TEG GROUP PLC
Financial Statements
For the year ended 31 December 2008

Company number 3109613

Company Information

Company registration number:	3109613
Registered office:	Westmarch House 42 Eaton Avenue Buckshaw Village Chorley Lancashire PR7 7NA
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

Contents

Chairman's statement

I am delighted to present the Group's 2008 annual report for the year ended 31 December 2008. TEG has delivered a significant increase in revenues and performance and the year has proved to be the defining period the Board had expected.

Trading for 2008 has matched expectations. Full year turnover for 2008 was £12,706,000 (2007: £2,169,000) and losses were reduced to £1,475,000 (2007: £3,034,000 loss), after share based administration expenses. The Group recorded a gross profit of £1,997,000 (2007 £236,000 loss). No dividend is recommended.

Pleasingly, trading in all aspects of the Group's operations improved significantly in 2008. Revenues from plant sales increased substantially with two further facilities being completed and with the commencement of the first facility in Greater Manchester. Revenues from the TEG operating plants increased by 68% and the first revenues were generated by NOFCO and from third party maintenance contracts.

The Group has a healthy cash position with a closing balance as at 31 December 2008 of £6,831,000.

Greater Manchester Waste PFI Contract

Significant progress has been made towards the conclusion of the contract and the Board anticipates that Financial Close for the whole project will be reached in the near future. The contract is for the construction of four plants between 2008 and 2011 to process a total of 175,000 tonnes of kitchen and garden waste per annum. The plants to be constructed by TEG are progressively scheduled for construction between the third quarter of 2008 and the third quarter of 2011.

It is anticipated that revenues will be in excess of £38m over the period of the contract, including the revenues already received in 2008.

As previously announced on the 9 January and 30 April 2008, TEG received Advanced Works Orders ("AWOs") from Costain for the contract, to commence works at Rochdale and Bredbury, the first two of the four projected TEG plants. Construction commenced at Rochdale in June 2008, is well advanced and proceeding to programme. Design works at Bredbury have been largely completed and construction is scheduled to commence in 2009. The AWOs will be subsumed into the main contract.

Plant Sales and Construction

The construction of TEG's sixth facility, for Gwynedd Council, was completed on schedule in April 2008. The plant has run well since handover and TEG has been awarded a maintenance contract to carry out scheduled maintenance on the facility.

Expansion of the Todmorden facility was completed as planned to accommodate increased sales volumes. A further 12,000 tonnes per annum of capacity was installed by the end of the year bringing the total capacity to approximately 37,000 tonnes per annum.

Construction of the first plant for Verdia Horticulture Limited ("Verdia") at Hillbarton, a Glendale site near Exeter, was completed in December 2008 and the plant is being commissioned during the first quarter of 2009. Verdia is the joint venture between TEG and Glendale Managed Services Limited.

During the second half of 2008, TEG constructed its first air management systems and biofilters for third party customers, successfully installing 2 plants. Air management systems are an important feature of all organic waste management facilities and TEG has successfully developed its own design of biofilter that has been in operation at Todmorden for 12 months.

Group Plant Operations

Plant performance has generally been good throughout the year with no significant plant outages.

Sales at Sherdley Farm in Preston increased by 137% on the same period in 2007. Customers now include two Local Authorities in addition to Veolia, Greater Manchester Waste Limited, Heinz and Schwan.

Todmorden completed its first full year of trading and by the end of the year contracted waste volume exceeded capacity, hence the installation of additional capacity. Whilst direct comparison with 2007 is not possible, waste sales in the first half of 2008 increased by 45% on the second half of 2007, and increased by a further 74% in the second half of 2008. Todmorden sales became the highest for any of the Group's operations in H2 of 2008.

Sales at the TEG plant in Perth were 8% higher in 2008 than in 2007 and the Board is pleased with the continued sales growth. Customer density is lower than at the other TEG facilities and the market is increasingly competitive but, despite this, the facility continues to contribute a positive gross margin to the Group.

Natural Organic Fertiliser Company Limited ("NOFCO")

NOFCO has continued to make excellent progress in the development of end markets for TEG's compost product. The first sales of compost were achieved at Perth where revenues exceed distribution costs and sales revenues across all the plants improved further in the second half of 2008.

The prestigious PAS100 Quality Protocol accreditation standard for TEG compost has been achieved at all three TEG facilities and this has enhanced the value of TEG's products. By achieving the PAS100 Quality Protocol standard, TEG's compost is classified by regulators as a product rather than a recycled waste material, thereby reducing the regulatory burden on product sales. New markets are developing for PAS100 standard compost and the Board anticipates further increases in revenues in 2009.

Market Update

As previously announced, the annual Landfill Tax ("LFT") escalator was increased in April 2008. The previous annual escalator of £3 per tonne of waste landfilled rose to £8 per tonne which, together with annual cost increases by operators, resulted in an overall price increase of £9-10 per tonne during the year. The same level of increase in LFT is also anticipated in April 2009 and 2010 bringing the tax from £24 per tonne at the start of 2008 to a total of £48 per tonne by April 2010, an increase of 100% over the 3 year period. TEG has observed an increase in market activity and recycling which it attributes to the increases in LFT.

In addition, statutory targets on Local Authorities for the diversion of waste from landfill are a further stimulus for the market and the Group has observed that the market continues to grow strongly.

A significant observation in 2008 has been the emphasis from Government on the potential for Anaerobic Digestion ("AD") as a form of renewable energy. In addition to its potential as an alternative means of food waste recycling, AD produces methane which can be burned in a turbine to produce renewable energy and it attracts Renewable Obligations Certificates. The methane can also be captured for use as a vehicle fuel. Whilst the technology is considered new to the UK, with only a handful of operators in the food waste sector, it is anticipated that Government will encourage the development of AD as a technology to be considered alongside the now established In Vessel Composting technologies.

The Group was delighted to be recognised for its achievements to date with two prestigious awards during 2008. The first was the AIM Achievement in Sustainability Award and the second was the Local Authority Partnership Award made by the Association for Organics Recycling. This was a joint award won with one of our customers, Sefton Council in Merseyside.

Chairman's statement

New Technologies

As announced on 10 March 2009, the Group has entered into a partnership and collaboration agreement with UTS Biogastechnik GmbH ("UTS"), the Munich based Anaerobic Digestion technology provider. In keeping with our observations of market developments, as detailed above in Market Update, the Board believes there will be considerable growth in AD in the United Kingdom over the next decade and TEG's expertise in organic waste treatment, operational experience and agricultural end market experience makes it ideally placed to develop AD facilities in tandem with its Silo Cage composting technology.

UTS is a market leader in AD technology with an impressive track record of facilities throughout Europe. Over a period of 15 years, UTS has constructed 70 AD plants and provided equipment to a further 1500. Crucially, UTS has a strong record in facilities processing food and catering waste, the feedstock TEG believes will be the most prevalent in new AD facilities in the UK.

TEG offers the partnership a track record in delivering projects in the public sector in the UK with the engineering and technical expertise to construct, maintain and operate facilities. The UTS technology fits well with the TEG Silo Cage composting technology, allowing the partnership to offer the range of solutions required to treat all Local Authority organic waste streams.

Future Prospects

2008 has seen a significant step change in the revenues for the business with a 6 fold increase in revenues on 2007. The Group's pipeline of opportunities remains pleasingly strong and it is actively bidding for a sizeable number of significant contracts, including a number of further PFI/PPP projects, in addition to a large number of smaller waste sales opportunities.

TEG is still observing very good market growth and a continued increase in interest in the organic waste sector, despite the global economic situation restricting short term funding of developments in the private sector. The addition of an AD technology to TEG's proposition will further broaden the range of opportunities open to TEG in the future.

Revenues for plant sales are recognised against completed programme milestones and are determined by activity levels at each project stage. Construction of the Greater Manchester plants is proceeding to schedule, and activity levels in the first half of 2009 will be consistent with those in the second half of 2008. As the expected activity levels on the Greater Manchester build programme accelerate in the second half of the year, the Board anticipates significant overall growth in 2009 and anticipates continued growth of the Group beyond this period. The Board is confident that the Group has an exciting future with a strong outlook for trading in the remainder of 2009 and beyond.

Nigel Moore

Nigel Moore
Chairman
23 March 2009

Report of the Directors

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 or for other purposes. Forward-looking statements have been made up to the date of this report and such forward-looking statements should be regarded with caution because of the inherent uncertainties in economic trends and business risks.

The Directors present their report together with the audited financial statements for the year ended 31 December 2008.

Nature of operations and general information

The principal activities of The TEG Group Plc and its subsidiaries ('the Group') 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.

The 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 Westmarch House, 42 Eaton Avenue, Buckshaw Village, Chorley, PR7 7NA. TEG Group Plc's shares are listed on the Alternative Investment Market of the London Stock Exchange.

The 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 results for the year and Group's financial position at the end of the year are shown in the attached financial statements. The Directors do not recommend the payment of a dividend leaving the loss of £1,475,000 (2007: £3,034,000) to be transferred to reserves.

Turnover

Turnover has grown by 585% during the year. Plant sales to third party clients has been the major driver for this growth and revenues for this segment increased by 1192% to £10,518,000, whilst revenue in the build own and operate segment increased by 167% to £2,108,000. Revenue from product management increased by 475% to £57,000.

Margins

The increasing maturity in our contract base helps drive margins upwards. We continue to invest in people and systems to improve our future business whilst ensuring that our cost base is efficient and fit for the anticipated growth of our business.

Future developments

An indication of future developments is contained in the Chairman's statement on pages 3 to 5.

Report of the Directors

BUSINESS REVIEW

Marketplace

The market continues to grow as both Landfill Allowance Trading Scheme ("LATS") targets and Landfill Tax ("LFT") make an impact on the Local Authority and private sector markets. The increased rise in LFT of £8 per tonne per annum was implemented in April 2008.

A further rise in LFT is due to 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 an increase in market activity and recycling which it attributes to the increases in LFT.

TEG has observed some signs of a slow down in Local Authority procurement activity due to the current economic climate but this has been limited and larger procurement programmes are continuing. Though the economic climate may cause a limited short term slow down, indications are that the impact on TEG will be minimal and the overall market conditions are still favourable.

The purchasing patterns in the waste market place are driven essentially by the Local Authorities and major waste management companies. Purchasing preferences remain divided between those seeking to purchase and operate their own facilities and those which prefer to outsource waste management and recycling to third parties. Further details can be found in the Chairman's statement on pages 3 to 5.

Strategy and objectives

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

- Build Own and 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.

Considering the purchasing patterns in its market place, the Board believes this strategy is the most suitable for the UK market.

RISK MANAGEMENT

We operate a robust risk management regime addressing all aspects of the business including bidding, project mobilisation, project implementation, operations and final account. This regime ensures that risks are visible at every stage and risk management processes can be effectively implemented to maintain compliance and business efficiency and to maximise margins.

Commercial risk

Commercial risk is identified and reported to the Plc Board and its management is delegated to the subsidiary Boards.

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.

Commercial risk (continued)
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 these customers and suppliers and where possible TEG maintains at least two suppliers for key equipment.

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

Product defect risks
TEG manages product defect risk through:
- Clearly defined warranty conditions in contracts
- Professional indemnity insurance
- Product Liability Insurance

Key performance indicators (KPIs)

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

In addition, the operations team utilises a balanced scorecard system for routine measurement of key operational statistics. These include cost control, process optimisation, compliance and HR management.

Financial and Performance Trends

The business monitors revenue and EBITDA trends for each individual plant and overall on a monthly basis. Trends showing rolling means and progressive means are monitored by both the subsidiary Board and the Plc Board.

The following individual KPIs are utilised routinely throughout the business

Plant operations

- Plant utilisation - Plant utilisation is defined as the percentage of actual tonnage throughput against the notional tonnage throughput. This is a measure used routinely at operator level.
- Waste mix ratio - Waste mix ratio is defined as the ratio of animal by products tonnage against total tonnage.
- Optimisation of loading and offloading regime
- Average gate fee per tonne
- Average cost per tonne

Capital projects

- Average sales price
- Prices by detailed individual component
- Installation programme versus key milestones
- Project cost versus budget
- Post project review process led by the Engineering Director

The business uses project tracking processes to monitor and report performance against KPIs.

Compliance

- Accidents, incidents and near-misses
- Risk assessment action tracking
- Animal by product ('ABP') compliance
- Environmental compliance

The business employs an independent EHS consultant who reports quarterly to the Board.

Report of the Directors

Key performance indicators (KPIs) (continued)

Product management

- Cost of distribution of end product
- End product revenue

Summary Key Performance Indicators for the Group

The following is a summary of KPI trends for the Group. These figures are summaries of the detailed KPIs reported internally:

	2008	2007	Notes
Operations			
Gate fee revenue	**£2,108,000**	£1,257,000	
Average gate fee trend[1]	**2%**	20%	
Sherdley	**12%**	26%	
Perth	**-6%**	30%	Includes low value compost additives
Todmorden	**21%**	Not available	Measured from April 07
Average cost of sale trend[2]	**-17%**	15%	
Sherdley	**-3%**	0%	
Perth	**-21%**	16%	
Todmorden	**-18%**	Not available	Measured from April 07
Capital sales			
Average sales price[3]	**£6,197,000**	£1,488,000	Average of sales value of TEG Silo Cage plants secured during year
Average cost of saleinser[4]	**81%**	82%	Cost of sales of TEG Silo Cage plants
Compliance			
Total accidents[5]	**29**	33	
Reportable accidents[6]	**1**	0	Accidents reportable to HSE
OPA performance[7]	**Satisfactory**	Satisfactory	Perth plant only; measure is satisfactory or unsatisfactory
Product management			
Average price[8]	**£1.05**	£0.17	Average overall price received per tonne produced

1. The increase or decrease in gate fee payable to TEG for waste streams delivered to each facility. The Perth gate fee includes materials used as compost additives which increase the overall revenue but reduce the average gate fee to the facility.
2. The increase or decrease in the cost of sales per tonne of waste processed.
3. The average overall value of capital plant sales.
4. The weighted average cost of sale of capital sales projects.
5. Total accidents recorded across the Group operations.
6. Accidents or incidents requiring notification to the Health and Safety Executive under the requirements of the Health and Safety at work Act.
7. The Operator Performance Assessment (OPA) is an annual assessment carried out by SEPA for sites regulated under the Pollution Prevention and Control (PPC) regime to assess the overall operational performance of the sites against the requirement of the PPC permit.
8. The overall average selling price per tonne of compost across the Group's operations.

Treasury risk management

Surplus funds are intended to support short term working capital requirements and to place bonds necessary for plant 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 as the business grows.

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 placed on deposit to maximise returns to the Group whilst maintaining flexibility to meet day-to-day working capital requirements.

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 2008 was £71,000 (2007: £213,000).

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 2008, £2,000,000 (2007: £2,000,000) 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.

Government legislation

TEG operates in a commercial environment encompassing environmental, legal, health and safety, employment and tax matters. TEG is committed to complying with all of its legal requirements and the clear delegation of responsibility to operating management together with the employment of competent advisers supports this requirement. Changes to legislation are considered carefully and appropriate actions taken to ensure they are incorporated into our business policies and procedures.

Corporate responsibility

Our business impacts on the lives of everyone in the community. We therefore see it as our corporate responsibility to deliver social and environmental sustainability alongside our financial goals.

At TEG, corporate responsibility is much more than a set of policies. It is delivered on the ground, every day though our operational teams working in partnership with our customers, our supply chain and our local communities.

Corporate responsibility (continued)

As a sustainable business, our commitment is to establish the optimum balance of economic, environmental and social aspects. We aim to help create a healthy environment and society through the management of our business.

This commitment affects all areas of our business – our people, our customers, our performance, our supply chain, our investors, our health and safety and our environment. Our success has come from changing and influencing the behaviours of our stakeholders so that good social and environmental practice becomes a habit, delivering sustainability together, throughout our operations.

We focus on developing long term relationships with key customers with whom we can develop innovative solutions. We set high standards for ourselves, but additionally seek to develop an understanding of our customers' corporate responsibility and sustainability business drivers and provide leadership, added value and support.

As a recycling business, the environmental impact of our work is of increasing concern to our customers and their customers – the public. Stakeholder expectations have changed and it is no longer sufficient to deliver economic value alone – we need to deliver social and environmental value too and are mindful of how our actions impact both present and future generations.

We ensure active relationships with local communities. We ensure there is clear communication with neighbours, we hold plant visits and we host community relation groups.

TEG is regulated by the Environment Agency, Animal Health Department, Health and Safety Executive and Local Authorities. Good relationships with regulators are key to an environmental business and we ensure proactive relations with regulators in all these fields. In addition to routine communication, TEG hosts educational visits and sets itself as the benchmark organisation in its sector.

People

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.

Employment policy

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.

Employment policy (continued)

- 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, e-mail, meetings and a quarterly newsletter.

The Group operates 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.

Health and safety

It is Group policy to fulfil its duties under the Health and Safety Act 1974 and all other associated acts and legal obligations applicable to the waste management industry. TEG retains an independent consultant who reports quarterly on health and safety to the Board. In order to achieve the standards required, line management will provide suitable and sufficient resources and properly trained supervision to ensure all work places can carry out their activities in a safe manner.

The Health and Safety management system adapted across the operating business is continuously reviewed and enhanced to ensure it is sufficiently robust to protect the health and safety of all our employees. We monitor the health of our employees by the number of lost time accidents which is measured by lost time accident frequency rate, which has been one for 2008 (2007: None)

It is the responsibility of the Group's management at all levels to be conversant with the contents of the policy and to plan work such that foreseeable risks are identified and reduced to an acceptable level through the implementation of risk assessments. All employees must take care of the health and safety of themselves and actively participate and co-operate with the Group to enable the Group to discharge its statutory responsibilities and fulfil its desire for continual improvement in all safety and welfare matters.

Major interest in shares

As at 9 March 2009 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	4,063,300	8.41%
Vidacos Nominees	2,686,506	5.56%
HSBC Global Custody Nominees	2,348,550	4.86%
Nortrust Nominees Limited IEM01	1,775,800	3.68%
Nortrust Nominees Limited AAV01	1,677,000	3.47%
Chase Nominees Limited	1,600,000	3.31%

Fixed assets

In the opinion of the Directors the market value of the freehold land and buildings does not differ materially from the carrying value in the financial statements.

Share options

The grant of share options is 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, promotions and loyalty.

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 options are granted at market value.

Environmental policy

The 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.

Supplier payment policy

The Group's policy is to adopt "industry typical" payment terms and to clearly agree the terms of payment with suppliers when terms of business are established, by means of a contract or purchase order, and to implement such terms thereafter. Wherever possible, supplier terms for projects are matched with payment terms to TEG.

Key plant and equipment suppliers are normally paid on a milestone basis as parts are manufactured, delivered or installed.

At 31 December 2008, the Group's trade payables represented 51 (2007: 83) days of purchases.

Going concern

At 31 December 2008, the Group's balance sheet showed net cash of £4,560,000 (2007: £6,667,000). After making appropriate enquiries, the Directors have a reasonable expectation that the Company and Group have adequate resources to continue in operational existence for the foreseeable future. For this reason they continue to adopt the going concern basis in preparing the financial statements.

Report of the Directors

Statement of Directors' responsibilities

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare financial statements for the Group in accordance with International Financial Reporting Standards as adopted by the European Union and financial statements for the parent company in accordance with United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice). The financial statements are required by law to 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 subject to any material departures disclosed and explained in the financial statements; 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.

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 489 of the Companies Act 2006.

On behalf of the Board

TWillis

23 March 2009
T. Willis
Finance Director and Company secretary

Corporate governance

The Board is committed to maintaining high standards of Corporate Governance. Whilst the Company is not bound by the provisions of the Combined Code on Corporate Governance, the Board endeavours, so far as practical, to comply with the Code.

The Board

At 31 December 2008, 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 Directors believe that the Board continues to include an appropriate balance of skills and, with them, the ability to provide effective leadership for the Group. The Board continues to review the composition of the Board and is aware that as the Company grows there may be the need for additional non-executive and or executive Directors to be appointed.

All the Directors shown served throughout the year. All Directors are subject to election at the first AGM following appointment and then to re-election at the appropriate AGM every three years.

The role of the Board

The Board's principal responsibility is to deliver shareholder value and provide an overall vision and leadership for the Group. It also has an oversight role, monitoring operational plans and ensuring internal controls and risk management are effective. There is a formal schedule of matters reserved for the Board which provides a framework for the Board to oversee the control of the Group's direction and affairs, 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 Group has an established strategic review process that involves the Directors of both the subsidiary Boards and the Group Board. The business strategy is reviewed regularly throughout the year, the strategy is circulated to all Directors and the overall strategic objectives are communicated to all employees. Whilst the Board is responsible for the overall strategy of the Group, and meets at least once a year to review strategy and the future of the business, the implementation of the strategy is delegated to the Chief Executive.

The Board is assisted in carrying out its duties by the audit and remuneration committees, which have specific and documented responsibilities, described below.

Directors' liability insurance

The Group maintains liability insurance for the Directors and officers of all Group companies. The Directors and officers have also been granted a qualifying third party provision under Section 236 of the Companies Act 2006. Neither the Group's indemnity nor insurance providers cover in the event that a director or officer is proved to have acted fraudulently or dishonestly.

Corporate governance

Board procedures

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 and applicable rules and regulations are followed.
The Company Secretary, in consultation with the Chief Executive, ensures that the information presented to the Board is not only timely but is of sufficient quality to enable members to make an informed decision. The Board considers the wider implications of their decision by taking the following factors into account:

- The likely consequences of any decision in the long term
- The interest of the company's employees
- The need to foster the company's business relationships with customers, suppliers and others
- The impact of the company's operation on the community and the environment
- The desirability of the company maintaining a reputation for high standards of business conduct
- The need to act fairly between members of the company

The Board met formally 11 times during 2008. The tabled below details attendance by Directors at Board meetings during the year:

	Attendance
Executive	
Michael Fishwick	11
Alan Heyworth	11
Tanja Willis	11
Non-executive	
Nigel Moore	11
Douglas Benjafield	11

Audit Committee

The audit committee is chaired by NSJ Moore and its membership comprises both the Non-Executive Directors and two Executive Directors, by invitation.

The committee meets on a bi-annual basis and its terms of reference give the committee responsibility for:

- Monitoring the integrity of the financial statements of the Group, and any formal announcement relating to financial performance;
- Reviewing significant financial reporting judgements and accounting policies;
- Reviewing the effectiveness of the Group's financial reporting and internal control systems;
- Considering, and making recommendations to the Board in relation to appointment, reappointment and removal of the Group's auditors;
- Monitoring the external auditor's independence and effectiveness;
- Considering the requirements of the AIM rules

The Committee does not consider that an internal audit function is yet required for the Group due to the size of the business

The audit committee has responsibility for monitoring the independence of the Group's auditors, Grant Thornton UK LLP ('Grant Thornton'). The Group used Grant Thornton for non-audit matters such as tax compliance and the working capital review in relation to the fundraising in 2007. In accordance with auditing standards, Grant Thornton has advised the Group in writing that the firm is independent within the meaning of regulatory and professional requirements and that the objectivity of the engagement partner and audit staff is not impaired. Having reviewed that opinion, the Board believes that the continuing provision to the Group of both audit and non-audit services has not compromised the independence of the auditors in relation to their audit of the affairs of the Company and the Group.

Sums payable to Grant Thornton in relation to the 2008 audit of the Company and its subsidiaries was £37,000, and in relation to non-audit services provided in the year were £10,000. An analysis of the non-audit services provided is included in note 6 of the financial statements.

Corporate governance

Remuneration Committee

The remuneration committee is chaired by D W Benjafield.

The purpose of the remuneration committee is to establish a formal and transparent procedure for developing policy on executive remuneration and to set remuneration packages for individual Directors. The committee's report on Directors' remuneration may be found on pages 19 to 21.

In addition to the executive and Directors' remuneration, the remuneration committee's terms of reference also extend to the Directors of the subsidiary companies.

Non-executive Directors

The non-executive Directors are appointed by the Board for specific terms. They are subject to periodic reappointment by shareholders and statutory provisions regarding removal.

Both non-executives have significant external commercial experience, and bring expert advice and strong judgement to the Board. The Board believes that the non-executives Directors are independent of management and have no business or other relationships which could materially interfere with the exercise of their independent judgement.

The roles of the Chairman and Chief Executive are separate and clearly defined.

The remuneration of the non-executive Directors is detailed in the Directors' remuneration report, on page 20.

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.

Risk management and internal control

The Board is responsible for the Group's system of internal control and for reviewing its effectiveness. It is the role of management to implement the Board's policies on risk and control through the design and operation of appropriate internal control systems.

For the whole year under review and up to the date of approval of the annual report and accounts, the Board has had formal procedures in place to ensure that it is in a position to consider all aspects of internal control.

The Board continuously reviews the effectiveness of the Group's system of internal control including operational, compliance and risk management procedures, as well as financial. This is part of an ongoing process for identifying, evaluating and managing the significant risks faced by the Group. This process is summarised as follows:

- Operating management is charged with the ongoing responsibility for identifying risks facing each of the operating units and for putting in place procedures to mitigate, manage and monitor risks;
- Operating units formally review all business risks and set out the significant risks to the operations, the controls in place and additional controls, which could be implemented. These proposals are approved by each operating unit's management and submitted to subsidiary board for review and approval. Any significant matters arising from this review are formally reported to the Group Board by the Finance Director to ensure that appropriate initiatives are developed and implemented to manage these risks. The Board is advised in this process by the Audit Committee;

Risk management and internal control (continued)

The key elements of the control framework within which the Group operated are:

- An organisational structure with clearly defined lines of responsibility, delegation of authority and reporting requirements;
- An embedded culture of openness of communication between operating divisional management and the group executive management on matters relating to risk and control;
- Defined expenditure authorisation levels;
- Operating reviews covering all aspects of each business segment; and
- Comprehensive system of financial reporting. An annual budget for each operating segment is prepared in detail and approved by the Chief Executive. The Group Board approves the overall Group's budget and plans. Monthly actual results are reported against budget and the forecast for the year is revised where necessary. Any significant changes and adverse variances are questioned by the Board and remedial action is taken where appropriate. There is weekly cash and treasury reporting to the Finance Director and periodic reporting to the Board on the Group's treasury position.
- Each operating plant and each project has a defined budget which is clearly communicated to all staff members and is reviewed monthly.
- Operating plants operate a balanced scorecard management process. Monthly reviews assess performance against targets covering operational, financial, compliance and HR matters. Performance is reported to each operational site and to the Board.
- All operations are regularly risk assessed and a compliance action programme is in place to monitor corrective actions and approvals.
- Procedures are in place to ensure compliance of operations against the regulatory requirements in force and this is monitored continuously by the technical team.

The system of internal controls is designed to manage rather than eliminate the risk failing to achieve business objectives and provide only reasonable and not absolute assurance against material misstatements or loss.

The risk outlined above, gives reasonable assurance that the structure of controls in operations is appropriate to the Group's situation and that there is an acceptable level of risk throughout the business.

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

Relations 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. The Board arranges for a separate presentation at the AGM meetings to further inform private shareholders. All Directors attend the Annual General Meeting and are available to answer any questions that shareholders may wish to raise.

This report has been approved by the Board and has been signed on behalf of the Board by:

T. Willis
Finance Director and Company Secretary
23 March 2009

Directors' remuneration report

Remuneration Committee

The Remuneration Committee is comprised of the two non-executive Directors and is chaired by D W Benjafield. Executive Directors may also attend meetings as appropriate to the business in hand but are not members of the committee. None of the executive Directors were present at meetings of the committee during consideration of their own remuneration.

Executive Directors' remuneration policy

The Committee's role is to set the remuneration policy for the executive Directors, with the aim of attracting, motivating and retaining executive Directors of a high calibre. To this end, the remuneration committee takes external independent advice where it considers it appropriate to do so and monitors salaries in similar roles by means of benchmarking with reports and surveys.

Basic salary
The salary of each director is determined by the committee, taking into account their personal performance and the prevailing rates in the employment market for executives of comparable status, responsibility, skill, and position in other relevant companies. When determining Directors' salaries the committee is always sensitive to pay and employment conditions throughout the Group.

Bonus scheme
Each of the executive Directors participates in an annual bonus scheme. The payment of any such bonus is dependent upon the extent to which certain financial targets of the Group are met, or exceeded. Payment is also dependent on the extent to which each director achieves, or exceeds, personal objectives in the year. Such targets and objectives are determined by the remuneration committee in relation to each director at the beginning of the financial year. Any such bonus is paid in the financial year following the period during which the targets and objectives have been met.

Share options
An Enterprise Management Incentive Share Option Scheme ('EMI') was established on 27 April 2001, granted under the provisions of Section 62 and Schedule 14 of the Finance Act 2000. All employees of the Company and any of its subsidiaries may be granted options over ordinary shares under the EMI scheme provided that they are not prohibited under the relevant legislation relating to HMRC approved company share option plans from being granted an option by virtue of having a material interest in the Company.

The remuneration committee has absolute discretion to select the persons to whom options are to be granted. Options are not routinely granted on an annual basis but made on an individual basis to reflect performance, increased responsibilities, promotions and loyalty. All grants are intended to promote a longer term involvement in the well-being of the Group and capital growth benefits for option holders. No consideration is payable for the grant of an option.

Each employees participation is limited so that the total outstanding share options shall not exceed 10% of the Company's issued share capital.

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.

Retirement benefit plan
The Group operates a defined contribution pension scheme. Each executive director contributes a percentage of their pensionable salary into the scheme and the Company matches such contribution up to a specific cap.

Non-executive Directors' remuneration policy

The non-executive Directors' remuneration is determined by the Board. The level of remuneration reflects the time commitment and responsibilities of the roles.

Directors' remuneration report

Service contracts

Details of the Directors' service contracts are set out below:

Directors		Date of agreement	Unexpired term	Notice period by company	Notice period by director
Executive					
Michael Fishwick	- Chief Executive	17.01.2005	N/A	6 months	6 months
Alan Heyworth	- Research Director	12.11.1995	N/A	2 years	6 months
Tanja Willis	- Finance Director and Company Secretary	28.06.2004	N/A	6 months	6 months
Non-executive					
Nigel Moore	- Non-executive Chairman	09.12.2003	24 months	3 months	3 months
Douglas Benjafield	- Non-executive Director	01.05.2006	4 months	3 months	3 months

Directors' emoluments

Directors' emoluments is analysed between the following categories:

	2008 Number	2007 Number
Up to £50,000	2	2
£50,001 - £100,000	2	2
£100,001 - £200,000	1	1

Share Options

Directors held awards over ordinary shares as follows:

Directors	Date of award	Exercise price	Earliest vesting date	Awarded at 1 January 2008	Granted in the year	Vested	Awarded as at 31 December 2008
Michael Fishwick	03.03.2005	£ 0.360	04.03.2008	277,778	-	277,778	277,778
	23.08.2005	£ 0.370	24.08.2008	249,930	-	249,930	249,930
	15.08.2006	£ 0.700	16.08.2009	230,000	-	-	230,000
	18.07.2007	£ 1.130	19.07.2010	207,640	-	-	207,640
Alan Heyworth	01.05.2001	£ 1.300	02.05.2004	56,731	-	56,731	56,731
	23.08.2005	£ 0.370	24.08.2008	132,122	-	132,122	132,122
Tanja Willis	03.03.2005	£ 0.380	04.03.2008	131,580	-	131,580	131,581
	23.05.2005	£ 0.370	24.05.2008	132,275	-	132,275	132,275
	18.07.2007	£ 1.130	19.07.2010	120,721	-	-	120,721
	06.05.2008	£ 0.700	07.05.2011	-	96,577	-	96,577
Douglas Benjafield	15.02.2007	£ 1.215	16.02.2010	76,000	-	-	76,000

Directors' remuneration report

Directors' interest in shares

The interest of the Directors (including their spouses' interest) in the shares of the Company at 31 December 2008 were as follows:

Directors	5p ordinary shares at 31 December 2008	5p ordinary shares at 31 December 2007
Beneficial		
Michael Fishwick	11,000	11,000
Alan Heyworth	209,482	209,482
Tanja Willis	11,000	11,000
Nigel Moore	321,547	321,547
Douglas Benjafield	50,000	50,000

The figures stated above are in relation to Directors of the TEG Group Plc and not of its subsidiary companies.

This report has been approved by the Board and has been signed on behalf of the Board by:

D. Benjafield
Chairman of the remuneration committee
23 March 2009

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 2008 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 29 on pages 28 to 53 and notes 1 to 13 on pages 55 to 60. These financial statements have been prepared under the accounting policies set out therein.

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

Respective responsibilities of Directors and auditors

The Directors' responsibilities for preparing the 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, the Directors' remuneration report, the Corporate Governance report 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 2008 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 2008;

- 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

GRANT THORNTON UK LLP
REGISTERED AUDITORS
CHARTERED ACCOUNTANTS
Manchester
23 March 2009

Consolidated income statement
For the year ended 31 December 2008

	Notes	2008 £'000	2007 £'000
Continuing operations			
Revenue	2	**12,706**	2,169
Cost of sales		**(10,709)**	(2,405)
Gross profit / (loss)		**1,997**	(236)
Other expenses		**(3,773)**	(3,118)
Operating loss from continuing operations	3	**(1,776)**	(3,354)
Finance income	4	**407**	436
Finance costs	5	**(248)**	(202)
Loss before tax	6	**(1,617)**	(3,120)
Income tax	9	**142**	86
Loss for the year		**(1,475)**	(3,034)
Attributable to:			
Equity holders of the parent		**(1,475)**	(3,034)
Retained loss		**(1,475)**	(3,034)
Total and continuing loss per share			
Basic and diluted (pence)	10	**(3.055)**	(6.725)

Consolidated balance sheet
at 31 December 2008

	Note	2008 £'000	2007 £'000
ASSETS			
Non-current assets			
Goodwill	11	**2,270**	2,270
Property, plant and equipment	13	**11,014**	9,839
		13,284	12,109
Current assets			
Inventories	14	**192**	234
Trade and other receivables	15	**3,646**	1,106
Taxation receivable	9	**142**	86
Cash and cash equivalents	16	**6,831**	8,916
		10,811	10,342
Total assets		**24,095**	22,451
LIABILITIES			
Current liabilities			
Trade and other payables	18	**4,189**	1,084
Borrowings	19	**247**	150
Deferred consideration	20	**238**	252
		4,674	1,486
Non-current liabilities			
Borrowings	19	**2,024**	2,099
Deferred consideration	20	**1,390**	1,585
		3,414	3,684
Total liabilities		**8,088**	5,170
Net assets		**16,007**	17,281
EQUITY			
Equity attributable to equity holders of the parent			
Share capital	22	**2,414**	2,414
Share premium		**29,357**	29,357
Other reserve		**752**	551
Retained losses		**(16,516)**	(15,041)
Total equity		**16,007**	17,281

These financial statements were approved by the Board of Directors on 23 March 2009.

M Fishwick
Director

T Willis
Director

Consolidated statement of changes in shareholders' equity
for the year ended 31 December 2008

	Share capital £'000	Share premium £'000	Other reserve £'000	Retained losses £'000	Total £'000
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 1 January 2008	**2,414**	**29,357**	**551**	**(15,041)**	**17,281**
Loss for the year	-	-	-	(1,475)	(1,475)
Recognition of share-based payments	-	-	201	-	201
Balance at 31 December 2008	**2,414**	**29,357**	**752**	**(16,516)**	**16,007**

Consolidated cash flow statement
For the year ended 31 December 2008

	Note	2008 £'000	2007 £'000
Cash flows from operating activities			
Loss after taxation		**(1,475)**	(3,034)
Adjustments for:			
Depreciation		**804**	579
Share-based administrative expense		**201**	224
Taxation credit recognised in income statement		**(142)**	(86)
Interest expense		**248**	202
Investment income		**(407)**	(436)
Loss on sale of property, plant and equipment		**47**	10
Increase in trade and other receivables		**(2,540)**	(458)
Decrease in inventories		**42**	122
Increase in trade payables		**3,106**	389
Cash used in operations		**(116)**	(2,488)
Interest paid		**(158)**	(102)
Income taxes received		**86**	61
Net cash used in operating activities		**(188)**	(2,529)
Cash flows from investing activities			
Acquisition of business - deferred consideration		**(300)**	(300)
Purchase of property, plant and equipment		**(1,861)**	(3,259)
Proceeds from sale of equipment		**47**	3
Interest received		**407**	436
Net cash used in investing activities		**(1,707)**	(3,120)
Cash flows from financing activities			
Proceeds from issue of share capital		**-**	10,481
New bank loans raised		**-**	2,000
Repayment of loan		**(142)**	(142)
Payment of finance lease liabilities		**(48)**	(16)
Net cash from financing activities		**(190)**	12,323
Net (decrease) / increase in cash and cash equivalents		**(2,085)**	6,674
Cash and cash equivalents at beginning of the year		**8,916**	2,242
Cash and cash equivalents at end of the year	16	**6,831**	8,916

Notes to the consolidated financial statements

For the year ended 31 December 2008

General information

TEG Group Plc is a Company incorporated in the United Kingdom under the Companies Act 1985. The address and registered office is Westmarch House, 42 Eaton Avenue, Buckshaw Village, Chorley, PR7 7NA. The nature of the Group's operations and its principal activities are set out in the Report of the Director's on page 6.

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). 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.

Critical judgements in applying accounting policies

The following is the critical judgement, apart from those involving estimations, that the Directors have made in the process of applying the entity's accounting policies and that has the most significant effect on the amounts recognised in the financial statements:

i. The timing and quantum of revenue recognition. The Group applies the stage of completion method in accounting for revenue on fixed price construction contracts. This requires the Group to calculate the proportion of the total contract that has been completed at the balance sheet date by reference to the physical completion of key milestones.

Key sources of estimation uncertainty

The following is the key assumption concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that has a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year:

i. Future cash flows and discount rates applied in the 'value in use' goodwill impairment test incorporate the inherent uncertainties involved in predicting future cash flows, operating performance, cost of capital and other variables. The carrying value of goodwill at 31 December 2008 was £2,270,000.

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 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 2008.

Going Concern
The Group meets its day to day working capital requirements through the significant level of cash reserves held. The Group's forecasts and projections, which take into account reasonable possible changes in trading performance, show that the Group has sufficient levels of cash resources to allow the Group to continue in operational existence for the foreseeable future.

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.

Acquisitions of subsidiaries are dealt with by the purchase method. The purchase method involves the recognition at fair value of all identifiable assets and liabilities, including contingent liabilities of the subsidiary, at the acquisition date, regardless of whether or not they were recorded in the financial statements of the subsidiary prior to acquisition. On initial recognition, the assets and liabilities of the subsidiary are included in the consolidated balance sheet at their fair values, which are also used as the bases for subsequent measurement in accordance with the Group accounting policies.

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 profit recognised on sales to joint ventures, where the asset is retained by the joint venture, is generally restricted to that proportion of the gain that is attributable to the interests of the other ventures. The exception to this being when the elimination of the unrealised profit element would create a liability in relation to the Group's interest in the joint venture. In this situation, the restriction of the unrealised profit element would be limited to the amount which would reduce the Group's interest in the joint venture to nil and any remaining profit arising on the transaction would be recognised.

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.

Taxation (continued)
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

The stage of completion at the balance sheet date is determined by confirmation from the customer with regards to the key milestones that have been completed.

Where the outcome of construction contracts 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 Group operates a defined contribution pension scheme. 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.

Financial assets (continued)
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.

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.

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.

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.

Adoption of new and revised standards

Standards and Interpretations in issue not yet adopted
In the current year, the Group has adopted all of the new and revised Standards and Interpretations issued by the International Accounting Standards Board (IASB) and the International Financial Reporting Interpretations Committee (IFRIC) of the IASB that are relevant to its operations and effective for the accounting periods beginning on 1 January 2008.

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 that the adoption of these standards and interpretations in future periods will have no material impact on the consolidated financial statements of the Group other than for additional disclosures on operating segments when IFRS 8 comes into effect and changes to the presentation of the financial statements when IAS 1 comes into effect. 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 IAS27 Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation (effective 1 January 2009)
- Amendments to IFRS1 First-time Adoption of International Financial Reporting Standards and Consolidated and Separate Financial Statements – cost of Investment in Subsidiary, Jointly Controlled Entity or Associate (effective 1 January 2009)
- Amendment to IFRS2 Share-based Payment – vesting Conditions and Cancellations (effective 1 January 2009)
- IFRS 3 Business Combinations (Revised 2008) (effective 1 July 2009)
- IFRS 8 Operating segments (effective 1 January 2009)

2. Revenue

An analysis of the Group's revenue for the year (excluding finance income – see note 4) is as follows:

	2008	2007
	£'000	£'000
Revenue from build, own and operate	**2,108**	1,257
Revenue from sale to third parties	**10,518**	882
Product management	**57**	12
Other revenue	**23**	18
	12,706	2,169

Notes to the consolidated financial statements
For the year ended 31 December 2008

3. Segment information

For management purposes, the Group is currently organised into the following segments: Sale to third parties, Build own and operate facilities, Product management 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. Product management is the management of the compost produced by the facilities that are owned and operated. Other revenue is as a result of maintenance contracts and research and development work carried out for third parties.

Segment information

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

2008

	Build, own and operate £'000	Sales to third parties £'000	Product management £'000	Other revenue £'000	Consolidated £'000
Revenue	2,108	10,518	57	23	12,706
Segment operating profit / (loss)	120	2,074	(197)	-	1,997
Segment corporate expenses	(997)	(775)	(216)	-	(1,988)
Unallocated corporate expenses					(1,785)
Operating loss					(1,776)
Finance income					407
Finance costs					(248)
Loss before taxation					(1,617)
Taxation					142
Loss for the year					(1,475)

Unallocated corporate expenses include £768,000 in respect of future business and research and development costs.

Notes to the consolidated financial statements
For the year ended 31 December 2008

Segment information (continued)

2007

	Build, own and operate £'000	Sales to third parties £'000	Product management £'000	Other revenue £'000	Consolidated £'000
Revenue	1,257	882	12	18	2,169
Segment operating (loss) / profit	(128)	22	(136)	6	(236)
Segment corporate expenses	(836)	(44)	-	-	(880)
Unallocated corporate expenses					(2,238)
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 and research and development costs.

Other information
2008

	Build, own and operate £'000	**Sales to third parties £'000**	**Product management £'000**	**Other revenue £'000**	**Consolidated £'000**
Capital additions	1,785	-	133	-	1,918
Depreciation	732	-	18	-	750

	Build, own and operate £'000	**Sales to third parties £'000**	**Product management £'000**	**Other £'000**	**Consolidated £'000**
Assets					
Segment assets	13,534	3,017	155	-	16,706
Unallocated corporate assets					7,389
Consolidated total assets					24,095
Liabilities					
Segment liabilities	4,223	3,407	89	-	7,719
Unallocated corporate liabilities					369
Consolidated total liabilities					8,088

Notes to the consolidated financial statements

For the year ended 31 December 2008

Segment information (continued)

Other information
2007

	Build, own and operate £'000	Sales to third parties £'000	Product management £'000	Other revenue £'000	Consolidated £'000
Capital additions	2,806	-	-	-	2,806
Depreciation	551	-	-	-	551

	Build, own and operate £'000	Sales to third parties £'000	Product management £'000	Other £'000	Consolidated £'000
Assets					
Segment assets	12,549	518	7	-	13,074
Unallocated corporate assets					9,377
Consolidated total assets					22,451
Liabilities					
Segment liabilities	4,583	328	28	-	4,939
Unallocated corporate liabilities					231
Consolidated total liabilities					5,170

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

4. Finance income

	2008 £'000	2007 £'000
Bank interest receivable	**407**	436

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

Loans and receivables (including cash and bank balances)	**407**	436

Notes to the consolidated financial statements
For the year ended 31 December 2008

5. Finance costs

	2008 £'000	2007 £'000
Interest on obligations under hire purchase	**10**	2
Interest on bank loans	**148**	100
	158	102
Deemed interest on acquisition	**90**	100
Total interest expense	**248**	202

6. Loss on ordinary activities before taxation

The loss on ordinary activities before taxation is stated after charging.

	2008 £'000	2007 £'000
Research and development costs	**203**	53
Depreciation		
- owned	**779**	570
- held under finance leases and hire purchase contracts	**25**	9
Auditors' remuneration		
- audit services	**12**	16
- non audit services	**35**	23
Loss on disposal of property, plant and equipment	**47**	10
Share based payments charge	**201**	224
Operating lease costs		
- land & buildings	**187**	176
- hire of plant and equipment	**8**	8
- motor vehicles	**50**	27

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

	2008 £'000	2007 £'000
Tax advisory	**4**	3
Other advisory	**6**	5
Audit of subsidiary undertakings	**25**	15
Total	**35**	23

7. Employee costs

Staff costs during the year were as follows:

	2008 £'000	2007 £'000
Wages and salaries	**1,590**	1,327
Social security costs	**172**	142
Pension costs	**192**	148
Equity settled share-based payment charge	**201**	224
	2,155	1,841

Employee costs (continued)

The average number of employees during the year was:	**2008 Number**	2007 Number
Directors	**10**	9
Sales	**6**	5
Engineering	**6**	5
Technical	**3**	3
Administrative	**7**	4
Site	**13**	9
Total	**45**	35

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 26.

8. Directors' remuneration, interests and transactions

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

	2008 £'000	2007 £'000
Emoluments	**635**	557
Pension costs	**122**	95
Gain on exercise of share options	**-**	189
	757	841

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

	2008 £'000	2007 £'000
Emoluments	**158**	148
Pension costs	**17**	16
	175	164

An analysis of Directors' emoluments, pension entitlements and their interests in the share capital of the Company is contained in the Directors' remuneration report on pages 19 to 21.

9. Income tax

	2008 £'000	2007 £'000
Current income tax	**(142)**	(86)
Adjustments recognised in the current year in relation to the current tax of prior years	-	-
Total income tax	**(142)**	(86)

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

	2008 £'000	2007 £'000
Loss before tax	**(1,617)**	(3,120)
Income tax credit calculated at 28.5% (2007:30%)	**(461)**	(936)
Effect of expenses not deductible / (income that is not chargeable) in determining taxable profit	**51**	(73)
Losses surrendered for R&D tax credit	**252**	161
Repayable R&D tax credit	**(142)**	(86)
Movement in unprovided deferred tax asset	**87**	611
Effect of change in rate of deferred tax	**71**	237
Income tax recognised in the income statement	**(142)**	(86)

Current tax assets and liabilities

	2008 £'000	2007 £'000
Current tax assets		
R&D tax credit recoverable	**(142)**	(86)

Unrecognised deferred tax asset

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

	2008 £'000	2007 £'000
Tax losses	**(4,546)**	(4,145)
Accelerated tax depreciation	**706**	619
Temporary differences	**(68)**	(155)
	(3,908)	(3,681)

Notes to the consolidated financial statements
For the year ended 31 December 2008

10. Loss per share

The loss per share is calculated by reference to the losses attributable to ordinary shareholders divided by the weighted average of 48,288,381 ordinary shares for the 12 months to 31 December 2008, and 45,111,984 for the 12 months to 31 December 2007.

	2008	2007
	£'000	£'000
Attributable loss	**(1,475)**	(3,034)
	No.	No.
Average number of shares in issue for basic and diluted loss per share	**48,288,381**	45,111,984
Loss per share	**(3.055p)**	(6.725p)

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

11. Goodwill

	Goodwill £'000
Cost and net book value	
At 1 January 2007	2,270
At 31 December 2007	2,270
At 31 December 2008	2,270

The carrying amount of goodwill has been allocated as follows:

	2008 £'000	2007 £'000
Build, own and operate	**2,270**	2,270

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 which indicate that the goodwill might be impaired.

The recoverable amounts of the cash generating unit (CGU) have been determined based on a value in use calculation which uses cashflow projections based on financial budgets approved by the Directors' covering the next five year period.

The key assumptions to the value in use calculation are those regarding the discount rate, growth rate and expected changes to the selling prices and direct costs.

The discount rate has been calculated using the Capital Asset Pricing Model (CAPM) which takes into account the required rate of return of the asset, market risk as well as the expected return of the market and the expected return of a theoretical risk-free asset. The discount rate of 6% (2007: 8%) is consistent with the rate of return expected by the market considering the CGU forecast cashflow amounts, timing and risk profile.

Annual test for impairment (continued)

The annual tonnage growth rate is based on the Directors' growth forecasts and is calculated based on a projected plant utilisation that takes into account new contracts currently under negotiation and expectations in developments in regional markets. The assumed tonnage growth rate of 5% per annum (2007: 5%) is prudent compared with current plant performance.

Selling prices are based on current practices and future expected changes in the market. With the continued increase in Landfill Tax (LFT) of £8 per tonne per annum and the observed increase in recycling activity, the selling price growth rate assumption of 5% (2007 assumed rate: 5%) per annum is considered reasonable.

Changes in direct costs of 3% (2007 assumed rate: 3%) per annum are based on historic trends.

Cashflows beyond the five year period have been extrapolated using a steady 2.5% per annum growth rate (2007 assumed rate: 2.5%) which is based on historic trends, anticipated market demand and the prospective increase in LFT over the period. The Group considers that 2.5% is an appropriate but conservative growth rate based upon current rates of inflation, the Group's targeted growth rates and the rate of growth that the Directors believe to be achievable from the market.

The Directors do no believe that any reasonably possible changes in the value of the key assumptions noted above would cause the CGU carrying amount to exceed its recoverable amount.

12. Other intangible assets

	Intellectual Property Rights £'000
Cost	
At 1 January 2007, 31 December 2007 and 31 December 2008	40
Amortisation	
At 1 January 2007, 31 December 2007 and 31 December 2008	40
Net book amount	
31 December 2008	-
At 31 December 2007	-
At 1 January 2007	-

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.

13. 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 2007	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
Additions	-	972	128	826	12	135	2,073
Disposals	-	(82)	(4)	(3)	(16)	(22)	(127)
At 31 December 2008	72	2,334	246	4,988	12	5,192	12,844
Accumulated depreciation							
At 1 January 2007	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
Charge for the year	-	346	21	317	-	120	804
Disposals	-	(15)	(2)	(4)	-	(12)	(33)
At 31 December 2008	72	712	78	703	-	265	1,830
Net book amount							
At 31 December 2008	-	1,622	168	4,285	12	4,927	11,014
At 31 December 2007	-	1,063	63	3,775	16	4,922	9,839
At 1 January 2007	14	392	49	2,034	3,024	2,081	7,594

Property, plant and equipment

Assets in the course of construction include capitalised interest of £Nil (2007: £30,000)

Assets pledged as security
Freehold land with a carrying value of £2,136,000 (2007: £2,136,000) has been pledged to secure the term loan of the Group (see note 19). Plant and equipment with a carrying value of £59,000 (2007: £70,000) 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 £234,000 (2007: £40,000)

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 have been determined based on a value in use calculation which uses cashflow projections based on financial budgets approved by the Director's covering the next five year period. The key assumptions to the value in use calculation are those regarding the discount rate, growth rate and expected changes to the selling prices and direct costs.

Property, plant and equipment (continued)

The discount rate has been calculated using the Capital Asset Pricing Model (CAPM) which takes into account the required rate of return of the asset, market risk as well as the expected return of the market and the expected return of a theoretical risk-free asset.

Cashflows beyond the 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. The Group considers that 2.5% is an appropriate but conservative growth rate based upon current rates of inflation, the Group's targeted growth rates and the rate of growth that the Directors believe to be achievable from the market.

The Directors do no believe that any reasonably possible changes in the value of the key assumptions noted above would cause the CGU carrying amount to exceed its recoverable amount.

14. Inventories

	2008	2007
	£'000	£'000
Raw materials	**115**	172
Work in progress	**19**	13
Consumables	**58**	49
	192	234

There were no write downs of inventory in the year (2007: £Nil). The cost of inventories recognised as an expense in the year was £Nil (2007: £Nil).

15. Trade and other receivables

	2008	2007
	£'000	£'000
Trade receivables	**3,093**	538
Other receivables	**97**	45
Prepayments and accrued income	**456**	523
	3,646	1,106

The average credit period taken on trade receivables excluding retention and deferred income is 50 days (2007: 67 days). Trade receivables do not carry interest. No provision (2007: £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 the trade receivables balance relating to customers who represent more than 5% of the total is disclosed in note 21. None of the Group's trade receivable balances are past due (2007: £Nil).

16. Cash and cash equivalents

	2008 £'000	2007 £'000
Cash in hand and at bank	**6,831**	8,916

The effective interest rate on short term deposits for the year ended 31 December 2008 is 2.8% (2007: 5.5%).

17. Construction contracts

Contracts in progress at balance sheet date

	2008 £'000	2007 £'000
Construction costs incurred plus recognised profits less recognised losses to date	**9,994**	882
Less: progress billings	**(9,740)**	(750)
	254	132

Recognised and included in the financial statements as amounts due:

From customers under construction contracts	**2,934**	342

At 31 December 2008, retentions held by customers for contract work amounted to £485,000 (2007: £186,000).

18. Trade and other payables

	2008 £'000	2007 £'000
Trade payables	**1,494**	646
Other payables	**36**	-
Other taxation and social security	**15**	63
Accruals and deferred income	**2,644**	375
	4,189	1,084

Trade payables and accruals principally comprise amounts outstanding from trade purchases and ongoing costs. The average credit period taken for trade purchases is 51 days (2007: 83 days). No interest is charged on the trade payables. The Directors consider that the carrying amount of trade payables approximates to their fair value.

19. Borrowings

	Current		Non-current	
	2008	2007	**2008**	2007
	£'000	£'000	**£'000**	£'000
Secured – at amortised cost				
Bank loans (i)	**71**	142	**-**	71
Term loan (ii)	**133**	-	**1,867**	2,000
Hire Purchase agreements (iii)	**43**	8	**157**	28
	247	150	**2,024**	2,099

Summary of borrowing arrangements

(i) Secured on plant and equipment. The bank loan is repayable over a remaining 12 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 commencing in January 2009. 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.

20. Deferred consideration

	Current		Non-current	
	2008	2007	**2008**	2007
	£'000	£'000	**£'000**	£'000
Deferred consideration	**300**	300	**1,650**	1,950
Deferred consideration discounted element	**(62)**	(48)	**(260)**	(365)
	238	252	**1,390**	1,585

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 7 years.

21. 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 whilst 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 19, cash and cash equivalents disclosed in note 16 and equity attributable to equity holders of the parent as disclosed in note 22.

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 2008 and 31 December 2007.

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.

Notes to the consolidated financial statements

For the year ended 31 December 2008

- **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

	2008	2007
	£'000	£'000
Financial assets		
Loans and receivables	**10,477**	10,022
Financial liabilities		
Other financial liabilities	**6,445**	3,270

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.

<u>Interest rate sensitivity analysis</u>

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 2008 would increase/decrease by £4,200 (2007: increase/decrease by £4,200). This is attributable to the Group's exposure to interest rates on its variable rate borrowings.

Financial Instruments

At 31 December 2008, 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	
	2008	2007	**2008**	2007	**2008**	2007	**2008**	2007
	£'000	£'000	**£'000**	£'000	**£'000**	£'000	**£'000**	£'000
Long-term bank loans	**84**	155	**84**	155	**843**	1,050	**1,519**	2,447
Finance lease obligations	**27**	7	**27**	7	**195**	36	**-**	-
Trade payables	**1,494**	571	**-**	-	**-**	75	**-**	-
Other short-term financial liabilities	**2,695**	303	**-**	-	**-**	-	**-**	-
Totals	**4,300**	1,036	**111**	162	**1,038**	1,161	**1,519**	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 £3,093,000 (2007: £538,000) includes 3 (2007: 6) customers who represent more than 5% of the total balance. At 31 December 2008, 87% (2006: 80%) 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 2008 was £71,000 (2007: £213,000).

In addition to the above, further facilities of £2,000,000 (2007: £2,000,000) 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	**Floating**	**Zero**	**Total**
Financial assets	**£'000**	**£'000**	**£'000**	**£'000**
At December 2008				
Sterling	4,916	1,913	2	6,831
Financial liabilities				
At December 2008				
Bank loan	71	-	-	71
Term loan	-	2,000	-	2,000
Hire purchase agreements	200	-	-	200
	271	2,000	-	2,271

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.

22. Issued capital

	2008 £'000	2007 £'000
Authorised		
100,000,000 Ordinary shares of £0.05 each	**5,000**	5,000
Allotted, called up and fully paid		
48,288,381 Ordinary shares of £0.05 each	**2,414**	2,414

	Number	£'000
At 1 January 2007	38,045,381	1,902
Issue of shares at £0.70 per share	10,000,000	500
Issue of shares under employee share option plan	243,000	12
At 31 December 2007 and 31 December 2008	48,288,381	2,414

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
02.01.2008	£0.775	03.01.2011	02.01.2018	48,288
06.05.2008	£0.700	07.05.2011	06.05.2018	410,451
18.07.2008	£0.530	19.07.2011	18.07.2018	24,144
19.11.2008	£0.345	20.11.2011	19.11.2018	120,720
				3,414,168

The mid market price of the Company's shares on 31 December 2008 was 51 pence. The highest and lowest mid market prices during the year were 80 pence and 33 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 2007.

Notes to the consolidated financial statements
For the year ended 31 December 2008

23. Subsidiaries

Details of the Company's subsidiaries at 31 December 2008 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

24. 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 accounting policy with respect to the joint venture is stated in note 1. 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.

	2008 £'000	2007 £'000
Current assets	-	-
Non-current assets	-	-
Current liabilities	-	-
Non-current liabilities	-	-
Group's share of net liabilities	-	-

	2008 £'000	2007 £'000
Total revenue	-	-
Total loss for the year	-	-
Group's share of the loss	-	-

25. Operating lease arrangements

	2008 £'000	2007 £'000
Operating lease payments recognised as an expense in the year	245	211

Operating lease arrangements (continued)
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	
	2008	2007	**2008**	2007
	£'000	£'000	**£'000**	£'000
- within one year	**223**	176	**56**	43
- in the second to fifth years inclusive	**849**	704	**72**	31
- after five years	**571**	499	**-**	-
	1,643	1,379	**128**	74

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.

26. 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:

	2008 Number of share options	2008 Weighted average exercise price £	2007 Number of share options	2007 Weighted average exercise price £
Outstanding at beginning of year	**2,810,565**	**0.63**	2,706,776	0.64
Granted during the year	**603,603**	**0.63**	563,712	1.14
Exercised during the year	**-**	**-**	(243,000)	0.50
Lapsed during the year	**-**	**-**	(216,923)	1.30
Outstanding at the end of the year	**3,414,168**	**0.63**	2,810,565	0.63
Exercisable at the end of the year	**1,663,225**	**0.44**	252,031	0.80

The options outstanding at 31 December 2008 had a weighted average exercise price of 0.63 pence. In 2008, options were granted on 2 January, 6 May, 18 July and 11 November. The aggregate of the estimated fair values of the options granted on those dates was £142,653. 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.

No share options were exercised in 2008 (2007: 243,000)

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.

Equity-settled share option scheme (continued)
The inputs into the Black-Scholes option pricing model are as follows:

	2008	2007
Weighted average exercise price	**£0.60**	£0.60
Expected volatility	**29.21% - 104.98%**	38.34% - 104.98%
Expected life	**5 years**	5 years
Risk-free rate	**2.78% - 5.63%**	3.85% - 5.63%
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 stock, calculated over 1, 2, 3, 4 and 5 years back from the date of grant, where applicable.

The Group recognised total expenses of £201,000 (2007: £224,000) related to equity-settled share-based payment transactions in the period.

27. 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 £96,000 (2007: £65,000).

28. Capital Commitments

At 31 December 2008, the Group had outstanding capital commitments of £426,000 (2007: £462,000)

29. 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'.

	2008	2007
	£'000	£'000
Short term employee benefits	**757**	652
Charge to income in the year in respect of share based payments	**201**	224

Company Balance sheet
as at 31 December 2008

	Note	2008	2007
		£'000	£'000
Fixed assets			
Investments	3	**-**	-
Current assets			
Debtors	4	**13,128**	10,885
Cash at bank and in hand		**6,259**	8,714
		19,387	19,599
Creditors: amounts falling due within one year	5	**(71)**	(69)
Net current assets		**19,316**	19,530
Total assets less current liabilities		**19,316**	19,530
Net assets		**19,316**	19,530
Capital and reserves			
Called up share capital	6	**2,414**	2,414
Share premium account	8	**29,357**	29,357
Other reserve	8	**562**	460
Profit and loss account	8	**(13,017)**	(12,701)
Shareholders' funds	9	**19,316**	19,530

The financial statements were approved by the Board of Directors on 23 March 2009 and signed on their behalf by:

M Fishwick
Director

T Willis
Director

Notes to the company financial statements

For the year ended 31 December 2008

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 £316,000 (2007: £1,482,000).

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. The Directors have reviewed the accounting policies in accordance with FRS 18 and believe them to be the most appropriate to the Company.

Investments

Investments are included at cost less any provision for impairment.

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. Dividends and distributions relating to equity instruments are debited directly to reserves.

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, FRS20 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 7.

Share options granted to the employees of TEG Environmental Limited have not been accounted for within these parent company financials 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.

2. Directors and employees

Staff costs during the year were as follows:

	2008	2007
	£'000	£'000
Wages and salaries	**302**	306
Social security costs	**32**	33
Pension costs	**88**	83
Equity settled share based payment charge	**102**	133
	524	555

The average number of employees during the year was:	**2008**	2007
	Number	Number
Directors	**5**	5

Directors' remuneration disclosure is included in note 8 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 7.

Notes to the company financial statements
For the year ended 31 December 2008

3. Investments

	Subsidiary undertakings £	Joint venture £
Cost		
At 1 January 2008 and 31 December 2008	**2**	**50**

At 31 December 2008, 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

4. Debtors

	2008 £'000	2007 £'000
Other debtors	**54**	18
R&D tax credit recoverable	**26**	29
Amounts due from subsidiary undertakings	**13,036**	10,624
Prepayments and accrued income	**12**	214
	13,128	10,885

5. Creditors: amounts falling due within one year

	2008 £'000	2007 £'000
Trade creditors	**5**	8
Other creditors	**15**	-
Other taxation and social security	**10**	16
Accruals and deferred income	**41**	45
	71	69

6. Share capital

	2008 £'000	2007 £'000
Authorised		
100,000,000 Ordinary shares of £0.05 each	**5,000**	5,000
Allotted, called up and fully paid		
48,288,381 Ordinary shares of £0.05 each	**2,414**	2,414

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
06.05.2008	£0.700	07.05.2011	06.05.2018	96,577
				1,711,354

The mid market price of the Company's shares on 31 December 2008 was 51 pence. The highest and lowest mid market prices during the year were 80 pence and 33 pence respectively.

7. 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.

	2008 Number of share options	2008 Weighted average exercise price £	2007 Number of share options	2007 Weighted average exercise price £
Outstanding at beginning of year	**1,614,777**	**0.73**	2,706,776	0.64
Transferred to subsidiary undertaking	-	-	(1,421,360)	0.64
Granted during the year	**96,577**	**0.70**	404,361	1.15
Exercised during the year	-	-	(75,000)	0.35
Outstanding at the end of the year	**1,711,354**	**0.73**	1,614,777	0.73
Exercisable at the end of the year	**980,416**	**0.42**	56,731	1.30

Share based payments (continued)

The options outstanding at 31 December 2008 had a weighted average exercise price of 73 pence. In 2008, options were granted on 6 May. The aggregate of the estimated fair values of the options granted on those dates was £26,000. 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.

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:

	2008	2007
Weighted average exercise price	**£0.60**	£0.60
Expected volatility	**29.21% - 104.98%**	38.34% - 104.98%
Expected life	**5 years**	5 years
Risk-free rate	**2.78% - 5.63%**	3.85% - 5.63%
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 stock, calculated over 1, 2, 3, 4 and 5 years back from the date of grant, where applicable.

The Company recognised total expenses of £102,000 (2007: £133,000) 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 if equity instruments after 7 November 2002 that had not vested as at 1 January 2005.

8. Reserves

	Share premium account £'000	**Other reserves £'000**	**Profit and loss account £'000**
At 1 January 2008	29,357	460	(12,701)
Loss for the financial year	-	-	(316)
FRS 20 share option charge	-	102	-
At 31 December 2008	29,357	562	(13,017)

'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 7.

9. Reconciliation of movement in shareholders' funds

	2008 £'000	2007 £'000
Loss for the financial year	**(316)**	(482)
Issue of shares	**-**	10,481
FRS 20 share option charge	**102**	133
Net (reduction in) / addition to shareholders' funds	**(214)**	10,132
Opening shareholders' funds	**19,530**	9,398
Closing shareholders' funds	**19,316**	19,530

10. Leasing commitments

	2008 Land and buildings £'000	Other £'000	2007 Land and buildings £'000	Other £'000
- within two to five years	36	7	-	-
- in five years or more	-	-	36	-
	36	7	36	-

11. 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 £44,000 (2007: £31,000).

12. Capital Commitments

At 31 December 2008, the Company had outstanding capital commitments of £Nil (2007: Nil)

13. Related party transactions

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