Company registration No 04095614 (England & Wales)

MERCURY RECYCLING GROUP PLC

GROUP FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2006

CONTENTS

DIRECTORS

The Rt Hon The Lord Barnett JP PC *Non-Executive Chairman*

Lord Barnett is a Certified Accountant and was former Senior Partner in UHY Hacker Young, Manchester He was a Member of Parliament for nearly 20 years before being elevated to a peerage in 1983 During his political career, he was a member of the Cabinet between 1977 and 1979, Chief Secretary to the Treasury, a Privy Counsellor, Chairman of the Public Accounts Committee from 1979 to 1983, Chairman of the House of Lords Select Committee on EU Monetary Policy from 1995 to 1998 and a Member of the Select Committee on Bank of England Monetary Policy, which has now become the Select Committee on Economic Affairs, from 1998 to 2004 He was Vice-Chairman of the BBC from 1986 to 1993 and Chairman of the Educational Broadcasting Trust

Simon Lebor *Chief Executive Officer*

Simon Lebor was involved in the clothing sector, starting his career in 1960 with the firm now known as Alexon plc where he was appointed Managing Director in 1976 He was appointed Managing Director of the wholesale and retail division of Dereta (London) Limited in 1982 before leading an MBO of Dereta following its takeover by Alexon plc in 1988 Simon and his management team sold Dereta to Berketex Limited in 1989, following which he acted as a consultant to various clothing groups before joining Mercury Recycling Limited, as an investor and as Marketing Director in March 1996 He was appointed Chief Executive Officer in 1997

Bryan Neill *Executive Director*

Bryan Neill joined Simister Engineering Services Limited in 1996, as a Sales and Marketing Director, after spending 12 years with Glaxo Wellcome During that time he qualified as a Member of the Institute of Purchasing and Supply, and completed his service with Glaxo Wellcome as the UK Purchasing Manager He was appointed Managing Director of Simister in 1999, and was responsible for the design, development and installation of the company's recycling plant in the South of England This was the first of its type in the UK, and is capable of processing all types of fluorescent tubes and street lighting, in anticipation of the EU Directive on Waste Electric and Electronic Equipment Under his management, Simister enjoyed year on year growth, and he joined Mercury Recycling Group Plc as Operations Director following the acquisition of Simister in December 2003

Joseph Claude Dwek CBE *Non-Executive Director*

Joseph Dwek is a Board member of the North West Development Agency and chairs the Environment Subgroups He was formerly Executive Chairman and Chief Executive of Bodycote International Plc from 1972 until 1998, when he retired He is currently a Director of City Invoice Finance Limited, Jerome Group Plc, Penmarric Plc, Opal Property Group Limited and Envirolink North West Limited He is also Chief Executive and Chairman of Worthington Group Plc and former Chairman of the CBI North West Region

DIRECTORS (continued)

Anthony Jack Leon DL FCA *Non-Executive Finance Director*

Anthony Leon qualified as a Chartered Accountant in 1960 and, during a wide ranging professional career, was Managing Partner of Binder Hamlyn's Manchester office for 15 years and subsequently Senior Partner He retired from the firm in 1996 and was Chairman of the Mancunian Community Health NHS Trust until 2001 He is currently non executive chairman of Enition Plc and Bright Futures Group Plc and a non executive director of EXC Plc, Aerobox Plc and Central Manchester and Manchester Childrens University Hospitals NHS Trust He is currently a member of the General Assembly of the University of Manchester He was appointed Non-Executive Finance Director on 11 May 2007

ADVISORS

Company secretary	Kirsti Jane Pinnell
Company number	04095614
Registered office	Mercury House 17 Commerce Way Trafford Park Manchester M17 1HW
Nominated Advisor and Broker	BlueOre Securities Plc 30 Old Broad Street London EC2N 1HT
Auditors	UHY Hacker Young St James Building 79 Oxford Street Manchester M1 6HT
Bankers	The Co-operative Bank Plc PO Box 101 1 Balloon Street Manchester M60 4EP
Solicitors	Kuit Steinart Levy 3 St Mary's Parsonage Manchester M3 2RD
Registrars	Capita IRG Plc Northern House Woodsome Park Fenay Bridge Huddersfield HD8 0LA

CHAIRMAN'S STATEMENT

I am pleased to report further improvement for the year ended 31 December 2006 Sales increased by 11% to £2,399,000 from £2,147,000 in 2005 Operating profit increased by some 25% to £336,000 as against £268,000 in 2005 As will be seen from the Balance Sheet, our liquid position is healthy, with current assets of £668,000 despite the substantial capital expenditure setting up our new recycling facilities

I would have been reporting an even better outcome had it not been for the further delay in implementing the WEEE Directive by the Government This Directive, will legally enforce the recycling of all separately collected end of life Gas Discharge Lamps which should give a significant boost to the numbers of lamps to be recycled

The official start date is now 1 July 2007 However, there is still confusion in Government Departments, The Environment Agency, Lamp Manufacturers, Distributors, Purchasers, and Lamp Recyclers, as to how the implementation will work in practice, and thus the determination of our position in this matter, is giving us some concern

Uncertainty has been created by the four major Lamp Manufacturers, who control some 85% of the market They have set up a single Compliance Scheme which dominates the arrangements, and thus causes us major problems The DTI, share our concerns and are keen to help Despite all these difficulties, Government and Lamp Manufacturers advise that some120 million lamps are sold per year, and the current estimate is that only 25% of these are being recycled As a leading lamp recycler, we stand to benefit substantially, if the WEEE Directive is sensibly implemented, and discussions are now taking place to sort out some of the problems of the suggested Compliance Scheme

Current trading continues to show new customers still coming to us every month However, the uncertainty in the market will affect volumes in the short term as some of our customers are as yet unsure as to how the implementation will affect them The WEEE Directive was aimed at household waste and we had always understood that our existing relations with customers would not be affected, but the Compliance Scheme plans to cover business transactions, to which we are opposed

I have to report that Simon Lebor, our Chief Executive, wishes to retire at the end of this year, and your Board have respected his wishes, but in doing so want to pay a tribute to his tremendous service to the Group, from the very beginning, as a small private company, to it's current status as a successful quoted company The Board hopes that Simon enjoys his retirement in good health

Mr Bryan Neill will continue in his present position as Managing Director Fortunately, Simon will remain in his customary active capacity as C E O during the difficult implementation of the WEEE Directive In addition Mr A J Leon has been appointed Non-Executive Financial Director

On your behalf, I would again like to thank my colleagues and all our staff for their hard work and continued commitment to the Group

Yours sincerely,

The Rt Hon The Lord Barnett JP PC
Chairman

DIRECTORS' REPORT

The Directors present their report and the audited financial statements for the year ended 31 December 2006

Principal activity and business review

The principal activity of the Group for the year continued to be the recycling of fluorescent tubes, together with the supply of elemental mercury, and the recycling of mercury contaminated waste The principal activity of the company for the year was that of holding company

A review of activity, business developments and future prospects is included in the Chairman's Statement on page 5

Results and dividends

The Group's results for the year ended 31 December 2006 are shown in the profit and loss account on page 16

The Directors do not propose the payment of a dividend for the year

Substantial shareholdings

As at 19 April 2007 the Company had been notified of the following holdings of 3% or more of its issued share capital other than the Directors' holdings

	Number of ordinary shares	%
Pershing Keen Nominees Limited	4,606,169	13 66%
HSDL Nominees Limited	3,780,690	11 21%
Ronald Atkins	1,667,500	4 94%
L R Limited Nominees	1,823,639	5 41%
Barclays Nominees Limited	1,017,411	3 02%

Going concern

After making due enquiries in accordance with the Code of Best Practice the Directors consider that the Group has adequate resources to continue its operations for the foreseeable future Accordingly, the financial statements have been prepared on the going concern basis

DIRECTORS' REPORT (continued)

Directors and their interests

The interests (all of which are beneficial) of the Directors and their families in the ordinary shares of the Company are shown below

	31 December 2006 10p ordinary shares Number	31 December 2005 10p ordinary shares Number
The Rt Hon The Lord Barnett JP PC	2,376,339	2,376,339
S Lebor	4,465,233	4,131,901
J C Dwek CBE	3,238,019	3,238,019
A J Leon DL FCA	140,000	150,625
B Neill	1,190,000	1,190,000

There have been no changes since the year end to 19 April 2007

In accordance with the Articles of Association B Neill and The Rt Hon The Lord Barnett JP PC, retire by rotation and, being eligible, offer themselves for re-election

The interests of the Directors in options to acquire ordinary shares are shown below

	As at 1 January 2006	Granted in year	Exercised in year	Lapsed in year	As at 31 December 2006
S Lebor	1,500,000	-	(333,332)	-	1,166,668
A J Leon	100,000	-	-	-	100,000
B Neill	500,000	-	-	-	500,000

Creditor payment policy

It is the policy of the Group to ensure that all of its suppliers of goods and services are paid promptly and in accordance with contractual and legal obligations At 31 December 2006, there were 38 (2005 - 59) days purchases remaining unpaid

Political contributions and charitable donations

The Group made no political contributions or charitable donations during the year

DIRECTORS' REPORT (continued)

Auditors

In accordance with section 384 of the Companies Act 1985, a resolution is to be proposed at the Annual General Meeting for the re-appointment of UHY Hacker Young as the auditors of the Company

i) so far as the directors are aware, there in no relevant audit information of which the company's auditors are unaware of, and

ii) they have taken all steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information

This report was approved by the Board on 11 May 2007 and signed on its behalf by

K J Pinnell
Company secretary

CORPORATE GOVERNANCE STATEMENT

Code of best practice

The Board acknowledges the importance of the Combined Code ("the Code") and has reviewed the Group's consistency with the provisions of the Code as appended to the Listing Rules of the Financial Services Authority This statement explains how the Company has voluntarily applied the principles of the Code and confirms that it has consistently complied with these requirements throughout the year

The Board of Directors

The Company is controlled and led by the Board of Directors with an established schedule of matters reserved for their specific approval The Board meets regularly throughout the year and is responsible for the overall Group strategy, acquisition and divestment policy, approval of major capital expenditure and consideration of significant financial matters It reviews the strategic direction of the Company and its individual subsidiaries, their annual budgets, their progress towards achievement of these budgets and their capital expenditure programmes

The function of the Chairman is to supervise the Board and to ensure its effective control of the business, and that of the Chief Executive is to manage the Company on the Board's behalf

All Board members have access, at all times, to sufficient information about the business, to enable them to fully discharge their duties Also, procedures exist covering the circumstances under which the Directors may need to obtain independent professional advice

The Board has established the following committees to fulfill specific functions

The Audit Committee, chaired by A J Leon DL FCA and comprising A J Leon DL FCA and J C Dwek CBE It meets twice a year, monitoring and reviewing the Group's financial reporting and internal control

Due to the nature and size of the Group at present it would not be appropriate for the Group to have its own internal audit department reporting directly to the Audit Committee

The Remuneration Committee, was chaired by Rt Hon The Lord Barnett JP PC and comprising A J Leon DL FCA and J C Dwek CBE Meetings are convened during the year to monitor, assess and report to the full Board on all aspects and policy relating to nomination, appointment and remuneration of executive Directors

The Board, as a whole, determines the remuneration of the Non-Executive Directors

CORPORATE GOVERNANCE STATEMENT (continued)

Internal control

The Board is responsible for ensuring that the Group maintains adequate internal control over the business and its assets

The effectiveness of the Group's system of internal financial controls, for the year to 31 December 2006 and for the period to the date of approval of the financial statements, has been reviewed by the Directors They are aware that although no system can provide for absolute assurance against material misstatement or loss, they are satisfied that effective controls are in place

On the wider aspects of internal control, relating to operational and compliance controls and risk management, included in provision D 2 1 of the Code, the Board, in setting the control environment, now identifies, reviews, and regularly reports on the key areas of business risk facing the Group

The Executive Directors maintain close day to day involvement in all of the Group's activities which enables control to be achieved and maintained This includes the comprehensive review of both management and technical reports, the monitoring of foreign exchange and interest rate fluctuations, environmental considerations, government and fiscal policy issues, employment and information technology requirements and cash control procedures In this way, the key risk areas can be monitored effectively and specialist expertise applied in a timely and productive manner

Relations with shareholders

The Company maintains effective contact with its principal shareholders and welcomes communications from its private investors

REPORT OF THE REMUNERATION COMMITTEE

Compliance

This report by the Remuneration Committee, on behalf of the Board, contains full details of the remuneration of each Director during the year under review

Directors' remuneration policy

The Committee aims to ensure that the remuneration packages offered are competitive and are designed to attract, retain and motivate executives of the right calibre

Emoluments of the Directors

	Salaries £000	Fees £000	Pension £000	Benefits in kind £000	2006 Total £000	2005 Total £000
The Rt Hon The Lord Barnett JP PC**	-	10	-	6	16	10
S Lebor***	88	-	18	4	110	98
J C Dwek CBE*	-	2	-	-	2	2
A J Leon DL FCA*	-	5	-	-	5	5
P Odlin	-	-	-	-	-	1
B Neill	74	-	-	7	81	68
	162	17	18	17	214	184

* Member of the Remuneration Committee
** Chairman of the Remuneration Committee
*** Highest-paid Director

Pensions

A defined contribution pension scheme exists to provide benefits for executives and is managed on behalf of the Trustees by Clerical Medical Investment Group Limited

The Non-Executive Directors' appointments are not pensionable

Directors' service contracts

The Chief Executive's service contract was for a period of two years from 4 May 2001 and is terminable on 12 months notice

The service contract of the other executive director is for a period of twelve months from 2 December 2004 and is thereafter terminable on 12 months notice

The Non-Executive Directors' appointments took effect on 4 May 2001 for an initial term of 12 months and thereafter are subject to three months notice, subject always to earlier termination in specified circumstances

REPORT OF THE REMUNERATION COMMITTEE (continued)

Directors' share options

Details of the individual share options held by the Directors as at 31 December 2006, which are summarised in the Directors' Report on page 7, are as follows

Exercise period	Option price (p)	A J Leon Number	S Lebor Number	B Neill Number
6 November 2005 to 5 November 2011	10p	100,000	-	-
24 February 2006 to 23 February 2013	10p	-	666,668	-
1 November 2007 to 31 October 2014	19 85p	-	500,000	500,000

The market price of the Company's shares at 31 December 2006 was 24p with a range of 21p to 34 5p during the year

On 9 March 2006, S Lebor exercised options over 166,666 shares at 10p each The share price at this date was 29 5p

On 8 September 2006, S Lebor exercised options over 166,666 shares at 10p each The share price at this date was 26p

This report was approved by the Board on 11 May 2007 and signed on its behalf by

Chairman of the Remuneration Committee
The Rt Hon The Lord Barnett JP PC

STATEMENT OF DIRECTORS' RESPONSIBILITIES ON THE ACCOUNTS

The following statement, which should be read in conjunction with the Report of the Auditors set out on pages 14 and 15, is made with a view to distinguishing for shareholders the respective responsibilities of the Directors and Auditors in relation to the financial statements

The Directors have responsibility for ensuring that the Group keeps accounting records which disclose, with reasonable accuracy, the financial position of the Group enabling them to ensure that the financial statements comply with the Companies Act 1985

The Directors have a responsibility to take reasonable steps to safeguard the assets of the Group and to prevent and detect fraud and other irregularities

In accordance with the Companies Act 1985, the Directors are required to prepare accounts for each financial period which give a true and fair view of the state of affairs of the Company and the Group at the end of the financial period and of the profit or loss for that period

The Directors consider that, in preparing the financial statements, the Group has used appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates and that all accounting standards which they consider to be applicable have been followed

On behalf of the Board

K J Pinnell
Company secretary

11 May 2007

INDEPENDENT AUDITORS' REPORT

UHY Hacker Young
Chartered Accountants

Registered Auditor

St James Building
79 Oxford Street
Manchester M1 6HT

11 May 2007

To the shareholders of Mercury Recycling Group Plc

We have audited the group and parent company financial statements ("the financial statements") of Mercury Recycling Group Plc for the year ended 31 December 2006 which comprise the Profit and Loss Account, the Balance Sheet, the Cash Flow Statement, the Directors' emoluments disclosure contained within the Report of the Remuneration Committee and the related notes These financial statements have been prepared under the accounting policies set out therein

This report is made solely to the Company's members, as a body, in accordance with Section 235 of the Companies Act 1985 Our audit work was undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' 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's members as a body, for our audit work, for this report, or for the opinions we have formed

Respective responsibilities of Directors and Auditors

The directors' responsibilities for preparing the Annual Report and the group financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities

Our responsibility is to audit the financial statements and the part of the Report of the Remuneration and Appointments Committee to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland)

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Report of the Remuneration Committee to be audited have been properly prepared in accordance with the Companies Act 1985 We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements The other information comprises only Advisors, Chairman's Statement, Corporate Governance Statement and Report of the Remuneration Committee We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements Our responsibilities do not extend to any other information

INDEPENDENT AUDITORS' REPORT (continued)

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the parent company financial statements and the part of the Report of the Remuneration Committee to be audited It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group's and company's circumstances, consistently applied and adequately disclosed

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements and the part of the Report of the Remuneration Committee to be audited are free from material misstatement, whether caused by fraud or other irregularity or error In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Report of the Remuneration Committee to be audited

Opinion

In our opinion

- the group financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of affairs as at 31 December 2006 and its profit for the year, and
- the individual company financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of affairs as at 31 December 2006, and
- the financial statements have been properly prepared in accordance with the Companies Act 1985

UHY Hacker Young

UHY Hacker Young
Registered Auditor
Chartered Accountants

GROUP PROFIT AND LOSS ACCOUNT

	Note	2006 £000	*As restated* 2005 £000
Turnover	2	2,399	2,147
Cost of sales		(193)	(218)
Gross profit		2,206	1,929
Administrative expenses		(2,096)	(2,110)
Operating profit before amortisation and relocation costs		336	268
Relocation costs		-	(216)
Share based payment costs		(22)	(29)
Goodwill amortisation		(204)	(204)
Group operating profit/(loss)	3	110	(181)
Interest receivable	5	1	2
Interest payable and similar charges	6	(27)	(14)
Profit/(loss) on ordinary activities before taxation		84	(193)
Taxation	7	-	-
Profit/(loss) on ordinary activities after taxation retained for the year		84	(193)
Earnings/(loss) per share - Basic	8	0 25p	(0 58p)
- Diluted	8	0 24p	N/a

The group's operation in the year continued unchanged, no operations were disposed of or acquired

There are no recognised gains or losses other than those passing through the profit and loss account

GROUP BALANCE SHEET

	Note	2006 £000	As restated 2005 £000
Fixed assets			
Intangible assets	10	3,021	3,225
Tangible assets	11	1,142	1,142
		4,163	4,367
Current assets			
Debtors	13	533	531
Cash at bank and in hand		135	1
		668	532
Creditors: amounts falling due within one year	14	(307)	(515)
Net current assets		361	17
Total assets less current liabilities		4,524	4,384
Creditors. amounts falling due after more than one year	15	(271)	(308)
Provisions for liabilities	17	(78)	(44)
		4,175	4,032
Capital and reserves			
Called up share capital	18	3,373	3,336
Share premium account	19	242	242
Other reserve	19	365	530
Merger reserve	19	(111)	(111)
Profit and loss account	19	306	35
Equity shareholders' funds	20	4,175	4,032

These financial statements were approved by the Board and authorised for issue on 11 May 2007
Signed on behalf of the Board

S Lebor
Director

HOLDING COMPANY BALANCE SHEET

	Note	2006	*As restated* 2005
		£000	£000
Fixed assets			
Investments	12	3,997	3,997
Current assets			
Debtors	13	426	509
Creditors: amounts falling due within one year	14	(128)	(124)
Net current assets		298	385
Total assets less liabilities		4,295	4,382
Capital and reserves			
Called up share capital	18	3,373	3,336
Share premium account	19	242	242
Other reserve	19	1,299	1,299
Profit and loss account	19	(619)	(495)
Equity shareholders' funds		4,295	4,382

These financial statements were approved by the Board and authorised for issue on 11 May 2007
Signed on behalf of the Board

S Lebor
Director

GROUP CASH FLOW STATEMENT

	Note	2006 £000	2005 £000
Net cash inflow from operating activities	21	404	145
Returns on investments and servicing of finance			
Interest received		1	2
Interest paid		(27)	(14)
		(26)	(12)
Capital expenditure and financial investment			
Payments to acquire tangible assets		(96)	(706)
Net cash inflow/(outflow) before financing		282	(573)
Financing			
Receipts from issue of equity shares		20	-
Bank loan received		-	300
Repayment of bank loan		(15)	-
Repayment of finance lease and hire purchase contract		(24)	(25)
Increase/(decrease) in cash	22 & 23	263	(298)

NOTES TO THE ACCOUNTS

1 Accounting policies

The financial statements are based on the following policies which have been consistently applied

Basis of preparation
The financial statements have been prepared under the historical cost convention and in accordance with applicable accounting standards

Basis of consolidation
The consolidated financial statements incorporate the financial statements of the Company and all of its subsidiaries

The acquisition of WEEE Recycling Limited and its subsidiary company Flasksafe Services Limited has been accounted for as a group reconstruction using merger accounting The merger reserve represents the cumulative difference between the nominal values of the shares issued and the nominal values of the shares acquired in the two subsidiaries

The Group acquired Mercury Recycling Limited on 4 May 2001 and Simister Engineering Limited on 2 December 2003 These acquisitions have been consolidated using the acquisition method and their results are included in the financial statements from those dates

The Group has taken advantage of s131 of the Companies Act 1985 and has credited the premium arising on the acquisition of Mercury Recycling Limited to an other reserve

Acquisitions and disposals
On the acquisition of a business, fair values are attributable to the Group's share of net separable assets Where the cost of acquisition exceeds the fair values attributable to such net assets, the difference is treated as purchased goodwill and capitalised in the balance sheet in the year of acquisition

Goodwill
For acquisitions of a business purchased goodwill is capitalised in the year in which it arises and amortised over its estimated economic life up to a maximum of 20 years The Directors regard 20 years as a reasonable maximum for the estimated useful life of goodwill since it is difficult to make projections exceeding this period

Foreign currencies
Transactions denominated in foreign currencies are translated at the exchange rate ruling at the transaction date or at the rate in related forward currency contracts Monetary assets and liabilities denominated in foreign currencies are translated into sterling at the exchange rates ruling at the balance sheet date Any differences thereon are included in the profit and loss account

Government grants

Grants are credited to deferred revenue Grants towards capital expenditure are released to the profit and loss account over the expected useful life of the assets Grants towards revenue expenditure are released to the profit and loss account as the related expenditure is incurred

Research and development
Research and development expenditure is charged to the profit and loss account as incurred

Turnover
Turnover represents amounts receivable for goods and services net of VAT and trade discounts

NOTES TO THE ACCOUNTS

1 Accounting policies (continued)

Taxation

Deferred taxation is provided in full on timing differences which result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and law Timing differences arise from the inclusion of income and expenditure in taxation computations in periods different from those in which they are included in financial statements Deferred tax is not provided on timing differences arising from revaluation of fixed assets where there is no commitment to sell the asset Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered Deferred tax assets and liabilities are not discounted

Leases

Assets held under finance leases and hire purchase agreements are capitalised as tangible fixed assets and depreciated in accordance with the Group's depreciation policy The capital element of future lease payments is included in the balance sheet as obligations under finance leases and hire purchase agreements Payments are apportioned on a sum of the digits basis between the finance element which is charged to the profit and loss account, and the capital element which reduces the outstanding obligation

Rentals payable under operating leases are charged to the profit and loss account on a straight line basis over the lease period

Tangible fixed assets and depreciation

Tangible fixed assets are stated at cost less depreciation Depreciation is provided at rates calculated to write off the cost less estimated residual value of each asset over its expected useful life, as follows

Property alterations	10% straight line basis
Plant and machinery	10% - 25% straight line basis or reducing balance basis
Fixtures, fittings & equipment	10% - 25% straight line basis
Motor vehicles	25% reducing balance basis

Pensions

The Group operates insured defined contribution pension schemes for its present Directors and certain employees Contributions to the schemes are recognised in the profit and loss account as they accrue

Fixed asset investments

Investments are stated at cost less any provision for the permanent diminution in value

Financial instruments

The Group uses certain financial instruments in its operating and investing activities that are appropriate to the Group's strategy and circumstances

Financial instruments currently comprise cash, short term debtors, short term creditors and bank loans The Group regularly reviews the funding opportunities available to it in order to finance its operations including considering the use of borrowing, as well as equity, to fund short term cash requirements

The main risks arising from the Group's present use of financial instruments is interest rate risk on the group long term borrowings

The Group has taken advantage of the exemptions available under Financial Reporting Standard 13 for the disclosures relating to short-term debtors and creditors

NOTES TO THE ACCOUNTS

1. Accounting policies (continued)

Share-based payments

During the period the group has adopted FRS 20 and restated comparatives accordingly The impact of the restatement has had no effect on the opening reserves

The fair value of shares/options granted is recognised as an employee expense with a corresponding increase in equity The fair value is measured at the grant date and spread over the period during which the employee became unconditionally entitled to shares /options

2. Turnover and loss on ordinary activities before taxation

The turnover and loss on ordinary activities before taxation arise from the Group's principal activity

The Group's turnover has been analysed by geographic area as follows	2006	2005
	£000	£000
United Kingdom	2,373	2,117
Republic of Ireland	26	30
	2,399	2,147

3. Operating loss

The Group operating loss is shown after charging / (crediting)	2006	2005
	£000	£000
Depreciation on tangible assets	145	93
Loss on write down of assets	-	117
Operating leases - plant and machinery	34	25
- other assets	114	86
Government grants	9	1
Profit on disposal of tangible assets	(1)	(5)
Fees paid to the auditor analysed as follows		
Audit fees (Group excluding holding company)	6	6
Audit fees (Holding company)	4	4
Tax consultancy	3	2
Other review reports	5	4

NOTES TO THE ACCOUNTS

4. Staff costs and employees

	2006 £000	2005 £000
Wages and salaries	850	747
Social security costs	79	73
Other pension costs	18	18
	947	838

The average monthly number of employees, including Directors, during the year was as follows	2006 Number	2005 Number
Administration and management	6	8
Operational and sales	28	29
	34	37

Details of the Directors' remuneration are given in the Report of the Remuneration Committee on pages 11 and 12

5. Interest receivable

	2006 £000	2005 £000
Bank interest	1	2

6 Interest payable and similar charges

	2006 £000	2005 £000
Bank loans and overdrafts	25	10
Hire purchase and finance lease contracts	2	4
	27	14

7. Taxation

a) *Analysis of tax charge in the period* - No tax is expected to arise in the year due to available losses (2005 - £nil)

NOTES TO THE ACCOUNTS

7. Taxation (continued)

b) *Factors affecting the tax charge for the period*	2006 £000	2005 £000
Profit/(loss) on ordinary activities for the year before taxation	84	(193)
Profit/(loss) on ordinary activities for the year before taxation multiplied by standard rate of UK corporation tax of 30% (2005 - 30%)	25	(58)
Effects of		
Expenses not deductible for tax purposes (primarily goodwill)	68	71
Capital allowances for the period in excess of depreciation	(26)	(39)
Losses brought forward	(67)	(6)
Tax losses carried forward	-	32
	-	-

c) *Factors that may affect future tax charges* - The Group has estimated unutilised tax losses amounting to £1,150,000 (2005 - £1,081,000) the values of which are not recognised in the balance sheet The losses represent a potential deferred taxation asset of £ 180,000 (2005 - £277,000) which would be recoverable should the company make sufficient suitable taxable profits in the future

8 Earnings per share

Basic - The calculation of basic earnings/(loss) per share is based on a profit of £84,000 (2005 - loss - £193,000) and on 33,543,000 (2005 - 33,359,000) ordinary shares, being the weighted average number of ordinary shares in issue during the year

Diluted - The diluted earnings per share is based on the profit for the year of £84,000 and on 34,340,290 ordinary shares as adjusted for share options below

	2006 Number
Basic weighted average number of shares	33,543,234
Dilutive potential ordinary shares	
Dilution caused by options	797,056
Diluted weighted average number	34,340,290

Adjusted basic - Adjusted earnings per share is calculated using earnings before amortisation of goodwill, exceptional costs and share based payment costs Adjusted earnings is one of the primary performance measures used by the directors and is provided, in addition to the statutory results prepared under UK GAAP, to assist shareholders to gain a clearer understanding of the underlying performance of the business

	2006 pence	2005 pence
Basic earnings /(loss) per share	0 25	(0 58)
Adjustment	0 67	1 35
Adjusted earnings per share	0 92	0 77
Adjusted diluted earnings per share	0 90	0 74

NOTES TO THE ACCOUNTS

9. Loss attributable to members of the parent company

As permitted by Section 230 of the Companies Act 1985, the profit and loss account of the parent company is not presented as part of these accounts The parent company's loss for the financial year amounted to £146,000 (2005 - £113,000)

10. Intangible assets

	Goodwill
Group	**£000**
Cost	
At 1 January 2006 and at 31 December 2006	4,076
Amortisation	
At 1 January 2006	851
Provided during the year	204
At 31 December 2006	1,055
Net book value at 31 December 2006	3,021
Net book value at 31 December 2005	3,225

Goodwill arising on the acquisition of Mercury Recycling Limited is being amortised evenly over its estimated useful economic life of 20 years commencing May 2001 Goodwill arising on the acquisition of Simister Engineering Limited is being amortised over its estimated useful life of 20 years commencing December 2003

11. Tangible assets

Group	Property Alterations £000	Plant and machinery £000	Total £000
Cost			
At 1 January 2006	67	1,423	1,490
Additions	14	149	163
Disposals	-	(49)	(49)
At 31 December 2006	81	1,523	1,604
Depreciation			
At 1 January 2006	4	344	348
Provided during the year	8	136	144
On disposals	-	(30)	(30)
At 31 December 2006	12	450	462
Net book value at 31 December 2006	69	1,073	1,142
Net book value at 31 December 2005	63	1,079	1,142

The Group's plant and machinery includes assets held under finance leases and hire purchase contracts with a net book value of £223,000 (2005 - £255,000) Depreciation charge for the year in relation to the Group's plant and machinery under finance and hire purchase contracts amounted to £32,000 (2005 - £31,000)

NOTES TO THE ACCOUNTS

12. Investments

Company	Subsidiary under-takings £000
Cost	
At 1 January 2006 and at 31 December 2006	4,029
Provisions	
At 1 January 2006 and at 31 December 2006	32
Net book value	
At 31 December 2006	3,997
At 31 December 2005	3,997

Details of the investments in which the Company holds 20% or more of the nominal value of any class of share capital, all of which are included in the consolidated accounts and are registered in England and Wales, are as follows

Name of company	Holding	Proportion of voting rights and shares held	Nature of business
Subsidiary undertakings			
WEEE Recycling Limited	Ordinary shares	100%	Non trading holding company
Flasksafe Services Limited (*)	Ordinary shares	100%	Dormant
Mercury Recycling Limited	Ordinary shares	100%	Recycling of fluorescent tubes
Bulbsafe Recycling Limited	Ordinary shares	100%	Dormant
Lampsafe Service Limited	Ordinary shares	100%	Dormant
Simister Engineering Limited	Ordinary shares	100%	Dormant
Disposa-Lamp Limited (**)	Ordinary shares	100%	Dormant

(*) *Held by WEEE Recycling Limited*
(**) *Held by Mercury Recycling Limited*

NOTES TO THE ACCOUNTS

13. Debtors

	Group		*Company*	
	2006	**2005**	**2006**	**2005**
	£000	**£000**	**£000**	**£000**
Trade debtors	488	528	-	-
Amounts owed by group undertakings	-	-	408	507
Prepayments and accrued income	15	3	1	2
Directors loan account	30	-	17	-
	533	531	426	509

14 Creditors: amounts falling due within one year

	Group		*Company*	
	2006	**2005**	**2006**	**2005**
	£000	**£000**	**£000**	**£000**
Bank overdrafts	-	107	-	-
Bank loans	26	25	-	-
Obligations under finance leases and hire purchase contracts	21	24	-	-
Trade creditors	131	252	-	-
Amounts owed to group undertakings	-	-	116	116
Taxation and social security costs	93	59	-	-
Accruals and deferred income	36	48	12	8
	307	515	128	124

15 Creditors: amounts falling after more than one year

	Group		*Company*	
	2006	**2005**	**2006**	**2005**
	£000	**£000**	**£000**	**£000**
Bank loans	259	275	-	-
Obligations under finance leases and hire purchase contracts	12	33	-	-
	271	308	-	-

The bank borrowings are secured by a group mortgage debenture incorporating a fixed and floating charge over the assets of the group Additional security is provided by assignment over life policy on a director of the company

Repayable as follows	*Group*		*Company*	
	2006	**2005**	**2006**	**2005**
	£000	**£000**	**£000**	**£000**
Between 1 and 2 years	37	53	-	-
Between 2 and 5 years	90	104	-	-
More than 5 years	144	151	-	-
	271	308	-	-

NOTES TO THE ACCOUNTS

16. Financial instruments

The Group's policies as regards derivatives and financial instruments are set out in the accounting policies in note 1 The Group does not trade in financial instruments

Short-term debtors and creditors have been omitted from all disclosures

Interest rate risk profile

Financial assets

The Group has no financial assets, other than short-term debtors and sterling cash deposits of £135,000 (2005 - £1,000) The cash deposits attract variable rates of interest and an analysis of the rates at the year end is as follows

Interest rate %	Amount £000
Nil	1
1 4%	3
3 25%	131

Financial liabilities

The Group's long term liabilities consist of bank loans and hire and lease purchase creditors Interest rates charged on these are as follows -

	£000	Weighted average rate %	Weighted average period fixed rate Years	Weighted average period to maturity Years
Floating rate	285	N/a	N/a	N/a
Fixed rate	33	11	2	2

Currency exposures

At 31 December 2006 the Group had no currency exposures

17. Provisions for liabilities

Deferred taxation

The Group provision for deferred taxation consists of the following amounts

	Group 2006 £000	2005 £000
Capital allowances in advances of depreciation	163	132
Tax losses carried forward	(163)	(132)
	-	-

NOTES TO THE ACCOUNTS

17. Provisions for liabilities (continued)

Government grants

	Group 2006 £000	Group 2005 £000
Government grants brought forward	44	-
Received during the year	43	45
Released to profit and loss during the year	(9)	(1)
Government grants carried forward	78	44

18. Share capital

Group and Company

Authorised	2006 £000	2005 £000
50,000,000 ordinary shares of 10p each	5,000	5,000
Allotted, called up and fully paid		
33,726,154 ordinary shares of 10p each	3,373	3,336

Share options

The share options in issue at 31 December 2006 were as follows

Date granted	Exercise price	As at 1 January 2006	Granted in year	Number of options at 31 December 2006	Exercise period
5 November 2001	10p	100,000	-	100,000	6 November 2005 to 5 November 2011
24 February 2003	10p	1,175,000	(366,664)	808,336	24 February 2006 to 23 February 2013
1 November 2004	19 85p	1,250,000	-	1,250,000	1 November 2007 to 31 October 2014

On 9 March 2006, options over 199,998 shares were exercised at 10p each

On 8 September 2006, options over 166,666 shares were exercised at 10p each

19. Reserves

Group	Merger reserve account £000	Other reserve account £000	Share premium account £000	Profit and loss account £000
At 1 January 2006	(111)	530	242	35
Retained profit for the year	-	-	-	84
Share based payment charge	-	-	-	22
Goodwill amortisation	-	(165)	-	165
At 31 December 2006	(111)	365	242	306

NOTES TO THE ACCOUNTS

19 Reserves (continued)

Group

The Group has taken advantage of s131 of the Companies Act 1985 and has credited the premium arising on the acquisition of Mercury Recycling Limited to the other reserve account

The transfer between group reserves represents the release from the other reserve account of £165,000 (2005 - £165,000) corresponding to the amortisation of goodwill in the year

Company	Other reserve account £000	Share premium account £000	Profit and loss account £000
At 1 January 2006	1,299	242	(495)
Loss for the year	-	-	(146)
Share based payment	-	-	22
At 31 December 2006	1,299	242	(619)

Following the application of Financial Reporting Standard 20, the Group and Company has recognised as an expense, the fair value of share options granted This has had no effect in the opening reserves

20 Reconciliation of movements in shareholders' funds

	2006 £000	2005 £000
Profit/(loss) for the financial year	84	(193)
Share based payment cost	22	29
Share issue	37	-
Shareholders' funds brought forward	4,032	4,196
Shareholders' funds carried forward	4,175	4,032

NOTES TO THE ACCOUNTS

21. Reconciliation of operating loss to operating cash flows

	2006 £000	2005 £000
Operating profit/(loss)	110	(181)
Depreciation	145	93
Amortisation	204	204
Release grant to P&L	(9)	(1)
Share based payments - share options	22	29
Profit on disposal	(1)	(5)
Relocation cost -loss on disposal	-	122
Movement in debtors	15	(241)
Movement in creditors	(82)	125
Net cash inflow from operating activities	404	145

22 Analysis of changes in net funds

	At 1 January 2006 £000	Cash flows £000	Non cash movements £000	At 31 December 2006 £000
Cash at bank and in hand	1	134	-	135
Bank overdraft	(129)	129	-	-
	(128)	263	-	135
Debt due within one year				
Bank loan	(25)	15	(16)	(26)
Finance leases and hire purchase	(24)	24	(21)	(21)
Debt due in more than one year				
Bank loan	(275)	-	16	(259)
Finance leases and hire purchase	(33)	-	21	(12)
Net funds	(485)	302	-	(183)

23. Reconciliation of net cash flow to movement in net funds

	2006 £000	2005 £000
Increase/(decrease) in cash	263	(298)
Cash outflow/(inflow) from financing	39	(275)
Change in net funds resulting from cash flows	302	(573)
New finance leases and hire purchase	-	(25)
Movement of net funds	302	(598)
Net funds at 1 January	(485)	113
Net funds at 31 December	(183)	(485)

NOTES TO THE ACCOUNTS

24. Commitments

(a) At 31 December the Group had annual commitments under operating leases expiring	Land and buildings		Other	
	2006	2005	2006	2005
	£000	£000	£000	£000
Within one year	-	-	8	8
Between 2 and 5 years	-	-	17	17
After 5 years	85	85	-	-

The Company had no annual payment obligations under operating leases

(b) Capital commitments

Neither the Group nor the Company had any capital commitments at 31 December 2006

25. Pensions

The Group operates insured defined contribution pension schemes for the benefit of Directors and employees The assets of the schemes are held separately from those of the Group in independently administered funds The pension cost charge represents contributions payable to the funds and amounted to £18,000 (2005 - £18,000)

26 Transactions with directors

Mr S Lebor had an interest free loan during the year The maximum amount outstanding during the year and at the year end was £29,702 (2005 - Nil)

The loan was repaid in full on 10 April 2007

27 Control

The Directors consider that there is no overall controlling party