

Environmental Recycling Technologies plc

Interim Results for the six months ended 30 June 2008

Environmental Recycling Technologies plc (“ERT”, “the Company” or the “Group”) (AIM: ENRT), which has developed and is exploiting the patented rights to the Powder Impression Moulding (“PIM”) process capable of converting mixed waste plastics into commercially viable products, announces its unaudited interim results for the six months ended 30 June 2008.

Highlights

- The Company is now operating under an out-licensing business model
 - Consequent significant reduction in overhead and costs
- The Company continues to sign additional licenses
 - Expected revenues of at least £1.0m from license fees
- Increasing interest in applications for the Company’s PIM process technology
 - Major interest in Eco Sheet
- Turnover £179,000 (H1 2007: £ 25,000);
- Operating loss £1.80 million (H1 2007: loss £1.35 million);
- Loss attributable to equity shareholders £2.00 million (H1 2007: loss £1.91 million)

For further information:

Environmental Recycling Technologies Plc
Ken Brooks (Chairman)
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Chairman's Statement

I am pleased to present to you our unaudited interim results for the six months ended 30 June 2008.

This period covers the consolidation of the Group's operations following the resignation of our then CEO Niall MacKay on 29 February 2008. His departure led to a review of the Company's business and strategy leading to the Group becoming an intellectual property bank focused on PIM technology. Due to this shift in strategy the board took the decision to implement a general restructuring programme focused on cost cutting.

To that end we have incurred various costs in connection with this corporate restructuring and further costs in reorganising our commercial operations. Wherever possible we have sought to reduce and simplify the Group's activities and have recognised or settled outstanding disputes or claims. The accounts for this period include £123,000 directly relating to staff changes, £491,000 relating to discontinued consultancies, disputes and legal costs and £206,000 relating to completed or reorganised development contracts.

I am pleased to say that our restructuring and reorganisation has meant that going forward we have a much smaller cost base (now less than £50,000 per month) and I believe a much brighter future.

Ken Brooks

Chairman

Managing Director's review

As you will know from the review that I made in the 2007 Annual Report, I am absolutely confident of the imminent commercialisation of the PIM Process.

Part of this strategy has involved a robust evaluation of the various commercial opportunities which the Company has been attempting to exploit. To date we have committed significant costs and resources to the projects in Kenya, Tanzania and Hungary, which were predicted to be one of the primary revenue streams for 2008 and beyond. Of course there have been political problems in Kenya and Tanzania in particular which have not helped the cause but nonetheless the Board feels that these projects now have to stand on their own to which end the furtherance of the projects has been vested in the original project management company (strictly speaking the grant recipient) 3DM Research Ltd. It will be for that third party company to pursue matters at no further cost to ourselves – and despite the timeframe the advisers maintain we are close to closure.

However, we are pleased with the continuing interest in PIM products incorporating plastic waste primarily in the construction sector. This has principally been led by 2K Manufacturing Limited (“2K”), although a delay in full scale production has occurred as the company awaits completion of a fundraising due to complete shortly. 2K has recently signed an exclusive license for signage and display products and are in discussion with a global PLC for supply of sheet product. Further it has been reported in Construction News on 28 August 2008 that 2K is in talks with the London Olympic Delivery Authority to provide “thousands of seats“ for the 2012 games.

Contour Shower Trays have signed an exclusive license to produce their range of Eco-decs. We are currently supplying, via a third party supplier, 1,000 units after which Contour will arrange production with their preferred manufacturer.

The news from Mediwall is less positive in that the products produced for fire testing have failed to meet the necessary BS476 accreditation. New products are currently being produced using a different flame retardant additive. Mediwall have taken an option for an exclusive license for their modular building product in expectation of a successful outcome.

There is increasing interest in the PIM process from the plastic recycling and waste sectors. The new generation of post-consumer plastic bottle sorting and recycling plants is expected to provide approximately 200,000 tonnes of recycling capacity by the end of 2009. It is already apparent that there is a mixed plastic waste outflow from these plants which is in the region of 10% of input. Whilst conventional plastics processes utilise the pure polymer streams from such operations, PIM is the only moulding process capable of using these mixed plastics for commercially viable products.

A PIM laboratory device has been manufactured and is being installed at Brunel University to enable the Replas project to be completed. This is the DTI funded project which under the management auspices of PERA, will facilitate the development of technical specifications and waste plastic formulations.

Whilst our main focus is currently in the UK, our strategy is to offer territorial and sector franchising. It is our opinion that whilst we have enquiries from interested parties now, we should refrain from negotiating these on the basis that the value of such licenses will increase as 2K progress to full scale PIM production and the opportunities which PIM offers become more tangible.

In the USA our licensee LBO Capital Corporation Inc has signed various deals as announced on its own website and we are advised that the long awaited commercialisation of PIM in the USA is now on course. However as a company we are in the hands of our licensees and the timeframe is of course entirely their responsibility (subject only to certain minimum obligations).

The same is true for our other existing UK and international licensees and we will report on news as and when our licensees go public. However, the Board's efforts have been and will be concentrated on the UK

Roger Baynham
Managing Director

Financial review for the six months ended 30 June 2008

Results

Revenue for the six months ended 30 June 2008 was £179,000 (H1, 2007: £25,000). The loss on operations was £1.80 million compared to losses of £1.35 million in 2007. Losses attributable to equity shareholders were £2.00 million (H1, 2007 loss £1.91 million).

The results for the period highlight a £491,000 charge relating to discontinued consultancies, disputes and legal costs. These costs follow proceedings brought against the Company and Ken Brooks, a director of the Company, both in the UK, USA and within Asia. Following mediation a global settlement agreement was reached in which the Company agreed to settle all outstanding claims between the parties. The Board believe this agreement was in the best interests of shareholders to prevent the Company incurring further legal costs.

Dividends and loss per share

No dividend payment is proposed. The basic and diluted loss per share was 0.78 pence compared to 1.51 pence in 2007.

Trading

Turnover included revenue for licences, production work, grant income and the release of licence income from deferred income.

Administrative expenses for the period were £1.87 million compared to £1.36 million in the same period in 2007 and included in addition to normal running expenses, corporate finance costs, legal costs associated with the on-going intellectual property, restructuring costs and discontinued consultancies disputes.

The second half of the year will see revenue generated from the fulfilment of the Contour contract and licence fees. Substantial savings in administrative expenses will be achieved as the Company achieves its goal of becoming a virtual operation.

Financing

Total borrowings amounted to £3.37 million compared to £2.03 million at 31 December 2007.

During the period, YA Global Investments Limited (“Yorkville”), successor to Cornell Capital Partners L.P. and Montgomery Equity Partners (collectively “Cornell”) advanced a further £0.35 million and converted a further £0.53 million into equity reducing the loans outstanding to £1.81 million. In total Yorkville has converted loans and accrued interest totalling £5.17 million at an average price of 5.12p per share.

The Standby Equity Distribution Agreement (SEDA) with Yorkville to the value of £5 million was due to expire in September 2008. A new SEDA with Yorkville has been signed which expires in September 2010. No draw down has been made against this facility.

As announced on 12 August 2008, a loan of £378,000 carrying interest at 8% p.a. which was provided to settle debts in June and July 2008, was converted into new ordinary shares.

Oxford Capital plc advanced a further £1.1 million which together with the existing loan at December 2007 is due for repayment on 1 January 2009. If the loan is not then repaid, the lender gains conversion rights and the interest rate doubles to 15% per annum.

David Shepley-Cuthbert

Finance Director

Independent review report to Environmental Recycling Technologies plc

Introduction

We have been engaged by the company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2008 which comprises the Group Income Statement, Group Balance Sheet, Group Statement of Changes in Shareholders' Equity, Group Cash Flow Statement and the notes 1 to 6.

We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

Directors' responsibilities

The interim report, including the financial information contained therein, is the responsibility of and has been approved by the directors. The directors are responsible for preparing the interim report in accordance with the rules of the London Stock Exchange for companies trading securities on the Alternative Investment Market which require that the half-yearly report be presented and prepared in a form consistent with that which will be adopted in the company's annual accounts having regard to the accounting standards applicable to such annual accounts.

Our responsibility

Our responsibility is to express to the company a conclusion on the condensed set of financial statements in the half-yearly financial report based on our review.

Our report has been prepared in accordance with the terms of our engagement to assist the company in meeting the requirements of the rules of the London Stock Exchange for companies trading securities on the Alternative Investment Market 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 our terms of engagement 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

Scope of review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity", issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2008 is not prepared, in all material respects, in accordance with the rules of the London Stock Exchange for companies trading securities on the Alternative Investment Market.

BDO Stoy Hayward LLP
Chartered Accountants and Registered Auditors
Birmingham
16 September 2008

Interim Accounts for the Six Months ended 30 June 2008 (unaudited)

The financial information contained within these accounts has been prepared by the Directors who accept responsibility for the financial information presented below and confirm that it has been properly presented in accordance with applicable law. The interim financial statements were approved by the Board of Directors on 15 September 2008 and have been prepared on the basis of the accounting policies set out on note 1. The financial information covers the six months ended 30 June 2008.

Group Income Statement (unaudited)

		Six months ended 30 June 2008 £'000 Unaudited	Six months ended 30 June 2007 £'000 Unaudited	Year ended 31 December 2007 £'000 audited
Continuing operations	note			
Revenue		179	25	243
Cost of sales		(112)	(11)	(95)
Gross profit		67	14	148
Administrative expenses				
Exceptional	2	(491)	-	(1,176)
Other		(1,376)	(1,362)	(3,716)
Total administrative expenses		(1,867)	(1,362)	(4,892)
Loss on operations		(1,800)	(1,348)	(4,744)
Finance income		—	—	9
Finance costs	3	(195)	(560)	(1,035)
Loss for the period from continuing operations and before income tax		(1,995)	(1,908)	(5,770)
Tax credit on loss on ordinary activities		—	—	(80)
Loss for the period attributable to equity shareholders of the company		(1,995)	(1,908)	(5,690)
Loss per share (pence)				
Basic and diluted loss per share	4	(0.78p)	(1.51p)	(4.01p)

Group Balance Sheet (unaudited)

		Six months ended 30 June 2008 £'000	Six months ended 30 June 2007 £'000	Year ended 31 December 2007 £'000
	note	Unaudited	Unaudited	audited
Assets				
Non-Current Assets				
Intangible assets		11,132	12,062	11,579
Plant & equipment		142	415	277
Available for sale investments		—	97	—
Trade and other receivables		—	585	585
Total non current assets		11,274	13,159	12,441
Current assets				
Trade and other receivables		1,236	222	537
Cash and cash equivalents		6	—	146
Total current assets		1,242	222	683
Total assets		12,516	13,381	13,124
Liabilities				
Non-current liabilities				
Borrowings	5	1,841	—	—
Total non-current liabilities		1,841	—	—
Current liabilities				
Trade and other payables		666	1,252	1,110
Borrowings	5	1,495	3,596	2,030
Provisions		545	—	545
Total current liabilities		2,706	4,848	3,685
Total liabilities		4,547	4,848	3,685
Net assets		7,969	8,533	9,439
Equity attributable to the shareholders of the parent				
Share capital		6,783	3,924	6,310
Share premium reserve		35,499	33,520	35,447
Warrant reserve		1,393	1,270	1,367
Equity reserve		—	67	—
Retained earnings		(35,706)	(30,248)	(33,685)
Total equity		7,969	8,533	9,439

Group Statement of Changes in Shareholders' Equity (unaudited)

Six months ended 30 June 2008	Share Capital £'000	Share Premium £'000	Warrant Reserves £'000	Equity Reserve £'000	Retained Earnings £'000	Total £'000
Loss for period	-	-	-	-	(1,995)	(1,995)
Total recognised income and expense for the period	-	-	-	-	(1,995)	(1,995)
Issue of share capital	473	52	-	-	-	525
Warrants adjustments	-	-	26	-	(26)	-
Movement for the period	473	52	26	-	(2,021)	(1,470)
Balance at 1 January 2008	6,310	35,447	1,367	-	(33,685)	9,439
Balance at 30 June 2008	6,783	35,499	1,393	-	(35,706)	7,969
Six months ended 30 June 2007	Share Capital £'000	Share Premium £'000	Warrant Reserves £'000	Equity Reserve £'000	Retained Earnings £'000	Total £'000
Loss for period	-	-	-	-	(1,908)	(1,908)
Total recognised income and expense for the period	-	-	-	-	(1,908)	(1,908)
Issue of share capital	1,268	1,307	-	-	-	2,575
Arising on loans	-	-	-	29	-	29
Warrants and options lapsed	-	-	(51)	-	-	(51)
Movement for the period	1,268	1,307	(51)	29	(1,908)	645
Balance at 1 January 2007	2,656	32,213	1,321	38	(28,340)	7,888
Balance at 30 June 2007	3,924	33,520	1,270	67	(30,248)	8,533
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

Group Cash Flow Statement (unaudited)

Six months ended 30 June 2008

	Six months ended 30 June 2008 £'000 Unaudited	Six months ended 30 June 2007 £'000 Unaudited	Year ended 31 December 2007 £'000 audited
Continuing Activities			
Loss before tax	(1,995)	(1,908)	(5,770)
Adjusted for:			
Depreciation on plant and equipment	137	138	275
Amortisation of intangible assets	447	412	895
Finance income	-	-	(9)
Finance expense	194	560	1,035
Fees settled in shares	-	72	294
	(1,217)	(726)	(3,280)
Decrease/(increase) in trade and other receivables	(53)	166	(163)
(Decrease)/increase in trade and other payables	(459)	(40)	674
Increase in provisions	-	-	545
Cash used by operations	(1,729)	(600)	(2,224)
Cash element of finance costs	(54)	-	-
Tax receipt	-	-	80
Net cash outflow from operations	(1,783)	(600)	(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	-	514	3,338
Inception of loans	1,745	-	125
Repayment of loans	(100)	-	(1,178)
Interest paid	-	-	(51)
Net increase in cash from financing activities	1,645	514	2,234
Net increase/(decrease) in cash	(140)	(86)	91
Cash and cash equivalents at beginning of period	146	55	55
Cash and cash equivalents at end of period	6	(31)	146

Notes to the financial statements

1. Accounting policies

Basis of accounting

The principal accounting policies adopted in the preparation of the interim financial statements are set out below. In the preparation of this Interim Report there have been no changes to the accounting policies applied and disclosed in the annual financial statements for the year ended 31 December 2007. Furthermore the Group does not expect there to be any changes to the accounting policies applicable at 31 December 2008.

The interim financial statements have been prepared using accounting policies consistent with International Financial Reporting Standards (IFRS) as endorsed by the European Union and implemented in the UK. The interim financial statements do not comply with IAS 34.

The financial information contained within this interim report does not comprise statutory accounts as defined in Section 240 of the Companies Act 1985. The comparatives for the full year ended 31 December 2007 are not the Company's full statutory accounts for that year. A copy of the statutory accounts for that year has been delivered to the Registrar of Companies. The auditors' report on those accounts was unqualified, did not include references to any matters to which the auditors drew attention by way of emphasis without qualifying their report and did not contain a statement under section 237(2)-(3) of the Companies Act 1985.

Going concern

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

Basis of consolidation

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

2. Exceptional items

	Six months ended 30 June 2008 £'000 Unaudited	Six months ended 30 June 2007 £'000 Unaudited	Year ended 31 December 2007 £'000 audited
Legal and settlement costs	491	-	545
Product development work	-	-	631
Total exceptional items	491	-	1,176

The legal and settlement costs in the six months to 30 June 2008 relate to discontinued consultancies.

The exceptional item in 2007 related to a claim from a former employee in Kyrgyzstan. The product development work related to the Mediwall and Contour projects.

3. Finance costs

	Six months ended 30 June 2008 £'000 Unaudited	Six months ended 30 June 2007 £'000 Unaudited	Year ended 31 December 2007 £'000 audited
Loan interest	76	123	194
Bank interest	1	-	2
Amortisation of finance costs	118	437	839
Total finance costs	195	560	1,035

4. Earnings per share

From continuing operations

	Six months ended 30 June 2008 £'000 Unaudited	Six months ended 30 June 2007 £'000 Unaudited	Year ended 31 December 2007 £'000 audited
Numerator			
Loss used for calculation of basic and diluted EPS	(1,995)	(1,908)	(5,690)
Denominator			
Weighted average number of shares used in basic and diluted EPS	254,762,015	126,710,866	141,959,606

At 31 June 2008, there were 22,441,785 (31 December 2007 23,946,785) (H1 2007: 24,806,785) of potentially issuable shares which are anti-dilutive.

5. Borrowings

	Six months ended 30 June 2008 £'000 Unaudited	Six months ended 30 June 2007 £'000 Unaudited	Year ended 31 December 2007 £'000 audited
Non current – due after one year			
Long term borrowings	1,841	-	-
Current – due within one year			
Short term borrowings	1,495	31	75
Current portion of long term borrowings	-	3,565	1,955
Total borrowings	3,336	3,596	2,030

5. Borrowings (continued)

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

	Six months ended 30 June 2008 £'000 Unaudited	Six months ended 30 June 2007 £'000 Unaudited	Year ended 31 December 2007 £'000 audited
YA Global Investment Limited – current	-	2,674	1,955
– non current	1,841	-	-
	1,841	2,674	1,955
Barclays Bank plc	-	31	-
Battlebridge Nominees Limited	-	72	-
Chukka Nominees Limited	320	-	-
Oxford Capital plc	1,175	547	75
Progressives Plastics Limited	-	272	-
Total borrowings	3,336	3,596	2,030

The amounts due to YA Global Investments Limited (“Yorkville”), are stated net of unamortised finance costs. This convertible loan is denominated in Sterling. Pursuant to an agreement dated 27 March 2008 Yorkville borrowings are secured by a fixed and floating charge over the assets of the Group. The loan is now due for repayment on or before 31 December 2009 and simple interest is being charged at 12% per annum (previously 5% per annum). Subject to certain conditions Yorkville may convert their loan to ordinary shares of the company. The company has no other facilities except for the SEDA referred to in the Financial Review.

The loan from Chukka Nominees Limited carries interest at 8% per annum.

The Loan from Oxford Capital plc carries interest at 7.5% per annum from 1 January 2008 and is due for repayment on 1 January 2009. If the loan is not then repaid the lender gains conversion rights and the interest rate increases to 15% per annum.

6. Events after balance sheet date

On 12 August 2008, an outstanding loan to the company of £378,000 was treated as repaid by the issue of 15,120,000 new ordinary shares of 2.5 pence each representing a premium of approximately 33% to the closing price on 1 August 2008 which was based on the closing price on the business day prior to the signing of the loan conversion agreement.