

TEG GROUP PLC
Financial Statements
For the year ended 31 December 2007

Company number 3109613

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Company Information

Company registration number: 3109613

Registered office: Houston House
12 Sceptre Court
Sceptre Point
Preston
PR5 6AW

Directors: N S J Moore FCA (Chairman)
D W Benjafield
Dr A Heyworth
M Fishwick
T Willis

Secretary: T Willis

Bankers: Bank of Scotland Plc
36 Castle Street
Liverpool
L2 0NT

Solicitors: Jones Day LLP
21 Tudor Street
London
EC4Y 0DJ

Auditors. Grant Thornton UK LLP
Registered Auditors
Chartered Accountants
4 Hardman Square
Spinningfields
Manchester
M3 3EB

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Chairman's statement

I am pleased to present the Group's 2007 annual report. TEG has continued to make excellent progress and I am pleased to report a significant upturn in revenues in the latter half of 2007 during which TEG saw a healthy upturn in sales of waste services at its own facilities and was pleased to secure a further Local Authority sale to Gwynedd Council. Whilst disappointed with trading in 2007, during which there were a number of delays and disappointments beyond our control, the Group resumed its excellent progress in the second half of the year. The Board's confidence in TEG's growth prospects during 2008 and beyond has been reinforced by the performance of the business during the latter half of 2007 and early 2008 and the Board believes TEG remains on track to become the composting technology provider of choice. The change to Landfill Tax to be implemented in April 2008, an annual increase of £8 per tonne of waste, has resulted in a significant increase in demand in 2008.

In addition, I was delighted in Quarter 1 of the current year to announce the conclusion of the Advanced Works Order ("AWO") for the Greater Manchester Contract (9 January 2008) and the first development project under Verdia Horticulture Limited. It is also hugely encouraging that I can report TEG has secured waste contracts with several Local Authorities including Calderdale Council, Preston City Council and Oldham Council, as well as securing a significant contract with Veolia. With the expansion of contracts with Sita and Perth & Kinross Council, and a strong pipeline of near term sales, I am delighted to report that both Perth and Sherdley Farm are approaching full capacity.

As we announced during 2007, there were a number of factors that influenced trading performance. Whilst delighted with our success in Greater Manchester, the Group had to make significant increases to its technical, engineering and commercial resources, in preparation for the contract, yet without generating revenues owing to the delays in contract completion. Trading in the first half at Perth was disappointing and as the Group brought the Todmorden plant on line, it was impacted by the resultant start-up losses generated as the plant ramped up in capacity. Finally, the phasing of capital projects resulted in significantly lower capital sale revenue than in 2007.

However, 2007 full year turnover of £2,169,000 (2006 £3,559,000) against the 2007 interim figure of £536,045 reflects the significant growth in the second half of the year. Losses were £3,034,000 compared to £1,257,000 in the same period in 2006. No dividend is recommended.

These accounts are the first full year to be prepared in accordance with International Financial Reporting Standards (IFRS). The IFRS transition has been completed. Two adjustments to reported loss before tax for the year ended 31 December 2006 have been identified, those being:

- Reversal of amortisation of goodwill (£213k), and
- Capitalisation of interest on plant construction projects (£29k)

Greater Manchester Waste PFI Contract

The Advanced Works Order ("AWO") for the contract, itself worth £523,000, was received in January 2008 and detailed design work is underway for the first two plants to be constructed, namely Rochdale and Bredbury. I am pleased to report that significant progress has been made towards the conclusion of the main contracts and the Board anticipates that the AWO will be extended significantly to allow procurement to commence on the first contract in early April, and full completion of contracts by 29 April 2008. On award of the extended AWO, TEG expects to move immediately into the procurement and construction phase of the Rochdale plant where planning permission is already in place.

The scope of the project remains largely unchanged with TEG due to construct four plants between 2008 and 2011 to process 175,000 tonnes of waste per annum. The 3 further plants to be constructed by TEG are progressively scheduled for construction between the final quarter of 2008 and the first quarter of 2011. TEG's customer will be Costain who in turn is retained by the Viridor/Laing consortium.

It is anticipated that revenues will be in excess of £35m over the period of the contract, including the revenues from the AWO, which will become a part of the main contract on completion. TEG did not recognise any revenues from this contract in 2007, but will be able to do so in 2008.

Chairman's statement

Verdia Horticulture Limited

During 2007, TEG formed a joint venture company with Glendale Managed Services Limited. The new company, Verdia Horticulture Limited ("Verdia"), has been formed to focus on the horticulture market, manufacturing high grade compost and fertiliser products to be sold into the horticulture sector. Its focus will be on building and operating medium scale composting facilities, typically 10-15,000 tonnes per annum to produce horticultural grade products for sale to Glendale and to regional horticultural markets. It is anticipated that Verdia will build between 6 and 8 facilities over the next 2 to 3 years, geographically spread throughout the UK. It is anticipated that the capital required will be funded largely by bank finance. This venture follows 12 months of successful collaboration between the parties.

TEG will supply TEG Silo Cage plants to Verdia and will provide technical expertise and support, as well as marketing services for waste supply to the plants. This is another significant endorsement of TEG and its technology and offers an opportunity for the Group to establish itself in the horticultural products sector.

The first plant to be constructed by Verdia will be at Hillbarton, a Glendale site near Exeter. This 14,000 tonnes per annum facility is expected to be completed by the end of Quarter 3 of 2008.

Plant Sales and Construction

During the first half of 2007, TEG completed the handover of the plants built for The City and County of Swansea and for Banham Compost Limited.

The construction of a third facility, for Gwynedd Council, commenced in September 2007 and I am pleased to say remains on schedule to be handed over in April 2008. The Gwynedd Council contract is for a 5,000 tonnes per annum facility and TEG's scope of work includes the building and surrounding infrastructure in addition to the TEG Silo Cage plant and equipment. The total value of the contract is approximately £1.45m.

The Todmorden facility was completed to schedule and the first 2 lines were successfully commissioned in May and June. With the exception of some remedial work required to the building air extract system, we have been very pleased with the performance of the plant.

A second 12-cage line was installed at the Sherdley facility, increasing capacity from 6,000 tonnes per annum to approximately 12,000 tonnes per annum and a new waste receipt building was completed in October 2007.

The final modifications were completed in Perth to comply with the conditions of the Pollution Prevention and Control (PPC) permit conditions introduced by the Scottish Environmental Protection Agency (SEPA) in 2006. These included the installation of building air extract equipment and a product off-take gantry. The Board believes the plant is the first to achieve the higher PPC standard of licensing introduced in Scotland and that it remains the only plant licensed to date.

Group Plant Operations

The Group secured an interim waste management contract with Greater Manchester Waste Limited to process green and garden waste at its Todmorden and Sherdley Farm facilities. The contract is for a period of 2 years from May 2007 with a further 1 year extension option. Over the first 2-year period, TEG will receive 44,000 tonnes of waste and the contract value will be approximately £900,000.

In addition, the Group secured contracts of varying lengths from four local authorities for the supply to TEG of separately collected kitchen waste to Sherdley Farm and Todmorden. The local authorities include Preston City Council, Calderdale Council and Oldham Borough Council. A contract was also secured with Veolia for up to 9,000 tonnes per annum of garden waste. More recently, the contract with Sita and Perth & Kinross Council to process co-mingled garden and kitchen waste was expanded by a further 2,000 tonnes per annum.

I am pleased to report that the plant at Perth has run well and has achieved its planned capacity. Despite it being necessary to inform the financial markets in June 2007 that the waste and local authority markets in Scotland were developing more slowly than anticipated and sales of higher value waste had been below plan, I am pleased to report that the second half performance was greatly encouraging and the Perth business was cash positive for the period. With the recent contract gains, the plant is expected to be operating at full capacity by May 2008.

Chairman's statement

Following completion of the waste receipt facility, the Sherdley Farm plant ramped up to full capacity and that capacity was quickly filled. Demand in the North West is very strong and the Board is confident that Sherdley Farm will perform well in 2008.

Plant performance at Todmorden has been good and volume of waste supply to the plant has been excellent, though a large proportion has been green waste. The proportion of higher value waste is increasing with new sales and it is anticipated that the existing capacity will be filled by Quarter 2 of 2008 and capacity will need to be increased by mid 2008.

R&D contracts

Further R&D work has taken place for Shell in conjunction with the University of Westminster. If successful, further pilot scale work will be undertaken at Perth.

The United Utilities trials on sewage products were completed successfully and the Group awaits the outcome of a review of direction.

Fundraising

In preparation for the Greater Manchester contract and in anticipation of future build own and operate opportunities, TEG successfully raised £11,000,000 before expenses of £629,000, the cost of which has been charged against the share premium account. The year end cash balance was £8,916,000.

Natural Organic Fertiliser Company ("NOFCO")

NOFCO was established in January 2007 to focus on markets for compost, both to ensure secure supply options for TEG and to leverage increased value from what we believe to be a very good quality, nutrient rich product. Whilst still in its infancy we are very pleased with some immediate successes and with the influence the Company is able to exert in the market place.

NOFCO carried out full scale crop growing trials at Sherdley Farm that were a resounding success. The yield from the maize crop was some 100% greater than the regional average and demonstrated the high value of the TEG product.

Market Update

The market continues to grow strongly as both Landfill Allowance Trading Scheme ("LATS") targets and Landfill Tax make an impact on the Local Authority and private sector markets.

As previously announced, LATS targets increase annually and the level of Local Authority activity grows continuously. However, TEG has observed that the biggest influence in the last 6 months has been the impending rise in Landfill Tax ("LFT"). The Chancellor announced in 2007 that LFT would rise in April 2008 by £8 per tonne of waste landfilled. Together with annual cost increases by operators, this will result in price increases of £9-10 per tonne. This rise in LFT will also be imposed in 2009 and 2010 bringing the tax to a total of £48 per tonne by 2010, an increase of 100% over the 3 year period. TEG has observed a step change in market activity and recycling as the April deadline approaches.

Chairman's statement

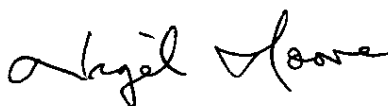
Management

The Group has continued to strengthen its business development, engineering, operational and technical teams in advance of the anticipated construction programme for Greater Manchester and other projects that are close to completion. This has of course been balanced by the knowledge that revenues have not yet commenced for these projects but it is important that the Group is prepared for the increase in activity on completion.

Ron McIlwraith, an experienced senior engineering and projects manager, joined the TEG Environmental Limited Board as Engineering Director in October 2007 in anticipation of the Greater Manchester contract and other construction projects currently in the pipeline.

Future Prospects

As previously announced, the Group's pipeline of opportunities is stronger than ever and it is actively bidding for in excess of 30 significant contracts in addition to a large number of smaller waste sales opportunities. In addition, the market continues to strengthen and is projected to do so for the foreseeable future. The success of the TEG facilities to date and the endorsement demonstrated by the Greater Manchester, Verdria and Gwynedd contracts further strengthens the Board's belief that the Group has an exciting future with a strong outlook for trading in 2008 and beyond.



Nigel Moore

Chairman

2 April 2008

Report of the directors

- The Directors present their report together with the audited financial statements for the year ended 31 December 2007

Nature of operations and general information

TEG Group Plc and its subsidiaries' ('the Group') principal activities continue to be the design and production of Silo-cage plants for sale to third party clients, and the design, build and operation of TEG owned facilities

TEG Group Plc is the Group's ultimate parent company. It is incorporated and domiciled in Great Britain. The address of TEG Group Plc's registered office, which is also its principal place of business is Houston House, 12 Sceptre Court, Sceptre Point, Preston, PR5 6AW, United Kingdom. TEG Group Plc's shares are listed on the Alternative Investment Market of the London Stock Exchange.

TEG Group Plc's consolidated financial statements are presented in Pounds Sterling (£), which is also the functional currency of the parent company.

Results and dividends

The loss for the year after taxation amounted to £3,034,000 (2006 £1,257,000). The Directors do not recommend the payment of a dividend leaving the amount of £3,034,000 (2006 £1,257,000) to be transferred to reserves.

BUSINESS REVIEW

Details of the Group's performance during the year and expected future developments are contained in the Chairman's statement on pages 3 to 6. Information relating to the environment and employees is set out in this report on pages 8, 9 and 11. This information has been prepared solely to assist shareholders to assess the Board's strategies and their potential to succeed. It should not be relied on by any other party, for other purposes. Forward-looking statements have been made up to the date of this report. Forward-looking statements should be regarded with caution because of the inherent uncertainties in economic trends and business risks.

Strategy and objectives

TEG's principal strategy remains to grow the business by a combination of

- Build Own Operate projects (BOO's) which provide sustainable long term revenue and allow TEG to take advantage of rising prices, and
- Plant sales which provide large revenues and cater for markets which prefer to run their own operations

OPERATIONAL RISK MANAGEMENT

There are a number of potential risks and uncertainties which could have a material impact on TEG's long term performance. TEG has a comprehensive system of risk management installed in all parts of its business.

Commercial risk

Commercial risk is identified and reported to the Plc Board and its management is delegated to the subsidiary Board. The Group monitors market activity through commercially available systems including trade press monitoring and tender monitoring systems. Market information is electronically circulated amongst key managers.

The Group has established price models and all prices are approved by a director. All capital sales prices are approved by the Chief Executive and Finance Director who consider market pricing, risk and target margins in establishing prices for each project. Major contract tenders are managed by tender teams that as a minimum include a Business Development Manager and the Commercial Director.

Key commercial risks for the business have been identified, including security and price of waste streams to TEG plants, stability of end markets for compost products, security and stability of the Group's engineering supply chain. Standard contracts have been established for key suppliers to ensure commercial risk is adequately addressed and suppliers are monitored and audited against an established supplier review process. As TEG is exposed to changes in relationships with both customers and suppliers, it is a key task for the operational management to maintain and develop relationships with customers and suppliers and where possible TEG maintains at least two suppliers for key equipment.

• **Key performance indicators**

TEG monitors KPIs in relation to all its capital projects and operations and performance is reported to the subsidiary Board and the Plc Board on a monthly basis

The Group uses the following KPIs to evaluate the success of its business

Plant operations

- Plant utilisation - Plant utilisation is defined as the percentage of actual tonnage throughput against the planned tonnage throughput
- Waste mix ratio - Waste mix ratio is defined as the ratio of animal by products tonnage against total tonnage
- Average gate fee per tonne
- Average cost per tonne

Capital projects

- All prices are detailed by individual component
- Installation programme versus key milestones
- Project cost versus budget
- Post project review process led by the Engineering Director

Competitor risk

TEG monitors competitor activity through trade press, trade exhibitions and customer feedback

Product defect claims

TEG manages product defect risk through

- Clearly defined warranty conditions in contracts, and
- Professional indemnity insurance

Government legislation

TEG operates in an environment encompassing environmental, legal, health and safety, employment and tax matters. TEG is committed to complying with each requirement and the clear devolvement of responsibility to operating management together with the employment of competent advisers supports this requirement. Changes to legislation are monitored closely and appropriate actions taken to ensure they are incorporated into our business policies and procedures

RESOURCES

Employees

The commitment, drive and enthusiasm of all TEG's employees are its greatest asset and TEG's ability to meet the demands of customers, suppliers and shareholders is dependent upon their efforts

TEG is committed to providing employees with a professional working environment where hard work and commitment is encouraged and rewarded accordingly

TEG is dedicated to providing high quality service to its customers and therefore needs to have the best skilled and experienced staff available within the industry. Training, coaching and the opportunity for personnel career advancement within the Group are important features of how TEG seeks to recruit, retain and develop staff

TEG has continued to invest more resources in developing and training its employees, and has further strengthened the sales and project delivery team to capitalise on opportunities

TEG incentivises staff through paying market-based salaries, bonuses for individual and Group achievement and share options for key staff members. TEG operates a loyalty based share option scheme

• CORPORATE SOCIAL RESPONSIBILITY

Health and Safety

The Group is committed to high standards of health and safety for all of its employees. The Group's Health and Safety Policy was reviewed in 2007 and is displayed throughout the Group's workplaces. Health and safety objectives and targets have been established at relevant functions and levels within the organisation.

During the course of 2007, the Health and Safety management system adapted across the operating business has been reviewed and enhanced to ensure it is sufficiently robust to protect the health and safety of all our employees.

Health and safety is an agenda item at all Board meetings and the Chief Executive reports all health and safety matters. TEG retains an independent consultant who reports quarterly on health and safety to the Board.

It is a source of pride that the Group had no lost time accidents during 2007. The Group strongly believes in the training and development of all its employees and believes that this focus on continuous improvement is the key to maintaining this enviable record in the waste management industry.

Environmental Policy

TEG Group PLC recognises the importance of environmental protection and is committed to operating its business responsibly and in compliance with all environmental regulations, legislation and approved codes of practice relating to the waste processing industry and the activities of this Group. It is the Group's objective to operate with, and to maintain good relations with all regulatory bodies.

It is the declared policy of TEG Group PLC to carry out all measures reasonably practicable to meet, exceed or develop all necessary or desirable requirements and to continually improve environmental performance through implementation of the following:

- Assessment and regular re-assessment of the environmental effects of the Group's activities
- Assessment and regular re-assessment of the Group's environmental objectives and targets
- Training of all employees and management in environmental issues
- Minimisation of the production of waste
- Minimisation of material wastage
- Minimisation of energy wastage
- Promotion of the use of recyclable and renewable materials
- Reduction and/or limitation of the production of pollutants to water, land and air
- Control of noise emissions from operations
- Minimisation of the risk to the general public and employees from operations and activities undertaken by the Group

This policy is communicated to all employees, suppliers and sub contractors and is made available to the public.

TREASURY RISK MANAGEMENT

Surplus funds are intended to support short term working capital requirements and to place bonds necessary for build projects. These funds are invested through the use of short term, medium term and period deposits, with a policy of maximising fixed interest returns as well as providing the flexibility required to fund on-going operations. It is not a Group policy to invest in financial derivatives.

Although the financial risks are considered to be minimal at present, future interest rate, liquidity and foreign currency risks could arise and the Board will review its existing policies in the coming period.

Interest rate risk

Interest rate risk arises from:

- The fixed element of finance leases where the Group typically uses finance leases for fixed periods of up to 5 years to finance the purchase of assets where it is considered to be a more effective use of funds,
- The term loan facility which bears a floating interest rate, and
- Cash and short term deposits which bear floating interest rates

Other bank loans are subject to fixed interest rates.

Credit risk

The principal credit risk arises from the Group's trade receivables. In order to manage credit risk, the directors set limits for customers based on a combination of payment history and third party credit references.

Liquidity risk

The Group seeks to manage financial risk by ensuring sufficient liquidity is available to meet foreseeable needs and to invest cash assets safely and profitably.

Surplus funds are invested on a short term basis at money market rates and therefore such funds are available at short notice.

Foreign currency risk

The Group does not have any foreign currency denominated trade receivables or payables and therefore is not subject to foreign exchange risk.

Borrowing facilities

In 2006, a bank loan of £426,000 was secured against plant and equipment. This loan is repayable in 36 equal instalments at a fixed interest rate of 4.3%. The outstanding balance at 31 December 2007 was £213,000 (2006 £355,000).

In addition, a further facility of £2,000,000 has been secured to help fund the acquisition of the property and the development costs of the Todmorden project. At 31 December 2007, £2,000,000 (2006 £900,000) was drawn down as a term loan. This loan is repayable over 180 equal annual instalments commencing in January 2009. The floating interest rate on the term loan is 1.75% above the Bank of Scotland Plc base rate.

Interest rate risk profile of financial assets and liabilities

	Interest rate			
	Fixed	Floating	Zero	Total
	£	£	£	£
Financial Assets				
At 31 December 2007				
Sterling	-	8,861	55	8,916
Trade receivables	-	-	538	538
	-	8,861	593	9,454
Financial Liabilities				
At 31 December 2007				
Bank loan	213	-	-	213
Term loan	-	2,000	-	2,000
Hire purchase agreements	36	-	-	36
Trade payables	-	-	646	646
	249	2,000	646	2,895

Fair value of financial assets and financial liabilities

The fair value based upon the market value or discounted cash flows, of the financial instruments detailed above was not materially different from the book values.

Fundraising

On 23 April 2007, the Group placed 10,000,000 ordinary new shares of £0.05 per share at a price of £1.10 per share, raising £11,000,000 before issue costs of £629,000.

Charitable and political donations

No charitable or political donations were made during the year (2006: £Nil).

Employee involvement and disabled employees

The Group's policy is to provide equal opportunities to all existing employees and prospective employees. TEG recognises that its reputation is dependent on the quality, effectiveness and skill base of its employees and is committed to the fair and equitable treatment of all its employees and specifically to prohibit discrimination on the grounds of race, religion, sex, nationality or ethnic origin.

Applications for employment by disabled persons are given full and fair consideration for all vacancies in accordance with their particular aptitudes and abilities. In the event of an employee becoming disabled, every effort would be made to retain them in order that their employment with the Group could continue.

The Group has continued its practice of keeping employees informed of matters affecting them as employees and the financial and economic factors affecting the performance of the Group.

It is the policy of the Group that training, career development and opportunities should be available to all employees.

TEG recognises the importance of good communications with employees and acknowledges that there should be clear channels of communication and dialogue on issues, which affect both business performance and employee's work lives. This is achieved through a variety of media including the Group's intranet, meetings and a weekly newsletter.

During the year, the Group introduced a childcare voucher scheme whereby UK employees can elect to receive childcare vouchers in lieu of part of their salary in a tax efficient manner.

The Group operates a defined contribution pension scheme which is open to all employees.

The Finance Director has responsibility for human resource issues within the Group.

Payments to suppliers

The Group's policy is to comply with the terms of payment agreed with the supplier when terms of business are established. At 31 December 2007, the Group's trade payables represented 83 (2006: 99) days of purchases.

CORPORATE GOVERNANCE

TEG is committed to business integrity, high ethical values and professionalism in all its activities. The Board is accountable to the Group's shareholders for good governance and its policies in respect of this are set out below.

The Board

At 31 December 2007, the Board was made up of five members comprising two non-executive directors, N S J Moore and D W Benjafield, and three executive directors, M Fishwick, T Willis and A Heyworth. Taking into account the provisions of the 2006 Combined Code, the Non-Executive Directors are considered by the Board to be independent of management, each other and free of any relationship, which could materially interfere with the exercise of their independent judgement.

The Board is of sufficient size that the balance of skills and experience is appropriate for the requirements of the business and that changes to the Board's composition can be managed without undue disruption.

All directors are subject to election at the first AGM following appointment and then to re-election at the appropriate AGM every three years.

Board Procedures

The Board met formally 13 times during 2007. All Board members are supplied with information in a form and of a quality appropriate to enable them to discharge their duties. Board papers are sent out seven days before meetings take place. There is an agreed schedule of matters reserved to the Board for collective decision and these include

- Strategy and management – approval of annual operating and capital expenditure budgets, extension of the Group's activities into new business or geographic areas
- Structure and capital – changes to the Group's capital structure, major changes to the Group's corporate structure, changes to the Group's management or control structure
- Financial reporting and controls – approval of interim and preliminary announcements, approval of annual reports and accounts, approval of resolutions and documentation to be put to shareholders in general meeting, approval of press releases concerning matters decided by the Board
- Communication – approval of resolutions and documentation to be put to shareholders in general meeting, approval of press releases concerning matters decided by the Board
- Board membership
- Corporate governance matters

The Board has formally delegated specific responsibilities to Board committees, including the Audit and Remuneration Committees

To enable the Board to perform its duties effectively all directors have full access to all relevant information and the services of the Company Secretary whose responsibility it is for ensuring that Board procedures are followed. The appointment and removal of the Company Secretary is a matter reserved for the Board. Directors have a right to ensure that any concerns they raise about the running of the Group or a proposed action will be recorded in the Board minutes

Audit Committee

The Audit Committee is chaired by N S J Moore and its membership comprises both the non-executive directors and two executive directors, by invitation. It meets on a bi-annual basis and its primary tasks are to receive reports from the external auditors and to review the preliminary results, interim information and the annual financial statements before they are presented to the Board, concentrating particularly on accounting policies and compliance, areas of management judgement and estimates, and the monitoring of the controls which are in place to ensure the integrity of the financial information to be reported to shareholders. The Committee has the authority to review specific matters relating to internal control on an ad hoc basis and has unrestricted access to the Group's auditors and ensures that auditor independence has not been compromised. The Committee does not consider that an internal audit function is yet required for the Group due to the size of the business.

Remuneration Committee

The Remuneration Committee is chaired by N S J Moore and its membership comprises both the two non-executive directors and two executive directors, by invitation. The Committee's role is to set the remuneration policy for the executive directors and all the staff of the Group. Specifically, the Remuneration Committee agrees the principal terms of their service contracts, including salaries and other benefits, such as bonuses paid and share options, and other terms and conditions of employment. The Committee met once during 2007, with all Committee members attending this meeting.

The Committee's executive remuneration policy is designed to attract, retain and motivate individuals to ensure the success of the Group. Remuneration packages are based on a market price principle and are designed to reward directors fairly for their contributions.

Share options

Grant of share options are at the discretion of the Board. All grants are intended to promote a longer term involvement in the well-being of the Group and capital growth benefits for option holders. Options are not routinely granted on an annual basis but made on an individual basis to reflect performance, increased responsibilities and promotions.

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. This is a Group wide scheme and grant options are at market value.

Directors

The directors of the Group and their interests in the share capital of the Group are listed below. All served on the Board throughout the year. Directors' interest in share options is disclosed in note 9.

	Ordinary shares of £0.05 each	
	31 December 2007	31 December 2006

N S J Moore (Chairman)	321,547	291,547
D W Benjafield	50,000	-
Dr A Heyworth	209,482	134,482
M Fishwick	11,000	-
T Willis	11,000	-

The directors retiring by rotation are M Fishwick and DW Benjafield, who being eligible, offer themselves for re-election at the Annual General Meeting.

Financial reporting

The directors who have sole responsibility for the preparation and presentation of this report and accounts and other price sensitive public records, seek to prepare those reports in a way that represents a balanced and understandable assessment of the Group's position and prospects.

Internal control

The Board has overall responsibility for the Group's system of internal control, including financial, operational and compliance controls and risk management. The Board is responsible for reviewing its overall effectiveness of internal control. The system is designed to manage rather than eliminate risk and can provide only reasonable and not absolute assurance against material misstatement or loss.

The Board confirms that there is an ongoing process for identifying, evaluating and managing risks faced by the Group. This process was in place throughout the year under review and up to the date of approval of the annual report.

There is no formal internal audit department, as the Board does not consider this to be necessary due to the size of the operations in the Group. The Board will keep this decision under review as the Group grows. The Finance Director and Chief Executive are currently responsible for relevant control and monitoring procedures. The Board monitors the Group's significant risks on an ongoing basis.

Communication with shareholders

The Group recognises the importance of communication with its shareholders to ensure that its strategy and performance is understood. This is achieved principally through the Annual Report and the Annual General Meeting. The Group's preliminary and interim results, as well as all announcements issued to the London Stock Exchange are published on the Group's website. In addition, a range of other corporate information is available to investors on the Group's website.

The Chief Executive and Finance Director are primarily responsible for direct investor relations. Formal presentations are made to institutional shareholders following the announcement of the Group's annual and interim results. The Board recognises that the Annual General Meeting is the principal forum for dialogue with private shareholders and all shareholders are invited to attend. All directors attend the Annual General Meeting and are available to answer any questions that shareholders may wish to raise.

At Annual General Meetings, separate resolutions are proposed on each substantially separate issue and the number of proxy votes received for and against each resolution is announced. The Company Secretary ensures that the votes are properly received and recorded. Notices of Annual General Meetings are sent to shareholders at least 21 days before the meeting.

Going concern

After making appropriate enquiries, the directors are confident that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason, the directors adopt the going concern basis in the preparation of the financial statements.

Statement of directors' responsibilities

United Kingdom company law requires the Directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Group as at the end of the financial year and of the profit or loss of the Group for that period. In preparing these financial statements, the Directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and estimates that are reasonable and prudent, and
- state whether applicable accounting standards have been followed, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

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

In so far as the directors are aware

- there is no relevant audit information of which the company's auditors are unaware, and
- the directors have taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Group's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Major interest in shares

As at 1 April 2008 the Group had been notified of the following interests in 3% or more, of the Group's issued share capital

	Number of ordinary shares	% of issued ordinary share capital
Euroclear Nominees Limited	4,513,300	9.35%
Vidacos Nominees	2,686,506	5.56%
HSBC Global Custody Nominees ACCT 750749	2,348,550	4.86%
Morstan Nominees Limited	1,698,847	3.52%
Nortrust Nominees Limited	1,677,000	3.47%
Chase Nominees Limited	1,575,000	3.26%

Auditors

A resolution to re-appoint Grant Thornton UK LLP as auditors for the ensuing year will be proposed at the Annual General Meeting in accordance with section 385 of the Companies Act 1985

On behalf of the Board



2 April 2008

T Willis

Finance Director and Company secretary

Report of the independent auditors to the members of The TEG Group Plc

We have audited the group and parent company financial statements (the "financial statements") of TEG Group PLC for the year ended 31 December 2007 which comprise the principal accounting policies, the consolidated income statement, the consolidated and parent company balance sheets, the consolidated cash flow statement, the consolidated statement of changes in shareholders' equity and notes 1 to 31 on pages 22 to 50 and notes 1 to 19 on pages 52 to 60. These Group financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and auditors

The Directors' responsibilities for preparing the Annual Report and the group financial statements in accordance with United Kingdom law and International Financial Reporting Standards (IFRSs) as adopted by the European Union, and for preparing the parent company financial statements in accordance with United Kingdom law and Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements have been properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Report of the Directors is consistent with the financial statements. The information given in the Report of the Directors includes that specific information presented in the Chairman's statement that is cross referred from the Business Review section of the Report of the Directors.

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

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

Basis of audit opinion

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

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

Opinion

In our opinion

- the group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the group's affairs as at 31 December 2007 and of its loss for the year then ended,
- the group financial statements have been properly prepared in accordance with the Companies Act 1985,
- the parent company financial statements give a true and fair view, in accordance with United Kingdom generally Accepted Accounting Practice, of the state of the parent company's affairs as at 31 December 2007,
- the parent company financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the Report of the Directors is consistent with the financial statements



GRANT THORNTON UK LLP
REGISTERED AUDITORS
CHARTERED ACCOUNTANTS
MANCHESTER
2 April 2008


Consolidated income statement
For the year ended 31 December 2007

	Notes	2007 £'000	2006 £'000
Continuing operations			
Revenue	3	2,169	3,559
Cost of sales		(2,405)	(2,952)
Gross (loss)/profit		<u>(236)</u>	607
Other expenses		(3,118)	(1,964)
Operating loss from continuing operations	4	<u>(3,354)</u>	(1,357)
Finance income	5	436	155
Finance costs	6	(202)	(116)
Loss before tax		<u>(3,120)</u>	(1,318)
Income tax	10	86	61
Loss for the year		<u><u>(3,034)</u></u>	<u>(1,257)</u>
Attributable to:			
Equity holders of the parent		<u>(3,034)</u>	(1,257)
Retained loss		<u><u>(3,034)</u></u>	<u>(1,257)</u>
Loss per share			
Basic and diluted (pence)	11	<u><u>(6 725)</u></u>	<u>(3 757)</u>

Consolidated balance sheet
as at 31 December 2007

	Note	2007 £'000	2006 £'000
ASSETS			
Non-current assets			
Goodwill	12	2,270	2,270
Other intangible assets	13	-	-
Interest in joint venture	25	-	-
Property, plant and equipment	14	9,839	7,594
		<u>12,109</u>	<u>9,864</u>
Current assets			
Inventories	15	234	356
Trade and other receivables	16	1,106	648
Taxation receivable	10	86	61
Cash and cash equivalents	17	8,916	2,242
		<u>10,342</u>	<u>3,307</u>
Total assets		<u><u>22,451</u></u>	<u><u>13,171</u></u>
LIABILITIES			
Current liabilities			
Trade and other payables	19	1,084	1,155
Borrowings	20	150	156
Deferred consideration	21	252	267
		<u>1,486</u>	<u>1,578</u>
Non-current liabilities			
Borrowings	20	2,099	213
Deferred consideration	21	1,585	1,770
		<u>3,684</u>	<u>1,983</u>
Total liabilities		<u><u>5,170</u></u>	<u><u>3,561</u></u>
Net assets		<u><u>17,281</u></u>	<u><u>9,610</u></u>
EQUITY			
Equity attributable to equity holders of the parent			
Share capital	23	2,414	1,902
Share premium		29,357	19,388
Other reserve		551	327
Retained losses		(15,041)	(12,007)
Total equity		<u><u>17,281</u></u>	<u><u>9,610</u></u>

These financial statements were approved by the Board of Directors on 2 April 2008 and signed on their behalf by


M Fishwick
Director


T Willis
Director

Consolidated statement of changes in shareholders' equity
for the year ended 31 December 2007

	Share capital £'000	Share premium £'000	Other reserve £'000	Retained losses £'000	Total £'000
Balance at 1 January 2006	1,319	12,310	154	(10,750)	3,033
Loss for the year	-	-	-	(1,257)	(1,257)
Issue of new ordinary share capital	575	-	-	-	575
Premium on issue of new ordinary share capital	-	7,523	-	-	7,523
Issue costs	-	(445)	-	-	(445)
Recognition of share-based payments	-	-	173	-	173
Issue of ordinary shares under employee share option plan	8	-	-	-	8
Balance at 1 January 2007	1,902	19,388	327	(12,007)	9,610
Loss for the year	-	-	-	(3,034)	(3,034)
Issue of new ordinary share capital	500	-	-	-	500
Premium on issue of new ordinary share capital	-	10,598	-	-	10,598
Issue costs	-	(629)	-	-	(629)
Recognition of share-based payments	-	-	224	-	224
Issue of ordinary shares under employee share option plan	12	-	-	-	12
Balance at 31 December 2007	2,414	29,357	551	(15,041)	17,281

Consolidated cash flow statement

For the year ended 31 December 2007

	Note	2007 £'000	2006 £'000
Cash flows from operating activities			
Loss after taxation		(3,034)	(1,257)
Adjustments for			
Depreciation		579	310
Share based administrative expense		224	173
Taxation credit recognised in income statement		(86)	(61)
Interest expense		202	116
Investment income		(436)	(155)
Loss / (profit) on sale of property, plant and equipment		10	(3)
Increase in trade and other receivables		(458)	(281)
Decrease / (increase) in inventories		122	(233)
Increase / (decrease) in trade payables		389	(339)
Cash used in operations		(2,488)	(1,730)
Interest paid		(102)	(36)
Income taxes received		61	64
Net cash used in operating activities		(2,529)	(1,702)
Cash flows from investing activities			
Acquisition of business - deferred consideration		(300)	(300)
Purchase of property, plant and equipment		(3,259)	(6,329)
Proceeds from sale of equipment		3	11
Interest received		436	155
Net cash used in investing activities		(3,120)	(6,463)
Cash flows from financing activities			
Proceeds from issue of share capital		10,481	7,661
New bank loans raised		2,000	426
Repayment of loan		(142)	(71)
Payment of finance lease liabilities		(16)	(23)
Net cash from financing activities		12,323	7,993
Net increase / (decrease) in cash and cash equivalents		6,674	(172)
Cash and cash equivalents at beginning of the year		2,242	2,414
Cash and cash equivalents at end of the year	17	8,916	2,242

Notes to the consolidated financial statements

For the year ended 31 December 2007

General information

TEG Group Plc is a Company incorporated in the United Kingdom under the Companies Act 1985. The address and registered office is Houston House, 12 Sceptre Court, Sceptre Point, Preston, PR5 6AW. The nature of the Group's operations and its principal activities are set out in the Report of the Directors on page 7.

The financial statements are presented in Pounds Sterling (£), which is also the functional currency of the parent company, as this is the currency of the primary economic environment in which the Group operates.

1. Significant accounting policies

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU), including International Accounting Standards (IAS) and interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC). Practice is continuing to evolve on the application and interpretations of IFRS. Further standards may be issued by the International Accounting Standards Board (IASB) and standards currently in issue and endorsed by the EU may be subject to interpretations issued by IFRIC.

IFRS, as adopted by the EU, differs in certain respects from IFRS as issued by the IASB. However, the consolidated financial statements for the period presented would be no different had the Group applied IFRS as issued by the IASB. References to IFRS hereafter should be construed as references to IFRS as adopted by the EU.

The preparation of financial statements, in conformity with generally accepted accounting principles under IFRS, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results may ultimately differ from those estimates.

The financial statements have been prepared using the measurement basis specified by IFRS for each type of asset, liability, income and expense. The measurement bases are more fully described in the detailed accounting policies below.

The policies have changed from the previous year when the financial statements were prepared under applicable United Kingdom Generally Accepted Accounting Principles (UK GAAP). The comparative information has been restated in accordance with IFRS. The changes to accounting policies are explained in note 2, together with the reconciliation of opening balances. The date of transition to IFRS was 1 January 2006 (transition date).

The Group has taken advantage of certain exemptions available under IFRS 1 'First-time adoption of International Financial Reporting Standards'. The exemptions used are explained under the respective accounting policy.

The accounting policies that have been applied in the opening balance sheet have also been applied throughout all periods presented in these financial statements. These accounting policies comply with each IFRS that is mandatory for accounting periods ending on 31 December 2007.

Basis of consolidation

The Group financial statements consolidate those of the company and its subsidiary undertakings drawn up to the balance sheet date. Subsidiaries are entities over which the Group has the power to control the financial and operating policies so as to obtain benefits from its activities. The Group obtains and exercises control through voting rights.

Unrealised gains on transactions between the Group and its subsidiaries are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Amounts

reported in the financial statements of subsidiaries have been adjusted where necessary to ensure consistency with the accounting policies adopted by the Group

Business combinations completed prior to date of transition to IFRS

The Group has elected not to apply IFRS 3 'Business Combinations' retrospectively to business combinations prior to date of transition

Accordingly, the classification of the combination (acquisition) remains unchanged from that used under UK GAAP. Assets and liabilities are recognised at the date of transition if they would be recognised under IFRS, and are measured using their UK GAAP carrying amount immediately post-acquisition as deemed cost under IFRS, unless IFRS requires fair value measurement. Deferred tax is adjusted for the impact of any consequential adjustments after taking advantage of the transitional provisions

Joint venture

A joint venture is a contractual arrangement whereby the Group undertakes an economic activity which is subject to joint control with third parties. The Group's interests in jointly controlled entities are accounted for using the equity method

Under this method the Group's share of the profit less losses of joint ventures is included in the consolidated income statement and its interest in the net assets is included in non-current assets in the consolidated balance sheet. Where the share of losses in a joint venture exceeds the interest in the entity, the carrying amount is reduced to nil and recognition of further losses is discontinued unless there is a commitment by the Group to make further investment. The interest in the entity is the carrying amount of the investment together with any long-term interests such as subordinated debt that, in substance, form part of the net investment in the entity

Goodwill

Goodwill representing the excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired, is capitalised and reviewed annually for impairment. Goodwill is carried at cost less accumulated impairment losses

Intangible assets

Intellectual property rights are included at cost and amortised in equal annual instalments over a period of 10 years which is their estimated useful economic life. Provision is made for any impairment

Property, plant and equipment

Property, plant and equipment is stated at cost, net of depreciation and any provision for impairment. No depreciation is charged during the period of construction

Borrowing costs on property, plant and equipment under construction are capitalised during the period of construction based on specific funds borrowed

Disposal of assets

The gain or loss arising on the disposal of an asset is determined as the difference between the disposal proceeds and the carrying amount of the asset and is recognised in the income statement

Depreciation

Depreciation is calculated to write down the cost less accumulated depreciation of all property, plant and equipment other than freehold land over their estimated useful economic lives. The rates generally applicable are

Vehicles	3 years straight line
Silo-cage systems	15 years straight line
Fixtures and fittings	25% reducing balance
Plant and machinery	25% reducing balance
Buildings	4% straight line

Material residual value estimates are updated as required, but at least annually, whether or not the asset is revalued

Impairment testing of goodwill and property, plant and equipment

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level. Goodwill is allocated to those cash-generating units that are expected to benefit from synergies of the related business combination and represent the lowest level within the Group at which management monitors the related cash flows.

Goodwill, other individual assets or cash-generating units that include goodwill are tested for impairment at least annually. All other individual assets or cash-generating units are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised for the amount by which the asset's or cash-generating unit's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of fair value, reflecting market conditions less costs to sell, and value in use based on an internal discounted cash flow evaluation. Impairment losses recognised for cash-generating units, to which goodwill has been allocated, are credited initially to the carrying amount of goodwill. Any remaining impairment loss is charged pro rata to the other assets in the cash generating unit. With the exception of goodwill, all assets are subsequently reassessed for indications that an impairment loss previously recognised may no longer exist.

Taxation

Income tax credit represents the tax currently receivable in respect of research and development tax credits.

Taxable loss differs from loss before tax as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's asset for current tax is calculated using the rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on the differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill nor from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on interest in subsidiaries and associates, and interest in joint ventures where the Group is able to control the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the average tax rates that are expected to apply in the periods in which the timing difference are expected to reverse based on tax rates and laws that have been substantially enacted by the balance sheet date.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Research and development

Expenditure on research (or the research phase of an internal project) is recognised as an expense in the period in which it is incurred

Inventories

Inventories are stated at the lower of cost and net realisable value after making allowance for obsolete and slow moving items

Cost includes materials, direct labour and an attributable proportion of manufacturing overheads based on normal levels of activity. Cost is calculated using the weighted average method. Net realisable value is based on estimated selling price less further costs expected to be incurred to completion

Revenue

Revenue is measured by reference to the fair value of consideration received or receivable by the Group for goods supplied and services provided, excluding VAT and trade discounts. Revenue is recognised upon the performance of services or transfer of risk to the customer

Rendering of services relating to processing waste

When the outcome of a transaction involving the processing of waste can be estimated reliably, revenue associated with the transaction is recognised when the Group receives the waste, being the point at which it fulfils its contractual obligation to the customer. The outcome of the transaction is deemed to be able to be estimated reliably when all the following conditions are satisfied

- the amount of revenue can be measured reliably
- it is probable that the economic benefits associated with the transaction will flow to the entity
- the Group receives the waste, being the point at which it fulfils its contractual obligation to the customer and
- the costs incurred in processing the waste that can be measured reliably

Construction contracts

Contract revenue reflects the contract activity during the year and is measured at the fair value of consideration received or receivable. When the outcome can be assessed reliably, contract revenue and associated costs are recognised as revenue and expenses respectively by reference to the stage of completion of the contract activity at the balance sheet date. The stage of completion of the contract at the balance sheet date is assessed by reference to completed key milestones, those being

- Design
- Procurement
- Component manufacture
- Enabling works
- Civil Engineering
- Building fabrication
- Mechanical and electrical installation of various components of the TEG Silo-cage plant
- Functional testing
- Commissioning

Where the outcome of a long term contract cannot be estimated reliably, revenue is recognised only to the extent of contract costs incurred that it is probable will be recoverable, and contract costs are recognised as an expense in the period in which they are incurred. In the case of a fixed price contract, the outcome of a construction contract is deemed to be estimated reliably when all the following conditions are satisfied

- total contract revenue can be measured reliably
- it is probable that economic benefits associated with the contract will flow to the Group
- both the contract costs to complete the contract and the stage of completion at the balance sheet date can be measured reliably, and
- the contract costs attributable to the contract can be clearly identified and measured reliably so that actual contract costs incurred can be compared with prior estimates

The gross amount due from customers for contract work is presented as an asset for all contracts in progress for which costs incurred plus recognised profits (less recognised losses) exceeds progress billings. The gross amount due to customers for contract work is presented as a liability for all contracts in progress for which progress billings exceed costs incurred plus recognised profits (less losses).

Full provision is made for losses on all contracts in the year in which the loss is first foreseen.

Interest

Interest is recognised using the effective interest method which calculates the amortised cost of a financial asset and allocates the interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

Employee benefits – retirement benefit costs

The pension costs charged to the income statement are the contributions payable to the scheme in respect of the accounting period.

Foreign currency

Transactions in foreign currencies are translated at the exchange rate ruling at the date of the transaction. Monetary assets and liabilities in foreign currencies are translated at the rates of exchange ruling at the balance sheet date.

Any exchange differences arising on the settlement of monetary items or on translating monetary items at rates different from those at which they were initially recorded are recognised in the income statement in the period in which they arise.

Leased assets

In accordance with IAS 17, the economic ownership of a leased asset is transferred to the lessee if the lessee bears substantially all the risks and rewards related to the ownership of the leased asset. The related asset is recognised at the time of inception of the lease at the fair value of the leased asset or, if lower, the present value of the minimum lease payments plus incidental payments, if any, to be borne by the lessee. A corresponding amount is recognised as a finance leasing liability. Leases of land and buildings are split into land and buildings elements according to the relative fair values of the leasehold interests at the date of entering into the lease agreement.

The interest element of leasing payments represents a constant proportion of the capital balance outstanding and is charged to the income statement over the period of the lease.

All other leases are regarded as operating leases and the payments made under them are charged to the income statement on a straight line basis over the lease term. Lease incentives are spread over the term of the lease.

Share-based payment - equity settled

All share-based payment arrangements granted after 7 November 2002 that had not vested prior to 1 January 2006 are recognised in the financial statements.

All goods and services received in exchange for the grant of any share-based payment are measured at their fair values. Where employees are rewarded using share-based payments, the fair values of employees' services are determined indirectly by reference to the fair value of the instrument granted to the employee. This fair value is appraised at the grant date.

All equity-settled share-based payments are ultimately recognised as an expense in the income statement with a corresponding credit to "other reserve".

The expense is allocated over the vesting period, based on the best available estimate of the number of share options expected to vest. Estimates are subsequently revised if there is any indication that the number of share options expected to vest differs from previous estimates. Any cumulative adjustment prior to vesting is

recognised in the current period. No adjustment is made to any expense recognised in prior periods if share options ultimately exercised are different to that estimated on vesting.

Upon exercise of share options the proceeds received net of attributable transaction costs are credited to share capital, and where appropriate share premium.

Financial assets

Financial assets are divided into the following categories: loans and receivables and financial assets at fair value through profit or loss. Financial assets are assigned to the different categories by management on initial recognition, depending on the purpose for which they were acquired. The designation of financial assets is re-evaluated at every reporting date at which a choice of classification or accounting treatment is available.

All financial assets are recognised when the Group becomes a party to the contractual provisions of the instrument. Financial assets other than those categorised as at fair value through profit or loss are recognised at fair value plus transaction costs. Financial assets categorised as at fair value through profit or loss are recognised initially at fair value with transaction costs expensed through the income statement.

Financial assets at fair value through profit or loss include financial assets that are either classified as held for trading or are designated by the entity as at fair value through profit or loss upon initial recognition. Subsequent to initial recognition, the financial assets included in this category are measured at fair value with changes in fair value recognised in the income statement. Financial assets originally designated as financial assets at fair value through profit or loss may not be reclassified subsequently.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Trade receivables are classified as loans and receivables. Loans and receivables are measured subsequent to initial recognition at amortised cost using the effective interest method, less provision for impairment. Any change in their value through impairment or reversal of impairment is recognised in the income statement.

Provision against trade receivables is made when there is objective evidence that the Group will not be able to collect all amounts due to it in accordance with the original terms of those receivables. The amount of the write-down is determined as the difference between the asset's carrying amount and the present value of estimated future cash flows.

An assessment for impairment is undertaken at least at each balance sheet date.

A financial asset is derecognised only where the contractual rights to the cash flows from the asset expire or the financial asset is transferred and that transfer qualifies for de-recognition. A financial asset is transferred if the contractual rights to receive the cash flows of the asset have been transferred or the Group retains the contractual rights to receive the cash flows of the asset but assumes a contractual obligation to pay the cash flows to one or more recipients. A financial asset that is transferred qualifies for de-recognition if the Group transfers substantially all the risks and rewards of ownership of the asset, or if the Group neither retains nor transfers substantially all the risks and rewards of ownership but does transfer control of that asset.

Financial liabilities

Financial liabilities are obligations to pay cash or other financial assets and are recognised when the Group becomes a party to the contractual provisions of the instrument. Financial liabilities categorised as at fair value through profit or loss are recorded initially at fair value, all transaction costs are recognised immediately in the income statement. All other financial liabilities are recorded initially at fair value, net of direct issue costs.

Financial liabilities are categorised as at fair value through profit or loss where they are classified as held-for-trading or designated as at fair value through profit or loss on initial recognition.

Financial liabilities categorised as at fair value through profit or loss are re-measured at each reporting date at fair value, with changes in fair value being recognised in the income statement. All other financial liabilities are recorded at amortised cost using the effective interest method, with interest-related charges recognised as an expense in finance costs in the income statement. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are charged to the income statement on an accruals basis using the effective

interest method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise

A financial liability is derecognised only when the obligation is extinguished, that is, when the obligation is discharged or cancelled or expires

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, together with other short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to insignificant risk of changes in value

Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or equity in accordance with the substance of the contractual arrangement

Equity

Equity comprises the following

- "Share capital" represents the nominal value of equity shares
- "Share premium" represents the excess over nominal value of the fair value of consideration received for equity shares, net of expenses of the share issue
- "Other reserve" represents equity-settled share-based employee remuneration until such share options are exercised
- "Retained losses" represents retained losses

Borrowing costs

Borrowing costs directly attributable to the acquisition and construction of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use, are added to the cost of those assets until such time as the assets are substantially ready for their intended use

All other borrowing costs are recognised in the income statement in the period in which they are incurred

Critical accounting and judgements and key sources of estimation uncertainty

Estimates and accounting judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The preparation of financial statements under IFRS requires management to make assumptions and estimates about future events. The resulting accounting estimates will, by definition, differ from actual results. The assumptions and estimates that have a significant risk of causing a material adjustment within the next financial year are

Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the directors to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value

Recognition of revenue and profit on construction project management

Revenue and profit are recognised by reference to the estimated stage of completion to the extent of contract costs incurred that it is probable will be recoverable

Adoption of new and revised standards

Standards and Interpretations in issue not yet adopted

At the date of the authorisation of these financial statements, the following standards and interpretations, which have not been applied in these financial statements, were in issue but not yet effective. The directors anticipate the adoption of these standards and interpretations will have no material impact on the Group's financial statements, with the exception of IAS 1, which will effect the presentation of changes in equity and introduces a statement of comprehensive income. This amendment will not affect the financial position or results of the Group but will give rise to additional disclosure. The directors anticipate that the Group will adopt these standards and interpretations on their effective dates

- IAS 1 Presentation of financial statements (revised 2007) (effective 1 January 2009),
- IAS 23 Borrowing costs (revised 2007) (effective 1 January 2009)
- IAS 27 Consolidation and separate Financial Statements (revised 2008) (effective 1 July 2009)
- Amendment to IAS 32 Financial Instruments Presentation and IAS 1 Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation (effective 1 January 2009)
- IFRS 3 Business Combinations (Revised 2008) (effective 1 July 2009)
- IFRS 8 Operating segments (effective 1 January 2009)
- IFRIC 11 IFRS 2 Group and treasury share transaction (effective 1 March 2007),
- IFRIC 12 Service concession arrangements (effective 1 July 2008), and
- IFRIC 13 Customer loyalty programmes (effective 1 July 2008)
- IFRIC 14 and IAS19 The limit on defined benefit asset, minimum funding requirements and their interaction (effective 1 January 2008)

2. Explanation of transition to International Financial Reporting Standards (IFRS)

As stated in the 'Basis of preparation', these are the Group's first consolidated financial statements in accordance with the measurement and recognition rules of IFRS

An explanation of how the transition from UK GAAP to IFRS has affected the Group's financial position, financial performance and cash flows is set out below

IFRS 1 permits companies adopting IFRS for the first time to take certain exemptions from the full requirements of IFRS in the transition period. These financial statements have been prepared on the basis of taking the following exemption

- Business combinations prior to 1 January 2006, the Group's date of transition have not been restated to comply with IFRS 3 'Business Combinations'

Explanation of reconciliation from UK GAAP to IFRS for the balance sheet and income statement

The adoption of IFRS by the Group has resulted in some reordering and changes to the presentation of certain balances within both the income statement and balance sheet

Goodwill recognised by the Group on the acquisition of the composting business in Perthshire under UK GAAP was amortised over a period of 11 years. Under IFRS, goodwill is not amortised, but tested annually for impairment. The goodwill amortisation charge recognised in accordance with UK GAAP in 2006 was written back

Borrowing costs incurred with regards to the development of the Todmorden facility under UK GAAP were recognised as interest expense in the period incurred. Under IFRS, borrowing costs which are directly attributable to the acquisition, construction or production of a qualifying asset have been capitalised. This includes interest on borrowings made specifically for the purpose of obtaining the qualifying assets

Application of IFRS has resulted in reclassification of certain items in the cash flow statement as follows

- 1) Under UK GAAP, payments to acquire property, plant and equipment were classified as part of 'Capital expenditure and financial investment'. Under IFRS, payments to acquire property, plant and equipment have been classified as part of 'Investing activities'
- 2) Income taxes received by the Group in respect of Research and Development tax credits are now classified as an operating cash flow under IFRS, however these were included in a separate category of tax cash flows under UK GAAP
- 3) There are no other material differences between the cash flow statement presented under IFRS and the cash flow statement presented under UK GAAP

Reconciliations and descriptions of the effect of the transition from UK GAAP to IFRS on the Group's net income and equity are set out on the next page

Reconciliation of equity at 1 January 2006 (date of transition to IFRS)

	UK GAAP £'000	IFRS £'000
ASSETS		
Non-current assets		
Property, plant and equipment	1,093	1,093
Goodwill	2,270	2,270
Investments	-	-
	<u>3,363</u>	<u>3,363</u>
Current assets		
Inventories	123	123
Trade and other receivables	366	366
Taxation receivable	64	64
Cash and cash equivalents	2,414	2,414
	<u>2,967</u>	<u>2,967</u>
Total assets	<u>6,330</u>	<u>6,330</u>
LIABILITIES		
Current liabilities		
Trade and other payables	1,033	1,033
Borrowings	22	22
Deferred consideration	283	283
	<u>1,338</u>	<u>1,338</u>
Non-current liabilities		
Borrowings	14	14
Deferred consideration	1,945	1,945
	<u>1,959</u>	<u>1,959</u>
Total liabilities	<u>3,297</u>	<u>3,297</u>
Net assets	<u>3,033</u>	<u>3,033</u>
EQUITY		
Equity attributable to equity holders of the parent		
Share capital	1,319	1,319
Share premium	12,310	12,310
Other reserve	154	154
Retained losses	(10,750)	(10,750)
Total equity	<u>3,033</u>	<u>3,033</u>

Reconciliation of equity at 31 December 2006

	UK GAAP 2006 £'000	Goodwill IFRS 3 £'000	Interest IAS 23 £'000	IFRS 2006 £'000
ASSETS				
Non-current assets				
Property, plant and equipment	7,564	-	30	7,594
Goodwill	2,057	213	-	2,270
Investments	-	-	-	-
	9,621	213	30	9,864
Current assets				
Inventories	356	-	-	356
Trade and other receivables	648	-	-	648
Taxation receivable	61	-	-	61
Cash and cash equivalents	2,242	-	-	2,242
	3,307	-	-	3,307
Total assets	12,928	213	30	13,171
LIABILITIES				
Current liabilities				
Trade and other payables	1,155	-	-	1,155
Borrowings	156	-	-	156
Deferred consideration	267	-	-	267
	1,578	-	-	1,578
Non-current liabilities				
Borrowings	213	-	-	213
Deferred consideration	1,770	-	-	1,770
	1,983	-	-	1,983
Total liabilities	3,561	-	-	3,561
Net assets	9,367	213	30	9,610
EQUITY				
Equity attributable to equity holders of the parent				
Share capital	1,902	-	-	1,902
Share premium	19,388	-	-	19,388
Other reserve	327	-	-	327
Retained losses	(12,250)	213	30	(12,007)
Total equity	9,367	213	30	9,610

Reconciliation of loss for the year ended 31 December 2006

	UK GAAP 2006 £'000	Goodwill IFRS 3 £'000	Interest IAS 23 £'000	IFRS 2006 £'000
Revenue	3,559	-	-	3,559
Cost of sales	(2,952)	-	-	(2,952)
Gross profit	607	-	-	607
Other expenses	(2,177)	213	-	(1,964)
Operating result	(1,570)	213	-	(1,357)
Finance income	155	-	-	155
Finance costs	(146)	-	30	(116)
Loss before tax	(1,561)	213	30	(1,318)
Income tax	61	-	-	61
Loss for the year	(1,500)	213	30	(1,257)
Attributable to				
Equity holders of the parent	(1,500)	213	30	(1,257)
Retained loss	(1,500)	213	30	(1,257)
Loss per share				
Basic and diluted loss per share (pence)	(4 483)	0 636	0 089	(3 757)

3. Revenue

An analysis of the Group's revenue for the year (excluding finance income – see note 5) is as follows

	2007 £'000	2006 £'000
Revenue from build, own and operate	1,269	885
Revenue from sale to third parties	882	2,650
Other revenue	18	24
	2,169	3,559

4. Segment information

For management purposes, the Group is currently organised into the following segments Sale to third parties, Build own operate facilities and Other revenue

Sale to third parties includes the design, production and installation of Silo-cage plants for sale to third party clients

The build, own and operate segment relates to facilities which are owned and operated by the Group These sites process waste received from customers

Other revenue is as a result of research and development work carried out for third parties

The revenues and net result generated by each of TEG Group Plc's business segments are summarised as follows

2007

	Build, own and operate £'000	Sale to third parties £'000	Other revenue £'000	Consolidated £'000
Revenue	1,269	882	18	2,169
Segment operating (loss) / profit	(264)	22	6	(236)
Segment corporate expenses	(285)	(44)	-	(329)
Unallocated corporate expenses				(2,789)
Operating loss				(3,354)
Finance income				436
Finance costs				(202)
Loss before taxation				(3,120)
Taxation				86
Loss for the year				(3,034)

Unallocated corporate expenses include £568,000 in respect of future business development costs

2006

	Build, own and operate £'000	Sale to third parties £'000	Other revenue £'000	Consolidated £'000
Revenue	885	2,650	24	3,559
Segment operating (loss) / profit	(131)	723	15	607
Segment corporate expenses	(170)	(133)	-	(303)
Unallocated corporate expenses				(1,661)
Operating loss				(1,357)
Finance income				155
Finance costs				(116)
Loss before taxation				(1,318)
Taxation				61
Loss for the year				(1,257)

Unallocated corporate expenses include £186,000 in respect of future business development costs

Other information
2007

	Build, own and operate £'000	Sale to third parties £'000	Other revenue £'000	Consolidated £'000
Capital additions	2,806	-	-	2,806
Depreciation	551	-	-	551
	Build, own and operate £'000	Sale to third parties £'000	Other £'000	Consolidated £'000
Assets				
Segment assets	12,549	518	-	13,067
Unallocated corporate assets				9,384
Consolidated total assets				22,451
Liabilities				
Segment liabilities	4,591	328	-	4,919
Unallocated corporate liabilities				251
Consolidated total liabilities				5,170

**Other information
2006**

	Build, own and operate £'000	Sale to third parties £'000	Other revenue £'000	Consolidated £'000
Capital additions	5,811	-	-	5,811
Depreciation	564	-	-	564
	Build, own and operate £'000	Sale to third parties £'000	Other £'000	Consolidated £'000
Assets				
Segment assets	10,320	315	-	10,635
Unallocated corporate assets				2,536
Consolidated total assets				13,171
Liabilities				
Segment liabilities	2,965	526	-	3,491
Unallocated corporate liabilities				70
Consolidated total liabilities				3,561

Geographic segments

The Group's operations are all located in the United Kingdom and all revenue is generated within the United Kingdom

5. Finance income

	2007 £'000	2006 £'000
Bank interest receivable	436	155

Investment income earned as finance assets, analysed by category of asset is as follows

Loans and receivables (including cash and bank balances)	436	155
--	-----	-----

6. Finance costs

	2007 £'000	2006 £'000
Interest on obligations under hire purchase	2	3
Interest on bank loans	100	34
Less amount included in the cost of qualifying assets	-	(30)
	102	7
Deemed interest on acquisition	100	109
Total interest expense	202	116

7 Loss on ordinary activities before taxation

The loss on ordinary activities before taxation is stated after charging / (crediting)

	2007 £'000	2006 £'000
Research and development costs	53	15
Depreciation		
- owned	570	292
- held under finance leases and hire purchase contracts	9	18
Auditors' remuneration		
- audit services	16	20
- non audit services	23	7
Release of other creditors – site provision	-	(190)
Loss / (profit) on disposal of property, plant and equipment	10	(3)
Share based payments charge	224	173
Operating lease costs		
- land & buildings	176	176
- hire of plant and equipment	8	8
- motor vehicles	27	27

A more detailed analysis of auditors' remuneration for non audit services is provided below

	2007 £'000	2006 £'000
Tax advisory	3	3
Other advisory	5	4
Audit of subsidiary undertakings	15	-
Total	23	7

In addition to the above, there has been £33,000 of non audit fees relating to the working capital review in relation to the fundraising. These costs have been charged against the share premium account

8. Employee costs

Staff costs during the year were as follows

	2007 £'000	2006 £'000
Wages and salaries	1,410	981
Social security costs	142	115
Pension costs	65	44
Equity settled share based payment charge	224	173
	1,841	1,313

The average number of employees during the year was

	2007 Number	2006 Number
Directors	9	5
Sales	5	6
Engineering	5	3
Technical	3	1
Administrative	4	3
Site	9	8
Total	35	26

The Group's equity-settled share-based payments comprise the Enterprise Management Incentive Share Option Scheme. The amount of shares held in the Employee Share Option plan and details of shares and share options subject to equity-settled share based payment charges are set out in note 27

9. Directors' remuneration, interests and transactions

Aggregate remuneration

The total amounts for Directors' remuneration and other benefits were as follows

	2007 £'000	2006 £'000
Emoluments	613	297
Pension costs	39	26
Gain on exercise of share options	189	-
	841	323

Directors' remuneration shown above included the following amounts payable in respect of the highest paid director

	2007 £'000	2006 £'000
Emoluments	148	120
Pension costs	16	9
	164	129

Directors' share options

Details of options held by directors at year end are as follows

Director	Date Granted	Exercise Price	Number of Shares	First Date of Exercise	Expiry Date
Dr A Heyworth	01 05 2001	£1 300	56,731	02 05 2004	01 05 2011
Dr A Heyworth	23 08 2005	£0 370	132,122	24 08 2008	23 08 2015
T Willis	03 03 2005	£0 380	131,580	04 03 2008	03 03 2015
T Willis	23 08 2005	£0 370	132,275	24 08 2008	23 08 2015
T Willis	18 07 2007	£1 130	120,721	19 07 2010	18 07 2017
M Fishwick	03 03 2005	£0 360	277,778	04 03 2008	03 03 2015
M Fishwick	23 08 2005	£0 370	249,930	24 08 2008	23 08 2015
M Fishwick	15 08 2006	£0 700	230,000	16 08 2009	15 08 2016
M Fishwick	18 07 2007	£1 130	207,640	19 07 2010	18 07 2017
D Benjafield	15 02 2007	£1 215	76,000	16 02 2010	15 02 2017
Mike Orr	03 03 2005	£0 380	65,780	04 03 2008	03 03 2015
Mike Orr	30 06 2006	£0 370	66,138	01 07 2009	30 06 2016
Mike Orr	15 08 2006	£0 700	57,509	16 08 2009	15 08 2016
Mike Orr	18 07 2007	£1 130	53,117	19 07 2010	18 07 2017
Fergus Healy	17 10 2005	£0 370	181,818	18 10 2008	17 10 2015
Fergus Healy	17 10 2005	£0 370	82,036	18 10 2008	17 10 2015
Jayne Pierre	15 12 2006	£0 715	189,427	16 12 2009	15 12 2016
Jayne Pierre	18 07 2007	£1 130	53,117	19 07 2010	18 07 2017
F Maudsley Drain	01 05 2001	£1 300	13,000	02 05 2004	01 05 2011
F Maudsley Drain	20 02 2003	£0 500	25,000	21 02 2006	20 02 2013
F Maudsley Drain	03 10 2003	£0 500	120,800	04 10 2006	03 10 2013
F Maudsley Drain	15 08 2006	£0 700	18,627	16 08 2009	15 08 2016
F Maudsley Drain	18 07 2007	£1 130	53,117	19 07 2010	18 07 2017

The Group's equity-settled share-based payments comprise the Enterprise Management Incentive Share Option Scheme. The amount of shares held in the Employee Share Option plan and details of shares and share options

subject to equity-settled share based payment charges are set out in note 27. The directors' interests in the share capital of the Company is disclosed in the Report of the Directors.

10. Income tax

	2007 £'000	2006 £'000
Current income tax	(86)	(61)
Adjustments recognised in the current year in relation to the current tax of prior years	-	-
Total income tax	<u>(86)</u>	<u>(61)</u>

The total credit for the year can be reconciled to the accounting loss as follows

	2007 £'000	2006 £'000
Loss before tax	<u>(3,120)</u>	<u>(1,318)</u>
Income tax credit calculated at 30% (2006 30%)	(936)	(395)
Effect of income that is not chargeable in determining taxable profit	(73)	(77)
Losses surrendered for R&D tax credit	161	75
Repayable R&D tax credit	(86)	(61)
Movement in unprovided deferred tax asset	611	397
Effect of change in rate of deferred tax	237	-
	<u>(86)</u>	<u>(61)</u>
Adjustments recognised in the current year in relation to the current tax of prior years	-	-
Income tax income recognised in the profit and loss	<u>(86)</u>	<u>(61)</u>

Current tax assets and liabilities

	2007 £'000	2006 £'000
Current tax assets		
R&D tax credit recoverable	<u>(86)</u>	<u>(61)</u>

Unrecognised deferred tax asset

The following deferred tax assets have not been recognised at the balance sheet date

	2007 £'000	2006 £'000
Tax losses	(4,145)	(3,342)
Accelerated tax depreciation	619	372
Temporary differences	(155)	(100)
	<u>(3,681)</u>	<u>(3,070)</u>

11. Loss per share

The loss per share is calculated by reference to the losses attributable to ordinary shareholders divided by the weighted average of 45,111,984 ordinary shares for the 12 months to 31 December 2007, and 33,451,682 for the 12 months to 31 December 2006

	2007	2006
	£'000	£'000
Attributable loss	<u>(3,034)</u>	<u>(1,257)</u>
	No.	No.
Average number of shares in issue for basic and diluted loss per share	<u>45,111,984</u>	<u>33,451,682</u>
Loss per share	<u>(6.725p)</u>	<u>(3.757p)</u>

The share options in issue are anti-dilutive in respect of the basic loss per share calculation and have therefore not been included

12. Goodwill

	Goodwill £'000
Cost and net book value	
At 1 January 2006	<u>2,270</u>
At 31 December 2006	<u>2,270</u>
At 31 December 2007	<u>2,270</u>

The carrying amount of goodwill has been allocated as follows

	2007 £'000	2006 £'000
Build, own and operate	<u>2,270</u>	<u>2,270</u>

The goodwill relates to the acquisition of the composting business in Perthshire in 2005

Annual test for impairment

The Group tests goodwill annually for impairment, or more frequently if there are incidents in that the goodwill might be impaired

The recoverable amounts of the cash generating units (CGU's) are determined from value in use calculations. The key assumptions to the value in use calculations are those regarding the discount rates, growth rates and expected changes to the selling prices and direct costs. Management estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the CGU's. The growth rates are based on the Directors' growth forecasts calculated based on significant higher plant utilisation in 2008 due to a significant increase in sales and confidence in the growth of the market. Changes in selling prices and direct costs are based on past practices and expectations of future changes in the market.

The recoverable amounts of the CGU's has been determined based on a value in use calculation which uses cashflow projections based on financial budgets approved by the Directors' covering a five year period, and a discount rate of 8% per annum (2006 8%). The discount rate of 8% is consistent with the rate of return expected by the market considering the CGU's forecast cashflow amounts, timing and risk profile. Cashflows beyond that five year period have been extrapolated using a steady 2.5% per annum growth rate (2006 2.5%) which is based on historic trends, anticipated market demand and the prospective increase in landfill tax over the period.

13. Other intangible assets

Intellectual Property Rights £'000

Cost

At 1 January 2006, 31 December 2006 and 31 December 2007

40

Amortisation

At 1 January 2006, 31 December 2006 and 31 December 2007

40

Net book amount

31 December 2007

-

At 31 December 2006

-

At 1 January 2006

-

The intellectual property rights represent the purchase of an innovative system of accelerated composting for £35,000 and the design of the Twin Cage Composter for £5,000

14. Property, plant and equipment

	Vehicles	Plant and Machinery	Fixtures and fittings	Silo-Cage Systems	Assets in the course of construction / deferred development	Freehold land and buildings	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Cost							
At 1 January 2006	96	379	100	755	-	-	1,330
Additions	-	206	9	1,528	3,024	2,081	6,848
Disposals	(24)	(38)	-	(6)	-	-	(68)
At 31 December 2006	72	547	109	2,277	3,024	2,081	8,110
Additions	-	589	34	1,471	5	738	2,837
Disposals	-	(27)	(21)	(1)	-	-	(49)
Transfer	-	335	-	418	(3,013)	2,260	-
At 31 December 2007	72	1,444	122	4,165	16	5,079	10,898
Accumulated depreciation							
At 1 January 2006	62	68	45	61	-	-	236
Charge for the year	18	95	15	182	-	-	310
Disposals	(22)	(8)	-	-	-	-	(30)
At 31 December 2006	58	155	60	243	-	-	516
Charge for the year	14	247	14	225	-	79	579
Disposals	-	(21)	(15)	-	-	-	(36)
Transfer	-	-	-	(78)	-	78	-
At 31 December 2007	72	381	59	390	-	157	1,059
Net book amount							
At 31 December 2007	-	1,063	63	3,775	16	4,922	9,839
At 31 December 2006	14	392	49	2,034	3,024	2,081	7,594
At 1 January 2006	34	311	55	694	-	-	1,094

Assets in the course of construction include capitalised interest of £Nil (2006 £30,000)

Assets pledged as security

Freehold land with a carrying value of £2,081,000 (2006 £2,081,000) has been pledged to secure the term loan of the Group (see note 20). Plant and equipment with a carrying value of £70,000 (2006 £81,000) has been pledged as security for the bank loan. The Group is not allowed to pledge these assets as security for other borrowings or to sell them to another entity.

In addition, the Group's obligation under finance leases are secured by the lessors' title to the leased assets, which have a carrying amount of £40,000 (2006 £14,000).

During the year, the Group carried out a review of the recoverable amount of its plant and machinery and its Silo-Cage systems. The assets are used in the Group's reportable segments. The review did not lead to a recognition of an impairment. The recoverable amounts of the CGU's has been determined based on a value in use calculation which uses cashflow projections based on financial budgets approved by the Directors covering a five year period, and a discount rate of 8% per annum (2006 8%). Cashflows beyond that five year period have been extrapolated using a steady 2.5% per annum growth rate which is based on historic trends, anticipated market demand and the prospective increase in landfill tax over the period.

15. Inventories

	2007 £'000	2006 £'000
Raw materials	172	6
Work in progress	13	311
Consumables	49	39
	<u>234</u>	<u>356</u>

There were no write downs of inventory in the year (2006 £Nil)

The cost of inventories recognised as an expense in the year was £Nil (2006 £Nil)

16. Trade and other receivables

	2007 £'000	2006 £'000
Trade receivables	538	456
Other receivables	45	150
Prepayments and accrued income	523	42
	<u>1,106</u>	<u>648</u>

The average credit period taken on trade receivables excluding retention and deferred income is 67 days (2006 47 days). Trade receivables do not carry interest. No provision (2006 £Nil) has been made for overdue receivables as all amounts are considered recoverable.

Before accepting any new customers, the Group uses an external credit scoring system to assess the potential customer's credit quality and defines credit limits by customer. Limits attributed to customers are reviewed twice a year.

The proportion of trade receivables balance relating to customers who represent more than 5% of the total is disclosed in note 22. None of the Group's trade receivable balances are past due (2006 £Nil).

17. Cash and cash equivalents

	2007 £'000	2006 £'000
Cash in hand and at bank	<u>8,916</u>	<u>2,242</u>

The effective interest rate on short term deposits for the year ended 31 December 2007 is 5.5% (2006 5%)

18 Construction contracts

Contracts in progress at balance sheet date

	2007 £'000	2006 £'000
Construction costs incurred plus recognised profits less recognised losses to date	882	1,909
Less progress billings	<u>(750)</u>	<u>(1,909)</u>
	<u>132</u>	<u>-</u>
Recognised and included in the financial statements as amounts due		
From customers under construction contracts	<u>342</u>	<u>315</u>

At 31 December 2007, retentions held by customers for contract work amounted to £186,000 (2006 £211,000)

19. Trade and other payables

	2007 £'000	2006 £'000
Trade payables	646	940
Other payables	-	11
Other taxation and social security	63	34
Accruals and deferred income	<u>375</u>	<u>170</u>
	<u>1,084</u>	<u>1,155</u>

Trade payables and accruals principally comprise amounts outstanding from trade purchases and ongoing costs. The average credit period taken for trade purchases is 83 days (2006 99 days). No interest is charged on the trade payables. The Directors consider that the carrying amount of trade payables approximates to their fair value.

20. Borrowings

	2007 £'000	Current 2006 £'000	2007 £'000	Non-current 2006 £'000
Secured – at amortised cost				
Bank loans (i)	142	142	71	213
Term loan (ii)	-	-	2,000	-
Hire Purchase agreements (iii)	8	14	28	-
	150	156	2,099	213

Summary of borrowing arrangements

- (i) Secured on plant and equipment The bank loan is repayable over a remaining 24 equal monthly instalments The interest rate is fixed at 4.3% per annum
- (ii) Secured against freehold land The term loan is repayable over 180 equal monthly instalments The interest rate on the facility is 1.75% above the Bank of Scotland Plc base rate
- (iii) Secured by the leased assets The borrowings are at fixed interest rates with repayment periods not exceeding 4 years

21. Deferred consideration

	2007 £'000	Current 2006 £'000	2007 £'000	Non-current 2006 £'000
Deferred consideration	300	300	1,950	2,250
Deferred consideration discounted element	(48)	(33)	(365)	(480)
	252	267	1,585	1,770

The deferred consideration relates to the acquisition of the Binns Skips composting business in Perthshire in 2005. The consideration is payable in equal quarterly instalments over a remaining period of 8 years.

22. Financial Instruments

Capital risk management

The Group manages capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through optimisation of the debt and equity balance

The capital structure of the Group consists of debt, which includes the borrowings disclosed in note 20, cash and cash equivalents disclosed in note 17 and equity attributable to equity holders of the parent as disclosed in note 23

The disclosure of the gearing ratio has not been included on the basis that the Group was in a net funds position at both 31 December 2007 and 31 December 2006

Significant accounting policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in note 1 to the financial statements

Treasury policies and financial risk

Surplus funds are intended to support short term working capital requirements. These funds are invested through the use of short term and period deposits, with a policy of maximising fixed interest returns as well as providing the flexibility required to fund on-going operations. It is not a Group policy to invest in financial derivatives

Although the financial risks are considered to be minimal at present, future interest rate, liquidity and foreign currency risks could arise and the Board will review its existing policies in the coming period

Categories of financial instruments

	2007 £'000	2006 £'000
Financial assets		
Loans and receivables	<u>10,022</u>	<u>2,890</u>
Financial liabilities		
Other financial liabilities	<u>3,270</u>	<u>1,490</u>

Interest rate risk management

The Group is exposed to interest rate risk as the Group borrows funds at both fixed and floating interest rates. Interest rate risk arises from

- The fixed element of finance leases where the Group typically uses finance leases for fixed periods of up to 5 years to finance the purchase of assets where it is considered to be a more effective use of funds, and
- The term loan facility which bears a floating interest rate
- Cash and short term deposits which bear floating interest rates

Other bank loans are subject to fixed interest rates

Interest rate sensitivity analysis

The sensitivity analysis is prepared assuming the amount of liability outstanding at the balance sheet date was outstanding for five months since draw down. If interest rates had been 50 basis points higher/lower and all other variables were held constant, the Group's loss for the ended 31 December 2007 would increase/decrease by £4,200 (2006 increase/decrease by £Nil). This is attributable to the Group's exposure to interest rates on its variable rate borrowings

At 31 December 2007, the Group's liabilities have contractual maturities which are summarised below

	Current				Non-current			
	within 6 months		6 to 12 months		1 to 5 years		Later than 5 years	
	2007 £'000	2006 £'000	2007 £'000	2006 £'000	2007 £'000	2006 £'000	2007 £'000	2006 £'000
Long-term bank loans	155	80	155	80	1,050	321	2,447	-
Finance lease obligations	7	10	7	5	36	-	-	-
Trade payables	571	940	-	-	75	-	-	-
Other short-term financial liabilities	303	170	-	-	-	-	-	-
Totals	1,036	1,200	162	85	1,161	321	2,447	-

The above contractual maturities reflect the gross cash flows, which may differ to the carrying values of the liabilities at the balance sheet date

Credit risk management

Credit risk refers to the credit risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The principal credit risk arises from the Group's trade receivables. The trade receivable balance of £538,000 (2006 £456,000) includes 6 (2006 4) customers who represent more than 5% of the total balance. At 31 December 2007, 80% (2006 63%) of the trade receivables balance related to these customers. In order to manage credit risk, the Directors set limits for customers based on a combination of payment history, third party credit references and an independent rating agency. The Group's exposure and the credit rating of its counterparties are continuously monitored. Credit exposure is controlled by counterparty limits that are reviewed bi-annually.

Ongoing credit evaluation is performed on the financial condition of accounts receivable.

Liquidity risk management

The Group seeks to manage financial risk by ensuring sufficient liquidity is available to meet foreseeable needs and to invest cash assets safely and profitably.

Surplus funds are invested on a short term basis at money market rates and therefore such funds are available at short notice.

Foreign currency risk management

The Group does not have any foreign currency denominated trade receivables or payables and therefore is not subject to foreign exchange risk.

Borrowing facilities

In 2006 a bank loan of £426,000 was secured against plant and equipment. This loan is repayable in 36 equal instalments at a fixed interest rate of 4.3%. The outstanding balance at 31 December 2007 was £213,000 (2006 £355,000).

In addition to the above, further facilities of £2,000,000 (2006 £Nil) have been secured to help fund the acquisition of the property and the development costs of the Todmorden project. The floating interest rate on the term loan is 1.75% above the Bank of Scotland Plc base rate.

Interest rate risk profile of financial assets and liabilities

	Interest rate			
	Fixed £'000	Floating £'000	Zero £'000	Total £'000
Financial assets				
At December 2007				
Sterling	-	8,861	55	8,916
Financial liabilities				
At December 2007				
Bank loan	213	-	-	213
Term loan	-	2,000	-	2,000
Hire purchase agreements	36	-	-	36
	249	2,000	-	2,249

Fair value of financial assets and financial liabilities

The fair value based upon the market value or discounted cash flows, of the financial instruments detailed above was not materially different from the book values

23 Issued capital

	2007 £'000	2006 £'000
Authorised		
100,000,000 Ordinary shares of £0.05 each	5,000	5,000
Allotted, called up and fully paid		
48,288,381 (2006 38,045,381) Ordinary shares of £0.05 each	2,414	1,902
	Number	£'000
At 1 January 2006	26,385,381	1,319
Issue of shares at £0.70 per share	11,500,000	575
Issue of shares under employee share option plan	160,000	8
At 31 December 2006	38,045,381	1,902
Issue of shares at £1.10 per share	10,000,000	500
Issue of shares under employee share option plan	243,000	12
At 31 December 2007	48,288,381	2,414

On 23 April 2007, the Company placed 10,000,000 new ordinary shares of £0.05 at a price of £1.10 per share, raising £11,000,000 before issue costs of £628,571. The difference between the total consideration of £11,000,000 and the total nominal value of £500,000 and related issue cost of £628,571 has been credited to the share premium account. In addition, on 30 April 2007 and 3 May 2007, 168,000 and 75,000 shares respectively were issued pursuant to share options that were exercised at a price of £0.50 and £0.35 respectively.

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
29 11 1999	£0 850	30 11 2002	29 11 2009	12,000
01 05 2001	£1 300	02 05 2006	01 05 2011	69,731
22 04 2002	£1 150	23 04 2007	22 04 2012	25,000
20 02 2003	£0 500	21 02 2006	20 02 2013	25,000
03 10 2003	£0 500	04 10 2006	03 10 2013	120,300
03 03 2005	£0 380	04 03 2008	03 03 2015	355,235
03 03 2005	£0 360	04 03 2008	03 03 2015	277,778
23 08 2005	£0 370	24 08 2008	23 08 2015	514,327
17 10 2005	£0 370	18 10 2008	17 10 2015	263,854
30 06 2006	£0 370	01 07 2009	30 06 2016	66,138
15 08 2006	£0 700	16 08 2009	15 08 2016	328,063
15 12 2006	£0 715	16 12 2009	15 12 2016	189,427
15 02 2007	£1 125	16 02 2010	15 02 2017	76,000
18 07 2007	£1 130	19 07 2010	18 07 2017	487,712
				<u>2,810,565</u>

The mid market price of the Company's shares on 31 December 2007 was 75 pence. The highest and lowest mid market prices during the year were 145 pence and 74.5 pence respectively.

Capital management policies and procedures

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of debt and equity balance. The strategy remains unchanged from 2006.

24. Subsidiaries

Details of the Company's subsidiaries at 31 December 2007 are as follows:

Name of subsidiary	Place of incorporation and operation	Proportion of ownership interest %	Proportion of voting power held %	Principal activity
TEG Environmental Limited	England and Wales	100	100	Design, build and operation of TEG owned facilities and the sale of Silo-cage plants to third parties
Natural Organic Fertiliser Company Limited	England and Wales	100	100	End product placement

25. Interest in joint ventures

The Group has a 50% share in the ownership of Verdia Horticulture Limited, a joint venture company established in the United Kingdom. The following amounts show the Group's share of the results and the Group's share of assets and liabilities relating to the investment in Verdia Horticulture Limited

	2007 £'000	2006 £'000
Current assets	-	-
Non-current assets	-	-
Current liabilities	-	-
Non-current liabilities	-	-
Group's share of net liabilities	-	-
	2007 £'000	2006 £'000
Total revenue	-	-
Total loss for the year	-	-
Group's share of the loss	-	-

26. Operating lease arrangements

	2007 £'000	2006 £'000
Operating leases payments recognised as an expense in the year	211	211

At the balance sheet date, the Group had outstanding commitments for future minimum lease payments under non cancellable operating leases, which fall due as follows

	Land and buildings		Other	
	2007 £'000	2006 £'000	2007 £'000	2006 £'000
- within one year	176	176	43	36
- in the second to fifth years inclusive	704	704	31	49
- after five years	499	675	-	-
	1,379	1,555	74	85

Leases of land and buildings are typically subject to rent reviews at specific intervals and provide for the lessee to pay all insurance, maintenance and repair costs

27. Share based payments

Equity-settled share option scheme

The Group has a share option scheme for all employees of the Group. Options are exercisable at a price equal to the average quoted market price of the Company's shares on the date of grant. Options are forfeited if the employee leaves the Group before the options vest. The only performance criteria relating to the options is the continuing employment of the holder.

The following reconciles the outstanding share options granted under the employee share option scheme at the beginning and end of the financial year.

	2007	2007	2006	2006
	Number of	Weighted	Number of	Weighted
	share options	average	share options	average
		exercise price		exercise price
		£		£
Outstanding at beginning of year	2,706,776	0.64	2,283,148	0.44
Granted during the year	563,712	1.14	583,628	0.67
Exercised during the year	(243,000)	0.50	(160,000)	0.35
Lapsed during the year	(216,923)	1.30	-	-
Outstanding at the end of the year	2,810,565	0.63	2,706,776	0.64
Exercisable at the end of the year	252,031	0.80	711,954	0.50

The options outstanding at 31 December 2007 had a weighted average exercise price of 63 pence. In 2007, options were granted on 15 February and 18 July. The aggregate of the estimated fair values of the options granted on those dates was £209,566. In 2006, options were granted on 30 June, 15 August and 15 December. The aggregate of the estimated fair values of the options granted on those dates was £171,230.

The following share options under the employee share option scheme were exercised during the financial year.

	Number	Exercised	Share price at
	exercised	date	exercise date
			£
05/09/1997	75,000	03/05/2007	1.25
20/02/2003	50,000	30/04/2007	1.35
03/10/2003	118,000	30/04/2007	1.35
Total exercised during the year	243,000		

No share options were exercised in 2006. The gain on share option exercised in 2007 relating to Directors is disclosed in note 9.

The fair value of the employees' services received in exchange for the grant of share options is recognised as an expense. The total amount to be expensed over the vesting period of three years is determined by reference to the fair value of the share options granted. Fair value is determined by reference to the Black-Scholes option pricing model.

The inputs into the Black-Scholes option pricing model are as follows

	2007	2006
Weighted average exercise price	£0.60	£0.46
Expected volatility	38.34% - 104.98%	46.65% - 104.98%
Expected life	5 years	5 years
Risk-free rate	3.85% - 5.63%	3.85% - 4.87%
Expected dividends	0.00%	0.00%

The volatility of the Group's share price on each date of grant was calculated as the average of volatilities of share prices of companies in the peer group on the corresponding dates. The volatility of share price of each company in the peer group was calculated as the average of annualized standard deviations of daily continuously compounded returns on the Company's shares, calculated over 1, 2, 3, 4 and 5 years back from the date of grant, where applicable.

The Group recognised total expenses of £224,000 (2006: £173,000) related to equity-settled share-based payment transactions in the period.

28. Retirement benefit plan

The Group operates a defined contribution pension scheme. The pension cost charge for the period represents contributions payable by the Group to the scheme and amounted to £65,000 (2006: £44,000).

29. Capital Commitments

At 31 December 2007, the Group had outstanding capital commitments of £462,000 (2006: £971,000).

30. Related party transactions

Transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation and are not disclosed in this note. Apart from those disclosed below, there are no other related party transactions to be disclosed.

Key management compensation

The remuneration of Directors, who are the key management personnel of the Group, is set out below, in aggregate for each of the categories specified in IAS24 'Related Party Disclosures'.

	2007 £'000	2006 £'000
Short term employee benefits	652	323
Charge to income in the year in respect of share based payments	224	173

31. Developments during the year

On 1 January 2007, the operations of the Group were restructured, such that the trade, assets and liabilities of the business were transferred from The TEG Group Plc to TEG Environmental Limited at book value for a consideration of £9,610,000.

Company Balance sheet

as at 31 December 2007

	Note	2007 £'000	Restated 2006 £'000
Fixed assets			
Intangible assets	3	-	2,057
Tangible assets	4	-	7,594
Investments	5	-	-
		-	9,651
Current assets			
Stocks	6	-	356
Debtors	7	10,885	708
Cash at bank and in hand		8,714	2,244
		19,599	3,308
Creditors: amounts falling due within one year	8	(69)	(1,578)
Net current assets		19,530	1,730
Total assets less current liabilities		19,530	11,381
Creditors: amounts falling due after more than one year	9	-	(1,983)
Net assets		19,530	9,398
Capital and reserves			
Called up share capital	11	2,414	1,902
Share premium account	13	29,357	19,388
Other reserve	13	460	327
Profit and loss account	13	(12,701)	(12,219)
Shareholders' funds	14	19,530	9,398

The financial statements were approved by the Board of Directors on 2 April 2008 and signed on their behalf by



M Fishwick
Director
2 April 2008

Notes to the Company financial statements

Basis of preparation

The accounts have been prepared in accordance with the Companies Act 1985 and United Kingdom Generally Accepted Accounting Practice ("UK GAAP"), under the historical cost convention. As permitted by section 230 of the Companies Act 1985, no separate profit and loss account has been presented in respect of the Company. The TEG Group Plc reported a loss for the financial year of £482,000 (2006 restated £1,470,000)

As permitted by FRS 1 "Cash Flow Statements (Revised)", no cash flow statement has been prepared as the cash flows of the Company are included in the consolidated financial statements of The TEG Group Plc which are publicly available. The consolidated financial statements of The TEG Group Plc, which are presented separately, have been prepared in accordance with International Financial Reporting Standards

1. Principal accounting policies

The principal accounting policies of the Company, applied under UK GAAP, have remained unchanged during the year with the exception of the capitalisation of finance costs attributable to the construction of tangible fixed assets (see note 13). The directors have reviewed the accounting policies in accordance with FRS 18 and believe them to be the most appropriate to the Company

Tangible fixed assets

Tangible fixed assets are stated at cost less accumulated depreciation net of any provision for impairment. Finance costs on fixed assets additions are capitalised during the period of construction and are written off as part of the total cost. No depreciation is charged during the period of construction. Depreciation is calculated to write down the cost of all tangible fixed assets other than freehold land over their expected useful economic lives. The rates generally applicable are

Vehicles	3 years straight line
Plant and machinery	25% reducing balance
Fixtures and fittings	25% reducing balance
Silo-Cage systems	15 years straight line

Goodwill

Purchased goodwill representing the excess of the fair value of the consideration over the fair value of the identifiable net assets acquired is capitalised and is amortised on a straight line basis over its estimated useful economic life

Amortisation

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

Intellectual Property Rights	10 years straight line
Goodwill	11 years straight line

Goodwill is amortised over the useful economic life of the asset to which it relates

Investments

Investments are included at cost less any provision for impairment

Stocks and work in progress

Stocks and work in progress are stated at the lower of cost and net realisable value, after making allowance for obsolete and slow moving items

Costs include materials, direct labour and an attributable proportion of manufacturing overheads based on normal levels of activity. Net realisable value is based on estimated selling price, less further costs expected to be incurred to completion

Notes to the Company financial statements

Financial instruments

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into

A financial liability exists where there is a contractual obligation to deliver cash or another financial asset to another entity, or to exchange financial assets or financial liabilities under potentially unfavourable conditions

Finance costs and gains or losses relating to financial liabilities are included in the profit and loss account. The carrying amount of the liability is increased by the finance cost and reduced by payments made in respect of that liability. Finance costs are calculated so as to produce a constant rate of charge on the outstanding liability.

An equity instrument is any contract that evidences a residual interest in the assets of the Company after deducting all of its liabilities.

Deferred taxation

Deferred tax is recognised on all timing differences where the transactions or events that give the Company an obligation to pay more tax in the future, or a right to pay less in the future, have occurred by the balance sheet date. Deferred tax assets are recognised when it is more likely than not that they will be recovered. Deferred tax is measured using rates of tax that have been enacted or substantively enacted by the balance sheet date.

Leased assets

Assets held under finance leases and hire purchase contracts are capitalised in the balance sheet and depreciated over their expected useful lives. The interest element of leasing payments represents a constant proportion of the capital balance outstanding and is charged to the profit and loss account over the period of the lease.

All other leases are regarded as operating leases and the payments made under them are charged to the profit and loss account on a straight line basis over the lease term.

Research and development costs

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

Share based payments

In accordance with FRS 20, the fair value of equity-settled share-based payments to employees is determined at the date of grant and is expensed on a straight-line basis over the vesting period based on the Company's estimate of shares or options that will eventually vest. In the case of options granted, fair value is measured by the Black-Scholes pricing model. In accordance with the transitional provisions, FRS 20 has been applied only to grants of equity instruments after 7 November 2002 that had not vested at 1 January 2005. Further details are set out in note 12.

Share options granted to the employees of TEG Environmental Limited have not been accounted for within these parent company financial statements, as the share based payment charge has been recognised in the subsidiary undertaking's financial statements.

Contribution to pension funds

The pension costs charged against profits represents the amount of the contributions payable to the defined contribution scheme in respect of the accounting period.

Notes to the Company financial statements

2. Directors and employees

Staff costs during the year were as follows

	2007 £'000	2006 £'000
Wages and salaries	358	981
Social security costs	33	115
Pension costs	31	44
Equity settled share based payment charge	133	173
	555	1,313

The average number of employees during the year was

	2007 Number	2006 Number
Directors	5	5
Sales	-	6
Engineering	-	3
Technical	-	1
Administrative	-	3
Site	-	8
Total	5	26

Directors' remuneration disclosure is included in note 9 to the consolidated financial statements

The Company's equity-settled share-based payments comprise the Enterprise Management Incentive Share Option Scheme. The amount of shares held in the Employee Share Option plan and details of shares and share options subject to equity-settled share based payment charges are set out in note 12

3. Intangible fixed assets

	Goodwill £'000	Intellectual Property Rights £'000	Total £'000
Cost			
At 1 January 2007	2,341	40	2,381
Transferred to subsidiary undertaking	(2,341)	(40)	(2,381)
At 31 December 2007	-	-	-
Amortisation			
At 1 January 2007	284	40	324
Transferred to subsidiary undertaking	(284)	(40)	(324)
At 31 December 2007	-	-	-
Net book amount			
At 31 December 2007	-	-	-
At 31 December 2006	2,057	-	2,057

Notes to the Company financial statements

4. Tangible fixed assets

	Vehicles	Plant and Machinery	Fixtures and fittings	Silo-Cage Systems	Assets in the course of construction	Freehold land	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Cost							
At 1 January 2007 as previously reported	72	547	109	2,277	2,994	2,081	8,080
Finance costs capitalised	-	-	-	-	30	-	30
At 1 January 2007 (restated)	72	547	109	2,277	3,024	2,081	8,110
Transferred to subsidiary undertaking	(72)	(547)	(109)	(2,277)	(3,024)	(2,081)	(8,110)
At 31 December 2007	-	-	-	-	-	-	-
Depreciation							
At 1 January 2007	58	155	60	243	-	-	516
Transferred to subsidiary undertaking	(58)	(155)	(60)	(243)	-	-	(516)
At 31 December 2007	-	-	-	-	-	-	-
Net book amount							
At 31 December 2007	-	-	-	-	-	-	-
At 31 December 2006	14	392	49	2,034	3,024	2,081	7,594

5. Investments

	Subsidiary undertaking £	Joint venture £
Cost		
At 1 January 2007	2	-
Additions	-	50
At 31 December 2007	2	50

On 26 July 2007, the Company subscribed to 50% of the share capital of Verdia Horticulture Limited for a consideration of £50

At 31 December 2007, the Company held 20% or more of the allotted share capital of the following companies

Company name	Country of Incorporation	Shareholding %	Shareholding £	Principal business activities
TEG Environmental Limited	UK	100%	1	Design and construction of Silo-Cage plants
Natural Organic Fertiliser Company Limited	UK	100%	1	End product placement
Verdia Horticulture Limited	UK	50%	50	Producer of high quality horticultural and amenity products

Notes to the Company financial statements

6. Stocks

	2007 £'000	2006 £'000
Raw materials	-	6
Work in progress	-	311
Consumables	-	39
	-	356

7. Debtors

	2007 £'000	2006 £'000
Trade debtors	-	456
Other debtors	18	150
R&D tax credit recoverable	29	61
Amounts due from subsidiary undertakings	10,624	-
Prepayments and accrued income	214	41
	10,885	708

8. Creditors: amounts falling due within one year

	2007 £'000	2006 £'000
Deferred consideration	-	300
Deferred consideration discounted element	-	(33)
	-	267
Trade creditors	8	941
Other creditors	-	11
Other taxation and social security	16	34
Bank loan	-	142
Hire purchase agreements	-	14
Accruals and deferred income	45	170
	69	1,578

9. Creditors: amounts falling due after more than one year

	2007 £'000	2006 £'000
Deferred consideration	-	2,250
Deferred consideration - discounted element	-	(480)
	-	1,770
Bank loan	-	213
Hire purchase agreements	-	-
	-	1,983

Notes to the Company financial statements

10. Borrowings

Borrowings are repayable as follows

	2007 £'000	2006 £'000
Within one year		
Hire purchase agreements	-	14
Bank loan	-	142
After one and within two years		
Hire purchase agreements	-	-
Bank loan	-	142
Between two and five years		
Bank loan	-	71
	<u>-</u>	<u>369</u>

11. Share capital

	2007 £'000	2006 £'000
Authorised		
100,000,000 Ordinary shares of £0.05 each	<u>5,000</u>	<u>5,000</u>
Allotted, called up and fully paid		
48,111,984 (2006: 38,045,381) Ordinary shares of £0.05 each	<u>2,414</u>	<u>1,902</u>

On 23 April 2007, the Company placed 10,000,000 new ordinary shares of £0.05 at a price of £1.10 per share, raising £11,000,000 before issue costs of £628,571. The difference between the total consideration of £11,000,000 and the total nominal value of £500,000 and related issue cost of £628,571 has been credited to the share premium account. In addition, on 30 April 2007 and 3 May 2007, 168,000 and 75,000 shares respectively were issued pursuant to share options that were exercised at a price of £0.50 and £0.35 respectively.

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
01.05.2001	£1.300	02.05.2006	01.05.2011	56,731
03.03.2005	£0.380	04.03.2008	03.03.2015	131,580
03.03.2005	£0.360	04.03.2008	03.03.2015	277,778
23.08.2005	£0.370	24.08.2008	23.08.2015	514,327
15.08.2006	£0.700	16.08.2009	15.08.2016	230,000
15.02.2007	£1.125	16.02.2010	15.02.2017	76,000
18.07.2007	£1.130	19.07.2010	18.07.2017	328,361
				<u>1,614,777</u>

The mid market price of the Company's shares on 31 December 2007 was 75 pence. The highest and lowest mid market prices during the year were 145 pence and 74.5 pence respectively.

Notes to the Company financial statements

12. Share based payments

Equity-settled share option scheme

The Company has a share option scheme for all employees of the Company. Options are exercisable at a price equal to the average quoted market price of the Company's shares on the date of grant. Options are forfeited if the employee leaves the Company before the options vest. The only performance criteria relating to the options is the continuing employment of the holder.

	2007	2007	2006	2006
	Number of	Weighted	Number of	Weighted
	share	average	share options	average
	options	exercise price		exercise price
		£		£
Outstanding at beginning of year	2,706,776	0.64	2,283,148	0.44
Transferred to subsidiary undertaking	(1,421,360)	0.64	-	-
Granted during the year	404,361	1.15	583,628	0.67
Exercised during the year	(75,000)	0.35	(160,000)	0.35
Outstanding at the end of the year	1,614,777	0.73	2,706,776	0.64
Exercisable at the end of the year	56,731	1.30	711,954	0.50

The options outstanding at 31 December 2007 had a weighted average exercise price of 73 pence. In 2007, options were granted on 15 February and 18 July. The aggregate of the estimated fair values of the options granted on those dates was £152,000. In 2006, options were granted on 15 August. The aggregate of the estimated fair values of the options granted on those dates was £70,000.

The fair value of the employees services received in exchange for the grant of share options is recognised as an expense. The total amount to be expensed over the vesting period of three years is determined by reference to the fair value of the share options granted. Fair value is determined by reference to the Black-Scholes option pricing model.

The inputs into the Black-Scholes option pricing model are as follows:

	2007	2006
Weighted average exercise price	£0.60	£0.46
Expected volatility	38.34% - 104.98%	46.65% - 104.98%
Expected life	5 years	5 years
Risk-free rate	3.85% - 5.63%	3.85% - 4.87%
Expected dividends	0.00%	0.00%

The volatility of the Company's share price on each date of grant was calculated as the average of volatilities of share prices of companies in the peer group on the corresponding dates. The volatility of share price of each company in the peer group was calculated as the average of annualized standard deviations of daily continuously compounded returns on the Company's shares, calculated over 1, 2, 3, 4 and 5 years back from the date of grant, where applicable.

The Company recognised total expenses of £133,000 (2006: £173,000) related to equity-settled share-based payment transactions in the period.

The Company has applied the requirements of 'FRS 20 Share-based Payments'. In accordance with the transition provisions, FRS 20 has been applied only to grants of equity instruments after 7 November 2002 that had not vested as at 1 January 2005.

Notes to the Company financial statements

13. Reserves

	Share premium account £'000	Other reserves £'000	Profit and loss account £'000
At 1 January 2007 as previously reported	19,388	327	(12,249)
Prior year adjustment	-	-	30
At 1 January 2007 (restated)	19,388	327	(12,219)
Loss for the financial year	-	-	(482)
Gross premium on allotment	10,598	-	-
Issue costs	(629)	-	-
FRS 20 share option charge	-	133	-
At 31 December 2007	29,357	460	(12,701)

'Other reserves' arises on the grant of share options to employees under the share option plan. Further information about share-based payments to employees is set out in note 12.

Prior year results have been restated following a change in the Company's accounting policy in respect of finance costs incurred on fixed assets in the course of construction, which are now capitalised. Historically, such costs were charged directly to the profit and loss account during the period in which they were incurred. Comparative figures have been restated to reflect the revised basis of preparation. The effect of the prior year adjustment is as follows:

	2006 As previously reported £'000	2006 Prior year adjustment £'000	2006 As restated £'000
<i>Company profit and loss</i>			
Loss before taxation	(1,561)	30	(1,531)
Taxation	61	-	61
Loss after taxation	(1,500)	30	(1,470)

	Tangible fixed assets £'000	Shareholders' funds £'000
<i>Company balance sheet</i>		
2006 as previously reported	7,564	9,368
Prior year adjustment	30	30
2006 as restated	7,594	9,398

Notes to the Company financial statements

14. Reconciliation of movement in shareholders' funds

	2006 £	Restated 2006 £
Loss for the financial year	(482)	(1,470)
Issue of shares	10,481	7,661
FRS 20 share option charge	133	173
Net addition to shareholders' funds	10,132	6,365
Opening shareholders' funds	9,398	3,033
Closing shareholders' funds	19,530	9,398

15. Leasing commitments

	2007 Land and buildings £'000	Other £'000	2006 Land and buildings £'000	Other £'000
- within one year	-	-	-	-
- within two to five years	-	-	-	36
- in five years or more	36	-	176	-
	36	-	176	36

16. Pension scheme

The Company operates a defined contribution pension scheme. The pension cost charge for the period represents contributions payable by the Company to the scheme and amounted to £31,000 (2006 £44,000).

17. Capital Commitments

At 31 December 2007, the Company had outstanding capital commitments of £Nil (2006 £971,000).

18. Related party transactions

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

19. Developments during the year

On 1 January 2007, the operations of the Group were restructured, such that the trade, assets and liabilities of the business were transferred from The TEG Group Plc to TEG Environmental Limited at book value for a consideration of £9,610,000.