Symphony
plastic technologies

ANNUAL REPORT AND ACCOUNTS 2004

CONTENTS

COMPANY INFORMATION

Company registration number:	3676824
Registered office:	Elstree House Elstree Way Borehamwood Hertforshire WD6 1LE
Directors:	M N Laurier – *Chief Executive Officer* I Bristow FCCA – *Finance Director* A Blacher – *Chief Operating Officer* K L Frener – *Operations Director* N J Deva DL, FRSA, MEP – *Non Executive*
Secretary:	I Bristow
Bankers:	Barclays Bank Plc St Albans
Solicitors:	Morgan Cole Princess House Princess Way Swansea SA1 3LJ
Nominated advisor and broker:	Panmure Gordon & Co Moorgate Hall 155 Moorgate London EC2M 6XB
Auditors:	Grant Thornton UK LLP Chartered Accountants Registered Auditors Grant Thornton House 202 Silbury Boulevard Central Milton Keynes MK9 1LW
Registrars:	Capita IRG Plc The Registry 34 Beckenham Road Beckenham Kent BR3 4TU

CHIEF EXECUTIVE'S REVIEW

The year under review has been particularly challenging as raw material costs nearly doubled and a large part of management time in the second half of the year was occupied with defending litigation which was aimed at affecting our core technology and business. I am pleased to report that despite these distractions we have continued to increase sales and have significantly reduced losses from the previous year.

Symphony has continued to expand its international distribution network for its finished polythene products and additives. To date we have 8 distributors and our d_2w® products can be found in more than 20 countries.

TRADING RESULTS

Total group sales increased by 16% to £8.86m. Group gross profits increased by 55% from £1.19m to £1.84m. The Group continued to allocate most of its marketing and sales efforts to the further development of d_2w® product sales, whilst also maintaining and increasing the level of non-degradable business.

The operating loss in 2004 was reduced significantly to £0.6m from £2.92m in 2003. In 2003, £1.7m was written off due to the termination of our licence with EPI Environmental Products Inc ("EPI") and the estimated cost of the case in the High Court. As the case is going to appeal, a further £100,000 provision has been made in 2004 in respect of anticipated non-recoverable legal fees.

Research and development tax credits totalling £105,000 were received during 2004 and these are included in tax on loss on ordinary activities in the profit and loss account.

The operating loss before exceptional costs was £0.5m, having reduced significantly from £1.22m in 2003. Administrative expenses before exceptional costs were £2.05m, which is 12% down from last year, as a result of tight cost control. Gross profits increased by 33% before exceptional costs, from £1.39m to £1.84m.

The loss per share decreased significantly to 1.31 pence from 7.09 pence.

Dispute between Symphony and EPI

As announced on 21 December 2004, Symphony was successful in the High Court on the major points of the action taken by EPI. In January 2005, EPI completed payment of a total of £670,000 into Court and was subsequently granted permission to Appeal. The costs will remain in Court until the Appeal process has been exhausted. We remain confident that the action is unmeritorious and that the Appeal Court will reaffirm the judgment that was made in our favour last December.

International Markets

Symphony has continued to expand its international sales activities with a growing product range. The d_2w® degradable products and additives are being distributed in Brazil, the Caribbean, Middle East, New Zealand and South Africa. In addition other new overseas markets have started to buy our products and additives. The Group has completed significant distribution agreements for North America, Saudi Arabia and Columbia in 2005, which further extends the geographic reach of the d_2w® range of products and additives.

Sales prospects are being encouraged by changes in legislation and increasing environmental concerns over plastic pollution.

UK Sales

Symphony continued to target viable sectors where d_2w® products will strategically fit.

In particular the retail sector consumes large volumes of plastic and last year we supplied over 1 billion d_2w® carrier bags.

We also supplied products into the private health, local government and industrial films sectors, but most of the work achieved last year was in product trials and developing further relationships.

Financing

During the year £0.6m was raised by way of share issues in July and November. Since the year end, and subject to an extraordinary general meeting on 31 March 2005, £1.7m has been placed. This new funding places Symphony in a strong financial position with a strengthened balance sheet and the working capital required to take full advantage of the opportunities in our markets.

Legislation

Increasingly legislators and officials around the world are realising that they will never be able to collect and process all their plastic waste, and policies are needed to encourage a move to degradability. They are also realising that oxo-biodegradable plastic can be recycled and can itself be made from recycled plastics. Oxo-biodegradable plastics also have a lower cost base than starch-based biodegradable materials and have a wider range of applications.

Legislation that has been passed in countries such as Barbados, Malta, Mauritius, Bangladesh, India and Taiwan, includes: use of non-biodegradable plastic bags being a punishable offence; having lower taxation charges on bags made from degradable plastic; split import duty levels for degradable and non-degradable bags, with higher levels on the latter; and the banning of plastics completely. These actions have all encouraged interest in degradable materials.

In November a major international conference was held in Brussels at which scientists acknowledged the benefits of oxo-biodegradable plastic and recognised that a European Standard was needed for plastics which degrade by a process of oxidation. This conference was attended by Symphony’s technical team, and Symphony is at the forefront of discussions with the EU Commission and the European Standard Organization.

In the UK, farmers and growers can burn or bury plastic waste on farm, but this will have to stop in June 2005 when the draft Waste Management Regulations are expected to come into force. This could potentially open up further markets for our range of d$_2$w® films and additives.

Outlook

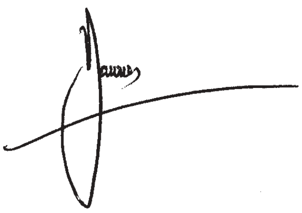
We have continued to make progress in passing on raw material price increases to our customers and have succeeded in recovering most of the additional costs. Recent price increases are being implemented at a much faster pace as the markets are more prepared to accept these changes than before.

The 2005 year has started well with new orders and distribution agreements being confirmed. In recent months deliveries of d$_2$w® products have been made to some large international companies in the leisure sector, which will allow our brand to have further exposure to a large retail consumer base.

Symphony’s d$_2$w® products can be found in more than 20 countries throughout the World. Our strategy is to expand the international distribution network and our established partners are reporting good levels of activity in terms of product enquiry, trials and order negotiation.

The UK sales activities are focussed on developing closer relationships with “key” customers and to expand the reach of d$_2$w® into new sectors and products. The health care, local authority, supermarket and mailing film sectors are expected to expand as we negotiate for product extensions within the current supply arrangements.

Legislation is moving at a steady pace and the focus is on changing the habits of governments and consumers of all types of plastic packaging products. Our view is that Symphony is well placed to supply the solutions to the problems that governments are now starting to tackle, and with d$_2$w® products available at either zero or little “on-cost”, there is no commercial reason not to make the change to degradable plastics.



Michael Laurier
Chief Executive Officer

22 March 2005

REPORT OF THE DIRECTORS

The directors present their report and the financial statements of the group for the year ended 31 December 2004.

Principal activities and business review

The primary business activity of the group is the supply of environmental polythene products, both in the United Kingdom and overseas. The group also supplies other flexible polythene and related products.

A review of the business and future developments is given in the Chief Executive's review.

There was a loss for the year after taxation amounting to £622,157 (2003 – loss £3,009,575).

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.

Research and development

The group is involved in the research and development of degradable polythene.

The directors and their interests

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 £0.01 each	
	At 31 December 2004	**At 1 January 2004**
M N Laurier	**9,503,142**	8,578,142
I Bristow FCCA	**797,972**	757,972
A Blacher	**170,333**	83,333
M F Stephens	**832,198**	792,198
K L Frener	**1,111,185**	1,071,185
N J Deva DL, FRSA, MEP	**17,500**	17,500

The interests of the directors' in share options are given in note 24 to the financial statements.

In addition C Littmoden who resigned as a director on 25 March 2004, also served during the year. M F Stephens resigned as a director on 20 January 2005.

Policy on the payment of creditors

It is the company's policy to settle the terms of payment with suppliers when agreeing the terms of the transaction to ensure that suppliers are aware of these terms and abide by them. Trade creditors at the year end amount to 43 days of average supplies for the year.

Directors' responsibilities

United Kingdom company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and of the group at the end of the year and of the group's profit or loss for the year then ended. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently
- make judgements and estimates that are reasonable and prudent
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements

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

The directors are responsible for keeping proper accounting records, for safeguarding the assets of the group and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Post balance sheet events

Allotment of shares

The company made an allotment of 460,000 ordinary 1p shares each fully paid on 7 February 2005 at 19.5p per share.

Investment

On 1 February 2005, the group acquired a 25% interest in Degradable Plastic Products Inc, a US biodegradable company, for consideration of granting them a distribution licence.

Share placing

As mentioned in the Chief Executives review subject to an extraordinary general meeting on 31 March 2005, £1.7m has been institutionally placed.

Going Concern

After reviewing current performance and detailed forecasts, taking into account available bank facilities and making further enquiries as considered appropriate, the Directors are satisfied that the Group has sufficient resources to enable it to continue in business for the foreseeable future. For this reason, the Directors believe it is appropriate to continue to adopt the going concern basis in preparing the financial statements.

Corporate Governance

The Group is committed to developing and adhering to high standards of corporate governance. As an AIM listed company, it is not required to comply with the Combined Code as issued by the UK's Listing Authority. However, it seeks to follow the principles of good governance as far as management believes it is practical for a group of its size and nature.

Auditors

On 1 July 2004, the Grant Thornton partnership transferred its business to a limited liability partnership, Grant Thornton UK LLP and the directors have agreed to extend the audit appointment to Grant Thornton UK LLP with effect from 1 July 2004 in accordance with section 26(5) of the Companies Act 1989.

A resolution to appoint Grant Thornton UK LLP as auditors for the ensuring year will be proposed at the annual general meeting in accordance with section 385 of the Companies Act 1985.

BY ORDER OF THE BOARD

I Bristow
Secretary

22 March 2005

REPORT OF THE INDEPENDENT AUDITORS TO THE MEMBERS OF SYMPHONY PLASTIC TECHNOLOGIES PLC

We have audited the financial statements of Symphony Plastic Technologies plc for the year ended 31 December 2004 which comprise the principal accounting policies, consolidated profit and loss account, balance sheets, consolidated cash flow statement and notes 1 to 30. 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 has been 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 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

The directors' responsibilities for preparing the report of the directors and the financial statements in accordance with United Kingdom law and accounting standards are set out in the statement of directors' responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom auditing standards.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the report of the directors 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 transactions with the group is not disclosed.

We read other information contained in the chief executive's review and the report of the directors and consider whether it is consistent with the audited financial statements. 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.

Basis of opinion

We conducted our audit in accordance with United Kingdom auditing standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group's circumstances, consistently applied and adequately disclosed.

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

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the company and of the group as at 31 December 2004 and of the loss of the group for the year then ended, and have been properly prepared in accordance with the Companies Act 1985.

GRANT THORNTON UK LLP
REGISTERED AUDITORS
CHARTERED ACCOUNTANTS
Central Milton Keynes

22 March 2005

PRINCIPAL ACCOUNTING POLICIES

Basis of accounting

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

The principal accounting policies of the group are set out below and have remained unchanged from the previous year.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the company and all group undertakings (see note 13).

The company was entitled to merger relief offered by section 131 of the Companies Act 1985 in respect of consideration received in excess of the nominal value of the equity shares issued in connection with the acquisition of Symphony Plastics Limited on 9 December 1999. This was accounted for under merger accounting.

As a consolidated profit and loss account is published, a separate profit and loss account for the parent company is omitted from the group financial statements by virtue of section 230 of the Companies Act 1985.

Turnover

Turnover is the total amount receivable by the group for goods supplied and services rendered, excluding VAT and trade discounts.

Research and development costs

Development costs incurred on specific projects are capitalised when recoverability can be assessed with reasonable certainty and amortised in line with the amortisation of the licence fee. All other development costs are written off in the year of expenditure.

Licence and trademarks

Licence and trademarks represent the cost of a manufacturing and know how licence.

Amortisation is calculated so as to write off the cost of an asset, less its estimated residual value, over the useful economic life of that asset as follows:

Trademarks	10 years straight line

Depreciation

Depreciation is calculated so as to write off the cost of an asset, less its estimated residual value, over the useful economic life of that asset as follows:

Plant and machinery	20% reducing balance
Fixtures and fittings	25% reducing balance
Motor vehicles	20% reducing balance
Computer equipment	25% straight line

Stocks

Stocks are valued at the lower of cost and net realisable value, after making due allowance for obsolete and slow moving items.

Leasing and hire purchase commitments

Assets held under finance leases, which are leases where substantially all the risks and rewards of ownership of the asset have passed to the company, and hire purchase contracts, are capitalised in the balance sheet and are depreciated over their useful lives. The capital elements of future obligations under the leases and hire purchase contracts are included as liabilities in the balance sheet.

The interest elements of the rental obligations are charged in the consolidated profit and loss account over the periods of the leases and hire purchase contracts and represent a constant proportion of the balance of capital repayments outstanding.

Rentals payable under operating leases are charged in the consolidated profit and loss account on a straight line basis over the lease term.

Pension costs

The group operates a defined contribution pension scheme for employees. The assets of the scheme are held separately from those of the group. The annual contributions payable are charged to the profit and loss account.

Deferred taxation

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or a right to pay less or to receive more tax, with the following exception: deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

Foreign currencies

Assets and liabilities in foreign currencies are translated into sterling at the rates of exchange ruling at the balance sheet date. Transactions in foreign currencies are translated into sterling at the rate of exchange ruling at the date of the transaction. Exchange differences are taken into account in arriving at the operating profit.

Investments

Investments are included at cost less amounts written off.

Financial instruments

The main purpose of these financial instruments is to finance the group’s operations.

Financial assets are recognised in the balance sheet at the lower of cost and net realisable value.

Interest payable and receivable is accrued, charged or credited to the profit and loss account in the period to which it relates.

The group does not use financial instruments other than cash, bank overdrafts, invoice discounting, letters of credit, trade debtors and trade creditors that arise directly from its operations.

CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the year ended 31 December 2004

	Note	2004 £	2004 £	2003 £	2003 £
Turnover	1		**8,855,371**		7,628,053
Cost of sales – pre-exceptional		**7,012,541**		6,243,279	
Cost of sales – exceptional		**–**		195,525	
Cost of sales			**7,012,541**		6,438,804
Gross profit			**1,842,830**		1,189,249
Other operating charges – pre-exceptional		**2,337,768**		2,605,839	
Other operating charges – exceptional		**100,000**		1,501,674	
Other operating charges	2		**2,437,768**		4,107,513
Operating loss	3		**(594,938)**		(2,918,264)
Interest receivable and similar income	6		**266**		4,294
Interest payable and similar charges	7		**(132,950)**		(95,605)
Loss on ordinary activities before taxation			**(727,622)**		(3,009,575)
Tax on loss on ordinary activities	8		**(105,465)**		–
Loss for the financial year	9		**(622,157)**		(3,009,575)
Loss per share (pence)	10		**(1.31)**		(7.09)

All of the activities of the group are classed as continuing.

The group has no recognised gains or losses other than the results for the year as set out above.

The accompanying accounting policies and notes form part of these financial statements.

CONSOLIDATED BALANCE SHEET

At 31 December 2004

	Note	**2004** £	2003 £
Fixed assets			
Intangible assets	11	**14,833**	1,674
Tangible assets	12	**203,558**	208,976
Investments	13	**15,525**	15,525
		233,916	226,175
Current assets			
Stocks	14	**380,622**	593,022
Debtors due within one year	15	**3,397,364**	2,111,664
Cash at bank and in hand		**574**	169,546
		3,778,560	2,874,232
Creditors: amounts falling due within one year	16	**2,763,310**	1,828,848
Net current assets		**1,015,250**	1,045,384
Total assets less current liabilities		**1,249,166**	1,271,559
Creditors: amounts falling due after more than one year	17	**41,473**	24,614
		1,207,693	1,246,945
Capital and reserves			
Called up equity share capital	24	**512,529**	452,829
Share premium account	25	**9,116,395**	8,593,190
Other reserves	25	**822,539**	822,539
Profit and loss account	25	**(9,243,770)**	(8,621,613)
Shareholders' funds	26	**1,207,693**	1,246,945

The financial statements were approved by the directors on 22 March 2005 and signed on their behalf by:

I Bristow
Finance Director

The accompanying accounting policies and notes form part of these financial statements.

COMPANY BALANCE SHEET

At 31 December 2004

	Note	2004 £	2003 £
Fixed assets			
Tangible assets	12	**15,143**	17,763
Investments	13	**149,998**	149,998
		165,141	167,761
Current assets			
Debtors due within one year	15	**46,001**	7,015
Debtors due after one year	15	**9,490,743**	8,863,953
Cash at bank and in hand		**638**	9
		9,537,382	8,870,977
Creditors: amounts falling due within one year	16	**99,220**	88,815
Net current assets		**9,438,162**	8,782,162
Total assets less current liabilities		**9,603,303**	8,949,923
Creditors: amounts falling due after more than one year	17	**1,642**	6,300
		9,601,661	8,943,623
Capital and reserves			
Called up equity share capital	24	**512,529**	452,829
Share premium account	25	**9,116,395**	8,593,190
Profit and loss account	25	**(27,263)**	(102,396)
Shareholders' funds		**9,601,661**	8,943,623

These financial statements were approved by the directors on 22 March 2005 and signed on their behalf by:

I Bristow
Finance Director

The accompanying accounting policies and notes form part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2004

	Note	2004 £	2003 £
Net cash outflow from operating activities	27	**(1,049,772)**	(1,435,172)
Returns on investments and servicing of finance			
Interest received		**266**	4,294
Interest paid		**(128,324)**	(91,244)
Interest element of finance leases and hire purchase		**(4,626)**	(4,361)
Net cash outflow from returns on investments and servicing of finance		**(132,684)**	(91,311)
Taxation		**105,465**	–
Capital expenditure and financial investment			
Payments to acquire intangible fixed assets		**(15,359)**	–
Payments to acquire tangible fixed assets		**(8,050)**	(56,714)
Receipts from sale of fixed assets		**4,050**	18,102
Net cash outflow from capital expenditure and financial investment		**(19,359)**	(38,612)
Cash outflow before financing		**(1,096,350)**	(1,565,095)
Financing			
Issue of equity share capital		**59,700**	111,111
Share premium on issue of equity share capital		**565,200**	1,888,889
Share issue expenses		**(41,995)**	(192,079)
Capital element of finance leases and hire purchase		**(21,668)**	(57,957)
Net cash inflow from financing		**561,237**	1,749,964
(Decrease)/increase in cash	28	**(535,113)**	184,869

The accompanying accounting policies and notes form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

1 TURNOVER

An analysis of turnover by geographical market or segmental information has not been disclosed as in the opinion of the directors this would be seriously prejudicial to the group.

2 OTHER OPERATING INCOME AND CHARGES

	2004	2003
	£	£
Distribution costs	**282,775**	281,145
Administrative expenses	**2,154,993**	3,826,368
	2,437,768	4,107,513

3 OPERATING LOSS

Operating loss is stated after charging:	**2004**	2003
	£	£
Amortisation of trademarks	**2,200**	140,565
Research and development expenditure written off	**42,743**	36,302
Depreciation of owned fixed assets	**39,416**	19,893
Depreciation of assets held under finance leases and hire purchase agreements	**7,877**	26,504
Loss on disposal of fixed assets	**6,458**	14,569
Auditors' remuneration:		
Audit fees	**24,520**	23,800
Non audit services:		
Tax compliance	**5,150**	5,650
Tax advisory	**2,500**	1,400
Other non audit services	**–**	900
Operating lease costs:		
Land and buildings	**93,836**	97,160
Plant and equipment	**13,741**	21,328
Exceptional item: termination of licence	**–**	1,501,674
Exceptional item: legal fee accrual	**100,000**	–

In 2003 the company terminated a licence relating to the use of an additive. The exceptional cost relates to amounts incurred on the write off of the intangible assets associated with the licence, destroying stocks of the additive, associated legal fees and debts.

4 PARTICULARS OF DIRECTORS AND EMPLOYEES

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

	2004	2003
	Number	Number
Warehousing	**6**	6
Selling and distribution	**6**	7
Administration	**10**	10
Management	**6**	5
	28	28

The aggregate payroll costs of the above were:

	2004	2003
	£	£
Wages and salaries	**1,038,902**	1,087,073
Social security costs	**110,498**	118,658
Other pension costs	**29,542**	53,366
	1,178,942	1,259,097

5 DIRECTORS' REMUNERATION

	Basic salary or fees	Benefits	Pension	**2004 Total Emoluments**	2003 Total Emoluments
	£	£	£	**£**	£
Christopher Littmoden	7,500	–	–	**7,500**	30,000
Ian Bristow	95,801	11,202	4,500	**111,503**	108,884
Michael Laurier	43,161	5,340	12,142	**60,643**	132,715
Nirj Deva	27,375	–	–	**27,375**	19,500
Michael Stephens	106,682	1,834	5,000	**113,516**	114,108
Keith Frener	72,614	10,699	3,400	**86,713**	85,386
Allan Blacher	101,257	4,205	4,500	**109,962**	102,303
	454,390	33,280	29,542	**517,212**	592,896

During the year one director (2003 – one) participated in a money purchase pension scheme.

Details of directors' share options are given in note 24.

6 INTEREST RECEIVABLE AND SIMILAR INCOME

	2004	2003
	£	£
Bank interest received	**266**	1,740
Other similar income receivable	**–**	2,554
	266	4,294

7 INTEREST PAYABLE AND SIMILAR CHARGES

	2004	2003
	£	£
Interest payable on bank borrowing	**4,018**	2,258
Finance charges	**4,626**	4,361
Other interest payable and similar charges	**124,306**	88,986
	132,950	95,605

8 TAXATION ON ORDINARY ACTIVITIES

	2004	2003
	£	£
Current tax	**–**	–
	–	–
R&D tax credit	**105,465**	–
Total corporation tax	**105,465**	–

The group has tax losses of approximately £8,000,000 carried forward and available for offset against future taxable trading profits. There is a net deferred tax asset of £2,400,000, which has not been recognised as the timing of its recoverability cannot be assessed with any certainty.

The group intends to apply for an R&D tax credit in respect of the year ended 31 December 2004, however the Directors have not estimated the size of any credit that would be receivable. The R&D tax credit of £105,465 is in respect of the claim made for the year ended 31 December 2003.

(a) Analysis of charge in the year

No tax arises on the loss for the year.

The tax assessed for the period is different than the standard rate of corporation tax in the UK of 30% (2003 – 30%). The differences are explained as follows:

Factors affecting current tax charge

	2004	2003
	£	£
Loss on ordinary activities before taxation	**(727,622)**	(3,009,575)
Loss on ordinary activities by rate of tax	**(218,287)**	(902,873)
Expenses not deductible for tax purposes	**3,904**	12,334
Depreciation for the period in excess of capital allowances	**4,734**	(146,807)
Tax losses not utilised	**202,576**	1,037,346
Research and development tax credit	**(105,465)**	–
Other timing differences	**7,073**	–
Total current tax	**(105,465)**	–

9 PROFIT ATTRIBUTABLE TO MEMBERS OF THE PARENT COMPANY

The profit for the financial year dealt with in the accounts of the parent company was £75,133 (2003 – £88,511).

10 LOSS PER SHARE

The calculation of basic loss per ordinary share is based on the loss for the financial year of £622,157 (2003 – £3,009,575) and on 47,526,432 shares (2003 – 42,421,388) being the weighted average number of equity shares outstanding during the year.

11 INTANGIBLE FIXED ASSETS

Group and company

	Trademarks £
Cost	
At 1 January 2004	6,642
Additions	15,359
At 31 December 2004	22,001
Amortisation	
At 1 January 2004	4,968
Charge for the year	2,200
At 31 December 2004	7,168
Net book value	
At 31 December 2004	**14,833**
At 31 December 2003	1,674

12 TANGIBLE FIXED ASSETS

Group

	Plant and machinery £	**Fixtures and fittings £**	**Motor vehicles £**	**Computer equipment £**	**Total £**
Cost					
At 1 January 2004	65,426	79,119	87,438	148,548	380,531
Additions	–	–	52,383	–	52,383
Disposals	–	–	(19,395)	–	(19,395)
At 31 December 2004	65,426	79,119	120,426	148,548	413,519
Depreciation					
At 1 January 2004	20,643	33,091	21,862	95,959	171,555
Charge for the year	6,340	6,380	15,429	19,144	47,293
On disposals	–	–	(8,887)	–	(8,887)
At 31 December 2004	26,983	39,471	28,404	115,103	209,961
Net book value					
At 31 December 2004	**38,443**	**39,648**	**92,022**	**33,445**	**203,558**
At 31 December 2003	44,783	46,028	65,576	52,589	208,976

Included within the net book value of £203,558 is £20,782 (2003 – £80,204) relating to assets held under finance leases and hire purchase agreements. The depreciation charged to the financial statements in the year in respect of such assets amounted to £7,877 (2003 – £13,202).

Company	Plant and machinery £	Fixtures and fittings £	Total £
Cost			
At 1 January 2004 and 31 December 2004	14,628	8,707	23,335
Depreciation			
At 1 January 2004	1,950	3,622	5,572
Charge for the year	1,951	669	2,620
At 31 December 2004	3,901	4,291	8,192
Net book value			
At 31 December 2004	**10,727**	**4,416**	**15,143**
At 31 December 2003	12,678	5,085	17,763

Included within the net book value of £15,143 is £11,052 (2003 – £16,628) relating to assets held under finance leases and hire purchase agreements. The depreciation charged to the financial statements in the year in respect of such assets amounted to £1,625 (2003 – £1,950).

13 INVESTMENTS

Group	Other £
Cost	
At 1 January 2004 and 31 December 2004	**15,525**
Net book value	
At 31 December 2004	**15,525**
At 31 December 2003	15,525

At 31 December 2004 the group held more than 20% of a class of the allotted equity share capital of the following:

Name of undertaking	Country of incorporation	Class of share capital held	Proportion held	Nature of business
Symphony Plastics Limited	England and Wales	Ordinary shares	100%	Supply of polythene products
*Symphony Packaging Limited	England and Wales	Ordinary shares	100%	Dormant
*Symphony Environmental Limited	England and Wales	Ordinary shares	100%	Supply of environmental polythene
**D2W Limited	England and Wales	Ordinary shares	100%	Dormant

All of the subsidiary undertakings have been consolidated in the group financial statements.

*Owned by Symphony Plastics Limited

**Owned by Symphony Environmental Limited

In addition, the group holds 30% of the ordinary share capital in Symphony Bin Hilal LLC, a company incorporated in United Arab Emirates. The directors are of the opinion that this is an investment rather than an associated company, as the directors do not have significant influence because they have no financial or management control.

Company	**Shares in group undertakings**
	£
Cost	
At 1 January 2004 and 31 December 2004	**149,998**
Net book value	
At 31 December 2004	**149,998**
At 31 December 2003	149,998

14 STOCKS

	The group		**The company**	
	2004	2003	**2004**	2003
	£	£	**£**	£
Raw materials and consumable stores	**72,890**	133,840	**–**	–
Finished goods and goods for resale	**307,732**	459,182	**–**	–
	380,622	593,022	**–**	–

15 DEBTORS

	The group		**The company**	
	2004	2003	**2004**	2003
	£	£	**£**	£
Trade debtors	**2,672,857**	2,006,333	**–**	–
Amounts owed by group undertakings	**–**	–	**9,490,743**	8,863,953
VAT recoverable	**46,623**	18,437	**7,082**	613
Other debtors	**569,774**	15,283	**–**	–
Prepayments and accrued income	**108,110**	71,611	**38,919**	6,402
	3,397,364	2,111,664	**9,536,744**	8,870,968

Amounts falling due after one year:

	The company	
	2004	2003
	£	£
Amounts owed by group undertakings	**9,490,743**	8,863,953

16 CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	The group		The company	
	2004	2003	**2004**	2003
	£	£	**£**	£
Bank overdrafts	**629,813**	263,672	**–**	13,323
Trade creditors	**1,051,024**	502,304	**68,731**	40,438
Amounts due under finance leases and hire purchase agreements	**24,559**	18,753	**4,658**	4,254
Taxation and social security	**112,149**	51,408	**–**	–
Other creditors	**795,533**	734,249	**–**	–
Accruals and deferred income	**150,232**	258,462	**25,831**	30,800
	2,763,310	1,828,848	**99,220**	88,815

The bank overdrafts are secured by a fixed charge over the group's fixed assets, a fixed charge over the group's debtors and a floating charge over all other assets.

The other creditors are secured by a fixed and floating charge over the group's assets.

Amounts due under finance leases and hire purchase agreements are secured over the assets to which they relate.

17 CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	The group		The company	
	2004	2003	**2004**	2003
	£	£	**£**	£
Amounts due under finance leases and hire purchase agreements	**41,473**	24,614	**1,642**	6,300

18 COMMITMENTS UNDER FINANCE LEASES AND HIRE PURCHASE AGREEMENTS

Future commitments under finance leases and hire purchase agreements are as follows:

	The group		The company	
	2004	2003	**2004**	2003
	£	£	**£**	£
Amounts payable within 1 year	**24,559**	18,753	**–**	–
Amounts payable between 1 and 2 years	**15,340**	17,602	**–**	–
Amounts payable between 3 and 5 years	**26,133**	7,012	**–**	–
	66,032	43,367	**–**	–

19 PENSIONS

Defined Contribution Scheme

The group operates a defined contribution scheme for the benefit of the executive directors. The assets of the scheme are administered by trustees in a fund independent from those of the group.

20 FINANCIAL INSTRUMENTS

The group uses financial instruments, comprising cash, bank overdrafts, invoice discounting, letters of credit, trade debtors and trade creditors, that arise directly from its operations. The main purpose of these financial instruments is to raise finance for the group's operations.

The main risks arising from the group financial instruments are interest rate risk, currency exchange risk and liquidity risk.

Short term debtors and creditors have been excluded from the following disclosures, other than the currency risk disclosures.

The group finances its operations through a mixture of bank borrowings and invoice discounting. The group exposure to interest rate fluctuations on its borrowings is managed by the use of floating facilities.

At 31 December 2004 the interest rate exposure of the financial liabilities was at floating rate. The floating rate borrowings bear interest at rates based on LIBOR.

The group seeks to manage financial risk, to ensure financial liquidity is available to meet foreseeable needs and to invest cash assets safely and profitably. Short term flexibility is achieved by overdraft facilities and confidential invoice discounting.

The group operates in overseas markets and is subject to currency exposures on transactions undertaken during the year. The group does not hedge any transactions.

The directors have given serious consideration and have reached the conclusion that there is no significant difference between book and fair value of assets and liabilities of the Group at the balance sheet date.

21 COMMITMENTS UNDER OPERATING LEASES

At 31 December 2004 the group had annual commitments under non-cancellable operating leases as set out below.

The group	**2004**		2003	
	Land and buildings	**Other items**	Land and buildings	Other items
	£	**£**	£	£
Operating leases which expire:				
Within 1 year	**–**	**1,041**	–	7,664
Within 2 to 5 years	**78,800**	**10,026**	97,160	10,026
	78,800	**11,067**	97,160	17,690

22 CONTINGENT LIABILITIES

Group

There is a contingent liability arising on letters of credit which have been issued but not yet fulfilled. At 31 December 2004 this amounts to £257,079 (2003 – £nil).

Company

The company has guaranteed all monies due to Barclays Bank plc by Symphony Plastics Limited and Symphony Environmental Limited. At 31 December 2004 the net indebtedness of these companies amounted to £434,991 (2003 – £123,911).

The company is a member of a VAT group with Symphony Plastics Limited and Symphony Environmental Limited. At 31 December 2004 there was no net indebtedness of these companies in respect of VAT (2003 – £nil).

The company has guaranteed all monies due to Davenham Trade Finance Limited by Symphony Plastics Limited and Symphony Environmental Limited. At 31 December 2004, the net indebtedness under these agreements amounted to £759,533 (2003 – £734,249).

23 RELATED PARTY TRANSACTIONS

No transactions with related parties were undertaken such as are required to be disclosed under Financial Reporting Standard 8.

24 SHARE CAPITAL

Authorised share capital:

	2004	2003
	£	£
100,000,000 Ordinary shares of £0.01 each	**1,000,000**	1,000,000

Allotted, called up and fully paid:

	2004		2003	
	No	**£**	No	£
Ordinary shares of £0.01p each	**51,252,880**	**512,529**	45,282,880	452,829

Allotment of shares

The company made an allotment of 5,000,000 ordinary 1p shares each fully paid on 31 July 2004 at 10p per share. The difference of £450,000 between the total consideration of £500,000 and the total nominal value of £50,000 has been credited to the share premium account net of expenses of £41,995.

The company made an allotment of 240,000 ordinary 1p shares each fully paid on 28 September 2004 at 12.5p per share. The difference of £27,600 between the total consideration of £30,000 and the total nominal value of £2,400 has been credited to the share premium account.

The company made an allotment of 730,000 ordinary 1p shares each fully paid on 15 November 2004 at 13p per share. The difference of £87,600 between the total consideration of £94,900 and the total nominal value of £7,300 has been credited to the share premium account.

Share options

Number of share options	**Exercise price (pence per share)**	**Exercisable from**	**Exercisable to**
170,000	60	19 June 2002	19 June 2005
200,000	38	23 June 2002	23 June 2005
125,000	46	23 June 2002	23 June 2005
121,000	60	23 June 2002	23 June 2005
175,000	80	26 June 2002	26 June 2005
100,000	25	20 May 2002	20 May 2008
200,000	37	7 June 2004	7 June 2012
100,000	10	20 July 2004	20 July 2006
126,500	28	1 November 2004	1 November 2012
281,375	15.5	21 April 2006	21 April 2014
2,884,541	12	14 December 2006	14 December 2014

During the year 2,633,861 options lapsed, 3,280,916 were issued and none were exercised.

Directors' interests

The following directors and directors of subsidiary companies have share options or agreements for share options included in the table above.

	Number of share options	**Exercise price (pence per share)**	**Exercisable from**	**Exercisable to**
N Deva	200,000	38	23 June 2002	23 June 2005
	350,000	12	14 December 2006	14 December 2014
D Laurie	37,500	15.5	21 April 2004	21 April 2006
	37,500	12	14 December 2006	14 December 2014
M Laurier	550,000	12	14 December 2006	14 December 2014
I Bristow	350,000	12	14 December 2006	14 December 2014
K Frener	350,000	12	14 December 2006	14 December 2014
M Stephens	350,000	12	14 December 2006	14 December 2014
A Blacher	476,666	12	14 December 2006	14 December 2014

25 RESERVES

Group	Share premium account £	Merger reserve £	Profit and loss account £
At 1 January 2004	8,593,190	822,539	(8,621,613)
Loss for the year	–	–	(622,157)
New equity share capital subscribed	523,205	–	–
At 31 December 2004	**9,116,395**	**822,539**	**(9,243,770)**

Company	Share premium account £	Profit and loss account £
At 1 January 2004	8,593,190	(102,396)
Retained profit for the year	–	75,133
New equity share capital subscribed	523,205	–
At 31 December 2004	**9,116,395**	**(27,263)**

26 RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS’ FUNDS

	2004 £	2003 £
Loss for the financial year	**(622,157)**	(3,009,575)
New equity share capital subscribed	**59,700**	111,111
Net premium on new share capital subscribed	**523,205**	1,696,810
Net reduction to shareholders’ equity funds	**(39,252)**	(1,201,654)
Opening shareholders’ equity funds	**1,246,945**	2,448,599
Closing shareholders’ equity funds	**1,207,693**	1,246,945

27 RECONCILIATION OF OPERATING LOSS TO NET CASH OUTFLOW FROM OPERATING ACTIVITIES

	2004 £	2003 £
Operating loss	**(594,938)**	(2,918,264)
Amortisation	**2,200**	140,565
Depreciation	**47,293**	46,397
Loss on disposal of fixed assets	**6,458**	14,569
Amounts written off intangible assets	**–**	1,259,106
Decrease in stocks	**212,400**	145,070
Increase in debtors	**(1,285,700)**	(870,961)
Increase in creditors	**562,515**	748,346
Net cash outflow from operating activities	**(1,049,772)**	(1,435,172)

28 RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT

	2004	2003
	£	£
(Decrease)/increase in cash in the period	**(535,113)**	184,869
Cash outflow in respect of finance leases and hire purchase	**21,668**	57,957
Change in net debt resulting from cash flows	**(513,445)**	242,826
New finance leases	**(44,333)**	(44,450)
Movement in net debt in the period	**(557,778)**	198,376
Net debt at 1 January 2004	**(137,493)**	(335,869)
Net debt at 31 December 2004	**(695,271)**	(137,493)

29 ANALYSIS OF CHANGES IN NET DEBT

	At 1 January 2004	**Cashflows**	**Other changes**	**At 31 December 2004**
	£	**£**	**£**	**£**
Net cash:				
Cash in hand and at bank	169,546	(168,972)	–	574
Overdrafts	(263,672)	(366,141)	–	(629,813)
	(94,126)	(535,113)	–	(629,239)
Debt:				
Finance leases and hire purchase agreements	(43,367)	21,668	(44,333)	(66,032)
Net debt	(137,493)	(513,445)	(44,333)	(695,271)

30 POST BALANCE SHEET EVENT

Allotment of shares

The company made an allotment of 460,000 ordinary 1p shares each fully paid on 7 February 2005 at 19.5p per share.

Investment

On 1 February 2005, the group acquired a 25% interest in Degradable Plastic Products Inc, a US biodegradable company, for consideration of granting them a distribution licence.

Share placing

As mentioned in the Chief Executives review subject to an extraordinary general meeting on 31 March 2005, £1.7m has been institutionally placed.

NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the 2005 Annual General Meeting of the Company will be held at Elstree Moat House, Borehamwood, Hertfordshire WD6 5PU on Friday, 24 June 2005 at 9.00 a.m. for the following purposes:

Ordinary business

1. To receive and adopt the financial statements of the Company for the year ended 31 December 2004 together with the reports of the directors and auditors ("the Accounts").

2. To re-elect Ian Bristow, who retires by rotation, as a director of the Company.

3. To re-elect Allan Blacher, who retires by rotation, as a director of the Company.

4. To re-appoint Grant Thornton UK LLP as auditors of the Company for the period prescribed by section 385(2) Companies Act 1985 and to authorise the directors to determine their remuneration for that period.

Special business

To consider and, if thought fit, to pass the following resolutions, resolution 5. being proposed as an ordinary resolution and resolution 6. being proposed as a special resolution:

5. That the Directors be generally and unconditionally authorised pursuant to Section 80 of the Companies Act 1985 to exercise all the powers of the Company to allot, grant options over or otherwise deal with or dispose of the unissued shares in the authorised share capital of the Company PROVIDED THAT the authority hereby given:

   (a) shall be limited to unissued shares in the authorised share capital of the Company on the date hereof having an aggregate nominal value of £211,165:

   (b) shall expire on the day preceding the fifth anniversary of the date on which this resolution was passed unless previously renewed or varied and all previous authorities under Section 80 of the Companies Act 1985 be revoked save that the Directors may, notwithstanding such expiry, allot, grant options over or otherwise deal with or dispose of any shares under this authority in pursuance of an offer or agreement so to do made by the Company before the expiry of this authority

6. That subject to the passing of resolution 5 the Directors be and they are hereby empowered pursuant to section 95 of the Companies Act 1985 (the "Act") to allot equity securities wholly for cash pursuant to the authority conferred by resolution 5 above as if section 89(1) of the Act did not apply to any such allotment, provided that this power shall be limited to the allotment of equity securities:

   (a) in connection with an offer of such securities by way of rights to holders of Ordinary Shares in proportion (as nearly as may be practicable) to their respective holdings of such shares, but subject to such exclusions or other arrangements as the Directors may deem necessary or expedient in relation to fractional entitlements or any legal or practical problems under the laws of any territory, or the requirements of any regulatory body or stock exchange; and

   (b) in satisfaction of the valid exercise of the outstanding options over such securities details of which are set out in note 24 to the Accounts; and

   (c) otherwise than pursuant to sub-paragraphs (a) and (b) above up to an aggregate nominal value of £63,380;

   and shall expire on the date of the next annual general meeting of the company or 15 months from the passing of this resolution, whichever is the earlier, and all previous authorities under Section 80 of the Companies Act 1985 be revoked save that the Company may before such expiry make an offer or agreement which would or might require equity securities to be allotted after such expiry and the

Directors may allot equity securities in pursuance of any such offer or agreement notwithstanding that the power conferred hereby has expired, and in this Resolution the expression "equity securities" and references to the allotment of equity securities shall bear the same respective meanings as in section 94 of the Act.

BY ORDER OF THE BOARD

Ian Bristow
Company Secretary

REGISTERED OFFICE: Elstree House, Elstree Way, Borehamwood, Hertfordshire WD6 1LE

Notes:

1. A member of the Company entitled to attend and vote at the Annual General Meeting may appoint one or more proxies to attend and, on a poll, vote instead of him. A proxy need not be a member of the Company. The form of proxy for use by members is enclosed.

2. To be valid, the form of proxy, duly executed, together with the power of attorney or other authority (if any) under which it is signed (or a notarially certified copy of such power or authority) must be deposited at the offices of the Company's registrars, Capita IRG plc, Bourne House, 34 Beckenham Road, Beckenham, Kent BR3 4TU not later than 9.00 a.m. on Wednesday, 22 June 2005. Completion of the form of proxy will not preclude a member from attending and voting in person.

3. Pursuant to regulation 34 of the Uncertificated Securities Regulations 1995, the Company has specified that to be entitled to attend and vote at the meeting (and for the purpose of determining the number of votes they may cast) members must be entered on the register of members at 6.00 p.m. on 22 June 2005. Changes to entries on the relevant register of securities after 6.00 p.m. on 22 June 2005 shall be disregarded in determining the rights of any person to attend or vote at the meeting.

Produced by Stephen Duke Ltd 020 7422 0040 (9522)

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