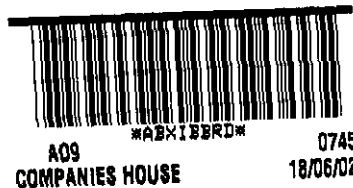


TEG ENVIRONMENTAL PLC

DIRECTORS' REPORT AND ACCOUNTS

FOR THE YEAR ENDED

31 OCTOBER 2001



TEG ENVIRONMENTAL PLC

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TEG ENVIRONMENTAL PLC

COMPANY INFORMATION

Directors

A Sykes (Chairman)
J L Hough (Deputy Chairman)
R C Bilborough
Dr A Heyworth
M Cox

Secretary

M Cox

Company Number

3109613

Registered Office

Crescent House
Sandy Lane
Leyland
Lancashire
PR25 2EB

Auditors

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

Solicitors

Sinclair Roche & Temperley
Royex House
5 Aldermanbury Square
London
EC2V 7LE

Bankers

HSBC
140 Leadenhall Street
London
EC3V 4PS

TEG ENVIRONMENTAL PLC

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 OCTOBER 2001

The directors present their report together with the audited accounts for the company for the year ended 31 October 2001.

Principal Activities and Review of Business

The company secured its first contract in October 2001 for a 24 Silo Cage plant which is in production and on target to be commissioned and operational in April 2002. It is to process sewage sludge for a local authority in Eire. The company is in various stages of negotiation for other contracts with businesses in the water industry and other sectors.

The company's principal activity continues to be that of the design, development and production of the Silo Cage plant for the thermophilic composting of organic wastes. As part of the marketing strategy the company produces, through its own plant, EnVigro, an organic fertiliser which demonstrates the efficiency of the TEG process. The sales generated during the year were attributable to EnVigro.

The outbreak of foot and mouth disease adversely affected the sales growth of EnVigro and delayed progress in negotiations with all industry sectors where their waste product is applied to land. Government reviews of legislation and regulations relating to land application are being undertaken and it is anticipated that higher standards of treatment for such recycling will advance and widen TEG's market opportunity.

The company now utilises its production plant near Preston, which became operational in September 2000, as its demonstration and trials facility as well as for the production of EnVigro. Planning consent for trials of a wider range of organic wastes has been secured. The plant has had many prospective clients as visitors and continues to receive requests from interested parties.

Issue of Share Capital

During the year the company completed a fundraising which was substantially oversubscribed and issued 1,443,241 ordinary shares of 5 pence each for a total consideration of £1,804,051 to provide the company with working capital. A placing to fund contracts and increase working capital is planned, prior to an application for a listing on the AIM market, possibly in 2003.

Results and Dividends

The results for the year are set out in the profit and loss account on page 7. The directors consider the loss achieved on ordinary activities to be satisfactory, given the progress made in the year as the company moves from the development stage into increased marketing and production.

The successful share issue during the year has provided sufficient working capital to enable the company to continue its activities. In addition, the directors are confident that the forthcoming placing will provide additional equity funding to the company, and consequently the directors confirm that it is appropriate to prepare accounts on a going concern basis.

Fixed Assets

Changes to fixed assets during the year are disclosed in notes 9 and 10 to the accounts.

TEG ENVIRONMENTAL PLC

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 OCTOBER 2001

Directors

The directors who served during the year and their beneficial interests in the share capital of the company were as follows:

	Ordinary Shares of 5 pence each	
	2001	2000
A Sykes (Chairman)	410,603	400,603
J L Hough (Deputy Chairman)	623,156	585,156
J L Hough (as Trustee)	389,500	357,500
R C Bilborough	256,410	256,410
Dr A Heyworth	117,882	117,882
M Cox	-	-

In addition to the above, Mr J L Hough is a non-executive director of AHJ Investments Limited which holds 411,833 ordinary shares.

The company has adopted an unapproved 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 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 ordinary shares have been granted to R C Bilborough as set out below.

Date Granted	Exercise Price	Number of Shares	First Date of Exercise	Expiry Date
5.9.1997	£0.35	160,000	6.9.2000	5.9.2007
1.5.2001	£1.30	140,000	2.4.2005	1.5.2011

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 ordinary shares have been granted to several directors as set out below. These options may be exercised at any time between the dates given below. The future grant of any options to directors 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.

Director	Date Granted	Exercise Price	Number of Shares	First Date of Exercise	Expiry Date
M Cox	19.11.1999	£0.85	35,000	30.11.2002	29.11.2009
Dr A Heyworth	5.9.1997	£0.35	75,000	6.9.2001	5.9.2007

In addition to the above schemes, an Enterprise Management Incentive Share Option Scheme was established on 27 April 2001, granted under the provisions of Section 62 and Schedule 14 of the Finance Act 2000.

TEG ENVIRONMENTAL PLC

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 OCTOBER 2001

The aggregate market value of shares in the company in respect of which options are granted will not exceed £1,500,000 and individuals may not hold unexercised options whose market value exceeds £100,000. Options under this scheme have been granted as below.

Director	Date Granted	Exercise Price	Number of Shares	First Date of Exercise	Expiry Date
R C Bilborough	1.5.2001	£1.30	76,923	2.5.2004	1.5.2011
Dr A Heyworth	1.5.2001	£1.30	56,731	2.5.2004	1.5.2011
M Cox	1.5.2001	£1.30	54,038	2.5.2004	1.5.2011

Creditor Payment Policy and Practice

It is the company's policy that payments to suppliers are made in accordance with the terms and conditions agreed between the company and its suppliers, providing that all trading terms and conditions have been complied with.

Directors' Responsibilities

Company law requires the directors to prepare accounts for each financial year which give a true and fair view of the state of the company's affairs and of the profit or loss for that year. In preparing these accounts the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the accounts; and
- prepare the accounts on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records which disclose, with reasonable accuracy at any time, the financial position of the company and to enable them to ensure that the accounts comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Auditors

Moore and Smalley have indicated their willingness to continue in office and a resolution for their reappointment will be placed before the Annual General Meeting.

This report was approved by the board on 5th April 2002 and signed on its behalf.

M Cox
Secretary



AUDITORS' REPORT TO THE SHAREHOLDERS

OF

TEG ENVIRONMENTAL PLC

We have audited the financial statements of TEG Environmental plc for the year ended 31 October 2001 which comprise the Profit and Loss Account, the Balance Sheet and the related notes. These financial statements have been prepared under the historical cost convention and the accounting policies set out therein. These financial statements have been prepared under the historical cost convention and the accounting policies set out therein.

Respective Responsibilities of Directors and Auditors

As described in the Statement of Directors' Responsibilities the company's directors are responsible for the preparation of financial statements in accordance with applicable law and United Kingdom Accounting Standards.

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

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

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatement within it.

Basis of Audit Opinion

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

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

Fundamental Uncertainty

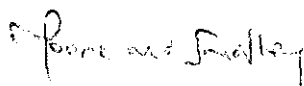
The financial statements have been prepared on the going concern basis, the validity of which depends upon the availability of additional finance. As disclosed in note 22 to these accounts, these funds should be provided via the forthcoming share placing.

The Minimum Proceeds receivable by the company under the Placing are £750,000 net of issue expenses. In the directors' opinion, these funds will provide sufficient working capital to fund the Company's operations for the next 12 months. Projected operations include the completion of the funding of the Kildare contract, and a cost reduction programme to reduce overhead expenditure. It is also assumed that the sale contract recently received by the Company is self financing. If the company receives sales orders in addition to those mentioned, it is likely that further fund raising will be required.

Our opinion is not qualified in this respect.

Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs as at 31 October 2001 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



Moore and Smalley
Chartered Accountants
and Registered Auditors
Preston

5 April 2002

TEG ENVIRONMENTAL PLC**PROFIT AND LOSS ACCOUNT****FOR THE YEAR ENDED 31 OCTOBER 2001**

	Notes	2001 £	2000 £
Turnover	2	55,834	84,626
Cost of sales		(83,142)	(76,294)
Gross Loss/Profit		(27,308)	8,332
Selling and administration expenses		(1,084,650)	(922,372)
Operating Loss	3	(1,111,958)	(914,040)
Interest receivable	5	40,233	44,066
Interest payable and similar charges	6	(5,196)	(7,332)
Loss on Ordinary Activities before Taxation		(1,076,921)	(877,306)
Tax on loss on ordinary activities	7	-	-
Loss for the Financial Year	19	(1,076,921)	(877,306)
 Earnings per share		<u>(14p)</u>	<u>(13p)</u>
 Diluted EPS		<u>(14p)</u>	<u>(13p)</u>

Continuing Operations

None of the company's activities were acquired or discontinued during the above two financial years.

Total Recognised Gains and Losses

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

TEG ENVIRONMENTAL PLC

BALANCE SHEET

AS AT 31 OCTOBER 2001

	Notes	2001 £	2000 £
Fixed Assets			
Intangible assets	9	16,644	20,640
Tangible assets	10	365,493	243,136
		<u>382,137</u>	<u>263,776</u>
Current Assets			
Stocks	11	3,988	8,341
Debtors	12	52,907	73,813
Cash at bank and in hand		1,022,790	336,803
		<u>1,079,685</u>	<u>418,957</u>
Creditors: Amounts Falling Due Within One Year	13	202,654	92,439
Net Current Assets		<u>877,031</u>	<u>326,518</u>
Total Assets Less Current Liabilities		<u>1,259,168</u>	<u>590,294</u>
Creditors: Amounts Falling Due After More Than One Year	14	(72,820)	(24,963)
		<u>1,186,348</u>	<u>565,331</u>
Capital and Reserves			
Share capital - Equity	18	400,941	328,779
Share premium account	19	4,816,151	3,190,375
Profit and loss account	19	(4,030,744)	(2,953,823)
Shareholders' Funds	20	<u>1,186,348</u>	<u>565,331</u>

These accounts were approved by the board on 5th April 2002 and signed on its behalf.

Director RC Bilborough

Director M Cox

TEG ENVIRONMENTAL PLC**CASH FLOW STATEMENT****FOR THE YEAR ENDED 31 OCTOBER 2001**

	Notes	2001 £	2000 £
CASH FLOW STATEMENT			
Net Cash Outflow from Operating Activities	24	(888,023)	(731,486)
Returns on Investments and Servicing of Finance	25	35,037	36,734
Capital Expenditure and Financial Investment	25	(239,590)	(263,288)
Cash Outflow Before use of Liquid Resources and Financing		(1,092,576)	(958,040)
Financing	25	1,778,563	1,253,424
Increase in Cash		<u>685,987</u>	<u>295,384</u>
Reconciliation of Net Cash Flow to Movement in Net Debt			
Increase in Cash in the Year		685,987	295,384
Increase/Decrease in loans	26	(80,625)	23,185
Increase in Net Funds	26	605,362	318,569
Net Funds at 1 November 2000		289,192	(29,377)
Net Funds at 31 October 2001	26	<u>894,554</u>	<u>289,192</u>

TEG ENVIRONMENTAL PLC

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 31 OCTOBER 2001

1 Accounting Policies

Basis of preparation

The accounts have been prepared on a going concern basis on the grounds that the successful equity fund raising during the year provided the company with sufficient working capital for the foreseeable future.

Accounting convention

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

Depreciation

Depreciation is provided on all tangible fixed assets, at rates calculated to write off the cost of each asset over its expected useful life, as follows:

Plant and machinery	25% reducing balance
Fixtures and fittings	25% reducing balance
Other Fixed Assets	25% reducing balance

Amortisation

The intangible fixed assets represent Intellectual Property Rights. Amortisation is provided to write off the assets over 10 years on a straight line basis.

Stocks

Stocks are stated at the lower of cost and net realisable value.

Deferred Taxation

Provision is made, under the liability method, to take account of timing differences between the treatment of certain items for accounts purposes and their treatment for tax purposes. Tax deferred or accelerated is accounted for in respect of all material timing differences to the extent that it is considered that a net liability may arise.

Leasing commitments

Assets acquired under hire purchase or finance lease agreements are capitalised as fixed assets and depreciated over their useful life. The related liability is included within the hire purchase creditor. Interest is charged to the profit and loss account on a straight line basis.

Rentals paid under operating leases are charged to income on a straight line basis over the lease term.

Development costs

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

TEG ENVIRONMENTAL PLC

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 31 OCTOBER 2001

2 Turnover

The geographical analysis of turnover is as follows:

	2001	2000
	£	£
UK	55,834	84,626
	<u>55,834</u>	<u>84,626</u>

3 Operating Loss

The operating loss is stated after charging or crediting:

	2001	2000
	£	£
Depreciation of tangible fixed assets:		
-owned assets	90,084	200,033
-assets held under finance leases and hire purchase	29,629	1,674
Amortisation of intangible fixed assets	3,996	3,996
Profit on disposal of fixed assets	(2,480)	1,398
Operating leases - plant and equipment	22,514	29,173
Auditors' remuneration	4,000	3,750
	<u>4,000</u>	<u>3,750</u>

4 Directors and Employees

Staff costs, including directors' remuneration, were as follows:

	2001	2000
	£	£
Wages and salaries	350,979	259,039
Social security costs	36,924	25,197
	<u>387,903</u>	<u>284,236</u>

The average weekly number of employees, including directors, during the year was as follows:

	2001	2000
	Number	Number
Administration	13	11

Directors' emoluments

	2001	2000
	£	£
Aggregate emoluments	<u>172,202</u>	<u>139,183</u>

TEG ENVIRONMENTAL PLC

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 31 OCTOBER 2001

5	Interest Receivable	2001	2000
		£	£
	Bank interest receivable	<u>40,233</u>	<u>44,066</u>
6	Interest Payable and Similar Charges	2001	2000
		£	£
	Hire purchase agreements	794	524
	Bank loans and overdraft	<u>4,402</u>	<u>6,808</u>
		<u>5,196</u>	<u>7,332</u>
7	Taxation		
	No tax is payable due to the trading losses incurred in the period.		
8	Earnings Per Share		
		Loss (numerator)	Shares (denominator)
			Per-share amount pence
	Loss for financial year	(1,076,921)	
	Basic EPS		
	Loss attributable to ordinary shareholders (Based on weighted average number of shares)	(1,076,921)	7,454,185
			(14p)
	Effect of dilutive potential ordinary shares		
	Options		456,500
	Diluted EPS		
	Loss attributable to ordinary shareholders + assumed conversions	(1,076,921)	7,910,685
			(14p)

TEG ENVIRONMENTAL PLC

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 31 OCTOBER 2001

9 Intangible Fixed Assets

Cost	£
At 1 November 2000 and 31 October 2001	40,000
Amortisation	
At 1 November 2000	19,360
Provided during the year	3,996
At 31 October 2001	23,356
Net Book Value	
At 31 October 2001	16,644
<i>At 31 October 2000</i>	<i>20,640</i>

This represents the purchase of the Intellectual Property Rights of both an innovative system of accelerated composting for £35,000 from Dr A Heyworth and design of the Twin Cage Composter for £5,000 from A Rabett.

10 Tangible Fixed Assets

	Plant and Machinery	Fixtures and Fittings	Silo-Cage System	Total
Cost	£	£	£	£
At 1 November 2000	275,865	37,167	248,367	561,399
Additions	93,182	38,050	115,858	247,090
Disposals	(11,900)	-	-	(11,900)
At 31 October 2001	357,147	75,217	364,225	796,589
Depreciation				
At 1 November 2000	235,220	20,975	62,068	318,263
Charge for the year	30,486	13,561	75,666	119,713
Disposals	(6,880)	-	-	(6,880)
At 31 October 2001	258,826	34,536	137,734	431,096
Net Book Value				
At 31 October 2001	98,321	40,681	226,491	365,493
<i>At 31 October 2000</i>	<i>40,645</i>	<i>16,192</i>	<i>186,299</i>	<i>243,136</i>

TEG ENVIRONMENTAL PLC

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 31 OCTOBER 2001

Included within plant and machinery are assets held under hire purchase agreements. The net book value of these assets totals £88,886 (2000: £5,020) and the depreciation charged during the year was £29,629 (2000: £1,674).

11	Stocks	2001	2000
		£	£
	Raw materials and consumables	2,638	5,040
	Work in progress	900	910
	Finished goods	450	2,391
		<u>3,988</u>	<u>8,341</u>
12	Debtors	2001	2000
		£	£
	Trade debtors	11,405	9,589
	Other debtors	25,160	43,979
	Prepayments and accrued income	16,342	20,245
		<u>52,907</u>	<u>73,813</u>
13	Creditors: Amounts Falling Due Within One Year	2001	2000
		£	£
	Bank loan (Note 15)	20,004	20,004
	Obligations under hire purchase and finance leases (Note 17)	35,412	2,644
	Trade creditors	83,210	27,373
	Other taxes and social security	15,552	8,910
	Accruals and deferred income	48,476	33,508
		<u>202,654</u>	<u>92,439</u>
14	Creditors: Amounts Falling Due After More Than One Year	2001	2000
		£	£
	Bank loans and overdrafts (Note 15)	4,951	24,963
	Obligations under hire purchase and finance leases (Note 17)	67,869	-
		<u>72,820</u>	<u>24,963</u>

TEG ENVIRONMENTAL PLC

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 31 OCTOBER 2001

15	Loans and Borrowings	2001	2000
		£	£
	<i>Analysis of Loans</i>		
	Bank loan	24,955	44,967
		<u>24,955</u>	<u>44,967</u>
	<i>Maturity of debt</i>		
	In one year or less, or on demand	20,004	20,004
	In more than one year, but not more than two years	4,951	20,020
	In more than two years, but not more than five years	-	4,943
		<u>24,955</u>	<u>44,967</u>
<p>In February 1997, the company drew down a £100,000 bank loan under the Small Firms Loan Guarantee Scheme, under which the loan is 70% guaranteed by the DTI. Interest is fixed at 10.76% for 5 years and 3.5% over base thereafter. The loan is being repaid by monthly instalments of £1,667. The Company's Bankers hold a fixed charge over the Book Debts of the company and a floating charge over all other assets.</p>			
16	Analysis of changes in loans during current and previous years:	2001	2000
		£	£
	Balance at 1 November	44,967	64,979
	Repaid in year	(20,012)	(20,012)
		<u>24,955</u>	<u>44,967</u>
17	Obligations Under Hire Purchase and Finance Leases	2001	2000
		£	£
	Obligations under hire purchase contracts and finance leases are analysed between obligations due:		
	In the next year	35,412	2,644
	Non-current obligations	67,869	-
		<u>103,281</u>	<u>2,644</u>

TEG ENVIRONMENTAL PLC

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 31 OCTOBER 2001

18	Share Capital	2001 £	2000 £
	Authorised Equity Shares		
	100,000,000 Ordinary shares of £0.05 each	<u>5,000,000</u>	<u>5,000,000</u>
	Allotted		
	Ordinary shares of 5 pence each	<u>400,941</u>	<u>328,779</u>

During the year, the company issued 1,443,241 Ordinary Shares of 5 pence each, with an aggregate nominal value of £72,162. The shares were issued fully paid for cash of £1,804,051 in order to help finance the working capital requirements of the business.

In accordance with the terms of the Company share option schemes, options granted and remaining in issue are as follows:

Date Granted	Exercise Price	First Date of Exercise	Expiry Date	Number of Shares
05/09/97	£0.35	06/09/00	05/09/07	235,000
29/11/99	£0.85	30/11/02	29/11/09	81,500
01/05/01	£1.30	02/05/06	01/05/11	376,192
24/07/01	£1.30	25/07/06	24/07/11	76,923

19	Reserves	Share Premium Account £	Profit and Loss Account £
	At 1 November 1999	1,993,007	(2,076,517)
	Loss for the year	-	(877,306)
	Premium on allotment	1,197,368	-
	At 1 November 2000	3,190,375	(2,953,823)
	Loss for the year	-	(1,076,921)
	Premium on allotment	1,625,776	-
	At 31 October 2001	<u>4,816,151</u>	<u>(4,030,744)</u>

The premium on allotment is stated after deducting costs of £106,113 in respect of the share issue.

TEG ENVIRONMENTAL PLC

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 31 OCTOBER 2001

20 Reconciliation of Movement in Shareholders' Funds

	2001	2000
	£	£
Loss for the financial year	(1,076,921)	(877,306)
Issue of share capital	1,697,938	1,276,609
Increase in the shareholders' funds	621,017	399,303
Opening shareholders' funds	565,331	166,028
Closing shareholders' funds	1,186,348	565,331

21 Operating Lease Commitments

At 31 October 2001 the company had annual commitments under non-cancellable operating leases as set out below:

	Land and Buildings		Other	
	2001	2000	2001	2000
	£	£	£	£
Operating leases which expire:				
Within one year	-	18,540	5,265	6,240
Between two and five years	23,540	-	16,652	21,698
	23,540	18,540	21,917	27,938

22 Future Operations

Whilst in the early phase of operations, the company continues to generate losses. However, construction is now underway for the company's first contract in Kildare, Ireland, and the Directors are confident that additional contracts should follow in the foreseeable future. At 31 October 2001, the company had significant cash reserves, as disclosed in these accounts. These funds have financed the Company's working capital requirements since the year end and further fund-raising, in the form of a Placing Issue is now underway. Assuming that this will be successful, the Company will have sufficient funds to finance projected activities for at least the next twelve months. Accordingly, the Directors have prepared these accounts on a going concern basis.

23 Contingent Liabilities

Under the terms of the acquisition of the Intellectual Property Rights to the innovative system of accelerated composting from Dr A 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.

TEG ENVIRONMENTAL PLC

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 31 OCTOBER 2001

24 Reconciliation of Operating Loss to Net Cash Outflow From Operating Activities

	2001 £	2000 £
Operating loss	(1,111,958)	(914,040)
Depreciation charges	119,713	201,707
Amortisation of intangible fixed assets	3,996	3,996
Profit/Loss on sale of fixed assets	(2,480)	1,398
Decrease/Increase in stocks	4,353	(1,429)
Decrease in debtors	20,906	26,599
Increase/Decrease in other creditors	77,447	(49,717)
	<u>(888,023)</u>	<u>(731,486)</u>

25 Gross Cash Flows

Returns on Investments and Servicing of Finance

	2001 £	2000 £
Interest received	40,233	44,066
Interest paid	(4,402)	(6,808)
Interest element of finance lease rentals payment	(794)	(524)
	<u>35,037</u>	<u>36,734</u>

Capital Expenditure and Financial Investment

Payments to acquire tangible fixed assets	(247,090)	(264,088)
Proceeds from the sale of tangible fixed assets	7,500	800
	<u>(239,590)</u>	<u>(263,288)</u>

Financing

Issue of ordinary share capital	1,697,938	1,276,609
Decrease in other bank loans due within one year	-	-
Decrease in bank loans due in more than one year	(20,012)	(20,012)
Capital element of finance lease rentals payments	100,637	(3,173)
	<u>1,778,563</u>	<u>1,253,424</u>

TEG ENVIRONMENTAL PLC

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 31 OCTOBER 2001

26 Analysis of Changes in Net Funds

	2000	Cash flows	2001
	£	£	£
Cash at bank and in hand	336,803	685,987	1,022,790
Debt due within one year	(20,004)	-	(20,004)
Debt due after one year	(24,963)	20,012	(4,951)
Finance leases	(2,644)	(100,637)	(103,281)
	(47,611)	(80,625)	(128,236)
	289,192	605,362	894,554