Annual Report & Accounts **2010**

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> Chairman's and Managing director's statement

Environmental Recycling Technologies plc is pleased to announce its results for the year ended 31 December 2010, a year which has seen important and successful progress in pursuit of our strategy to maximise the commercialisation of the patented rights to the Powder Impression Moulding ("PIM") process.

Results

Revenues together with other income for the year ended 31st December 2010 was £1.02 million (2009: £1.21 million). The loss on operations was £2.80 million (2009: £3.55 million). No dividend payment is proposed and the loss per share was 0.83 pence (2009: a loss of 1.44 pence).

Summary of Current Licensee Operations

United Kingdom – 2K Manufacturing

For 2K Manufacturing ("2K"), our current principal licensee, 2010 saw the first full scale commercialisation of the PIM process. Following the successful final commissioning of its production line, 2K commenced commercial production at its Luton facility of "EcoSheet", its award winning sustainable alternative to plywood.

This is a major milestone for ERT, as it offers clear evidence of the success of the PIM process and should therefore help accelerate industry demand amongst new licensees and further encourage prospective licensees with whom we are already in discussions. 2K has also signed further sub-licence agreements to allow the roll out of the PIM process in Spain, France, Belgium, Holland, Sweden and Switzerland. 2K has additional ambitious plans to sub-licence further its manufacturing system and "EcoSheet" product globally.

2K is installing a second PIM production line at its Luton facility. In addition, during 2010 2K installed material sorting and preparation equipment enabling it to now take in unseparated used waste plastic to use in the PIM process, further reducing the cost of materials and increasing its profit margins.

United Kingdom – Contour Showers Limited

Our other master licensee, Contour Showers Limited, continues commercial production of the "Ecodec" through a third party manufacturer. Contour Showers illustrates the PIM process's ability to manufacture high value, low volume products demonstrating the breadth of PIM's commercial potential.

United Kingdom – One Delta Limited

Progress by other current licensees on applications using our PIM Process is continuing. One Delta Limited is developing flood prevention systems, fencing for public access barriers and anti-ballistic fencing products using the PIM process. One Delta hopes to achieve its commercial milestones in the coming months.

United Kingdom - Arup

In 2010, ERT extended its current working relationship with ARUP, the leading global consulting engineers. ERT and ARUP are working together to identify commercial opportunities for the development of products using the PIM process from recycled plastic in the construction and engineering sectors.

International Commercial Opportunities

ERT's prime focus is to achieve commercial success in the UK and Europe but nonetheless ERT continues to receive international enquiries. With the assistance of a number of partners, we continue to examine each of these international opportunities.

Extension of the ERT Patent portfolio during 2010

ERT has continued its patent protection programme throughout the world during 2010. We have sought protection for the PIM process in the major markets in the world where the Board believes there is the greatest commercial potential. In 2010, ERT succeeded in obtaining its European patent which covers a further 21 territories in the EU and Western Europe. Patents have also been successfully granted in Australia, Canada and New Zealand and patents have also been granted in Singapore and China. Additional international patent grants and enforcement of any potential patent breaches remain an important focus for ERT.

Board Change

As a result of being appointed as Parliamentary Under-Secretary of State (Foreign & Commonwealth Office), Henry Bellingham resigned as a Non-Executive Director of ERT on 21 May 2010. The directors of ERT would like to congratulate Henry on his appointment and are grateful to him for his contribution to the Company over the years.

> Chairman's and Managing director's statement

The PIM Process and the Environmental Policy Initiatives in the UK

Roger Baynham, ERT's Managing Director became Chairman of the PBF Recycling Group at the end of 2010. This is an influential industry group and, through this body, Roger has been able to extend further commercial awareness of ERT and the PIM process. Most importantly, he is able to show PIM process commercial applications which utilise co-mingled plastic waste.

The plastics recycling sector is witnessing unprecedented growth in the UK and of particular significance is the recent opening of the first mixed plastics recycling plant in the UK at Teesside with the assistance of funding from the Waste & Resources Action Programme (WRAP) a not-for-profit company funded by Government to help businesses reap the benefits of reducing waste and develop sustainable products.

The Environmental Services Association has estimated that capital expenditure of between £10-20 billion will be required over the next 10 years to fund new materials recycling and energy recovery infrastructure. As the UK's infrastructure evolves to cope with new demands, the performance of existing technologies will have to be improved and further technologies that are new to the waste sector and resources sector will need to be developed on a commercial scale. The PIM process is currently one of the emerging technologies that should benefit from such policy focus.

Further as a result of the environmental policy agenda and initiatives emanating from both government and industry, waste is now perceived as a critical resource which can help towards the stated goals of a low carbon economy. Plastic recyclers cannot currently obtain sufficient raw materials for processing into recyclate to meet the needs of domestic manufacturers. In addition, how the materials are collected and sorted before they are sent to reprocessing is now the single most important factor driving the quality of recycled and recovered materials. It also affects the viability of many reprocessing technologies. In this respect a key differentiator of the PIM process is an ability to use a range of recycled plastics without the need for pre-sorting them.

Outlook

The early months of the current year have seen continuing good progress. The commercial progress made by 2K in 2010 has led to new enquiries from potential partners both from within the UK and internationally during 2011. ERT is now in a position to extend its business model both in terms of increasing the patent portfolio and the number of commercial partners to exploit the benefits of the PIM process technology. We look forward to the coming year with optimism and believe that over the next 12 months, new exciting opportunities will arise.

KEN BROOKS
Chairman

ROGER BAYNHAM
Managing Director

> Financial review

For the year ended 31 December 2010

Results

Revenue together with other income for the year ended 31 December 2010 was £1.02 million (2009: £1.21 million). The loss on operations was £2.80 million (2009: £3.55 million). Total comprehensive losses attributable to equity shareholders were £3.32 million (2009: £4.65 million).

Dividends and loss per share

No dividend payment is proposed. The loss per share was 0.83 pence (2009: 1.44 pence).

Trading and Outlook

The progress towards profitability continues to be challenging and the group has reported another operating loss for the year. Whilst there are a number of uncertainties as outlined in the Directors' report and in notes 1 and 23 to the financial statements, the outlook is now more promising as 2K Manufacturing gears up its production of its "EcoSheet".

Administrative expenses excluding exceptional items for the period were £2.41 million (2009: £2.17 million). The loss on operations before exceptional items was £1.39 million (2009: £0.96 million).

Exceptional costs were £1.41 million (2009: £2.59 million) were incurred during the year in relation to the final settlement of the financial guarantee in respect of the financial guarantee in respect of the Alpha Line sale and leaseback agreement which was settled in full in April 2011 and impairment of the available-for-sale financial assets (see note 5).

Financing

The company meets its day to day cost base by managing its cash resources and securing appropriate levels of finance to settle their liabilities as they fall due. Additional cash funds of £0.38 million were raised during the year through the issue of new shares.

Trade payables have fallen by £0.64 million to £0.63 million (2009: £1.27 million). £0.99 million were settled by way of a debt for equity swap.

Furthermore, the settlement costs associated with a former employee in Kyrgyzstan amounting to £1.02 million at 31 December 2009 have partially been repaid during the year in cash (£0.21 million) and via a debt for equity swap of £0.45 million.

Total borrowings amounted to £2.48 million. During the year YA Global Investments Limited ("Yorkville") converted a further £1.22 million into equity reducing the loan balance outstanding to £0.81 million as at 31 December 2010. The loan facility was renewed during the year with £0.55 million of accrued interest capitalised as part of the new loan agreement with an attached interest rate of 14% per annum. In February 2011, the loan balance and associated interest owed to Yorkville was repaid in full.

In addition, a further debt for equity swap in relation to other loans and accrued interest amounting to £2.27 million took place during the year. As at 31 December 2010 other loan balances outstanding amounted to £1.67 million (2009: £1.58 million).

As far as other loans are concerned, the directors have received written assurance from the lenders of £1.02 million (2009: £1.1 million) that there is no intention to request immediate repayment of the liabilities and that subject to agreement, the lender would accept repayment by way of a debt for equity swap.

The Standby Equity Distribution Agreement ("SEDA") with Yorkville to the value of £5 million was not renewed as the directors no longer considered it necessary to have the SEDA facility in place.

On 31 January 2011, the company entered into a subscription agreement with a new investor to raise £0.54 million by issuing 13.5 million new shares at a price of 4 pence. As part of that subscription, the company agreed to issue warrants over 6 million new shares which were subsequently exercised.

In addition, the new investor indicated in writing that they would be willing to subscribe for a further 13.5 million new shares at a price of 4 pence at any time up to 20 April 2011. This offer was accepted on 25 March 2011 which raised further funds of £0.54 million

Going concern

Based upon forecasts prepared, after making enquiries and the comments made 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 (see note 1).

DAVID SHEPLEY-CUTHBERT
Finance Director

> Directors' report

For the year ended 31 December 2010

The Directors present their report and the financial statements of the Group for the year ended 31 December 2010.

Principal activities and business review

The principal activity of the Company is the licensing of the intellectual property of the Powder Impression Moulding (PIM) system to third parties for specific products and geographical areas of the world in order to generate fees and on-going royalties. The enhanced review of the business is contained within the Chairman's and Managing Director's Statement on pages 1 and 2. The company's subsidiaries do not trade.

Future developments

The future developments of the business are set out within the Chairman's and Managing Director's Statement on pages 1 and 2.

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 2010	At 31 December 2009
K W Brooks	**10,965,088**	1,022,000
R Baynham	**4,641,079**	500
D C Shepley-Cuthbert	**3,666,400**	122,500
H C Bellingham (resigned 21 May 2010)	**Nil**	300,000

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

	K W Brooks	R Baynham	D C Shepley-Cuthbert	H C Bellingham	Total
Emoluments	141	109	44	19	313
Fees paid to third parties	—	27	47	—	74
	141	**136**	**91**	**19**	**387**
Share-based payments	56	56	28	—	140
	197	**192**	**119**	**19**	**527**

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

	At 1 January 2010	**At 31 December 2010**	Exercise price £	Date from which exercisable	Expiry Date
KK W Brooks	—	**9,000,000**	0.025	07.07.10	07.07.13
	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
R Baynham	—	**9,000,000**	0.025	07.07.10	07.07.13
D C Shepley-Cuthbert	—	**4,500,000**	0.025	07.07.10	07.07.13
	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 2010 the middle market price of the shares was 4.38p per share, and the range during the year was between 1.10p and 6.02p.

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 89 days purchases outstanding at 31 December 2010 (2009 – 87 days) based on the average daily amount invoiced by suppliers during the year ended 31 December 2010.

Principal risks and uncertainties

The Company is exposed to a variety of risk in the conduct of its normal operations. Whilst it is not possible to either completely record or to quantify every material risk that the Company faces, below is a summary of those risks that the directors believe are most significant to the Company's business and could have a material impact on future performance, causing it to differ materially from expected or historic achieved results.

Commercialisation of the PIM process

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. See Chairman's and Managing Director's Statement for more details.

Royalty revenues

The Company hopes to achieve significant royalty revenues in the future which are subject to the successful development of each customer's products being produced under licence from ERT. Future royalty revenues have an inherent uncertainty as they are principally derived from the number of units produced by customers and are subject to variations in patterns of demand.

Treasury function

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.

Credit risk

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.

Customer concentration, programme dependencies and relationships

The loss of, or deterioration in any single customer relationship could have a material impact on the group's results.

Financial guarantee obligations

The Company is exposed to a financial liability as reported in note 19 to the accounts.

Indemnity cover

The Company purchases Directors and Officers insurance cover to protect the Directors from third party claims. Indemnity cover was in force during the year under review and was in force at the date of the directors' report.

Financial Instruments

Details of the use of financial instruments by the Company and its subsidiary undertakings are contained in note 23 of the financial statements.

Events after the reporting period

Details of events after the reporting period are given in note 26.

Directors' responsibilities

The Directors are responsible for preparing the Annual Report and the Financial Statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare Financial Statements for each financial year. Under that law the Directors have elected to prepare the group Financial Statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law the Directors must not approve the Financial Statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and company and of the profit or loss of the group and company for that period. The Directors are also required to prepare Financial Statements in accordance with the rules of the London Stock Exchange for companies trading securities on the Alternative Investment Market.

In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent:
- state whether they have been prepared in accordance with IFRSs as adopted by the European Union, subject to any material departures disclosed and explained in the Financial Statements:

> DIRECTORS' REPORT (continued)

For the year ended 31 December 2010

- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the Financial Statements comply with the requirements of the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence taking reasonable steps for the prevention and detection of fraud and other irregularities.

Website publication

The Directors are responsible for ensuring the Annual Report and the Financial Statements are made available on a website. Financial statements are published on the Company'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 company's website is the responsibility of the directors. The directors' responsibility also extends to the on-going 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 Baynham.

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 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 16 June 2011

> Independent auditors' report

To the members of Environmental Recycling Technologies plc

We have audited the financial statements of Environmental Recycling Technologies plc for the year ended 31 December 2010 which comprise the Group Statement of Comprehensive Income, the Group and Company Statement of Financial Position, the Group and Company Statement of Changes in Equity, the Group and Company Statement of Cash Flow and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As explained more fully in the statement of directors' responsibilities, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's website at www.frc.org.uk/apb/scope/private.cfm.

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the group's and the parent company's affairs as at 31 December 2010 and of the group loss for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

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

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

Stephen Ward (senior statutory auditor)
For and on behalf of BDO LLP, statutory auditor
Birmingham
United Kingdom

16 June 2011

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127)

> Group statement of comprehensive income

For the year ended 31 December 2010

Continuing operations	note	**Year ended 31 December 2010 £'000**	Year ended 31 December 2009 £'000
Revenue	3	**1,016**	1,101
Other income		**—**	106
Administrative expenses			
Exceptional	5	**(1,407)**	(2,586)
Other		**(2,410)**	(2,167)
Total administrative expenses		**(3,817)**	(4,753)
Loss on operations	4	**(2,801)**	(3,546)
Finance income	8	**629**	—
Finance costs	9	**(1,230)**	(948)
Loss for the year before income tax		**(3,402)**	(4,494)
Tax charge/(credit) on loss on ordinary activities	10	**—**	—
Loss for the year from continuing operations attributable to equity shareholders of the company		**(3,402)**	(4,494)
Other comprehensive income			
Available-for-sale financial assets			
– foreign currency and valuation movements		**4**	(154)
– impairment		**80**	—
Tax charge/(credit) on other comprehensive income		**—**	—
Other comprehensive income (net of tax)		**84**	(154)
Total comprehensive loss for the year attributable to equity shareholders of the company		**(3,318)**	(4,648)
Loss per share (pence)			
Basic and diluted loss per share	12	**(0.83p)**	(1.44p)

Notes on pages 13 to 36 form part of these financial statements.

> Group statement of financial position

At 31 December 2010

Assets	note	**£'000**	**31 December 2010 £'000**	£'000	31 December 2009 £'000
Non-Current Assets					
Intangible assets	13		**8,897**		9,791
Plant & equipment	14		**—**		—
Available-for-sale financial assets	15		**163**		701
Total non-current assets			**9,060**		10,492
Current assets					
Trade and other receivables	16	**1,455**		804	
Cash and cash equivalents		**177**		204	
Total current assets			**1,632**		1,008
Total assets			**10,692**		11,500
Liabilities					
Current liabilities					
Trade and other payables	17	**1,873**		2,247	
Borrowings	18	**2,475**		3,050	
Provisions	19	**2,202**		2,433	
Total current liabilities			**6,550**		7,730
Total liabilities			**6,550**		7,730
Net assets			**4,142**		3,770
Equity attributable to the shareholders of the parent					
Share capital	21		**12,247**		8,412
Share premium reserve	22		**35,749**		35,500
Warrant reserve	22		**564**		945
Available-for-sale reserve	22		**(70)**		(154)
Retained earnings	22		**(44,348)**		(40,933)
Total equity			**4,142**		3,770

The financial statements on pages 8 to 36 were approved and authorised for issue by the Board on 16 June 2011 and were signed on its behalf by:

K W BROOKS
Chairman

The notes on pages 13 to 36 form part of these financial statements.

> Company statement of financial position

At 31 December 2010

Assets	note	£'000	31 December 2010 £'000	£'000	31 December 2009 £'000
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K W BROOKS
Chairman

The notes on pages 13 to 36 form part of these financial statements.

> Group and company statement of changes in equity

Year ended 31 December 2010

	Share Capital £'000	Share Premium £'000	Warrant Reserves £'000	Available for sale Reserve £'000	Retained earnings £'000	Total £'000
Loss for year	—	—	—	—	(3,402)	(3,402)
Foreign currency movement	—	—	—	4	—	4
Impairment	—	—	—	80	—	80
Total comprehensive loss for the year	**—**	**—**	**—**	**84**	**(3,402)**	**(3,318)**
Issue of share capital	3,835	249	—	—	(629)	3,455
Warrants and options granted	—	—	235	—	—	235
Warrants granted	—	—	112	—	(112)	—
Warrants and options exercised	—	—	(104)	—	104	—
Warrants and options lapsed	—	—	(624)	—	624	—
Movement for the year	**3,835**	**249**	**(381)**	**84**	**(3,415)**	**372**
Balance at 1 January 2010	8,412	35,500	945	(154)	(40,933)	3,770
Balance at 31 December 2010	**12,247**	**35,749**	**564**	**(70)**	**(44,348)**	**4,142**

Year ended 31 December 2009

	Share Capital £'000	Share Premium £'000	Warrant Reserves £'000	Available for sale Reserve £'000	Retained earnings £'000	Total £'000
Loss for year	—	—	—	—	(4,494)	(4,494)
Foreign currency and valuation movements	—	—	—	(154)	—	(154)
Total comprehensive loss for the year	**—**	**—**	**—**	**(154)**	**(4,494)**	**(4,648)**
Issue of share capital	1,252	—	—	—	—	1,252
Warrants and options lapsed	—	—	(76)	—	76	—
Movement for the year	**1,252**	**—**	**(76)**	**(154)**	**(4,418)**	**(3,396)**
Balance at 1 January 2009	7,160	35,500	1,021	—	(36,515)	7,166
Balance at 31 December 2009	**8,412**	**35,500**	**945**	**(154)**	**(40,933)**	**3,770**

The group consists of the parent company and two 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 36 form part of these financial statements.

> Group and company statement of cash flow

For the year ended 31 December 2010

	note	**31 December 2010 £'000**	31 December 2009 £'000
Continuing Activities			
Loss before tax		**(3,402)**	(4,494)
Adjusted for:			
Depreciation on plant and equipment		**—**	296
Amortisation of intangible assets		**894**	894
Accrued interest costs		**380**	368
Share options granted		**172**	—
Warrants granted		**63**	—
Gains on liabilities settled in shares		**(629)**	—
Impairment of available-for-sale financial assets		**622**	—
Debt issue costs		**824**	546
Adjusted loss from operations		**(1,076)**	(2,390)
Increase in trade and other receivables		**(651)**	(576)
Increase in trade and other payables		**463**	861
Increase in provisions		**579**	1,870
Cash used by operations		**(685)**	(235)
Tax receipt		**—**	—
Net cash outflow from operations		**(685)**	(235)
Cash flows from investing activities			
Issue of equity share capital		**378**	—
Inception of loans		**280**	543
Repayment of loans		**—**	(121)
Interest paid		**—**	—
Net increase in cash from financing activities		**658**	422
Net (decrease)/increase in cash		**(27)**	187
Cash and cash equivalents at beginning of period		**204**	17
Cash and cash equivalents at end of year	27	**177**	204

The group consists of the parent company and two 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 36 form part of these financial statements.

> Notes to the financial statements

For the year ended 31 December 2010

1. ACCOUNTING POLICIES

Basis of preparation

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"). The financial statements have also been prepared in accordance with those parts of the Companies Act 2006 applicable to companies preparing financial statements in accordance with IFRS.

The group has adopted early IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments (effective for accounting periods beginning on or after 1 April 2010), see accounting policy below. The interpretation addresses transactions in which an entity issues equity instruments to a creditor in return for the extinguishment of all or part of a financial liability. The impact of the early adoption of IFRIC 19 has been to recognise a gain of £0.63 million within the overall loss for the year. The comparatives have not been restated because the impact of applying IFRIC 19 to the prior year was not material.

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 23 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 continued to manage cash resources and secure appropriate levels of finance. At the date of approving these accounts the company has repaid the debt owed to Yorkville including accrued interest. Debts owed to other lenders amount to £1.8 million and are due for repayment before 31 December 2011.

The directors are in discussions with other lenders to settle the outstanding loans by the issue of shares in the company rather than settling in cash. During the year other lenders converted £2.27 million into shares.

In addition, written assurance has been received from one lender covering £1.02 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. Similarly the expectations arising from the terms of the remaining loan arrangement are that the lenders would accept settlement in shares if the company was unable to repay the loans.

During the year the company exited the Standby Equity Distribution Agreement (SEDA) with Yorkville as the directors no longer considered the facility necessary.

The directors have prepared forecasts that indicate that the company and group have adequate resources to meet commitments as they fall due. Furthermore, the directors have obtained written confirmation from YA Global Limited ("Yorkville") confirming their willingness to make available to the company, if required, a SEDA facility amounting to the value of £2 million on acceptable terms to cover the company's normal overheads in the foreseeable future.

The directors acknowledge that due to the reliance on 2K Manufacturing, and the reliance on the above lenders for financial support, there is a degree of uncertainty that this support will continue although, at the date of approval of these financial statements, they have no reason to believe that they will not do so. Therefore after making enquiries and considering the uncertainties described above the directors consider that the group and the company will have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and accounts.

The financial statements do not include any adjustments that would result from the basis of preparation being inappropriate.

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.

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.

> NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2010

1. ACCOUNTING POLICIES (continued)

Licence income is recognised on a straight line basis over the shorter of the cancellation period or the term of the contract. Minimum annual and any overriding 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.

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 statement of comprehensive income. Development expenditure not satisfying the above criteria and expenditure on the research phase of internal projects are recognised in the consolidated statement of comprehensive income 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 statement of comprehensive income.

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 statement of financial position 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 statement of comprehensive income, 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 statement of comprehensive income 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 dependent 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 statement of comprehensive income.

1. ACCOUNTING POLICIES (continued)

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 statement of financial position 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 reporting 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 reporting 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 reporting date. Exchange differences arising on the retranslation of unsettled monetary assets and liabilities are recognised immediately in the consolidated statement of comprehensive income.

Operating Segments

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker has been identified as the board of directors. The board reviews the Group's internal reporting in order to assess performance. Management has determined the operating segments on these reports.

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 statement of comprehensive income. 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 statement of comprehensive income.

> Notes to the financial statements (continued)

For the year ended 31 December 2010

1. ACCOUNTING POLICIES (continued)

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 statement of comprehensive income. 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 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 statement of financial position. 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 statement of comprehensive income.

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.

1. ACCOUNTING POLICIES (continued)

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.

Extinguishing financial liabilities with shares

When shares are issued to extinguish all or part of a financial liability, they are recognised initially at their fair value at the date of issue. The difference between the carrying amount of the financial liability extinguished and fair value of the shares is recognised as a gain or loss in profit or loss within the statement of comprehensive income.

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 statement of comprehensive income over the vesting period. Non market vesting conditions are taken into account by adjusting the number of equity instruments expected to vest at each reporting 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 statement of comprehensive income 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 2011 or later periods and which have not been adopted early. Those considered relevant to the group include:

– *IAS 32 Financial Instruments: Presentation* (effective for accounting periods beginning on or after 1 February 2010). This Amendment addresses the accounting for rights issues (rights, options or warrants) that are denominated in a currency other than the functional currency of the issuer. Previously such rights issues were accounted for as derivative liabilities. However, the Amendment requires that, provided the entity offers the rights, options or warrants pro rata to all of its existing owners of the same class of its own non-derivative equity instruments, such rights issues are classified as equity regardless of the currency in which the exercise price is denominated.

– *Revised IAS 24 Related Party Transactions* (effective for accounting periods beginning on or after 1 January 2011). The revision of IAS24 is in response to concerns that the previous disclosure requirements and the definition of a related party were too complex and difficult to apply in practice, especially in environments where government control is pervasive. The revised standard addresses these concerns.

– *Improvements to IFRSs* (2010) (generally effective for accounting periods beginning on or after 1 January 2011). The improvements in this Amendment clarify the requirements of IFRSs and eliminate inconsistencies within and between Standards.

>NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2010

1. ACCOUNTING POLICIES (continued)

The changes include amendments to:

IFRS 3 (Revised 2008) 'Business combinations' including: (i) Clarification that the treatment of contingent consideration arising in business combinations occurring before the effective date of IFRS 3(R) continues to be treated under the old requirements. (ii) Limiting the choice to measure non-controlling interests at a proportionate share in recognised amounts of the acquiree's identified net assets to present ownership interests with other components of the non-controlling interest being measured at fair value. (iii) The inclusion or otherwise in the cost of investment of replacement share-based payment awards provided to employees of the acquiree.

IFRS 7 'Financial Instruments': Disclosures including clarification that an entity should provide qualitative disclosures in the context of quantitative disclosures to enable users to link related disclosures and hence form an overall picture of the nature and extent of risks arising from financial instruments.

IAS 1 (Revised 2007) 'Presentation of financial statements' clarifying that the analysis of components of other comprehensive income in the statement of changes in equity may be presented in a note.

Improvements to IFRSs (2010) also made minor amendments to the wording of IFRIC 13 'Customer loyalty programmes' regarding the valuation of award credits and the transitional arrangements for amendments to IAS 21 'The effects of changes in foreign exchange rates' and IAS 28 'Investments in associates' in respect of the loss of control or significant influence which were introduced by IAS 27 (as amended 2008) 'Consolidated and separate financial statements'.

IFRS 7 Financial Instruments: Disclosures (effective for accounting periods beginning on or after 1 July 2011). This Amendment requires the disclosure of information in respect of all transferred financial assets that are not derecognised and for any continuing involvement in a transferred asset, existing at the reporting date, irrespective of when the related transfer transaction occurred. The disclosures are intended to enable users of financial statement: (a) to understand the relationship between transferred financial assets that are not derecognised in their entirety and the associated liabilities; and (b) to evaluate the nature of, and risks associated with, the entity's continuing involvement in derecognised financial assets.

– *IFRS 9 Financial Instruments* (effective from accounting periods beginning 1 January 2013) IFRS 9 will eventually replace IAS 39 in its entirety. However, the process has been divided into three main components: Classification and measurement; impairment; and, hedge accounting. As each phase is completed, it will delete the relevant portions of IAS 39 and create new chapters in IFRS 9.

IFRS 9 addresses the classification and measurement of financial assets only.

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.

(b) Legal proceedings and finance guarantee obligations

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 reporting 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 obligation of each contract and the estimates affect reported revenue.

> NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2010

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 on-going royalties.

In the opinion of the directors, the only operating 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.

All assets are held in the UK.

Reporting of external revenue by location of customer is as follows:

	Year ended 31 December 2010 £'000	Year ended 31 December 2009 £'000
United Kingdom	**1,016**	801
Rest of Europe	**—**	—
North America	**—**	300
	1,016	1,101

Revenue arises from:	**Year ended 31 December 2010 £'000**	Year ended 31 December 2009 £'000
Licence income	**666**	517
Royalties	**350**	583
Pre-production sales	**—**	1
	1,016	1,101

Revenues of £1,016,000 (2009: £800,000) related to customer A, £Nil (2009: £300,000) to customer B and £Nil (2009: £1,470) to customer C of the group's total revenue respectively.

4. LOSS ON OPERATIONS BEFORE INTEREST AND FINANCE

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

	Year ended 31 December 2010 £'000	Year ended 31 December 2009 £'000
Depreciation of plant and equipment	**—**	296
Amortisation of intangible fixed assets	**894**	894
Fees payable to the Group's auditor in respect of –		
– Audit of the Group's annual accounts	**38**	44
– Other services	**8**	9
– Tax services	**7**	7
Impairment of available-for-sale asset	**622**	—
Share options granted	**172**	—
Warrants granted in respect of services	**19**	—
Warrants granted in respect of loans	**44**	—
Stock lending costs	**591**	489
Grant income	**—**	(106)

Grant income is of a revenue nature.

Amounts paid to the company's auditor in respect of services to the company, other than the audit of the Company's financial statements, have not been disclosed as the information is required instead to be disclosed on a consolidated basis.

5. EXCEPTIONAL ITEMS

	Year ended 31 December 2010 £'000	Year ended 31 December 2009 £'000
Legal and settlement costs	**—**	749
Product development work	**—**	7
Impairment of available-for-sale financial assets	**622**	—
Finance guarantee obligations	**785**	1,830
	1,407	2,586

The legal and settlement costs are associated with the claim from a former employee in Kyrgyzstan. The product development work relates to fulfilling contractual obligations for pre-production work for Contour. Finance guarantee obligations relates to a financial guarantee dated August 2006, which guaranteed the Alpha Line finance agreement with 3DM Group Limited, which company (with 3DM Europe Limited) was subsequently sold to Enviro Polytek Limited (formerly Environmental Polymer Technologies Limited) on 30 November 2006 (see note 19).

6. PARTICULARS OF EMPLOYEES

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

	Group & Company	
	Year ended 31 December 2010 £'000	Year ended 31 December 2009 £'000
Administrative staff	**1**	1
Management staff	**3**	4
	4	5

The aggregate staff costs (including directors) were:

	Group & Company	
	Year ended 31 December 2010 £'000	Year ended 31 December 2009 £'000
Wages and salaries	**533**	186
Social security costs	**19**	21
	552	207

7. DIRECTORS' EMOLUMENTS

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

	Year ended 31 December 2010 £'000	Year ended 31 December 2009 £'000
Emoluments receivable	**313**	120
Amounts paid to third parties in respect of directors' services	**74**	60
	387	180
Share based payments	**140**	—
	527	180

Emoluments of the highest paid director were £141,000 (2009: £60,000). See note 20 for details of related party transactions. No contributions were paid on behalf of directors to pension schemes (2009: £Nil).

> NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2010

8. FINANCE INCOME

	Year ended 31 December 2010 £'000	Year ended 31 December 2009 £'000
Gain on liabilities settled in shares	**629**	—
Total finance income	**629**	—

9. FINANCE COSTS

	Year ended 31 December 2010 £'000	Year ended 31 December 2009 £'000
Loan interest	**380**	367
Bank interest	**1**	1
Stock lending costs	**591**	489
Amortisation of finance costs	**214**	91
Warrants granted in respect of loans	**44**	—
Total finance costs	**1,230**	948

10. INCOME TAX ON LOSS ON OPERATIONS

	Year ended 31 December 2010 £'000	Year ended 31 December 2009 £'000
Current tax charge/(credit) for the year	**—**	—

In 2010, the tax assessed for 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 2010 £'000	Year ended 31 December 2009 £'000
Loss before tax from continuing operations:	**(3,402)**	(4,494)
Loss from continuing operations at the standard rate of Corporation tax in the UK of 28% (2009 – 28%)	**(953)**	(1,258)
Effect of:		
Expenses not deductible for tax purposes	**681**	510
Depreciation in excess of capital allowances	**—**	83
Tax losses carried forward (net)	**272**	665
Current tax charge/(credit) for the year	**—**	—

11. LOSS ATTRIBUTABLE TO MEMBERS OF THE PARENT COMPANY

The company has taken advantage of the exemption allowed under Section 408 of the Companies Act 2006 and has not presented its own profit and loss account in these financial statements.

The retained loss dealt with in the financial statements of the parent Company was £3,402,000 (2009: £4,494,000).

12. EARNINGS PER SHARE

	Year ended 31 December 2010 £'000	Year ended 31 December 2009 £'000
Numerator		
Loss used for calculation of basic and diluted EPS	**(3,402)**	(4,494)

	Year ended 31 December 2010 number	Year ended 31 December 2009 number
Denominator		
Weighted average number of shares used in basic and diluted EPS	**410,921,812**	311,557,369

At 31 December 2010, there were 39,979,185 (2009: 12,896,785) of potentially issuable shares which are anti-dilutive; such shares may become dilutive in future periods.

Since the year end, the Company has issued additional shares (see note 26) which would have impacted on the earnings per share calculation if they had occurred before 31 December 2010.

> Notes to the financial statements (continued)

For the year ended 31 December 2010

13. INTANGIBLE ASSETS

	Licences £'000	Intellectual property £'000	Total £'000
GROUP AND COMPANY			
Cost			
At 1 January 2010	1,250	15,247	16,497
At 31 December 2010	**1,250**	**15,247**	**16,497**
Amortisation			
At 1 January 2010	210	6,496	6,706
Charge for the year	70	824	894
At 31 December 2010	**280**	**7,320**	**7,600**
Net book value			
At 31 December 2010	**970**	**7,927**	**8,897**
At 31 December 2009	1,040	8,751	9,791

GROUP AND COMPANY	Licences £'000	Intellectual property £'000	Total £'000
Cost			
At 1 January 2009	1,250	15,247	16,497
At 31 December 2009	**1,250**	**15,247**	**16,497**
Amortisation			
At 1 January 2009	140	5,672	5,812
Charge for the year	70	824	894
At 31 December 2009	**210**	**6,496**	**6,706**
Net book value			
At 31 December 2009	**1,040**	**8,751**	**9,791**
At 31 December 2008	1,110	9,575	10,685

Licence fees are initially recognised at cost and are amortised over their useful economic life of 20 years. At 31 December 2010, the remaining amortisation period is 16 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 2010, the remaining amortisation period is 10 years.

14. PLANT AND EQUIPMENT

	Plant & machinery £'000	Total £'000
GROUP AND COMPANY		
Cost		
At 1 January 2010	891	891
At 31 December 2010	**891**	**891**
Depreciation		
At 1 January 2010	891	891
At 31 December 2010	**891**	**891**
Net book value		
At 31 December 2010	**—**	**—**
At 31 December 2009	—	—

	Plant & machinery £'000	Total £'000
GROUP AND COMPANY		
Cost		
At 1 January 2009	891	566
At 31 December 2009	**891**	**891**
Depreciation		
At 1 January 2009	595	595
Charge for the year	296	296
At 31 December 2009	**891**	**891**
Net book value		
At 31 December 2009	**—**	**—**
At 31 December 2008	296	296

> NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2010

15. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	Listed Shares £'000	Total £'000
GROUP AND COMPANY		
Cost		
At 1 January 2010	701	701
Unrealised foreign exchange losses	4	4
Impairment	(542)	(542)
At 31 December 2010	**163**	**163**

	Unlisted Shares £'000	Listed Shares £'000	Total £'000
GROUP AND COMPANY			
Cost			
At 1 January 2009	445	410	855
Equity swap	(445)	445	—
Unrealised foreign exchange losses	—	(74)	(74)
Net losses transferred to equity	—	(80)	(80)
At 31 December 2009	**—**	**701**	**701**

During 2008, 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 paid licence fees due amounting to US$650,000 by issuing 1,083,333 shares. These GTI Inc. shares were exchanged for 520,000 shares in LBOC on 30 March 2009.

Listed shares are carried at fair value based on quoted market prices (level 1).

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

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 2010 £'000	31 December 2009 £'000	**31 December 2010 £'000**	31 December 2009 £'000
Current – due within one year				
Trade receivables	**—**	335	**—**	335
VAT recoverable	**7**	4	**7**	4
Other debtors and prepayments	**1,448**	465	**1,448**	465
	1,455	804	**1,455**	804

All receivable balances are in sterling. As at 31 December 2010 trade receivables of £300,000 were past due, reviewed by the directors and provided in full for non-payment.

	Group		Company	
	31 December 2010 £'000	31 December 2009 £'000	**31 December 2010 £'000**	31 December 2009 £'000
Current – due within one year				
Trade receivables	**300**	335	**300**	335
Provision	**(300)**	—	**(300)**	—
	—	335	**—**	335

The ageing analysis of these receivables past due but not impaired is as follows:

	31 December 2010 £'000	31 December 2009 £'000	**31 December 2010 £'000**	31 December 2009 £'000
6 to 12 months	**—**	150	**—**	150
	—	150	**—**	150

The Group's main income is from licence and royalty fees. Accrued income and receivables are regularly reviewed by the board of directors to assess the recoverability of amounts due.

17. TRADE AND OTHER PAYABLES – CURRENT

	Group		Company	
	31 December 2010 £'000	31 December 2009 £'000	**31 December 2010 £'000**	31 December 2009 £'000
Trade payables	**626**	1,272	**626**	1,272
Social security and other taxes	**14**	39	**14**	39
Accruals and deferred income	**878**	936	**878**	936
Other payables (see note 19)	**355**	—	**355**	—
	1,873	2,247	**1,873**	2,247

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

All trade and other payables fall due for payment within one year except for £200,000 in relation to the former employee settlement cost, due for payment in 2012.

Other payables cover claims for legal and settlement costs associated with a former employee in Kyrgyzstan. This financial liability was previously included within provisions and was transferred to other payables following final settlement. Amounts paid during the year to the former employee and legal advisors were offset against the provision.

> NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2010

18. BORROWINGS

	Group		Company	
	31 December 2010 £'000	31 December 2009 £'000	**31 December 2010 £'000**	31 December 2009 £'000
Current – due within one year				
Short term borrowings	**1,670**	1,576	**1,670**	1,576
Current portion of long term borrowings	**805**	1,474	**805**	1,474
Total borrowings	**2,475**	3,050	**2,475**	3,050

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

	Group		Company	
	31 December 2010 £'000	31 December 2009 £'000	**31 December 2010 £'000**	31 December 2009 £'000
YA Global Investment Limited — current	**805**	1,474	**805**	1,474
Other loans	**1,670**	1,576	**1,670**	1,576
Total borrowings	**2,475**	3,050	**2,475**	3,050

The amounts due to YA Global Investments Limited ("Yorkville") are stated net of unamortised finance costs. The 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 assets of the undertaking. The loan was due for repayment on 31 December 2011 and simple interest is being charged at 14% per annum. Since the financial year end, the outstanding loan and accrued interest has been settled and the debenture is in the process of being released.

Other cash loans advanced during the year totalled £280,000 and £1,217,000 was advanced to repay Yorkville. A further £814,399 costs were incurred for stock lending and arrangement fees. Other loans totalling £2,266,624 were converted during the year into Ordinary Shares by way of a debt for equity swap. 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.

19. PROVISIONS

	Group		Company	
	31 December 2010 £'000	31 December 2009 £'000	**31 December 2010 £'000**	31 December 2009 £'000
Legal claims				
At 1 January 2010	**1,016**	563	**1,016**	563
Increase in provision	**—**	601	**—**	601
Amounts repaid	**(661)**	(148)	**(661)**	(148)
Transferred to other payables (see note 17)	**(355)**	—	**(355)**	—
At 31 December 2010	**—**	1,016	**—**	1,016

	Group		Company	
	31 December 2010 £'000	31 December 2009 £'000	**31 December 2010 £'000**	31 December 2009 £'000
Finance guarantee obligations				
At 1 January 2010	**1,417**	—	**1,417**	—
Increase in provision	**785**	1,417	**785**	1,417
At 31 December 2010	**2,202**	1,417	**2,202**	1,417

	Group		Company	
	31 December 2010 £'000	31 December 2009 £'000	**31 December 2010 £'000**	31 December 2009 £'000
Current	**—**	1,079	**—**	1,079
Non-current	**2,202**	1,354	**2,202**	1,354
	2,202	2,433	**2,202**	2,433

Provisions cover claims for legal and settlement costs associated with a former employee in Kyrgyzstan. Amounts paid during the year to the former employee and legal advisors were offset against the provision.

Finance guarantee obligations relate to a financial guarantee dated August 2006, which guaranteed the Alpha Line finance agreement with 3DM Group Ltd, which company (with 3DM Europe) was subsequently sold to Enviro Polytek (formerly Environmental Polymer Technologies Limited) on 30 November 2006. On 15 January 2010, Enviro Polytek Limited went into administration. The finance guarantee obligation provision has been increased to reflect the full and final settlement terms that have been negotiated in April 2011.

> NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2010

20. RELATED PARTY TRANSACTIONS

Invoices totalling £50,011 (2009: £59,710) 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 £23,102 (2009: £54,592), which was due to the A H Brooks Partnership.

K W Brooks was owed £1,188 by the company at the year-end (2009: £24,735).

Aston Hall Limited invoiced £46,973 (2009: £46,362) 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 £25,698 (2009: £26,018).

Oakridge Business Services Limited, of which Mrs A Baynham wife of R Baynham is a director, invoiced £26,663 (2009: £15,000) in the year for director's fees. The amount outstanding at the year-end was £163 (2009: £11,250).

Philip Tyler Polymers Limited, a company that K W Brooks and R Baynham are directors of, invoiced £33,333 (2009: £29,536) to the Group in respect of support services. The amount outstanding at the year-end was £14,688 (2009: £29,719).

21. SHARE CAPITAL

	31 December 2010 £'000	31 December 2009 £'000
Authorised share capital:		
600,000,000 Ordinary shares of £0.025 each	**15,000**	15,000

Allotted, called up and fully paid:

	31 December 2010		31 December 2009	
	No.	**£'000**	No.	£'000
Ordinary share capital brought forward	**336,484,573**	**8,412**	286,417,319	7,160
Issue of ordinary shares	**153,387,490**	**3,835**	50,067,254	1,252
	489,872,063	**12,247**	336,484,573	8,412

During the year, the consideration received for the allotment of ordinary shares of £0.025 each was £4,084,687 (2009: £1,251,681).

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.

21. SHARE CAPITAL (continued)

Warrants and Options

The following Deed of Warrant Grants were outstanding at 31 December 2010:

Number	Exercise price	Exercisable until
5,000,000	£0.05	31 December 2010
1,000,000	Variable	31 December 2010
488,185	£0.50	28 January 2013
500,000	£0.025	21 July 2013
3,580,000	£0.025	3 November 2013
10,568,185		

The following options were outstanding at 31 December 2010:

Number	Exercise price	Exercisable until
100,000	£0.06	22 November 2011
22,500,000	£0.025	7 July 2013
4,100,000	£0.025	21 July 2013
2,061,000	£0.62	29 September 2013
200,000	£0.72	12 October 2014
450,000	£0.48	27 September 2015
29,411,000		

22. 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
Retained earnings	Cumulative gains and losses through the statement of comprehensive income other than amounts transferred to the available for sale reserve, and amounts transferred directly from the other reserves where required or permitted.
Available-for-sale	Gains and losses arising from changes in fair value of financial assets classified as available-for-sale

> NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2010

23. 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
– Finance guarantee obligation

General objectives, policies and processes

The Board has overall responsibility for the determination of the Group's risk management objectives and polices 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 2010 £'000**	31 December 2009 £'000
Non-current financial assets		
Available-for-sale investments carried at fair value	**163**	701
Current financial assets		
Trade and other receivables	**1,448**	799
Cash and cash equivalents	**177**	204
Financial assets carried at amortised cost	**1,625**	1,003
Current financial liabilities		
Trade and other payables	**1,518**	2,063
Current portion of borrowings	**2,475**	3,050
Financial liabilities at amortised cost	**3,993**	5,113

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 2010 was £1,625,000 (2009: £1,003,000).

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.

23. 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 reporting date, these projections indicated that the Group expected to have sufficient liquid resources to meet its obligations under all reasonably expected circumstances. See going concern section of note 1 for more details.

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.

24. DEFERRED TAX

The company has the following unrecognised deferred tax assets:

	2010 **£'000**	2009 £'000
Decelerated capital allowances	**—**	499
Short term timing differences	**125**	1,693
Trading losses	**3,527**	3,594
Capital losses	**3,319**	3,441
	6,971	9,227

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 2010

25. SHARE BASED PAYMENTS

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

	2010		2009	
	Weighted average exercise price (pence)	**number**	Weighted average exercise price (pence)	number
Outstanding at the beginning of the year	**59**	**2,821,000**	59	2,821,000
Granted during the year	**2.5**	**26,700,000**	—	—
Exercised during the year	**2.5**	**(100,000)**	—	—
Lapsed during the year	**4**	**(10,000)**	—	—
	8	**29,411,000**	59	2,821,000

The exercise price of options outstanding at the end of the year ranged between 2.5p and 72p (2009: 6p and 72p) and their weighted average contractual life was 1.6 years (2009: 3.8 years)

The weighted average share price (at the date of exercise) of options exercised during the year was 5p (2009: nil p)

The weighted average fair value of each option granted during the year was 1p (2009: nil p)

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

	2010
Equity-settled	
Option pricing model used	**Black Scholes**
Weighted average share price at grant date (pence)	**1.4**
Exercise price (pence)	**2.5**
Weighted average contractual life (days)	**1,096**
Equity-settled	
Expected volatility	**90.6%**
Expected dividend growth rate	**—**
Risk-free interest rate	**2.0%**

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 share based remuneration expense (note 4) comprises:

	2010 £'000	2009 £'000
Third parties	**31**	—
Employees	**141**	—
Equity settled schemes	**172**	—

25. SHARE BASED PAYMENTS (continued)

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

	2010 Weighted average exercise price (pence)	**2010** number	2009 Weighted average exercise price (pence)	2009 number
Outstanding at the beginning of the year	**7**	**10,075,785**	7	18,220,785
Granted during the year	**2**	**13,947,770**	—	—
Exercised during the year	**2**	**(9,867,770)**	—	—
Lapsed during the year	**7**	**(3,587,600)**	7	(8,145,000)
	3	**10,568,185**	7	10,075,785

The exercise price of warrants outstanding at the end of the year ranged between 2.5p and 88p (2009: 2.5p and 88p) and their weighted average contractual life was 1.8 years (2009: 0.9 years)

The weighted average share price (at the date of exercise) of warrants exercised during the year was 5.3p (2009: nil p)

The weighted average fair value of each warrant granted during the year was 1.3p (2009: nil p)

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

	2010
Equity-settled	
Option pricing model used	**Black Scholes**
Weighted average share price at grant date (pence)	**1.4**
Exercise price (pence)	**2.5**
Weighted average contractual life (days)	**1,096**
Equity-settled	
Expected volatility	**90.6%**
Expected dividend growth rate	**—**
Risk-free interest rate	**2.0%**

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.

26. EVENTS AFTER THE REPORTING PERIOD

On 31 January 2011, the Company entered into a subscription agreement with a new investor to raise £540,000 by issuing 13,500,000 Ordinary Shares of 2.5 pence each at a price of 4 pence. As part of that subscription, the Company agreed to issue warrants over 6,000,000 new Ordinary Shares exercisable at any time until 28 April 2011. In addition, the new investor indicated in writing that they would be willing to subscribe for a further 13,500,000 Ordinary Shares at a price of 4 pence at any time up to 20 April 2011. This offer was accepted on 25 March 2011 which raised a further £540,000.

Repayment of Convertible Loan Agreement

Following the subscription in January 2011, the Board resolved to repay in full its Convertible Loan Agreement with YA Global Investments ("Yorkville") entered into on 28 December 2006.

In accordance with the Convertible Loan Agreement, and following receipt of conversion notices (the "Conversion Notices"), the Company issued two tranches of Ordinary Shares to Yorkville (the "Conversion"). The first tranche was for 8,459,492 Ordinary Shares which were issued at a price of 3.76 pence, which represented a discount of 32.8 percent to the closing middle market price of the Company on 28 January 2011. The second tranche was for 214,136 Ordinary Shares which were issued at a price of 4.38 pence, which represented a discount of 21.7 percent to the closing middle market price of the Company on 28 January 2011. The Conversion satisfied £259,400 of loans owed to Yorkville.

The remaining outstanding amounts under the Convertible Loan Agreement of £540,000 were repaid using the cash proceeds from the Subscription.

> NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2010

26. EVENTS AFTER THE REPORTING PERIOD (continued)

Following the Conversion and Repayment, the Convertible Loan Agreement was terminated and a debenture secured against the assets of the Company is in the process of being removed.

Litigation settlement

On 2 February 2010, the company announced that it reached a settlement on a series of disputes and litigation with Mr Sean Daley ("Mr Daley"), the former director of Camco Corporation Limited and CEO of the group's Central Asian operations. As part of that settlement agreement the Board agreed to make certain payments to Mr Daley in both cash and shares over a period of three years.

In accordance with this Settlement Agreement, the company issued Mr Daley with 992,063 Ordinary Shares at 5.04 pence, representing a discount of 10 percent to the closing middle market price of the Company on 28 January 2011.

27. NOTES SUPPORTING THE CASH FLOW STATEMENT

	2010 **£'000**	2009 £'000
Significant non-cash transactions are as follows:		
Financing activities		
Debt converted into equity (see note 18)	**2,267**	796
Other non-cash items:		
Trade payables converted into equity	**954**	456
Provisions settled by way of equity	**455**	—
Accrued interest capitalised	**548**	—

> Officers and professional advisers

THE BOARD OF DIRECTORS
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R Baynham
D C Shepley-Cuthbert

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