

The logo for Environmental Recycling Technologies plc, featuring the lowercase letters 'ert' in a dark green font. To the right of the letters is a stylized green leaf icon with a white vein.

Environmental Recycling
Technologies plc

Annual
Report &
Accounts
2007

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> CHAIRMAN'S STATEMENT

The Group had a difficult year in 2007 with projects underway at the beginning of the year failing to gain traction as quickly as expected and with certain development projects turning out to be more expensive than anticipated. Furthermore, although we have disposed of the Bedwas facility, thereby greatly reducing our overheads, we were still maintaining a costly in-house project management and development team for most of the financial year. It was expected that projects that were underway would mature and come to fruition over the course of the year. The result is a considerable loss for 2007.

The Group has also faced various claims arising from the previous restructuring including an historic claim arising from the closure of the Group's old operations in the Kyrgyzstan Republic. Our former Chief Executive Officer in the area has successfully maintained a compensation claim which we are contesting but have provided for in the Accounts. The Group no longer has any interests in Kyrgyzstan.

As a result of these high costs and provisions, the Group is reporting a loss from continuing operations before taxation of £5.7m (2006: loss £3.7m).

We have now reduced our overhead cost base to the minimum possible level by subsourcing activities wherever practical and we no longer manage projects in-house or undertake expensive product development work. Instead, under our revised business framework, we enter into licence agreements for the development, manufacture and use of our proprietary technology.

In effect we now operate as an intellectual property bank and we have been able to sign several new licences since 1 March 2008 which are expected to generate minimum revenue for the Group in the current financial year of £1.0m. This, combined with the Group's new approach of operating at minimal overhead and outsourcing where possible has placed the Group in a more stable position for the future. We are particularly pleased by the rapid progress being made by 2K Manufacturing Limited which has secured its own funding and is progressing apace on its site acquisition and development programme.

Last summer the Group raised £2,800,000 via an equity issue to repay outstanding debt due to Cornell Capital Partners and Montgomery Equity Partners. Both Cornell Capital Partners and Montgomery Equity Partners went through their own restructuring during 2007 and as a consequence the Group became indebted to their successor YA Global Investments Limited. However, following delays in negotiating the amount to be repaid, there arose certain other circumstances which the Board considered to be more important to deal with than the debt due to YA Global Investments. Accordingly as explained in the Company's announcement of 11 June, the Board decided to settle

certain other liabilities. YA Global Investments has effected further conversions of debt into equity and the Company had total loans outstanding of £1.6 million as of 31 December 2007. A further £0.43 million (including accrued interest of £0.25 million) has been converted since the year end. The board believes that following the reduction of debt we have finally turned the corner in relation to the Company's indebtedness. The loan facilities with YA Global Investments Limited expire in September 2010. More information on these facilities is set out in our previous announcement of 11 June 2008 and indeed in the Financial Review that follows. Following the reduction in the creditor position of the Company and with our overheads falling significantly we believe that the out licensing business model can be made profitable.

I am pleased to welcome Roger Baynham into his executive role as Managing Director and Henry Bellingham MP as a non-executive. With David Shepley-Cuthbert our Finance Director and myself resuming the Executive Chairman role, as announced on 27 February 2008, I believe we have the right team to run this Group on a simplified out-licensing basis. It has taken far longer than anticipated, but the Group has seen its first royalty revenue in 2008. Additionally, the Board believes it will see significant royalty revenue arising in 2009. In the meantime we continue to market licences and, as mentioned above, our marketing strategy now is proving successful.

I would like to thank shareholders for their support in 2007, I believe strongly in the technology the Group possesses and in the future of this company.

KEN BROOKS
Chairman

>MANAGING DIRECTOR'S REVIEW

As you will know I have been a non executive Director of ERT for the past 2 years and I was delighted to have been offered the position of Managing Director earlier this year. Ken Brooks and I have worked together for over 15 years, since our first business turnaround, Philip Tyler Polymers Limited, a plastic recycling company. This company has since delivered significant shareholder returns.

We believe that the successful business model which we devised for Philip Tyler Polymers should be used as a blueprint and adapted for ERT. As a result we have been tailoring the business such that its overhead costs are now significantly reduced and that commercial opportunities are exploited in conjunction with licencees.

The rebranding of ERT is intended to reflect the refocusing on commercialisation of the plastic Powder Impression Moulding (PIM) system in the UK and European environmental sector. The development of PIM products incorporating plastic waste in particular for the construction sector, has arisen due to increasing demand for sustainable products. The numerous industry awards for "Eco Sheet" are a testimony to this and we look forward to full scale production by 2K Manufacturing in 2009. Bovis has also helped provide a focus on Eco Sheet in the project which includes utilisation of waste streams from Tesco.

However, it is the step change in the plastic recycling sector which I believe will provide the catalyst for wider adoption of PIM. As Chairman of the WRAP (Waste Resources Action Programme) Plastics Forum and Vice Chairman of the British Plastics Federation Recycling Council, I am fortunate to see both technical and commercial evidence of this step change. With plans for approximately 200,000 tonnes of post consumer bottle recycling capacity due to be delivered in the UK over the next 12 months, WRAP are now focusing on mixed waste recycling. An integrated approach will require a market for those significant out flows which cannot viably be separated. PIM provides that opportunity.

We are delighted by the recent progress of the Replas project. This was a DTI award, managed by PERA, with support from its commercial partners and its academic partner, Brunel University. As 2K Manufacturing move into their product development phase we envisage close cooperation with Brunel University which will accelerate the project and develop technical specifications and material formulations.

In addition significant progress has been made by our licencee, EPT with regards to the agreements with Contour and Mediwall. The PIM shower deck products were centre stage on the Contour stand at a recent exhibition and are currently in production at the Bedwas facility. The product development project for Mediwall is reaching a conclusion with positive results from the fire testing currently in progress.

Whilst our main focus is in UK it is our plan to offer territorial and sector franchising in order to accelerate licensing wherever possible either securing an upfront payment (possibly in instalments) or a transfer of overhead and liability effectively creating cost-savings for the Group.

Following this strategy, we have signed a number of licences over the past 3 months: Most (but not all) involve up front licence fees and minimum royalties. Within the constraints of commercial confidentiality, we will separately announce the major details of the Licences but the brief headlines are:

Eco-Tek :	1. Africa Master licence 2. Arabia Master licence 3. Plastic wood slottable furniture and antimicrobial applications
Miguel Linares:	Collapsible Sea container of his own design which he is patenting.
Invicta Recources:	Worldwide licence for "Somali house" design.
Reveho:	UK licenses for in-house own design of pallet box and radiant ceiling tile.
Dextapoint:	Non exclusive licence for various construction products for Americas and Australasia
Global Tech:	1. Non exclusive licence for construction products in NAFTA. 2. Exclusive license for auto non magnesium encapsulation in NAFTA
LBO Corporation:	Exclusive worldwide licence for magnesium encapsulation for automotive applications.

These above new licence agreements are expected to generate minimum revenues of £1.0m in the year to 31 December 2008.

There is no doubt in my mind that we have made significant progress over the past few weeks and months, and whilst there is still a considerable amount of work to be done, I am confident that, as a result of adoption of our new business model, the commercialisation of PIM is now much closer to reality.

ROGER BAYNHAM
Managing Director



> FINANCIAL REVIEW

For the year ended 31 December 2007

Results

Revenue for the year ended 31 December 2007 was £243,000 (2006: £319,000). The loss on operations was £4.74 million compared to losses of £2.62 million in 2006. Losses attributable to equity shareholders were £5.69 million (2006 loss £8.49 million).

Dividends and loss per share

No dividend payment is proposed. There remained 21.1 million warrants and 3.8 million shares under option at the year end which had no dilutive effect on the earnings per share. The loss per share was (4.01) pence compared to (10.91) pence in 2006.

Trading

Turnover included revenue for pre-production work and the release of licence income from deferred income.

Administrative expenses for continuing operations for the period were £3.72 million compared to £2.07 million in the same period in 2006. In addition to normal running expenses, they include corporate finance costs associated with the August 2007 placing and provision for increased depreciation for the US plant and machinery.

Exceptional expenses of £1.18 million compared to £1.01 million in 2006 cover provisions for contractual costs for product development for Mediwall and other contracts as well as provisions for legal and settlement costs associated with a former employee in Kyrgyzstan.

The reduction in general overheads continues as the company pursues its goal of becoming a virtual operation run on the minimal overheads associated with being an AIM listed company.

Disposal of non-core interests

In accordance with the previously stated policy of disposing of non-core interests to concentrate resources on PIM Process development, the company sold its investments in Medical Waste Solutions Limited and Value Plastic Technologies LLC. The Board considered that management time was better spent on the UK and European based activities of the Group. Medical Waste Solutions was subsequently refinanced by a consortium of venture capitalists. The operations of Value Plastic Technologies have been taken over by Global Tech International Inc. and the company is now effectively dormant. Overall the company's stated policy has been followed in that these interests have been disposed of with resources in time and money being concentrated on UK and European operations of PIM Process.

Finance costs

During the IFRS conversion project, a number of warrants attaching to loans were identified which had not been previously accounted for. This has resulted in additional finance costs of £0.84 million (31 December 2006 £0.57 million) being charged to the income statement.

Financing

As announced on 11 June 2008 the placing that was authorised at the EGM on 23 August 2007 has raised £2.8 million and has been used to pay down other third party loans and interest due as well as for product development and long standing creditors. The balance has been used to fund general working capital.

During the period, YA Global Investments Limited ("Yorkville"), successor to Cornell Capital Partners L.P. and Montgomery Equity Partners (collectively "Cornell") converted a further £1.24 million into equity reducing the loans outstanding to £1.61 million. Since 31 December 2007, Yorkville have converted a further £0.43 million including £0.25 million applicable to accrued interest outstanding. In total, Yorkville/Cornell/Montgomery have converted £5.06 million at an average price of 5.12p per share.

The Standby Equity Distribution Agreement (SEDA) with Cornell to the value of £5 million was due to expire in September 2008. An extended SEDA for £5 million, on the same terms as Cornell, has been signed with Yorkville which expires in September 2010. No draw down has been made against this facility.

DAVID SHEPLEY-CUTHBERT
Finance Director

> DIRECTORS' REPORT

For the year ended 31 December 2007

The Directors present their report and the financial statements of the Group for the year ended 31 December 2007.

Change of name

In the year the company changed its name to Environmental Recycling Technologies plc from 3DM Worldwide plc to reflect the fact that the company's European marketing was increasingly focused on recycling and environmental issues.

Principal activities and business review

The principal activity of the Company is the licensing of the intellectual property of the plastic Powder Impression Moulding (PIM) system to third parties for specific products and geographical areas of the world in order to generate fees and ongoing royalties. The enhanced review of the business is contained within the Chairman's statement, Managing Director's Review and Financial Review on pages 1 to 3. The company's subsidiaries do not trade.

Results and dividends

The trading results for the year, and the Group's financial position at the end of the year are shown in the attached financial statements. The Directors have not recommended a dividend.

The Directors and their interests in shares of the Company

The Directors who served the Company during the year, or after, together with their beneficial interests in the shares of the Company were as follows:

	Ordinary shares of £0.025 each	
	At 31 December 2007	At 31 December 2006
K W Brooks	1,022,000	1,022,000
W F Widger (resigned 27 February 2008)	1,078,239	1,078,239
N J MacKay (resigned 29 February 2008)	—	—
W Lopshire (resigned 27 February 2008)	246,517	246,517
D C Shepley-Cuthbert	122,500	122,500
R Baynham	500	—

Mr H C Bellingham was appointed a Director on 27 February 2008 and subsequently has purchased 300,000 ordinary shares in the market.

The Directors have been granted options to subscribe for ordinary shares of £0.025 in the Company as set out below:

	At 1 January 2007 and at 31 December 2007	Exercise price £	Date from which exercisable	Expiry Date
K W Brooks	2,061,000	0.62	30.09.03	29.09.13
	250,000	0.48	28.09.05	27.09.15
W F Widger (resigned 27 February 2008)	1,000,000	0.62	30.09.03	29.09.13
D C Shepley-Cuthbert	200,000	0.72	13.10.04	12.10.14
	200,000	0.48	28.09.05	27.09.15

At 31 December 2007 the middle market price of the shares was 5.25p per share, and the range during the year was between 4.0p and 10.99p.

Policy on the payment of creditors

The Company agrees terms and conditions for its business transactions with suppliers. Payment is then made in accordance with those terms, subject to the terms and conditions being met by the supplier.

The Company had 27 days purchases outstanding at 31 December 2007 (2006 – 61 days) based on the average daily amount invoiced by suppliers during the year ended 31 December 2007. The Group had 27 days purchases outstanding as at 31 December 2007 (2006 – 61 days).



> DIRECTORS' REPORT (continued)

For the year ended 31 December 2007

Principal risks and uncertainties

The Company's credit risk is primarily attributable to its trade debtors. Credit risk is managed by running credit checks on customers and by monitoring payments against contractual agreements.

The Company monitors cash flow as part of its day to day control procedures. The board considers cash flow projections at its meetings and ensures that appropriate facilities are available to be drawn down upon as necessary.

The company's prime risk is the on-going commercialisation of the PIM process, which involves proof and testing of each customer's products, obtaining acceptance and reaching a commercially beneficial agreement for each product to be taken to market. All costs of product development are for each customer with the company providing introductions to third parties.

The company hopes to achieve significant royalty revenues in the future which are subject to the successful development of each customers products being produced under licence by ERT.

Indemnity cover

The Company purchases Directors and Officers insurance cover to protect the Directors from third party claims.

Financial Instruments

Details of the use of financial instruments by the Company and its subsidiary undertakings are contained in note 26 of the financial statements.

Post balance sheet events

Details of post balance sheet events are given in note 29.

Directors' responsibilities

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company, for safeguarding the assets of the company, for taking reasonable steps for the prevention and detection of fraud and other irregularities and for the preparation of a Directors' Report which complies with the requirements of the Companies Act 1985.

The directors are responsible for preparing the annual report and the financial statements in accordance with the Companies Act 1985. The directors are also required to prepare financial statements for the group in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs) and the rules of the London Stock Exchange for companies trading securities on the Alternative Investment Market. The directors have chosen to prepare financial statements for the company in accordance with IFRSs.

International Accounting Standard 1 requires that financial statements present fairly for each financial year the company's financial position, financial performance and cash flows. This requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the International Accounting Standards Board's 'Framework for the preparation and presentation of financial statements'. In virtually all circumstances, a fair presentation will be achieved by compliance with all applicable IFRSs. A fair presentation also requires the Directors to:

- consistently select and apply appropriate accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information; and
- provide additional disclosures when compliance with the specific requirements in IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance.

Financial statements are published on the group's website in accordance with legislation in the United Kingdom governing the preparation and dissemination of financial statements, which may vary from legislation in other jurisdictions. The maintenance and integrity of the group's website is the responsibility of the directors. The directors' responsibility also extends to the ongoing integrity of the financial statements contained therein.

Corporate governance

The Company's shares are traded on the Alternative Investment Market of the London Stock Exchange and the Company is therefore not required to report on compliance with the "Combined Code" ('the Code'). However the Directors support the highest standards of corporate governance and intend to comply with the Code as far as practicable having regard to the Company's size, stage of development and resources.

The Company has established Audit and Remuneration Committees comprising Mr Brooks and Mr Bellingham.

> DIRECTORS' REPORT (continued)

For the year ended 31 December 2007

Company details

The Company is incorporated in England as a public limited company and has its registered office at Regent House, 316 Beulah Hill, London, SE19 3HF.

Auditors

All of the current Directors have taken all the steps that they ought to have taken to make themselves aware of any information needed by the Company's auditors for the purpose of their audit and to establish that the auditors are aware of that information. The Directors are not aware of any relevant audit information of which the auditors are unaware.

A resolution to re-appoint BDO Stoy Hayward LLP as auditors for the ensuing year will be proposed at the annual general meeting in accordance with section 385 of the Companies Act 1985.

Signed by order of the Directors

R E SIMS
Joint Company Secretary
Oxford Corporate Services Ltd.

Approved by the Directors on 30 June 2008



> INDEPENDENT AUDITORS' REPORT

To the shareholders of Environmental Recycling Technologies plc formerly 3DM Worldwide plc

We have audited the group and parent Company financial statements ("the financial statements") of Environmental Recycling Technologies plc for the year ended 31 December 2007 which comprise the Group Income Statement, the Group and Parent Company Balance Sheets, the Group and Parent Company Statements of Changes in Shareholders' Equity, the Group and Parent Company Cash Flow Statements and the related notes. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing 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 are properly prepared in accordance with the Companies Act 1985 and whether the information given in the Directors' report is consistent with those financial statements. We also 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 Chairman's Statement, the Managing Director's review, the Financial review, and the Directors' Report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Our report has been prepared pursuant to the requirements of the Companies Act 1985 and for no other purpose. No person is entitled to rely on this report unless such a person is a person entitled to rely upon this report by virtue of and for the purpose of the Companies Act 1985 or has been expressly authorised to do so by our prior written consent. Save as above, we do not accept responsibility for this report to any other person or for any other purpose and we hereby expressly disclaim any and all such liability.

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 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, of the state of the group's affairs as at 31 December 2007 and of the group's 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 at 31 December 2007; and
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements.

BDO Stoy Hayward LLP

Chartered Accountants and Registered Auditors

Birmingham

30 June 2008

> GROUP INCOME STATEMENT

For the year ended 31 December 2007

		Year ended 31 December 2007 £'000	Year ended 31 December 2006 £'000
Continuing operations	note		
Revenue	3	243	319
Cost of sales		(95)	—
Gross profit		148	319
Administrative expenses			
Exceptional	7	(1,176)	(1,012)
Other		(3,716)	(2,070)
Total administrative expenses		(4,892)	(3,082)
Other income	4	—	144
Loss on operations	5	(4,744)	(2,619)
Finance income	10	9	4
Finance costs	11	(1,035)	(1,048)
Loss for the year from continuing operations and before income tax		(5,770)	(3,663)
Tax credit on loss on ordinary activities	12	(80)	—
Loss for the year		(5,690)	(3,663)
Discontinued operations			
Loss from discontinued operations	6	—	(4,829)
Loss attributable to equity shareholders of the company		(5,690)	(8,492)
Loss per share (pence)			
Basic and diluted loss per share	14	(4.01p)	(10.91p)
Basic and diluted loss per share on continuing operations	14	(4.01p)	(4.71p)
Basic and diluted loss per share on discontinued operations	14	—	(6.20p)

The notes on pages 15 to 42 form part of these financial statements.



> GROUP BALANCE SHEET

At 31 December 2007

Assets	note	£'000	31 December 2007 £'000	£'000	31 December 2006 £'000
Non-Current Assets					
Intangible assets	15		11,579		12,474
Plant & equipment	16		277		544
Available for sale investments	17		—		97
Trade and other receivables	18		585		599
Total non current assets			12,441		13,714
Current assets					
Trade and other receivables	18	537		374	
Cash and cash equivalents		146		55	
Total current assets			683		429
Total assets			13,124		14,143
Liabilities					
Non-current liabilities					
Borrowings	19	—		1,708	
Total non-current liabilities			—		1,708
Current liabilities					
Trade and other payables	20	1,110		1,327	
Borrowings	19	2,030		3,220	
Provisions	21	545		—	
Total current liabilities			3,685		4,547
Total liabilities			3,685		6,255
Net assets			9,439		7,888
Equity attributable to the shareholders of the parent					
Share capital	24		6,310		2,656
Share premium reserve	25		35,447		32,213
Warrant reserve	25		1,367		1,321
Equity reserve	25		—		38
Retained earnings	25		(33,685)		(28,340)
Total equity			9,439		7,888

The financial statements on pages 8 to 42 were approved and authorised for issue by the Board on 30 June 2008 and were signed on its behalf by:

K W BROOKS
Chairman

The notes on pages 15 to 42 form part of these financial statements.

> COMPANY BALANCE SHEET

At 31 December 2007

Assets	note	£'000	31 December 2007 £'000	£'000	31 December 2006 £'000
Non current					
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Total equity			9,439		7,888

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K W BROOKS
Chairman

The notes on pages 15 to 42 form part of these financial statements.



> GROUP STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

Year ended 31 December 2006

	Share Capital £'000	Share Premium £'000	Warrant Reserves £'000	Equity Reserve £'000	Retained earnings £'000	Total £'000
Loss for year	–	–	–	–	(8,492)	(8,492)
Total recognised income and expense for the year	–	–	–	–	(8,492)	(8,492)
Issue of share capital	986	2,221	–	–	–	3,207
Movement due to share based payment	–	–	–	–	2	2
Movement on warrant reserve	–	–	203	–	–	203
Arising on issue of loans – see note 30	–	–	853	38	–	891
Movement for the year	986	2,221	1,056	38	(8,490)	(4,189)
Balance at 1 January 2006	1,670	29,992	265	–	(19,850)	12,077
Balance at 31 December 2006	2,656	32,213	1,321	38	(28,340)	7,888

Year ended 31 December 2007

	Share Capital £'000	Share Premium £'000	Warrant Reserves £'000	Equity Reserve £'000	Retained earnings £'000	Total £'000
Loss for year	–	–	–	–	(5,690)	(5,690)
Total recognised income and expense for the year	–	–	–	–	(5,690)	(5,690)
Issue of share capital	3,654	3,234	(271)	–	–	6,617
Arising on loans	–	–	–	29	–	29
Warrants issued	–	–	261	–	–	261
Warrants revalued	–	–	334	–	–	334
Warrants and options lapsed	–	–	(278)	(67)	345	–
Movement for the year	3,654	3,234	46	(38)	(5,345)	1,551
Balance at 1 January 2007	2,656	32,213	1,321	38	(28,340)	7,888
Balance at 31 December 2007	6,310	35,447	1,367	–	(33,685)	9,439

The notes on pages 15 to 42 form part of these financial statements.

> COMPANY STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

Year ended 31 December 2006

	Share Capital £'000	Share Premium £'000	Warrant Reserves £'000	Equity Reserve £'000	Retained earnings £'000	Total £'000
Loss for year	–	–	–	–	(11,693)	(11,693)
Total recognised income and expense for the year	–	–	–	–	(11,693)	(11,693)
Issue of share capital	986	2,221	–	–	–	3,207
Movement due to share based payment	–	–	–	–	2	2
Movement on warrant reserve	–	–	203	–	–	203
Arising on issue of loans – see note 30	–	–	853	38	–	891
Movement for the year	986	2,221	1,056	38	(11,691)	(7,390)
Balance at 1 January 2006	1,670	29,992	265	–	(16,649)	15,278
Balance at 31 December 2006	2,656	32,213	1,321	38	(28,340)	7,888

Year ended 31 December 2007

	Share Capital £'000	Share Premium £'000	Warrant Reserves £'000	Equity Reserve £'000	Retained earnings £'000	Total £'000
Loss for year	–	–	–	–	(5,690)	(5,690)
Total recognised income and expense for the year	–	–	–	–	(5,690)	(5,690)
Issue of share capital	3,654	3,234	(271)	–	–	6,617
Arising on loans	–	–	–	29	–	29
Warrants issued	–	–	261	–	–	261
Warrants revalued	–	–	334	–	–	334
Warrants and options lapsed	–	–	(278)	(67)	345	–
Movement for the year	3,654	3,234	46	(38)	(5,345)	1,551
Balance at 1 January 2007	2,656	32,213	1,321	38	(28,340)	7,888
Balance at 31 December 2007	6,310	35,447	1,367	–	(33,685)	9,439

The notes on pages 15 to 42 form part of these financial statements.



> GROUP CASH FLOW STATEMENT

For the year ended 31 December 2007

	31 December 2007 £'000	31 December 2006 £'000
Continuing Activities		
Loss before tax	(5,770)	(3,663)
Adjusted for:		
Depreciation on plant and equipment	275	38
Amortisation of intangible assets	895	762
Finance income	(9)	(4)
Finance expense	1,035	1,048
Fees settled in shares	294	175
Investment write down	–	226
Gain on disposal of investments	–	(59)
	(3,280)	(1,477)
Decrease/(increase) in trade and other receivables	(163)	62
(Decrease)/increase in trade and other payables	674	11
Increase in provisions	545	–
Cash used by operations	(2,224)	(1,404)
Finance costs	–	(136)
Tax receipt	80	–
Net cash outflow from operations	(2,144)	(1,540)
Cash flows from investing activities		
Interest received	9	4
Disposal proceeds	–	100
Purchase of plant and machinery	(8)	–
Net cash used in investing activities	1	104
Cash flows from financing activities		
Issue of equity share capital	3,338	579
Inception of loans	125	2,275
Repayment of loans	(1,178)	(2,806)
Interest paid	(51)	–
Net increase in cash from financing activities	2,234	48
Cash used by operations (discontinued operations)	–	(2,450)
Cash used in investing activities (discontinued operations)	–	(220)
Cash used in financing activities (discontinued operations)	–	(164)
Net increase/(decrease) in cash	91	(4,222)
Cash and cash equivalents at beginning of period	55	4,277
Cash and cash equivalents at end of period	146	55

The notes on pages 15 to 42 form part of these financial statements.

> COMPANY CASH FLOW STATEMENT

For the year ended 31 December 2007

	31 December 2007 £'000	31 December 2006 £'000
Continuing Activities		
Loss before tax	(5,770)	(11,693)
Adjusted for:		
Depreciation on plant and equipment	275	38
Amortisation of intangible assets	895	762
Finance income	(9)	(4)
Finance expense	1,035	1,048
Fees settled in shares	294	175
Investment write down	-	226
Gain on disposal of investments	-	(59)
Inter company debt written off	-	8,030
	(3,280)	(1,477)
Decrease/(increase) in trade and other receivables	(163)	62
(Decrease)/increase in trade and other payables	674	11
Increase in provisions	545	-
Cash used by operations	(2,224)	(1,404)
Finance costs	-	(136)
Tax receipt	80	-
Net cash outflow from operations	(2,144)	(1,540)
Cash flows from investing activities		
Loans to subsidiaries	-	(3,016)
Interest received	9	4
Disposal proceeds	-	100
Purchase of plant and machinery	(8)	-
Net cash used in investing activities	1	(2,912)
Cash flows from financing activities		
Issue of equity share capital	3,338	579
Inception of loans	125	2,275
Repayment of loans	(1,178)	(2,806)
Interest paid	(51)	-
Net increase in cash from financing activities	2,234	48
Net increase/(decrease) in cash	91	(4,404)
Cash and cash equivalents at beginning of period	55	4,459
Cash and cash equivalents at end of period	146	55

The notes on pages 15 to 42 form part of these financial statements.



> NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2007

1. ACCOUNTING POLICIES

Basis of accounting

The principal accounting policies adopted in the preparation of the financial statements are set out below. The policies have been consistently applied to all the years presented, unless otherwise stated.

The financial statements have been prepared for the first time in accordance with International Financial Reporting Standards (IFRS) as endorsed by the European Union and implemented in the UK. Accordingly the comparatives for 2006 have been restated from UK Generally Accepted Accounting practice (UK GAAP) to comply with IFRS. Details of how the transition from UK accounting standards to EU adopted IFRS has affected the group's reported financial position, financial performance and cash flows, including changes in accounting policies, are given in note 30. The financial statements comply with those parts of the Companies Act 1985 applicable to companies preparing financial statements in accordance with IFRS.

Going concern

The directors believe Environmental Recycling Technologies plc is a going concern and provide details of available funds in the Financing section of the Financial review.

Basis of consolidation

The financial statements consolidate the accounts of Environmental Recycling Technologies plc and its non-trading subsidiary undertakings. Intercompany transactions and balances between companies are eliminated in full.

As a consolidated income statement is published, a separate income statement for the parent Company is omitted from the Group financial statements by virtue of section 230 of the Companies Act 1985.

Revenue

Revenue arises from licences, royalty and transfer technology agreements. It comprises the fair value of the consideration receivable by the Group, exclusive of Value Added Tax.

Licence income is accounted for either over the period of the licence or on the transfer of the technology.

Minimum annual and any over riding royalties earned during the year are accounted for on an accruals basis.

Research and development

Expenditure is capitalised if it can be demonstrated that it is technically feasible to develop the product for it to be sold; adequate resources are available to complete the development; there is an intention to complete and sell the product; the group is able to sell the product; sale of the product will generate future economic benefits; and expenditure on the project can be measured reliably. Capitalised development costs are amortised over the periods the group expects to benefit from selling the products developed. The amortisation expense is included within administrative expenses in the consolidated income statement. Development expenditure not satisfying the above criteria and expenditure on the research phase of internal projects are recognised in the consolidated income statement as incurred.

Exceptional items

Exceptional items are those significant items which are separately disclosed by virtue of their size or incidence to enable a full understanding of the group's performance.

Externally acquired intangible assets

Externally acquired intangible assets, such as intellectual property and licences are initially recognised at cost. Intellectual property is amortised over the useful economic life of 20 year's aligned to the life of the underlying patents that have been granted. Licences are amortised over their useful economic life.

The amortisation expense is included within administrative expenses in the income statement.

Plant and equipment

Items of plant and equipment are initially recognised at cost and stated at cost less accumulated depreciation (cost comprising the acquisition cost of the asset along with any other attributable costs at the date of acquisition).

Depreciation is provided to write off the cost of plant and equipment less any estimated current residual values, over their estimated useful lives.

> NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2007

1. ACCOUNTING POLICIES (continued)

Plant and equipment (continued)

The rates used on a reducing balance basis are as follows:

Plant & machinery – 15 to 50%

Computer equipment – 33%

Motor vehicles – 25%

Impairment tests on the carrying value of plant and equipment are undertaken at the end of each year if events or changes in circumstances indicate that the carrying value may not be recoverable.

Leased assets and obligations

Where a Group Company enters into a lease which entails taking substantially all the risk and rewards of ownership of an asset, the lease is treated as a "finance lease". The asset is recorded in the balance sheet as a property, plant and equipment, and is depreciated over its estimated useful life or the term of the lease, whichever is shorter. Future instalments under such leases, net of finance charges, are included in creditors. Rentals payable are apportioned between the finance element, which is charged to the income statement, and the capital element which reduces the outstanding obligation for future instalments.

All other leases are accounted for as "operating leases" and the rental charges are charged to the income statement on a straight line basis over the life of the lease.

Provisions

Provisions are recognised for liabilities of uncertain timing or amount that have arisen as a result of past transactions.

Deferred taxation

Deferred tax assets and liabilities are recognised where the carrying amount of an asset or liability in the balance sheet differs to its tax base, except for differences arising on:

- the initial recognition of goodwill;
- goodwill for which amortisation is not tax deductible;
- investments in subsidiaries where the Company is able to control the timing of the reversal of the difference and it is probable that the difference will not reverse in the foreseeable future.

Recognition of deferred tax assets is restricted to those instances where it is probable that taxable profit will be available against which the difference can be utilised.

The amount of the asset or liability is determined using tax rates that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the deferred tax liabilities/(assets) are settled/(recovered).

Deferred tax assets and liabilities are offset when the group has a legally enforceable right to offset current tax assets and liabilities and the deferred tax assets and liabilities relate to taxes levied by the same tax authority on either :

- the same taxable group company; or
- different group entities which intend either to settle current tax liabilities on a net basis, or to realise the assets and settle the tax liabilities simultaneously, in each future period in which significant amounts of deferred tax assets or liabilities are expected to be settled or recovered.

Current tax is calculated using rates that have been enacted or substantively enacted at the balance sheet date.

Foreign currencies

Transactions entered into by group entities in a currency other than the currency of the primary economic environment in which they operate (their "functional currency") are recorded at the rates ruling when the transactions occur. Foreign currency monetary assets and liabilities are translated at the rates ruling at the balance sheet date. Exchange differences arising on the retranslation of unsettled monetary assets and liabilities are recognised immediately in the consolidated income statement.



> NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2007

1. ACCOUNTING POLICIES (continued)

Financial assets

The Group's financial assets fall into the categories discussed below, with the allocation depending to an extent on the purpose for which the asset was acquired. The Group has not classified any of its financial assets as held to maturity.

Unless otherwise indicated, the carrying amounts of the Group's financial assets are a reasonable approximation of their fair values.

Available for sale investments

Investments available for sale are initially recorded at cost then re-measured at fair value at each balance sheet date. Unrealised gains and losses arising on the re-measurement are recorded in equity. On disposal or impairment of the investments, cumulative gains and losses previously recognised in equity are transferred to the Income Statement. Where investments do not have a quoted market price and their fair value cannot be reliably measured, such instruments are stated at cost.

Loans and receivables

These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise principally through the provision of goods and services to customers (e.g. trade receivables) and deposits held at banks, but may also incorporate other types of contractual monetary asset. They are initially recognised at fair value plus transaction costs that are directly attributable to the acquisition or issue and subsequently carried at amortised cost using the effective interest rate method, less provision for impairment.

The effect of discounting on these financial instruments is not considered to be material.

Impairment provisions are recognised when there is objective evidence (such as significant financial difficulties on the part of the counterparty or default or significant delay in payment) that the Group will be unable to collect all of the amounts due under the terms receivable, the amount of such a provision being the difference between the net carrying amount and the present value of the future expected cash flows associated with the impaired receivable. For trade receivables, such provisions are recorded in a separate allowance account with the loss being recognised within administrative expenses in the income statement. On confirmation that the trade receivable will not be collectable, the gross carrying value of the asset is written off against the associated provision.

Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits at call with banks, and other short term highly liquid investments that are readily convertible to a known amount of cash and are considered to be subject to insignificant risk of changes in value. Bank overdrafts are shown within borrowings as current liabilities.

Financial liabilities

The Group classifies its financial liabilities into one of two categories, depending on the purpose for which the asset was acquired. The Group does not use derivative financial instruments in economic hedges of currency risk.

Unless otherwise indicated, the carrying amounts of the Group's financial liabilities are a reasonable approximation of their fair values.

Other financial liabilities include the following items:

- Trade payables and other short-term monetary liabilities, which are initially recognised at fair value and subsequently carried at amortised cost using the effective interest method.
- Bank borrowings and other loans are initially recognised at fair value net of any transaction costs directly attributable to the issue of the instrument. Such interest bearing liabilities are subsequently measured at amortised cost using the effective interest rate method, which ensures that any interest expense over the period to repayment is at a constant rate on the balance of the liability carried in the balance sheet. Interest expense in this context includes initial transaction costs and any premium payable on redemption, as well as any interest or coupon payable while the liability is outstanding. Interest is recognised as a finance expense in the income statement.

Fair value is calculated discounting estimated future cash flows using a market rate of interest.

Financial instruments are recognised when the Group becomes party to the contractual terms of the instrument and derecognised on expiry of the contractual terms or conditions attaching to the instrument.

> NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2007

1. ACCOUNTING POLICIES (continued)

Convertible loans

The proceeds received on issue of the group's convertible debt are allocated into their liability and equity components. The amount initially attributed to the debt component equals the discounted cash flows using a market rate of interest that would be payable on a similar debt instrument that does not include an option to convert. Subsequently, the debt component is accounted for as a financial liability measured at amortised cost. Where the contractual terms of the convertible loan contain an agreement for the issue of a fixed number of warrants, as well as an option to convert, and when such warrants can be transferred, cancelled, or redeemed independently of the loan instrument, the fair value of the warrants at the date of issue of the loan is removed from the liability component of the loan and is credited to a warrant reserve. Any remaining difference between the fair value of the convertible loan as a whole and the amount allocated to the debt component of the convertible loan is credited direct to equity and is not subsequently re-measured. On conversion, the debt and equity elements are credited to share capital and share premium as appropriate.

Simultaneous issue of shares and warrants

Where shares and warrants are issued simultaneously and the warrants can be transferred, cancelled or redeemed independently of the shares, then the related proceeds are apportioned to the shares and warrants. This apportionment is based upon the fair value of the warrants at the date of issue. The proceeds allocated to the warrants are credited to a warrant reserve. On the exercise of the warrants a transfer is made from the warrant reserve to the share premium account.

Share capital

The Group's ordinary shares are classified as equity instruments. The Group is not subject to any externally imposed capital requirements. Share capital includes the nominal value of the shares and any share premium attaching to the shares.

Share based payments

Where share options are awarded to employees, the fair value of the options at the date of grant is charged to the income statement over the vesting period. Non-market vesting conditions are taken into account by adjusting the number of equity instruments expected to vest at each balance sheet date so that, ultimately, the cumulative amount recognised over the vesting period is based on the number of options that eventually vest. Market vesting conditions are factored into the fair value of the options granted. As long as all other vesting conditions are satisfied, a charge is made irrespective of whether the market vesting conditions are satisfied. The cumulative expense is not adjusted for failure to achieve a market vesting condition.

Where the terms and conditions of the options are modified before they vest, the increase in the fair value of the options, measured immediately before and after the modification, is also charged to the income statement over the vesting period.

Share options granted in respect of external services have been measured by reference to the fair value of the service received.

Parent company - cost of investment in subsidiaries

The company's investments in its subsidiary companies are carried at cost less any provisions for impairment

Future accounting developments

Standards, amendments and interpretations to published standards not yet effective

Certain new standards, amendments and interpretations to existing standards have been published that are mandatory for the group's accounting periods beginning after 1 January 2008 or later periods and which have not been adopted early. These are:

- *IFRS 8, Operating Segments* (effective for accounting periods beginning on or after 1 January 2009). This standard sets out requirements for the disclosure of information about an entity's operating segments and also about the entity's products and services, the geographical areas in which it operates, and its major customers. It replaces IAS 14, Segmental Reporting. The group expects to apply this standard in the accounting period beginning on 1 January 2009. As this is a disclosure standard it will not have any impact on the results or net assets of the group.
- *IAS 23, Borrowing Costs (revised)* (effective for accounting periods beginning on or after 1 January 2009). The revised IAS 23 is still to be endorsed by the EU. The main change from the previous version is the removal of the option of immediately recognising as an expense borrowing costs that relate to qualifying assets, broadly being assets that take a substantial period of time to get ready for use or sale. The Group is currently assessing its impact on the financial statements.



> NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2007

1. ACCOUNTING POLICIES (continued)

Future accounting developments (continued)

– Revised IFRS 3, *Business Combinations and complementary Amendments to IAS 27, 'Consolidated and separate financial statements* (both effective for accounting periods beginning on or after 1 July 2009). The revised IFRS 3 and IAS 27 are still to be endorsed by the EU. Management will assess the impact of revised IFRS 3 and amendments to IAS 27 on the accounts.

– IFRIC 11, *IFRS 2 - Group and Treasury Share Transactions* (effective for accounting periods beginning on or after 1 March 2007). IFRIC 11 requires share-based payment transactions in which an entity receives services as consideration for its own equity instruments to be accounted for as equity-settled. This applies regardless of whether the entity chooses or is required to buy those equity instruments from another party to satisfy its obligations to its employees under the share-based payment arrangement. It also applies regardless of whether: (a) the employee's rights to the entity's equity instruments were granted by the entity itself or by its shareholder(s); or (b) the share-based payment arrangement was settled by the entity itself or by its shareholder(s). Management is currently assessing the impact of IFRIC 11 on the accounts.

– IFRIC 12, *Service Concession Arrangements* (effective for accounting periods beginning on or after 1 January 2008). IFRIC 13, *Customer Loyalty Programmes* (effective for accounting periods beginning on or after 1 July 2008). IFRIC 14, *IAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction* (effective for accounting periods beginning on or after 1 January 2008). None of these are relevant to the group.

– *Amendment to IFRS 2, Share-based payments: vesting conditions and cancellations* (effective for accounting periods beginning on or after 1 January 2009). This amendment is still to be endorsed by the EU. Management is currently assessing the impact of the Amendment on the accounts.

– *Amendments to IAS 1 Presentation of Financial Statements: A Revised Presentation* (effective for accounting periods beginning on or after 1 January 2009). This amendment is still to be endorsed by the EU. The revised version of IAS 1 (revised 2007) replaces IAS 1 *Presentation of Financial Statements* (revised in 2003) as amended in 2005 and key changes include: the requirement to aggregate information in the financial statements on the basis of shared characteristic; changes in the titles of some primary statements (non mandatory); introducing the possibility of a single Statement of Comprehensive income (combining the Income Statement and the Statement of Recognised Income and Expense); Only the total of comprehensive income is to be shown in the Statement of Changes in equity. Management is currently assessing the impact of the Amendment on the accounts.

– *Amendments to IAS 32 Financial Instruments: Presentation and IAS 1 Presentation of Financial Statements - Puttable Financial Instruments and Obligations Arising on Liquidation* (effective for accounting periods beginning on or after 1 January 2009). This amendment is still to be endorsed by the EU. The amendments result in certain types of financial instrument that meet the definition of a liability, but represent the residual interest in the net assets of the entity, being classified as equity. Management is currently assessing the impact of the Amendment on the accounts.

– *Amendments to IFRS 1 and IAS 27 Cost of an Investment in a Subsidiary, Jointly-Controlled Entity or Associate* (effective for accounting periods beginning on or after 1 January 2009). These amendments are still to be endorsed by the EU. The amendments permits the entity at its date of transition to IFRSs in its separate financial statements to use a deemed cost to account for its investment in subsidiary, jointly controlled entity or associate. The deemed cost of such investment could be either the fair value of the investment at the date of transition, which would be determined in accordance with IAS 39 *Financial Instruments: Recognition and Measurement* or; the carrying amount of the investment under previous GAAP at the date of transition. Management is currently assessing the impact of the Amendment on the accounts.

– *Improvements to IFRS* (effective for accounting periods beginning on or after 1 July 2009). This improvements project is still to be endorsed by the EU. The amendments take various forms, including the clarification of the requirements of IFRS, the elimination of inconsistencies between Standards, and a restructuring of IFRS 1 *First-time Adoption of IFRS*. Management is currently assessing the impact of the Amendment on the accounts.

> NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2007

2. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The Group makes certain estimates and assumptions regarding the future. Estimates and judgements are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. In the future, actual experience may differ from these estimates and assumptions. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Judgements

(a) Receivables

The directors are required to consider the recoverability of receivables. There is one receivable due in more than one year (see note 18) and judgements on such debts are inherently more difficult than on current trading debts. Actual outcomes may vary.

(b) Impairment of intangible assets

The group monitors market conditions to assess indications of impairment. When an impairment review is performed the recoverable amount is determined based on value in use calculations. The use of this method requires the estimation of future cash flows and the choice of a discount rate in order to calculate the present value of the cash flows. Actual outcomes may vary. Intangible assets are shown in note 15.

(c) Share based payments

The group has two types of equity-settled share-based remuneration schemes for employees. Employee services received, and the corresponding increase in equity, are measured by reference to the fair value of the equity instruments at the date of grant, excluding the impact of any non-market vesting conditions. The fair value of share options is estimated by using valuation models, such as Black-Scholes, on the date of grant based on certain assumptions. Those assumptions are described in note 28 and include, among others, the dividend growth rate, expected volatility, expected life of the options and number of options expected to vest. More details including the carrying values are disclosed in note 28.

(d) Legal proceedings

In accordance with IFRS the group recognises a provision where there is a present obligation from a past event, a transfer of economic benefits is probable and the amount of costs of the transfer can be estimated reliably. In instances where the criteria are not met, a contingent liability may be disclosed in the notes to the financial statements. Obligations arising in respect of contingent liabilities that have been disclosed, or those which are not currently recognised or disclosed in the financial statements, could have a material effect on the group's financial position. Application of these accounting principles to legal cases requires the group's management to make determinations about various factual and legal matters beyond its control. The group reviews outstanding legal cases following developments in the legal proceedings and at each balance sheet date, in order to assess the need for provisions and disclosures in its financial statements. Among factors considered in making decisions on provisions are the nature of litigation, claim or assessment, the legal process and potential level of damages in the jurisdiction in which the litigation, claim or assessment has been brought, the progress of the case (including the progress after the date of the financial statements but before the statements are issued), the opinion or views of legal advisers, experience on similar cases and any decision of the group's management as to how it will respond to the litigation, claim or assessment. Provisions are disclosed in note 21.



> NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2007

3. REVENUE AND SEGMENT INFORMATION

The revenue and loss before tax are attributable to the principal activities of the Group being the licensing of the intellectual property of the plastic Powder Impression Moulding system to generate licence fees and ongoing royalties.

Licence income is accounted for either over the period of the licence or on the transfer of technology. Minimum annual and any over riding royalties earned during the year are accounted for on an accruals basis.

In the opinion of the directors, the only business segment is the exploitation of the group's intellectual property. Whilst customers may be operating in different economic environments the group operates from the United Kingdom and all business is subject to English law.

Except for assets with a book value of £272,000 (2006: £539,000) held in the USA, all assets are in the UK.

Secondary reporting of external revenue by location of customer is as follows:

	Year ended 31 December 2007 £'000	Year ended 31 December 2006 £'000
United Kingdom	92	16
Rest of Europe	45	44
North America	106	259
	243	319

4. OTHER INCOME

	Year ended 31 December 2007 £'000	Year ended 31 December 2006 £'000
Machine rentals	—	144

5. LOSS ON OPERATIONS BEFORE INTEREST AND FINANCE

Loss on operations is stated after charging/(crediting):

	Year ended 31 December 2007 £'000	Year ended 31 December 2006 £'000
Depreciation of plant and equipment	275	895
Amortisation of intangible fixed assets	895	823
Fees payable to the Company's auditor in respect of –		
– Audit of the Company's annual accounts	52	50
– Audit of the Company's subsidiaries	–	10
– Tax services	12	5
– All other services	20	15
Hire of other assets – operating leases	–	29
Rent of land and buildings	–	176
Net (gain)/loss on foreign currency translation	(1)	37
Equity settled share based payments	6	64

> NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2007

6. DISCONTINUED OPERATIONS

	Year ended 31 December 2007 £'000	Year ended 31 December 2006 £'000
Discontinued operations	—	(4,829)

On 30 November 2006, the group sold 3DM Europe Limited and its subsidiary 3DM Group Limited including the Bedwas House facility to Environmental Polymer Technologies Limited.

The amount disclosed in the income statement is represented by:

Revenue	40
Cost of sales	(177)
Gross loss	(137)
Administrative expenses	(3,036)
Operating loss	(3,173)
Loss from selling discontinued operations	(1,656)
Total	(4,829)

The loss from the disposal was calculated as follows:

	31 December 2006 £'000	31 December 2006 £'000
Proceeds		
Issue of shares	(200)	
Loan to group undertaking written off	(330)	
Future consideration	(200)	
Loss on disposal of assets	(180)	
		(910)
Intangible fixed assets	(535)	
Tangible fixed assets	(3,851)	
Debtors	(487)	
Creditors	4,127	
		(746)
Loss on disposal		(1,656)

7. EXCEPTIONAL ITEMS

	Year ended 31 December 2007 £'000	Year ended 31 December 2006 £'000
Legal and settlement costs	545	—
Product development work	631	—
Provisions against loans and trade debts	—	1,012
	1,176	1,012

The legal and settlement costs are associated with the claim from a former employee in Kyrgyzstan. The product development work relates to the costs incurred and written off in respect of Mediwall and Contour projects.

The exceptional item in 2006 was a provision for loans and trade debts which are owed by Silkwood Financial Corporation Inc. and Value Plastics Technologies LLC. These bad debt provisions were utilised in full during 2007.



> NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2007

8. PARTICULARS OF EMPLOYEES

The average number of staff employed by the Group during the year amounted to:

	Group		Company	
	Year ended 31 December 2007 No.	Year ended 31 December 2006 No.	Year ended 31 December 2007 No.	Year ended 31 December 2006 No.
Production staff	–	7	–	–
Administrative staff	–	1	–	–
Management staff	6	6	6	6
	6	14	6	6

The aggregate staff costs (including directors) were:

	Group		Company	
	Year ended 31 December 2007 £'000	Year ended 31 December 2006 £'000	Year ended 31 December 2007 £'000	Year ended 31 December 2006 £'000
Wages and salaries	337	612	337	450
Social security costs	35	34	35	28
Share based payments expense	–	2	–	2
	372	648	372	480

9. DIRECTORS' EMOLUMENTS

The Directors' aggregate emoluments in respect of qualifying services were:

	Year ended 31 December 2007 £'000	Year ended 31 December 2006 £'000
Emoluments receivable	195	220
Amounts paid to third parties in respect of directors' services	62	152
	257	372

Emoluments of the highest paid director was £135,000 (2006: £135,000). See note 23 for details of related party transactions. No contributions were paid on behalf of directors to pension schemes (2006: £Nil).

10. FINANCE INCOME

	Year ended 31 December 2007 £'000	Year ended 31 December 2006 £'000
Bank interest receivable	9	4

> NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2007

11. FINANCE COSTS

	Year ended 31 December 2007 £'000	Year ended 31 December 2006 £'000
Loan interest	194	212
Finance lease interest	–	233
HP interest	–	25
Bank interest	2	7
Amortisation of finance costs	839	571
Total finance costs	1,035	1,048

12. INCOME TAX ON LOSS ON OPERATIONS

	Year ended 31 December 2007 £'000	Year ended 31 December 2006 £'000
Prior year UK corporation tax – credit	(80)	–

The Group received a refund during the year of a tax credit relating to 2005 which had not been provided for.

The tax assessed for the the period is higher than the standard rate of corporation tax in the UK applied to loss before tax. The differences are explained below:

	Year ended 31 December 2007 £'000	Year ended 31 December 2006 £'000
Loss before tax from continuing operations:	(5,770)	(3,663)
Loss from continuing operations at the standard rate of Corporation tax in the UK of 30% (2006 – 30%)	(1,731)	(1,099)
Effect of:		
Expenses not deductible for tax purposes	603	2,607
Depreciation in excess of capital allowances	82	240
Consolidation adjustments	–	(2,197)
Tax losses carried forward (net)	1,046	449
Prior year	(80)	–
Current tax credit for the year	(80)	–

13. LOSS ATTRIBUTABLE TO MEMBERS OF THE PARENT COMPANY

The retained loss dealt with in the financial statements of the parent Company was £5,690,000 (2006: £11,693,000).



> NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2007

14. EARNINGS PER SHARE

From continuing and discontinued operations

	Year ended 31 December 2007 £'000	Year ended 31 December 2006 £'000
Numerator		
Loss used for calculation of basic and diluted EPS	(5,690)	(8,492)
Denominator		
Weighted average number of shares used in basic and diluted EPS	141,959,606	77,862,312
From continuing operations		
	Year ended 31 December 2007 £'000	Year ended 31 December 2006 £'000
Numerator		
Loss for the financial year	(5,690)	(8,492)
Loss for the year from discontinued operations		4,829
Loss from continuing operations used in basic and diluted EPS	(5,690)	(3,663)
Denominator		
The number of shares are the same as those calculated for continuing and discontinued operations.		
From discontinued operations		
	Year ended 31 December 2007 Pence	Year ended 31 December 2006 Pence
Basic and diluted loss per share from discontinued operations	–	(6.20)

At 31 December 2007, there were 23,946,785 (2006:33,995,754) of potentially issuable shares which are anti-dilutive.

> NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2007

15. INTANGIBLE ASSETS

	Licences £'000	Intellectual property £'000	Total £'000
GROUP			
Cost			
At 1 January 2007	1,250	15,257	16,497
At 31 December 2007	1,250	15,247	16,497
Amortisation			
At 1 January 2007	–	4,023	4,023
Charge for the year	70	825	895
At 31 December 2007	70	4,848	4,918
Net book value			
At 31 December 2007	1,180	10,399	11,579
At 31 December 2006	1,250	11,224	12,474
GROUP			
Cost			
At 1 January 2006	–	15,917	15,917
Additions	1,250	–	1,250
Disposals	–	(670)	(670)
At 31 December 2006	1,250	15,247	16,497
Amortisation			
At 1 January 2006	–	3,326	3,326
Charge for the year	–	823	823
Disposals	–	(126)	(126)
At 31 December 2006	–	4,023	4,023
Net book value			
At 31 December 2006	1,250	11,224	12,474
At 1 January 2006	—	12,591	12,591



> NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2007

15. INTANGIBLE ASSETS (continued)

	Licences £'000	Intellectual property £'000	Total £'000
COMPANY			
Cost			
At 1 January 2007	1,250	15,247	16,497
At 31 December 2007	1,250	15,247	16,497
Amortisation			
At 1 January 2007	–	4,023	4,023
Charge for the year	70	825	895
At 31 December 2007	70	4,848	4,918
Net book value			
At 31 December 2007	1,180	10,399	11,579
At 31 December 2006	1,250	11,224	12,474
Cost			
At 1 January 2006	–	15,247	15,247
Additions	1,250	–	1,250
At 31 December 2006	1,250	15,247	16,497
Amortisation			
At 1 January 2006	–	3,261	3,261
Charge for the year	–	762	762
At 31 December 2006	–	4,023	4,023
Net book value			
At 31 December 2006	1,250	11,224	12,474
At 1 January 2006	–	11,986	11,986

> NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2007

16. PLANT AND EQUIPMENT

	Plant & machinery £'000	Computer equipment £'000	Motor Vehicles £'000	Total £'000
GROUP AND COMPANY				
Cost				
At 1 January 2007	553	5	–	558
Additions	5	3	–	8
At 31 December 2007	558	8	–	566
Depreciation				
At 1 January 2007	14	–	–	14
Charge for the year	272	3	–	275
At 31 December 2007	286	3	–	289
Net book value				
At 31 December 2007	272	5	–	277
At 31 December 2006	539	5	–	544
GROUP				
Cost				
At 1 January 2006	6,114	–	31	6,145
Additions	168	35	17	220
Disposals	(5,729)	(30)	(48)	(5,807)
At 31 December 2006	553	5	–	558
Depreciation				
At 1 January 2006	960	–	27	987
Charge for the year	871	22	2	895
Disposals	(1,817)	(22)	(29)	(1,868)
At 31 December 2006	14	–	–	14
Net book value				
At 31 December 2006	539	5	–	544
At 1 January 2006	5,154	–	4	5,158



> NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2007

16. PLANT AND EQUIPMENT (continued)

Group and Company

	Plant & machinery £'000	Computer equipment £'000	Motor Vehicles £'000	Total £'000
COMPANY				
Cost				
At 1 January 2006	795	–	31	826
Transfers	(242)	5	(31)	(268)
At 31 December 2006	553	5	–	558
Depreciation				
At 1 January 2006	407	–	27	434
Charge for the year	14	21	2	37
Transfers	(407)	(21)	(29)	(457)
At 31 December 2006	14	–	–	14
Net book value				
At 31 December 2006	539	5	–	544
At 1 January 2006	388	–	4	392

> NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2007

17. AVAILABLE FOR SALE INVESTMENTS

	Unlisted Shares £'000
GROUP	
Cost	
At 1 January 2007	331
Disposals	(331)
At 31 December 2007	-
Provisions	
At 1 January 2007	234
Disposals	(234)
At 31 December 2007	-
Net book value	
At 31 December 2007	-
At 31 December 2006	97
COMPANY	
Cost	
At 1 January 2007	324
Disposals	(324)
At 31 December 2007	-
Provisions	
At 1 January 2007	227
Disposals	(227)
At 31 December 2007	-
Net book value	
At 31 December 2007	-
At 31 December 2006	97



> NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2007

17. AVAILABLE FOR SALE INVESTMENTS (continued)

COMPANY

The Company's investment in the capital of unlisted subsidiary undertakings is less than £1,000 in total and it represents:

	Nature of business	Shareholding	Incorporated
3DM Product Developments Limited	Dormant	100%	England
Camco Corporation Limited	Dormant	100%	England
Camco Investments Limited	Dormant	100%	Jersey

The total cost of these investments is £602 against which there is an impairment provision of £600.

COMPANY AND GROUP

During the year, the investment in Medical Waste Solutions Limited was disposed of at a value of £75,000. The investment in Value Plastic Technologies LLC was disposed of at a value of £23,393. Both these investments were sold to Environmental Polymer Technologies Limited and offset against amounts due by that company.

18. TRADE AND OTHER RECEIVABLES

	Group		Company	
	31 December 2007 £'000	31 December 2006 £'000	31 December 2007 £'000	31 December 2006 £'000
Non current – due after 1 year				
Other receivables	585	599	585	599
Other receivables are represented by the loan arising from the sale of Bedwas to Environmental Polymer Technologies Limited in November 2006.				
Current – due within one year				
Trade receivables	404	26	404	26
VAT recoverable	60	84	60	84
Other debtors and prepayments	73	264	73	264
	537	374	537	374

All receivable balances are in sterling, none were overdue and no provisions have been made.

19. BORROWINGS

	Group		Company	
	31 December 2007 £'000	31 December 2006 £'000	31 December 2007 £'000	31 December 2006 £'000
Non current – due after one year				
Long term borrowings	–	1,708	–	1,708
Current – due within one year				
Short term borrowings	75	887	75	887
Current portion of long term borrowings	1,955	2,333	1,955	2,333
	2,030	3,220	2,030	3,220
Total borrowings	2,030	4,928	2,030	4,928

> NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2007

19. BORROWINGS (continued)

The carrying value (which is a reasonable approximation to fair value) of borrowings analysed by lender is as follows –

	Group		Company	
	31 December 2007 £'000	31 December 2006 £'000	31 December 2007 £'000	31 December 2006 £'000
YA Global Investment Limited – current	1,955	2,333	1,955	2,333
– non current	–	1,708	–	1,708
	1,955	4,041	1,955	4,041
Battlebridge Nominees Limited	–	72	–	72
Oxford Capital plc	75	528	75	528
Oxford Corporate Services Limited	–	25	–	25
Progressives Plastics Limited	–	262	–	262
Total borrowings	2,030	4,928	2,030	4,928

The amounts due to YA Global Investments Limited (“Yorkville”), formerly Cornell Capital Partners LLC, are stated net of unamortised finance costs. This convertible loan was unsecured and denominated in Sterling.

All borrowings at 31 December 2006, with the exception of “Yorkville”, were repaid in full. A new loan of £75,000 has been made by Oxford Capital plc during the year which carries interest at 7.5% per annum from 1 January 2008 and is due for repayment on 1 January 2009. If the loan is not then repaid the lender gains conversion rights and the interest rate increases to 15% per annum.

The Yorkville loan at 31 December 2006 was due for repayment as follows - £2,333,000 by 31 December 2007 and £1,708,000 by June 2008.

Pursuant to an agreement dated 27 March 2008 Yorkville borrowings are secured by a debenture, the loan is now due for repayment on or before 31 December 2009 and simple interest is being charged at 12% per annum (previously 5% per annum). Subject to certain conditions Yorkville may convert their loan to ordinary shares of the company. The company has no other borrowing facilities except for the SEDA referred to in the Financial Review on page 3.

20. TRADE AND OTHER PAYABLES – CURRENT

	Group		Company	
	31 December 2007 £'000	31 December 2006 £'000	31 December 2007 £'000	31 December 2006 £'000
Trade payables	694	425	694	425
Social security and other taxes	13	11	13	11
Accruals and deferred income	403	891	403	891
	1,110	1,327	1,110	1,327

Book value is a fair approximation for fair value and debts are due for repayment under normal trading terms.

21. PROVISIONS

	Group		Company	
	31 December 2007 £'000	31 December 2006 £'000	31 December 2007 £'000	31 December 2006 £'000
Legal claims	545	–	545	–

Provisions cover claims for legal and settlement costs associated with a former employee in Kyrgyzstan.



> NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2007

22. COMMITMENTS UNDER OPERATING LEASES

The Group had total contracted lease payments under non-cancellable operating leases as set out below.

	Lease commitments 2007 Motor vehicles £'000	2006 Motor vehicles £'000
Within one year	18	18
In one to two years	–	36

23. RELATED PARTY TRANSACTIONS

Invoices totalling £15,933 (2006: £11,614) were received from Oxford Corporate Services Limited for recoverable expenses. This Company is controlled by Mrs N Brooks, wife of K W Brooks. The amount outstanding at the year end was £2,536 (2006: £27,001), which was due to Oxford Corporate Services Limited.

Aston Hall Limited invoiced £50,060 (2006: £63,596) to the Group in respect of director's fees for D C Shepley-Cuthbert who is also a director and controlling party of Aston Hall Limited. The amount outstanding at the year end was £5,017 (2006: £17,145).

Oakridge Business Services Limited, of which R Baynham is a director, invoiced £15,000 (2006: £25,000) in the year for director's fees. The amount outstanding at the year end was £15,000 (2006: £25,000).

24. SHARE CAPITAL

	31 December 2007 £'000	31 December 2006 £'000
Authorised share capital:		
400,000,000 Ordinary shares of £0.025 each	10,000	5,000

Allotted, called up and fully paid:

	31 December 2007		31 December 2006	
	No.	£'000	No.	£'000
Ordinary share capital brought forward	106,227,805	2,656	66,802,356	1,670
Issue of ordinary shares	146,173,817	3,654	39,425,449	986
	252,401,622	6,310	106,227,805	2,656

During the year, the consideration received for the allotment of ordinary shares of £0.025 each was £7,001,738 (2006 £3,207,325).

Capital management

The Group considers its capital to be the ordinary share capital, share premium, warrant and equity reserves and retained earnings. The Group monitors its gearing to balance risks and returns at an acceptable level and also to maintain a sufficient funding base to enable the Group to meet its working capital and investment needs. In making decisions to adjust its capital structure the Group considers not only its short-term position but also its long-term objectives.

> NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2007

24. SHARE CAPITAL (continued)

Warrants and Options

The following Deed of Warrant Grants were outstanding at 31 December 2007:

Number	Exercise price	Exercisable until
750,000	£0.36	14 February 2008
10,000	£0.80	14 February 2008
350,000	£0.83	2 March 2008
10,000	£0.80	6 May 2008
250,000	£0.15	18 June 2008
400,000	£0.62	30 September 2008
2,000,000	£0.05	31 December 2008
2,000,000	£0.02	22 May 2009
45,000	£0.02	27 May 2009
4,000,000	£0.03	25 October 2009
100,000	£0.07	6 November 2009
1,650,000	£0.05	31 December 2009
212,600	£0.03	6 February 2010
150,000	£0.88	15 February 2010
750,000	£0.06	1 April 2010
750,000	£0.05	4 May 2010
200,000	£0.05	16 September 2010
5,000,000	£0.05	31 December 2010
1,000,000	Variable	31 December 2010
488,185	£0.50	28 January 2013

20,115,785

The following options were outstanding at 31 December 2007:

Number	Exercise price	Exercisable until
3,061,000	£0.52	29 September 2013
200,000	£0.72	12 October 2014
450,000	£0.48	27 September 2015
52,000	£0.42	31 October 2010
100,000	£0.68	22 November 2011

3,863,000

25. RESERVES

The following describes the nature and purpose of each reserve within equity:

Reserve	Description and purpose
Share capital	Amount subscribed for share capital at nominal value
Share premium	Amount subscribed for share capital in excess of nominal value
Warrant reserves	Amount representing the fair value of warrants issued with convertible loans or shares
Equity reserve	Amount of proceeds from the issue of a convertible loan that represents the equity component (being the option to convert the loan into shares)
Retained earnings	Cumulative net gains and losses recognised in the consolidated income statement



> NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2007

26. FINANCIAL INSTRUMENTS

Financial instrument risk exposure and management

The Group is exposed to risks that arise from its use of financial instruments. This note describes the Group's objectives, policies and processes for managing those risks and the methods used to measure them. Further quantitative information in respect of these risks is presented throughout these financial statements.

There have been no substantive changes in the Group's exposure to financial instrument risks, its objectives, policies and processes for managing those risks or the methods used to measure them from previous periods unless otherwise stated in this note.

Principal financial instruments

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

- trade and other receivables
- cash and cash equivalents
- trade and other payables
- borrowings

General objectives, policies and processes

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

The overall objective of the Board is to set policies that seek to reduce risk as far as possible without unduly affecting the Group's competitiveness and flexibility. Further details regarding these policies are set out below:

Categories of Financial assets and financial liabilities

Group and Company	31 December 2007 £'000	31 December 2006 £'000
Non-current financial assets		
Trade and other receivables	585	599
Current financial assets		
Trade and other receivables	537	374
Cash and cash equivalents	146	55
Financial assets carried at amortised cost	1,268	1,028
Non-current financial liabilities		
Long-term borrowings	–	1,708
Current financial liabilities		
Trade and other payables	1,110	1,327
Current portion of long term borrowings	2,030	3,220
Financial liabilities at amortised cost	3,140	4,547

Credit risk

Credit risk arises principally from the Group's trade receivables. It is the risk that the counterparty fails to discharge its obligation in respect of the instrument. Credit risk also arises from cash and cash equivalents and deposits with banks, where only independently rated parties with a minimum rating of AAA are accepted. The maximum exposure to credit risk at 31 December 2007 was £1,268,000 (2006 - £1,028,000).

Trade receivables

Credit risk is managed locally by the Directors. Prior to accepting new customers, a credit assessment is made using trade industry knowledge and credit scoring database services as appropriate. Based on this information, payment terms are established and set out in a legal agreement. The Board receives periodic reports analysed by trade receivable balance and ageing profile.

> NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2007

26. FINANCIAL INSTRUMENTS (continued)

Trade receivables (continued)

No major renegotiation of terms has taken place during the year. There are no customers with restricted accounts. The credit quality of the year end trade and other receivables is considered to be adequate.

Liquidity Risk

Liquidity risk arises from the Group's management of working capital and the finance charges and principal repayments on its debt instruments. It is the risk that the Group will encounter difficulty in meeting its financial obligations as they fall due. The Group's policy is to ensure that it will always have sufficient cash to allow it to meet its liabilities when they fall due and to maintain a standby facility. The Board monitors annual cash budgets against actual cash position on a monthly basis. At the balance sheet date, these projections indicated that the Group expected to have sufficient liquid resources to meet its obligations under all reasonably expected circumstances.

Market risk

Market risk arises from the Group's use of interest bearing financial instruments. It is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in interest rates (interest rate risk), foreign exchange rates (currency risk) or other market factors (other price risk).

Interest rate risk

All current and short term borrowings are at fixed interest rates. As a result the Group has no significant exposure to cashflow interest rate risks.

Currency risk

Foreign exchange risk arises when the Group enters into transactions denominated in a currency other than their functional currency. It is the Group's policy to convert all non functional currency to sterling at the first opportunity after allowing for similar functional currency outlays. It does not consider that the use of hedging facilities would significantly minimize this risk. This has not been a material risk in the current or previous period.

27. DEFERRED TAX

The company has the following unrecognised deferred tax assets:

	2007 £'000	2006 £'000
Decelerated capital allowances	348	115
Short term timing differences	1,693	1,813
Losses	2,690	2,045
	4,731	3,973

Tax losses carried forward are subject to agreement with HM Revenue and Customs.

28. SHARE BASED PAYMENTS

Environmental Recycling Technologies plc operates an unapproved option scheme for executive directors, senior management and certain employees.

	Weighted average exercise price (pence)	2007 number	Weighted average exercise price (pence)	2006 number
Outstanding at the beginning of the year	59	4,463,000	60	4,363,000
Granted during the year	-	-	6	100,000
Exercised during the year	-	-	-	-
Lapsed during the year	58	(600,000)	-	-
Converted to warrants during the year	-	-	-	-
	59	3,863,000	59	4,463,000

The exercise price of options outstanding at the end of the year ranged between 6p and 72p (2006: 6p and 72p) and their weighted average contractual life was 6 years (2006: 7 years)



> NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2007

28. SHARE BASED PAYMENTS (continued)

The weighted average share price (at the date of exercise) of options exercised during the year was nil p (2006: nil p)

The weighted average fair value of each option granted during the year was nil p (2006: 2p)

The following information is relevant in the determination of the fair value of options granted during the year under the unapproved options scheme operated by Environmental Recycling Technologies plc:

	2007	2006
Equity-settled		
Option pricing model used	Black Scholes	Black Scholes
Weighted average share price at grant date (pence)	59	59
Exercise price (pence)	59	59
Weighted average contractual life (days)	2,260	2,542
Equity-settled		
Expected volatility	28.05%	28.05%
Expected dividend growth rate	–	–
Risk-free interest rate	4.43	4.43

Environmental Recycling Technologies plc issues warrants to third parties for the provision of services rendered and the provision of finance.

	2007		2006	
	Weighted average exercise price (pence)	number	Weighted average exercise price (pence)	number
Outstanding at the beginning of the year	17	33,532,754	49	4,217,613
Granted during the year	4	11,912,600	12	30,345,141
Exercised during the year	3	(7,350,000)	18	(1,030,000)
Lapsed during the year	17	(17,979,569)	–	–
	11	20,115,785	17	33,532,754

The exercise price of warrants outstanding at the end of the year ranged between 2.5 p and 88 p (2006: 8p and 89p) and their weighted average contractual life was 2.4 years (2006 – 1.3 years)

The weighted average share price (at the date of exercise) of warrants exercised during the year was £0.03 (2006: £0.17)

The weighted average fair value of each warrant granted during the year was 2 p (2006: 1 p)

The following information is relevant in the determination of the fair value of warrants granted during the year by Environmental Recycling Technologies plc:

	2007	2006
Equity-settled		
Option pricing model used	Black Scholes	Black Scholes
Weighted average share price at grant date (pence)	4	19
Exercise price (pence)	4	17
Weighted average contractual life (days)	859	483
Equity-settled		
Expected volatility	28.05%	28.05%
Expected dividend growth rate	–	–
Risk-free interest rate	4.43	4.43

The volatility assumption, measured at the standard deviation of expected share price returns is based on a statistical analysis of daily share prices over the last 3 years.

> NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2007

28. SHARE BASED PAYMENTS (continued)

	2007 £'000	2006 £'000
The share based remuneration expense (note 5) comprises:		
Third parties	6	62
Employees	–	2
Equity settled schemes	6	64

29. EVENTS AFTER BALANCE SHEET DATE

Since the year end ten new licences have been signed covering the automotive, construction and other products. This will result in income to the Company in 2008 with differing levels of minimum royalties due over the life of the licences.

YA Global Investments Limited (“Yorkville”) advanced the company a further £350,000 in March 2008 at the same time as agreeing to extend the Standby Equity Distribution Agreement (SEDA) to the value of £5 million until September 2010. Yorkville is entitled to convert up to a maximum of £300,000 per week in to shares in the Company at a price which is the lower of 85% of the lowest volume weighted average price for the 10 consecutive trading days immediately prior to the loan notice date and £0.07. The Company has the right to repay all or part of the combined debenture in cash. No draw down has been made against the extended SEDA facility.

30. RECONCILIATION OF UK GAAP TO IFRS

The Group’s financial statements for the year ended 31 December 2007 are the first annual financial statements to be prepared under IFRS with the date of transition to IFRS being 1 January 2006. Annual financial statements prior to this date have been prepared under UK GAAP.

Presented on the following pages, in accordance with IFRS 1, are the reconciliations of the Group Income Statement for the year ended 31 December 2006 as well as the reconciliation of the Group Balance Sheet at 1 January 2006 (date of transition to IFRS) and 31 December 2006 (date of last UK GAAP financial statements).

Explanations of material adjustments of the Group Income Statement for the year ended 31 December 2006 and to the Group Balance Sheet at 1 January 2006 and 31 December 2006 are also shown on the following pages. The columns headed prior year adjustments reflect the accounting adjustments to prior year figures arising from the warrants attaching to loans which had not previously been accounted for.

Advantage has been taken of the exemptions available in IFRS 1 as follows:

- * In respect of the group and the company, IFRS 2 ‘Share-based Payments’ has been applied to all grants of equity instruments after 7 November 2002 that were unvested at 1 December 2006.
- * In respect of the group, IFRS 3 ‘Business Combinations’ has not been applied retrospectively to business combinations that occurred before 1 December 2006.



> NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2007

30. RECONCILIATION OF UK GAAP TO IFRS (continued)

Group Income statement

Reconciliations	UK GAAP 31 Dec 2006 £'000	Prior Year *	IFRS *	IFRS 31 Dec 2006 £'000
Continuing operations				
Revenue	359	–	(40)	319
Cost of sales	(177)	–	177	–
Gross profit	182	–	137	319
Administrative expenses				
Exceptional	(1,012)	–	–	(1,012)
Other	(5,046)	–	2,976	(2,070)
Total administrative expenses	(6,058)	–	2,976	(3,082)
Other income	144	–	–	144
Loss on operations	(5,732)	–	3,113	(2,619)
Loss on disposal of subsidiary	(1,121)	–	1,121	–
Finance income	4	–	–	4
Finance costs	(477)	(571)	–	(1,048)
Loss for the year from continuing operations before income tax	(7,326)	(571)	4,234	(3,663)
Tax credit on loss on ordinary activities	–	–	–	–
Loss for the year	(7,326)	(571)	4,234	(3,663)
Discontinued operations				
Loss from discontinued operations	–	–	(4,829)	(4,829)
Loss attributable to equity shareholders of the company	(7,326)	(571)	(595)	(8,492)

> **NOTES TO THE FINANCIAL STATEMENTS** (continued)

For the year ended 31 December 2007

30. RECONCILIATION OF UK GAAP TO IFRS (continued)**Group Balance Sheet**

Reconciliations	At 31 December 2006				At 1 January 2006		
	UK GAAP 31 Dec 2006 £'000	Prior Year * £'000	IFRS * £'000	IFRS 31 Dec 2006 £'000	UK GAAP 01 Jan 2006 £'000	IFRS * £'000	IFRS 01 Jan 2006 £'000
Non current assets							
Intangible assets	12,474	–	–	12,474	11,996	595	12,591
Plant and equipment	544	–	–	544	5,158	–	5,158
Available for sale investments	97	–	–	97	64	–	64
Trade and other receivables	599	–	–	599	–	–	–
Total non current assets	13,714	–	–	13,714	17,218	595	17,813
Current assets							
Trade and other receivables	374	–	–	374	2,330	–	2,330
Cash and cash equivalents	55	–	–	55	4,507	–	4,507
Total current assets	429	–	–	429	6,837	–	6,837
Total assets	14,143	–	–	14,143	24,055	595	24,650
Liabilities							
Non-current liabilities							
Borrowings	(1,708)	–	–	(1,708)	(5,329)	–	(5,329)
Total non current liabilities	(1,708)	–	–	(1,708)	(5,329)	–	(5,329)
Current liabilities							
Trade and other payables	(1,327)	–	–	(1,327)	(1,464)	–	(1,464)
Borrowings	(3,540)	320	–	(3,220)	(5,780)	–	(5,780)
Total current liabilities	(4,867)	320	–	(4,547)	(7,244)	–	(7,244)
Total liabilities	(6,575)	320	–	(6,255)	(12,573)	–	(12,573)
Net assets	7,568	320	–	7,888	11,482	595	12,077
Equity							
Share Capital	2,656	–	–	2,656	1,670	–	1,670
Share premium reserve	32,213	–	–	32,213	29,992	–	29,992
Warrant reserve	468	853	–	1,321	265	–	265
Equity reserve	–	38	–	38	–	–	–
Retained earnings	(27,769)	(571)	–	(28,340)	(20,445)	595	(19,850)
Total equity	7,568	320	–	7,888	11,482	595	12,077

* details of adjustments on page 42



> NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2007

30. RECONCILIATION OF UK GAAP TO IFRS (continued)

Company Balance Sheet

Reconciliations	At 31 December 2006				At 1 January 2006		
	UK GAAP 31 Dec 2006 £'000	Prior Year * £'000	IFRS * £'000	IFRS 31 Dec 2006 £'000	UK GAAP 01 Jan 2006 £'000	IFRS * £'000	IFRS 01 Jan 2006 £'000
Non current assets							
Intangible assets	12,474	–	–	12,474	11,986	–	11,986
Plant and equipment	544	–	–	544	392	–	392
Available for sale investments	97	–	–	97	65	–	65
Trade and other receivables	599	–	–	599	–	–	–
Total non current assets	13,714	–	–	13,714	12,443	–	12,443
Current assets							
Trade and other receivables	374	–	–	374	1,588	–	1,588
Inter company	–	–	–	–	3,067	–	3,067
Cash and cash equivalents	55	–	–	55	4,504	–	4,504
Total current assets	429	–	–	429	9,159	–	9,159
Total assets	14,143	–	–	14,143	21,602	–	21,602
Liabilities							
Non-current liabilities							
Borrowings	(1,708)	–	–	(1,708)	(2,256)	–	(2,256)
Total non current liabilities	(1,708)	–	–	(1,708)	(2,256)	–	(2,256)
Current liabilities							
Trade and other payables	(1,327)	–	–	(1,327)	(581)	–	(581)
Borrowings	(3,540)	320	–	(3,220)	(3,487)	–	(3,487)
Total current liabilities	(4,867)	320	–	(4,547)	(4,068)	–	(4,068)
Total liabilities	(6,575)	320	–	(6,255)	(6,324)	–	(6,324)
Net assets	7,568	320	–	7,888	15,278	–	15,278
Equity							
Share Capital	2,656	–	–	2,656	1,670	–	1,670
Share premium reserve	32,213	–	–	32,213	29,992	–	29,992
Warrant reserve	468	853	–	1,321	265	–	265
Equity reserve	–	38	–	38	–	–	–
Retained earnings	(27,769)	(571)	–	(28,340)	(16,649)	–	(16,649)
Total equity	7,568	320	–	7,888	15,278	–	15,278

* details of adjustments on page 42

> NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2007

30. RECONCILIATION OF UK GAAP TO IFRS (continued)

Prior Year – Warrants and Options

During the IFRS conversion project, the directors reviewed a number of contracts. They identified a number of warrants attaching to loans which had not been previously accounted for. As such, as part of the restatement, the directors have also adjusted the prior year figures to account for these additional warrants. The effect of these adjustments is summarised below:

	31 Dec 2006 £'000 Adjustment	01 Jan 2006 £'000 Adjustment
Income statement		
Finance costs	571	
Balance sheet		
Loans	320	
Warrant reserve	(853)	
Equity reserve	(38)	
IFRS – IAS 38 – Development expenditure		
Income statement		
Administrative expenses – discontinued operations	60	(595)
Loss on disposal	535	–
Balance sheet		
Intangible assets	(535)	661
Provision for amortisation	(60)	(66)

Other than presentational issues, the only adjustment on implementing IFRS is to capitalise development costs in accordance with IAS 38. These costs were capitalised in the company's subsidiary which was sold during 2006.

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