary shares replaced the existing ordinary shares under the newly approved company's articles of association.

The provisions in relation to the deferred shares are also contained in the company's articles of association.

The deferred shares have very limited rights and are effectively valueless. The deferred Shares have no voting rights, and have no rights as to dividends and only very limited rights on a return of capital. They are not freely transferable.

The new ordinary shares and new B ordinary shares have the same rights as those currently accruing to the existing respective ordinary shares under the company's articles of association, including those in respect of voting and entitlement to ordinary shares will not be affected.

- (i) on 19 August 2009, 5,000 new ordinary shares of 1p each were issued to the supervisor of CVA.

# KleenAir Systems International Plc

## Notes to the Financial Statements For the year ended 30 June 2010

### 14. SHARE CAPITAL (Continued...)

(ii) Conversion of loan notes during the year:

	<b>Number</b>
13 November 2009	300,000
20 November 2009	300,000
14 January 2010	205,734
19 January 2010	75,000
12 January 2010	250,000
7 June 2010	1,610,000
At 30 June 2010	<u>2,740,734</u>

### 15. EQUITY RESERVES

	<b>Share premium account £</b>	<b>Other reserves £</b>	<b>Profit and loss account £</b>
At 1 July 2009	2,778,737	86,891	(3,715,125)
On conversion of loan notes	251,616	-	-
Loss for the year	-	-	(63,042)
At 30 June 2010	<u>3,030,353</u>	<u>86,891</u>	<u>(3,778,167)</u>

### Reconciliation of movements in shareholders

<b>Funds and Reserves</b>	<b>Equity Instruments £</b>	<b>Profit or Loss income £</b>	<b>Total £</b>
At 1 July 2009	3,266,560	(3,715,125)	(448,565)
Increase in share capital	279,074	-	279,074
Loss for the year	-	(63,042)	(63,042)
At 30 June 2010	<u>3,545,634</u>	<u>(3,778,167)</u>	<u>(232,533)</u>

### 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.

# KleenAir Systems International Plc

## Notes to the Financial Statements For the year ended 30 June 2010

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### **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**

At the year end, the outstanding loan amount due to Bramley Limited was £nil (2009 - £Nil).

During the year, the company wrote off an amount of £- (2009 - £27,296) from a loan to its subsidiary, KleenAir Systems Limited its liquidation on 17 March 2009.

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

### **22. POST BALANCE SHEET EVENTS**

There have been no events after the balance sheet date which require disclosures in the financial statements.