



**PAROS**

Advanced control technology on a chip

**ParOS PLC**

**Directors' Report and Financial Statements**

*for the year ended 31 December 2007*



# Company Information

<b>DIRECTORS</b>	P McHugh L J Avigdori (resigned 15 April 2008) E Pistikopoulos (resigned 15 April 2008) J King (appointed 15 April 2008)
<b>SECRETARY</b>	I Aspinall
<b>COMPANY NUMBER</b>	5069439
<b>REGISTERED OFFICE</b>	One Hammersmith Grove London W6 0NB
<b>AUDITORS</b>	Horwath Clark Whitehill LLP Chartered Accountants & Registered Auditors Arkwright House Parsonage Gardens Manchester M3 2HP
<b>BANKERS</b>	Barclays Bank plc 75 King Street London W6 9HY
<b>NOMINATED ADVISER AND BROKER</b>	John East & Partners Limited 10 Finsbury Square London EC2A 1AD
<b>REGISTRARS</b>	Capita Registrars Northern House Woodsome Park Fenay Bridge Huddersfield HD8 0GA
<b>SOLICITORS</b>	Hammonds Trinity Court 16 John Dalton Street Manchester M60 8HS

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# Chairman's Statement

## Introduction

I announce the results for ParOS plc ('the Company') or with its subsidiaries ('the Group') for the year ended 31 December 2007. Parametric Optimization Solutions Limited ('POSL') which, until recently, was the Group's principal trading subsidiary, was incorporated in 2002 and based in Imperial College, London. In 2005 POSL lacked the funding, commercial expertise and management team necessary to grow and to commercialise its intellectual property and expertise in optimisation, modelling and control systems.

The acquisition of POSL and the admission of the Company's shares to trading on AIM in March 2006, together with the appointment of a management team with knowledge of the industry, personal contacts and considerable experience provided POSL with a stable platform upon which it could build revenues through the commercialisation of its intellectual property ('IP').

In November 2006, the board examined ParOS's financial performance as part of a Group strategy review. The Board recognised that the selling cycle was longer than expected. The Board addressed this slower than expected selling cycle by identifying specific commercial target markets within the new energy sectors. The Board aimed, in addition, to conserve cash by employing people only when revenue-generating projects were won.

## Review of the year

Revenue in the year ended 31 December 2007 amounted to £125,204 (2006: £60,064). The loss before and after taxation was £4,554,370 (2006: £1,927,727). Due to the reasons specified below, the Board has decided to impair the goodwill and intangible assets arising from the acquisition of POSL by £378,845 and £3,196,667 respectively.

Throughout 2007 POSL and ParOS Technology EPE ('ParOS EPE'), the Company's trading subsidiaries, pursued cash conservation and commercialisation strategies. The companies had some success winning projects such as hydrogen powered bus controllers, a refrigerated delivery van controller, three fuel cell controllers, a reformed gas controller, multiple unmanned aerial vehicle controllers and a batch polymerisation controller.

By October 2007 it had become clear to the Board that, despite the modest success of the commercialisation and the conservation of cash strategies, the Group would need substantial investment if it was to be able to complete its patenting activities and achieve a break even cash position. The Board began a series of discussions with various potential investors and, at the end of the year, believed it had secured further investment. However, in February 2008, discussions with the potential investors terminated. The Board was therefore left with no alternative but to initiate an immediate strategic review of

the Group's business to consider various options which would preserve the Group's remaining cash resources.

On 11 March 2008, the Group announced that it had entered into a conditional sale and purchase agreement to sell the entire issued share capital of POSL to a company owned and controlled by Professor Pistikopoulos, former chief technology officer of the Company, for an initial consideration of £1. In addition, seven percent of the gross revenue (including, without limitation, grants and royalties) generated or received by POSL until 31 December 2022 will be paid to the Company and in the event of a sale of POSL or its assets including any patents before 1 April 2018, POSL will pay the Company additional consideration equal to forty percent of the gross proceeds arising from the transaction.

At a general meeting held on 28 March 2008 all resolutions were duly passed by the shareholders, including the approval of the disposal of the entire issued share capital of POSL. Following the disposal, the directors believe that the AIM listing, together with the small amount of funds remaining in the Company, could be attractive to a number of potential acquisition targets and the directors now seek to acquire another company or business in exchange for the issue of ordinary shares. Any acquisition by the Company will be put to shareholders for their approval at the appropriate time.

## Investing Strategy

Looking ahead, the main investment criteria for the Company in the short to medium term are:

- the engineering sector in the UK, Europe and North America;
- businesses which require little or no funding in excess of the cash resources available to the Company; and
- businesses whose growth prospects, if achieved, will be earnings enhancing for shareholders.

Under the AIM Rules the Company's shares will be suspended from trading on AIM if a suitable acquisition has not been made in accordance with the stated investment strategy by 28 March 2009. The Board will keep shareholders fully informed of any significant developments in the coming months.

At 31 December 2007 the Group had cash deposits of £272,551 and at the date of this report it has cash deposits of approximately £90,000. The board is confident that the Company has sufficient cash resources available to it, to enable it to continue as a going concern for at least the next twelve months.

**P McHugh**  
Chairman

# Directors' Report

For the year ended 31 December 2007

The directors present their report and the financial statements for the year ended 31 December 2007. The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS").

## Statement of Directors' Responsibilities

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the Company and the Group's state of affairs at the end of the period and of the profit or loss of the Group for the period. In preparing those financial statements, the directors are required to:

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

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

In determining how amounts are presented within items in the income statement and balance sheet, the directors have had regard to the substance of the reported transaction or arrangement, in accordance with IFRS.

So far as each of the directors is aware at the time the report is approved:

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

## Principal Activities

The principal activity of the Group during the year was as a provider of energy saving advanced optimisation and control solutions to industry.

## Results and Dividends

The loss for the year, after taxation, amounted to £4,554,370 (2006: £1,927,727).

The directors do not recommend the payment of a dividend.

## Review of Business

Throughout 2007 the Group and its operating companies, POSL and ParOS EPE pursued a cash conservation and commercialisation strategy. Both companies had some success winning projects, such as hydrogen powered bus controllers, a refrigerated delivery van controller, three fuel cell controllers, a reformed gas controller, multiple unmanned aerial vehicle controllers and a batch polymerisation controller. By October 2007 it had become clear to the board that, despite the modest success of the commercialisation and the conservation of cash strategies, the Group would need substantial investment if it was to be able to complete its patenting activities and achieve a break-even cash position. The board began a series of intensive discussions with potential investors.

## Post Balance Sheet Events

### *POSL*

On 11 March 2008, the Group announced that it had entered into a conditional sale and purchase agreement to sell the entire issued share capital of POSL to a company owned and controlled by Professor Pistikopoulos for an initial consideration of £1. In addition, seven percent of the gross revenue (including, without limitation, grants and royalties) generated or received by POSL until 31 December 2022 will be paid to the Company and in the event of the sale of POSL or its assets including any patents before 1 April 2018, POSL will pay the Company additional consideration equal to forty percent of the gross proceeds arising from the transaction. The investment in POSL has been written off in the accounts of the Company as at 31 December 2007.

### *ParOS EPE*

After the financial year end it became clear that the continued financial support of ParOS EPE by the Company was no longer in the best interests of the Group. The management of ParOS EPE has appointed a liquidator to commence the liquidation of the company.

The investment in ParOS EPE has been written off in the accounts of the Company as at 31 December 2007.

## Financial KPIs

Group liquidity – The net cash outflow for the year was £564,219 (2006: £809,341), as a result of operating activities and investment in Research and Development ('R&D'). Cash and cash deposits at 31 December 2007 amounted to £272,551 (2006: £836,770), representing 0.06 pence per share (2006: 0.18 pence).

Investment in R&D – The Group invested £89,033 (2006: £189,616) in research and development during the year. This included patenting activities in Europe, USA and Japan and the depreciation of equipment associated with the expansion of IP.

## Strategic Vision and Priorities

Looking ahead the main investment criteria for the Company in the short to medium term are:

- the engineering sector in the UK, Europe and North America;
- businesses which require little or no funding in excess of the cash resources available to the Company; and
- businesses whose growth prospects, if achieved, will be earnings enhancing for shareholders.

## Governance and the Board

The board's governance system provides balanced support for the executive management team in the development of the Group's strategy and with the need to ensure effective monitoring of its implementation. During 2007 Patrick McHugh took responsibility as both Chairman and Chief Executive Officer ('CEO'), while Professor Efstratios Pistikopoulos became Chief Technology Officer and Dr Tara Lindstedt resigned from the board. The full board and its committees have considered the significant events of the year and their impact on the Group's business and reputation.

The audit and remuneration committees, chaired by Laura Avigdor until 15 April 2008, have conducted important work. We remain confident in the work of the committees and of our overall system of governance.

## Investment in Growth and Intellectual Property

A significant proportion of the Group's expenditure during 2007 was devoted to ensuring that POSL's knowledge was aligned with developments in optimization, modelling and control systems in the new energy industries.

On 31 October 2007, POSL was formally granted European Patent EP1399784 for the use of its parametric Model Predictive Control ('MPC') technology. By January 2008 POSL had completed the process which allows the grant of certain national patents. POSL now holds national patents with a life of 20 years in the UK, France, Germany, Italy, Greece and Switzerland.

On 9 January 2008, POSL received confirmation from the United States Patent and Trademark Office that it is to be granted a US patent for its MPC technology and advanced control solutions. Finally, in March 2008 POSL received confirmation from the Japanese Patent and Trademark Office that it is to be granted a Japanese patent for its MPC technology.

## Board, Management and People

There have been modest successes in 2007 and behind these lie a team of highly dedicated, skilled and committed people. I would like to pay tribute to all our people for their contributions to the business. It has been a major task to respond to the pressing issues of 2007 while diligently managing and guiding the business forward.

## Risk Management Objectives and Policies

The Company places great importance on internal control and risk management. A risk-aware and control-conscious environment is promoted and encouraged throughout the Group. The board, either directly or through its committees, sets objectives, performance targets and policies for management of key risks facing the Group. These include information systems, financial control and health and safety. Each year the audit committee receives a management letter from the Company's auditors.

The Company's principal financial instruments comprise cash and liquid resources; the main purpose of these instruments is to fund the Group's activities. The Group's multi-national operations expose it to a variety of financial risks, the most material of which are the effects of changes in foreign currency exchange rates and interest rates. The board is responsible for the risk management policies. The policies are implemented by the finance department which receives regular reports from all the operating companies to enable prompt identification of financial risks, so that appropriate actions may be taken. The finance department has a policy and procedures manual that sets out specific guidelines to manage

# Directors' Report

continued

foreign currency exchange risk, interest rate risk and credit risk. The Group does not hold any financial instruments that would be classified as held for trading under IAS 39.

## Directors

The directors who served during the year and their beneficial interests in the Company's issued share capital were:

	Ordinary shares of 0.1p each	
	31 December 2007	31 December 2006
T Lindstedt (resigned 31 July 2007)	–	–
L J Avigdori * (resigned 15 April 2008)	2,500,000	2,500,000
P McHugh **	24,735,565	6,067,214
E Pistikopoulos *** (resigned 15 April 2008)	44,365,336	44,365,336

\* includes 1,500,000 ordinary shares held by her husband, B Avigdori but does not include the 1,000,000 ordinary shares held by the trustees of The Morris Edelson Settlement, of which she is a beneficiary.

\*\* includes 23,235,565 ordinary shares held by European Pensions Management Limited, which is the trustee of the Global Investment SIPP of which P McHugh is the sole beneficiary.

\*\*\* includes 2,613,569 ordinary shares held by Westcott International Holdings Limited, in which E Pistikopoulos is beneficially interested.

J King was appointed as a director on 15 April 2008.

## Share Capital

There were no changes to the Company's issued share capital during the year. Details of the share capital in issue can be found in note 16 to the financial statements.

## Share Options

The following directors hold options to subscribe for the following number of ordinary shares:

	31 December 2007	31 December 2006
L J Avigdori	625,000	625,000
E Pistikopoulos	19,601,769	21,001,895
P McHugh	7,467,341	28,002,527

During the year P McHugh exercised options over 18,668,351 ordinary shares, increasing his shareholding to 24,735,565. In addition, a further 1,866,835 options over ordinary shares held by P McHugh lapsed during the year.

Also during the year 1,400,126 options over ordinary shares held by E Pistikopoulos lapsed.

There were no other movements in directors' share options during the year.

## Substantial Shareholdings

As at 18 April 2008 the Company was aware that (other than existing directors), the following were interested in 3 percent or more of the issued share capital of the Company:

	Number of Ordinary shares 2007	% of issued share capital 2007
Pacific Continental Securities	48,937,112	10.3
Efstratios Pistikopoulos	41,751,767	8.8
L R Nominees Limited	30,513,539	6.5
Carey Pensions & Benefits Limited	30,102,716	6.4
Westcott International Holdings	29,346,648	6.2
Imperial Innovations Limited	21,778,527	4.6
Barclayshare Nominees Limited	15,159,434	3.2
N Bozinis	14,729,329	3.1

Of the L R Nominees Limited shareholding, 23,235,565 are held by European Pensions Management Limited, which is the trustee of the Global Investment SIPP of which P McHugh is the sole beneficiary.

Of the Westcott International Holdings shareholding, E Pistikopoulos has a beneficial interest in 2,613,569 shares.

## Company's Policy for Payment of Creditors

It is the Group's policy to agree appropriate terms and conditions in advance with its suppliers and to make payment in accordance with those terms and conditions, provided that the supplier has complied with them.

On average the Group pays undisputed amounts to its trade creditors within 30 days, although in the year ended 31 December 2007 creditors' days were 17 days (2006: 7 days).

# Directors' Report

continued

## Auditors

The Group's auditors, Horwath Clark Whitehill LLP, will be proposed for reappointment in accordance with section 385 of the Companies Act 1985.

This report was approved by the board on 22 April 2008 and signed on its behalf.

**P McHugh**  
Chairman

# Independent Auditors' Report to the Members of ParOS PLC

We have audited the group and parent company financial statements (the "financial statements") of ParOS PLC for the year ended 31 December 2007 which are set out pages 10 to 30. These financial statements have been prepared under the accounting policies set out therein.

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

## Respective responsibilities of directors and auditors

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

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

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements have been properly prepared in accordance with the Companies Act 1985 and, as regards the group financial statements, Article 4 of the IAS Regulation. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

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

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. This other information comprises only the Directors' Report and the Chairman's Statement. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the parent company 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 group's and company's circumstances, consistently applied and adequately disclosed.

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

## Opinion

In our opinion:

- the group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the group's affairs as at 31 December 2007 and of its loss for the year then ended;
- the parent company financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union as applied in accordance with the provisions of the Companies Act 1985, of the state of the parent company's affairs as at 31 December 2007;
- the financial statements have been properly prepared in accordance with the Companies Act 1985 and, as regards the group financial statements, Article 4 of the IAS Regulation; and
- the information given in the Directors' Report is consistent with the financial statements.

# Independent Auditors' Report to the Members of ParOS PLC

continued

As explained in Note 1.1 to the group financial statements, the group in addition to complying with its legal obligation to comply with IFRSs as adopted by the European Union, has also complied with the IFRSs as issued by the International Accounting Standards Board.

In our opinion, the group financial statements give a true and fair view, in accordance with IFRSs, of the state of the group's affairs as at 31 December 2007 and of its loss for the year then ended.

## Horwath Clark Whitehill LLP

Chartered Accountants

Registered Auditors

Arkwright House

Parsonage Gardens

Manchester

M3 2HP

22 April 2008

# Consolidated Income Statement

For the year ended 31 December 2007

	Notes	2007 £	2006 £
Revenue		125,204	60,064
Cost of sales		–	(1,213)
<b>Gross profit</b>		<u>125,204</u>	<u>58,851</u>
Administrative expenses		(1,126,801)	(860,297)
Impairment of intangible assets and goodwill		(3,575,512)	(1,170,735)
<b>Operating loss</b>	3	<u>(4,577,109)</u>	<u>(1,972,181)</u>
Finance income	7	22,739	44,454
<b>Loss on ordinary activities before tax</b>		<u>(4,554,370)</u>	<u>(1,927,727)</u>
<b>Income tax expense</b>	8	–	–
<b>Loss on ordinary activities after taxation</b>		<u><u>(4,554,370)</u></u>	<u><u>(1,927,727)</u></u>
<b>Attributable to:</b>			
Equity holders of the parent		(4,543,237)	(1,917,808)
Minority interest		(11,133)	(9,919)
		<u><u>(4,554,370)</u></u>	<u><u>(1,927,727)</u></u>
<b>Loss per share – basic and diluted</b>	9	0.96p	0.45p

The notes on pages 17 to 30 form part of these financial statements.

# Consolidated Balance Sheet

As at 31 December 2007

	Notes	2007 £	2006 £
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	12	6,190	8,471
Intangible assets	11	–	3,498,746
Goodwill	11	–	378,845
		<hr/>	<hr/>
		6,190	3,886,062
<b>Current assets</b>			
Trade and other receivables	14	61,376	56,742
Cash and cash equivalents	18	272,551	836,770
		<hr/>	<hr/>
		333,927	893,512
		<hr/>	<hr/>
<b>Total assets</b>		<b>340,117</b>	<b>4,779,574</b>
		<hr/> <hr/>	<hr/> <hr/>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity attributable to equity holders of the parent</b>			
Share capital	16	472,950	472,950
Share premium account	17	1,295,730	1,295,730
Other reserves	17	448,558	4,024,070
Translation reserve	17	(11,449)	(1,252)
Retained losses	17	(1,835,676)	(867,951)
		<hr/>	<hr/>
		370,113	4,923,547
Share capital owned by Employee Benefit Trust	23	(161,250)	(261,250)
Minority interest		113	(8,048)
		<hr/>	<hr/>
<b>Total equity</b>		<b>208,976</b>	<b>4,654,249</b>
		<hr/>	<hr/>
<b>Current liabilities</b>			
Trade and other payables	15	131,141	125,325
		<hr/>	<hr/>
<b>Total equity and liabilities</b>		<b>340,117</b>	<b>4,779,574</b>
		<hr/> <hr/>	<hr/> <hr/>

The financial statements were approved and authorised for issue by the board on 22 April 2008 and were signed on its behalf.

**P McHugh**  
Chairman

The notes on pages 17 to 30 form part of these financial statements.

# Company Balance Sheet

As at 31 December 2007

	Notes	2007 £	2006 £
<b>ASSETS</b>			
<b>Non-current assets</b>			
Investments in subsidiaries	13	–	4,095,375
<b>Current assets</b>			
Trade and other receivables	14	18,977	543,480
Cash and cash equivalents	18	253,945	780,720
		<u>272,922</u>	<u>1,324,200</u>
<b>Total assets</b>		<u><u>272,922</u></u>	<u><u>5,419,575</u></u>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity attributable to equity holders of the parent</b>			
Share capital	16	472,950	472,950
Share premium account	17	1,295,730	1,295,730
Other reserves	17	448,558	4,024,070
Retained losses	17	(2,061,512)	(396,692)
<b>Total equity</b>		<u>155,726</u>	<u>5,396,058</u>
<b>Current liabilities</b>			
Trade and other payables	15	117,196	23,517
<b>Total equity and liabilities</b>		<u><u>272,922</u></u>	<u><u>5,419,575</u></u>

The financial statements were approved and authorised for issue by the board on 22 April 2008 and were signed on its behalf.

**P McHugh**  
Chairman

The notes on pages 17 to 30 form part of these financial statements.

# Consolidated Cash Flow Statement

For the year ended 31 December 2007

	Notes	2007 £	2006 £
<b>Cash flows from operating activities</b>			
Loss before taxation		(4,554,370)	(1,927,727)
Adjustments for:			
Impairment	11	3,575,512	1,170,735
Depreciation and amortisation	11,12	306,739	239,046
Finance income received		(22,739)	(44,454)
Movements in translation reserve		(10,197)	–
Increase in trade and other receivables		(4,634)	(18,547)
Increase/(decrease) in trade and other payables		5,816	(62,687)
<b>Net cash outflow from operating activities</b>		<b>(703,873)</b>	<b>(643,634)</b>
<b>Cash flows from investing activities</b>			
Acquisition of subsidiary, net of cash acquired		–	(203,802)
Purchase of property, plant and equipment		(2,379)	(7,859)
Finance income received		22,739	44,454
<b>Net cash flow from/(used in) investing activities</b>		<b>20,360</b>	<b>(167,207)</b>
<b>Cash flows from financing activities</b>			
Proceeds from the sale of shares held by the Employee Benefit Trust on exercise of share options	23	100,000	–
Injection of capital from minority interests		19,294	–
Proceeds from issue of share capital		–	1,500
<b>Net cash from financing activities</b>		<b>119,294</b>	<b>1,500</b>
<b>Net decrease in cash and cash equivalents</b>		<b>(564,219)</b>	<b>(809,341)</b>
<b>Cash and cash equivalents at the beginning of the year</b>		<b>836,770</b>	<b>1,646,111</b>
<b>Cash and cash equivalents at the end of the year</b>	18	<b>272,551</b>	<b>836,770</b>

The notes on pages 17 to 30 form part of these financial statements.

# Company Cash Flow Statement

For the year ended 31 December 2007

	Notes	2007 £	2006 £
<b>Cash flows from operating activities</b>			
Loss before taxation		(5,240,332)	(1,446,549)
Adjustments for:			
Impairment of investment	13	4,215,651	1,407,432
Finance income received		(22,920)	(43,371)
Decrease/(increase) in trade and other receivables		524,503	(529,278)
Increase/(decrease) in trade and other payables		93,679	(26,226)
<b>Net cash outflow from operating activities</b>		<b>(429,419)</b>	<b>(637,992)</b>
<b>Cash flows from investing activities</b>			
Acquisition of subsidiary		–	(272,270)
Investment in subsidiary undertakings		(120,276)	–
Finance income received		22,920	43,371
<b>Net cash flow used in investing activities</b>		<b>(97,356)</b>	<b>(228,899)</b>
<b>Cash flows from financing activities</b>			
Proceeds from issue of share capital		–	1,500
<b>Net cash from financing activities</b>		<b>–</b>	<b>1,500</b>
<b>Net decrease in cash and cash equivalents</b>		<b>(526,775)</b>	<b>(865,391)</b>
<b>Cash and cash equivalents at the beginning of the year</b>		<b>780,720</b>	<b>1,646,111</b>
<b>Cash and cash equivalents at the end of the year</b>	18	<b>253,945</b>	<b>780,720</b>

The notes on pages 17 to 30 form part of these financial statements.

# Consolidated Statement of Changes in Equity

Year ended 31 December 2007

Attributable to the equity holders of the parent

	Share Capital £	Share Premium £	Other Reserves £	Translation Reserve £	Retained Losses £	Total £	Minority Interest £	Employee Benefit Trust £	Total Equity £
<b>Balance 1 January 2006</b>	255,000	1,476,448	-	-	(120,878)	1,610,570	-	-	1,610,570
<b>Changes in equity for 2006</b>									
Exchange differences on translating foreign operations	-	-	-	(1,252)	-	(1,252)	-	-	(1,252)
Net income recognised directly in equity	-	-	-	(1,252)	-	(1,252)	-	-	(1,252)
Loss for the year	-	-	-	-	(1,917,808)	(1,917,808)	(8,048)	-	(1,925,856)
<b>Total recognised income and expense for the year</b>	-	-	-	(1,252)	(1,917,808)	(1,919,060)	(8,048)	-	(1,927,108)
Issue of share capital	217,950	-	5,194,805	-	-	5,412,755	-	-	5,412,755
Share issue costs	-	(180,718)	-	-	-	(180,718)	-	-	(180,718)
Reserve transfer	-	-	(1,170,735)	-	1,170,735	-	-	-	-
Consolidation of Employee Benefit Trust	-	-	-	-	-	-	-	(261,250)	(261,250)
<b>Balance 31 December 2006 carried forward</b>	<b>472,950</b>	<b>1,295,730</b>	<b>4,024,070</b>	<b>(1,252)</b>	<b>(867,951)</b>	<b>4,923,547</b>	<b>(8,048)</b>	<b>(261,250)</b>	<b>4,654,249</b>
<b>Changes in equity for 2007</b>									
Exchange differences on translating foreign operations	-	-	-	(10,197)	-	(10,197)	-	-	(10,197)
Net income recognised directly in equity	-	-	-	(10,197)	-	(10,197)	-	-	(10,197)
Loss for the year	-	-	-	-	(4,543,237)	(4,543,237)	(11,133)	-	(4,554,370)
<b>Total recognised income and expense for the year</b>	-	-	-	(10,197)	(4,543,237)	(4,553,434)	(11,133)	-	(4,564,567)
Injection of capital from minority interests	-	-	-	-	-	-	19,294	-	19,294
Reserve transfer	-	-	(3,575,512)	-	3,575,512	-	-	-	-
Options issued by Employee Benefit Trust	-	-	-	-	-	-	-	100,000	100,000
<b>Balance 31 December 2007 carried forward</b>	<b>472,950</b>	<b>1,295,730</b>	<b>448,558</b>	<b>(11,449)</b>	<b>(1,835,676)</b>	<b>370,113</b>	<b>113</b>	<b>(161,250)</b>	<b>208,976</b>

The notes on pages 17 to 30 form part of these financial statements.

# Company Statement of Changes in Equity

Year ended 31 December 2007

	Attributable to the equity holders of the parent				
	Share Capital £	Share Premium £	Other Reserves £	Retained Losses £	Total £
<b>Balance 1 January 2006</b>	255,000	1,476,448	–	(120,878)	1,610,570
<b>Changes in equity for 2006</b>					
Loss for the year	–	–	–	(1,446,549)	(1,446,549)
<b>Total recognised income and expense for the year</b>	–	–	–	(1,446,549)	(1,446,549)
Issue of share capital	217,950	–	5,194,805	–	5,412,755
Share issue costs	–	(180,718)	–	–	(180,718)
Reserve transfer	–	–	(1,170,735)	1,170,735	–
<b>Balance 31 December 2006 carried forward</b>	<b>472,950</b>	<b>1,295,730</b>	<b>4,024,070</b>	<b>(396,692)</b>	<b>5,396,058</b>
Loss for the year	–	–	–	(5,240,332)	(5,240,332)
<b>Total recognised income and expense for the year</b>	–	–	–	(5,240,332)	(5,240,332)
Reserve transfer	–	–	(3,575,512)	3,575,512	–
<b>Balance 31 December 2007 carried forward</b>	<b>472,950</b>	<b>1,295,730</b>	<b>448,558</b>	<b>(2,061,512)</b>	<b>155,726</b>

The notes on pages 17 to 30 form part of these financial statements.

# Notes to the Financial Statements

Year ended 31 December 2007

## 1. ACCOUNTING POLICIES

### 1.1 Basis of preparation of financial statements

ParOS plc has presented its financial results in accordance with International Financial Reporting Standards (IFRS). The financial statements have been prepared in accordance with IFRS as adopted by the European Union applied in accordance with the provisions of the Companies Act 1985.

The financial statements have been prepared under the historical cost convention.

The financial statements are prepared on a going concern basis. In assessing the Company's ability to continue as a going concern, the directors have taken into consideration all available information relating to the 12 month period from the date of approval of these accounts. In particular the directors have assessed expenditure, budgets and cash flow forecasts of the Company and an agreement has been reached with the directors and certain other service providers to defer payments until such time as the Company has sufficient resources.

The budgets and forecasts considered have been prepared to reflect the current position of the Company as listed on AIM. The directors are actively seeking an acquisition. However, the financial implications of potential transactions and the consequences of not being listed on AIM have not been included in the consideration of the going concern status of the Company at this time.

### 1.2 Basis of consolidation

The consolidated accounts incorporate the accounts of ParOS plc and all of its subsidiary undertakings. No profit and loss account has been presented for ParOS plc as permitted by section 230 of the Companies Act 1985.

The results of the subsidiaries are included from the effective date of acquisition under the acquisition method of accounting.

### 1.3 Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received, excluding discounts, rebates, VAT and other sales taxes or duty.

Consultancy and licence income is recognised on an accruals basis.

Grant income is recognised through revenue.

### 1.4 Goodwill

Where the cost of a business combination exceeds the fair values attributable to the net assets acquired, the resulting goodwill is capitalised and tested for impairment annually and, in addition, whenever indicators exist that the carrying value may not be recoverable.

### 1.5 Impairment

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets with finite lives to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Goodwill arising on acquisition is allocated to cash-generating units. The recoverable amount of the cash-generating unit to which goodwill has been allocated is tested for impairment annually, or on such other occasions that events or changes in circumstances indicate that it might be impaired.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. Impairment losses are recognised as an expense immediately, unless the relevant asset is land or buildings at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset

# Notes to the Financial Statements

continued

(cash-generating unit) in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase. However, impairment losses relating to goodwill are not be reversed.

## 1.6 Investments

Investments in subsidiary undertakings are stated at cost except where, in the opinion of the directors, there has been a permanent diminution in the value of an investment, in which case an appropriate adjustment is made.

## 1.7 Property, plant and equipment

Property, plant and equipment are stated at cost less depreciation. Depreciation is provided at rates calculated to write off the cost of fixed assets, less their estimated residual value, over their expected useful lives, as follows:

Furniture, fittings and equipment – 33 percent straight line

Residual values, where applicable, are reviewed annually against prevailing market values for equivalently aged assets and depreciation rates adjusted accordingly on a prospective basis.

## 1.8 Intangible Assets

Intangible assets acquired separately are capitalised at cost and from a business combination are capitalised at fair value at the date of acquisition. Following initial recognition, the cost model is applied to the class of intangible assets. The useful lives of these intangible assets are assessed to be either finite or indefinite.

Intangible assets created within the business are not capitalised and expenditure is charged against profits in the year in which the expenditure is incurred. Software costs are written off as incurred. Purchases from third parties in respect of major systems are capitalised and written off over the expected useful life of the asset, not exceeding five years from the date of implementation of the software.

Intangible assets with finite lives are reviewed for impairment whenever events or circumstances indicate the carrying amount may not be recoverable, either individually or at the cash generating unit level. Useful lives are also examined on an annual basis and adjustments, where applicable are made on a prospective basis.

Separable intangible assets are amortised over their useful lives. A summary of the policies applied to the Group's intangible assets is as follows:

	Useful Life	Method
Patents	Finite	15 years straight line
Software	Finite	5 years straight line

## 1.9 Operating leases

Rentals applicable to operating leases where substantially all of the benefits and risks of ownership remain with the lessor are charged to the income statement on the straight line basis over the lease term.

## 1.10 Taxation

The charge for current tax is based on the results for the year as adjusted for items which are non-assessable or disallowed. It is calculated using rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is accounted for using the balance sheet liability method in respect of temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax basis used in the computation of taxable profit. In principle, deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill (or negative goodwill) or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction which affects neither the tax profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

# Notes to the Financial Statements

continued

Deferred tax is calculated at the rates that are expected to apply when the asset or liability is settled. Deferred tax is charged or credited in the income statement, except when it relates to items credited or charged directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

## 1.11 Financial instruments

The Group's principal financial instruments comprise cash and liquid resources, the main purpose of these instruments is to fund activities. The Group does not hold any financial instruments that would be classified as held for trading under IAS 39.

## 1.12 Foreign currencies

Assets and liabilities in foreign currencies are translated into sterling at the rate of exchange ruling at the balance sheet date. Transactions in foreign currencies are translated into sterling at the average rate for the year. Exchange differences are taken to the income statement.

On consolidation, the assets and liabilities of the Group's overseas operations are translated at the exchange rates prevailing at the balance sheet date. Income and expense items are translated at the average exchange rates for the period. Exchange differences arising, if any, are classified as equity and transferred to the Group's translation reserve.

## 1.13 Pensions

The Group contributes to employees' personal money purchase pension schemes. The amounts charged to the Income Statement represent the contributions payable by the Group during the year.

## 1.14 Grants

Grant contracts reimburse a fixed percentage of a claimant's eligible costs subject to a fixed total cost ceiling. The Group will submit grant claims, usually quarterly in arrears, but invoices will not normally be required as grants are outside the scope of VAT. The Group will recognise revenue in the month that claims are submitted. Grants received in advance are deferred until expenditure exceeds the value of the grant received.

## 1.15 Share based payments

The cost of share based employee compensation arrangements, whereby employees receive remuneration in the form of shares or share options, is recognised as an employee benefit expense in the income statement.

The total expense to be apportioned over the vesting period of the benefit is determined by reference to the fair value at the date of grant. The assumption underlying the number of awards expected to vest are subsequently adjusted for the effects of non-market based vesting to reflect the conditions prevailing at the balance sheet date. The expected life used in the QCA-IRS Option Valuation model has been adjusted based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural consideration.

In determining the fair value of equity settled share based payments and the related charge to the income statement, the Group makes assumptions about the future events and market conditions. In particular judgement must be made as to the likely number of shares that will vest and the fair value of each award granted. The fair value is determined using a valuation model which is dependent on further estimates which are based on publicly available information and reflect market expectations. Different assumptions about these factors to those made by the Group could materially affect the reported value of share base payments.

## 1.16 Critical accounting judgements and key sources of estimation uncertainty

The preparation of financial statements in conformity with generally accepted accounting practice requires management to make estimates and judgements that affect the reported amounts of assets and liabilities as well as the disclosure of contingent assets and liabilities at the balance sheet date and the reported amounts of revenues and expenses during the reporting period.

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.

# Notes to the Financial Statements

continued

## Impairment of intangible assets

Determining whether intangible assets are impaired requires an estimation of the value in use of the intangible assets. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the intangible assets and a suitable discount rate in order to calculate present value. The valuation of intangible assets and resulting impairment charges are disclosed at Note 11 to the financial statements.

## Share based payments

In determining the fair value of equity settled share based payments and the related charge to the income statement, the Group makes assumptions about future events and market conditions. In particular, judgement must be made as to the likely number of shares that will vest and the fair value of each award granted. The fair value is determined using the QCA-IRS Option Valuer Model based on the Black Scholes model which is dependent on further estimates, including the Company's future dividend policy, employee turnover, the timing with which options will be exercised and the future volatility in the price of the Group's shares. Such assumptions are based on publicly available information and reflect market expectations and advice taken from qualified personnel. Different assumptions about these factors to those made by the Group could materially affect the reported value of share based payments.

### 1.17 New standards and interpretations

The following pronouncements may be relevant to the Group, but were not effective at 31 December 2007 and have not been applied in preparing these financial statements.

Standard/ Interpretation	Title	Comment
IFRS 8	Operating segments	Supersedes IAS 14 from 1 January 2009. Earlier adoption permitted (with disclosure).
IAS 23 amendment	Borrowing costs	Periods beginning on or after 1 January 2009. Earlier adoption permitted.
IFRIC 12	Service concession arrangements	Effective 1 January 2008. Earlier adoption permitted (with disclosure).
IFRIC 13	Customer loyalty programmes	Effective 1 July 2008. Earlier adoption permitted (with disclosure). Not yet adopted by EU.
IFRIC 14	IAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction	Effective 1 January 2008. Earlier adoption permitted (with disclosure). Not yet adopted by EU.
IAS 27 amendment	Consolidated and separate financial statements	Amended IAS 27 from 1 July 2009 (not yet adopted by EU). Early adoption permitted.
IFRS 2 Amendment	Share-based payment	Amendment issued for periods commencing on or after 1 January 2009, with early adoption permitted. (note yet adopted by EU).
IFRS 3 Revised	Business combinations	Effective for periods commencing on or after 1 July 2009. (Not yet adopted by the EU). Early adoption permitted.
IAS 1 (revised)	Presentation of Financial Statements	Periods beginning on or after 1 January 2009. Earlier adoption permitted. Not yet adopted by the EU.
IAS 32 Amendment	Financial Instruments: disclosure and presentation	Periods beginning on or after 1 January 2009.
IAS 1 Amendment	Presentation of Financial Statements	Periods beginning on or after 1 January 2009.

# Notes to the Financial Statements

continued

The Group has assessed the full impact of these accounting changes. To the extent that they may be applicable, the directors have concluded that none of these pronouncements will cause any material adjustments to the financial statements.

## 1.18 Non-current assets held for sale and discontinued operations

The Company has not classified the following assets as “non-current assets held for sale” under IFRS 5 “Non-current assets held for sale and discontinued operations” as the criteria for classifying assets as such were not met until after the balance sheet date.

The disposal group consists of the following investments in subsidiary undertakings:

### 1. POSL, sold 1 April 2008

On 11 March 2008, the Company announced that it had entered into a conditional sale and purchase agreement to sell the entire issued share capital of POSL to a company owned and controlled by Professor Pistikopoulos for an initial consideration of £1. In addition, seven percent of the gross revenue (including, without limitation, grants and royalties) generated or received by POSL until 31 December 2022 will be paid to the Company and in the event of the sale of a POSL or its assets including any patents before 1 April 2018, POSL will pay the Company additional consideration equal to forty percent of the gross proceeds arising from the transaction.

At a general meeting held on 28 March 2008 all resolutions were duly passed by the shareholders, including the approval of the disposal of the entire issued share capital of POSL.

### 2. ParOS EPE, in liquidation

After the year end the Company decided that it could no longer continue to provide financial support for its Greek subsidiary company, ParOS EPE. Subsequently the management of ParOS EPE commenced proceedings to liquidate the company.

## 2. SEGMENTAL REPORTING

The directors consider that the Group has no separate business or geographical segments upon which to report.

## 3. OPERATING LOSS

The operating loss is stated after charging:

	2007	2006
	£	£
Depreciation of owned tangible fixed assets	4,660	2,349
Amortisation of intangible assets	302,079	236,697
Impairment of goodwill	378,845	375,000
Impairment of intangible assets	3,196,667	795,735
Operating lease rentals: – land and buildings	32,729	28,590
	<u>3,913,980</u>	<u>1,438,371</u>

Aggregate total amount of expenditure attributable to R&D activities that are recognised as an expense in the year: £89,033 (2006: £189,616).

## 4. AUDITORS' REMUNERATION

	2007	2006
	£	£
Fees payable to the Group's auditor for the audit of the Group's annual accounts	24,908	18,000
Fees payable to the Group's auditor for other services:		
– Corporate finance services	–	47,000
– Other services relating to taxation	1,395	1,613
– Other services	3,364	3,925
	<u>29,667</u>	<u>70,538</u>

# Notes to the Financial Statements

continued

## 5. EMPLOYEE BENEFIT EXPENSE

Staff costs, including directors' remuneration, were as follows:

	2007 £	2006 £
Wages and salaries	226,275	252,792
Social security costs	24,817	29,918
Other pension costs	23,889	21,129
	<u>274,981</u>	<u>303,839</u>

The average monthly number of employees, including directors, during the year was as follows:

	2007	2006
Directors	4	5
Administration	6	2
	<u>10</u>	<u>7</u>

## 6. DIRECTORS' REMUNERATION

	Salary/fees £	Pension £	2007 £	2006 £
J M Edelson (resigned 21 March 2006)	–	–	–	7,638
L J Avigdori (resigned 15 April 2008)	15,000	–	15,000	15,000
T Linstedt (resigned 31 July 2007)	14,583	1,163	15,746	40,503
P McHugh	72,000	5,760	77,760	46,753
E Pistikopoulos (resigned 15 April 2008)	47,000	9,360	56,360	58,367
	<u>148,583</u>	<u>16,283</u>	<u>164,866</u>	<u>168,261</u>

During the year retirement benefits were accruing to three directors (2006: three) in respect of money purchase pension schemes.

## 7. FINANCE INCOME

	2007 £	2006 £
Interest receivable	<u>22,739</u>	<u>44,454</u>

# Notes to the Financial Statements

continued

## 8. INCOME TAX EXPENSE

	2007	2006
	£	£
Current tax	–	–
Deferred tax	–	–
	<hr/>	<hr/>
Total tax expense for the year	<u>–</u>	<u>–</u>

The charge for the year can be reconciled to the loss per the income statement as follows:

	2007	2006
	£	£
Loss before tax	<u>(4,554,370)</u>	<u>(1,927,727)</u>
Tax on loss on ordinary activities at standard UK corporation tax rate of 30 percent (2006: 19 percent )	<u>(1,366,311)</u>	<u>(366,268)</u>
Expenses not deductible for tax purposes	1,409	15,411
Depreciation in excess of capital allowances	69	239
Other short term timing differences	1,245	(1,753)
Income not taxable for tax purposes	(91,841)	–
Unrelieved tax losses	1,834,346	84,960
Investment impairment	<u>(378,917)</u>	<u>267,411</u>
	<hr/>	<hr/>
Current tax expense	<u>–</u>	<u>–</u>

No provision has been made to recognise a deferred tax asset as future profitability is uncertain. The unprovided deferred tax asset is £1,761,230.

## 9. LOSS PER SHARE

The calculation of the basic loss per share is based on the following:

<b>Basic</b>	2007	2006
Loss for the year	£4,554,370	£1,927,727
Weighted average number of shares	472,950,195	425,308,920
Loss per share	0.96 pence	0.45 pence

Separate diluted loss per share figures are not disclosed due to the fact that it would decrease the loss per share.

## 10. LOSS ATTRIBUTABLE TO THE MEMBERS OF THE PARENT COMPANY

The loss dealt with in the accounts of the parent Company was £5,240,332 (2006: £1,446,549).

# Notes to the Financial Statements

continued

## 11. INTANGIBLE FIXED ASSETS

Group	Patents £	Goodwill £	Total £
<b>COST</b>			
At 1 January 2007 and 31 December 2007	<u>4,531,178</u>	<u>753,845</u>	<u>5,285,023</u>
<b>AMORTISATION</b>			
At 1 January 2007	236,697	–	236,697
Charge for the year	302,079	–	302,079
<b>At 31 December 2007</b>	<u>538,776</u>	<u>–</u>	<u>538,776</u>
<b>IMPAIRMENT</b>			
At 1 January 2007	795,735	375,000	1,170,735
Charge for the year	3,196,667	378,845	3,575,512
<b>At 31 December 2007</b>	<u>3,992,402</u>	<u>753,845</u>	<u>4,746,247</u>
<b>NET BOOK VALUE</b>			
At 31 December 2007	<u>–</u>	<u>–</u>	<u>–</u>
At 31 December 2006	<u>3,498,746</u>	<u>378,845</u>	<u>3,877,591</u>
<b>COST</b>			
At 1 January 2006	–	–	–
Additions	4,531,178	753,845	5,285,023
<b>At 31 December 2006</b>	<u>4,531,178</u>	<u>753,845</u>	<u>5,285,023</u>
<b>AMORTISATION</b>			
At 1 January 2006	–	–	–
Charge for the year	236,697	–	236,697
<b>At 31 December 2006</b>	<u>236,697</u>	<u>–</u>	<u>236,697</u>
<b>IMPAIRMENT</b>			
At 1 January 2006	–	–	–
Charge for the year	795,735	375,000	1,170,735
<b>At 31 December 2006</b>	<u>795,735</u>	<u>375,000</u>	<u>1,170,735</u>
<b>NET BOOK VALUE</b>			
At 31 December 2006	<u>3,498,746</u>	<u>378,845</u>	<u>3,877,591</u>
At 31 December 2005	<u>–</u>	<u>–</u>	<u>–</u>

The directors consider that goodwill is impaired and the carrying value of goodwill at the balance sheet date has been written down to £nil (2006: £378,845).

On 11 March 2008, the Company announced that it had entered into a conditional sale and purchase agreement to sell the entire issued share capital of POSL to a company owned and controlled by Professor Pistikopoulos for an initial consideration of £1. The patents are owned by POSL. The directors consider that the carrying value of the patents and the carrying value of goodwill arising on the acquisition of POSL should be fully impaired.

# Notes to the Financial Statements

continued

## 11. INTANGIBLE FIXED ASSETS (continued)

After the year end the Company decided that it could no longer continue to provide financial support for its Greek subsidiary company, ParOS EPE. Subsequently the management of ParOS EPE commenced proceedings to liquidate the company. The directors of the Company consider that the carrying value of goodwill arising on the acquisition of ParOS EPE should be fully impaired at 31 December 2007.

## 12. PROPERTY, PLANT AND EQUIPMENT

Group	Furniture, fittings and equipment	Furniture, fittings and equipment
	2007 £	2006 £
<b>COST</b>		
At 1 January	10,820	–
Additions	2,379	10,820
<b>At 31 December</b>	<b>13,199</b>	<b>10,820</b>
<b>DEPRECIATION</b>		
At 1 January	2,349	–
Charge for the year	4,660	2,349
<b>At 31 December</b>	<b>7,009</b>	<b>2,349</b>
<b>NET BOOK VALUE</b>		
<b>At 31 December</b>	<b>6,190</b>	<b>8,471</b>

## 13. INVESTMENTS IN SUBSIDIARIES

Company	Investment in Subsidiaries	Investment in Subsidiaries
	2007 £	2006 £
<b>COST:</b>		
At 1 January	5,502,807	–
Additions	120,276	5,502,807
<b>At 31 December</b>	<b>5,623,083</b>	<b>5,502,807</b>
<b>IMPAIRMENT</b>		
At 1 January	1,407,432	–
Charge for the year	4,215,651	1,407,432
<b>At 31 December</b>	<b>5,623,083</b>	<b>1,407,432</b>
<b>NET BOOK VALUE:</b>		
<b>At 31 December</b>	<b>–</b>	<b>4,095,375</b>

The additions during the year reflect the capitalisation of loans to ParOS EPE.

The Directors have reviewed the carrying value of the investments in POSL and ParOS EPE and have determined that the value should be impaired in full.

# Notes to the Financial Statements

continued

## 13. INVESTMENTS IN SUBSIDIARIES (continued)

Details of subsidiary undertakings at the balance sheet date are as follows:

Name of company	Country of Incorporation	Class of Share	Nature of Business	Proportion of voting rights
POSL	England	Ordinary	Provision of energy saving advanced optimisation and control solutions	100 percent
ParOS EPE	Greece	Ordinary	Provision of energy saving advanced optimisation and control solutions	85 percent

Name of company	Share capital 2007 £	Share premium 2007 £	Retained losses 2007 £	Loss for the year 2007 £
POSL	232	660,133	(1,371,620)	(502,881)
ParOS EPE	136,841	-	(139,995)	(74,218)

## 14. TRADE AND OTHER RECEIVABLES

	2007 Group £	2007 Company £	2006 Group £	2006 Company £
Trade receivables	24,553	-	2,886	-
Other receivables	16,432	-	22,029	1,741
Prepayments and accrued income	20,391	18,977	31,827	7,668
Amounts owed by Group undertakings	-	-	-	534,071
	<b>61,376</b>	<b>18,977</b>	<b>56,742</b>	<b>543,480</b>
<b>Provision for bad debts</b>				
Trade receivables, before provisions	61,502	-	2,886	-
Provision for doubtful debts	(36,949)	-	-	-
Trade receivables, net of provisions	<b>24,553</b>	<b>-</b>	<b>2,886</b>	<b>-</b>
<b>Aging analysis of trade receivables</b>				
Less than 30 days	11,750	-	2,886	-
60 to 89 days	6,949	-	-	-
90 days and more	42,803	-	-	-
	<b>61,502</b>	<b>-</b>	<b>2,886</b>	<b>-</b>

Included in amounts owed by Group undertakings is £925,000 (2006: £480,000) which is due after more than one year. This has been provided in full at the year end. This amount was waived by the Company as part of a transaction following the year end (see note 24).

# Notes to the Financial Statements

continued

## 14. TRADE AND OTHER RECEIVABLES (continued)

As at 31 December 2007, other receivables at a nominal value of £105,164 (2006: £nil) were impaired and fully provided. Movements in the provision for impairment of other receivables were as follows:

Company	Individually Impaired £
Provision for impairment of other receivables	
<b>At 1 January 2006</b>	–
Charge for the year	–
Utilised	–
	<hr/>
<b>At 31 December 2006</b>	–
Charge for the year	105,164
Utilised	(105,164)
	<hr/>
<b>At 31 December 2007</b>	–
	<hr/> <hr/>

## 15. TRADE AND OTHER PAYABLES

	2007 Group £	2007 Company £	2006 Group £	2006 Company £
Trade payables	72,075	29,327	28,687	6,806
Other payables	14,659	–	6,669	–
Amounts owed to Group undertakings	–	71,869	–	–
Accruals and deferred income	44,407	16,000	89,969	16,711
	<hr/>	<hr/>	<hr/>	<hr/>
	<b>131,141</b>	<b>117,196</b>	<b>125,325</b>	<b>23,517</b>
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

## 16. SHARE CAPITAL

Group and Company	2007 £	2006 £
<b>Authorised</b>		
5,000,000,000 Ordinary shares of 0.1p each	<b>5,000,000</b>	5,000,000
	<hr/> <hr/>	<hr/> <hr/>
<b>Allotted, called up and fully paid</b>		
472,950,195 Ordinary shares of 0.1p each	<b>472,950</b>	472,950
	<hr/> <hr/>	<hr/> <hr/>
<b>At 1 January 2007</b>	<b>472,950</b>	255,000
Shares issued to acquire subsidiary undertaking	–	216,450
Shares issued in respect of warrants	–	1,500
	<hr/>	<hr/>
<b>At 31 December 2007</b>	<b>472,950</b>	472,950
	<hr/> <hr/>	<hr/> <hr/>

# Notes to the Financial Statements

continued

## 17. RESERVES

	Share premium account £	Other reserve £	Translation reserve £	Retained losses £
<b>Group</b>				
At 1 January 2006	1,476,448	–	–	(120,878)
Loss for the financial year	–	–	–	(1,917,808)
Exchange differences	–	–	(1,252)	–
Issue of shares	–	5,194,805	–	–
Share issue costs	(180,718)	–	–	–
Reserve transfer	–	(1,170,735)	–	1,170,735
<b>At 31 December 2006</b>	<b>1,295,730</b>	<b>4,024,070</b>	<b>(1,252)</b>	<b>(867,951)</b>
Loss for the financial year	–	–	–	(4,543,237)
Exchange differences	–	–	(10,197)	–
Reserve transfer	–	(3,575,512)	–	3,575,512
<b>At 31 December 2007</b>	<b>1,295,730</b>	<b>448,558</b>	<b>(11,449)</b>	<b>(1,835,676)</b>
<b>Company</b>				
At 1 January 2006	1,476,448	–	–	(120,878)
Loss for the financial year	–	–	–	(1,446,549)
Issue of shares	–	5,194,805	–	–
Share issue costs	(180,718)	–	–	–
Reserve transfer	–	(1,170,735)	–	1,170,735
<b>At 31 December 2006</b>	<b>1,295,730</b>	<b>4,024,070</b>	<b>–</b>	<b>(396,692)</b>
Loss for the financial year	–	–	–	(5,240,332)
Reserve transfer	–	(3,575,512)	–	3,575,512
<b>At 31 December 2007</b>	<b>1,295,730</b>	<b>448,558</b>	<b>–</b>	<b>(2,061,512)</b>

The other reserve is a merger reserve under s.131 of the Companies Act 1985 created on the establishment of POSL as a subsidiary of ParOS Plc.

Following the decision to impair the carrying value of the goodwill and the intangible assets in the Group and the carrying value of the investment in the subsidiary, a corresponding transfer of £3,575,512 has been made from the other reserve (see note 11).

## 18. RECONCILIATION OF CASH AND CASH EQUIVALENTS

	2007 Group £	2007 Company £	2006 Group £	2006 Company £
At 1 January	836,770	780,720	1,646,111	1,646,111
Cash Flow	(564,219)	(526,775)	(809,341)	(865,391)
<b>At 31 December</b>	<b>272,551</b>	<b>253,945</b>	<b>836,770</b>	<b>780,720</b>

Cash and cash equivalents are made up of bank accounts which are all available on demand.

# Notes to the Financial Statements

continued

## 19. OPERATING LEASE COMMITMENTS

At the balance sheet date, the Group had the following future minimum rentals payable under non-cancellable operating leases:

	<b>Land and Buildings 2007</b>	<b>Land and Buildings 2006</b>
	£	£
Expiry date:		
Within one year	<b>5,124</b>	<b>32,400</b>

## 20. INVESTMENT IN SUBSIDIARIES

On 28 February 2007 the board decided to capitalise the loans outstanding to ParOS EPE (see note 13).

## 21. SHARE BASED PAYMENTS

The Company has outstanding unapproved share options over 6,250,000 ordinary shares of 0.1p each with an exercise price of 0.1p. The options are exercisable at any time before the tenth anniversary of the grant date being 15 December 2006.

The Company also had outstanding share options issued under EMI and unapproved employee option agreements over 73,161,267 ordinary shares of 0.1p each.

48,771,066 of the EMI and unapproved options were exercisable at any time after 15 December 2006 but before the tenth anniversary of the grant date. The remaining 24,390,200 EMI and unapproved employee options were exercisable if certain performance criteria are achieved before the tenth anniversary of the grant date.

Details of the movements in share options during the year are as follows:

	<b>2007</b>	<b>2006</b>
	<b>Number of share options</b>	<b>Number of share options</b>
Outstanding at the beginning of the year	<b>79,411,267</b>	6,250,000
Granted during the year	–	73,161,267
Lapsed at the end of the year	<b>(4,881,773)</b>	–
Exercised in the year	<b>(18,668,351)</b>	–
Outstanding at the end of the year	<b>55,861,143</b>	79,411,267
Exercisable at the end of the year	<b>36,352,715</b>	57,354,611

The exercise price for all EMI and unapproved employee share options exercised, outstanding and exercisable are all 0.536p.

The fair value of the options is measured by the use of the QCA – IRS Option Valuer based on the Black Scholes model. The inputs into the Black Scholes model were as follows:

	<b>2007</b>	<b>2006</b>
Share price at grant date	<b>0.536p</b>	0.536p
Exercise price	<b>0.536p</b>	0.536p
Volatility	<b>20 percent</b>	20 percent
Expected life	<b>2 years</b>	3 years
Risk free interest rate	<b>4.5 percent</b>	4.5 percent

Expected volatility was determined by reference to volatility used by other similar companies.

The expected life used in the model is based on the experience of companies offering similar schemes.

The Group has not recognised any charge arising from the share based payments noted above in the income statement for the year ended 31 December 2007 as this is deemed to be immaterial.

On 28 March 2008 shareholders of the Company, in general meeting, passed resolutions to dispose of the entire issued share capital of POSL. Following these resolutions all 49,611,143 employee options are to be waived.

# Notes to the Financial Statements

continued

## 22. RELATED PARTY TRANSACTIONS

Key management are those persons having authority and responsibility for planning, controlling and directing the activities of the Group. In the opinion of the board, the Group's key management are the directors of ParOS plc. Information regarding their compensation is given above in note 6.

The Company has entered into service agreements with entities controlled by each of the directors and fees are paid in accordance with those agreements. During the year the Company made payments to Ariston Consulting Ltd, a company controlled by E Pistikopoulos, of £18,000 (2006: £17,500) and to Trinity Management Ltd, a company controlled by P McHugh, of £18,000 (2006: £15,250). Payments amounting to £7,000 (2006: £18,000) were made to e-Strategy Advisors, a company controlled by T. Lindstedt. Payments amounting to £15,000 (2006: £15,000) were made to Dunham Ventures Limited, a company controlled by L. J. Avigdori. There were no amounts outstanding at the year end.

During the year the Company has made working capital loans to its subsidiaries of £445,000 (2006: £534,071). At the year end the amount outstanding was £925,000 (2006: £534,071). The Company provided in full against the £925,000 loan at 31 December 2007.

During the year loans from the Company to ParOS EPE for £120,276 were capitalised in order to provide additional working capital for ParOS EPE. At the same time the minority shareholder of ParOS EPE, Dimitrios Alamaniotis, increased his investment by the same proportion in order to keep his minority interest at 15 percent.

## 23. EMPLOYEE SHARE OWNERSHIP PLAN (ESOP)

POSL established the ParOS Employee Benefit Trust ("EBT") on 14 February 2006. The trustee of the EBT is Carey Pensions & Benefits Limited, a trustee company based in Guernsey. The beneficiaries of the EBT are the employees and former employees of the Company or any of its subsidiaries. POSL made a loan of £261,250 to the EBT on 15 February 2006 and the EBT used the loan to acquire 5,225 ordinary shares in POSL at a price of £50 per share on the same date. During the year the P McHugh exercised his vested share options raising £100,000 for the EBT. The EBT used this £100,000 to repay part of the loan and will repay the balance to POSL when it receives sufficient funds on the exercise of the share options.

The EBT holds 30,102,716 (2006: 48,771,067) shares in the Company all of which are allocated to employee share option agreements that vested on 15 December 2006 with an exercise price of 0.536p per share. At the reporting date market value is at least £18,062 (2006: £195,084).

On consolidation the Group deducts the outstanding consideration paid for the shares of £161,250 (2006: £261,250) in arriving at shareholders' funds. The reduction to shareholders' funds of £161,250 (2006: reduction of £261,250) and the market value of the shares held are disclosed.

## 24. POST BALANCE SHEET EVENTS

### ParOS EPE

After the financial year end it became clear that the continued financial support of ParOS EPE by the Company was no longer in the best interests of the Group. The management of ParOS EPE is in the process of undertaking a members' voluntary liquidation. The investment in ParOS EPE has been written off in the accounts of the Company as at 31 December 2007.

### POSL

On 11 March 2008, the Group announced that it had entered into a conditional sale and purchase agreement to sell the entire issued share capital of POSL to a company owned and controlled by Professor Pistikopoulos, a director, for an initial consideration of £1. In addition, seven percent of the gross revenue (including, without limitation, grants and royalties) generated or received by POSL until 31 December 2022 will be paid to the Company and in the event of the sale of POSL or its assets including any patents before 1 April 2018, POSL will pay the Company additional consideration equal to forty percent of the gross proceeds arising from the transaction. As part of the above transaction it was agreed that ParOS Plc would waive its loan to POSL of £925,000 (see note 14). As a result of the above, the investment in POSL has been fully written off in the accounts of the Company as at 31 December 2007.

The directors consider that it is not possible to quantify the financial effect of these post balance sheet events.

# Notice of Annual General Meeting

Notice is hereby given that the Annual General Meeting of the Company will be held at 11 am on 26 June 2008 at the registered office of the Company at One Hammersmith Grove, Hammersmith, London, W6 0NB, to consider and if thought fit, pass the following Resolutions of which Resolutions 1 to 5 are ordinary resolutions and Resolution 6 is a special resolution:

## Ordinary Business

- Resolution 1: To receive and adopt the Financial Statements of the Group for the year ended 31 December 2007 together with the Reports of the Directors and Auditors thereon.
- Resolution 2: To re-elect P McHugh as a Director in accordance with the Company's Articles of Association.
- Resolution 3: To re-elect J King as a Director in accordance with the Company's Articles of Association.
- Resolution 4: To re-appoint Horwath Clark Whitehill LLP as auditors of the Company and to authorise the Directors to determine their remuneration.
- Resolution 5: THAT, in substitution for any existing and unexercised authorities, the Directors be and they are hereby generally and unconditionally authorised for the purposes of section 80 of the Companies Act 1985 ("the Act") to exercise all the powers of the Company to allot relevant securities up to the aggregate nominal value of £157,650 being one-third of the aggregate nominal value of the issued share capital with the authorities conferred by this resolution to expire at the conclusion of the next annual general meeting of the Company (unless previously renewed, varied or revoked by the Company in general meeting), provided that the Company may before such expiry make an offer or agreement which would or might require relevant securities to be allotted after such expiry and the Directors may allot relevant securities in pursuance of such offer or agreement notwithstanding that the authority conferred hereby has expired (and in this resolution the expression "relevant securities" and reference to the allotment of relevant securities shall bear the same respective meanings as in section 80 of the Act).

## Special Business

- Resolution 6: THAT, in substitution for any existing and unexercised authorities, the Directors be and they are hereby empowered pursuant to section 95 of the Act to allot equity securities wholly for cash pursuant to the authority conferred by resolution 5 above as if section the allotment of equity securities to any person or persons up to an aggregate nominal amount of £47,295 being 10 percent of the aggregate nominal value of the issued share capital with the authorities conferred by this resolution to expire at the conclusion of the next annual general meeting of the Company (unless previously renewed, varied or revoked by the Company), save that the Company may before such expiry make an offer or agreement which would or might require equity securities to be allotted after such expiry and the Directors may allot securities in pursuance of any such offer or agreement notwithstanding that the power conferred hereby has expired and that all previous authorities under section 95 of the Act be and they are hereby revoked (and in this resolution the expression "equity securities" and references to the allotment of equity securities" shall bear the same respective meaning as in section 94 of the Act).

By Order of the Board

I Aspinall  
Company Secretary

Dated: 22 April 2008

Registered office:  
One Hammersmith Grove  
London  
W6 0NB

# Notice of Annual General Meeting

continued

## Notes:

1. A member entitled to attend and vote at the meeting is also entitled to appoint a proxy to exercise his rights to attend, speak and vote at the meeting instead of him/her. The proxy need not be a member of the Company. More than one proxy may be appointed to exercise the rights attaching to different shares held by the member, but a member may not appoint more than one proxy to exercise rights attached to any one share. A form of proxy is enclosed with this notice for use at the meeting.
2. To be valid a form of proxy, together with a power of attorney or other authority, if any, under which it is executed or a notarially certified copy thereof, must be deposited at the offices of Capita Registrars, Proxy Department, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4BR not less than 48 hours before the time for holding the meeting or adjourned meeting.
3. In the case of joint holders, the vote of the senior who tenders a vote, whether by person or by proxy, will be accepted to the exclusion of the votes of any other joint holders. For these purposes, seniority shall be determined by the order in which the names stand in the register of members in respect of the joint holding.
4. In the case of a corporation, the form of proxy must be executed under its common seal or signed on its behalf by a duly authorised attorney or duly authorised office of the corporation.
5. The Company, pursuant to regulation 41 of the Uncertificated Securities Regulations 2001, specifies that only those shareholders registered in the register of members of the Company 48 hours before the time for the meeting shall be entitled to attend and vote, whether in person or by proxy, at the meeting, in respect of the number of ordinary shares registered in their name at that time. Changes to entries in the register of members after such time shall be disregarded in determining the rights of any person to attend or vote at the meeting. If the meeting is adjourned, entitlements to attend and vote will be determined by reference to the register of members of the company 48 hours before the time of the adjourned meeting.
6. Completion and return of the form of proxy will not preclude members from attending or voting in person at the meeting if they so wish.



