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The Directors of the Company, whose names appear on page 3 of this document, accept responsibility for the information contained in this document. To the best of the knowledge and belief of the Directors, who have taken all reasonable care to ensure that such is the case, the information contained in this document is in accordance with the facts and there is no omission likely to affect the import of such information.

Copies of this document, which is dated 19 November 2002, will be available free of charge to the public during normal business hours on any weekday (except Saturdays and public holidays) from the registered office of the Company from the date of this document for not less than one month thereafter. The Company's Ordinary Shares are traded on OFEX, which is a market operated by OFEX plc, which allows trading in shares of unquoted companies. It is emphasised that OFEX is not a regulated market and that no application is currently being made for the admission of the Ordinary Shares to AIM or the Official List of the United Kingdom Listing Authority.

TEG ENVIRONMENTAL PLC

(Incorporated in England and Wales under the Companies Act 1985 Registered Number 3109613)

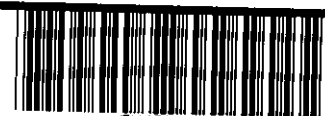
Open Offer of 1,111,111 New Ordinary Shares at a price of 90 pence per New Ordinary Share

The New Ordinary Shares will, when issued and fully paid, rank *pari passu* with the Existing Ordinary Shares including the rights to receive all dividends and other distributions declared, made or paid on such shares.

All of the Company's advisers named in this document are acting for TEG Environmental plc in connection with the arrangements proposed in this document and no one else. Such advisers will not be responsible to anyone other than TEG Environmental plc for providing the protection afforded to clients or customers of such advisers or for providing advice in relation to the Open Offer.

The New Ordinary Shares have not been, and will not be, registered under the United States Securities Act of 1933, as amended (the "Securities Act"), or with any securities regulatory authority of any state or other jurisdiction of the United States of America (the "United States") or under the applicable securities laws of Australia, Canada or Japan. Accordingly, the New Ordinary Shares may not be offered, sold or delivered in or into the United States, Australia, Canada or Japan or any US persons (as such term is defined in Regulation S promulgated under the Securities Act) except in transactions which are exempt from the registration requirements of the Securities Act. The distribution of this document outside the United Kingdom may be restricted by law and therefore persons outside the United Kingdom into whose possession this document comes should inform themselves about and observe any restriction as to the subscription of the New Ordinary Shares and to the distribution of this document. Any failure to comply with these restrictions may constitute a violation of the securities laws of any such jurisdiction. Any reproduction or distribution of this document in the United States or its territories in whole or part, or the disclosure of its contents in the United States or its territories, is prohibited without the Company's prior written consent.

If you are a Qualifying Shareholder and wish to apply for New Ordinary Shares under the Open Offer, you should complete the enclosed Application Form. The latest time and date for acceptance and payment in full under the Open Offer is expected to be 3.00 p.m. on 10 December 2002. The procedure for application and payment is set out in Part III of this document and in the accompanying Application Form. **The whole of this document should be read.** An investment in the Company involves a significant degree of risk, may result in the loss of the entire investment and may not be suitable for all recipients of this document. A prospective investor should consider carefully whether an investment in the Company is suitable for him in the light of his personal circumstances and the financial resources available to him. Potential investors should consider carefully the risk factors which are set out in Part II of this document. All statements regarding the Company's business, financial position and prospects should be viewed in the light of these 'risk factors'.



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DIRECTORS, SECRETARY AND ADVISERS

Directors

Allen Sykes *Non-Executive Chairman*
John Hough *Non-Executive Deputy Chairman*
Dick Bilborough *Chief Executive*
Dr Alan Heyworth *Technical Director*

The business address for each of the Directors is Unit 6,
Meadowcroft Business Park, Pope Lane, Whitestake, Preston
PR4 4BA

Secretary and Registered Office

Steve Bonney
Unit 6
Meadowcroft Business Park
Pope Lane
Whitestake
Preston PR4 4BA

Auditors and Reporting Accountants

Moore and Smalley
Richard House
Winckley Square
Preston
Lancashire PR1 3HP

Bankers

HSBC Bank Plc
140 Leadenhall Street
London EC3V 4P5

Registrars

Capita IRG Plc
Bourne House
34 Beckenham Road
Beckenham
Kent BR3 4TU

DEFINITIONS AND GLOSSARY

The following definitions apply throughout this document unless the context requires otherwise:

"Act"	the Companies Act 1985, as amended.
"AIM"	the Alternative Investment Market of the London Stock Exchange.
"Application Form"	the application form for use by Qualifying Shareholders in connection with the Open Offer.
"Board" or "Directors"	the board of Directors of the Company.
"British Retail Consortium" or "BRC"	the trade association of British retailers.
"CGT"	capital gains tax.
"Company" or "TEG"	TEG Environmental Plc.
"EIS Capital Gains Tax Deferral"	CGT reinvestment relief under Schedule 5B of the Taxation of Chargeable Gains Act 1992.
"Enhanced Treatment"	the processing of sewage sludge which eliminates or reduces pathogen counts to safe levels. Under EU legislation, this is referred to as "advanced treatment".
"Enterprise Investment Scheme" or "ETS Scheme" or "ETS"	the Enterprise Investment Scheme and related reliefs as detailed in Chapter III, Part VII of the Income and Corporation Taxes Act 1988 and in schedule 5B of the Taxation of Chargeable Gains Act 1992 (as amended).
"Existing Ordinary Shares"	the existing Ordinary Shares in issue at the Record Date.
"in-vessel"	in-vessel composting systems are those which fully contain the composting mix within a vessel with access to air to allow the aerobic process to develop. In-vessel systems are either batch or continuous flow.
"Issue Price"	90 pence per New Ordinary Share
"Kildare Contract"	a contract for the supply of a bank of 24 Silo-Cages to treat sewage sludge entered into between the Company and Jones Environmental (IRL) Ltd., further details of which are set out in paragraph 5(g) of Part V of this document.
"London Stock Exchange"	London Stock Exchange plc.
"Minimum Amount"	£450,000, being the minimum amount, before expenses, to be raised by the Company pursuant to the Open Offer.
"MSW"	municipal solid waste, which includes household waste.
"New Ordinary Shares"	up to 1,111,111 new Ordinary Shares to be issued pursuant to the terms of the Open Offer.
"OFEX"	a market operated by OFEX plc, which allows trading in the shares of unquoted companies.
"Open Offer"	the invitation to subscribe up to 1,111,111 New Ordinary Shares made by the Company to Qualifying Shareholders on the terms and subject to the conditions set out in Part III of this document and in the Application Form.
"Open Offer Proceeds"	the proceeds of the Open Offer, net of expenses.
"Ordinary Shares"	ordinary shares of £0.05 each in the Company.
"Plant"	the TEG Silo-Cage plant.

“Qualifying Shareholders”	Shareholders on the register of members at the Record Date with the exception of certain overseas Shareholders who are excluded, as set out in Part III of this document.
“Record Date”	the close of business on 18 November 2002.
“tds”	tonnes dry solid, an expression of sewage production used for consistent measurement. In practice, sewage sludge is produced in liquid form, with dry solid content of 3% to 5%, or after de-watering, with dry solids of 18% to 35%.
“Water Industry”	the regulated part of the water industry consisting of those companies and authorities which have the responsibility of treating and disposing of sewage sludge.
“Water Companies”	companies in the Water Industry.
“Water UK”	the Water Industry’s trade association.
“WRC”	Water Research Council.

OPEN OFFER STATISTICS

Issue Price	90 pence
Number of New Ordinary Shares subject to the Open Offer	up to 1,111,111
Net proceeds (after estimated expenses) of the Open Offer receivable by the Company*	£950,000
Number of Ordinary Shares in issue following completion of the Open Offer*	11,651,036

* Assuming that the maximum number of New Ordinary Shares are subscribed by Qualifying Shareholders pursuant to the Open Offer

EXPECTED TIMETABLE OF PRINCIPAL EVENTS

	2002
Record Date	18 November
Latest time for and date for receipt of completed Application Forms and payment in full under the Open Offer	3.00 pm on 10 December
Results of the Open Offer announced	11 December
Admission of the New Ordinary Shares to trading on OFEX	11 December
Definitive share certificates in respect of New Ordinary Shares despatched no later than	18 December

PART I

LETTER FROM CHAIRMAN OF TEG ENVIRONMENTAL PLC

Directors:

Allen Sykes
John Hough
Richard Bilborough
Alan Heyworth

Registered Office:

Unit 6
Meadowcroft Business Park
Pope Lane
Whitestake
Preston
PS3 4BA

19 November 2002

Dear Shareholder

Open Offer of up to 1,111,111 New Ordinary Shares to raise up to £1,000,000

INTRODUCTION

I have referred, in my recent letters, to the need for further fund raising in order to make good the depletion of the Company's cash resources resulting from the cost overrun and income shortfall associated with the problems surrounding the Kildare Contract.

As a first step towards strengthening the Company's balance sheet, it has exchanged 1,111,111 Ordinary Shares, valued at 90 pence per share, for 1,000,000 shares at £1 per share in New Opportunities Investment Trust PLC ("NOIT"), a company whose shares are listed on the Official List of the United Kingdom Listing Authority. The Company has undertaken not to dispose of the shares in NOIT before 25 December 2002 but such shares may be sold freely for cash after such time. The Company is now seeking to raise up to £1.0 million and a minimum of £450,000, before expenses, by way of an Open Offer of up to 1,111,111 New Ordinary Shares at an issue price of 90 pence per share on the basis of 1 New Ordinary Share for every 2 Ordinary Shares held as at the Record Date. The proceeds of the Open Offer will be used to finance the projected overhead requirements of the Company for the next twelve months.

All Directors have indicated an intention to subscribe for New Ordinary Shares under the Open Offer and it is currently anticipated that, in aggregate, such subscriptions will be in excess of £120,000. I hope that all shareholders will feel able to contribute, to a greater or lesser extent, to provide the Company with the platform necessary to implement its strategy to facilitate the future success of its business. The purpose of this letter is to provide you with the background to and reasons for the Open Offer and to explain why your Board considers the Open Offer to be in the best interests of the Company and its shareholders.

CURRENT TRADING AND PROSPECTS

With an exceptionally strong level of enquiry, which the Directors believe is driven in part by the recent legislative announcements, the Company is negotiating with a number of prospective clients with a view to closing on orders in 2003 for the sale of Silo-Cage plants. In three particular cases, the Directors believe that finalisation of the orders is only awaiting consent to planning applications already submitted.

Orders will continue, in many cases, to be subject to planning consent and waste management licence, but some are reaching the date of determination and local planning authorities are at last becoming aware of their exposure to risk from the failure to provide for adequate measures to deal with the organic wastes that are their responsibility. Educating the public, who produce the waste, is a longer term task for both Central and Local Government but the policy of regulation and enforcement rather than the ineffectual 'guidance' should introduce the necessary disciplines and a sustainable environmental solution from which TEG is well placed to profit.

Notwithstanding the losses incurred in relation to the Kildare Contract, the Company's plant has performed well, despite being supplied with material below the minimum standard specified.

The Directors are increasingly optimistic about the Company's prospects.

Shareholders, however, should be aware that the Directors are of the view that if the Open Offer does not proceed, the prospects for the Company would be extremely bleak in that the Company would have an immediate requirement for additional financial support. If the Minimum Amount is not raised, and in the absence of any additional support, the Company may have to cease trading in the near future despite the Directors' belief in its favourable market prospects.

BACKGROUND AND RECENT DEVELOPMENTS

THE UK MARKET

Food industry, animal by-products and catering wastes

The need for change in this sector has been accelerated as a result of the Foot and Mouth Disease outbreak which highlighted the lack of or minimal treatment of catering and food wastes. Among the initiatives by Government has been the review of the Animal By-Products Act 1999, the proposals for which were announced by DETR in June 2002. These proposals are major changes affecting all food industry companies including meat, fish and egg production and processing, abattoirs, tanneries, pet foods and catering wastes, and introduce much higher standards of treatment and closes some traditional disposal routes and dumping on land.

The previously used disposal routes for these wastes, e.g. pig-swill and recycling to land without treatment, have largely been suspended with the consequence that these wastes are now going to landfill or incineration until the criteria for alternative treatments are defined. It is the Company's belief that many of these wastes will require treatment to the Enhanced Treatment standards (which virtually eliminate pathogens), to the potential benefit of TEG. The Directors consider that, although these reviews have delayed TEG's penetration of these markets in the short term, when concluded they should significantly advance and broaden the potential market for TEG Silo-Cages over the next five years.

Further major sales opportunities in the area of food industry, animal by-products and catering wastes have now advanced, driven by the impending legislation. Some are in the advanced stages of negotiation but as with existing orders are in most cases dependent on planning consent. Trials of the organic waste from industries affected by the Animal By-Products and Catering Wastes legislation, which requires compliance by 2003, are being undertaken at the Preston plant which has been authorised for the treatment of such wastes and the trials are producing very satisfactory results. TEG is in regular contact with companies in this sector, many being contacts since 1998, and is now at the stage of providing further detailed quotations.

Waste Management & Local Authority

The Government's Waste Strategy 2000, issued in May 2000, embodied the requirements of the EU Landfill Directive and promotes recycling/composting for organic wastes above other disposal options in the waste treatment hierarchy.

The Waste Management Industry and Local Authorities with responsibility for waste are now compelled by UK Government Waste Strategy targets and the EU Landfill Directive to use recycling and composting as the preferred option to disposal and will in future require separate treatment of organic wastes. Composting is at the top of the preferred treatment hierarchy with incineration and landfill as the last resort. Composting is the Best Practical Environmental Option and for many wastes only the higher standards of thermophilic composting will provide the required treatment.

The market for the recycling household waste element of MSW (65%) has been advanced by EU legislation, current and pending, transposed into UK legislation and Government policy during 2001 with specified compliance dates impacting between 2005 and 2015. Government policy for treatment of waste has advanced composting/recycling to the top of the waste treatment/disposal hierarchy and these factors have brought forward a major market opportunity for the TEG Silo-Cage.

Water Industry

The timing of our anticipated involvement in this area has moved back. We continue to target this sector to influence capital expenditure decisions by water companies for the next review period, beginning April 2005. It needs to be remembered that all permitted capital investment ensures a guaranteed return in a regulated industry. Neither the lime treatment (short term) nor the longer term investment in incinerators should obtain government support on cost and environmental grounds. This is reflected in the proposals for the revision of the UK Sludge to Land Regulations issued in October 2002 wherein it is stated "*the recycling (of sludge) to agricultural land route — provides the best value for money. There is no need for the additional costs of landfill and incineration, which, in addition, are options that are not environmentally sustainable.*" The water industry, as with all waste producing industries, is expected to adopt the Best Practical Environmental Option (BPEO).

The Water Industry was one of the first industries to be affected by the impact of legislative changes, with the Urban Waste Water Treatment (England & Wales) Regulations 1994, which prohibited the marine

from 31 December 2001. It is a UK Government target that 50% of UK sewage will be recycled by land application use after improved treatment, which the Directors believe TEG is well placed to provide.

Over the past four years, following concerns for food safety, the food retailing industry has become a major driver for change to treatment standards for sludge applied to land. The result was an agreement between the Water Industry and BRC members requiring improved standards for the treatment of sewage sludge by December 2001. This agreement, known as the Matrix Agreement, has been enshrined in UK regulations confirmed in October 2002 and is expected to be included in an EU Directive. In future, all sewage sludge should receive enhanced treatment to reduce pathogens prior to application to farmland used for the production of food for human consumption. Enhanced treatment is achieved by the TEG Silo-Cage system and meets the requirement for the virtual elimination of pathogens.

Legislative Developments

The Directors believe businesses producing waste have historically opted for the lowest-cost available method of disposal and that these attitudes persist until driven to change by the statutory requirement for which compliance dates will now affect many sectors from 2003 onwards.

The Directors consider that existing, new and proposed legislation will impact on the whole of the waste producing and waste management industry over the next 10 years as some disposal routes are closed and the costs associated with others increase. Landfill tax was introduced in 1996 at £7 per tonne for organic waste. It increased to £13 per tonne in April 2002 and is scheduled to increase by £1 per tonne for organic waste annually until 2004. However, the All Party Environment Sub-Committee of the House of Commons in its March 2001 report recommended that this tax should be increased to £25 per tonne within 5 years and that at the same time a similar value tax should be introduced for wastes going to incineration. The Government will take future decisions on landfill tax and consider the case for a tax on incineration in light of the findings of the Strategy Unit's waste project. The Chancellor of the Exchequer is now expected to announce an increase in Landfill Tax in the autumn budget statement.

In July 2000, the Directorate-General Environment of the European Commission recognised the good agronomic properties of sewage sludge composted to Enhanced Treatment standards guaranteed the hygienisation of the composted material, creating a useful product in its own right. This continued to be the view confirmed by DEFRA in July 2002.

As we had anticipated, favourable new legislation affecting both the Animal By-Products and Catering Wastes sector and the Water Industry has now been announced. Both will become effective during 2003. The final consultation documents on the relevant EU Directive and from DEFRA respectively were published last month and are seen by the directors to be highly advantageous to TEG's technology. This is being reflected by a considerable increase in the level of enquiries and the pace of negotiation which the Company is experiencing for the sale of TEG Silo-Cage plant. This is particularly true of the food industry and processes which produce Animal By-Products and for companies responsible for Catering Wastes. The anticipated early compliance dates will result in the affected industries suffering a significant increase in disposal costs to the traditional routes of landfill and incineration.

Greenhouse Gases

The Directors anticipate that an additional incentive to invest in TEG Silo-Cage plant for affected waste producers and waste management companies will result from the Government's Carbon Tax proposals which will follow from the enforcement of the Kyoto Protocol. This relates to greenhouse gases and since the TEG Silo-Cage system is energy efficient it is expected that the users of our equipment will qualify for Carbon Credits. The Government is encouraging the development of a market for Carbon Credits and a grey market is already trading.

THE KILDARE CONTRACT

As Shareholders are aware, the Company has experienced a number of difficulties in respect of the Kildare Contract since the last fundraising in April of this year.

Shareholders have been informed of developments in relation to the Kildare Contract and copies of all letters sent to Shareholders are available for review on the OFEX screen. In summary, the principal difficulties encountered by the Company are as follows:

- the waste material delivered for treatment at the plant in Kildare, which had a much lower dry matter content than the minimum 20% stated in the terms of the Kildare Contract, increased the volume of waste to be composted and has increased the cost of production for the Company;

- significant cost overruns have been incurred in relation to a building that TEG was contracted to build;
- certain design changes were required in the plant;
- the conditions imposed by the Eire Environmental Protection Agency (EPA) for the waste management licence issued to the Kildare County Council in May 2002 were more onerous than anticipated by TEG's client, Jones Environmental (IRL) Limited. The EPA has temporarily stopped all operations at the site — the length of this delay is uncertain but will delay the income due to the Company from the contract and will, the Directors believe, require odour control measures which the Directors believe will be the responsibility of KCC.

As a result of the difficulties, the Company has made a provision of £647,205 in its audited accounts for the year ended 31 October 2002 in respect of the Kildare Contract. The Directors believe that the future revenues from the Kildare Contract, as and when operations are re-commenced, will exceed the Company's future cash outgoings incurred in connection with the contract.

The above statements regarding the Kildare Contract should be viewed in the light of the specific risk factors set out in Part II of this document and a summary of the terms of the contract set out in paragraph 5(g) of Part V of this document.

THE TEG SYSTEM

Composting

The TEG system relies upon thermophilic aerobic composting of waste materials.

Composting is the decay of organic materials brought about by naturally occurring micro-organisms which feed on the organic materials and in the process, produce energy in the form of heat. When materials are put into a heap, the temperature begins to rise. As it does so, the metabolic rate of the micro-organisms and the rate of heat production increase. In an aerobic heap (which requires oxygen) other organisms which prefer higher temperatures (thermophilic species) take over the breakdown process and can raise temperatures in the heap to 65°C or more.

Sensitive waste streams, such as sewage sludge, contain pathogens, disease-causing organisms. These are most active at body temperature (c.36°C for warm-blooded animals) and are killed or inactivated by temperatures over 50°C, if such temperatures are maintained for long enough throughout the body of the composting mix. This is achieved by a process known as thermophilic aerobic composting which the TEG Silo-Cage delivers with temperatures of 70°C to 80°C.

The TEG Silo-Cage uses selected materials (the amendments) which when mixed with a target waste stream in the correct ratio, will provide a rapid thermophilic composting activity. Typically, the amendments consist of nitrogen rich materials (such as poultry litter) and, where appropriate, neutral material (e.g. finely chopped wood waste) to create and maintain an aerobic structure to the mix. When the target waste is introduced to the mix, the micro-organisms already present quickly multiply and generate high temperatures, which rapidly degrade the waste.

The correct selection of amendments appropriate to the target waste is important to achieve rapid composting. This works to the optimum if an aerobic structure is created in the mix and is maintained. A vigorous composting activity will ensue if all parts of the mix are accessible to air.

THE TEG SILO-CAGE

The Silo-Cage is the Company's core product and consists of a bank of between 8 and 24 steel framed cages with perforated insulated walls. Multiple banks of Silo-Cages can be supplied for large contracts.

Each bank of Silo-Cages is suspended in a rigid steel frame above a concrete base and is supplied with a mixer, fitted with a loading mechanism and travelling overhead feeder which evenly supplies the calculated amount of compost mix to each silo on a daily basis. Each Silo-Cage has a capacity of 32 cubic metres and is separated by channels to allow the passage of air to reach all parts of the compost mix without costly forced aeration, turning or agitation. The efficiency of the structure is such that the materials compost vigorously at temperatures up to 80°C, which speeds the process and reduces the composting period, compared to that of traditional windrow methods, to between 8 and 21 days depending on the target waste. An unloading auger traverses each day beneath the bank of Silo-Cages, undermines and extracts the composted mix from the bottom of each silo and carries the end-product to conveyors for removal to store

The Silo-Cage has relatively low operating costs, as the unique design allows for natural aeration of the composting material and does not require agitation, turning or forced aeration. It therefore has a low energy cost compared to other methods of only £2.00 per 32 cubic metre silo per week. Labour efficiency is high with one person (skilled tractor driver) capable of operating 24 silo-cages. The space requirement is also low, particularly compared to the traditional windrow system.

Large Scale Trials

Trials of a variety of organic wastes have been successfully undertaken following the Company's successful completion of large scale trials of sewage sludge through the Silo-Cage pilot Plant in 1999. These trials demonstrated that the TEG plant could process de-watered sewage sludge (liquid sewage which has water extracted to produce a cake-like material of approximately 25% dry matter), remove pathogens and produce an organic fertiliser safe for application to land used for food production in accordance with the safe sludge policy agreed between BRC and Water UK and now to be embodied in both EC and UK legislation.

The TEG system provides an audit trail of treatment, temperatures being monitored and recorded on a data logger as the mix containing the de-watered sewage sludge descends vertically down each Silo-Cage over a period of fourteen days; it is monitored by multiple temperature probes, in every Silo-Cage, passing through temperature zones of 80°C to 70°C for 24 hours, then 65°C to 60°C for six to seven days before exiting at 55°C to 50°C.

The trials demonstrated that the TEG Silo-Cage exceeds the accepted standard for pathogen control and provides a treatment at a competitive price that can satisfy any future upward ratcheting of treatment standards that the Directors can foresee. Independent laboratory analysis showed the reduction of all pathogens to undetectable levels. This high standard of treatment will be appropriate to other organic waste streams, particularly Animal By-Products, food industry and Catering Wastes.

The process of thermophilic composting was highlighted in an article published by the Water Research Council in the Water and Waste Treatment magazine of January 2002 which stated "it will not only remove pathogens but has the added value of oxidising organic compounds in the sludge. This option both enables water companies to comply with the new EU proposed regulations and gives composting manufacturers a crucial market edge." The report by Prof. K C Jones in June 2000 endorses the effectiveness of thermophilic composting in removing organic pollutants and further states that this is not the case with anaerobic digestion, a treatment in common use in the water industry.

EnVigroTM

The production of a viable end-product plays a key part in the Company's marketing of Silo-Cages. EnVigroTM demonstrates the Company's ability to produce similar products, in many cases, to the composted end-product that will result from clients' own use of Silo-Cages.

EnVigroTM is a consistent quality organic fertiliser composted by the TEG system. It has made progress with sales to golf courses, bowling greens, sports grounds, local authority sites, environmental projects and to landscape contractors. The Company exhibited in September 2002 at a major turf and greenkeeping exhibition at Windsor and received a satisfactory level of new enquires as well as visits by satisfied users. Sales are dependent on the successful experience of users during the growing season and, from these successes, growth by recommendation, as well as repeat orders.

The Silo-Cage pilot Plant at Hutton, Preston, which has been operational since October 2000, has increased the Company's production capacity of EnVigroTM. It is also providing a demonstrator facility of the production model Plant in operation.

SALE OF THE TEG SILO-CAGE

It is the Company's business to build (by subcontract), sell and commission Silo-Cages to clients such as the food and drink industry, abattoirs, waste management and pharmaceutical companies and the water industry.

The Company currently provides prospective clients with two options for the acquisition of the TEG Silo-Cage system:

- (a) Direct sale of the Plant to the client, delivered, installed and commissioned on the client's site for them to manage and operate; or
- (b) Direct sale to the client as in (a) above but with TEG contracting to manage, operate and maintain the Plant on a gate fee charge per tonne on a guaranteed monthly and annual tonnage.

TEG also offers a service contract to its clients.

It is anticipated that the TEG Silo-Cage Plant will be erected on a client's site but in some instances it may be necessary to locate a site to facilitate an order if the size of contract so warrants. Sites normally require planning consent and a waste management licence (from the Environment Agency), approval from the Highway Authority and frequently an Environmental Impact Assessment. Contracts for the purchase of TEG Silo-Cages are likely, in most cases, to be conditional upon such matters, if required. Once all necessary consents are in place, work on a site can begin. The lead time from the contract date to Plant commissioning is expected to be up to six months but is site and size specific.

COMPETITION

TEG believes its principal competitors in the organic waste treatment and disposal market are the present disposal routes of landfill and incineration, (where 30% of the residual ash is landfilled) which are expected to be subject to increased costs from green taxation.

There are other thermophilic in-vessel systems available on the market in addition to the TEG Silo-Cage System and TEG has a number of competitors within the in-vessel market. However, the Directors consider that the TEG Silo-Cage System offers a number of advantages over other existing systems. It is continuous flow, does not require forced aeration, agitation or turning and does not produce a leachate. This leads to a low power requirement and lower labour costs. As forced aeration, agitation and turning are not necessary, the TEG process has minimal releases of odour and bioaerosols.

STRATEGY

The Company will continue to aim to secure a significant share of the organic waste treatment market. TEG is in contractual discussions, some at an advanced stage, with a number of companies and anticipates that significant progress will be made in the financial period ending 31 October 2003. Directors consider that the opportunity exists for the Company to seize a significant market share in the medium term.

The market for the Company's product in the UK and Europe is created and driven to a large extent by EU and UK legislation some of which is mirrored in the North American market. The Company tracks the relevant compliance dates under existing and pending legislation and targets those industry sectors which are expected to be required to change their waste treatment and/or disposal practices in order to comply with applicable legislation. Other key drivers in the marketplace include public perception, capital and operating costs and environmental issues such as greenhouse gases.

The Company is also targeting those institutions which have influence on the industry to ensure that there is a high level of awareness that the TEG Silo-Cage enables compliance with legislation, provides an end product which is valuable, and which the Directors believe satisfies public perception and is competitively priced.

A key part of TEG's marketing strategy is to provide demonstration and trial facilities in certain areas of the country on a commercial basis in joint venture with waste producers. A suitable site has been located in South West England where in joint venture a commercially operated demonstration facility is expected to be established during 2003, subject to planning consent. These facilities will be in addition to the existing Plant near Preston where TEG produces EnVigroTM, a natural organic fertiliser. This demonstrates the efficiency of the TEG plant and the quality and value of the end product of the process. Planning consent and a waste management licence for a wider use of waste for trial and demonstration purposes has been obtained for this existing Plant at Preston.

It is TEG's current policy to operate with a core team of highly qualified and motivated executives and to sub-contract the manufacture of the TEG Silo-Cage plant utilising the skilled capacity available in the UK. All sub-contract work is placed subject to confidentiality agreements in addition to the protection afforded by patent applications. It is not TEG's intention to invest in manufacturing but it does anticipate that it will be necessary to maintain a store of emergency spare parts and key components for supply to its customers.

As TEG's position in the UK market develops, it is the intention to seek to develop overseas markets, particularly in the United States, where the Company has already engaged in early stage marketing and generated interest. The export market may be developed partly in joint venture with major international companies, with one of whom TEG has already formed a relationship.

The Company intends to continue to invest in research and development of its process and plant and to seek opportunities to acquire products which are complementary to its core business. This would both

SUMMARY OF FINANCIAL INFORMATION

A summary of the Company's trading record, as extracted without material adjustment from the Accountants' Reports on the Company set out in Part IV, is summarised below. Investors should read the whole of this document and not rely solely on the summary financial information set out below.

	<i>Year ended 31 October 2002 £</i>	<i>Year ended 31 October 2001 £</i>	<i>Year ended 31 October 2000 £</i>
Turnover	43,999	55,834	84,626
Operating Loss	(914,040)	(2,123,588)	(1,111,958)
Loss before tax	(2,112,313)	(1,076,921)	(877,306)
Net assets	454,605	1,186,348	565,331

THE OPEN OFFER AND USE OF PROCEEDS

A total of up to 1,111,111 New Ordinary Shares are being offered by the Company to Qualifying Shareholders at a price of 90p per New Ordinary Share. The New Ordinary Shares will rank *pari passu* with the Existing Ordinary Shares. The Open Offer is conditional on the Company receiving applications for subscription for at least 500,000 New Ordinary Shares. Dealings in the New Ordinary Shares on OFEX are expected to commence on 11 December 2002.

The Open Offer will raise approximately £950,000, net of expenses, for the Company if the maximum amount of Open Offer Proceeds are raised.

The proceeds of the Open Offer will be used to provide working capital for the Company.

Your attention is drawn to the working capital statement on page 16 below.

It is expected that certificates in respect of the New Ordinary Shares will be despatched by post not later than 18 December 2002. Pending despatch of definitive certificates, the Company's Registrars will certify instruments of transfer against the register.

DIRECTORS AND MANAGEMENT

Directors

Allen Sykes, aged 70, *Non-Executive Chairman* — Allen Sykes has mainly worked for British-based, major international companies, principally in the fields of mining, natural resources, energy and insurance.

He was a Managing Director of Consolidated Gold Fields Plc from 1986 until the September 1989 take-over; a non-executive director of Willis Corroon Group Plc (formerly Finance Director) from July 1986 until October 1998; Chairman of the small composite insurance company, Economic Insurance Company Limited, a Management Buy-Out financed by Candover Investments Plc from February 1994 to July 1996. From 1990 to January 1994 he was a director of the Canadian based international packaging company, Lawson Mardon Group Limited, until the take-over by Alusuisse. He was a senior adviser on the £4 billion Protection of Venice Project. From 1998 to 1999 he was an industrial adviser to the Director General of OFWAT, the economic regulator for the Water Industry in England and Wales. His background is economics, finance, accountancy and law. He is the author of "Capitalism for Tomorrow — Reuniting Ownership and Control".

John Hough, aged 70, *Non-Executive Deputy Chairman* — John Hough has spent his entire career in the insurance industry. He was Deputy Chairman of a major Lloyds Broker until he resigned in 1973 to form a new independent organisation, Alwen Hough Johnson Limited, which over a period of fifteen years grew into a substantial insurance broking business.

In 1987 he retired from all executive involvement as Chairman of Alwen Hough Johnson Limited, continuing as Chairman of AHJ Investments Limited, the holding company of the group that he founded. He has now resigned as Chairman of this company, remaining on the board of Directors as a non-executive director.

He served for ten years as Chairman of the Griffin Insurance Association Limited (a mutual association company incorporated for the purpose of insuring Errors and Omissions liability of insurance brokers).

Dick Bilborough, aged 71, *Chief Executive* — Dick Bilborough has always worked in the property and agribusiness sector, concerned with rural land-based activity and its related industries. This has covered farm land acquisition and management, land development, machinery manufacture and distribution, irrigation and milling companies, feed lots and meat packing, and leisure use development. His strength is general management with a marketing bias.

While principally UK based, his work has also covered the United States, Canada, South Africa, Western and Eastern Europe. He has been responsible for establishing new business in various countries and applying the latest technology to improve production efficiency in a range of markets.

He established Farmstake Limited, a land owning and operating UK company, in 1970 in anticipation of the gains available to farming on joining the Common Market in 1973. It was sold to an institutional investor in 1974. A similar but larger company, Hallsworth Limited, was established in the same year to acquire major land holdings for institutional investors and was sold in 1985.

New Dimensions Investments Limited was founded by Dick Bilborough in 1985 to invest in farmland with long term development potential. It was acquired in 1988 by Landmatch Limited at which point he became Managing Director. Landmatch Limited acquired strategically located income producing land blocks and in 1990 a major sporting estate through a subsidiary, the River Beaulieu Fishings Company. Landmatch Limited was sold to the Lands Improvement Group in 1993.

In May 1993 Dick Bilborough embarked on due diligence, both in Europe and the USA, on the technology to be acquired by TEG which he was instrumental in founding in October 1995.

Dr Alan Heyworth BSc, PhD, aged 63, *Technical Director* — Dr Heyworth has been involved with commercial composting since the late 1950s. Initially through family and associated firms manufacturing peat-based composts and organic fertilisers, this involvement developed into extensive research over a twenty year period at the University of Wales, culminating in the establishment of an environmental consultancy group, Environmental Consultants Limited. Through his work, Dr Heyworth has established the optimum material mix and process for commercial composting which now constitutes the Silo-Cage system.

Senior Management

Fiona Maudsley aged 28, *Technical Manager* — Fiona Maudsley joined the Company in 1998 and is a graduate of Leeds University in microbiology with exceptional organisational and management skills. She works with and assists Alan Heyworth and is a key member of the scientific team. She project managed the successful commercial scale trials of sewage sludge and provides technical sales support.

Steve Bonney B Com FCA, aged 50, — Steve has joined the Company in November 2002 on a part time basis to oversee the accounts department and work with Wendy Hughes. He also takes over the role of Company Secretary. He was formerly Finance Director of Clarks Energy Ltd, a specialist green energy company turnover £45m and previously was founding partner of Latham Crossley and Davis, Chartered Accountants.

Wendy Hughes, aged 29, *Accountant and Office Manager*

Wendy is responsible for management accounts, book keeping, VAT returns and payroll. Joined the company in April 2001. Wendy was formerly Cash Manager of Time Group, retailer of computers and mobile phones, staff of 22. Previously Assistant Accountant Blackpool Borough Council. Studying CIMA and AAT qualified.

Robert Lewis aged 34, *Project Engineer and Engineering Development* — A qualified Incorporated Engineer with a wide range of experience over 13 years in marine engineering the Royal Fleet Auxiliary his responsibilities include material specification for procurement, involvement with Nial Rees in project management and the co-ordination of the construction and commissioning team for Silo-Cage plants. He also leads on engineering development.

Nial Rees, aged 41, *Project Manager and Procurement* — Nial Rees is an experienced general sales manager, formerly with Shufflebottom Limited, an agricultural and industrial building company, with a wide range of contacts in the agribusiness sector. He has excellent experience of site acquisition and the appointment and management of contractors and in project management. His knowledge and skills are highly relevant to the TEG sales and project management activity and he works closely with Rob Lewis and Richard Ensor.

Richard Ensor BSc, FRICS, aged 69, *Director of Sales for EnVigroTM* — He has secured a number of important contracts for EnVigroTM and is involved with Silo-Cage development in site location, assessment and organising necessary surveys and applications for planning consents, waste management licensing and dealing with highway issues where he works with Nial Rees. Richard was formerly a director of Laing Development Company Limited and had wide experience as development director and project manager. He has been responsible for large scale projects throughout the UK including London, Exeter, Taunton and Bristol.

Steven Horsfield, aged 44, *EnVigroTM Sales* — Steven Horsfield has a background in Local Authority gardens and landscape management and as a landscaping contractor. He also has wide sales experience in horticultural and professional grower markets and of sales to ground managers of sports fields and golf courses. He joined the Company in May 1997 and operates on a commission basis.

Proposed Future Non-Executive Director

The Company expects to invite during 2003 a highly qualified person to join the Board as a non executive director. He is currently one of the senior partners in one of the big four accountancy groups and has knowledge of the Company since it began. It is anticipated that he will take over the role of Chairman during 2003/4 subject to the Company having made expected progress.

Future Management Structure

Dick Bilborough, Chief Executive, founded the Company and has taken it through the development stage from prototype to pilot plant and production model. It is now moving from the development stage to commercial realisation with the marketing foundation established. Dick will continue as Chief Executive until the Board has recruited an eventual successor for this role, when the Company's circumstances permit and a candidate is identified. He has confirmed that he will continue to make available his experience and knowledge in any way that may be required.

Initially the focus of executive recruitment was on scientific, technical, engineering and mechanical skills. As the Company has moved to the marketing and sale stage of the TEG Silo-Cage plant, so the policy has now focused on the recruitment of a team of key executives with the appropriate specialised sales skills and management ability. This is particularly required for project management, an important area of the Company's commercial development.

The policy of developing a core of skilled, hard working, well motivated executives has resulted in the creation of a team, currently 12 employees, with which to take the Company further forward.

EXTRAORDINARY GENERAL MEETING

As shareholders are already aware, Mr Cox's employment with the Company was terminated with immediate effect on 12 August 2002. He subsequently ceased to be Company Secretary. He was removed as a director of the Company at the Extraordinary General Meeting held on 28 October 2002. A considerable amount of management time has been expended in dealing with this matter, and the Company is currently involved in an employment tribunal following a claim made by Mr Cox for unfair dismissal and breach of contract.

The Company intends to defend vigorously these proceedings and has received advice from its solicitors acting in relation to the claim, Messrs Pannone, that it has good grounds to defend such proceedings.

OFEX

The Company's Ordinary Shares were accepted for trading on OFEX in January 1998. OFEX is a facility operated by OFEX plc, to allow trading in the securities of unquoted companies. OFEX provides a facility for member firms of the London Stock Exchange to deal in the shares of unquoted companies. Persons wishing to buy or sell shares in companies which have a trading facility on OFEX must complete the trade through a member firm of the London Stock Exchange as OFEX plc cannot deal directly with the public.

Under the OFEX arrangements, companies are provided with an independent market maker, screen based prices and a company information and announcement system provided by Newstrack Limited and distributed by Bloomberg, Pri Mark (formerly ICV-Topic) and Reuters. Newstrack is an electronic and news information service for intermediaries which is available to private investors to access through the Internet (<http://www.newstrack.co.uk>).

DIVIDEND POLICY

The Directors will recommend the payment of a dividend on the Ordinary Shares when they believe that it is appropriate and prudent to do so. The Directors are unable, at this time, to suggest when investors may expect to receive income from their Ordinary Shares.

WORKING CAPITAL

The Directors consider that, taking into account the Open Offer Proceeds receivable by the Company under the Open Offer and assuming that only the Minimum Amount is raised, further cost reductions already identified will be implemented and then the working capital available to the Company will be sufficient for its present requirements, that is for the next 12 months from the date of this document.

In the event that the Minimum Amount is not raised, the Company will not have sufficient working capital for its present requirements and, in the absence of alternative funding, may be unable to continue to trade.

Shareholders should be aware that the Directors, in determining the Minimum Amount to enable them to make the above statements, have assumed that the Company will be able to sell the 1,000,000 ordinary shares in New Opportunities Investment Trust Plc ("NOIT") and 200,000 warrants to acquire ordinary shares in NOIT at the mid-market price of such shares and warrants immediately prior to the date of this document. In this regard, Shareholders should note that NOIT is a recently formed investment trust listed on the Official List of the United Kingdom Listing Authority. The Company, together with certain other shareholders in NOIT, has undertaken not to sell any shares in NOIT prior to 25 December 2002. Whilst it is possible that the NOIT share price may rise as well as fall, there may be limited liquidity in the NOIT shares and warrants and there is no certainty that the Company will be able to sell its NOIT shares and/or warrants when required or that the price for which such shares or warrants may be sold will not be at a significant discount to their current market price. In such circumstances, the Company may require additional funding prior to the first anniversary of the date of this document. In the absence of such funding, the Company may be unable to continue to trade.

AIM

It is the intention of the Board to seek a listing on AIM as soon as contracts of sufficient value have been secured. It is currently envisaged that this will occur within the next 18 months. However, investors should be aware that if the Company requires additional funding, it is the Company's current intention to seek admission to AIM at the time it returns to shareholders to seek additional funding which may be earlier than 18 months from the date of this document. There is no guarantee that this funding will be available at that time.

ACTION TO BE TAKEN

Qualifying Shareholders who wish to apply for New Ordinary Shares pursuant to the Open Offer should follow the procedure for application set out in the letter contained in Part III of this document. You should also refer to the tax considerations section at page 18 of this document. The attention of Qualifying Shareholders is also drawn to the instructions set out in the accompanying Application Form. Qualifying Shareholders who do not wish to apply for New Ordinary Shares need take no further action in respect of the Application Form.

RECOMMENDATION

The Directors consider that the terms of the Open Offer are in the best interests of the Company and its shareholders as a whole.

Yours sincerely

Allen Sykes
Chairman

PART II

RISK FACTORS AND TAX CONSIDERATIONS

Risk Factors

Prospective investors should be aware that an investment in the Company involves a higher than normal degree of risk. In addition to the other information contained in this document, the following risk factors should be considered carefully in evaluating whether to make an investment in the Company. The following list is not exhaustive and does not summarise all risks which may be pertinent. Shareholders should be aware that there may be other risks associated with making an investment in the Company.

Litigation

Mr Michael Cox has brought a claim against the Company in an employment tribunal for unfair dismissal and breach of contract. While the Company intends to defend vigorously these proceedings, there is no guarantee that the employment tribunal will hold in favour of the Company — any adverse ruling may require the Company to make a significant compensation payment to Mr Cox.

There can also be no assurance that certain investors will not assert claims against the Company and/or any person who was a Director at the time of the fund-raising in April in connection with the problems suffered by the Company earlier in the year and the content of the placing document published by the Company in April. Any such claims could involve a significant diversion of resources and management attention.

Retention of Key Personnel

There are a small number of Directors whose departure from the Company could, in the short term, materially adversely affect the Company. Whilst the Company has entered into service agreements with each of these Directors and they are either shareholders or option holders in the Company, the retention of their services cannot be guaranteed. In addition, recruiting and retaining suitable personnel may not be possible.

Future Funding

If less than the Minimum Proceeds are received pursuant to the Open Offer, the Company's ability to fund its operations will be commensurately reduced. There is no guarantee that the Company will be able to raise either the bank or equity finance necessary for any additional contracts concluded in the future. In any event, while it is difficult for the Directors to predict accurately the timing or amount of the Company's capital requirements, the Company will require further funding before reaching profitability. There is no certainty that the Company will be able to obtain such additional funding as and when required.

New Technology, Changing Circumstances and Competition

New technology, changing legislative and commercial circumstances and new entrants to the market in which the Company operates may impinge on the Company's business, make its technology non-competitive or undermine the Company's financial viability.

Intellectual Property

There is no assurance that the Company can commercially protect its rights to proprietary technology or that others will not independently develop substantially equivalent or superior technology. Patent applications have been filed in respect of the Silo-Cage but no patent has yet been granted.

Consents and Licences

There is no guarantee that planning consents and waste management licences will be given or granted or, where relevant, renewed or that suitable sites can be located to enable the Company to operate even where contracts have been secured.

Sales and Revenue

It is possible that the Company's products and services will not attract sufficient customers in the numbers or at the price levels anticipated by the Directors. The Company's progress is dependent upon it securing contracts for Silo-Cages. Contracts currently in discussion and negotiation may not proceed to binding agreement. Contracts which have been or may in the future be concluded which contain conditions, may never become unconditional or it may take longer than anticipated for the conditions to be satisfied. The Company may never earn sufficient revenues to become profitable.

Kildare Contract

As set out in paragraph 5(g) of Part V of this document, the terms of the Kildare Contract are not set out in a single written agreement. The contractual correspondence between Jones Environmental (IRL) Ltd and TEG is very limited and there are a number of omissions which make the terms of the contract ambiguous. Accordingly, although the Directors do not believe that TEG will bear any further exceptional costs associated with the Kildare Contract, there can be no guarantee that this is the case. Furthermore, in the event that TEG wishes to terminate its obligations under the Kildare Contract, it is unclear as to whether there would be any financial penalties associated with such termination.

The Directors believe that operations at the Kildare site will recommence in the first quarter of 2003 but have, for the purposes of their assessment of the Company's working capital requirements, only assumed that revenues will be generated from April 2003. However, there can be no assurance that operations will recommence prior to the expiry of such period and any delay to the recommencement of such operations will adversely affect the revenues and cashflows of the Company.

Marketability of Shares

Shares traded on OFEX may not be readily realisable and may carry a higher risk than investment in a share listed on the Official List of the United Kingdom Listing Authority ("UKLA") or the Alternative Investment Market of the London Stock Exchange. The New Ordinary Shares may be subject to sudden and large falls in value and there could be a large loss on realisation which could equal the amount originally invested. OFEX is not a recognised investment exchange and no application is currently being made for admission of the New Ordinary Shares or the Ordinary Shares to trading on the Alternative Investment Market or the Official List of the UKLA.

Tax Considerations

Enterprise Investment Scheme

The EIS is designed to encourage, through the availability of certain tax reliefs to investors, investment in qualifying, unquoted trading companies through the subscription for ordinary shares in such companies.

The principal tax reliefs currently available to each individual are:

- an amount equal to 20 per cent. of the amount subscribed for the qualifying EIS investment (up to a maximum aggregate amount for all qualifying EIS investments made in any one year of £30,000, i.e. 20 per cent. of £150,000 or the actual income tax liability of the investor for the year if this is lower) may be set off, on a pound for pound basis, against the investor's income tax liability for the tax year in which those shares are issued to him, thus potentially reducing the effective initial cost of investment to 80 per cent. of the sum invested. Husband and wives can each subscribe for up to £150,000;
- provided a qualifying EIS investment is held for at least three years and income tax relief is not withdrawn or reduced, it is exempt from capital gains tax on its first disposal;
- a subscription for EIS shares may also entitle the individual investor to EIS Capital Gains Tax Deferral (see below), in which case an individual investor paying tax at the higher rate may qualify for income tax relief of 20 per cent. and capital gains deferment of up to 40 per cent., totalling 60 per cent. of the investment; and
- if the qualifying EIS investment fails or is sold at less than cost, Loss Relief (see below) should be available on the net loss against either the investor's income or capital gains. For the purposes of such Loss Relief, the loss incurred will be reduced by the amount of EIS income tax relief given which has not been withdrawn.

In order for EIS relief to be available, however, certain conditions must be satisfied by the company issuing the shares and the individuals subscribing for them.

Primarily, those conditions are:

1. the aggregate value of the gross assets of the issuing company and any qualifying subsidiary must not exceed £15 million immediately before the issue of the eligible shares nor £16 million immediately afterwards;
2. the shares in question, and all other shares comprised in the same issue, must be issued for the purpose of raising funds which will be employed by the EIS company. 80 per cent. of the money must be used wholly for the purposes of a qualifying business carried on by that company or a qualifying

3. the shares must be subscribed for and be issued for *bona fide* commercial purposes and not as part of a scheme or arrangement the main purpose, or one of the main purposes, of which is the avoidance of tax;
4. the shares must not for the three years from the date of issue carry any present or future preferential rights to dividends or the company's assets on a winding up nor any present or future rights to be redeemed;
5. to qualify for the income tax relief, an investor must subscribe for a minimum of £500 in any one company under EIS; relief is restricted to a maximum of £150,000 per investor in any one tax year;
6. in order to retain the income tax relief and capital gains tax exemptions the investor must hold the shares for at least three years from the date of their issue;
7. with certain limited exceptions, the investor must not be connected with the issuing company;
8. the issuing company's shares must not be quoted for a minimum of three years from their date of issue and must all be fully paid; shares traded on OFEX are not quoted; and
9. the company must be a "qualifying company" for EIS purposes; one of the conditions is that the company's qualifying trade must continue for a minimum of three years from the issue of the shares; in order to count as qualifying, a trade must not consist to any substantial extent of certain prohibited activities.

Income tax relief will be withdrawn or reduced if the individual sells, or when the Company ceases to satisfy the conditions for relief, or the individual receives a return of value, within the qualifying three year period from issue of the Ordinary Shares. Income tax relief will also be withdrawn if the individual becomes non-resident and not ordinarily resident in the UK within three years of the issue of the Ordinary Shares.

Availability of Tax Certificates

The Company has applied for provisional advance assurance of its EIS status from the Inland Revenue and has had final approval for all past fund raising. A formal application for EIS qualification will be made once the New Ordinary Shares have been issued. An EIS 2 form will then be issued by the Inland Revenue to the Company and an EIS 3 form will be issued by the Company to relevant investors to enable them to claim their tax relief. It is the Company's intention to remain a qualifying company, as defined, for the relevant three year period, to ensure that any EIS relief given to shareholders is not put at risk. Subject to the above, the Directors consider that qualifying individuals subscribing for New Ordinary Shares in the Company should be able to obtain EIS income tax relief within the EIS limits in respect of the year ending 5 April 2003 on the amounts subscribed for the EIS Shares provided they continue to satisfy the conditions and the Company continues to be a qualifying company. Eligibility for relief will depend on individual investors' circumstances. In addition, the New Ordinary Shares must have been issued and registered in the name of the investors by 5 April 2003, to qualify for tax relief in 2002/2003.

Levels, bases of and reliefs from taxation are subject to change and the tax reliefs referred to in this document are those currently applying. There is no guarantee that the forthcoming budget will not change any of the above.

Even though provisional EIS tax clearance has been received in the past there is no guarantee it will be on this occasion or that formal clearance will be achieved or that it will not be subsequently withdrawn and in those circumstances subscription monies will not be returned to investors. Returns to investors would be lower in the event that the Company fails to obtain EIS tax relief or that it is subsequently withdrawn, in which case income tax relief and tax relief from CGT would not be granted.

EIS Capital Gains Tax Deferral

The subscription for New Ordinary Shares by an individual will be considered as a qualifying investment for EIS Capital Gains Tax Deferral purposes irrespective of whether EIS income tax relief is claimed by the individual in respect of such subscription. Where individuals have made a chargeable gain on the disposal of any asset in the period of three years before and twelve months after investment in qualifying shares, they should be eligible to claim deferment of some or all of the gains against the subscription for the New Ordinary Shares under the EIS Capital Gains Tax Deferral provisions, provided that the Company continues to satisfy the relevant statutory requirements. Unlike EIS income tax relief, there is no limit on the amount of the share subscription monies which can qualify for EIS Capital Gains Tax Deferral in each tax year.

The deferred gain would then crystallise when the New Ordinary Shares were sold or when the Company ceased to satisfy the conditions for relief if earlier or if the individual becomes non-resident and not ordinarily resident in the UK within three years of the share issue.

It should be noted that, for EIS Capital Gains Tax Deferral purposes, a subscription for shares in the Company cannot be used to defer a gain on the disposal of other shares in the Company.

EIS Capital Gains Tax Deferral, unlike EIS income tax relief, is available to trustees.

Loss Relief

If an investor is an individual or an investment company, relief for losses (in the case of individuals, after taking into account any EIS income tax relief given and not withdrawn) incurred by that Investor on disposal of the qualifying shares in principle should be available under Sections 573 to 576 of the Income and Corporation Act 1988 against income of the same or previous year.

This relief should be available provided the Company and the investor satisfy the relevant statutory requirements.

Alternatively, any capital loss arising on disposal of the shares will be available against capital gains of the investor in the same or future tax years in the normal manner.

Inheritance Tax

Business Property Relief

The ordinary shares representing minority interests in trading companies such as the Company qualify for 100 per cent. business property relief which gives up to 100 per cent. exemption from Inheritance Tax. If, therefore, an investor makes a lifetime gift of shares or dies while still the owner of the shares, then no inheritance tax will be payable in respect of the value of the shares, provided certain conditions are met. The main condition is that the investor held the shares for two years before the date of transfer or death. Existing Shareholders and Potential Investors should note that a gift of shares within three years of their issue could lead to a clawback or denial of EIS tax reliefs.

Venture Capital Trusts ("VCT")

On previous applications, the Inland Revenue has indicated, based on information provided, that the Company should for VCT purposes meet the relevant company conditions under Schedule 28B Income and Corporation Taxes Act 1988. The Company has again applied for provisional advance assurance in this respect.

In order for the company to be a relevant company for a VCT qualifying holding, certain conditions must be satisfied by the company issuing the shares.

Primarily, those conditions are:

1. the aggregate value of the gross assets of the issuing company and any qualifying subsidiary must not exceed £15 million immediately before the issue of the eligible shares nor £16 million immediately afterwards;
2. the shares in question, and all other shares comprised in the same issue, must be issued for the purpose of raising funds which will be employed by the relevant company. 80 per cent. of the money must be used wholly for the purposes of a qualifying business carried on by that company or a qualifying subsidiary within twelve months of the issue and all the money must be so used within a further twelve months;
3. the issuing company's shares must not be quoted at the time the shares are issued and must all be fully paid; shares traded on OFEX are not quoted; and
4. the company must exist wholly for the purpose of carrying on one or more qualifying trades; in order to count as qualifying, a trade must not consist to any substantial extent of certain prohibited activities.

The VCT scheme was introduced to encourage investment in companies by VCTs by providing for relief from income tax in respect of certain investments in VCTs (at 20 per cent. of the amount subscribed for in VCT shares up to the annual subscription limit, currently, £100,000) and relief from capital gains tax on a disposal of the VCT shares held by the investor. In addition, subject to complying with the applicable

The availability of these investment reliefs depends upon, amongst other things, the circumstances of the investor and the Company continuing to satisfy the requirements of being a relevant company. The Company does not make any representations as to whether any such investment will be or will continue to be one in respect of which relief under the VCT legislation will be available.

Taxation of Dividends

Under UK tax legislation, no tax is withheld at source from UK company dividend payments, although such payments carry a notional tax credit of 1/10th of the gross dividend.

Where such income falls within the basic rate income tax limit, the applicable tax rate is 10 per cent. and hence entirely covered by the tax credit. To the extent that the basic rate income tax limit is exceeded, the tax rate on the excess dividends is 32.5 per cent. less the tax credit. The overall effect for higher rate taxpayers is an income charge of 25 per cent. of the dividend received.

A United Kingdom resident corporate Shareholder will not generally be liable to corporation tax on any dividend received.

United Kingdom pension funds and charities are generally exempt from tax on dividends which they receive but are not entitled to claim repayment for the tax credit. Charities will receive some compensation for the loss of the tax credit.

Other Tax Matters

The Directors have been advised that the Company is not a close company for tax purposes, as defined by the Income and Corporation Taxes Act 1988.

The Company has applied for provisional advance assurance of its EIS status from the Inland Revenue and has had final approval for all past funding.

The above is intended only as a general outline of the taxation rules potentially applying to existing Shareholders and potential investors. If you are in any doubt about your tax position or require more detailed information than the general outline above you should immediately consult professional advisers.

PART III

DETAILS OF OPEN OFFER

1. Introduction

The Company proposes to raise up to £1,000,000 (before expenses) by way of an issue of 1,111,111 New Ordinary Shares, comprising a total of 1,111,111 New Ordinary Shares, at an issue price of 90 pence per share. This Part III and the accompanying Application Form contain the formal terms and conditions of the Open Offer.

The Open Offer will not proceed and no New Ordinary Shares will be issued under it unless the Company receives by 3.00 p.m. on 10 December 2002 (or such later date being not later than 17 December 2002) applications accompanied by appropriate remittances to subscribe for at least 500,000 New Ordinary Shares, equating to the Minimum Amount.

2. The Open Offer

The Company hereby invites Qualifying Shareholders, subject to the terms and conditions set out in this Part III and in the Application Form, to apply to subscribe for a total of 1,111,111 New Ordinary Shares at 90 pence per share (free of all expenses and payable in full on application) on the basis of:

1 New Ordinary Share for every 2 Ordinary Shares

held by Qualifying Shareholders and so in proportion for any greater or lesser number of Ordinary Shares then held.

In the event that applications are received for more than 1,111,111 New Ordinary Shares, applications will be scaled back *pro rata* to Qualifying Shareholders' holding of Ordinary Shares at the Record Date. Accordingly, each Qualifying Shareholder has a guaranteed entitlement under the Open Offer of 1 New Ordinary Share for every 2 Ordinary Shares held by him at the Record Date.

The New Ordinary Shares will, when issued, rank *pari passu* in all respects with the Existing Ordinary Shares and will rank in full for all dividends and other distributions hereafter declared, made or paid by the Company.

The Application Form represents a right to apply for New Ordinary Shares. The Open Offer is not a "rights issue". The Application Form is not a document of title and cannot be traded. Qualifying Shareholders should be aware that unlike in a rights issue, any New Ordinary Shares not applied for under the Open Offer will not be sold in the market or placed for the benefit of Qualifying Shareholders.

The Open Offer is subject, *inter alia*, to the following conditions which must be satisfied no later than 10 December 2002 or such later date as the Company may in its discretion determine (being no later than 17 December 2002):

- (a) Applications for at least 500,000 New Ordinary Shares being received from Qualifying Shareholders; and
- (b) Admission of the New Ordinary Shares to OFEX.

3. Crest

CRESTCo Limited implemented a new "Trade System of Origin" flag for OFEX securities in the CREST system with effect from 24 June 2002. The New Ordinary Shares, which will be issued in registered form, may, at the election of Qualifying Shareholders, be issued in certificated form (definitive share certificates are expected to be despatched within five business days of the commencement of dealings in respect of all the New Ordinary Shares) or in uncertificated form. Qualifying Shareholders who subsequently wish to convert their holding of New Ordinary Shares from certificated form to uncertificated form (or the reverse) may apply to do so in respect of part or all of their holding in accordance with the CREST procedures. New Ordinary Shares to be held in uncertificated form are expected to be delivered in CREST no later than 11 December 2002.

4. Procedure for Application

The Application Form enclosed with this document shows the number of Existing Ordinary Shares registered in your name on the Record Date and also shows the maximum number of New Ordinary Shares

for New Ordinary Shares. You may apply for less than the maximum number of New Ordinary Shares if you so wish.

If you wish to apply for New Ordinary Shares under the Open Offer, you must complete the Application Form in accordance with the instructions printed on it. Completed Application Forms should be returned by post in the reply-paid envelope provided or by hand to the Company Secretary, TEG Environmental plc at Unit 6, Meadowcroft Business Park, Pope Lane, Whitestake, Preston PS3 4BA, with a cheque or banker's draft drawn in sterling on a bank or building society in the UK, the Channel Islands or the Isle of Man which is either a settlement member of the Cheque and Credit Clearing Company Limited or the CHAPS Clearing Company Limited or a member of either of the committees of the Scottish or Belfast Clearing Houses or which has arranged for its cheques or banker's drafts to be cleared through the facilities provided for members of either of those companies or committees. Such cheques or banker's drafts must bear the appropriate sort code in the top right-hand corner and must be for the full amount payable on application. Applications must be received by the Company no later than 3.00 p.m. on 10 December 2002 after which time Application Forms will not be valid (subject to the Company's discretion referred to below). Once submitted, applications are irrevocable.

If an Application Form is being sent by post in the UK, Qualifying Shareholders are recommended to allow at least four working days for delivery. Cheques should be made payable to TEG Environmental plc at Unit 6, Meadowcroft Business Park, Pope Lane, Whitestake, Preston PS3 4BA and crossed "A/C Payee Only". It is a condition of application that cheques will be honoured on first presentation and the Company may elect not to treat as valid any application in respect of which a cheque is not so honoured. A pre-paid addressed envelope is enclosed for your use in the UK. The Company may, in its sole discretion, treat an Application Form as valid and binding on the person by whom or on whose behalf it is lodged, even if not completed in accordance with the relevant instructions or not accompanied by a valid power of attorney where required, or if it otherwise does not strictly comply with the terms and conditions of application, including as to time of receipt.

Cheques and banker's drafts are liable to be presented for payment upon receipt. If they are presented before the conditions of the Open Offer are fulfilled, the application monies will be kept in a separate bank account and any interest earned on such monies will be retained for the benefit of the Company.

If the conditions of the Open Offer are not fulfilled on or before 10 December 2002, or such later date as the Company may in its discretion determine (being no later than 17 December 2002), the Open Offer will lapse and application monies will be returned without interest by crossed cheque in favour of the applicant(s) through the post at the risk of the applicant(s) as soon as is practicable after that date.

If you do not wish to apply for any New Ordinary Shares you should not take any action in respect of the application.

All enquiries in relation to the Application Forms should be addressed to Carolyn Beeston on 01772 422220.

5. Money Laundering

The Money Laundering Regulations 1993 (the "Money Laundering Regulations") may require the Company to establish the identity of the person by whom or on whose behalf an Application Form is lodged with payment (which requirements are referred to below as the "verification of identity requirements"). Any person (the "acceptor") who, by lodging an Application Form with payment, as described above, accepts the Open Offer and any agent lodging such Application Form on his behalf shall hereby be deemed to agree to provide the Company with such information and other evidence as the Registrar may require to satisfy the verification of identity requirements. The New Ordinary Shares in respect of which the acceptor makes a valid application are described below as the "relevant shares".

If the Application Form is submitted by, and/or payment is made by, a US regulated broker or intermediary acting as agent, and which is itself subject to the Money Laundering Regulations, any verification of identity requirements are the responsibility of such broker or intermediary and not the Company. Subject to this, if the Company determines that the verification of identity requirements apply to any acceptance of the Open Offer, the relevant shares will be allotted to the acceptor but (notwithstanding any other terms of the Open Offer) will not be issued to him until the verification of identity requirements have been fulfilled. If the verification of identity requirements are not satisfied within a period of not less than 15 business days after a request for evidence of identity is despatched to the acceptor, as the Company may in its absolute discretion allow, the Company will be able to make arrangements (as to manner, timing and terms) to sell the relevant shares. For the sale of the relevant shares, the Company will be authorised to act as the agent of the acceptor. Any proceeds from such sale of the relevant shares (net of expenses of sale),

which shall be issued to and registered in the name of the purchaser(s), will be held in trust by the Company for the acceptor, subject to the requirements of the Money Laundering Regulations.

The Company is entitled in its absolute discretion to determine whether the verification of identity requirements apply to any acceptor and whether such requirements have been satisfied and the Company will not be liable to any person for any loss suffered or incurred as a result of the exercise of such discretion or as a result of any sale of relevant shares.

If the verification of identity requirements apply, failure to provide the necessary evidence of identity within a reasonable time may result in a delay in the despatch of a share certificate or the crediting of a CREST stock account. The verification of identity requirements will not usually apply:

- (a) if the acceptor is an organisation required to comply with the EC Money Laundering Directive;
- (b) if the acceptor (not being an acceptor who delivers its acceptance in person) makes payment by way of a cheque drawn on an account in the name of such acceptor; or
- (c) if the aggregate subscription price for the relevant shares is less than €15,000 (which is treated for these purposes as being equivalent to approximately £10,000 (unless there is a series of linked applications, the aggregate value of which exceeds that amount)).

In other cases where the verification of identity requirements may apply, satisfaction of requirements may be facilitated in the following ways:

- (a) if payment is made by a building society or bank cheque (not being a cheque drawn on an account of the acceptor or bankers draft), by the building society or bank endorsing on the cheque or draft the acceptor's name and the number of an account held in the acceptor's name at such building society or bank, such endorsement being validated by a stamp and authorised signature;
- (b) if payment is not made by a cheque drawn on an account in the name of the acceptor and (a) above does not apply, the acceptor should enclose with the Application Form evidence of his name and address from an appropriate third party, or an example of a recent bill from a gas, electricity or telephone company or a bank statement, in each case being in the acceptor's name and address. Originals of such documents (not copies) are required and such documents will be returned in due course; and
- (c) if the Application Form is lodged with payment by an agent which is an organisation required to comply with the EC Money Laundering Directive or which is subject to any money laundering regulation in a country which is a member of the Financial Action Task Force (the non-European Union member of which are Australia, Canada, Hong Kong, Iceland, Japan, New Zealand, Norway, Singapore, Switzerland, Turkey and the US) the agent should provide with the Application Form(s) written assurance that it has that status and written assurance that it has obtained and recorded evidence of the identity of the persons for whom it acts and that it will, on demand, make such evidence available to Capita IRG or the relevant authority.

In order to confirm the acceptability of any written assurance referred to in (c) above or in any other case, the acceptor should contact the Company at its registered office.

If an Application Form(s) in respect of New Ordinary Shares with an aggregate subscription price of €15,000 or more is/are lodged by hand the acceptor in person, he should ensure that he has with him evidence of identity, being a document including his photograph (for example his passport) and evidence of his address.

6. Overseas Shareholders

General

The making of the Open Offer to persons who are not resident in the UK or who are citizens of countries other than the UK may be affected by the laws or regulatory requirements of relevant jurisdictions. No person receiving a copy of this document and/or any Application Form in any territory other than the UK may treat the document and/or any Application Form as constituting an invitation or offer to him, nor should he in any event use such Application Form, unless in the relevant territory such invitation or offer could lawfully be made and such Application Form could lawfully be used without compliance with any registration or other legal or regulatory requirements other than any which may have been fulfilled.

It is the responsibility of any person outside the UK wishing to apply for New Ordinary Shares under the Open Offer to satisfy himself as to the full observance of the laws of the relevant territory, including the

(including, without limitation, nominees and trustees) receiving this document and/or an Application Form should not distribute or send it in or into any jurisdiction where to do so would or might contravene local securities laws or regulations. If an Application Form is received by any person in any such jurisdiction or by the agent or nominee of such a person, he must not seek to apply for New Ordinary Shares except pursuant to an express agreement with the Company. Any person who does forward the Application Form into any such jurisdiction, whether pursuant to a contractual or legal obligation or otherwise, should draw the attention of the recipient to the contents of this paragraph of this document.

The Company reserves the right to treat as invalid any application or purported application to subscribe for New Ordinary Shares pursuant to the Open Offer comprised in any Application Form which appears to the Company or its agent to have been executed, effected or despatched in a manner which may involve a breach of any securities legislation or regulations of any jurisdiction or which does not include the warranties set out in the Application Form.

In particular, Overseas Shareholders should note the following:

United States and Canada

The New Ordinary Shares have not been and will not be registered under the United States Securities Act of 1933, as amended, (the "Securities Act") and the relevant exemptions are not being obtained from the Securities Commission of any province of Canada. Accordingly, subject to certain exceptions, the New Ordinary Shares are not being offered and may not be directly or indirectly, offered, sold, transferred or delivered in the United States or Canada or to or for the benefit of any US persons or residents of Canada. Application Forms will therefore not be sent to Shareholders who have registered addresses in the United States or Canada, nor will applications be accepted from anyone who does not make the declaration of non-United States and non-Canadian beneficial ownership on the Application Form. The Company reserves the right to treat as invalid any Application Form that appears to the Company or its agents to have been executed in or despatched from the United States or Canada, or that provides an address in the United States or Canada for the delivery of definitive certificates for the New Ordinary Shares or which does not make the warranty set out in the Application Form to the effect that the person applying for New Ordinary Shares is not a US person or resident of Canada, does not have a registered address (and is not otherwise located) in the United States or Canada and is not acquiring the New Ordinary Shares with a view to the offer, sale, re-sale, transfer, delivery, or distribution, directly or indirectly, of any such New Ordinary Shares in the United States or Canada.

For the purposes of this document: "United States" means the United States of America, each state thereof (including the District of Columbia), its territories, possessions and all areas subject to its jurisdiction; "Canada" means Canada and each province thereof; "US person" has the meaning given in Regulation S promulgated under the Securities Act; and "resident of Canada" means a citizen, national or resident of Canada, the estate of any such person, a partnership, corporation or other entity created or organised in or under the laws of Canada or any estate or trust the income of which is liable to Canadian income tax regardless of its source.

Australia

The Open Offer is not being made in Australia, its states, territories or possessions, nor will or may this document, any advertisement or other offering material in relation to the New Ordinary Shares be distributed directly or indirectly in Australia. This document has not and will not be lodged with, or registered by, the Australian Securities Commission. The New Ordinary Shares have not been nor will be available for subscription or purchase by any resident of Australia (including corporations and other entities organised under the laws of Australia but not including a permanent establishment of any such corporation or entity located outside Australia).

Republic of Ireland

As a result of regulations in the Republic of Ireland, the Open Offer is not being made to Shareholders resident in the Republic of Ireland. Neither this document nor the Application Form will be circulated in the Republic of Ireland. Application Forms sent from or post marked in the Republic of Ireland will be deemed to be invalid and the Company will not be bound to allot or issue New Ordinary Shares to any Shareholder or any other person with an address in the Republic or Ireland.

Other overseas territories

Shareholders resident in other overseas territories should consult their professional advisers as to whether they require any governmental or other consents or need to observe any further formalities to enable them to apply for New Ordinary Shares under the Open Offer.

7. Taxation and Stamp Duty

The attention of Shareholders is drawn to Part II of this document which contains a general guide to the current UK tax position. Shareholders who are in any doubt as to their tax position should consult their professional advisers immediately.

8. Settlement and Dealings

Application has been made to OFEX plc for the admission of the New Ordinary Shares to trading on OFEX. It is expected that Admission will take place, and that dealings in the New Ordinary Shares will commence, on 11 December 2002. New Ordinary Shares to be held in uncertificated form are expected to be delivered in CREST no later than 11 December 2002. Share certificates in respect of New Ordinary Shares to be held in certificated form are expected to be despatched by no later than 18 December 2002.

The results of the Open Offer will be announced on or about 11 December 2002 and, subject to the Open Offer becoming unconditional in all respects, dealings in the New Ordinary Shares are expected to commence on 11 December 2002. Subject to the satisfaction of the conditions of the Open Offer, the New Ordinary Shares issued pursuant to the Open Offer will be registered in the names of the Qualifying Shareholders validly applying for them. It is expected that definitive share certificates will be despatched to those Qualifying Shareholders who have elected to receive their New Ordinary Shares in certificated form within five business days of the commencement of dealings in the New Ordinary Shares. No temporary documents of title will be issued. The CREST accounts of those Qualifying Shareholders who have elected to receive their New Ordinary Shares in uncertificated form are expected to be credited on 11 December 2002. All documents or remittances sent by or to an applicant, or as he/she may direct, will be sent through the post at his/her risk. Pending the despatch of definitive share certificates, expected to take place by 18 December 2002, instruments of transfer will be certified against the register. Qualifying Shareholders who hold their Ordinary Shares in CREST should note that they will not be sent any communication of the credit of their New Ordinary Shares to their CREST stock accounts nor any written communication by the Company in respect of the issue of the New Ordinary Shares. The terms and conditions of the Open Offer, as set out in this document and in the Application Form, shall be governed by and construed in accordance with English law.

If applications are received for more than 1,111,111 New Ordinary Shares, each Qualifying Shareholder's application will be scaled back *pro rata* to the aggregate number of applications received pursuant to the Open Offer. In such circumstances, a cheque in respect of subscription monies received from any Qualifying Shareholder in respect of his application for New Ordinary Shares which are not issued to him due to such scaling back, shall be sent by registered post, at the risk of the Qualifying Shareholder within 14 days of the announcement of the result of the Open Offer. The Company shall not be liable to account to any such Qualifying Shareholder for any interest earned on such subscription monies.

9. Further Information

Your attention is drawn to the additional information set out in the remainder of this document and the terms and conditions set out in the Application Form.

PART IV

ACCOUNTANTS' REPORT

The Directors
TEG Environmental Plc
Unit 6
Meadowcroft Business Park
Pope Lane
Whitestake
Preston
PR4 4BF



19 November 2002

Gentlemen

1. Introduction

We report on the financial information set out in paragraphs 2 to 6 below. This financial information has been prepared for inclusion in the prospectus dated 19 November 2002 of TEG Environmental Plc (the Company).

Basis of Preparation

The financial information set out in paragraphs 2 to 6 is based on the audited financial statements of TEG Environmental Plc for the years ended 31 October 2002, 31 October 2001 and 31 October 2000 to which no adjustments were considered necessary.

Responsibility

Such financial statements are the responsibility of the Directors of TEG Environmental Plc who approved their issue.

The Directors of TEG Environmental Plc are responsible for the contents of the prospectus dated 19 November 2002 in which this report is included.

It is our responsibility to compile the financial information set out in our report from the financial statements, to form an opinion on the financial information and to report our opinion to you.

Basis of Opinion

We conducted our work in accordance with the Statements of Investment Circular Reporting Standards issued by the Auditing Practices Board. Our work included an assessment of evidence relevant to the amounts and disclosures in the financial information. It also included an assessment of significant estimates and judgements made by those responsible for the preparation of the financial statements underlying the financial information and whether the accounting policies are appropriate to the entity's circumstances, consistently applied and adequately disclosed.

We planned and performed our work 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 information is free from material misstatement whether caused by fraud or other irregularity or error.

Fundamental Uncertainty

In forming our opinion we have considered the basis of preparation set out in Note 2 concerning the future cash flows of the company. In view of the significance of these items we consider these should be drawn to your attention but our opinion is not qualified in this respect.

Opinion

In our opinion, the financial information gives, for the purposes of the prospectus dated 19 November 2002, a true and fair view of the state of affairs of TEG Environmental Plc as at the dates stated and of its losses, cash flows and recognised gains and losses for the years then ended.

2. Accounting Policies

Basis of Preparation

The financial information in this report has been prepared on a going concern basis, which assumes the availability of additional finance.

Subsequent to the balance sheet date, the Company issued 1,111,111 Ordinary Shares of 5 pence in exchange for 1,000,000 Ordinary Shares of 5 pence and 200,000 warrants in New Opportunities Investment Trust Plc ("NOIT"). Under the terms of the agreement with NOIT, the Company cannot sell these shares or warrants until after 25 December 2002. In calculating the Minimum Proceeds receivable under the Offer, and consequently the working capital requirements for the next twelve months, the Directors have assumed that they will be able to sell NOIT shares at 67 pence and NOIT warrants at 8 pence. These are the prices quoted to sell on the London Stock Exchange on the date of this document. There is no guarantee, however, that these securities will realise this amount. The Directors have implemented a cost reduction programme and projected operations for the next twelve months include the continuation of this programme and the resumption of the Kildare sale contract in April 2003. Contingent liabilities are disclosed in note (xviii).

Accounting Convention

The accounts are prepared under the historical cost basis and in accordance with applicable accounting standards.

Turnover

The turnover shown in the profit and loss account represents amounts invoiced during the year net of Value Added Tax

Research and Development Costs

Costs relating to research and development are written off as incurred.

Depreciation

Depreciation is provided 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:

Fixtures and fittings	—	25% reducing balance
Plant and machinery	—	25% reducing balance
Silo Cage System	—	25% reducing balance

Amortisation

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:

Intellectual Property Rights	—	10 years straight line
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Stocks and Work in Progress

Stocks and Work in Progress are valued at the lower of cost and net realisable value, after making due allowances for obsolete or slow moving items and foreseeable losses.

Deferred Taxation

Deferred taxation 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 exceptions:

- 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.

Leasing and Hire Purchase Commitments

depreciated over their useful lives. The capital element 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 to the 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 Profit and Loss account on a straight line basis over the lease term.

Foreign Currencies

Assets and liabilities in foreign currencies are translated into sterling at the rate 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 operating profit.

3. Profit and Loss Accounts

The profit and loss accounts of the Company, for the years ended 31 October 2002, 31 October 2001 and 31 October 2000, are set out below:

		<i>Year ended 31 October 2002</i>	<i>Year ended 31 October 2001</i>	<i>Year ended 31 October 2000</i>
	<i>Notes</i>	<i>£</i>	<i>£</i>	<i>£</i>
Turnover				
Continuing operations	(i)	43,999	55,834	84,626
Cost of sales		(111,634)	(83,142)	(76,294)
		(67,635)	(27,308)	8,332
Gross (loss)/profit				
Selling and administrative expenses		(2,055,953)	(1,084,650)	(922,372)
		(2,123,588)	(1,111,958)	(914,040)
Operating loss	(ii)			
Bank interest receivable and similar income	(v)	17,196	40,233	44,066
Interest payable and similar charges	(vi)	(5,921)	(5,196)	(7,332)
		(2,112,313)	(1,076,921)	(877,306)
Loss on ordinary activities before taxation				
Tax on loss on ordinary activities	(x)	100,000	—	—
		(2,012,313)	(1,076,921)	(877,306)
Loss retained for the financial period				

Total Recognised Gains and Losses

All recognised gains and losses are included in the profit and loss account.

Continuing Operations

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

Cash Flow Statements

The cash flow statements of the Company, for the years ended 31 October 2002, 31 October 2001 and 31 October 2000 are set out below:

		<i>Year ended 31 October 2002</i>	<i>Year ended 31 October 2001</i>	<i>Year ended 31 October 2000</i>
	<i>Notes</i>	<i>£</i>	<i>£</i>	<i>£</i>
Net cash outflow from operating activities	(ii)	(2,008,307)	(888,023)	(731,486)
Returns on investments and servicing of finance	(xix)	11,275	35,037	36,734
Capital expenditure and financial investment	(xix)	(20,794)	(239,590)	(263,288)
Net cash outflow before use of liquid resources and financing		(2,017,826)	(1,092,576)	(958,040)
Financing				
– Increase/(Decrease) in loans	(xix)	(55,424)	80,625	(23,185)
– Issue of shares	(xix)	1,280,570	1,697,938	1,276,609
Increase/(decrease) in cash in the period		(792,680)	685,987	295,384

Reconciliation of Net Cash Flow to Movement in Net Funds

		<i>Year ended 31 October 2002</i>	<i>Year ended 31 October 2001</i>	<i>Year ended 31 October 2000</i>
	<i>Notes</i>	<i>£</i>	<i>£</i>	<i>£</i>
Increase/(decrease) in cash in the period	(xi)	(792,680)	685,987	295,384
Net cash outflow/(inflow) from decrease (increase) in debt financing		55,424	44,159	23,185
Change in net funds resulting from cash flows	(xi)	(737,256)	730,146	318,569
New finance leases		—	(124,784)	—
Movement in net funds in the period		(737,256)	605,362	318,569
Net funds/(debt) at beginning of period		894,554	289,192	(29,377)
Net funds/(debt) at end of period	(xi)	157,298	894,554	289,192

4. Balance Sheets

The balance sheets of the Company at 31 October 2002, 31 October 2001 and 31 October 2000 are set out below:

	<i>Notes</i>	<i>31 October 2002 £</i>	<i>31 October 2001 £</i>	<i>31 October 2000 £</i>
Fixed Assets				
Intangible fixed assets	(vii)	12,648	16,644	20,640
Tangible fixed assets	(viii)	277,414	365,493	243,136
		<u>290,062</u>	<u>382,137</u>	<u>263,776</u>
Current Assets				
Stocks	(ix)	269,619	3,988	8,341
Debtors	(x)	205,695	52,907	73,813
Cash at bank and in hand	(xi)	230,110	1,022,790	336,803
		<u>705,424</u>	<u>1,079,685</u>	<u>418,957</u>
Creditors: amounts falling due within one year	(xii)	<u>(514,897)</u>	<u>(202,654)</u>	<u>(92,439)</u>
Net current assets		<u>190,527</u>	<u>877,031</u>	<u>326,518</u>
Total assets less current liabilities		<u>480,589</u>	<u>1,259,168</u>	<u>590,294</u>
Creditors: amounts falling due after more than one year	(xiii)	<u>(25,984)</u>	<u>(72,820)</u>	<u>(24,963)</u>
		<u>454,605</u>	<u>1,186,348</u>	<u>565,331</u>
Capital and reserves				
Called up share capital	(xv)	471,441	400,941	328,779
Share premium account	(xvi)	6,026,221	4,816,151	3,190,375
Profit and loss account	(xvi)	(6,043,057)	(4,030,744)	(2,953,823)
Equity shareholders' funds		<u>454,605</u>	<u>1,186,348</u>	<u>565,331</u>

5. Notes to the Financial Information

(i) Turnover

Turnover represents net invoiced sales of goods, excluding value added tax. Turnover is attributable to the Company's continuing activities, and arose entirely within in the United Kingdom.

(ii) Operating Loss

(a) Operating loss is stated after charging:

	<i>Year ended 31 October 2002 £</i>	<i>Year ended 31 October 2001 £</i>	<i>Year ended 31 October 2000 £</i>
Auditors' remuneration – audit services	3,000	4,000	3,750
– non-audit services	7,992	10,296	4,400
Depreciation of owned fixed assets	86,658	90,084	200,033
Depreciation of assets held under HP agreements	22,215	29,629	1,674
Amortisation of intangible fixed assets	3,996	3,996	3,996
Operating lease rentals – plant and machinery	5,054	3,974	1,891
– other	16,913	18,540	18,540
(Profit)/Loss on disposal of fixed assets	—	(2,480)	1,398
Exceptional write down of Kildare sale contract	647,205	—	—
	<u>647,205</u>	<u>—</u>	<u>—</u>

Depreciation of owned fixed assets for the year ended 31 October 2000 is stated after accounting for an exceptional depreciation charge of £98,283. This charge has been calculated to write down the carrying value of the prototype Silo Cage Plant and associated goodwill to nil. The prototype has been replaced by the new Silo Cage Plant which is now fully operational.

Moore and Smalley received fees of £31,156, £20,500 and £13,900 in respect of the Rights Issues in the years ended 31 October 2002, 31 October 2001 and 31 October 2000 respectively, which have been charged to the share premium account.

The exceptional write down of the Kildare sale contract represents the difference between the cost of construction and the current expected net realisable value.

(b) Reconciliation of operating loss to net cash outflow from operating activities:

	<i>Year ended 31 October 2002 £</i>	<i>Year ended 31 October 2001 £</i>	<i>Year ended 31 October 2000 £</i>
Operating loss	(2,123,588)	(1,111,958)	(914,040)
Depreciation	108,873	119,713	201,707
Amortisation	3,996	3,996	3,996
(Profit)/Loss on sale of fixed assets	—	(2,480)	1,398
(Decrease)/Increase in stocks	(265,631)	4,353	(1,429)
Decrease/(Increase) in debtors	(52,788)	20,906	26,599
(Decrease)/Increase in creditors	320,831	77,447	(49,717)
Net cash outflow from operating activities	<u>(2,008,307)</u>	<u>(888,023)</u>	<u>(731,486)</u>

(iii) Directors' Emoluments

	<i>Year ended 31 October 2002 £</i>	<i>Year ended 31 October 2001 £</i>	<i>Year ended 31 October 2000 £</i>
Directors' emoluments	<u>190,336</u>	<u>172,202</u>	<u>139,183</u>

(iv) Staff Costs

	<i>Year ended 31 October 2002 £</i>	<i>Year ended 31 October 2001 £</i>	<i>Year ended 31 October 2000 £</i>
Wages and salaries	600,801	350,979	259,039
Social security costs	55,150	36,924	25,197
	<u>655,951</u>	<u>387,903</u>	<u>284,236</u>

The average weekly number of employees during the period was as follows:

<i>Year ended 31 October 2002 No</i>	<i>Year ended 31 October 2001 No</i>	<i>Year ended 31 October 2000 No</i>
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(v) *Interest Receivable*

	<i>12 months ended 31 October 2002 £</i>	<i>Year ended 31 October 2001 £</i>	<i>Year ended 31 October 2000 £</i>
Bank interest	17,196	40,233	44,066

(vi) *Interest Payable*

	<i>Year ended 31 October 2002 £</i>	<i>Year ended 31 October 2001 £</i>	<i>Year ended 31 October 2000 £</i>
Bank loans and overdraft	1,411	4,402	6,808
Hire purchase agreements	4,510	794	524
	5,921	5,196	7,332

(vii) *Intangible Fixed Assets*

	<i>Intellectual Property Rights £</i>
Cost:	
At 31 October 1999 and 31 October 2002	40,000
Depreciation:	
At 31 October 1999	15,364
Charge for the period	3,996
At 31 October 2000	19,360
Charge for the period	3,996
At 31 October 2001	23,356
Charge for the period	3,996
At 31 October 2002	27,352
Net book value:	
At 31 October 2002	12,648
At 31 October 2001	16,644
At 31 October 2000	20,640

This represents the purchase cost of the Intellectual Property Rights of an innovative system of accelerated composting for £35,000 and design of the Twin Cage Composter for £5,000.

(viii) Tangible Fixed Assets

	<i>Silo Cage System £</i>	<i>Fixtures and Fittings £</i>	<i>Plant and Machinery £</i>	<i>Total £</i>
Cost:				
At 31 October 1999	—	29,578	270,728	300,306
Additions	248,367	7,589	8,132	264,088
Adjustments	—	—	(2,995)	(2,995)
At 31 October 2000	248,367	37,167	275,865	561,399
Additions	115,858	38,050	93,182	247,090
Disposals	—	—	(11,900)	(11,900)
At 31 October 2001	364,225	75,217	357,147	796,589
Additions	9,868	10,506	420	20,794
Disposals	—	—	—	—
At 31 October 2002	374,093	85,723	357,567	817,383
Depreciation:				
At 31 October 1999	—	12,805	104,548	117,353
Charge for the period	62,068	8,170	131,469	201,707
Adjustments	—	—	(797)	(797)
At 31 October 2000	62,068	20,975	235,220	318,263
Charge for the period	75,666	13,561	30,486	119,713
Disposals	—	—	(6,880)	(6,880)
At 31 October 2001	137,734	34,536	258,826	431,096
Charge for the period	59,619	12,441	36,813	108,873
Disposals	—	—	—	—
At 31 October 2002	197,353	46,977	295,639	539,969
Net Book Value:				
At 31 October 2002	176,740	38,746	61,928	277,414
At 31 October 2001	226,491	40,681	98,321	365,493
At 31 October 2000	186,299	16,192	40,645	243,136

Hire purchase agreements

Included within the net book value of £277,414 is £66,645 (2001: £88,886, 2000: £5,020) relating to assets held under hire purchase agreements. The depreciation charged to the accounts in the year in respect of such assets amounted to £22,215 (2001: £29,629, 2000: £1,674).

(ix) Stocks

	<i>31 October 2002 £</i>	<i>31 October 2001 £</i>	<i>31 October 2000 £</i>
Finished goods	753	450	2,391
Raw materials and consumables	2,221	2638	5,040
Work in progress	266,645	900	910

(x) Debtors

	31 October 2002 £	31 October 2001 £	31 October 2000 £
Trade debtors	13,270	11,405	9,589
Other debtors	48,517	25,160	43,979
Corporation tax repayable	100,000	—	—
Prepayments and accrued income	43,908	16,342	20,245
	<u>205,695</u>	<u>52,907</u>	<u>73,813</u>

The taxation recoverable relates to claims made, or to be made, by the company in respect of the Research and Development tax credit scheme.

(xi) Cash and Net Debt

	At 31 October 2000 £	Cashflow £	At 31 October 2001 £	Cashflow £	At 31 October 2002 £
Cash at bank and in hand	336,803	685,987	1,022,790	(792,680)	230,110
Debt due within one year	(20,004)	—	(20,004)	15,061	(4,943)
Debt due after one year	(24,963)	20,012	(4,951)	4,951	—
Finance leases	(2,644)	(100,637)	(103,281)	35,412	(67,869)
	<u>(47,611)</u>	<u>(80,625)</u>	<u>(128,236)</u>	<u>55,424</u>	<u>(72,812)</u>
	<u>289,192</u>	<u>605,362</u>	<u>894,554</u>	<u>(737,256)</u>	<u>157,298</u>

(xii) Creditors: amounts falling due within one year

	31 October 2002 £	31 October 2001 £	31 October 2000 £
Bank loan	4,943	20,004	20,004
Trade creditors	392,570	83,210	27,373
Other taxation and social security costs	14,392	15,552	8,910
Hire purchase creditor	41,885	35,412	2,644
Accruals	61,107	48,476	33,508
	<u>514,897</u>	<u>202,654</u>	<u>92,439</u>

(xiii) Creditors: amounts falling due after more than one year

	31 October 2002 £	31 October 2001 £	31 October 2000 £
Hire purchase creditor	25,984	67,869	—
Bank loan	—	4,951	24,963
	<u>25,984</u>	<u>72,820</u>	<u>24,963</u>

In February 1997 the Company drew down a £100,000 bank loan under the Small Firms Loan Guarantee Scheme in which the loan is 70% guaranteed by the DTI. Interest is fixed at 10.76% for five years and then at 3½% over base thereafter. Repayments commenced in February 1998 at £1,667 per month and will

continue for five years. The Company's bankers hold a fixed charge over book debts and a floating charge over all other assets.

(xiv) Obligations under Hire Purchase Contracts

	<i>31 October 2002</i>	<i>31 October 2001</i>	<i>31 October 2000</i>
	<i>£</i>	<i>£</i>	<i>£</i>
Amounts due:			
within one year	45,864	45,042	3,080
within two to five years	28,997	71,411	—
	<u>74,861</u>	<u>116,453</u>	<u>3,080</u>
Less: Finance charges allocated to future periods	<u>(6,992)</u>	<u>(13,172)</u>	<u>(436)</u>
	<u><u>67,869</u></u>	<u><u>103,281</u></u>	<u><u>2,644</u></u>

Finance leases and hire purchase contracts are analysed as follows:

	<i>31 October 2002</i>	<i>31 October 2001</i>	<i>31 October 2000</i>
	<i>£</i>	<i>£</i>	<i>£</i>
Current obligations	41,885	35,412	2,644
Non-current obligations	25,984	67,869	—
	<u>67,869</u>	<u>103,281</u>	<u>2,644</u>

Analysis of changes in finance and hire purchase contracts during the current and previous years:

	<i>31 October 2002</i>	<i>31 October 2001</i>	<i>31 October 2000</i>
	<i>£</i>	<i>£</i>	<i>£</i>
Balance at 1 November	103,281	2,644	5,817
Inception of finance leases in the year	—	124,784	—
Repaid in year	(35,412)	(24,147)	(3,173)
Balance at 31 October	<u>67,869</u>	<u>103,281</u>	<u>2,644</u>

(xv) Share Capital

	<i>31 October 2002</i>		<i>31 October 2001</i>		<i>31 October 2000</i>	
	<i>No</i>	<i>£</i>	<i>No</i>	<i>£</i>	<i>No</i>	<i>£</i>
Authorised	<u>100,000,000</u>	<u>5,000,000</u>	<u>100,000,000</u>	<u>5,000,000</u>	<u>100,000,000</u>	<u>5,000,000</u>
Allotted, called up and fully paid	<u>9,428,821</u>	<u>471,441</u>	<u>8,018,821</u>	<u>400,941</u>	<u>6,575,580</u>	<u>328,779</u>

(xvi) Reconciliation of Shareholders' Funds and Movements on Reserves

	<i>Share capital £</i>	<i>Share premium account £</i>	<i>Profit and loss account £</i>	<i>Total £</i>
At 31 October 1999	249,538	1,993,007	(2,076,517)	166,028
Shares issued	79,241	1,267,857	—	1,347,098
Issue costs	—	(70,489)	—	(70,489)
Loss for the year	—	—	(877,306)	(877,306)
At 31 October 2000	328,779	3,190,375	(2,953,823)	565,331
Loss for the period	—	—	(1,076,921)	(1,076,921)
Shares issued	72,162	1,731,889	—	1,804,051
Issue costs	—	(106,113)	—	(106,113)
At 31 October 2001	400,941	4,816,151	(4,030,744)	1,186,348
Loss for the period	—	—	(2,084,313)	(2,084,313)
Shares issued	70,500	1,339,500	—	1,410,000
Issue costs	—	(129,430)	—	(129,430)
At 31 October 2002	471,441	6,026,221	(6,115,057)	382,605

(xvii) Financial Commitments

The Company had annual commitments under non-cancellable operating leases as follows:

	<i>Land and buildings</i>			<i>Other</i>		
	<i>2002</i>	<i>2001</i>	<i>2000</i>	<i>2002</i>	<i>2001</i>	<i>2000</i>
	<i>£</i>	<i>£</i>	<i>£</i>	<i>£</i>	<i>£</i>	<i>£</i>
Operating leases						
which expire:						
within one year	—	23,540	18,540	6,489	5,625	6,240
within two to five years	—	—	—	3,386	16,652	21,698
	—	23,540	18,540	9,875	22,277	27,938

(xviii) Contingent Liabilities

Under the terms of the acquisition of the Intellectual Property Rights to the innovative system of accelerated composting from Dr Heyworth a royalty of 3% is payable based on future profits before tax of TEG Environmental Plc and its subsidiaries (if any), as shown in the audited consolidated profit and loss account if the profits before tax exceed £100,000. The royalty payment is subject to a maximum of £50,000 in any one financial year and to £140,000 in total.

The Directors have received notice to the effect that Michael C Cox, former Director, intends to sue the Company for unfair dismissal. If he were to succeed then it is possible that a payment of up to £52,600 would have to be made by the Company. The Directors consider that this claim is without foundation and consequently no provision has been made in the accounts for the year ended 31 October 2002.

In respect of the Kildare contract, the Company may have to pay additional costs of approximately £100,000 to satisfy local licensing requirements. In the event that these were payable by the Company, the Directors consider that they would be reclaimable from their client and accordingly no provision has been made in the accounts.

(xix) Analysis of Cash Flows for Headings Netted in the Cash Flow Statement

	2002 £	2001 £	2000 £
Returns on investments and servicing of finance			
Interest received	17,196	40,233	44,066
Interest paid	(1,411)	(4,402)	(6,808)
Interest element of HP rentals	(4,510)	(794)	(524)
	<u>11,275</u>	<u>35,037</u>	<u>36,734</u>
Net cash inflow from returns on investments and servicing of finance			
	<u>11,275</u>	<u>35,037</u>	<u>36,734</u>
Capital expenditure and financial investment			
Purchase of tangible fixed assets	(20,794)	(247,090)	(264,088)
Proceeds from the sale of tangible fixed assets	—	7,500	800
	<u>(20,794)</u>	<u>(239,590)</u>	<u>(263,288)</u>
Net cash outflow from capital expenditure and financial investment			
	<u>(20,794)</u>	<u>(239,590)</u>	<u>(263,288)</u>
Financing			
Issue of ordinary share capital	1,410,000	1,804,051	1,347,098
Issue costs	(129,430)	(106,113)	(70,489)
Decrease in bank loans due in more than one year	(20,012)	(20,012)	(20,012)
Capital element of HP repayments	(35,412)	100,637	(3,173)
	<u>1,225,146</u>	<u>1,778,563</u>	<u>1,253,424</u>
Net cash inflow from financing			
	<u>1,225,146</u>	<u>1,778,563</u>	<u>1,253,424</u>

Yours faithfully

Moore and Smalley
*Chartered Accountants
and Registered Auditors*

6 PRO FORMA STATEMENT OF NET ASSETS

Set out below is an unaudited *pro forma* statement of net assets following the Offer which has been prepared on the basis set out in the notes below. This statement has been prepared for illustrative purposes only and, because of its nature, cannot give a complete picture of the financial position of the Company.

	The Company at 31 October		
	2002	Adjustments	Pro forma
	£	£	£
Fixed assets			
Intangible	12,648	—	12,648
Tangible	277,414	—	277,414
	<u>290,062</u>	<u>—</u>	<u>290,062</u>
Current assets			
Stocks	269,619	—	269,619
Debtors	205,695	—	205,695
Bank balances and cash	230,110	950,000	1,180,110
	<u>705,424</u>	<u>950,000</u>	<u>1,655,424</u>
Creditors due within one year	<u>(514,897)</u>	<u>—</u>	<u>(514,897)</u>
Net current assets	<u>190,527</u>	<u>950,000</u>	<u>1,140,527</u>
Total assets less current liabilities	<u>450,589</u>	<u>950,000</u>	<u>1,430,589</u>
Creditors due after one year	<u>(25,984)</u>	<u>—</u>	<u>(25,984)</u>
Net assets	<u>454,605</u>	<u>950,000</u>	<u>1,404,605</u>

Notes:

1. The statement of net assets of the Company at 31 October 2002 is based on the audited balance sheet of the Company at that date.
2. In preparing the *pro forma* statement, adjustment has been made to reflect:
 - the £1m to be raised by the placing
 - the estimated expenses of the placing of £50,000 inc VAT
3. No account has been taken of any profits or losses of the Company since 31 October 2002.

PART V

ADDITIONAL INFORMATION

1. Incorporation and Share Capital

- (a) The Company was incorporated in England and Wales on 3 October 1995, under the Companies Act 1985 with number 3109613, as Coincentral Public Limited Company. Its name was changed to TEG Environmental Plc on 6 November 1995.
- (b) TEG's initial authorised share capital was £100,000 divided into 100,000 Ordinary Shares of £1 each, of which two Ordinary Shares were issued not paid at par on incorporation. On 21 November 1995, the authorised share capital was increased to £5,000,000 and then subdivided into 100,000,000 Ordinary Shares of 5 pence each.
- (c) As at 18 November 2002, the issued share capital of the Company was 10,539,925 Ordinary Shares.
- (d) Pursuant to an ordinary resolution passed on 9 March 2001, the Directors have been authorised in accordance with section 80 of the Act to allot relevant securities (within the meaning of that section) up to an aggregate nominal amount of £5,000,000. Such authority expires five years after the passing of such resolution subject to the condition that no securities may be allotted or issued if by reason thereof the Company would no longer be a qualifying company under the terms of the Enterprise Investment Scheme ("EIS") as from time to time enacted and THAT the Directors shall not exercise their powers to allot shares as above such that the Company would be under an obligation to remain a qualifying company for EIS purposes after four years from the passing of this resolution.
- (e) Pursuant to a special resolution passed on 9 March 2001, the Directors have been generally and unconditionally authorised and empowered pursuant to section 95(1) of the Act to allot equity securities (as defined in section 94 of that Act) as if section 89(1) of that Act did not apply to such allotment and to make at any time prior to the expiry of the power conferred any offer or agreement which would or might require equity securities to be allotted after the expiry of such power PROVIDED THAT such authority and power expires after five years of passing such resolution.
- (f) TEG received a Certificate of Entitlement to do business and borrow under Section 117(1) of the Companies Act 1985 on 13 February 1996.
- (g) Since the placing and offer for subscription contained in a prospectus dated 7 January 1998, which raised approximately £680,000, the Company has issued, on 28 September 1998, an aggregate of 218,000 Ordinary Shares at a price of £1.00 per share; and between 22 December 1998 and 15 February 1999 an aggregate of 752,500 Ordinary Shares at a price of £1.00 per share.
- (h) Pursuant to the rights issue and offer for subscription contained in a prospectus dated 28 September 1999, which raised approximately £1,277,000, the Company has issued an aggregate of 1,584,820 Ordinary Shares at a price of 85 pence per share.
- (i) Pursuant to the offer for subscription contained in a prospectus dated 15 February 2001 which raised approximately £1.8 million (after expenses), the Company has issued 1,095,929 Ordinary Shares at a price of £1.25 per share.
- (j) Pursuant to the private placing contained in a private placing memorandum dated 5 April 2002 which raised approximately £1,320,000 (before expenses), the Company has issued 1,320,000 Ordinary Shares at a price of £1 per share.
- (k) A further 90,000 Ordinary Shares were issued to existing shareholders in May 2002, which were subscribed at a price of £1 per share.
- (l) On 6 November 2002, the Company issued 1,111,111 Ordinary Shares at a price of 90p per Ordinary Share to New Opportunities Investment Trust ("NOIT"), in consideration of the issue to the Company of 1,000,000 ordinary shares in NOIT, which shares are listed on the Official List of the UK Listing Authority and to trading on the London Stock Exchange. The Company has undertaken not to deal in these shares until after 25 December 2002.
- (m) Immediately following completion of the Open Offer (assuming that the maximum number of New Ordinary Shares are issued, that no options referred to in paragraph 4 below are exercised) the authorised and issued share capital of the Company will be as follows:

- (n) Save as disclosed above, no share or loan capital of the Company has since its incorporation been issued or agreed to be issued or is now proposed to be issued fully or partly paid either for cash or a consideration other than cash and no discounts or other special terms have been granted by the Company during such period in connection with the sale or issue of any Ordinary Shares or loan capital of the Company.
- (o) Save for the share options and warrants referred to in paragraph 4 below, no share capital of the Company is under option and there is no conditional or unconditional agreement to put any such capital under option.

2. Directors' and other interests

- (a) The Directors of the Company, each of whose business address for the purposes hereof is Enterprise House, Meadowcroft, Pope Lane, Whitestake, Preston PR4 4BA, are Allen Sykes, John Hough, Dick Bilborough and Dr Alan Heyworth.
- (b) Other Directorships held by the Directors in the last five years are:

*Date resigned
(where applicable)*

Allen Sykes

Quenton Limited (dissolved)

Willis Group Limited

30 October 1998

GSB (Holdings) Plc (in liquidation)

John Hough

AHJ Investments Limited

F.H. Investments Limited

HF Investments Limited

Tudorfawn Limited

The Griffin Insurance Association Limited

25 February 1998

AHJ Pension Fund Trustees Limited

GSB (Holdings) Plc (in liquidation)

Dick Bilborough

Bilborough Consultancy & Finance Limited (dissolved)

Green Wall Sound Barriers Limited

GSB (Holdings) Plc (in liquidation)

Dr Alan Heyworth

Environmental Consultants Limited

The Bracken Advisory Commission Limited.

- (c) None of the Directors have any: (i) past convictions; (ii) past disqualifications from acting as a director; (iii) bankruptcies or individual voluntary arrangements; or (iv) been the subject of any public criticisms.
- (d) Save as disclosed below, none of the Directors were directors of any company at the time of or within 12 months preceding any receivership, compulsory liquidation, creditors voluntary liquidation, administration or company voluntary arrangement of such company.
- (i) Dick Bilborough's directorship of Coolpac Fresh Foods Limited to which a receiver was appointed in May 1985; and
- (ii) Each of Allen Sykes, John Hough and Dick Bilborough is a non executive director of GSB (Holdings) PLC which was the subject of a creditors voluntary liquidation on 11 March 1999. GSB Holdings PLC was formed by Allen Sykes, John Hough and Dick Bilborough with the intention of facilitating a revival of Greenwall Sound Barriers Limited by way of, *inter alia*, acquisition of its business. This did not succeed.

- (e) At the date of this document the interests in the Ordinary Shares of the Directors of the Company, including persons connected with them within the meaning of Section 346 of the Act, which have been notified by each Director to the Company pursuant to Sections 324 to 328 of the Act, are as follows:

<i>Director</i>	<i>Current number of Ordinary Shares</i>	<i>Percentage of issued share capital (%) before the open offer</i>
Dick Bilborough ¹	256,410	2.43
Dr Alan Heyworth	117,882	1.12
John Hough ²	1,041,656	9.88
Allen Sykes ³	410,603	3.89

Notes:

- 1 Dick Bilborough's interests include his interest in 29,410 Ordinary Shares held by Mrs J Bilborough.
- 2 John Hough's interests include 414,500 Ordinary Shares held in his capacity as one of the trustees of two trusts, the immediate beneficiaries of which are his children and grandchildren. In addition to the above, John Hough is a non-executive director of AHJ Investments Limited which prior to the Open Offer holds 611,833 Ordinary Shares (which represents a 5.80% holding in the Company).
- 3 Allen Sykes' interests include his interest in 56,200 Ordinary Shares held by Mrs Dorothy Jane Sykes EIS Account.

Prior to the Open Offer, on the information available to them the Directors consider that no person or group of persons exercise control over the Company.

- (f) Other than the acquisition of the Intellectual Property Rights from Dr Alan Heyworth in connection with the Silo-Cages (see paragraph 5(b) below), no Director has or has had any direct or indirect interest in any asset which has been acquired or disposed of, by, or leased to TEG since the date of its incorporation or which is proposed to be so acquired, disposed of or leased.
- (g) The following Directors have service contracts with the Company on the following basic terms:
- (i) Dick Bilborough is employed as Chief Executive at a present salary of £63,000 per annum terminable on six months notice by the Company at any time or by six months notice by the employee expiring on or after 31 October 2002.
 - (ii) Dr Alan Heyworth is employed as Technical Director at a present salary of £38,745 per annum terminable on six months notice by the Company at any time or by six months notice by the employee expiring on or after 31 October 2003.

It is intended that remuneration, if any, of all Non-Executive Directors, will be discussed after the end of the first year of profitable trading.

Save as disclosed, there are no service agreements in existence between any of the Directors and the Company which cannot be determined by the Company without payment of compensation (other than statutory compensation) within one year.

- (h) Save as disclosed below and/or above at 2(e), no persons have a holding of 3% or more in the share capital of TEG prior to the Open Offer.

<i>Shareholder</i>	<i>Number of Ordinary Shares</i>	<i>% Holding prior to Open Offer</i>
NOIT	1,111,111	10.54
AHJ Investments Limited	611,833	5.8
Chase Nominees Limited	1,074,605	10.19

- (i) The aggregate remuneration paid and benefits in kind granted to the Directors was £190,336 for the year ended 31 October 2002 and is expected to be approximately £113,000 for the year ending 31 October 2003.
- (j) Each of the Directors has given an undertaking not to dispose of any of his Ordinary Shares in the capital of the Company prior to the date on which TEG first reports an operating profit before tax in its audited accounts.
- (k) Except as detailed above there is no contract or arrangement to which the Company is a party and in which any Director is materially interested and which is significant in relation to the business of TEG and no amount or benefit has been or is intended to be paid or given to any promoter of TEG.
- (l) The Company holds £1,000,000 of personal accident cover in respect of Dick Bilborough and

3. Memorandum and Articles of Association

(a) The Memorandum of Association contains (*inter alia*) provisions to the following effect:

- Liability — the liability of the members is limited.
- Objects — the Company's principal objects are set in Clause 4 of the Memorandum of Association and include the following:
 - to carry on the business of commercial composting and the disposal of organic waste;
 - to carry on any other trade or business whatever which can, in the opinion of the Board of Directors, be advantageously carried on in connection with or ancillary to any other businesses of the Company.

(b) The Articles of Association contain (*inter alia*) provisions to the following effect:

Share capital — the Company's share capital comprises ordinary shares of 5 pence each which rank *pari passu* in all respects and, in particular, have the following rights:

Voting — on a show of hands every member who (being an individual) is present in person or (being a corporation) is present by a duly authorised representative, not being himself a member entitled to vote, shall have one vote and on a poll every member shall have one vote for every Ordinary Share of which he is a holder.

Dividends — subject to the provisions of the Act, the Company may by ordinary resolution declare dividends in accordance with the respective rights of the member but no dividend shall exceed the amount recommended by the Directors. Subject to the Act, the Directors may pay interim dividends if it appears to them that they are justified by the profits of the Company available for distribution. All dividends shall be declared and paid according to the amounts paid up on the shares on which the dividend is paid and shall be apportioned and paid proportionately to the amounts paid up on the shares during any portion or portions of the period in respect of which the dividend is paid. Dividends will be paid net of the appropriate rate of tax withheld at source. A general meeting declaring a dividend may, upon the recommendation of the Directors, direct that it shall be satisfied wholly or partly by the distribution of assets. Dividends may be paid by cheque, sent by post to the registered address of the person entitled. No dividend shall bear interest. Any dividend which has remained unclaimed for 12 years from the date when it became due for payment shall, if the Directors so resolve, be forfeited.

Redemption — the shares are not subject to redemption, other than as provided in the Act.

Return of Capital — if the Company is wound up the liquidator may, with the sanction of an extraordinary resolution of the Company, divide the assets of the Company among the shareholders.

Variation of Rights — subject to the Act, all or any of the rights or privileges attached to any class of shares may be varied in such a manner (if any) as may be provided by such rights or in the absence of any such provision, either with the consent of the holders of at least three quarters of the nominal amount of the issued shares of that class or with the sanction of an extraordinary resolution passed at a separate meeting of the holders of the issued shares of the class, but not otherwise.

Transferability — the Directors may, in their absolute discretion, decline to register any transfer of any share which is not a fully paid share or of which the Company has a lien or in other limited circumstances. Subject to the foregoing, any member may transfer all or any of his shares by an instrument of transfer in any usual form or in other form which the Board may approve.

Borrowing Powers — the Directors may exercise all powers of the Company to borrow money without limit as to amount and upon such terms and in such manner as they think fit and subject (in case of any security convertible into shares) to Section 80 of the Act, to grant any mortgage, charge or standard security over its undertaking, property and uncalled capital or any part thereof and to issue debentures, debenture stock and other securities whether outright or as security for any debt, liability or obligation of the Company or of any third party.

4. Share Options

(a) *The Employee Share Option Scheme*

The Company has adopted an unapproved Company Share Option Scheme (the "Company Scheme"). The Company may not grant an option under the Scheme if, as a result, the number of shares issued or issuable in respect of all options granted under the Scheme and any other employee share option plan operated by the Company would, as a result of options or rights granted within the preceding ten year period, exceed 10% of the ordinary share capital of the Company. Under the

Company Scheme, options over 160,000 Ordinary Shares have been granted to Dick Bilborough with the subscription price of 35 pence per Ordinary Share and a further 140,000 Ordinary Shares with the subscription price of £1.30 per Ordinary Share. Under the terms and conditions of the Company Scheme, an Option Holder may exercise options in respect of any number of Ordinary Shares comprised in an option at any time within seven years of the date of grant.

(b) *The TEG Environmental Plc Company Share Option Plan*

In addition, the Company has established the TEG Environmental Plc Company Share Option Plan (the "Plan") which has been approved by the Inland Revenue under Schedule 9 to the Income and Corporation Taxes Act 1988. Under the Plan, options over 75,000 Ordinary Shares have been granted to Dr Alan Heyworth with a subscription price of 35 pence per Ordinary Share. Further options over 35,000 Ordinary Shares have been granted to Michael Cox at 85 pence per Ordinary Share; options over 25,000 Ordinary Shares to Richard Ensor at 85 pence per Ordinary Share; options over 12,000 Ordinary Shares to Fiona Maudsley at 85 pence per Ordinary Share and options over 9,500 Ordinary Shares to Carolyn Beeston at 85 pence per Ordinary Share. The future grant of any options to employees will be subject to performance targets set by the remuneration committee. The Plan is intended to motivate, retain and reward selected key employees who by their efforts are able to influence the performance and success of the Company's business.

The main features of the Plan are:

- Eligibility

All employees and full-time (i.e.: those working more than 25 hours per week) Directors are eligible to participate. No eligible employee is entitled to participate as of right. The selection of those eligible employees who are to participate is within the discretion of the Directors.

- Limit on number of shares

The Company may not grant an option under the Plan if, as a result, the number of shares issued or issuable in respect of all options granted under the Plan and any other employee share option plan operated by the Company would, as a result of options or rights granted within the preceding ten year period, exceed 10% of the ordinary share capital of the Company.

- Acquisition price

The price per Ordinary Share at which an option may be exercised under the Plan shall not be less than the greater of its nominal value and its market value on the day the invitation to apply for an option was issued.

- Time at which invitations may be issued

The Company may invite eligible employees to apply for an option at any time, subject to the OFEX code of best practice, but in any event no later than the tenth anniversary of the date that the Plan is approved by the Inland Revenue.

- Exercise of options

An option under the Plan cannot be exercised more than ten years after the date on which it was granted, nor can it normally be exercised less than three years after its grant. However, options may be exercised (whether the initial minimum period has expired or not) in the following circumstances:

- (i) the participant is deceased, in which case his personal representatives may exercise the option within one year after the date of death, failing which the option will lapse;
- (ii) the participant ceases to be employed by reason of injury, disability or retirement in which case a participant may exercise the option no later than six months from the date of such termination of employment, failing which the option will lapse;
- (iii) if the Company passes a resolution for voluntary winding up, any subsisting option may be exercised within six months after the date upon which the resolution is passed;
- (iv) if as a result of a general offer a third party obtains control of the Company, the option is exercisable for a period of six months after such control has been obtained, although with the consent of the acquiring company, the existing option may be replaced by a new

(c) *Enterprise Management Incentive Share Option Scheme*

In addition, the Company has established the TEG Environmental Plc Enterprise Management Incentive Share Option Scheme (the "EMI") under the provisions of Schedule 14 to the Finance Act 2000.

Under the EMI, options over 76,923 Ordinary Shares have been granted to Dick Bilborough, options over 56,731 Ordinary Shares have been granted to Dr Alan Heyworth, options over 54,038 Ordinary Shares have been granted to Mike Cox, options over 13,000 Ordinary Shares have been granted to Fiona Maudsley, options over 15,500 Ordinary Shares have been granted to Carolyn Beeston, options over 20,000 Ordinary Shares have been granted to Kevin Chandier and options over 76,923 have been granted to Alistair Troughton all at £1.30 per Ordinary Share. Further options have been granted over 25,000 Ordinary Shares to Nial Rees and over 25,000 Ordinary Shares to Wendy Hughes both at £1.15 per Ordinary Share.

The main features of the EMI are:

- **Eligibility**
All full-time employees and Directors (i.e. those working more than 25 hours per week) are eligible to participate. No eligible employee is entitled to participate as of right. The selection of those eligible employees who are to participate is within the discretion of the Directors.
- **Limit on number of shares**
The Company may not grant an option under the EMI if, as a result, the number of shares issued or issuable in respect of all options granted under the EMI and any other employee share option plan operated by the Company would, as a result of options or rights granted within the preceding ten year period, exceed 10% of the ordinary share capital of the Company.
- **Acquisition Price**
The price per Ordinary Share at which an option may be exercised under the EMI shall not be less than the greater of its nominal value and its market value on the day the invitation to apply for an option was issued.
- **Time at which invitations may be issued**
The Company may invite eligible employees to apply for an option at any time, subject to OFEX code of best practice.
- **Exercise of options**
An option under the EMI cannot be exercised more than ten years after the date on which it was granted. However, options may be exercised in the following circumstances:
 - (i) the participant is deceased, in which case his personal representatives may exercise the option within six months after the date of death, failing which the option will lapse;
 - (ii) the participant ceases to be employed by reason of injury, disability or retirement in which case a participant may exercise the option no later than six months from the date of such termination of employment, failing which the option will lapse;
 - (iii) if the Company gives notice to holders of shares of a resolution for voluntary winding up of the Company, any subsisting option may be exercised at any time before the commencement of the winding up;
 - (iv) if as a result of a general offer a third party obtains control of the Company, the option is exercisable for a period of forty days after such control has been obtained, although with the consent of the acquiring company, the existing option may be replaced by a new option over shares in the acquiring company or some other qualifying company for a period of six months after control is obtained.

If the participant is adjudicated bankrupt, the option will lapse immediately.

- (d) Under an Option Agreement dated 3 November 1998, the Company granted options to Matrix-Securities Limited over 75,250 Ordinary Shares at a price of £1.00 per share, expiring on the fifth anniversary of the date of that Option Agreement.

5. Material Contracts

The following contracts (being contracts otherwise than in the ordinary course of business) which have been entered into by the Company since incorporation are or may be considered to be material:

- (a) The executive service contracts referred to in 2(g) above.
- (b) The Transfer of Intellectual Property Rights dated 21 November 1995 between Dr Alan Heyworth and the Company whereby Dr Heyworth transferred all rights in TEG technology to the Company, in consideration for payments of £35,000 and a royalty of up to £140,000 based on profits.
- (c) A warranty agreement dated 27 September 1999 made between the Company, the Directors and Matrix-Securities Limited, under which the Company and the Directors have given certain warranties in respect of the Company and indemnities in respect of a rights issue to Matrix-Securities Limited.
- (d) A Waste Management Licence (ref C00018) granted to the Company by the Environment Agency authorising the Company to keep and treat "Controlled Waste" dated 20 May 1998.
- (e) A Waste Management Licence (ref EAWML/54315) granted to the Company by the Environment Agency authorising the Company to keep and treat "Controlled Waste" dated 1 November 2001.
- (f) Planning consent at Sherdiey Farm, Hutton, Preston.
- (g) the Kildare Contract, a summary of which is set out below.

By a letter from Jones Environmental (IRL) Ltd. ("JEL") to the Company dated 24 October 2001, JEL confirmed that it had been awarded a contract by Kildare County Council ("KCC"), following receipt of a tender document produced by agents to KCC (the "Tender Document"), to provide a composting plant at Brownstown, County Kildare. JEL confirmed that TEG was instructed to proceed with the detailed design of the plant and the manufacture of the silo-cages to meet KCC's specification set out in the Tender Document. The confirmation stated that an official priced order would be given to TEG upon approval of TEG's insurance. On 9 November 2001, JEL confirmed in writing the order number to TEG to design and build a 24 cage composting plant to handle 2000t/ds of minimum 20% dry solids at an agreed rate of £262 per tonne.

The terms of the Kildare Contract are not set out in a single written agreement. The contractual correspondence between JEL and TEG is limited in nature and there are a number of omissions which make the terms of the contract ambiguous. For example, there are no provisions setting out the circumstances in which either party may terminate the contract or whether there are financial liabilities arising on either party as a result of such termination. Furthermore, although TEG has confirmed to JEL that it will comply with the specifications set out in the Tender Document, there are a number of contradictions between these obligations and those mentioned in correspondence between JEL and TEG. For instance, the written confirmation of the order from JEL specifies a minimum of 20% dry solids while the Tender Document refers to a range of between 18 – 30% dry solids. Consequently, a number of the terms of the Kildare Contract are ambiguous and would need to be implied or interpreted by the parties or, ultimately, the court.

6. Property

The Company does not own any freehold property. The Company occupies offices at the business address set out in this document pursuant to a licence granted by South Ribble Office Developments Limited for a period ending on 15 February 2005 at a licence fee of £2,262 per month.

7. General

- (a) The Company's principal activity is to provide a solution to the environmental problem of organic wastes.
- (b) The following are the minimum amounts which, in the opinion of the Directors, must be raised under the Open Offer to provide the sums required in respect of the matters set out below:
 - (i) the purchase price of any property purchased, or to be purchased, which is to be defrayed in whole or in part out of the Open Offer Proceeds, £nil
 - (ii) any preliminary expenses payable by TEG and any commission is payable to any person in consideration of his agreeing to subscribe for, or of his procuring or agreeing to procure subscriptions for, any share in TEG, £nil
 - (iii) the repayment of any money borrowed by TEG in respect of any of the foregoing matters, £nil; and

- (c) Save as disclosed in Part I and Part II of this document, the Company is not engaged in any litigation or arbitration and, so far as the Directors are aware, has no litigation or claim pending or threatened against it which has, has had or may have a significant effect on the Company's financial position.
- (d) Ernst & Young resigned as auditors of the Company on 18 August 1999 and, in accordance with s.394(1) of the Act, confirmed that there were no circumstances connected with their resignation which they considered should be brought to the attention of the members or creditors of the Company.
- (e) Moore and Smalley were appointed auditors of the Company on 17 September 1999 and have given and not withdrawn their written consent to the issue of this document with inclusion therein of their name and their report set out in Part IV and references thereto in the form and context in which they are included.
- (f) TEG has no subsidiaries.
- (g) TEG's accounting reference date is 31 October in each year.
- (h) No financial information contained in this document is intended by the Company to represent or constitute a forecast of profits by TEG nor to constitute publication of accounts by it.
- (i) The estimated costs of the Open Offer, assuming full subscription, including accountancy and legal fees and the costs of printing and despatching this document is £50,000 (inclusive of VAT).
- (j) No underwriter or paying agents are involved with the Open Offer. The Company reserves the right to pay commission of up to 3% to authorised intermediaries who introduce investors. Any such amounts have not been included in estimating the expenses of the Open Offer.
- (k) No payments have been made to promoters in the two years preceding the date of this document or fees or any benefit provided to any other persons in the last year (excluding trade suppliers and professional advisers disclosed in this document) in the sum of £10,000 or more in cash or kind.
- (l) The Issue Price represents a premium of 85 pence over the nominal value of 5p per Ordinary Share.
- (m) Save as disclosed in Parts I and II of this document, there has been no significant change in the financial or trading position of the Company since 31 October 2002, the end of the period for which the last audited accounts were prepared.

Dated 19 November 2002