



Environmental Recycling Technologies plc

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> CHAIRMAN'S STATEMENT

I am pleased to say that after much time and effort the Board is delighted to report on significant progress being made with regard to the commercialisation of our proprietary Powder Impression Moulding (PIM) process.

Our principal UK licensee 2K Manufacturing Limited has now been granted three licences, namely for construction boards, signage boards and wider construction products. 2K has secured its funding and its operating site. We have been advised that 2K is on course to begin manufacturing in July and that will be a major milestone achieved for the commercialisation of our process.

In the meantime, your Board has worked hard to overcome the several difficulties we faced in the course of last year. The expensive research and development projects, to which we had been committed, have all been concluded. The Replas project has been revamped and is now working extremely well and our thanks are due to Brunel University for their dedicated research work on the process.

As already announced, we have not been successful in overturning the judgment against us obtained by a former employee of the Group in Kyrgyzstan whose claims, and our costs, have been provided for in note 19 to these accounts. While his claim exceeds the present cash resources of the company we are now in mediation discussions which we believe are in the best interests of both parties.

My colleague Roger Baynham will offer in his report a more detailed analysis of the commercial position. The increasing recycling agenda that affects us all has had a major benefit for your company. We are now well placed as an intellectual property bank to out-license our technology on a lower burn rate of overheads than ever before with a greater expectation of licence fees and royalty revenue.

As always I owe a debt of gratitude to my fellow directors for all their hard work in difficult times. I am confident that the future of the company will be positive.

KEN BROOKS
Chairman

>MANAGING DIRECTOR'S REVIEW

As we have previously set out, the Company is now operating under an out-license business model. In return for providing licenses to exploit the PIM process the company receives upfront milestone and royalty payments from its licensees, whilst operating at a low cost base.

There were however, contingent production and development obligations during 2008 which the Company was committed to. By sub-contracting these activities the costs were considerably less than if they had been managed in-house. These costs were still significant and have impacted on the results for the year.

All of these commitments were met by December 2008 and as a result there are no longer any such production obligations on the Company.

The Board is pleased to report that it continues to see high levels of interest in its technology. This is in no small part due to the high profile work of its UK licensees and partners. The following provides specific updates on the latest news of our activities in 2009:

- 2K Manufacturing have taken occupancy of their first manufacturing site. This is a modern, high tech, 62,000 square foot facility in Luton, Bedfordshire

2K Manufacturing have reported that their activities are "on schedule" and anticipate production will commence in July 2009.

As has previously been reported, the Company signed a Master Construction License with 2K Manufacturing in March this year and it is expected that, by utilising this showcase facility, 2K will further enhance commercialisation of the PIM process through its planned roll out and by Sub- Licensing opportunities to third parties in this sector

- Contour Shower Trays have, this year, set up production of the Eco-dec products using the PIM process under their own steam. We are informed that these shower trays have been extremely well received by the market.

- The joint collaboration with Persico Srl., has been seen by those in the plastics industry as a key development. As a leading and very well respected manufacturer of rotational moulding equipment, the PIM process is being championed by Persico to existing plastics manufacturers who wish to capitalise on the opportunities the technology offers to develop the use of mixed recycled plastic waste
- The Replas project at Brunel University is nearing completion. Managed by Pera, and funded by TSB (DTI) this project has, through the involvement of its industry partners, enhanced the development of Ecosheet. More recently the PIM test rig has also been used for other project work.

The development and delivery of waste technologies and practices to reduce landfill provide a focus on the output material streams from household, municipal, electronic, automotive and other sectors. Mixed Plastics Recycling is a key desirable and is the focus of much work, notably in UK by WRAP (Waste & Resources Action Program). There is an ever increasing awareness of the solutions the PIM process can provide to some of these issues, and the opportunities a synergistic approach PIM presents when combined with other recycling and waste separation technologies.

The Board has previously said that the Company only intends to announce specific licenses when they have been signed and are material financially, or when we are required to do so for regulatory purposes in relation to existing licenses.

We do however have a substantial number of worldwide enquiries particularly from the USA which the company is currently progressing as part of our strategy to offer territorial and sector franchises to licensees. As the opportunities which the PIM process offers become more tangible, particularly in the light of wider acknowledgement of the need for "green" technologies, the Board are even more confident of accelerated commercialisation of the technology leading to a lucrative future for the Company.

ROGER BAYNHAM
Managing Director



> FINANCIAL REVIEW

For the year ended 31 December 2008

Results

Revenue together with other income for the year ended 31 December 2008 was £1.35 million (2007: £0.24 million). The loss on operations was £2.75 million compared to losses of £4.74 million in 2007. Losses attributable to equity shareholders were £3.18 million (2007 loss £5.69 million).

Dividends and loss per share

No dividend payment is proposed.

The loss per share was 1.18 pence compared to a loss per share of 4.01 pence in 2007.

Trading

Revenue included licence income from 2K Manufacturing and LBOC/GTI and pre-production work. Other income arose from TSB (DTI) grants.

Administrative expenses excluding exceptional items for the period were £2.38 million compared to £3.81 million in the same period in 2007 and include in addition to normal running expenses, corporate finance costs, legal costs associated with the on-going intellectual property rights and increased provision for depreciation for the US plant and machinery.

Exceptional expenses of £1.72 million compared to £1.18 million in 2007. They cover further costs incurred in fulfilling contractual obligations for product development for Mediwall and pre production work for Contour, additional provisions for legal and settlement costs associated with a former employee in Kyrgyzstan and settlement costs of a legal dispute in Asia.

Financing

Total borrowings amounted to £3.13 million compared to £2.03 million at 31 December 2007.

During the period, YA Global Investments Limited ("Yorkville") advanced a further £0.35 million and converted a further £0.53 million into equity reducing the loans outstanding to £1.65 million. Since 31 December 2008, Yorkville have converted a further £175,000 of the outstanding loans. In total Yorkville has converted loans and accrued interest totalling £5.37 million at an average price of 4.78p per share.

Other loans advanced during the year totalled £1.78 million of which £0.38 million was converted during the year into ordinary shares. These loans carry interest at rates varying from 7.5% to 15% and conversion rights into ordinary shares.

The Standby Equity Distribution Agreement (SEDA) with Yorkville to the value of £5 million was extended in the year and now expires in September 2010. The first draw down has been made against this facility. The draw down of cash through the SEDA is sufficient to cover the company's normal overheads in the year ahead. The company has had commercial discussions with lenders to ensure that existing facilities remain available or will be settled in shares rather than cash. There are currently no reasons to believe that arrangements cannot be made on acceptable terms.

DAVID SHEPLEY-CUTHBERT
Finance Director

> DIRECTORS' REPORT

For the year ended 31 December 2008

The Directors present their report and the financial statements of the Group for the year ended 31 December 2008.

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 together with their beneficial interests in the shares of the Company were as follows:

	Ordinary shares of £0.025 each	
	At 31 December 2008	At 31 December 2007
K W Brooks	1,022,000	1,022,000
R Baynham	500	500
D C Shepley-Cuthbert	122,500	122,500
H C Bellingham (appointed 27 February 2008)	300,000	—
N J MacKay (resigned 29 February 2008)	—	—
W Lopshire (resigned 27 February 2008)	—	246,517
W F Widger (resigned 27 February 2008)	—	1,078,239

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

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

At 31 December 2008 the middle market price of the shares was 1.50p per share, and the range during the year was between 1.13p and 6.25p.

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 and the group had 60 days purchases outstanding at 31 December 2008 (2007 – 27 days) based on the average daily amount invoiced by suppliers during the year ended 31 December 2008.

Principal risks and uncertainties

The Company's prime risk is the on-going commercialisation of the PIM process. All costs of product development are for each customer with the Company facilitating introductions to third parties.



> DIRECTORS' REPORT (continued)

For the year ended 31 December 2008

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 from ERT.

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

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.

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 24 of the financial statements.

Post balance sheet events

Details of post balance sheet events are given in note 27.

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.

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.

> **DIRECTORS' REPORT** (continued)

For the year ended 31 December 2008

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.

Signed by order of the Directors

R E SIMS
Joint Company Secretary
Oxford Corporate Services Ltd.

Approved by the Directors on 29 June 2009



> INDEPENDENT AUDITORS' REPORT

To the shareholders of Environmental Recycling Technologies 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 2008 which comprise the Group Income Statement, the Group and Company Balance Sheets, the Group and Company Statement of Changes in Equity, the Group and Company Cash Flow Statement 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 have been 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 2008 and of its loss for the year then ended;
- the parent company financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union as applied in accordance with the provisions of the Companies Act 1985, of the state of the parent company's affairs at 31 December 2008;
- 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

29 June 2009

> GROUP INCOME STATEMENT

For the year ended 31 December 2008

		Year ended 31 December 2008 £'000	Year ended 31 December 2007 £'000
Continuing operations	note		
Revenue	3	1,089	243
Other income		262	—
Administrative expenses			
Exceptional	5	(1,724)	(1,176)
Other		(2,379)	(3,811)
Total administrative expenses		(4,103)	(4,987)
Loss on operations	4	(2,752)	(4,744)
Finance income	8	—	9
Finance costs	9	(424)	(1,035)
Loss for the year before income tax		(3,176)	(5,770)
Tax credit on loss on ordinary activities	10	—	(80)
Loss for the year attributable to equity shareholders of the company		(3,176)	(5,690)
Loss per share (pence)			
Basic and diluted loss per share	12	(1.18p)	(4.01p)

The notes on pages 13 to 33 form part of these financial statements.



> GROUP BALANCE SHEET

At 31 December 2008

			31 December 2008 £'000		31 December 2007 £'000
Assets	note	£'000		£'000	
Non-Current Assets					
Intangible assets	13		10,685		11,579
Plant & equipment	14		296		277
Available-for-sale financial assets	15		855		—
Trade and other receivables	16		—		585
Total non current assets			11,836		12,441
Current assets					
Trade and other receivables	16	228		537	
Cash and cash equivalents		17		146	
Total current assets			245		683
Total assets			12,081		13,124
Liabilities					
Current liabilities					
Trade and other payables	17	1,224		1,110	
Borrowings	18	3,128		2,030	
Provisions	19	563		545	
Total current liabilities			4,915		3,685
Total liabilities			4,915		3,685
Net assets			7,166		9,439
Equity attributable to the shareholders of the parent					
Share capital	22		7,160		6,310
Share premium reserve	23		35,500		35,447
Warrant reserve	23		1,021		1,367
Retained earnings	23		(36,515)		(33,685)
Total equity			7,166		9,439

The financial statements on pages 8 to 33 were approved and authorised for issue by the Board on 29 June 2009 and were signed on its behalf by:

K W BROOKS
Chairman

The notes on pages 13 to 33 form part of these financial statements.

> COMPANY BALANCE SHEET

At 31 December 2008

Assets	note	£'000	31 December 2008 £'000	£'000	31 December 2007 £'000
Non-Current Assets					
Intangible assets	13		10,685		11,579
Plant & equipment	14		296		277
Available-for-sale financial assets	15		855		—
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Provisions	19	563		545	
Total current liabilities			4,915		3,685
Total liabilities			4,915		3,685
Net assets			7,166		9,439
Equity					
Share capital	22		7,160		6,310
Share premium reserve	23		35,500		35,447
Warrant reserve	23		1,021		1,367
Retained earnings	23		(36,515)		(33,685)
Total equity			7,166		9,439

The financial statements on pages 8 to 33 were approved and authorised for issue by the Board on 29 June 2009 and were signed on its behalf by:

K W BROOKS
Chairman

The notes on pages 13 to 33 form part of these financial statements.



> GROUP AND COMPANY STATEMENT OF CHANGES IN EQUITY

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

Year ended 31 December 2008

	Share Capital £'000	Share Premium £'000	Warrant Reserves £'000	Equity Reserve £'000	Retained earnings £'000	Total £'000
Loss for year	—	—	—	—	(3,176)	(3,176)
Total recognised income and expense for the year	—	—	—	—	(3,176)	(3,176)
Issue of share capital	850	53	—	—	—	903
Warrants adjustments	—	—	26	—	(26)	—
Options lapsed	—	—	(372)	—	372	—
Movement for the year	850	53	(346)	—	(2,830)	(2,273)
Balance at 1 January 2008	6,310	35,447	1,367	—	(33,685)	9,439
Balance at 31 December 2008	7,160	35,500	1,021	—	(36,515)	7,166

The group consists of the parent company and three dormant subsidiaries as detailed in note 15. In that context the change in equity is the same for both the group and parent company.

The notes on pages 13 to 33 form part of these financial statements.

> GROUP AND COMPANY CASH FLOW STATEMENT

For the year ended 31 December 2008

	note	31 December 2008 £'000	31 December 2007 £'000
Continuing Activities			
Loss before tax		(3,176)	(5,770)
Adjusted for:			
Depreciation on plant and equipment		312	275
Amortisation of intangible assets		894	895
Finance income		—	(9)
Finance expense		—	1,035
Fees settled in shares		—	294
Adjusted loss from operations		(1,970)	(3,280)
Decrease/(increase) in trade and other receivables		48	(163)
(Decrease)/increase in trade and other payables		(169)	674
Increase in provisions		18	545
Cash used by operations		(2,073)	(2,224)
Tax receipt		—	80
Net cash outflow from operations		(2,073)	(2,144)
Cash flows from investing activities			
Interest received		—	9
Purchase of plant and machinery		(2)	(8)
Net cash used in investing activities		(2)	1
Cash flows from financing activities			
Issue of equity share capital		—	3,338
Inception of loans		2,272	125
Repayment of loans		(325)	(1,178)
Interest paid		(1)	(51)
Net increase in cash from financing activities		1,946	2,234
Net increase/(decrease) in cash		(129)	91
Cash and cash equivalents at beginning of period		146	55
Cash and cash equivalents at end of period	28	17	146

The group consists of the parent company and three dormant subsidiaries as detailed in note 15. In that context the cash flow statement is the same for both the group and parent company.

The notes on pages 13 to 33 form part of these financial statements.



> NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2008

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.

These financial statements have been prepared in accordance with International Financial Reporting Standards, International Accounting Standards and Interpretations (collectively IFRS) issued by the International Accounting Standards Board (IASB) as adopted by the European Union ("adopted IFRS's") and are in accordance with IFRS as issued by the IASB.

The financial statements have also been prepared in accordance with those parts of the Companies Act 1985 applicable to companies preparing financial statements in accordance with IFRS.

Going concern

The group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Reviews on pages 1 to 3. The financial position of the group, its borrowings and borrowing facilities are described in the Financial Review on page 3. In addition note 24 to the financial statements includes the group's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments; and its exposures to credit risk and liquidity risk.

As described in the Financial Review on page 3 the progress towards profitability is challenging and the group has reported another operating loss for the year. Whilst there are a number of uncertainties, the directors consider that the outlook is now more promising. The directors have instituted measures to manage cash resources and secure appropriate levels of finance. At the date of approving these accounts the company's debt to Yorkville is £1.9 million including interest and debts to other lenders amount to £1.5 million.

The Yorkville convertible loan is due to be repaid or converted before 31 December 2009. Of the other loans written assurance has been received from the lender of £1.175 million that there is no intention to request immediate repayment and that subject to agreement the lender would accept repayment by the issue of shares in the company. The remaining loans are due for repayment by 1 June 2010 at which date the lenders gain conversion rights.

The directors do not expect there to be a requirement to repay the loans in cash during the next 12 months. Although no formal commitment has been received discussions with Yorkville indicate that it will be possible to extend the loan or to request the conversion of loan into equity. The directors believe that arrangements to renew the loan facilities or convert debt into equity will be achievable however the Standby Equity Distribution Agreement ("SEDA") could be used to facilitate settlement of claims and repayment of loans over time.

The arrangements to issue shares for debt need the renewal of the annual resolutions to empower directors to allot shares. Appropriate resolutions will be put to the 2009 AGM together with a resolution to increase the authorised share capital. The directors are confident that shareholder consent will be obtained.

Based upon forecasts prepared, after making enquiries and the comments above, the directors have a reasonable expectation that the company and the group have adequate resources to meet commitments as they fall due and continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and accounts.

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.

The company has taken advantage of the exemption allowed under Section 230 of the Companies Act 1985 and has not presented its own profit and loss account in these financial statements.

Revenue

Revenue arises from licences and royalty agreements which incorporate the transfer of technology. It comprises the fair value of the consideration receivable by the Group, exclusive of Value Added Tax. The fair value of the consideration is normally the terms negotiated between the company and its licensee. Where the negotiated terms are weighted toward one aspect of the contract the revenue may be spread to reflect performance under the contract based on the directors' estimate of fair value.

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

Income from pre-production work is also included in revenue and is recognised on delivery of the product.

> NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2008

1. ACCOUNTING POLICIES (continued)

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 years 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.

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

Plant & machinery – 15 to 50%

Computer equipment – 33%

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 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.

Government grants

Income from government grants is taken to other income and the associated expenditure is taken to administrative expenses when the company has satisfied the principal conditions of the project. When retention of a government grant is dependant on the group satisfying certain criteria, it is initially recognised as deferred income. When the criteria have been satisfied, the deferred income balance is released to the consolidated income statement.

Provisions

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



> NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2008

1. ACCOUNTING POLICIES (continued)

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.

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 financial assets

Non-derivative financial assets not included in the above categories are classified as available for sale and comprise principally the group's strategic investments in entities not qualifying as subsidiaries. They are carried at fair value with changes in fair value recognised directly in a separate component of equity (available for sale reserve). Where there is a significant or prolonged decline in the fair value of an available for sale financial asset (which constitutes objective evidence of impairment), the full amount of the impairment, including any amount previously charged to equity, is recognised in the income statement. Purchases and sales of available for sale financial assets are recognised on the date of the transaction. On sale, the amount held in the available for sale reserve associated with that asset is removed from equity and recognised in the income statement.

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.

> NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2008

1. ACCOUNTING POLICIES (continued)

Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits at call with banks, and other short term highly liquid investments with original maturity of three months or less 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.

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.

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.



> NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2008

1. ACCOUNTING POLICIES (continued)

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 2009 or later periods and which have not been adopted early. Those considered relevant to the group include:

- *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 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.
- *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). Management will assess the impact of revised IFRS 3 and amendments to IAS 27 on the accounts.
- *Amendment to IFRS 2, Share-based payments: vesting conditions and cancellations* (effective for accounting periods beginning on or after 1 January 2009). 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). 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). 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 IFRS7: Improving Disclosures about Financial Instruments* (effective for accounting periods beginning on or after 1 January 2009): This Amendment requires the analysis of each class of financial asset and financial liability, into a three level fair value measurement hierarchy. It requires additional disclosures in respect of those financial instruments classified as Level Three (namely those that are measured using a valuation technique which uses inputs that are not based on observable market data). It also implements some changes to the definition of and disclosures associated with liquidity risk.
- *IFRIC 17 Distributions of Non-cash Assets to Owners* (effective for accounting periods beginning on or after 1 July 2009). Prior to this interpretation, IFRSs did not address how an entity should measure distributions of assets other than cash when it pays dividends. Dividends payable were sometimes recognised at the carrying amount of the assets to be distributed and sometimes at their fair value. The Interpretation clarifies that: a dividend payable should be recognised when the dividend is appropriately authorised and is no longer at the discretion of the entity; that an entity should measure the dividend payable at the fair value of the net assets to be distributed; and, that an entity should recognise the difference between the dividend paid and the carrying amount of the net assets distributed in profit or loss. The Interpretation also requires an entity to provide additional disclosures if the net assets being held for distribution to owners meet the definition of a discontinued operation. IFRIC 17 applies to pro rata distributions of non-cash assets except for common control transactions. It does not have to be applied retrospectively.

> NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2008

1. ACCOUNTING POLICIES (continued)

– *IFRIC 18 Transfer of Assets from Customers Owners* (effective for accounting periods beginning on or after 1 July 2009). The interpretation clarifies the treatment of agreements in which an entity receives from a customer an item of property, plant and equipment (or cash which must be used only to acquire or construct an item of property, plant and equipment) that the entity must then use either to connect the customer to a network or to provide the customer with ongoing access to a supply of goods or services. The interpretation clarifies whether and when an asset should be recognised, and how it should be measured. It also clarifies how revenue arising from such a transaction should be recognised.

– *Improvements to IFRSs (2009)* (effective for accounting periods beginning on or after 1 January 2009). The improvements in this Amendment clarify the requirements of IFRSs and eliminate inconsistencies between Standards. The most significant changes cover the following issues: The classification of assets and liabilities as held for sale where a non-controlling interest is retained; accounting by companies that routinely sells assets previously held for rental to others; accounting for loans given at a nil or below market rate of interest; the reversal of impairments against investments in associates accounted for using the equity method; the timing of expense recognition for costs incurred on advertising and other promotional activity; and, accounting for properties in the course of construction.

– *Improvements to IFRSs (2010)* (generally effective for accounting periods beginning on or after 1 January 2010). The improvements in this Amendment clarify the requirements of IFRSs and eliminate inconsistencies within and between Standards.

The changes include the clarification that: The disclosure requirements of other IFRSs do not generally apply to non-current assets (or disposal groups) classified as held for sale; total assets for each reportable segment need only be disclosed when such information is regularly provided to the chief operating decision maker; that the terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not effect its classification, and; that only expenditures that result in a recognised asset can be classified as a cash flow from investing activities. It also confirms that the combination of entities or businesses under common control and the contribution of a business on the formation of a joint venture are outside of the scope of IFRS 2 and that IFRIC 9 also does not apply to embedded derivatives in contracts acquired in such transactions.

The Amendment changes IAS 38 to bring the guidance on the treatment of intangible assets acquired as part of a business combination in line with the requirements of IFRS 3(R) and to clarify the description of valuation techniques used in the absence of an active market. It introduces changes to IAS 17 that eliminate the inconsistencies between the general lease classification guidance and the guidance applicable to the classification of the land element in long-term leases of land and buildings. The latter changes may lead to an increased number of instances when the land element of a lease of land and buildings is classified as a finance lease.

Finally, Improvements to IFRSs (2010) introduces a number of changes to IAS 39. These changes restrict the scope exemption in IAS 39.2(g) to forward contracts between an acquirer and a selling shareholder to buy or sell an acquiree in a business combination at a future acquisition date (i.e. removing the scope exemption for option contracts whether or not currently exercisable, that on exercise will result in control of an entity). It also clarifies when embedded prepayment options can be considered closely related to a host contract, the timing of reclassification adjustments in designated cash flow hedging relationships and, the use of internal contracts in hedging relationships.

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) 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. The estimates of future cash flows assume that licensees will not cancel license and royalty agreements, if cancellations occur there would be a risk that future cash flows would be less than estimated. The estimated discount rate is to reflect current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted. Actual outcomes may vary. Intangible assets are shown in note 13, no impairment charge has been made.



> NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2008

2. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

(b) 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 19.

(c) Revenue recognition

The directors exercise judgement in determining the fair value and performance requirements of license and royalty agreements. Estimates are reviewed based on the performance obligations of each contract and the estimates affect reported revenue.

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.

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 £nil (2007 £272,000) held in the USA, all assets are held in the UK.

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

	Year ended 31 December 2008 £'000	Year ended 31 December 2007 £'000
United Kingdom	203	92
Rest of Europe	14	45
North America	872	106
	1,089	243
Revenue arises from:	Year ended 31 December 2008 £'000	Year ended 31 December 2007 £'000
Licence income	1,038	243
Pre-production sales	51	—
	1,089	243

> NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2008

4. LOSS ON OPERATIONS BEFORE INTEREST AND FINANCE

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

	Year ended 31 December 2008 £'000	Year ended 31 December 2007 £'000
Depreciation of plant and equipment	312	275
Amortisation of intangible fixed assets	894	895
Fees payable to the Company's auditor in respect of –		
– Audit of the Company's annual accounts	48	52
– Tax services	7	12
– All other services	20	20
Hire of other assets – operating leases	18	18
Net (gain) on foreign currency translation	(17)	(1)
Equity settled share based payments	—	6
Grant income	(262)	—

Grant income is of a revenue nature

5. EXCEPTIONAL ITEMS

	Year ended 31 December 2008 £'000	Year ended 31 December 2007 £'000
Legal and settlement costs	642	545
Product development work	1,082	631
	1,724	1,176

The legal and settlement costs are associated with the claim from a former employee in Kyrgyzstan and settlement costs of a legal dispute in Asia. The product development work relates to fulfilling contractual obligations for product development for Mediwall and pre production work for Contour.

6. PARTICULARS OF EMPLOYEES

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

	Group		Company	
	Year ended 31 December 2008 No.	Year ended 31 December 2007 No.	Year ended 31 December 2008 No.	Year ended 31 December 2007 No.
Administrative staff	1	—	1	—
Management staff	4	6	4	6
	5	6	5	6

The aggregate staff costs (including directors) were:

	Group		Company	
	Year ended 31 December 2008 £'000	Year ended 31 December 2007 £'000	Year ended 31 December 2008 £'000	Year ended 31 December 2007 £'000
Wages and salaries	227	337	227	337
Social security costs	23	35	23	35
	250	372	250	372



> NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2008

7. DIRECTORS' EMOLUMENTS

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

	Year ended 31 December 2008 £'000	Year ended 31 December 2007 £'000
Emoluments receivable	170	195
Amounts paid to third parties in respect of directors' services	63	62
	233	257

Emoluments of the highest paid director was £60,000 (2007: £135,000). See note 21 for details of related party transactions. No contributions were paid on behalf of directors to pension schemes (2007: £Nil).

The directors are the key management personnel for the purposes of IAS 24. Their compensation comprised of payroll costs of £170,000 (2007: £195,000) and fees paid to third party companies controlled by the individual directors of £63,000 (2007: £62,000)

8. FINANCE INCOME

	Year ended 31 December 2008 £'000	Year ended 31 December 2007 £'000
Bank interest receivable	—	9

9. FINANCE COSTS

	Year ended 31 December 2008 £'000	Year ended 31 December 2007 £'000
Loan interest	221	194
Bank interest	1	2
Amortisation of finance costs	202	839
Total finance costs	424	1,035

> NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2008

10. INCOME TAX ON LOSS ON OPERATIONS

	Year ended 31 December 2008 £'000	Year ended 31 December 2007 £'000
Prior year UK corporation tax – credit	—	(80)

In 2008, 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 2008 £'000	Year ended 31 December 2007 £'000
Loss before tax from continuing operations:	(3,176)	(5,770)
Loss from continuing operations at the standard rate of Corporation tax in the UK of 28% (2007 – 30%)	(889)	(1,731)
Effect of:		
Expenses not deductible for tax purposes	319	603
Depreciation in excess of capital allowances	87	82
Tax losses carried forward (net)	483	1,046
Prior year	—	(80)
Current tax credit for the year	—	(80)

11. LOSS ATTRIBUTABLE TO MEMBERS OF THE PARENT COMPANY

The retained loss dealt with in the financial statements of the parent Company was £3,175,485 (2007: £5,690,000).

12. EARNINGS PER SHARE

	Year ended 31 December 2008 £'000	Year ended 31 December 2007 £'000
Numerator		
Loss used for calculation of basic and diluted EPS	(3,176)	(5,690)
	Year ended 31 December 2008 number	Year ended 31 December 2007 number
Denominator		
Weighted average number of shares used in basic and diluted EPS	270,112,435	141,959,606

At 31 December 2008, there were 22,041,785 (2007: 23,946,785) of potentially issuable shares which are anti-dilutive; such shares may become dilutive in future periods.



> NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2008

13. INTANGIBLE ASSETS

	Licences £'000	Intellectual property £'000	Total £'000
GROUP AND COMPANY			
Cost			
At 1 January 2008	1,250	15,247	16,497
At 31 December 2008	1,250	15,247	16,497
Amortisation			
At 1 January 2008	70	4,848	4,918
Charge for the year	70	824	894
At 31 December 2008	140	5,672	5,812
Net book value			
At 31 December 2008	1,110	9,575	10,685
At 31 December 2007	1,180	10,399	11,579
GROUP AND 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

Licence fees are initially recognised at cost and are amortised over their useful economic life of 20 years. At 31 December 2008, the remaining amortisation period is 18 years.

Intellectual property is initially recognised at cost and is amortised over its estimated useful economic life of 20 years aligned to the underlying patents that have been granted. At 31 December 2008, the remaining amortisation period is 12 years.

> NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2008

14. PLANT AND EQUIPMENT

	Plant & machinery £'000	Computer equipment £'000	Total £'000
GROUP AND COMPANY			
Cost			
At 1 January 2008	558	8	566
Additions	333	3	336
Disposals	—	(11)	(11)
At 31 December 2008	891	—	891
Depreciation			
At 1 January 2008	286	3	289
Charge for the year	309	3	312
Disposals	—	(6)	(6)
At 31 December 2008	595	—	595
Net book value			
At 31 December 2008	296	—	296
At 31 December 2007	272	5	277

	Plant & machinery £'000	Computer equipment £'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



> NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2008

15. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	Listed Shares £'000	Unlisted Shares £'000	Total £'000
GROUP AND COMPANY			
Cost			
At 1 January 2008	—	—	—
Additions	410	445	855
Net gain/(losses) transferred to equity	—	—	—
At 31 December 2008	410	445	855
Provisions			
At 1 January 2008	—	—	—
Charge for the year	—	—	—
At 31 December 2008	—	—	—
Net book value			
At 31 December 2008	410	445	855
At 31 December 2007	—	—	—

During the year, 500,000 shares in Longborough Capital Corp Inc. (LBOC), a company with shares traded on pink sheets in New York, were received in settlement of licence fees amounting to US\$625,000 due from LBOC. In addition GTI Inc. a subsidiary of LBOC has paid licence fees due amounting to US\$650,000 by issuing 1,083,333 shares. The Boards of LBOC and ERT agreed in December 2008 that the GTI Inc. shares be exchanged for 520,000 shares in LBOC, the exchange was on 30 March 2009. The fair value is calculated based on the closing bid prices as at the year end date.

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

> NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2008

15. AVAILABLE-FOR-SALE FINANCIAL ASSETS (continued)

In 2007 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.

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.

16. TRADE AND OTHER RECEIVABLES

	Group		Company	
	31 December 2008 £'000	31 December 2007 £'000	31 December 2008 £'000	31 December 2007 £'000

Non current – due after one year

Other receivables	—	585	—	585
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In 2007, other receivables were represented by the loan arising from the sale of Bedwas to Environmental Polymer Technologies Limited in November 2006. During 2008, the loan was offset against the creditor balance with EPT companies.

Current – due within one year

Trade receivables	134	404	134	404
VAT recoverable	1	60	1	60
Other debtors and prepayments	93	73	93	73
	228	537	228	537

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

17. TRADE AND OTHER PAYABLES – CURRENT

	Group		Company	
	31 December 2008 £'000	31 December 2007 £'000	31 December 2008 £'000	31 December 2007 £'000
Trade payables	839	694	839	694
Social security and other taxes	9	13	9	13
Accruals and deferred income	376	403	376	403
	1,224	1,110	1,224	1,110

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



> NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2008

18. BORROWINGS

	Group		Company	
	31 December 2008 £'000	31 December 2007 £'000	31 December 2008 £'000	31 December 2007 £'000
Current – due within one year				
Short term borrowings	1,479	75	1,479	75
Current portion of long term borrowings	1,649	1,955	1,649	1,955
	3,128	2,030	3,128	2,030
Total borrowings	3,128	2,030	3,128	2,030

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

	Group		Company	
	31 December 2008 £'000	31 December 2007 £'000	31 December 2008 £'000	31 December 2007 £'000
YA Global Investment Limited — current	1,649	1,955	1,649	1,955
Other loans	1,479	75	1,479	75
Total borrowings	3,128	2,030	3,128	2,030

The amounts due to YA Global Investments Limited (“Yorkville”) are stated net of unamortised finance costs. This convertible loan was unsecured and denominated in Sterling. Pursuant to an agreement dated 27 March 2008 Yorkville borrowings are secured by a debenture over the entire undertaking. The loan is due for repayment on or before 31 December 2009 and interest is being charged at 12% per annum. Subject to certain conditions Yorkville may convert their loan to ordinary shares of the company.

Other loans advanced during the year totalled £1,782,000 of which £378,000 was converted during the year into ordinary shares. These loans carry interest at rates varying from 7.5% to 15% and conversion rights into ordinary shares.

The company has no other borrowing facilities except for the SEDA referred to in the Financial Review on page 3.

19. PROVISIONS

	Group		Company	
	31 December 2008 £'000	31 December 2007 £'000	31 December 2008 £'000	31 December 2007 £'000
Legal claims				
At 1 January 2008	545	—	545	—
Increase in provision	179	545	179	545
Utilised in year	(161)	—	(161)	—
At 31 December 2008	563	545	563	545

Provisions cover claims for legal and settlement costs associated with a former employee in Kyrgyzstan. The provision was increased to cover further legal costs incurred during the year and interest accruing on the court judgement. Amounts paid to the former employee and legal advisors.

> NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2008

20. COMMITMENTS UNDER OPERATING LEASES

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

	Lease commitments 2008 Motor vehicles £'000	2007 Motor vehicles £'000
Within one year	4	18

21. RELATED PARTY TRANSACTIONS

Invoices totalling £27,746 (2007: £3,485) were received from the A H Brooks Partnership for services rendered and recoverable expenses. The partners are K W Brooks and Mrs N Brooks, wife of K W Brooks. The amount outstanding at the year end was £10,781 (2007: £4,095), which was due to the A H Brooks Partnership.

Invoices totalling £8,333 (2007: £15,933) 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 £nil (2007: £2,536), which was due to Oxford Corporate Services Limited.

Aston Hall Limited invoiced £49,288 (2007: £50,060) 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 £13,448 (2007: £5,017).

Oakridge Business Services Limited, of which Mrs A Baynham wife of R Baynham is a director, invoiced £30,000 (2007: £15,000) in the year for director's fees. The amount outstanding at the year end was £7,500 (2007: £15,000).

Philip Tyler Polymers Limited, a company that K W Brooks and R Baynham are directors of, invoiced £29,945 (2007: £7,344) to the Group in respect of support services. The amount outstanding at the year end was £14,872 (2007: £7,344).

22. SHARE CAPITAL

	31 December 2008 £'000	31 December 2007 £'000
Authorised share capital:		
400,000,000 Ordinary shares of £0.025 each	10,000	10,000

Allotted, called up and fully paid:

	31 December 2008		31 December 2007	
	No.	£'000	No.	£'000
Ordinary share capital brought forward	252,401,622	6,310	106,227,805	2,656
Issue of ordinary shares	34,015,697	850	146,173,817	3,654
	286,417,319	7,160	252,401,622	6,310

During the year, the consideration received for the allotment of ordinary shares of £0.025 each was £903,000 (2007: £7,001,738).

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 2008

22. SHARE CAPITAL (continued)

Warrants and Options

The following Deed of Warrant Grants were outstanding at 31 December 2008:

Number	Exercise price	Exercisable until
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
625,000	£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
18,220,785		

The following options were outstanding at 31 December 2008:

Number	Exercise price	Exercisable until
2,061,000	£0.62	29 September 2013
200,000	£0.72	12 October 2014
450,000	£0.48	27 September 2015
10,000	£0.42	31 October 2010
100,000	£0.68	22 November 2011
2,821,000		

23. 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
Available-for-sale	Gains/losses arising on financial assets classified as available-for-sale

> NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2008

24. 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
- listed and unlisted investments

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 2008 £'000	31 December 2007 £'000
Non-current financial assets		
Available-for-sale investments carried at fair value	855	—
Trade and other receivables	—	585
Current financial assets		
Trade and other receivables	228	537
Cash and cash equivalents	17	146
Financial assets carried at amortised cost	1,100	1,268
Current financial liabilities		
Trade and other payables	1,224	1,110
Current portion of borrowings	3,128	2,030
Financial liabilities at amortised cost	4,352	3,140

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 2008 was £245,000 (2007 – £1,268,000).

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 2008

24. FINANCIAL INSTRUMENTS (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.

Equity risk

The group is affected by conditions in the financial markets through its holdings in equity instruments. Equity risk arises from the exposure of these holdings to changes in prices and volatilities of equity prices. It is the Group's policy to review the fair value of the holdings and monitor the volatility of equity prices. This has not been a material risk to the Group in the current period.

25. DEFERRED TAX

The company has the following unrecognised deferred tax assets:

	2008 £'000	2007 £'000
Decelerated capital allowances	416	348
Short term timing differences	1,693	1,693
Losses	3,154	2,690
	5,263	4,731

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

> NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2008

26. 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)	2008 number	Weighted average exercise price (pence)	2007 number
Outstanding at the beginning of the year	59	3,863,000	59	4,463,000
Granted during the year	—	—	—	—
Exercised during the year	—	—	—	—
Lapsed during the year	61	(1,042,000)	58	(600,000)
	59	2,821,000	59	3,863,000

The exercise price of options outstanding at the end of the year ranged between 6p and 72p (2007: 6p and 72p) and their weighted average contractual life was 4.8 years (2007 – 6.2 years)

The weighted average share price (at the date of exercise) of options exercised during the year was nil p (2007: nil p)

The weighted average fair value of each option granted during the year was nil p (2007: nil p)

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

	Weighted average exercise price (pence)	2008 number	Weighted average exercise price (pence)	2007 number
Outstanding at the beginning of the year	11	20,115,785	17	33,532,754
Granted during the year	—	—	4	11,912,600
Exercised during the year	8	(125,000)	3	(7,350,000)
Lapsed during the year	24	(1,770,000)	17	(17,979,569)
	7	18,220,785	11	20,115,785

The exercise price of warrants outstanding at the end of the year ranged between 2.5p and 88p (2007: 2.5p and 88p) and their weighted average contractual life was 1.6 years (2007 – 2.4 years)

The weighted average share price (at the date of exercise) of warrants exercised during the year was 8p (2007: 3p)

The weighted average fair value of each warrant granted during the year was nil p (2007: 2 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
Equity-settled	
Option pricing model used	Black Scholes
Weighted average share price at grant date (pence)	4
Exercise price (pence)	4
Weighted average contractual life (days)	859
Equity-settled	
Expected volatility	28.05%
Expected dividend growth rate	—
Risk-free interest rate	4.43



> NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2008

26. SHARE BASED PAYMENTS (continued)

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.

The weighted average share price (at the date of exercise) of options exercised during the year was nil p (2007: nil p)

	2008	2007
The share based remuneration expense (note 4) comprises:		
Third parties	—	6
Employees	—	—
Equity settled schemes	—	6

27. EVENTS AFTER BALANCE SHEET DATE

The Standby Equity Distribution Agreement (SEDA) with Yorkville to the value of £5 million has been extended and now expires in September 2010. The first draw down has been made against this facility.

The company has not succeeded in overturning the original judgment obtained by a former employee of the Group in relation to the compensation claim which amounts to £0.56 million and is provided for in the accounts (see note 19) and the claim is now subject to mediation.

28. NOTES SUPPORTING THE CASH FLOW STATEMENT

	2008 £'000	2007 £'000
Significant non-cash transactions are as follows:		
Investing activities		
Purchase of available-for-sale financial assets	855	—
Purchases of plant and equipment	333	—
Financing activities		
Debt converted into equity	903	1,240
Other non-cash items	60	294

> OFFICERS AND PROFESSIONAL ADVISERS

THE BOARD OF DIRECTORS

K W Brooks
R Baynham
D C Shepley-Cuthbert
H C Bellingham

JOINT COMPANY SECRETARY

R E Sims
Oxford Corporate Services Limited

REGISTERED OFFICE

Regent House
316 Beulah Hill
London
SE19 3HF

AUDITORS

BDO Stoy Hayward LLP
125 Colmore Row
Birmingham
B3 3SD

BANKERS

Barclays Bank PLC
PO Box 44
Witney
Oxfordshire
OX8 7BA

COMPANY NUMBER

03443456

COMPANY WWW SITE

www.ertplc.com

