Advanced control technology on a chip

ParOS PLC

(formerly OAK Prospects Plc)

Directors Report and Financial Statements

for the year ended 31 December 2006

Company Information

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I am pleased to announce the results for ParOS plc ("ParOS" or the "Company") in its first year as an AIM listed public limited company.

In 2005, Parametric Optimization Solutions Limited ("POSL"), now the Group's principal trading subsidiary, was based in Imperial College, London. POSL then 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 by Oak Prospects Plc (subsequently renamed ParOS plc) 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 has provided POSL with a stable platform upon which it can build revenues through the commercialisation of its Intellectual Property ("IP").

Financial Results

Turnover in the year ended 31 December 2006 amounted to £60,064 (Six months to 31 December 2005: £nil). The loss before and after taxation was £1,927,727 (Six months to 31 December 2005: loss of £54,763). The Group is progressing more slowly than expected against the original business plan therefore the Board has decided to impair the goodwill and intangible assets arising from the acquisition of POSL by £375,000 and £795,735 respectively. Further information on the method of valuing the Group's intangible assets is given in note 11 to the financial statements.

Cash and cash deposits at 31 December 2006 amounted to £836,770 (2005: £1,646,111), representing 0.18 pence per share (2005: 0.65 pence).

Much has been done to move the Group forward since its admission to trading on AIM. The Group's commitment to investing in the business to extend its capabilities is clear from its development and patenting activities in Europe, USA and Japan, its recruitment of experienced personnel and the expansion of its intellectual property.

The main aims for the Group in the short to medium term are to;

- accelerate the process by which it generates further IP using grants and university networks;
- analyse its chosen markets and acquire knowledge and expertise in the application of its IP;
- build prototype products with industrial businesses;
- participate in the development of products which use its IP;
- enter into partnerships with manufacturers; and
- secure consulting projects with companies which supply products that can use its IP.

Investment in Growth and Intellectual Property

The fundamentals of the Group, including its IP and its people, are very sound. A significant proportion of spending during 2006 was devoted to ensuring that its knowledge was aligned with developments in optimisation, modelling and control systems in the new energy industries.

The Group starts 2007 with confidence and continues to make progress towards commercialising its IP. In particular the Group's European Patent Attorneys have received confirmation from the European Patent Office that a patent will be granted for the use of parametric model predictive control as set out in the patent application. In addition, progress has been made with patent applications covering the commercial exploitation of the POSL IP in the USA and Japan.

During the year POSL invested in new technologies including a parametric model predictive control optimisation based controller for a domestic air conditioning system and a 100W portable hydrogen powered fuel cell controller. POSL completed projects relating to specific products for Air Products and Lotus Cars. POSL also entered into early stage commercial discussions to develop hydrogen storage control, building energy management systems and wind turbine control.

POSL continues to invest in developing relationships with partners and commercial customers. The pipeline agreement between POSL and Imperial College continues to provide a good source of technological knowledge enabling the Group to consider a number of commercial opportunities.

Significant Developments

In Greece, the Group formed a subsidiary, ParOS Technology EPE in order to run laboratory and product development projects in Cyprus, undertake product co-development initiatives in Greece and Cyprus, lead business development activities and commercial negotiations with Greek customers and to recruit, employ and retain Greek national employees. ParOS Technology EPE will focus on cost reduction through efficient energy usage, and reduction of waste and environmental emissions. Targets include the process industries, alternative energy applications, devices and appliances and the automotive, aerospace and medical equipment sectors.

On behalf of the board I would like to thank all of our people for their hard work and their contribution to the Group's progress.

P McHugh
Chairman

30 May 2007

Directors' Report

For the year ended 31 December 2006

The directors present their report and the financial statements for the year ended 31 December 2006. The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) for the first time.

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 state of affairs of the Company and of the profit or loss of the Company for that 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;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping 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 Company 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 profit and loss account and balance sheet, the directors have had regard to the substance of the reported transaction or arrangement, in accordance with generally accepted accounting principles or practice.

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.

Review of Business

On 20 March 2006 the Company acquired Parametric Optimization Solutions Limited. Trading on AIM commenced on 21 March 2006. The board approved the formation of ParOS Technology EPE in Greece on 11 May 2006 and it was incorporated on 25 May 2006. The Company acquired 85% of ParOS Technology EPE on 4 July 2006.

Financial KPIs

Group liquidity – The Group's cash position continues to be robust. The net cash outflow for the year was £809,341, as a result of the acquisition of POSL, the formation of ParOS Technology EPE, operating activities, interest received, capital expenditure and the exercise of warrants. Cash and cash deposits at 31 December 2006 amounted to £836,770 (2005: £1,646,111), representing 0.18 pence per share (2005: 0.65 pence).

Investment in R&D – The Group invested £189,616 in research and development during the year. This included a payment to Imperial Innovations for a pipeline agreement, patenting activities in Europe, USA and Japan, recruitment of experienced personnel and the depreciation of equipment associated with the expansion of intellectual property. The Group's IP is its most significant asset at a value of £3,498,746.

Strategic Vision and Priorities

ParOS aims to generate returns for its investors by commercialising technology that provides cost effective control for the energy systems of the future and to do so in a safe, sustainable and environmentally responsible way. These energy systems provide for basic human needs such as light, heat and mobility.

ParOS has certainly changed dramatically since 2005. Our financial framework is robust. We aim to continue to invest in our operations. We continue to be justly proud of our extensive portfolio of technology for licensing and increasing momentum in royalties.

ParOS is not in a business where today's activities translate immediately into recognisable profit and cash flow. However, the successful fulfilment of the plan we have set ourselves will provide the evidence to shareholders that ParOS is on the path to delivering shareholder value – which is the driving force in the work of the people and board.

Looking forward, the fundamentals of the Group – its assets, its strategy and its people – are very sound. The growth of the new energy markets and revenues arising from the relentless search for energy efficiency gives us confidence for sales and improving returns.

Over the coming years we will invest in streamlining our research, engineering and business development processes to improve effectiveness and efficiency, reduce administrative costs and improve productivity.

ParOS has a set of excellent assets that will ensure the continued success of the Group into the medium term. It is important to stress that ParOS also has a clear strategy and an underlying business that remains robust. ParOS intends to continue to undertake research and development in relation to advanced control technology and to seek to exploit this technology commercially. The Group maintains its focus on optimisation, modelling and control.

In November 2006, your 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 and aims to conserve cash by:

- Altering the organisational structure of the Company and combining the Chairman and CEO roles to co-ordinate the sales effort.
- Re-enforcing the technological link to Imperial College by appointing Professor Pistikopoulos as Chief Technology Officer.
- Identifying specific target markets within the new energy sectors.
- Employing people only when revenue-generating projects are won.

Your board will keep you fully advised on the implementation of those recommendations to which we, and the Group's people, are fully committed.

The Group Strategy Review set out why it is critical to think in terms of energy systems rather than technological areas for the future. Most technologies can be expected to progress further and see unit costs reduced, but all will run into limitations that can be addressed only by developments elsewhere in the energy system. In its chosen technological areas, Carbon Capture and Storage, Renewables, Hydrogen and Fuel Cells, ParOS is able to make significant contributions. ParOS has selected the following parts of the energy systems of the future in which to participate:

- *Energy Storage.* Biofuels, hydrogen and batteries using low carbon energy sources are the most significant available technologies but they all stand at technological and physical boundaries. Major research and development efforts are needed to make progress. Of these technologies ParOS will participate in projects to develop efficient biofuels production, hydrogen storage with hydrides, the development of portable and standby hydrogen based fuel cells, and pressure swing adsorption (PSA) as a means of purifying hydrogen for use in fuel cells.
- *Decarbonising Transport.* The transport sector is still likely to remain oil based for several decades, and efficiency gains will be important for keeping emissions down. Increasing use of biofuels will also be important. In the long term, decarbonising transport will depend on progress in decarbonising electricity production and on developments in hydrogen production. Of these technologies, ParOS will participate in projects to develop efficient biofuels production, and developments in hydrogen storage using hydrides.
- *Intermittent renewables.* Renewables such as solar power and wind power only generate electricity when the natural resource is available. This leads to unpredictable and intermittent supply, creating a need for backup generation. The economics of renewable energy systems are therefore affected by the need to provide for backup and the fuel consumed. More efficient storage systems are needed to overcome these barriers. ParOS will participate in projects to develop hydrogen storage with hydrides. ParOS will also participate in projects to develop modelling, optimisation and control for electrical supply to the grid from wind and solar renewables.
- *Bio energy from crops.* Biomass can yield carbon savings in the transport, power generation, and building sectors. ParOS will participate in projects to develop efficient biofuels production.
- *Building Energy Management Systems.* Modelling, control and optimisation of building services including electric power, lighting, ventilation, filtration, waste, heating, climate, security, CCTV, access, entertainment and alarm systems presents opportunities for ParOS for consulting projects and licensing. ParOS will participate in projects to develop building Energy Management Systems as a modeller and project manager and in domestic air conditioning systems where it will work on a prototype for efficient humidity control.
- *On and offshore wind.* Wind energy is carbon free but, as indicted above, suffers from intermittent supply. ParOS will participate in projects to develop modelling, optimisation and control for wind turbines.
- *Solar Energy.* Voltaic and thermal capture of solar energy are carbon free technologies. ParOS will participate in projects to develop voltaics and obtain a position in the modelling, optimisation and control of cells and arrays.
- *Carbon Capture and Storage.* This is the process of removing and storing carbon emissions from the exhaust gases of power stations and other

large-scale emitters. If proved effective it could reduce emissions from the flood of new coal fired power stations planned over the next decades in India and China. Once captured the exhaust gases can be either processed or compressed into liquefied CO_2, or chemically changed into inorganic carbonates. Captured CO_2 can be transported through pipelines or by ship. The liquid or solid CO_2 can be stored in various ways. As a pressurised liquid, CO_2 can be injected into oil fields to raise well pressure. In most cases though the captured gas will be injected and stored in suitable non-porous underground rock formations or dissolved deep in the ocean. ParOS with its modelling, optimisation and control technology will participate in projects to develop technologies for the removal of carbon emissions from exhaust gases and the control of the transportation processes.

ParOS' strategic priorities are to:

- continue to stand at the forefront of optimisation, modelling and control technology;
- conserve its cash;
- focus on commercialising its technological knowledge;
- participate in the fast-growing markets for efficient energy systems of the future.

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. The board has remained unchanged in 2006 following admission to AIM. 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 are chaired by Laura Avigdori. The board remains confident in the work of those committees and the overall system of governance.

Significant Developments

Considerable efforts that were made in 2006 to enter a number of international ventures are expected to lead to significant results in 2007.

The Group moved its operations and registered office to Hammersmith in West London and now occupies fully serviced accommodation.

Board, Management and People

There have been many successes in 2006. Behind each is 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 for the executive management team to respond to the pressing issues of 2006 while diligently managing and guiding the business forward.

Professor Efstratios Pistikopoulos, Chief Technology Officer of ParOS, is one of the leading scientists of his generation and founded POSL in 2002. Professor Pistikopoulos, is widely recognised as a pioneer in optimisation, modelling and control. He continues to lead the Centre for Process Systems Engineering at Imperial College and to bring, through the pipeline agreement between ParOS and Imperial Innovations, access to the latest developments.

Change of Name

On 20 March 2006 the Company changed its name from Oak Prospects plc to ParOS plc.

Results and Dividends

The Group loss for the year, after taxation, amounted to £1,927,727 (2005: Loss £54,763).

The directors do not recommend the payment of a dividend.

Risk Management Objectives and Policies

The Group 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; business continuity, financial control and health and safety. Each year the Audit Committee receives a management letter from the Company's auditors.

The Group'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 of directors is responsible for the risk management policies. The policies are implemented by the finance department that 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 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 2006	2005
J M Edelson (resigned 21 March 2006)	–	6,900,000
L J Avigdori *	**2,500,000**	2,500,000
T Lindstedt (appointed 21 March 2006)	–	–
P McHugh (appointed 21 March 2006) **	**6,067,214**	–
E Pistikopoulos (appointed 21 March 2006) ***	**44,365,336**	–

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

** 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 shares held by Westcott International Holdings Limited in which E Pistikopoulos is beneficially interested.

Share Capital

Further detail regarding the issue of share capital in the year can be found in note 16 to the financial statements.

Share Options

The following directors have been granted options to subscribe for the following ordinary shares:

	2006	2005
L J Avigdori	**625,000**	625,000
E Pistikopoulos	**21,001,895**	–
P McHugh	**28,002,527**	–
T Lindstedt	**13,721,238**	–

After the year end P McHugh exercised options over 18,668,351 shares, increasing his share holding to 24,735,565 shares.

Substantial Shareholdings

At the date of this report the Company had been notified that (other than directors), the following were interested in 3% or more of the issued share capital of the Company:

	Number of Ordinary shares	% of issued share capital
Pacific Continental Securities	51,872,618	10.97
Imperial Innovations Limited	42,778,527	9.05
Carey Pensions & Benefits Limited	30,102,716	6.36
Westcott International Holdings	26,733,079	5.65
L R Nominees Limited	25,067,479	5.3
N Bozinis	14,729,329	3.1

Group'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 2006 creditors' days were 7 days.

Auditors

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

This report was approved and authorised for issue by the board on 30 May 2007 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 2006 which comprise the Group Income Statement, the Group and Parent Company Balance Sheets, the Group and Parent Company Cash Flow Statement, the Group and Parent Company Statements of Changes in Equity and the related notes. These financial statements have been prepared under the accounting policies set out therein.

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

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the 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. The 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 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 to be audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion:

- the group 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 group's affairs as at 31 December 2006 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 2006;
- 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.

As explained in the notes to the group financial statements, the group in addition to complying with its legal obligation to comply with IFRSs as adopted as 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 2006 and of its loss for the year then ended.

Emphasis of Matter – valuation of intangible asset

In forming our opinion, which is not qualified, we have considered the adequacy of disclosures made in note 11 to the financial statements concerning the estimation of the carrying value of the intangible asset. The carrying value and resulting impairment charge are based on the anticipated future revenues. These revenues are uncertain given the early stage of development of the technology and that patents have not yet been granted in all territories. As a result, the carrying value of the intangible asset and the related impairment charge cannot be accurately determined.

Horwath Clark Whitehill LLP
Chartered Accountants
Registered Auditors
Arkwright House
Parsonage Gardens
Manchester
M3 2HP

Date: 30 May 2007

Consolidated Income Statement

For the year ended 31 December 2006

	Notes	Year ended 31 December 2006 £	6 months ended 31 December 2005 £
Revenue		**60,064**	–
Cost of sales		**(1,213)**	–
Gross profit		**58,851**	–
Administrative expenses		**(860,297)**	(64,522)
Impairment of intangible assets and goodwill	11	**(1,170,735)**	–
Operating loss	3	**(1,972,181)**	(64,522)
Finance income	7	**44,454**	9,759
Loss on ordinary activities before taxation		**(1,927,727)**	(54,763)
Income tax expense	8	**–**	–
Loss on ordinary activities after taxation		**(1,927,727)**	(54,763)
Attributable to:			
Equity holders of the parent		**(1,917,808)**	(54,763)
Minority interest		**(9,919)**	–
		(1,927,727)	(54,763)
Loss per share – basic and diluted	9	**(0.451p)**	(0.044p)

The notes on pages 17 to 29 form part of these financial statements.

Consolidated Balance Sheet

As at 31 December 2006

	Notes	2006 £	2005 £
ASSETS			
Non-current assets			
Property, plant and equipment	12	**8,471**	–
Goodwill	11	**378,845**	–
Other intangible assets	11	**3,498,746**	–
		3,886,062	–
Current assets			
Trade and other receivables	14	**56,742**	14,202
Cash and cash equivalents	18	**836,770**	1,646,111
		893,512	1,660,313
Total assets		**4,779,574**	1,660,313
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the parent			
Share capital	16	**472,950**	255,000
Share premium account	17	**1,295,730**	1,476,448
Other reserves	17	**4,024,070**	–
Translation reserve	17	**(1,252)**	–
Retained losses	17	**(867,951)**	(120,878)
		4,923,547	1,610,570
Share capital owned by Employee Benefit Trust	24	**(261,250)**	–
Minority interest		**(8,048)**	–
Total equity		**4,654,249**	1,610,570
Current liabilities			
Trade and other payables	15	**125,325**	49,743
Total equity and liabilities		**4,779,574**	1,660,313

The financial statements were approved and authorised for issue by the board on 30 May 2007 and were signed on its behalf.

P McHugh
Chairman

The notes on pages 17 to 29 form part of these financial statements.

Company Balance Sheet

As at 31 December 2006

	Notes	2006 £	2005 £
ASSETS			
Non-current assets			
Investments in subsidiaries	13	**4,095,375**	–
Current assets			
Trade and other receivables	14	**543,480**	14,202
Cash and cash equivalents	18	**780,720**	1,646,111
		1,324,200	1,660,313
Total assets		**5,419,575**	1,660,313
EQUITY AND LIABILITIES			
Equity attributable to equity holders			
Share capital	16	**472,950**	255,000
Share premium account	17	**1,295,730**	1,476,448
Other reserves	17	**4,024,070**	–
Retained losses	17	**(396,692)**	(120,878)
Total equity		**5,396,058**	1,610,570
Current liabilities			
Trade and other payables	15	**23,517**	49,743
Total equity and liabilities		**5,419,575**	1,660,313

The financial statements were approved and authorised for issue by the board on 30 May 2007 and were signed on its behalf.

P McHugh
Chairman

The notes on pages 17 to 29 form part of these financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2006

	Notes	Year ended 31 December 2006 £	6 months ended 31 December 2005 £
Cash flows from operating activities			
Loss before taxation		**(1,927,727)**	(54,763)
Adjustments for:			
Impairment	11	**1,170,735**	–
Depreciation and amortisation		**239,046**	–
Finance income received		**(44,454)**	(9,759)
Increase in trade and other receivables		**(18,547)**	(13,559)
Increase in trade and other payables		**(62,687)**	(6,544)
Net cash outflow from operating activities		**(643,634)**	(84,625)
Cash flows from investing activities			
Acquisition of subsidiary, net of cash acquired		**(203,802)**	–
Purchase of property, plant and equipment		**(7,859)**	–
Finance income received		**44,454**	9,759
Net cash (used in)/from investing activities		**(167,207)**	9,759
Cash flows from financing activities			
Proceeds from issue of share capital		**1,500**	1,646,448
Net cash from financing activities		**1,500**	1,646,448
Net (decrease)/increase in cash and cash equivalents		**(809,341)**	1,571,582
Cash and cash equivalents at the beginning of the year	18	**1,646,111**	74,529
Cash and cash equivalents at the end of the year	18	**836,770**	1,646,111

The notes on pages 17 to 29 form part of these financial statements.

Company Cash Flow Statement

For the year ended 31 December 2006

	Notes	Year ended 31 December 2006 £	6 months ended 31 December 2005 £
Cash flows from operating activities			
Loss before taxation		**(1,446,549)**	(54,763)
Adjustments for:			
Impairment of investment	13	**1,407,432**	–
Finance income received		**(43,371)**	(9,759)
Increase in trade and other receivables		**(529,278)**	(13,559)
Decrease in trade and other payables		**(26,226)**	(6,544)
Net cash outflow from operating activities		**(637,992)**	(84,625)
Cash flows from investing activities			
Acquisition of subsidiary		**(272,270)**	–
Finance income received		**43,371**	9,759
Net cash (used in)/from investing activities		**(228,899)**	9,759
Cash flows from financing activities			
Proceeds from issue of share capital		**1,500**	1,646,448
Net cash from financing activities		**1,500**	1,646,448
Net (decrease)/increase in cash and cash equivalents		**(865,391)**	1,571,582
Cash and cash equivalents at the beginning of the year	18	**1,646,111**	74,529
Cash and cash equivalents at the end of the year	18	**780,720**	1,646,111

The notes on pages 17 to 29 form part of these financial statements.

Consolidated Statement of Changes in Equity

Year ended 31 December 2006

	Share Capital £	Share Premium £	Other Reserves	Translation Reserve £	Retained Earnings £	Total £	Minority Interest £	Employee Benefit Trust	Total Equity £
	Attributable to the equity holders of the parent								
Balance 1 January 2006	255,000	1,476,448	–	–	(120,878)	1,610,570	–	–	1,610,570
Changes in equity for 2006									
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)
Total recognised income and expense for the year	–	–	–	(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)
Balance 31 December 2006 carried forward	**472,950**	**1,295,730**	**4,024,070**	**(1,252)**	**(867,951)**	**4,923,547**	**(8,048)**	**(261,250)**	**4,654,249**

The notes on pages 17 to 29 form part of these financial statements.

Company Statement of Changes in Equity

Year ended 31 December 2006

	Share Capital £	Share Premium £	Other Reserves £	Retained Earnings £	Total £
Balance 1 January 2006	255,000	1,476,448	–	(120,878)	1,610,570
Changes in equity for 2006					
Loss for the year	–	–	–	(1,446,549)	(1,446,549)
Total recognised income and expense for the year	–	–	–	(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	–
Balance 31 December 2006 carried forward	**472,950**	**1,295,730**	**4,024,070**	**(396,692)**	**5,396,058**

The notes on pages 17 to 29 form part of these financial statements.

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) with effect from 1 January 2006 for the first time. The disclosures required by IFRS 1 concerning the transition from UK GAAP to IFRS are given in note 22. 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 directors have presented the financial statements on the going concern basis which assumes that the Company will continue to meet its liabilities as they fall due for the next 12 months. The financial statements have been prepared under the historical cost convention.

1.2 Basis of consolidation

The consolidated financial statements 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 Turnover

Consultancy and license income is recognised on an accruals basis.

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 (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 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.

Notes to the Financial Statements
continued

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 property, plant and equipment, less their estimated residual value, over their expected useful lives, as follows:

Furniture, fittings and equipment – three years 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 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.

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 Valuer 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 based 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.

Impairment of intangible assets

Determining whether intangible assets are impaired requires an estimation of the value in use of the intangible assets. In the case of goodwill, value in use is determined for the cash generating unit to which the goodwill has been allocated. The value in use calculation requires the Group to estimate the future cashflows 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

At the date of authorisation of these financial statements, the following Standards and Interpretations which have not been applied in these financial statements were in issue but not mandatorily effective:

IFRS 8 Operating Segments was issued in November 2006. This standard will replace IAS 14 Operating Segments and is effective for accounting periods commencing on or after 1 January 2009, although earlier adoption is permitted. IFRS 8 changes reporting of segments to require information on segments to be presented in a form consistent with internal reporting to the chief operating decision maker for the purposes of allocating resources to the segment and assessing its performance.

This standard has a presentational impact on disclosures presented in the notes to the financial statements.

The directors do not anticipate that the adoption of these statements and interpretations will have a material impact on the Group's financial statements in the period of initial application.

2. SEGMENTAL REPORTING

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

3. OPERATING LOSS

The operating loss is stated after charging:

	Year ended 31 December 2006	6 months ended 31 December 2005
	£	£
Depreciation of owned tangible fixed assets	**2,349**	–
Amortisation of intangible assets	**236,697**	–
Impairment of goodwill	**375,000**	–
Impairment of intangible assets	**795,735**	–
Operating lease rentals: – land and buildings	**28,590**	–

4. AUDITORS' REMUNERATION

	Year ended 31 December 2006 £	6 months ended 31 December 2005 £
Fees payable to the Group's auditor for the audit of the Group's annual accounts	**18,000**	4,113
Fees payable to the Group's auditor for other services:		
Corporate finance services	**47,000**	–
Other services relating to taxation	**1,613**	–
Other services	**3,925**	–

5. STAFF COSTS

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

	Year ended 31 December 2006 £	6 months ended 31 December 2005 £
Wages and salaries	**252,792**	30,413
Social security costs	**29,918**	–
Other pension costs	**21,129**	–
	303,839	30,413

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

	Year ended 31 December 2006	6 months ended 31 December 2005
Directors	**5**	2
Administration	**2**	–
	7	2

6. DIRECTORS' REMUNERATION

Emoluments of the Directors of the Group, including payments by subsidiary undertakings are as follows:

	Salary/fees £	Pension £	Year ended 31 December 2006 £	6 months ended 31 December 2005 £
J M Edelson (resigned 21 March 2006)	7,638	–	**7,638**	22,913
L J Avigdori	15,000	–	**15,000**	7,500
T Lindstedt	37,503	3,000	**40,503**	–
P McHugh	43,753	3,000	**46,753**	–
E Pistikopoulos	54,040	4,327	**58,367**	–
	157,934	10,327	**168,261**	30,413

During the year retirement benefits were accruing to three directors (2005: nil) in respect of money purchase pension schemes.

Notes to the Financial Statements
continued

7. FINANCE INCOME

	Year ended 31 December 2006 £	6 months ended 31 December 2005 £
Interest receivable	**44,454**	9,759

8. INCOME TAX EXPENSE

	Year ended 31 December 2006 £	6 months ended 31 December 2005 £
Current tax	**–**	–
Deferred tax	**–**	–
Total tax expense for the year	**–**	–

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

	Year ended 31 December 2006 £	6 months ended 31 December 2005 £
Loss before tax	**(1,927,727)**	(54,763)
Tax on loss on ordinary activities at standard UK corporation tax rate of 19% (2005: 19%)	**(366,268)**	(10,405)
Expenses not deductible for tax purposes	**15,411**	–
Depreciation in excess of capital allowances	**239**	–
Other short term timing differences	**(1,753)**	–
Unrelieved tax losses	**84,960**	10,405
Investment impairment	**267,411**	–
Current tax expense	**–**	–

No provision has been made to recognise a deferred tax asset as future profitability is uncertain.

9. LOSS PER SHARE

The calculation of loss per share is based on the loss for the year attributable to equity holders of £1,917,808 (2005: £54,763) and a weighted average number of shares in issue during the period of 425,308,920 (2005: 124,728,261).

Separate diluted loss per share figures are not disclosed due to the Group's loss making position.

10. LOSS ATTRIBUTABLE TO THE MEMBERS OF THE PARENT COMPANY

The loss dealt with in the accounts of the parent Company was £1,446,549 (2005: £54,763).

11. INTANGIBLE FIXED ASSETS

Group	Patents £	Goodwill £	Total £
COST			
At 1 January 2006	–	–	–
Additions	4,531,178	753,845	5,285,023
At 31 December 2006	**4,531,178**	**753,845**	**5,285,023**
AMORTISATION			
At 1 January 2006	–	–	–
Charge for the year	236,697	–	236,697
At 31 December 2006	**236,697**	**–**	**236,697**
IMPAIRMENT			
At 1 January 2006	–	–	–
Charge for the year	795,735	375,000	1,170,735
At 31 December 2006	**795,735**	**375,000**	**1,170,735**
NET BOOK VALUE			
At 31 December 2006	**3,498,746**	**378,845**	**3,877,591**
At 31 December 2005	–	–	–

The directors consider that Goodwill is impaired and the carrying value of Goodwill at the balance sheet date has been written down to £378,845.

The directors consider that carrying value of Patents is impaired. The directors have calculated the value in use at the balance sheet date by reference to the expected future cash flows generated by sales of licences directly attributable to the life of the patents over 20 years. A discount factor of 15% has been applied to the resulting cash flows to derive a net present value. In addition, the directors consider it appropriate to discount the net present value derived to reflect that patents have not yet been granted in all territories and that they are at an early stage of development. As the value in use estimation is based on anticipated future revenues which are uncertain, the resulting carrying value cannot be determined accurately.

The directors consider that the value in use of the patents at the reporting date is £3,498,746.

Notes to the Financial Statements
continued

12. PROPERTY, PLANT AND EQUIPMENT

Group

	Furniture, fittings and equipment £
COST	
At 1 January 2006	–
Additions	10,820
At 31 December 2006	**10,820**
DEPRECIATION	
At 1 January 2006	–
Charge for the year	2,349
At 31 December 2006	**2,349**
NET BOOK VALUE	
At 31 December 2006	**8,471**
At 31 December 2005	–

The Company held no fixed assets at 31 December 2006 (2005: Nil).

13. INVESTMENTS IN SUBSIDIARIES

Company

	Investments in subsidiaries £
COST:	
At 1 January 2006	–
Additions	5,502,807
At 31 December 2006	**5,502,807**
IMPAIRMENT	
At 1 January 2006	–
Charge for the year	1,407,432
At 31 December 2006	**1,407,432**
NET BOOK VALUE:	
At 31 December 2006	**4,095,375**
At 31 December 2005	–

The additions during the year reflect the acquisition of the ordinary share capital of Parametric Optimization Solutions Limited and ParOS Technology EPE.

The Directors have reviewed the carrying value of the investment in Parametric Optimization Solutions Limited and have determined that the value should be impaired.

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
Parametric Optimization Solutions Limited	England	Ordinary	Provision of energy saving advanced optimisation and control solutions	100%
ParOS Technology EPE	Greece	Ordinary	Provision of energy saving advanced optimisation and control solutions	85%

14. TRADE AND OTHER RECEIVABLES

	2006 Group £	2006 Company £	2005 Group £	2005 Company £
Trade receivables	2,886	–	–	–
Other receivables	22,029	1,741	–	–
Prepayments and accrued income	31,827	7,668	14,202	14,202
Amounts owed by Group undertakings	–	534,071	-	–
	56,742	543,480	14,202	14,202

Included in amounts owed by Group undertakings is £480,000 which is due after more than one year.

15. TRADE AND OTHER PAYABLES

	2006 Group £	2006 Company £	2005 Group £	2005 Company £
Trade payables	28,687	6,806	32,011	32,011
Other payables	6,669	–	–	–
Social Security and other taxation	9,854	–	–	–
Accruals and deferred income	80,115	16,711	17,732	17,732
	125,325	23,517	49,743	49,743

Notes to the Financial Statements

continued

16. SHARE CAPITAL

	2006	2005
	£	£
Authorised		
5,000,000,000 ordinary shares of 0.1p each	**5,000,000**	5,000,000
Allotted, called up and fully paid		
472,950,195 (2005: 255,000,000) - ordinary shares of 0.1p each	**472,950**	255,000
At 1 January 2006	**255,000**	
Shares issued to acquire subsidiary undertaking	**216,450**	
Shares issued in respect the exercise of warrants	**1,500**	
At 31 December 2006	**472,950**	

On 21 March 2006 the Company issued 216,450,195 ordinary shares of 0.1p each at an issue price of 0.25p to acquire the entire issued share capital of Parametric Optimization Solutions Limited.

On 13 July 2006 the Company issued 1,500,000 ordinary shares of 0.1p at an issue price of 0.1p in accordance with the terms of the grant of warrants. At the year end, there were no outstanding warrants.

SHARE OPTIONS

On 21 March 2006 the Company issued share options over 73,161,267 shares of 0.1p each at an exercise price of 0.536p each. Further details on share options are given in note 21 to the financial statements.

17. RESERVES

	Share premium account	Other reserves	Translation reserve	Retained losses
	£	£	£	£
Group				
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
At 31 December 2006	**1,295,730**	**4,024,070**	**(1,252)**	**(867,951)**
Company				
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
At 31 December 2006	**1,295,730**	**4,024,070**	–	**(396,692)**

The Group has taken advantage of s131 and s132 of the Companies Act 1985 and has credited the premium arising on the acquisition of Parametric Optimization Solutions Limited to an other reserves.

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 has been made from the other reserves.

18. RECONCILIATION OF CASH AND CASH EQUIVALENTS

	Year ended 31 December 2006 Group £	Year ended 31 December 2006 Company £	6 months ended 31 December 2005 Group £	6 months ended 31 December 2005 Company £
At 31 December 2005	**1,646,111**	**1,646,111**	74,529	74,529
Cash Flow	**(809,341)**	**(865,391)**	1,571,582	1,571,582
Other non-cash changes	–	–	–	–
At 31 December 2006	**836,770**	**780,720**	1,646,111	1,646,111

19. OPERATING LEASE COMMITMENTS

At the balance sheet date, the Group had the following total commitments under non-cancellable operating leases:

	Land and Buildings	
	2006	2005
	£	£
Expiry date:		
Within one year	**32,400**	–

At the balance sheet date, the Company had no commitments under non-cancellable operating leases (2005: £nil).

20. ACQUISITION OF SUBSIDIARIES

On 20 March 2006 the Group acquired 100% of the issued share capital of Parametric Optimization Solutions Limited. The consideration was satisfied by the issue of 216,450,195 ordinary shares of 0.1p each. In addition £80,743 of acquisition costs have been included in the cost of the investment.

Fair value table

The fair value of the subsidiary's assets at the date of acquisition is given below.

	£
Property, plant and equipment	2,961
Receivables	286,496
Cash and cash equivalents	55,787
Payables	(138,269)
Intangible assets	4,531,178
Goodwill	753,845
Net assets	5,491,998
Satisfied by the issue of 216,450,195 ordinary shares of 0.1p each	5,411,255
Costs of acquisition	80,743
Consideration	5,491,998

On 4 July 2006 the Group acquired 85% of ParOS Technology EPE. There was no Goodwill arising on acquisition as the consideration of £10,809 equalled the assets acquired.

Notes to the Financial Statements
continued

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.

In addition the Company has outstanding share options issued under an EMI option agreement over 73,161,267 ordinary shares of 0.1p each, 51,104,611 of these options are exercisable at any time after 16 December 2006, but before the tenth anniversary of the grant date. The remaining 22,056,656 are exercisable if certain performance criteria are achieved before the tenth anniversary of the grant date.

Details of the share options outstanding during the year are as follows:

	2006 Number of share options
Outstanding at the beginning of the year	6,250,000
Granted during the year	73,161,267
Outstanding at the end of the year	79,411,267
Exercisable at the end of the year	57,354,611

The 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:

	2006
Share price at grant date	0.536p
Exercise price	0.536p
Volatility	20%
Expected life	3 years
Risk free interest rate	4.5%

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 2006 as this is deemed to be immaterial.

After the year end P McHugh has exercised options over 18,668,351 shares.

22. TRANSITION TO IFRS

ParOS plc reported under UK GAAP in its previous published financial statements for the period ended 31 December 2005. No reconciliation is required between net assets and loss as reported under UK GAAP as at 31 December 2005 to the net assets and loss under IFRS as reported in these financial statements or at the transition date to IFRS which was 1 January 2006, as there is no difference in the treatment of the Company's figures under UK GAAP and IFRS.

Cash flow statement

The Group's consolidated cash flow statements are presented in accordance with IAS 7. The statements present substantially the same information as that required under UK GAAP, with the following principal exemptions:

1. Under UK GAAP, cash flows are presented under nine standard headings, whereas IFRS requires the classification of cash flows resulting from operating, investing and financing activities.
2. The cash flows reported under IAS 7 relate to movements in cash and cash equivalents, which include cash and short term liquid investments under UK GAAP. Cash comprises cash in hand and deposits repayable on demand.

23. 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 remuneration 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. There were no amounts outstanding at the year end.

During the year the Company has made working capital loans to its subsidiaries of £534,071. At the year end the amount outstanding is £534,071.

24. EMPLOYEE SHARE OWNERSHIP PLAN (ESOP)

Parametric Optimization Solutions Limited (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.

The assets and liabilities of the Employee Benefit Trust have been consolidated into the parent company and Group financial statements. 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. The EBT will repay the loan to POSL when it receives sufficient funds on the exercise of the share options.

Following admission to AIM and the acquisition of POSL by the Company the EBT now holds 48,771,067 shares in the Company all of which are allocated to employee share option agreements. The share options have an exercise price of 0.536p per share and vested with effect from 15 December 2006. At the reporting date market value of the shares is at least £195,084.

On consolidation the Group deducts the consideration paid for the shares of £261,250 in arriving at shareholders' funds. The Group also recognises a liability of £261,250. The amount of the reduction to shareholders' funds (£261,250) and the market value of the shares held are disclosed.

Notice of Annual General Meeting

Notice is hereby given that the Annual General Meeting of the Company will be held at 11am on 28 June 2007 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 6 are ordinary resolutions and Resolution 7 is a special resolution:

Ordinary Business

Resolution 1: To receive and adopt the Financial Statements of the Group for the year ended 31 December 2006 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 T Lindstedt as a Director in accordance with the Company's Articles of Association.

Resolution 4: To re-elect E Pistikopoulous as a Director in accordance with the Company's Articles of Association.

Resolution 5: To re-appoint Horwath Clark Whitehill LLP as auditors of the Company and to authorise the Directors to determine their remuneration.

Resolution 6: 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 amount of £543,018 provided this authority shall be limited to:

(i) the allotment of Ordinary Shares of 0.1p each ("Ordinary Shares") up to an aggregate nominal value of £324,625 pursuant to the terms of the acquisition agreement dated 21 February 2006;

(ii) the allotment of Ordinary Shares pursuant to options granted to Directors, employees and consultants up to an aggregate nominal value of £60,743; and

(iii) the allotment of relevant securities up to an 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 7: 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 6 above as if section 89(1) of the Act did not apply to any such allotment, provided that this power shall be limited to:

(i) the allotment of Ordinary Shares pursuant to paragraphs (i) and (ii) of Resolution 6 above; and

(ii) the allotment of equity securities (otherwise than in sub-paragraph (i) above), to any person or persons up to an aggregate nominal amount of £47,295 being 10% of the aggregate nominal value of the issued share capital; and

the authorities conferred by this resolution shall 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);

(iii) the allotment of equity securities in connection with a rights issue, open offer or other offer of securities in favour of the holders of Ordinary Shares in the Company on the register of members at such record dates as the Directors of the Company may determine and other persons entitled to participate therein where the equity securities respectively attributable to the interests of the ordinary shareholder are proportionate (as nearly as may be) to the respective numbers of Ordinary Shares in the Company held or deemed to be held by them on any such record dates (which shall include the allotment of equity securities to any underwriter in respect of such issue or offer), subject to such exclusions or other arrangements as the Directors of the Company may deem necessary or expedient to deal with fractional entitlements or legal or practical problems arising under the laws of any overseas territory or the requirements of any regulatory body or stock exchange or by virtue of shares being represented by depository receipts or any other matter whatever.

This power applies in relation to a sale of shares which is an allotment of equity securities by virtue of section 94(3A) of the Act as if in the first paragraph of this resolution the words "pursuant to the authority conferred by resolution 6 above" were omitted.

By Order of the Board

I Aspinall

Company Secretary

Dated: 30 May 2007

Registered office:
One Hammersmith Grove
London
W6 0NB

Notes:

1. Every member entitled to attend and vote may appoint a proxy or proxies to attend and, on a poll, vote instead of him. A proxy need not be a member of the Company.
2. Completing and returning a form of proxy does not preclude a member from attending and voting at the Meeting.
3. A form of proxy is enclosed for use by members who are unable to attend the meeting, which to be effective should be returned as soon as possible, and, in any event, so as to be received at the office of the Company's registrar, Capita Registrars, Proxy Processing Centre, Telford Road, Bicester, Oxon, OX26 4LD or by hand to Capita Registrars, The Registry, 34 Beckenham Road, Beckenham, Kent, BR3 4TU, not later than 48 hours before the time fixed for the meeting.
4. To be entitled to attend and vote at the meeting (and for the purpose of determining the number of votes shareholders may cast) shareholders must be entered on the Company's register of members not later than 11am on 26 June 2007, or, if the meeting is adjourned the shareholders must be entered in the Company's register of members not later than 48 hours before the time fixed for the adjourned meeting.

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