

TEG ENVIRONMENTAL PLC

DIRECTORS' REPORT AND ACCOUNTS FOR THE YEAR ENDED 31 OCTOBER 1999



TEG ENVIRONMENTAL PLC

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TEG ENVIRONMENTAL PLC

COMPANY INFORMATION

Directors	A Sykes (Chairman) R C Bilborough Dr A Heyworth J L Hough (Deputy Chairman) M Cox (Appointed 17 December 1999)
Secretary	M Cox
Company Number	3109613
Registered Office	Crescent House Sandy Lane Leyland Lancashire PR5 1EB
Auditors	Moore and Smalley Richard House Winckley Square Preston PR1 3HP
Solicitors	Sinclair Roche & Temperley Royex House 5 Aldermanbury Square London EC2V 7LE
Bankers	Midland Bank plc 140 Leadenhall Street London EC3V 4PS

TEG ENVIRONMENTAL PLC

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 OCTOBER 1999

The directors present their report and accounts for the year ended 31 October 1999.

Principal Activities and Review of Business

The company's principal activity continued to be that of design, development and production of silos, plant and equipment for composting organic waste. As part of this activity, the company produces EnVigro, an organic fertiliser. The sales generated during the year were attributable to EnVigro.

During the year the company issued 752,500 Ordinary Shares of 5 pence each for a total consideration of £752,500 to provide the company with working capital.

Results and Dividends

The results for the year are set out in the profit and loss account on page 6.

The directors consider the loss achieved on ordinary activities before taxation to be satisfactory, given that the *principal product is still in the development stage*.

The directors consider the state of the company's affairs to be satisfactory.

Future Developments

Subsequent to the year end the company has raised additional funds of £1,216,608, after issue costs of £70,489, through a new issue of shares.

Following the early stages of development of the company and its products, the directors are now actively pursuing orders for business during the early part of 2000.

Fixed Assets

Changes to fixed assets during the year are disclosed in notes 7 and 8 to the accounts.

TEG ENVIRONMENTAL PLC

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 OCTOBER 1999

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	
	31 October 1999	1 November 1998
A Sykes (Chairman)	370,403	348,403
R C Bilborough	227,000	227,000
Dr A Heyworth	112,000	112,000
J L Hough (Deputy Chairman)	534,156	476,578
A P Leslie	215,000	215,000

On 21 September 1999, A P Leslie resigned as a director.

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 160,000 Ordinary Shares have been granted to R C Bilborough with a subscription price of 35 pence 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 grant.

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 A Heyworth with a subscription price of 35 pence per Ordinary Share. 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.

Year 2000

The directors do not believe that the Year 2000 problem will have a significant effect on the company. The costs expected to be incurred in ensuring Year 2000 compliance are not expected to be significant.

Euro

The directors do not expect the introduction of the Euro to have a significant impact on the company.

TEG ENVIRONMENTAL PLC

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 OCTOBER 1999

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;

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 & 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 21 February 2000, and signed on its behalf.



M Cox, Secretary
21 February 2000

AUDITORS' REPORT TO THE SHAREHOLDERS OF TEG ENVIRONMENTAL PLC

We have audited the accounts on pages 6 to 16 which have been prepared under the historical cost convention and the accounting policies set out on page 9.

Respective Responsibilities of Directors and Auditors

As described on page 3 the company's directors are responsible for the preparation of the accounts. It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion to you.

Basis of Opinion

We conducted our audit in accordance with 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 accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts, 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 accounts 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 accounts.

Opinion

In our opinion the accounts give a true and fair view of the state of the company's affairs as at 31 October 1999 and of its loss and cashflow for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Moore and Smalley

Moore and Smalley
Chartered Accountants
and Registered Auditors
Preston
Date: 24 March 2000

TEG ENVIRONMENTAL PLC

PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 31 OCTOBER 1999

	Notes	1999 £	1998 £
Turnover	2	94,204	<i>35,873</i>
Cost of sales		(85,014)	<i>(47,073)</i>
Gross Profit/Loss		9,190	<i>(11,200)</i>
Selling and administration expenses		(771,732)	<i>(704,351)</i>
Operating Loss	3	(762,542)	<i>(715,551)</i>
Interest receivable		17,195	<i>11,719</i>
Interest payable and similar charges	5	(9,136)	<i>(10,610)</i>
Loss for the Financial Year	18	(754,483)	<i>(714,442)</i>

Continuing Operations

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

Statement of Recognised Gains and Losses

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

TEG ENVIRONMENTAL PLC

BALANCE SHEET

AS AT 31 OCTOBER 1999

	Notes	1999	1998
		£	£
Fixed Assets			
Intangible assets	8	24,636	28,668
Tangible assets	9	182,953	129,093
		<u>207,589</u>	<u>157,761</u>
Current Assets			
Stocks	10	6,912	4,291
Debtors	11	100,412	79,332
Cash at bank and in hand		41,419	218,559
		<u>148,743</u>	<u>302,182</u>
Creditors: Amounts Falling Due Within One Year	12	142,685	100,016
Net Current Assets		<u>6,058</u>	<u>202,166</u>
Total Assets Less Current Liabilities		<u>213,647</u>	<u>359,927</u>
Creditors: Amounts Falling Due After More Than One Year	13	(47,619)	(70,805)
		<u>166,028</u>	<u>289,122</u>
Capital and Reserves			
Share Capital - Equity	17	249,538	211,913
Share Premium Account	18	1,993,007	1,399,243
Profit and loss account	18	(2,076,517)	(1,322,034)
Shareholders' Funds	19	<u>166,028</u>	<u>289,122</u>

These financial statements were approved by the board on 21 February 2000 and signed on its behalf.

Director RC Bilborough

Director M Cox

TEG ENVIRONMENTAL PLC

CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 OCTOBER 1999

	Notes	1999 £	1998 £
CASH FLOW STATEMENT			
Net Cash Outflow from Operating Activities	23	(688,749)	(679,852)
Returns on Investments and Servicing of Finance	24	8,059	1,109
Capital Expenditure	24	(104,653)	(22,364)
Financing	24	608,203	759,123
Decrease in Cash		<u>(177,140)</u>	<u>58,016</u>
Reconciliation of Net Cash Flow to Movement in Net Debt			
Decrease in Cash in the Year		(177,140)	58,016
Cash outflow from decrease in net debt and lease financing	25	23,186	17,918
New finance leases	25	-	(11,900)
Decrease in Net Debt		<u>(153,954)</u>	<u>64,034</u>
Net Debt at 1 November 1998		<u>124,577</u>	<u>60,543</u>
Net Funds at 31 October 1999	25	<u>(29,377)</u>	<u>124,577</u>

TEG ENVIRONMENTAL PLC

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 31 OCTOBER 1999

1 Accounting Policies

Basis of preparation

The accounts have been prepared on a going concern basis on the grounds that after the year end the company obtained a further £1,287,097 of funding, before issue costs, via a rights issue. The directors believe that funds raised as a result of this placing are sufficient to enable the company to continue as a going concern 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

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.

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.

2 Turnover

The geographical analysis of turnover is as follows:

	1999 £	1998 £
Middle East	10,290	-
UK	83,914	35,873
	<u>94,204</u>	<u>35,873</u>

TEG ENVIRONMENTAL PLC

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 31 OCTOBER 1999

3 Operating Loss

The operating loss is arrived at after charging or crediting:

	1999	1998
	£	£
Depreciation of owned assets	46,938	40,057
Depreciation of assets held under finance leases and hire purchase contracts	2,231	2,975
Amortisation	4,032	4,000
Loss on disposal of fixed assets	1,624	3,232
Hire of equipment - operating leases	5,395	13,907
Hire of equipment - operating leases - land and buildings	16,520	18,025
Auditors' remuneration - non audit work	24,840	28,218
Auditors' remuneration	3,750	4,250

4 Directors and Employees

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

	1999	1998
	£	£
Wages and salaries	275,826	205,596
Social security costs	21,413	21,692
	297,239	227,288

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

	1999	1998
	Number	Number
Administration	10	8

Directors' emoluments

	1999	1998
	£	£
Emoluments	78,750	88,344

5 Interest Payable and Similar Charges

	1999	1998
	£	£
Hire purchase agreements	524	87
Bank loans and overdraft	8,612	10,523
	9,136	10,610

6 Taxation

No tax is payable on the result for the period due to the availability of trading losses.

TEG ENVIRONMENTAL PLC

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 31 OCTOBER 1999

7	Earnings per Share	1999	1998
	Earnings per share (pence)	<u>(0.15)</u>	<u>(0.17)</u>

Calculation of Earnings Per Share is based on the profit/(loss) for the financial year divided by the number of issued ordinary shares at the year end

8 Intangible Fixed Assets

	£
Cost	
At 1 November 1998 and 31 October 1999	<u>40,000</u>
Amortisation	
At 1 November 1998	11,332
Provided during the year	<u>4,032</u>
At 31 October 1999	<u>15,364</u>
Net Book Values	
At 31 October 1999	<u>24,636</u>
<i>At 31 October 1998</i>	<u>28,668</u>

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.

TEG ENVIRONMENTAL PLC

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 31 OCTOBER 1999

9 Tangible Fixed Assets

	Plant and Machinery	Fixtures and Fittings	Total
Cost	£	£	£
At 1 November 1998	178,222	26,298	204,520
Additions	109,373	3,280	112,653
Disposals	(16,867)	-	(16,867)
At 31 October 1999	270,728	29,578	300,306
Depreciation			
At 1 November 1998	67,373	8,054	75,427
Charge for the year	44,418	4,751	49,169
Disposals	(7,243)	-	(7,243)
At 31 October 1999	104,548	12,805	117,353
Net Book Value			
At 31 October 1999	166,180	16,773	182,953
<i>At 31 October 1998</i>	<i>110,849</i>	<i>18,244</i>	<i>129,093</i>

Included within plant and machinery are assets held under hire purchase agreements. The net book value of these assets totals £6,694 and the depreciation charged during the year was £2,231.

10	Stocks	1999 £	1998 £
	Raw materials and consumables	3,647	1,636
	Work in progress	2,750	1,940
	Finished goods	515	715
		6,912	4,291
11	Debtors	1999 £	1998 £
	Trade debtors	22,078	9,755
	Other debtors	29,478	25,474
	Prepayments and accrued income	48,856	44,103
		100,412	79,332

TEG ENVIRONMENTAL PLC

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 31 OCTOBER 1999

12	Creditors: Amounts Falling Due Within One Year	1999	1998
		£	£
	Bank loan (Note 14)	20,004	20,004
	Hire purchase creditor	3,173	3,173
	Trade creditors	86,372	26,925
	Other taxes and social security costs	6,793	9,094
	Accruals	26,343	40,820
		<u>142,685</u>	<u>100,016</u>
13	Creditors: Amounts Falling Due After One Year	1999	1998
		£	£
	Bank loan	44,975	64,987
	Hire purchase creditor	2,644	5,818
		<u>47,619</u>	<u>70,805</u>
14	Loans	1999	1998
		£	£
	Amounts repayable:		
	In one year or less, or on demand	20,004	20,004
	Between one and two years	20,020	20,004
	Between two and five years	24,955	44,983
		<u>64,979</u>	<u>84,991</u>
<p>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 3.5% over base thereafter. Repayments commenced in February 1998 at £1,667 per month for five years. The Company's Bankers hold a fixed charge over Book Debts and a floating charge over all other assets.</p>			
15	Analysis of changes in loans during current and previous years:	1999	1998
		£	£
	Balance at 1 November	84,991	100,000
	Repaid in year	(20,012)	(15,009)
		<u>64,979</u>	<u>84,991</u>

TEG ENVIRONMENTAL PLC

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 31 OCTOBER 1999

16	Obligations Under Hire Purchase and Finance Leases	1999	1998
		£	£
	Obligations under finance leases and hire purchase contracts are analysed:		
	Current obligations	3,173	3,173
	Non-current obligations	2,644	5,818
		<u>5,817</u>	<u>8,991</u>
17	Share Capital	1999	1998
		£	£
	Authorised		
	Ordinary shares of 5 pence each	<u>5,000,000</u>	<u>5,000,000</u>
	Allotted		
	Ordinary shares of 5 pence each	<u>249,538</u>	<u>211,913</u>
<p>During the year, the company issued 752,500 Ordinary Shares of 5 pence each, with an aggregate nominal value of £37,625. The shares were issued fully paid for cash of £752,500, in order to help finance the working capital requirements of the business. The costs associated with this issue amounted to £121,111.</p>			
18	Reserves	Share Premium Account	Profit and Loss Account
		£	£
	At 1 November 1997	667,010	(607,592)
	Loss for the year	-	(714,442)
	Premium on allotment	732,233	-
	At 1 November 1998	1,399,243	(1,322,034)
	Loss for the year	-	(754,483)
	Premium on allotment	593,764	-
	At 31 October 1999	<u>1,993,007</u>	<u>(2,076,517)</u>
19	Reconciliation of Shareholders' Funds	1999	1998
		£	£
	Loss for the financial year	(754,483)	(714,442)
	Issue of share capital	631,389	777,041
	Decrease/Increase in the shareholders' funds	(123,094)	62,599
	Opening shareholders' funds	289,122	226,523
	Closing shareholders' funds	<u>166,028</u>	<u>289,122</u>

TEG ENVIRONMENTAL PLC

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 31 OCTOBER 1999

20 Post Balance Sheet Events

Since the year end the company has raised £1,216,608, after issue costs of £70,489, from a rights issue and offer for subscription.

21 Operating Lease Commitments

At 31 October 1999 the company had annual commitments under non-cancellable operating leases as set out below:

	Land and buildings		Other	
	1999	1998	1999	1998
	£	£	£	£
Operating leases which expire:				
Within one year	14,400	1,600	3,287	3,956
Between two and five years	-	-	4,117	13,493
	<u>14,400</u>	<u>1,600</u>	<u>7,404</u>	<u>17,449</u>

22 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.

23 Reconciliation of Operating Loss to Net Cash Inflow from Operating Activities

	1999	1998
	£	£
Operating loss	(762,542)	(715,551)
Depreciation charges	49,169	43,032
Amortisation	4,032	4,000
Loss on sale of fixed assets	1,624	3,232
Increase in stocks	(2,621)	11,481
Increase in debtors	(21,080)	(33,904)
Increase in other creditors	42,669	7,858
	<u>(688,749)</u>	<u>(679,852)</u>

TEG ENVIRONMENTAL PLC

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 31 OCTOBER 1999

24	Gross Cash Flows	1999 £	1998 £
	Returns on Investments and Servicing of Finance		
	Interest received	17,195	11,719
	Interest paid	(8,612)	(10,523)
	Interest element of finance lease rentals payment	(524)	(87)
	Net cash inflow for returns on investments and servicing of finance	<u>8,059</u>	<u>1,109</u>
	Capital Expenditure		
	Payments to acquire tangible fixed assets	(112,653)	(22,364)
	Proceeds from the sale of fixed assets	8,000	-
	Net cash outflow for capital expenditure	<u>(104,653)</u>	<u>(22,364)</u>
	Financing		
	Issue of ordinary share capital	631,389	777,041
	Decrease in other bank loans due within 1 year	-	-
	Decrease in other loans due in more than 1 Year	(20,012)	(15,009)
	Capital element of finance lease rentals payments	(3,174)	(2,909)
	Net cash inflow for financing	<u>608,203</u>	<u>759,123</u>

25	Analysis of Changes in Net Debt	1998 £	Cash flows £	1999 £
	Cash at bank and in hand	218,559	(177,140)	41,419
	Debt due within 1 year	(20,004)	-	(20,004)
	Debt due after 1 year	(64,987)	20,012	(44,975)
	Finance leases	(8,991)	3,174	(5,817)
		(93,982)	23,186	(70,796)
		<u>124,577</u>	<u>(153,954)</u>	<u>(29,377)</u>