

SEPARATOR SHEET



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**THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION.** If you are in any doubt as to the contents of this document or the action that you should take, you should immediately consult your stockbroker, bank manager, solicitor, accountant, or other independent professional adviser authorised under the Financial Services Act 1986 who specialises in advising on the acquisition of shares and other securities.

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

A copy of this document, which has been drawn up in accordance with the requirements of the Public Offers of Securities Regulations 1995, has been delivered to the Registrar of Companies in England and Wales as required by Regulation 4(2) of those Regulations.

The Company's Ordinary Shares are traded on OFEX, which is an unregulated facility operated by J.P. Jenkins Limited, which allows trading in shares of unquoted companies. It is emphasised that OFEX is not a regulated market and that no application is currently being made for the admission of the Ordinary Shares to the Official List or the Alternative Investment Market of the London Stock Exchange.

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# TEG ENVIRONMENTAL PLC

(Incorporated in England and Wales under the Companies Act 1985. Registered No. 3109613)

## OFFER FOR SUBSCRIPTION

**of up to 1,000,000 Ordinary Shares of 5 pence each  
at a price of £1.00 per share payable in full on application**

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### Share Capital following the Offer (assuming full subscription)

Authorised			Issued and fully paid	
Number	£		Number	£
100,000,000	5,000,000	Ordinary Shares of 5p each	5,238,253	261,912.65

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The subscription list for the Offer Shares will open at 10.00 a.m. on 9 November 1998 and may be closed at any time thereafter but will close not later than 5.00 p.m. on 4 December 1998, unless extended by the Directors. The terms and conditions of the Offer are set out in Part Five and an Application Form is set out at the end of this document. In the case of Existing Shareholders, a Priority Application Form is inserted in this document. The Offer has not been underwritten.

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

The whole of this document should be read. An investment in the Company involves a significant degree of risk, may result in the loss of the entire investment and may not be suitable for all recipients of this document. Investors should consider carefully the risk factors which are set out in Part Two of this document.

## CONTENTS

	<i>Page</i>
Directors, Secretary and Advisers	3
Definitions	4
PART ONE            Key Information	6
PART TWO            Information on the Company	8
Business of the Company	8
History and Background	8
TEGRO	8
Recent Progress	8
Current Trading and Prospects	9
Technical Background	9
The TEG Silo-Cage	9
EnVigro™ Organic Fertiliser	10
The Market	10
Directors and Management	11
The Offer	13
OFEX	14
Dividend Policy	14
Working Capital	14
Risk Factors	14
Tax Considerations	15
PART THREE        Financial Information	18
PART FOUR        Statutory and General Information	30
PART FIVE        Terms and Conditions of the Offer	37
How to Complete the Application Form and/or the Priority Application Form	39
Application Form	43

## DIRECTORS, SECRETARY AND ADVISERS

### Directors

Allen Sykes *Non-Executive Chairman*  
John Hough *Non-Executive Deputy Chairman*  
Dick Bilborough *Managing Director*  
Dr Alan Heyworth BSc, PhD *Technical Director*  
Alastair Leslie *Non-Executive Director*

The business address for each of the Directors is Crescent House,  
2-6 Sandy Lane, Leyland, Preston, Lancashire PR5 1EB

### Secretary and Registered Office

Monica Bolton  
Crescent House  
2-6 Sandy Lane  
Preston  
Lancashire PR5 1EB

### Financial Adviser

Matrix Corporate Finance  
9-10 Savile Row  
London W1X 1AF

### Auditors and Reporting Accountants

Ernst & Young  
100 Barbirolli Square  
Manchester M2 3EY

### Solicitors to the Company

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

### Bankers

Midland Bank plc  
140 Leadenhall Street  
London EC3V 4PS

### Registrars

IRG plc  
Bourne House  
34 Beckenham Road  
Beckenham  
Kent BR3 4TU

## DEFINITIONS

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

"advance treatment"	The processing of sewage sludge which eliminates or reduces pathogen counts to safe levels.
"the Act"	The Companies Act 1985, as amended.
"Application Form"	The form of application to subscribe for Offer Shares under the Offer which is set out at the end of this document.
"the Board" or "the Directors"	The board of directors of the Company.
"British Retail Consortium" or "BRC"	The trade association of British retailers.
"CGT"	Capital Gains Tax.
"Closing Date"	4 December 1998 or such later date as the Board shall determine not being later than 14 December 1998 or (if the Minimum Amount has been raised by such date) such later date as the Board shall determine.
"Enterprise Investment Scheme" or "EIS"	The Enterprise Investment Scheme and related reliefs as detailed in Chapter III, Part VII of the Income and Corporation Taxes Act 1988 and in Schedule 5B of the Taxation of Chargeable Gains Act 1992 (as amended).
"Existing Shareholder"	A shareholder on the register of members of the Company at the Record Date.
"Investor"	An individual who acquires Ordinary Shares pursuant to the Offer.
"Matrix"	Matrix Corporate Finance, a division of Matrix-Securities Limited, regulated by The Securities and Futures Authority.
"Minimum Amount"	£340,000.
"OFEX"	A facility operated by J.P. Jenkins Limited, a member of the London Stock Exchange Limited, which allows trading in the shares of unquoted companies.
"Offer"	The offer for subscription of up to 1,000,000 Ordinary Shares at the Offer Price set out in this document.
"Offer Price"	£1.00 per Ordinary Share.
"Offer Shares"	Up to 1,000,000 Ordinary Shares to be issued pursuant to the Offer.
"OFWAT"	The Office of Water Services, the economic regulator for the water industry in England and Wales.

TEG ENVIRONMENTAL PLC

"Ordinary Shares"	Ordinary Shares of 5 pence each in the Company.
"POS Regulations"	The Public Offers of Securities Regulations 1995.
"Priority Application Form"	The green form of application to subscribe for Offer Shares under the Offer for use by Existing Shareholders which, in the case of Existing Shareholders, accompanies this document.
"Record Date"	26 October 1998.
"Reinvestment Relief"	CGT holdover relief under Schedule 5B of the Taxation of Chargeable Gains Act 1992 (as amended).
"TEG" or "the Company"	TEG Environmental Plc.
"Water UK"	The water industry's trade association.

## PART ONE

### KEY INFORMATION

The following key information should be read in the context of the whole document including in particular the section headed "Risk Factors" on page 14.

#### TEG's Technology

- TEG's technology has been specifically designed to provide a low cost and efficient method of composting waste products, including sewage sludge, converting such waste into an organic fertiliser that can safely and viably be spread on land.
- The core product, the TEG Silo-Cage, is an industrial scale continuous flow composting plant, which enables the rapid decomposition of organic waste (including toxic and noxious materials) more quickly and efficiently than traditional composting methods.
- The legislative and other changes in the requirements of waste disposal and the Directors' experience over the past twelve months have reinforced their view that there is a significant need for the Company's technology.

#### Legislative and other changes

- On 29 October 1998, OFWAT published the 1999 price review "Prospects for Prices" consultation document which confirms that sewage sludge will by 2001 require "advance treatment" prior to application to fields in certain circumstances.
- Government policy, as announced by the Deputy Prime Minister in September 1998, is to require a higher standard of treatment of all sewage.
- From 31 December 1998 water companies in the UK will be forbidden by legislation from dumping sewage sludge at sea. Approximately 30% of sewage has been disposed of in this way.
- In October 1998, Water UK and the British Retail Consortium agreed that untreated sewage sludge must not be spread on farmland without further "advance treatment". This will affect untreated sludge from December 1998 and digested sludge from December 1999. Approximately 50% of sewage sludge is currently disposed of by land application, including farm and forest land, and it is anticipated that this will increase to 60% as a result of the end of marine disposal.
- Therefore, in future, before disposal, sewage sludge will require "advance treatment" to remove pathogens and this will apply to other noxious wastes such as abattoir waste.

#### Marketing progress

- The Company has made further progress during 1998 towards developing sales of its Silo-Cage composting plant and increasing sales of EnVigro™ and has been concentrating on marketing its Silo-Cages to the water industry.
- It has completed trials of its technology with three water companies, the Directors believe successfully. Discussions are continuing with all these companies and the Directors believe that significant orders should result. Quotations have been submitted to these companies for 6 Silo Cage composting plants, valued at £5,825,000.
- The agreement between the British Retail Consortium and Water UK for the changes to the methods of sewage sludge treatment has taken longer to be concluded than envisaged, but these new requirements are now agreed. The Directors expect to receive the water companies' tender documents for investment in plant for "advance treatment" in 1999.
- The Company is discussing its technology with a number of other potential customers which have significant waste disposal problems, particularly in the pharmaceutical, distillery, abattoir, food and waste management industries. It has supplied 2 companies with quotations totalling £740,000 and is involved in tenders to two local authorities, totalling £2,364,000.

- The Company produces EnVigro™, a humus rich organic fertiliser, which is being marketed to a number of selected customers, including golf courses and playing fields.

#### **Taxation**

- The Company has received advance assurance from the Inland Revenue of its EIS status in respect of the Offer.

#### **Reasons for the Offer and use of proceeds**

Following the £680,000 raised from the January 1998 prospectus, the Company raised a further £218,000 in September 1998 from a small number of shareholders and Directors. This has provided the Company with working and development capital. However, the delay in sales of Silo-Cages, which has resulted from the protracted negotiations and discussions between Water UK and BRC mentioned above concerning advanced treatment of sewage sludge and methods of disposal, means that the Company requires further working capital to enable sales to be developed. The Company is therefore raising up to £1,000,000 before expenses from the Offer.

The Minimum Amount to be raised under the Offer is £340,000.

#### **Priority Applications from Existing Shareholders**

Subject to the terms and conditions of the Offer set out in this document, valid applications received from Existing Shareholders made on green Priority Application Forms will be accepted in priority to applications received from new Investors for up to one Offer Share for each Ordinary Share held on the Record Date. Please see page 37 for further details.

#### **New Investors**

The white Application Form at the back of this document should be completed by new Investors. The Directors would welcome a widening of the shareholder base and anticipate that a minority of the Offer Shares will be subscribed by Existing Shareholders under the priority arrangements, a number having already invested further funds in a placing in September 1998.

#### **Offer Statistics assuming Full Subscription**

Offer Price per Ordinary Share	£1.00
Proceeds of the Offer before expenses	£1,000,000
Estimated proceeds of the Offer net of expenses	£890,000
Number of Ordinary Shares subject to the Offer	1,000,000
Number of Ordinary Shares in issue following the Offer	5,238,253
Percentage of issued share capital represented by the Offer Shares	19.1%
Market capitalisation at the Offer Price	£5.2 million

#### **Expected Timetable**

	<b>1998</b>
Subscription list for the Offer opens	10.00 a.m. on 9 November
Closing Date for applications under the Offer	5.00 p.m. on 4 December
Dealings in Ordinary Shares on OFEX commence	7 December



## PART TWO

### INFORMATION ON THE COMPANY

#### BUSINESS OF THE COMPANY

##### History and Background

TEG was formed in October 1995 to develop and exploit the knowledge, technology and invention of Dr Alan Heyworth, one of the UK's foremost authorities on the science and practical applications of composting. Over a period of thirty years, Dr Heyworth successfully conducted many trials of his technology, including evaluation of several difficult organic wastes by the Public Health Research Laboratory at Porton Down in 1993.

The water industry has been the Company's primary target sector. The Directors have been aware from the outset that changes in legislation would create opportunities for the Company. The first of these is the banning of marine disposal of sewage sludge from 31 December 1998. Other changes are expected to come into force in the period to 31 December 2005, which is covered by the price review announced by OFWAT on 29 October 1998.

Also of considerable importance is the agreement between the British Retail Consortium and Water UK, the water industry's trade association, announced in October 1998. This agreement requires that sewage sludge should be the subject of "advance treatment" before it is applied to agricultural land and has been the subject of protracted negotiations over the last 12 months. The need for "advance treatment" has been endorsed by both Government statements and by OFWAT in the price review proposals.

TEG has been funded to date by private shareholders who have invested £1.73 million since 1995. Following a placing and offer for subscription in January 1998 the Company's Ordinary Shares were admitted to trading on OFEX.

##### TEGRO

The Company entered into a collaboration agreement with Royal Ordnance, a division of British Aerospace plc, in January 1996, whereby the two companies would jointly market, under the TEGRO name, the TEG technology, plant and equipment specifically to UK-based companies in the pharmaceutical and chemical industries, particularly those with organic waste streams of a sensitive nature and with a high cost of disposal.

Royal Ordnance has provided a large building at Chorley, Lancashire as a site for the development and testing of TEG's prototype Silo-Cage industrial scale continuous flow composting plant.

##### Recent Progress

Composting trials of waste products began in April 1997, with commercial scale trials for prospective clients beginning in August 1997.

Good progress has been made with a number of prospective clients, although changes in the disposal and treatment of sewage sludge have taken longer to implement than anticipated. The 13 water and sewage companies in Great Britain regulated by OFWAT have been contacted and the Company is in negotiations with four major companies, for three of which the Company has been conducting trials, the Directors believe successfully. Discussions are continuing with all these companies and the Directors believe that significant orders should result. Quotations have been submitted to these companies for 6 Silo-Cage composting plants, valued at £5,825,000. The Company expects to submit formal tenders to be considered by these companies during 1999.

Similarly, marketing has been directed at a broad spectrum of other industries including pharmaceutical, distillery, abattoir, food and waste management companies. Quotations have been supplied to 2 companies with a potential value of £740,000. The Company is also involved in tenders, valued at £2,364,000, to two large local authorities.

Sales of EnVigro™, the Company's organic fertiliser product, first marketed in September 1997, amounted to £36,250 in the year ended 31 October 1998, and are expected by the Directors to increase substantially over the next year, following successful trials during the 1998 growing season.

### **Current Trading and Prospects**

The Company's interim results for the 10 months ended 31 August 1998 are set out on page 27 and demonstrate sales of £26,002, administration and development expenses of £736,197 and a pre-tax loss of £706,506. These results reflect the continued tight control of costs as the Company develops, as well as the delays referred to above.

The Directors believe that the Company's technology meets the requirements of legislation and provide the "advance treatment" of sewage sludge which the water companies need to implement.

The Directors are therefore confident that sales of Silo-Cages should be secured during 1999. They also expect that sales of EnVigro™ will increase significantly.

The Directors view the Company's prospects with confidence.

### **Technical Background**

#### **Composting**

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

Sensitive waste streams, such as sewage sludge, contain pathogens, disease-causing organisms. These are most active at body temperature (c. 36°C for warm-blooded animals) and are killed or inactivated by temperatures over 50°C, if such temperatures are maintained for long enough.

#### **How the TEG system works**

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

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

#### **The TEG Silo-Cage**

The Silo-Cage is the Company's core product and consists of a bank of 4 to 12 mesh walled silos each with a capacity of 32 cubic metres. Each silo is separated by channels to allow the passage of air to reach all parts of the compost mix without costly forced aeration, turning or agitation.

Each bank of Silo-Cages is fitted with a loading mechanism and travelling overhead feeder which evenly supplies the calculated amount of compost mix to each silo daily. The efficiency of the structure is such that the materials compost vigorously at temperatures up to 78°C, which speeds the process and reduces the composting period to 8 to 21 days, depending on the target waste. An unloading auger traverses beneath the bank of Silo-Cages, undermining the composting mix as it descends through each silo and carrying the end product to a conveyor which in turn feeds a grading rotary screen. The high temperatures generated and maintained during the process ensure the elimination or reduction of pathogens to safe levels.

The Silo-Cage has very low operating costs. It has a low energy requirement compared to other methods, of only £1.00 per 32 cubic metre silo per week. Labour efficiency is high with one man capable of operating 24 silos in two banks of 12. The space requirement is also low, particularly compared to the traditional open windrow system.

It is the Company's business to build (by subcontract) and sell Silo-Cages to clients such as water companies. In addition, the Directors have recently had preliminary discussions with two large potential customers about TEG providing Design, Build and Operate solutions.

### **EnVigro™ Organic Fertiliser**

Alan Heyworth has developed a consistent quality organic fertiliser based on poultry litter composted by the TEG system. This product was first marketed in September 1997 at the SALTEX exhibition in Windsor, where the Company exhibited again in 1998. Experience with the product by growers, groundsmen and green keepers has been excellent and from small beginnings sales are increasing with repeat orders. To date 37 golf courses have started to use EnVigro™ on a regular basis, following successful trials.

Sales of EnVigro™ are now expected to grow in volume. EnVigro™ is also an important part of the sales strategy for Silo-Cages. It demonstrates the Company's ability to market a product similar in many cases to the composted end product resulting from clients' use of Silo-Cages and the Company could eventually provide sales assistance by providing a complete disposal package.

The Company intends to produce EnVigro™ and similar products using Silo-Cages at its own premises and the Directors believe that there is a substantial market for this product which they are confident of exploiting over time. Already the reputation of the product is growing as the results of the last growing season become known to the market.

### **The Market**

#### ***The water industry***

The Urban Waste Water Treatment (England and Wales) Regulations 1994 will ban the marine dumping of sewage sludge from 31 December 1998, which will affect up to 30% of UK sewage production. Approximately 50% of sewage sludge is currently disposed of by land application, including farm and forest land, which is seen by the Government as the favoured and most sustainable disposal option. This is generally expected to increase to at least 60% in the next few years. In October 1998, Water UK and the British Retail Consortium agreed that sewage sludge must not be spread on farmland without "advance treatment". This will affect untreated sludge from December 1998 and digested sludge from December 1999.

This "advance treatment" to ensure the elimination or reduction of pathogens to safe levels is within the capabilities of the TEG Silo-Cage, which has the additional benefit of changing the sludge to an acceptable organic fertiliser of real value to farmers without its characteristic odour, which should increase public acceptability of land application.

For these reasons, it is the water companies on which the Company has focused the majority of its marketing efforts to date and it is now in contact with 13 of the OFWAT regulated water and sewage companies in Great Britain.

The negotiations to agree new treatment standards have caused a delay in the decision making process in an industry already awaiting the outcome of the OFWAT price review for the period 2000 to 2005. The consultation document in respect of the price review was published by OFWAT on 29 October 1998, setting out the constraints within which the industry is required to deliver higher standards of treatment including "advance treatment" to sewage sludge before it can be applied to farmland. John Prescott, the Deputy Prime Minister, announced on 23 September 1998 that the Government requires higher standards of treatment of all sewage coupled with a 10% reduction in prices charged to consumers and a reduced allowable capital spend by the industry to achieve their targets of £8.5 billion against the water industry's figure of £15 billion. As a result, the industry will need cost effective solutions for sewage treatment. The Directors believe that the TEG technology provides the "advance treatment" of sewage sludge to meet the new requirement.

#### ***Waste in general***

Current and expected legislation is changing the established disposal routes for many waste materials. In addition, the principal disposal route of landfill has become more expensive with a £10 per tonne tax levied on all organic waste from April 1999.

The Government is indicating a tougher waste management regime and is to transpose into UK law the requirements of the EU directive Integrated Pollution Prevention and Control (IPPC) in October 1999, to be followed by the proposed EC Council directive for landfill and landform sites, banning co-disposal and requiring the pre-treatment of organic wastes before disposal in landfill/landform.

The IPPC directive will apply to over 30 industry sectors, including some not previously affected by regulation such as:

- food processing and production plants
- large pig and poultry units
- waste disposal facilities including those receiving non-hazardous waste
- landfill sites receiving more than 10 tonnes per day excluding inactive waste (such as builders' rubble)

Composting is highlighted by the Government as one of the favoured methods for waste treatment and recycling and is now a cost effective solution for many industries that have historically discharged their waste into landfill, rivers and estuaries.

The main categories of organic waste within the UK, based on Government figures published in 1994, are set out below.

#### UK waste streams suitable for composting

Type	Annual Tonnage (approx. '000)	Suitable for Composting (approx. '000)
Pharmaceutical	350	350
Industrial	50,000	2,500
Sewage	30,000	24,000-30,000
Abattoir and meat industry	1,700	1,700
Household	14,000	2,500-4,500
Park and garden	2,500	1,800
Agricultural	250,000	250,000
Food processing and brewery/fermentation	2,600	2,600
Forestry and wood processing	4,500	4,500

#### *The market in Europe and North America*

The Company's primary focus is on the UK market and the Directors intend that this will remain so until the Company achieves strategic sales of its products in the UK. Once these have been achieved, the Company intends to target the European and North American markets.

Historically landfill has had the dominant role in the disposal of waste in Europe. Those countries with established recycling systems are already moving towards a ban on the disposing of organic matter in landfill sites, reflecting the progress made in the USA. EU directives are bringing change to the policy of Member States.

The Company's initial market development work in Europe has generated interest particularly from France, Spain, Portugal and Eire and the Company continues to receive enquiries from these countries.

The huge market of the USA and Canada, which is accustomed to substantial capital investment in the established business of composting, is an obvious target for the Company. Here the relatively low capital cost of the TEG Silo-Cage and its low operating cost should provide a key competitive edge.

The Company has attended three exhibitions and conferences in the USA during 1998 and received an excellent level of enquiry.

#### DIRECTORS AND MANAGEMENT

The Company has an experienced Board, who have the relevant skills and experience to develop the business, led by Dick Bilborough. As strategic sales develop, the Board intends both to strengthen management and provide suitable succession.

#### Research and Development

Dr Alan Heyworth, *Technical Director*, has developed the technology underlying the Company's products.

He is assisted by Fiona Maudsley, BSc (Hons), a graduate of Leeds University in microbiology who operates full time from the Company's laboratory.

A three year joint research and development initiative has been agreed with the University of Aberdeen where the Company intends to fund a graduate to work specifically with TEG research projects using the University's research laboratories and facilities. This will enable the Company to access the highly relevant research and information resources of the University.

In the opinion of the Directors, the University of Aberdeen is one of the few UK establishments where all the disciplines relevant to the Company's products and activities are present.

## Directors

**Allen Sykes**, aged 66, *Non-Executive Chairman* – Allen Sykes has mainly worked for British-based, major international companies, principally in the fields of mining, natural resources, energy and insurance.

He was a Managing Director of Consolidated Gold Fields Plc from 1986 until the September 1989 takeover. He was a non-executive director of Willis Corroon Group Plc (where he was formerly Finance Director) from July 1986 until the end of October 1998. He was Chairman of the small composite insurance company, Economic Insurance Company Limited, a "Management Buy-Out" financed by Candover Investments Plc, from February 1994 to July 1996. Between May 1990 and January 1994 he was a director of the Canadian based international packaging company, Lawson Mardon Group Limited, until the take-over by Alusuisse. He is also an active international adviser on the successful accomplishment of very large projects, including the £4 billion Protection of Venice Project. Since January 1998 he has been one of a panel of five industrial advisers to the Director General of OFWAT. His background is economics, finance, accountancy and law.

**John Hough**, aged 66, *Non-Executive Deputy Chairman* – John Hough has spent his entire career in the insurance industry. He was Deputy Chairman of a major Lloyds Broker until he resigned in 1973 to form a new independent organisation, Alwen Hough Johnson Limited, which over a period of fifteen years grew into a substantial insurance business.

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

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

**Dick Bilborough**, aged 67, *Managing Director* – Dick Bilborough has always worked in the property and agribusiness sector, concerned with rural land-based activity and its related industries. This has covered farm land acquisition and management, land development, machinery manufacture and distribution, irrigation and milling companies, feed lots and meat packing, and leisure use development. His strength is general management with a marketing bias.

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

He was instrumental in the formation of TEG in October 1995. He had spent the previous two and a half years actively researching the market for commercial composting, both here and in the United States, and identifying opportunities in both countries.

**Dr Alan Heyworth BSc PhD**, aged 60, *Technical Director* – Dr Heyworth has been involved with commercial composting since the late 1950's. Initially through family and associated firms manufacturing peat-based composts and organic fertilisers, this involvement developed into extensive research over a twenty year period at the University of Wales, culminating in the establishment of an environmental consultancy group, Environmental Consultants Limited. Through his work, Dr Heyworth has established the optimum material mix and process for commercial composting which now constitutes the Silo-Cage system.

**Alastair Leslie**, aged 63, *Non-Executive Director* – He has spent most of his business life at Lloyds where he was managing director of Willis Faber and Dumas Agencies Limited for 10 years until 1985. He formed A.P. Leslie Underwriting Agencies Ltd. in 1976 and retired in 1992. During the past 25 years he has had a particular interest in start-up companies and has been a founder director of six Lloyds underwriting companies and of United Gold Fields NL (subsequently quoted in Australia) and three BES companies. He was an early investor in TEG and joined the Board in July 1998.

## Management

**Kevin Chandler BEng (Hons)**, aged 34, *General Manager* – A qualified engineer with eleven years' experience in engineering industries with a wide variety of machinery and projects within the chemical process industry. He manages the machinery development and manufacturing side of the business. He joined TEG in October 1997.

**Monica Bolton** aged 55, *Accountant and Company Secretary* – An accountant with wide experience from working in a professional accountancy practice and as a company accountant. She joined the Company in October 1997.

**John Cooper**, aged 30, *Production Supervisor* – He has a farming background with good practical experience of poultry farming and the agricultural contracting business. He is skilled in the operation of many types of equipment and managing production line staff and transport. He has been working with the Company since April 1997.

**Steven Horsfield**, aged 40, *Sales Manager* – He has a background in local authority gardens and landscape management and as a landscaping contractor. He also has wide sales experience in horticultural and professional grower markets and of sales to ground managers of sports fields and golf courses. He joined the Company in May 1997.

### **Regional Managers**

The appointment of two Regional Managers for the South West of England and Scotland reflects the level of prospective clients for Silo-Cages in these areas. Both regions have traditionally disposed of sewage sludge by marine dumping and have limitations on land fill capacity with incoming legislation imposing further restrictions on their disposal routes, generating opportunities for the Company. Currently there 18 potential Silo-Cage sales opportunities to be developed in these two regions.

**Richard Ensor BSc FRICS**, aged 65, *Regional Manager, South West* – He is an experienced development director and project manager. He has been responsible for large scale projects throughout the UK, including Exeter, Taunton and Bristol. He was formerly a director of Laing Development Company Limited.

**Alastair Harper CA ACWA**, aged 63, *Regional Manager, Scotland* – He is an experienced managing director, financial director and project manager in the forest products industry. He was responsible for developing a new business and processing factory from greenfield site, dealing with all aspects including planning and securing grants.

### **THE OFFER**

1,000,000 new Ordinary Shares are offered for subscription at £1.00 per share, to raise £1,000,000 before expenses. The proceeds of the Offer are estimated to be approximately £890,000 after expenses.

Priority will be given to valid applications from Existing Shareholders on Priority Application Forms up to a maximum number of Offer Shares equal to the holding of the Existing Shareholder on the Record date. If the aggregate number of Offer Shares applied for under the Offer on Priority Application Forms exceeds the number of Offer Shares available under the Offer, such applications will be scaled down proportionately. If the aggregate number of Offer Shares applied for under the Offer on Priority Application Forms is less than the number of Offer Shares available under the Offer, Existing Shareholders will receive the number of Offer Shares validly applied for on Priority Application Forms. The balance of Offer Shares available under the Offer will be allotted to applicants using the Application Form and where appropriate applications will be scaled down proportionately.

**Applications by Existing Shareholders should be made on the green Priority Application Form which accompanies this document. Such applications may be made for up to one Offer Share for each existing Ordinary Share held on the Record Date.**

**Applications by new Investors should be made on the white Application Form at the end of this document and should be for a minimum of £1,000 and, thereafter, in multiples of £1,000.**

All applications for Offer Shares must be received by the Company's registrars, IRG Plc, on or before the Closing Date, which may be extended by the Directors.

The terms and conditions of the Offer and details of the procedure for application are set out in Part Five of this document. The Directors reserve the right to scale down, accept or reject in whole or in part any application.

A commission of 3% may be payable by the Company to authorised financial intermediaries who procure subscribers for Offer Shares pursuant to the Offer.

The subscription list will open at 10.00 a.m. on 9 November 1998 and may be closed at any time thereafter but will close not later than 5.00 p.m. on 4 December 1998, unless extended by the Directors. The Offer Price of £1.00 per share is payable in full on application.

The Offer Shares will, following allotment, rank *pari passu* in all respects with the existing Ordinary Shares and will have the right to receive all dividends and other distributions hereafter declared, made or paid in respect of the issued ordinary share capital of the Company.

**The Minimum Amount which must be subscribed under the Offer is £340,000. The Offer is conditional upon valid applications being received for the Minimum Amount.**

## OFEX

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

Under the OFEX arrangements, companies are provided with an independent market maker, screen based prices and a company information and announcement system provided by Newstrack Limited and distributed by Bloomberg, ICV-Topic, Reuters and QST.

## DIVIDEND POLICY

The Directors will not recommend the payment of a dividend on the Ordinary Shares until they believe that it is appropriate and prudent to do so. The Directors are unable, at this time, to suggest when Investors may expect to receive income from their shares.

## WORKING CAPITAL

The Directors consider that, taking into account the Minimum Amount receivable by the Company under the Offer, the working capital available to the Company is sufficient for the Company's present requirements.

## RISK FACTORS

**Attention is drawn to the Risk Factors set out below and to the Risk Warning on page 1 which must be read by potential Investors.**

### New Technology and Competition

New technology, changing commercial circumstances and new entrants to the market in which the Company operates may impinge on the Company's business.

### Intellectual Property

There is no assurance that the Company can commercially protect its rights to proprietary technology or that others will not independently develop substantially equivalent or superior technology.

### Retention of key personnel

There is a small number of Directors whose departure from the Company could, in the short term, materially adversely affect the Company. Whilst the Company has entered into service agreements with each of these Directors and they are shareholders in the Company, the retention of their services cannot be guaranteed. The Company will need to continue to increase its staffing levels to be able to deliver all its objectives.

### Sales and Revenue

The Company is at an early stage and has yet to achieve a significant level of sales. It is possible that the Company's products and services will not attract sufficient customers in the numbers or at the price levels anticipated by the Directors. In addition, the Company may never earn sufficient revenues to become profitable.

### Marketability of Shares

Some Investors may wish to sell their shares, particularly those who may not qualify for tax relief under the EIS.

Shares traded on OFEX may not be readily realisable and may carry a higher risk than investment in a share listed on the Official List or the Alternative Investment Market of the London Stock Exchange. The Offer Shares may be subject to sudden and large falls in value and there could be a large loss on realisation which could equal the

amount originally invested. OFEX is not a recognised investment exchange and no application is currently being made for admission of the Offer Shares or the Ordinary Shares to trading on the Alternative Investment Market or the Official List of the London Stock Exchange.

## TAX CONSIDERATIONS

### Enterprise Investment Scheme

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

The principal tax reliefs currently available to each individual are:

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

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

Primarily, those conditions are:

- the aggregate value of the gross assets of the issuing company and any qualifying subsidiary must not exceed £15 million immediately before the issue of the eligible shares nor £16 million immediately afterwards;
- the shares in question, and all other shares comprised in the same issue, must be issued for the purpose of raising funds which will be employed by the EIS company within 12 months wholly for the purposes of a qualifying business activity carried on by that company or a qualifying subsidiary;
- the shares must be subscribed for and issued for bona fide commercial purposes and not as part of a scheme or arrangement the main purpose, or one of the main purposes, of which is the avoidance of tax;
- the shares must not for the five years from the date of issue carry any present or future preferential rights to dividends or to the company's assets on a winding up nor any present or future right to be redeemed;
- to qualify for the income tax relief, an Investor must subscribe for a minimum of £500 in any one company under EIS. Relief is restricted to a maximum investment of £150,000 per Investor in any one tax year;
- in order to retain the income tax relief and capital gains tax exemption the Investor must hold the shares for at least five years from the date of their issue;
- with certain limited exceptions, the Investor must not be connected with the issuing company;
- the issuing company's shares must not be quoted for a minimum of three years from their date of issue and must all be fully paid. Shares traded on OFEX are not quoted; and
- the company must be a "qualifying company" for EIS purposes. One of the conditions is that the company's qualifying trade must continue for a minimum of three years from the date of issue of the shares. In order to count as qualifying, a trade must not consist to any substantial extent of certain prohibited activities.



**Availability of Tax Certificates**

The Company has received advance assurance of its EIS status from the Inland Revenue. A formal application for EIS qualification will be made once the Offer Shares have been issued. An EIS 2 form will then be issued by the Inland Revenue to the Company and an EIS 3 form will be issued by the Company to relevant Investors to enable them to claim their tax relief. It is the Company's intention to remain a qualifying company, as defined, for the relevant three year period, to ensure that any EIS relief given to shareholders is not put at risk. Subject to the above, the Directors consider that qualifying individuals subscribing for Offer Shares in the Company should be able to obtain EIS income tax relief within the EIS limits in respect of the year ending 5 April 1999 on the amounts subscribed for the EIS Shares provided they continue to satisfy the statutory conditions and the Company continues to be a qualifying company. Eligibility for relief will depend on individual Investors' circumstances. In addition the Offer Shares must have been issued and registered in the name of the Investors by 5 April 1999 to qualify for income tax relief in 1998/99.

**Reinvestment Relief**

If the Company is a qualifying company for EIS and Reinvestment Relief purposes, the subscription for Offer Shares by an individual will be considered as a qualifying investment for Reinvestment Relief purposes irrespective of whether EIS income tax relief is claimed by the individual in respect of such subscription. Where individuals have made a chargeable gain on the disposal of any asset in the period of three years before and twelve months after investment in qualifying shares, they should be eligible to claim deferment of some or all of the gains against the subscription for the Offer Shares under the Reinvestment Relief provisions, provided that the Company continues to satisfy the relevant statutory requirements.

The deferred gain would then crystallise when the Offer Shares were sold or when the Company ceased to satisfy the conditions for relief if earlier.

It should be noted that, for Reinvestment Relief purposes, a subscription for shares in the Company cannot be used to defer a gain on the disposal of other shares in the Company.

Reinvestment Relief, unlike EIS income tax relief, is available to trustees.

**Loss Relief**

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

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

**Inheritance Tax*****Business Property Relief***

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

**Other Tax Matters**

The Directors have been advised that the Company is a close company for tax purposes, as defined by the Income and Corporation Taxes Act 1988.

When paying a dividend to Shareholders, the Company is currently liable to account to the Inland Revenue for Advance Corporation Tax ("ACT"). ACT is currently payable at the rate of 25% of the cash dividend. For non-corporate shareholders resident in the United Kingdom, a tax credit equal to 25% of the cash dividend is available to frank all or part of the shareholder's income tax liability in respect of the dividend and tax credit and, in appropriate cases, any excess of the tax credits and the shareholder's income tax liability may be reclaimed in cash. United Kingdom resident corporate shareholders and pension providers are not entitled to claim payment of tax credits. Tax credits are currently payable to charitable companies and to some others which are entitled to special exemptions and reliefs.

Whether the holders of Ordinary Shares in the Company, who are resident in countries other than the United Kingdom, are entitled to repayment from the Inland Revenue of any proportion of the tax credit in respect of dividends on such shares depends in general upon the provisions of any double tax convention or agreement which exists between such countries and the United Kingdom.

The current ACT system will no longer apply from April 1999 onwards.

Following this change, individuals will continue to qualify for a tax credit equal to one ninth of the cash dividend, and the higher rate of income tax chargeable in respect of dividends received by UK resident individuals will reduce to 32.5%. As a result, taxpaying individuals will generally pay the same amount of tax on dividends as before, although tax credits will no longer be repayable. Special arrangements will apply to charities. The reduction in the tax credit from 6 April 1999 onwards is likely to reduce or eliminate the amount of any tax credit reclaimable by an overseas shareholder pursuant to the provisions of a double tax convention.

#### **Returns**

The capital growth or income achieved by TEG for its Shareholders from the development of its products and markets are expected to be enhanced by the returns earned from the benefits of the EIS and/or Reinvestment Relief.

The above is intended only as a general outline of the taxation rules potentially applying to Investors.

If you are in any doubt about your tax position or require more detailed information than the general outline above you should immediately consult professional advisers.

## PART THREE

### FINANCIAL INFORMATION

This part includes a copy of the Accountants' Report, the unaudited interim reports and the pro forma statement of net assets.

#### 3.1 The following is a copy of the Accountants' Report

#### **ERNST & YOUNG**

The Directors  
TEG Environmental Plc  
Crescent House  
2-6 Sandy Lane  
Leyland  
Preston  
Lancashire PR5 1EB

100 Barbirolli Square  
Manchester M2 3EY

The Directors  
Matrix Corporate Finance  
9-10 Savile Row  
London W1X 1AF

4 November 1998

Gentlemen,

#### 1. Introduction

We report on the financial information set out in paragraphs 1 to 6 below. This financial information has been prepared for inclusion in the Offer for Subscription document dated 4 November 1998 of TEG Environmental Plc (the "Company").

#### Basis of preparation

The financial information set out in paragraphs 1 to 6 is based on the audited financial statements of TEG Environmental Plc for the 15 months ended 31 December 1996 and the ten months ended 31 October 1997 to which no adjustments were considered necessary.

#### Responsibility

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

The Directors of TEG Environmental Plc are responsible for the contents of the Offer for Subscription document dated 4 November 1998 in which this report is included.

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

#### Basis of opinion

We conducted our work in accordance with the Statements of Investment Circular Reporting Standards issued by the Auditing Practices Board. Our work included an assessment of evidence relevant to the amounts and disclosures in the financial information. The evidence included that previously obtained by us relating to the audit of the financial statements for the ten months ended 31 October 1997 and that recorded by KPMG, 37 Hills Road, Cambridge CB2 1XL who audited the financial statements for the 15 months ended 31 December 1996. It also included an assessment of significant estimates and judgements made by those responsible for the preparation of the financial statements underlying the financial information and whether the accounting policies are appropriate to the entity's circumstances, consistently applied and adequately disclosed.

We planned and performed our work so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial information is free from material misstatement whether caused by fraud or other irregularity or error.

#### Opinion

In our opinion, the financial information gives, for the purposes of the Offer for Subscription document dated 4 November 1998, a true and fair view of the state of affairs of TEG Environmental Plc as at the dates stated and of its profits, cash flows and recognised gains and losses for the periods then ended.

## Consent

We consent to the inclusion in the Offer for Subscription Document dated 4 November 1998 of this report and accept responsibility for this report for the purposes of paragraph 45(8)(b) of Schedule 1 to the Public Offers of Securities Regulations 1995.

## 2. Accounting Policies

### *Basis of preparation*

The financial information in this report has been prepared on a going concern basis, which assumes the availability of additional finance. The raising of this additional finance is dependent upon the successful offer for the Minimum Amount of Ordinary Shares in November 1998.

### *Accounting convention*

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

### *Depreciation*

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

Fixtures and fittings – 25% reducing balance  
Plant and machinery – 25% reducing balance

### *Amortisation*

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

### *Stocks*

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

### *Deferred taxation*

Provision is made for deferred taxation, using the liability method, on all timing differences to the extent that, in the opinion of the Directors, it is probable that the liability will crystallise.

### *Leasing and hire purchase commitments*

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

### *Development costs*

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

## 3. Profit and Loss Accounts

The profit and loss accounts of the Company, for the 15 months ended 31 December 1996 and 10 months ended 31 October 1997, are set out below:

	Notes	10 months ended 31 October 1997 £	15 months ended 31 December 1996 £
<b>Turnover</b>			
Continuing operations	(i)	9,756	6,539
Cost of sales		(18,658)	(2,662)
<b>Gross (loss)/profit</b>		(8,902)	3,877
Selling and administrative expenses		(410,604)	(192,895)
<b>Operating loss</b>	(ii)	(419,506)	(189,018)
Bank interest receivable		–	6,037
Interest payable and similar charges	(v)	(5,105)	–
<b>Loss on ordinary activities before taxation</b>		(424,611)	(182,981)
Tax on loss on ordinary activities		–	–
<b>Loss retained for the financial period</b>		(424,611)	(182,981)

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

#### 4. Cash Flow Statements

The cash flow statements of the Company, for the 15 months ended 31 December 1996 and 10 months ended 31 October 1997, are set out below:

		10 months ended 31 October 1997 £	15 months ended 31 December 1996 £
	<i>Notes</i>		
Net cash outflow from operating activities	(ii)	(379,947)	(189,301)
Returns on investments and servicing of finance	(xvii)	(5,105)	6,037
Capital expenditure and financial investment	(xvii)	(111,631)	(93,625)
Net cash outflow before use of liquid resources and financing		<u>(496,683)</u>	<u>(276,889)</u>
<b>Financing</b>			
– Issue of shares	(xvii)	518,343	315,772
– Increase in debt	(xvii)	100,000	–
<b>Increase in cash in the period</b>		<u>121,660</u>	<u>38,883</u>

#### Reconciliation of Net Cash Flow to Movement in Net Funds

		10 months ended 31 October 1997 £	15 months ended 31 December 1996 £
Increase in cash in the period	(x)	121,660	38,883
Net cash inflow from increase in debt financing		100,000	–
Change in net funds resulting from cash flows	(x)	<u>21,660</u>	<u>38,883</u>
<b>Movement in net funds in the period</b>		<u>21,660</u>	<u>38,883</u>
<b>Net funds at beginning of period</b>		<u>38,883</u>	<u>–</u>
<b>Net funds at end of period</b>		<u>60,543</u>	<u>38,883</u>

TEG ENVIRONMENTAL PLC

**5. Balance Sheets**

The balance sheets of the Company at 31 December 1996 and at 31 October 1997, are set out below:

	Notes	At 31 October 1997 £	At 31 December 1996 £
<b>Fixed assets</b>			
Intangible fixed assets	(vi)	32,668	36,000
Tangible fixed assets	(vii)	141,093	90,675
		<u>173,761</u>	<u>126,675</u>
<b>Current assets</b>			
Stocks	(viii)	15,772	6,332
Debtors	(ix)	45,428	18,096
Cash at bank and in hand	(x)	160,543	38,883
		<u>221,743</u>	<u>63,311</u>
Creditors: amounts falling due within one year	(xi)	(80,650)	(57,195)
<b>Net current assets</b>		<u>141,093</u>	<u>6,116</u>
<b>Total assets less current liabilities</b>		<b>314,854</b>	<b>132,791</b>
Creditors: amounts falling due after more than one year	(xii)	(88,331)	—
		<u>226,523</u>	<u>132,791</u>
<b>Capital and reserves</b>			
Called up share capital	(xiii)	167,105	95,000
Share premium account	(xiv)	667,010	220,772
Profit and loss account	(xiv)	(607,592)	(182,981)
<b>Equity shareholders' funds</b>		<u>226,523</u>	<u>132,791</u>

**6. Notes to the Financial Information****(i) Turnover**

Turnover, represents net invoiced sales of goods, excluding value added tax. Turnover is attributable to the Company's principal continuing activity, the sale of compost and composting equipment and arose in the United Kingdom.

**(ii) Operating Loss**

(a) Operating loss is stated after charging:

	10 months ended 31 October 1997 £	15 months ended 31 December 1996 £
Auditors' remuneration – audit services	3,000	2,500
– non-audit services	–	3,900
Depreciation of owned fixed assets	28,209	6,397
Amortisation of intangible fixed assets	3,332	4,000
Operating lease rentals – plant and machinery	6,315	5,353
– land and buildings	21,183	9,108

Fees for audit services were paid to KPMG in the 15 months ended 31 December 1996 and to Ernst & Young in the 10 months ended 31 October 1997.

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

	10 months ended 31 October 1997 £	15 months ended 31 December 1996 £
Operating loss	(419,506)	(189,018)
Depreciation	28,209	6,397
Amortisation	3,332	4,000
Increase in stocks	(27,332)	(6,332)
Increase in debtors	(9,440)	(18,096)
Increase in creditors	44,790	13,748
Net cash outflow from operating activities	(379,947)	(189,301)

**(iii) Directors' Emoluments**

	10 months ended 31 October 1997 £	15 months ended 31 December 1996 £
Fees	64,000	46,375
Other emoluments (including pension contributions)	2,845	–
	66,845	46,375

Directors' emoluments, excluding pension contributions:

	10 months ended 31 October 1997 £	15 months ended 31 December 1996 £
Emoluments (excluding pension contributions) of the chairman	–	–
Emoluments (excluding pension contributions) of the highest paid Director (1996: 2 directors)	33,167	33,000

**(iv) Staff Costs**

	10 months ended 31 October 1997 £	15 months ended 31 December 1996 £
Wages and salaries	98,968	50,875
Social security costs	9,897	5,080
	<u>108,865</u>	<u>55,955</u>

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

	10 months ended 31 October 1997 No.	15 months ended 31 December 1996 No.
Administration and selling	<u>6</u>	<u>4</u>

**(v) Interest payable**

	10 months ended 31 October 1997 £	15 months ended 31 December 1996 £
Bank loans repayable after more than five years	<u>5,105</u>	<u>--</u>

**(vi) Intangible Fixed Assets**

	Intellectual Property Rights £
Cost:	
At 3 October 1995	--
Additions	40,000
At 31 December 1996 and 31 October 1997	<u>40,000</u>
Depreciation:	
At 3 October 1995	--
Charge for the period	4,000
At 31 December 1996	4,000
Charge for the period	3,332
At 31 October 1997	<u>7,332</u>
Net book value:	
At 31 October 1997	<u>32,668</u>
At 31 December 1996	<u>36,000</u>

This represents the purchase cost of the Intellectual Property Rights of an innovative system of accelerated composting for £35,000 and design of Silo-Cages for £5,000.



**(vii) Tangible Fixed Assets**

	Fixtures and fittings £	Plant and machinery £	Total £
Cost:			
At 3 October 1995	—	—	—
Additions	4,992	92,080	97,072
At 31 December 1996	4,992	92,080	97,072
Additions	5,172	73,455	78,627
At 31 October 1997	10,164	165,535	175,699
Depreciation:			
At 3 October 1995	—	—	—
Charge for the period	546	5,851	6,397
At 31 December 1996	546	5,851	6,397
Charge for the period	1,426	26,783	28,209
At 31 October 1997	1,972	32,634	34,606
Net book value:			
At 31 October 1997	8,192	132,901	141,093
At 31 December 1996	4,446	86,229	90,675

**(viii) Stocks**

	31 October 1997 £	31 December 1996 £
Finished goods	11,136	—
Raw materials and consumables	4,360	6,332
Work in progress	276	—
	<u>15,772</u>	<u>6,332</u>

**(ix) Debtors**

	31 October 1997 £	31 December 1996 £
Trade debtors	6,494	9,150
Other debtors	34,387	7,113
Prepayments and accrued income	4,547	1,833
	<u>45,428</u>	<u>18,096</u>

**(x) Cash and Net Debt**

	At 3 October 1995 £	Cash flow £	At 31 December 1996 £	Cash flow £	At 31 October 1997 £
Cash at bank and in hand	—	38,883	38,883	121,660	160,543
	—	38,883	38,883	121,660	160,543
Debt due after one year	—	—	—	(11,669)	(11,669)
Debt due within one year	—	—	—	(88,331)	(88,331)
	—	<u>38,883</u>	<u>38,883</u>	<u>21,660</u>	<u>60,543</u>

**(xi) Creditors: amounts falling due within one year**

	31 October 1997 £	31 December 1996 £
Bank loan	11,669	—
Trade creditors	—	3,834
Other taxation and social security costs	10,334	—
Accruals	58,647	53,361
	<u>80,650</u>	<u>57,195</u>

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

	31 October 1997 £	31 December 1996 £
Bank loan	88,331	—

In February 1997 the Company drew down a £100,000 bank loan under the Small Firms Loan Guarantee Scheme in which the loan is 70% guaranteed by the DTI. Interest is fixed at 10.76% for five years and then at 3½% over base thereafter. Repayments commence February 1998 at £1,667 per month for five years. The Company's bankers held a fixed charge over book debts and a floating charge over all other assets.

**(xiii) Share Capital**

	1997 No.	1996 No.	1997 £	1996 £
Ordinary Shares of 5p each	100,000,000	100,000,000	5,000,000	5,000,000
				Authorised
Ordinary Shares of 5p each	<u>3,342,111</u>	<u>1,900,000</u>	<u>167,105</u>	<u>95,000</u>

Allotted, called up  
and fully paid:

**(xiv) Reconciliation of Shareholders' Funds and Movements on Reserves**

	Share capital £	Share premium account £	Profit and loss account £	Total £
Shares issued	95,000	315,000	—	410,000
Pre incorporation expenditure	—	(94,228)	—	(94,228)
Loss for the year	—	—	(182,981)	(182,981)
At 31 December 1996	95,000	220,772	(182,981)	132,791
Loss for the period	—	—	(424,611)	(424,611)
Shares issued	72,105	454,445	—	526,550
Issue costs	—	(8,207)	—	(8,207)
At 31 October 1997	<u>167,105</u>	<u>667,010</u>	<u>(607,592)</u>	<u>226,523</u>

**(xv) Financial Commitments**

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

	Land and buildings 1997 £	1996 £	1997 £	Other 1996 £
Operating leases which expire:				
within one year	2,220	—	—	—
within two to five years	<u>14,040</u>	<u>—</u>	<u>12,458</u>	<u>4,057</u>
	<u>16,260</u>	<u>—</u>	<u>12,458</u>	<u>4,057</u>

**(xvi) Contingent liability**

Under the terms of the acquisition of the Intellectual Property Rights to the innovative system of accelerated composting from Dr Heyworth a royalty of 1% is payable based on future turnover and is dependent on turnover exceeding £1,000,000 in any financial year up to 31 July 2000.

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

	1997 £	1996 £
<b>Returns on investments and servicing of finance</b>		
Interest received	–	6,037
Interest paid	(5,105)	–
<b>Net cash (outflow)/inflow from returns on investments and servicing of finance</b>	<b>(5,105)</b>	<b>6,037</b>
<b>Capital expenditure and financial investment</b>		
Purchase of tangible fixed assets	(111,631)	(53,625)
Purchase of intangible fixed assets	–	(40,000)
<b>Net cash outflow from capital expenditure and financial investment</b>	<b>(111,631)</b>	<b>(93,625)</b>
<b>Financing</b>		
Issue of ordinary share capital	526,550	410,000
Pre incorporation expenses and share issue costs	(8,207)	(94,228)
Debt due beyond one year – new unsecured loan repayable in instalments commencing February 1998	100,000	–
<b>Net cash inflow from financing</b>	<b>618,343</b>	<b>315,772</b>

Yours faithfully

**ERNST & YOUNG**  
Registered Auditor

### 3.2 UNAUDITED INTERIM STATEMENT

#### Chairman's Statement

The interim results for the 10 months ended 31 August 1998 reflect the continued tight control of costs as the Company develops and the delays referred to in the previous interim report occasioned by extended negotiations between the British Retail Consortium and the water and sewage companies on the improved treatment to sewage sludge before it is applied to farmland.

Sales of the Company's organic fertiliser EnVigro™ are now showing the benefits of successful trials through the 1998 growing season and to date the Company has acquired 37 golf course customers with repeat orders providing strength to sales and development.

As announced on 5 October 1998 a small number of shareholders and Directors subscribed for a further 218,000 Ordinary Shares at a price of £1 per share.

The Board views the Company's prospects with confidence.

Crescent House  
2-6 Sandy Lane  
Leyland  
Preston  
Lancashire PR5 1EB

**Allen Sykes**  
Chairman

4 November 1998

### RESULTS

#### Summarised Profit and Loss Account

	Unaudited 10 months ended 31 August 1998 £	Unaudited 6 months ended 31 April 1998 £	Unaudited 10 months ended 31 October 1997 £
Turnover – continuing operations	<u>26,002</u>	<u>16,019</u>	<u>9,756</u>
Operating loss	<u>(710,195)</u>	<u>(443,635)</u>	<u>(419,506)</u>
Net interest receivable/(payable)	<u>3,689</u>	<u>(2,062)</u>	<u>(5,105)</u>
Loss on ordinary activities before tax	<u>(706,506)</u>	<u>(445,697)</u>	<u>(424,611)</u>
Tax on loss on ordinary activities	<u>–</u>	<u>–</u>	<u>–</u>
Loss for the financial period	<u>(706,506)</u>	<u>(445,697)</u>	<u>(424,611)</u>
Loss per ordinary share	<u>(19.15)p</u>	<u>(12.87)p</u>	<u>(17.78)p</u>

## Summarised Balance Sheet

	Unaudited 31 August 1998 £	Unaudited 30 April 1998 £	Audited 31 October 1997 £
<b>Fixed Assets</b>			
Intangible fixed assets	29,335	30,668	32,668
Tangible fixed assets	132,243	137,503	141,093
	<u>161,578</u>	<u>168,171</u>	<u>173,761</u>
<b>Current Assets</b>			
Stocks	7,750	11,515	15,772
Debtors	39,672	35,990	45,428
Cash at bank and in hand	148,347	400,699	160,543
	<u>195,769</u>	<u>448,204</u>	<u>221,743</u>
<b>Creditors: amounts falling due within one year</b>	<u>70,862</u>	<u>90,853</u>	<u>80,650</u>
<b>Net current assets</b>	<u>124,907</u>	<u>357,351</u>	<u>141,093</u>
<b>Total assets less current liabilities</b>	<u>286,485</u>	<u>525,522</u>	<u>314,854</u>
<b>Creditors: amounts falling due after more than one year</b>	<u>88,326</u>	<u>74,993</u>	<u>88,331</u>
	<u>198,159</u>	<u>450,529</u>	<u>226,523</u>
<b>Capital and Reserves</b>			
Called up share capital	201,012	201,012	167,105
Share premium account	1,311,245	1,312,806	667,010
Profit and loss account	(1,314,098)	(1,063,289)	(607,592)
<b>Equity Shareholders' funds</b>	<u>198,159</u>	<u>450,529</u>	<u>226,523</u>

## Notes:

## 1. Basis of preparation

The interim summarised financial statement has been prepared on a going concern basis, which assumes the availability of additional finance and that firm sales orders for the Company's core products are forthcoming. To date the Company has been funded at each stage of the development of its products. Consistent with start-up businesses creating new products and having reached the point where marketing and production can proceed, additional finance and firm sales orders are required. The Directors are of the opinion that the current cash balances together with the improved prospect for orders and the continued support from members will be adequate to meet the Company's needs for the foreseeable future. The Directors believe that it is therefore appropriate to prepare the summarised financial information on a going concern basis.

2. The figures for the 10 months ended 31 August 1998 are unaudited and do not constitute full accounts within the meaning of Section 240 of the Companies Act 1985. The figures for the 10 months ended 31 October 1997 have been extracted from the full accounts for that period which have been delivered to the Registrar of Companies and on which the auditors have issued an unqualified audit report.

### 3.3 PRO FORMA STATEMENT OF NET ASSETS

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

	The Company at 31 August 1998 £	Adjustments £	Pro forma £
<b>Fixed assets</b>			
Intangible	29,335	—	29,335
Tangible	132,243	—	132,243
	<u>161,578</u>	<u>—</u>	<u>161,578</u>
<b>Current assets</b>			
Stocks	7,750	—	7,750
Debtors	39,672	—	39,672
Bank balances and cash	148,347	1,108,000	1,256,347
	<u>195,769</u>	<u>1,108,000</u>	<u>1,303,769</u>
<b>Creditors due within one year</b>	<u>70,862</u>	<u>—</u>	<u>70,862</u>
<b>Net current assets</b>	<u>124,907</u>	<u>1,108,000</u>	<u>1,232,907</u>
<b>Total asset less current liabilities</b>	<u>286,485</u>	<u>1,108,000</u>	<u>1,398,485</u>
<b>Creditors due after one year</b>	<u>88,326</u>	<u>—</u>	<u>88,326</u>
<b>Net assets</b>	<u>198,159</u>	<u>1,108,000</u>	<u>1,306,159</u>

#### Notes:

- The statement of net assets of the Company at 31 August 1998 is based on the unaudited balance sheet of the Company at that date.
- In preparing the pro forma statement, adjustment has been made to reflect:
  - the £1,000,000 to be raised by the Offer.
  - the estimated expenses of the Offer of £110,000 excluding VAT.
  - the issue of shares in September 1998 which raised £218,000.
- No account has been taken of any profits or losses of the Company since 31 August 1998.

## PART FOUR

### STATUTORY AND GENERAL INFORMATION

#### 1. Incorporation and Share Capital

- (a) The Company was incorporated in England and Wales on 3 October 1995, under the Companies Act 1985 with number 3109613, as Coincentral Public Limited Company. Its name was changed to TEG Environmental PLC on 6 November 1995.
- (b) TEG's initial authorised share capital was £100,000 divided into 100,000 Ordinary Shares of £1 each, of which two shares were issued at par on incorporation. On 21 November 1995 the authorised share capital was increased to £5,000,000 and then subdivided into 100,000,000 Ordinary Shares of 5 pence each.
- (c) TEG received a Certificate of Entitlement to do business and borrow under Section 117(1) of the Companies Act 1985 on 13 February 1996.
- (d) The Directors, pursuant to Ordinary and Special Resolutions respectively passed at an Extraordinary General Meeting of the Company held on 21 November 1995, are authorised and empowered:-
- generally and unconditionally pursuant to Section 80 of the Companies Act 1985 to allot relevant securities (as defined in Section 80 of the Act) such authority and power being limited to a nominal amount of up to £5,000,000; and
  - pursuant to Section 95(1) of the Act to allot equity securities (as defined in Section 94 of the Act) as if Section 89(1) of the Act did not apply to such allotment and to make at any time prior to the expiry of the power conferred any offer or agreement which would or might require equity securities to be allotted after the expiry of such power.

Each of the authorities and powers referred to above expires on 21 November 2000. The authority for the purposes of Section 80 is subject to the condition that no Ordinary Shares would be allotted or issued if by reason thereof the Company would no longer be a qualifying Company under the terms of the Enterprise Investment Scheme as from time to time enacted.

- (e) Since the placing and offer for subscription contained in a prospectus dated 7 January 1998, which raised approximately £680,000 the Company has issued on 28 September 1998 an aggregate of 218,000 Ordinary Shares in each case at a price of £1.00 per share.
- (f) Immediately following completion of the Offer (on the assumption that the full subscription is achieved and no options referred to in paragraph 4 are exercised) the authorised and issued share capital of the Company will be as follows:

Class	Authorised		Issued and fully paid	
	Number	Nominal	Number	Nominal
Ordinary	100,000,000	£5,000,000	5,238,253	£261,912.65

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

#### 2. Directors and other interests

- (a) The Directors of the Company, each of whose business address for the purposes hereof is Crescent House, 2-6 Sandy Lane, Leyland, Preston, Lancashire PR5 1EB, are Allen Sykes, John Hough, Dick Bilborough, Dr Alan Heyworth and Alastair Leslie.

- (b) Other directorships held by the Directors in the last five years are:

	Date resigned (where applicable)
<b>Allen Sykes</b>	
Quenton Limited	
Willis Corroon Group Plc	30 October 1998
GSB (Holdings) Plc	
Major Projects Association	27 November 1995
Economic Insurance Holdings Limited	1 July 1996
Economic Insurance Company Limited	1 July 1996
<b>John Hough</b>	
AHJ Investments Limited	
FH Investments Limited	
HF Investments Limited	
Tudorfawn Limited	
The Griffin Insurance Association Limited	January 1998
AHJ Pension Fund Trustee Limited	
GSB (Holdings) Plc	
AHJ FS Limited	
<b>Dick Bilborough</b>	
Bilborough Consultancy & Finance Limited	
Green Wall Sound Barriers Limited	
GSB (Holdings) Plc	
<b>Alan Heyworth</b>	
Environmental Consultants Limited	
The Bracken Advisory Commission Ltd.	
Merlin Waste Management Limited	27 February 1995
<b>Alastair Leslie</b>	
Oilfield Expert Systems Limited	March 1994
Cornwall Resources NL	August 1997
Hardy Underwriting Group PLC	
Quill Underwriting Agency Limited	
The Clothworkers Foundation	
CWF (Underwriting Agencies) Limited	January 1997
A.P. Leslie Underwriting Agencies Limited	December 1994
Ramteazle Limited	
Ronald A Lee Plc	January 1997

None of the Directors have any unspent convictions, have been disqualified from acting as directors, were directors of any company at the time of or within 12 months preceding any bankruptcy, receivership or insolvent liquidation of such company save for Dick Bilborough's directorship of Coolpac Fresh Foods Limited, to which a receiver was appointed in May 1985, and there has been no public criticism of any of the Directors by any statutory or regulatory authority.

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

Name	Number of Shares Prior to Offer	% Holding Prior to Offer	% Holding Following Offer	Share Options
Allen Sykes	369,403	8.7	7.1	—
John Hough	533,156	12.6	10.2	—
Dick Bilborough	227,000	5.4	4.3	160,000
Dr Alan Heyworth	112,000	2.6	2.1	75,000
Alastair Leslie	284,947	6.7	5.4	—
	<u>1,526,506</u>	<u>36.0</u>	<u>29.1</u>	<u>235,000</u>



The percentage holding following the Offer (assuming full subscription), excludes any further Ordinary Shares that the Directors may subscribe for under the Offer. Prior to the Offer on the information available to them the Directors consider that no person or group of persons exercise control over the Company.

- (d) Other than the acquisition of the Intellectual Property Rights from Dr Alan Heyworth in connection with the Silo-Cages (see paragraph 5(b) below), no Director has or has had any direct or indirect interest in any asset which has been acquired or disposed of, by, or leased to TEG since the date of its incorporation or which is proposed to be so acquired, disposed of or leased.
- (e) The following Directors have service contracts with the Company on the following basic terms:
  - (i) Dick Bilborough is employed as Managing Director at a present salary of £48,000 per annum terminable on six months' notice by the Company at any time or by six months' notice by the employee expiring on or after 31 October 2002.
  - (ii) Dr Alan Heyworth is employed as Technical Director at a present salary of £36,000 per annum terminable on six months' notice by the Company at any time or by six months' notice by the employee expiring on or after 31 October 2003.

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

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

- (f) The following persons other than Directors have a holding of 3% or more in the share capital of TEG prior to the Offer:

Name	% Holding prior to Offer
L. Olivier	7.3
C. H. Birt	4.8
R. Jenks	4.1
S. J. Hough	3.8

- (g) The aggregate remuneration paid and benefits in kind granted to Directors was £88,544 for the year ended 31 October 1998 and is expected to be £97,771 for the year ending 31 October 1999.
- (h) Each of the Directors has given an undertaking not to dispose of any of his Ordinary Shares in the capital of the Company prior to the date on which TEG first reports an operating profit before tax in its audited accounts.
- (i) Except as detailed above there is no contract or arrangement to which the Company is a party and in which any Director is materially interested and which is significant in relation to the business of TEG and no amount or benefit has been or is intended to be paid or given to any promoter of TEG.
- (j) The Company holds £1,000,000 of personal accident cover in respect of Dick Bilborough and £500,000 in respect of Dr Alan Heyworth. In addition, the Company has insured the life of Dr Alan Heyworth for £200,000.

### 3. Memorandum and Articles of Association

- (a) The Memorandum of Association contains (*inter alia*) provisions to the following effect:
  - Liability – the liability of the members is limited.
  - Objects – the Company's principal objects are set out in Clause 4 of the Memorandum of Association and include the following:
    - to carry on the business of commercial composting and the disposal of organic waste;
    - to carry on any other trade or business whatever which can in the opinion of the Board of Directors be advantageously carried on in connection with or ancillary to any other businesses of the Company.

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

- *Share capital* – the Company's share capital comprises Ordinary Shares of 5p each which rank *pari passu* in all respects and, in particular, have the following rights:
  - *Voting* – on a show of hands every member who (being an individual) is present in person or (being a corporation) is present by a duly authorised representative, not being himself a member entitled to vote, shall have one vote and on a poll every member shall have one vote for every Ordinary Share of which he is a holder.
  - *Dividends* – subject to the provisions of the Act, the Company may by ordinary resolution declare dividends in accordance with the respective rights of the member but no dividend shall exceed the amount recommended by the Directors. Subject to the Act, the Directors may pay interim dividends if it appears to them that they are justified by the profits of the Company available for distribution. All dividends shall be declared and paid according to the amounts paid up on the shares on which the dividend is paid and shall be apportioned and paid proportionately to the amounts paid up on the shares during any portion or portions of the period in respect of which the dividend is paid. Dividends will be paid net of the appropriate rate of tax withheld at source. A general meeting declaring a dividend may, upon the recommendation of the Directors, direct that it shall be satisfied wholly or partly by the distribution of assets. Dividends may be paid by cheque, sent by post to the registered address of the person entitled. No dividend shall bear interest. Any dividend which has remained unclaimed for 12 years from the date when it became due for payment shall, if the Directors so resolve, be forfeited.
  - *Redemption* – the shares are not subject to redemption, other than as provided in the Act.
  - *Return of Capital* – if the Company is wound up the liquidator may, with the sanction of an extraordinary resolution of the Company, divide the assets of the Company among the shareholders.
  - *Variation of Rights* – subject to the Act, all or any of the rights or privileges attached to any class of shares may be varied in such a manner (if any) as may be provided by such rights or in the absence of any such provision, either with the consent of the holders of at least three quarters of the nominal amount of the issued shares of that class or with the sanction of an extraordinary resolution passed at a separate meeting of the holders of the issued shares of the class, but not otherwise.
  - *Transferability* – the Directors may during the period expiring on 16 April 2001 refuse to register any proposed transfer or transfers of shares that would give rise to a person or persons having a controlling interest (which expression means for the purpose of the relevant article the ability to exercise or control the exercise of in aggregate more than 50% of the total voting rights, within the meaning of Section 736(A)(2) of the Act, capable of being exercised at general meetings of the Company). The Directors may, in their absolute discretion, decline to register any transfer of any share which is not a fully paid share or of which the Company has a lien or in other limited circumstances. Subject to the foregoing, any member may transfer all or any of his shares by an instrument of transfer in any usual form or in other form which the Board may approve.
  - *Borrowing Powers* – the Directors may exercise all powers of the Company to borrow money without limit as to amount and upon such terms and in such manner as they think fit and subject (in case of any security convertible into shares) to Section 80 of the Act, to grant any mortgage, charge or standard security over its undertaking, property and uncalled capital or any part thereof and to issue debentures, debenture stock and other securities whether outright or as security for any debt, liability or obligation of the Company or of any third party.

#### 4. Share Options

##### (a) The Employee Share Option Scheme

The Company has adopted an unapproved Company Share Option Scheme (the "Company Scheme"). The Company may not grant an option under the Scheme if, as a result, the number of shares issued or issuable in respect of all options granted under the Scheme and any other employee share option plan operated by the Company would, as a result of options or rights granted within the preceding ten year period, exceed 10% of the ordinary share capital of the Company. Under the Company Scheme, options over 160,000 Ordinary Shares have been granted to Dick Bilborough with the subscription price of 35 pence per Ordinary Share. Under the terms and conditions of the Company Scheme, an Option Holder may exercise options in respect of any number of Ordinary Shares comprised in an option at any time within seven years of the date of grant.

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

The main features of the TEG Environmental Plc Company Share Option Plan are:

- *Eligibility*  
All employees and full-time (i.e.: those working more than 25 hours per week) Directors are eligible to participate. No eligible employee is entitled to participate as of right. The selection of those eligible employees who are to participate is within the discretion of the Directors.
- *Limit on number of shares*  
The Company may not grant an option under the Plan if, as a result, the number of shares issued or issuable in respect of all options granted under the Plan and any other employee share option plan operated by the Company would, as a result of options or rights granted within the preceding ten year period, exceed 10% of the ordinary share capital of the Company.
- *Limit on individual participation*  
No option shall be granted to an individual employee if the aggregate market value of shares subject to such option would exceed £30,000.
- *Acquisition price*  
The price per Ordinary Share at which an option may be exercised under the Plan shall not be less than the greater of its nominal value and its market value on the day the invitation to apply for an option was issued.
- *Time at which invitations may be issued*  
The Company may invite eligible employees to apply for an option at any time, subject to the OFEX code of best practice, but in any event no later than the tenth anniversary of the date that the Plan is approved by the Inland Revenue.
- *Exercise of options*  
An option under the Plan cannot be exercised more than ten years after the date on which it was granted, nor can it normally be exercised less than three years after its grant. However, options may be exercised (whether the initial three year period has expired or not) in the following circumstances:
  - (a) the participant is deceased, in which case his personal representatives may exercise the option within one year after the date of death, failing which the option will lapse;
  - (b) the participant ceases to be employed by reason of injury, disability or retirement in which case a participant may exercise the option no later than six months from the date of such termination of employment, failing which the option will lapse;

- (c) if the Company passes a resolution for voluntary winding up, any subsisting option may be exercised within six months after the date upon which the resolution is passed;
- (d) if as a result of a general offer a third party obtains control of the Company, the option is exercisable for a period of six months after such control has been obtained, although with the consent of the acquiring company, the existing option may be replaced by a new option over shares in the acquiring company or some other qualifying company.

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

- (b) Under an agreement dated 3 November 1998, the Company has granted options to Matrix-Securities Limited over a number of Ordinary Shares equal to 10% of the total number of Ordinary Shares issued pursuant to the Offer and in certain cases within three months of the Closing Date at a price of £1 per share.

## 5. Material Contracts and Arrangements

- (a) The executive service contracts referred to in 2(e) above.
- (b) The Transfer of Intellectual Property Rights dated 21 November 1995 between Dr Alan Heyworth and the Company whereby Dr Heyworth transferred all rights in TEG technology to the Company, in consideration for payments of £35,000 and a royalty of up to £140,000 based on profits.
- (c) The collaboration agreement with Royal Ordnance dated 12 January 1996.
- (d) A warranty agreement dated 3 November 1998 made between the Company, the Directors and Matrix-Securities Limited, under which the Company and the Directors have given certain warranties in respect of the Company and indemnities in respect of the Offer to Matrix-Securities Limited.
- (e) A Waste Management Licence granted to the Company by The Environment Agency authorising the Company to keep and treat "Controlled Waste" issued on 20 May 1998.

## 6. Indebtedness

At the close of business on 30 September 1998, the Company had cash balances of £265,509 and secured bank borrowing of £86,659 under the DTI Loan Guarantee Scheme and hire purchase commitments of £9,255. Save as aforesaid, at the close of business on 30 September 1998, the Company has no loan capital (including term loans) issued or created but unissued, or any borrowings or indebtedness in the nature of borrowings, including bank overdrafts, liabilities under acceptances (other than normal trade bills), acceptance credits, hire purchase commitments, obligations under finance leases, guarantees or other contingent liabilities.

## 7. Commission Arrangements

A commission of 3% will be paid to authorised financial intermediaries who procure subscribers for Offer Shares pursuant to the Offer.

## 8. Property

The Company does not own any freehold property. The Company occupies offices at the business address set out in this document pursuant to a licence granted by South Ribble Office Developments Limited for a period expiring 16 December 1998 at a licence fee of £1,545 per month.

## 9. General

- (a) The Minimum Amount which, in the opinion of the Directors, must be raised under the Offer to provide the sums required in respect of the matters specified in Schedule 1 of the POS Regulations is £340,000 as set out below:

	£
(i) Purchase of property	-
(ii) Expenses of the Offer (not including commissions)	66,000
(iii) Repayment of borrowings in respect of (a) and (b)	-
(iv) Working capital	274,000

- (b) The Company is not engaged in any litigation or arbitration and, so far as the Directors are aware, has no litigation or claim pending or threatened against it which has, has had or may have a significant effect on the Company's financial position.

- (c) Ernst & Young have given and not withdrawn their written consent to the issue of this document with inclusion therein of their report and references thereto in the form and context in which they are included.
- (d) TEG has no subsidiaries.
- (e) TEG's accounting reference date is 31 October in each year.
- (f) No financial information contained in this document is intended by the Company to represent or constitute a forecast of profits by TEG nor to constitute publication of accounts by it.
- (g) The estimated amount of expenses of the Offer, assuming full subscription, including corporate finance, accountancy and legal fees and the costs of printing and despatching this document, is £100,000 (exclusive of VAT) and will be payable by TEG. No figure has been included in the above amount in respect of commissions payable to authorised financial intermediaries who procure subscribers for Offer Shares pursuant to the Offer, which are estimated may amount to approximately £10,000.
- (h) No underwriter or paying agents are involved with the Offer.
- (i) Save as disclosed, no promoters of the Company in the two years preceding the date of this document have received directly or indirectly from the Company fees totalling £10,000 or more or any other benefit with a value of £10,000 or more.
- (j) Payments of fees of more than £10,000 to persons other than trade suppliers in the year ended 31 October 1998 were as follows:

	£
Beavis Walker	31,404
Ernst & Young	51,082
Sinclair Roche & Temperley	35,024

#### 10. Availability of Prospectus

Copies of this document will be available free of charge to the public during normal business hours on any weekday (excluding public holidays) at the Company's registered office and at the offices of the Company's financial adviser set out on page 3 of this document from the date of this document up to and including the Closing Date.

Dated 4 November 1998

## PART FIVE

### 5.1 TERMS AND CONDITIONS OF THE OFFER

#### Share Application and Issue Procedure

##### A. *Applications from New Investors*

- (a) Applications for Offer Shares must be made on the Application Form.
- (b) Applications for Offer Shares on the Application Form must be made for a minimum of £1,000 and, thereafter, in multiples of £1,000.

##### B. *Applications from Existing Shareholders*

- (c) Applications for Offer Shares on the green Priority Application Form must be made for a maximum of a number of Offer Shares equal to the holding of the Existing Shareholder on the Record date.

Existing Shareholders may apply for a greater number of Offer Shares than equals their existing shareholdings on the Record Date.

##### C. *All Applications*

- (d) All applications for Offer Shares must be received by the Company's registrars, IRG Plc, on or before the Closing Date, which may be extended by the Directors.
- (e) Subject to the terms and conditions of the Offer set out in this document, valid applications received from Existing Shareholders on Priority Application Forms will be accepted in priority to applications received from new Investors.

Priority will be given to applications on Priority Application Forms in respect of a maximum number of Offer Shares equal to the relevant Existing Shareholder's holding of Ordinary Shares on the Record Date, that is, one Offer Share for each Ordinary Share held on the Record Date.

Where an application is made by an Existing Shareholder on a Priority Application Form for a number of Offer Shares greater than the relevant Existing Shareholder's holding of Ordinary Shares on the Record Date, such excess application will be deemed to have been made on, and the appropriate proportion of the remittance will be deemed to have been attached to, an Application Form.

If the aggregate number of Offer Shares applied for under the Offer on Priority Application Forms exceeds the number of Offer Shares available under the Offer, such applications will be scaled down proportionately.

If the aggregate number of Offer Shares applied for under the Offer on Priority Application Forms is less than the number of Offer Shares available under the Offer, Existing Shareholders will receive the number of Offer Shares applied for on the Priority Application Form. The balance of Offer Shares available under the Offer will be allotted to applicants using the Application Form and where appropriate applications will be scaled down proportionately.

- (f) A currently dated cheque for the full subscription amount made payable to "IRG plc A/C TEG Environmental Plc" must accompany the application.
- (g) The right is reserved to scale down or reject or accept any application in whole or in part only and whether or not the Application Form or Priority Application Form is properly completed or, in the case of Application Forms, the amount subscribed for is not for a minimum of or multiple of 1,000 Ordinary Shares or, in the case of Priority Application Forms, if more than the maximum number of Offer Shares subject to priority has been applied for, in which case the right is reserved to treat the Priority Application as for the maximum number of Offer Shares applied for in excess of such maximum to have been made on, and subject to the terms and conditions applicable to, an Application Form. Share certificates will be posted to successful applicants within 14 days of the Closing Date, provided that the right is reserved to present all cheques and banker's drafts on receipt and to retain share certificates pending clearance of all cheques.
- (h) No person receiving a copy of this document and/or an Application Form or a Priority Application Form, in any territory other than the United Kingdom may treat the same as constituting an invitation to such person, nor should such person in any event use such Application Form or Priority Application Form unless

in the relevant territory such an invitation could lawfully be made to such person or such Application Form or Priority Application Form could lawfully be used without compliance with any registration or other legal requirements. It is the responsibility of any person outside the United Kingdom wishing to make an application hereunder to satisfy himself or herself as to full observance of the laws of the relevant territory in connection therewith including obtaining any governmental or other consents which may be required or observing any other formalities needing to be observed in such territory.

The Ordinary Shares have not been nor will they be registered under the United States Securities Act of 1933, as amended (the "Securities Act") or the Securities Exchange Act of 1934, as amended, and the relevant exemptions are not being obtained from the securities regulatory authority of any province of Canada. Accordingly, except in a transaction which is exempt under the relevant legislation, the Ordinary Shares may not be directly or indirectly offered, sold or delivered in the United States, Canada or Australia or to US persons or persons resident in Canada or Australia nor may an Application Form or Priority Application Form be lodged by any such persons.

**Persons resident in other overseas territories should consult their professional advisers as to whether they require any governmental or other consents or need to observe any other formalities to enable them to participate in the Offer.**

- (i) By completing and delivering an Application Form and/or Priority Application Form, you as the applicant (and if you sign the Application Form and/or the Priority Application Form on behalf of somebody else or a corporation, that person or corporation):
  - (i) irrevocably offer to subscribe for the number of Ordinary Shares specified in the Application Form or the Priority Application Form, on the terms of, and subject to, the conditions set out in this document, including these terms and conditions and subject to the Memorandum and Articles of Association of the Company;
  - (ii) agree that you will accept the number of Ordinary Shares stated in Box 1 of the Application Form or the Priority Application Form which are allotted to you or such lesser number of Ordinary Shares in respect of which this application may be accepted;
  - (iii) agree that all applications, acceptances, allotments and contracts arising from this application will be governed by and construed in accordance with English law;
  - (iv) warrant that if you sign the Application Form or the Priority Application Form on behalf of somebody else or a corporation you have the authority to do so and such person will also be bound accordingly and will be deemed also to have given the confirmations, warranties, and undertakings contained in these terms and conditions of application;
  - (v) confirm that you are not relying on any information or representations other than those contained in this document;
  - (vi) warrant that the remittance accompanying your Application Form or Priority Application Form will be honoured at first presentation and agree that if it is not so honoured the Company (without prejudice to any other rights it may have) may void the agreement to allot the relevant Ordinary Shares and may allot them to some other person in which case you will not be entitled to any refund or payment in respect thereof;
  - (vii) agree that this application constitutes a contract with the Company which shall become binding upon delivery of the Application Form or the Priority Application Form duly completed at the address shown on the Application Form or the Priority Application Form; and
  - (viii) do not expect any of the advisers named in this document to provide you with any protections afforded to their clients and are subscribing on an "execution only" basis.

#### **The Closing Date**

The date by which an application for Ordinary Shares under the Offer (accompanied by a currently dated cheque for the subscription amount) must be received by IRG plc is 4 December 1998. This date may be extended at the discretion of the Directors.

### Return of subscription Monies

Application monies may be presented on receipt and will be retained in a separate designated bank account pending allotment of Ordinary Shares. Interest earned on application monies pending allotment, or return to applicants, will be paid to the Company. If any application is not accepted the amount paid will be returned by cheque without interest. If any application is accepted for a lesser number of Ordinary Shares than the number applied for, the balance of the amount will be returned by cheque without interest. In each case the cheque will be sent to the applicant within 14 days of the Closing Date.

## 5.2 HOW TO COMPLETE THE APPLICATION FORM AND/OR THE PRIORITY APPLICATION FORM

Before making any application to acquire Ordinary Shares, you are recommended to consult an independent adviser authorised under the Financial Services Act 1986. The following instructions should be read in conjunction with the Application Form and (for Existing Shareholders) the Priority Application Form and the terms and conditions of application set out in this document.

### (a) The Application Form

Applications must be for a minimum of 1,000 Ordinary Shares and thereafter in multiples of 1,000 Ordinary Shares.

1. Insert in Box 1 (in figures) the number of Ordinary Shares for which you are applying.
2. Insert in Box 2 (in figures) the amount of your cheque or banker's draft.
3. Insert your full name and address in BLOCK CAPITALS in Box 3.
4. Sign and date the Application Form in Box 4.

The Application Form may be signed by another person on your behalf if that person is duly authorised to do so, but the power(s) of attorney (or copy(ies) thereof duly certified by a solicitor) or form(s) of authority must be enclosed for inspection. A corporation should sign under the hand of a duly authorised official whose representative capacity must be stated.

5. You must pin a single cheque or banker's draft to your completed Application Form in Box 5. Your cheque or banker's draft must be payable to "IRG plc A/C TEG Environmental Plc" for the amount payable on application (inserted in Box 2) and should be crossed "A/C payee only".

A separate cheque or banker's draft must accompany each application. No other method of payment is acceptable. No receipt will be issued for this payment.

Your cheque or banker's draft must be drawn in Sterling and bear a UK bank sorting code in the top right-hand corner.

### *Money Laundering Regulations 1993 – Important note for Applications of £10,000 or more*

If an application for £10,000 or more by an individual is accompanied by a cheque or banker's draft drawn by someone other than the applicant named in Box 3 (for example, a building society cheque), one of the following additional documents must be enclosed with the Application Form: a copy of the applicant's passport or driving licence or a recent original bank or building society statement or utility bill in the applicant's name. A copy passport or driving licence should be certified by a solicitor or a bank. Original documents will be returned by post at the applicant's own risk. Please note that if the above requirements are not fulfilled and suitable evidence of identity cannot be obtained, your application may not be accepted.

6. By completing and returning the Application Form you irrevocably undertake, confirm and agree that:
  - (A) you are not a national or resident of the United States of America (including its territories, its possessions and all areas subject to its jurisdiction) or Canada, or Australia or a corporation, partnership or other entity organised under the laws of the United States of America or Canada (or any political sub-division of either) or Australia and that you will not offer, sell or deliver directly or indirectly any of the Offer Shares in the United States or Canada or Australia or to or for the benefit of any person resident in the United States of America or Canada or Australia;



- (B) you are entitled to subscribe for the Offer Shares comprised therein under the laws of all relevant jurisdictions which apply to you, that you have fully observed such laws and obtained all governmental and other consents which may be required thereunder and complied with all necessary formalities; and
- (C) you have read the section headed "Risk Factors" found in PART TWO of this document and confirm that you understand the nature of the risks and that you could lose all your investment in the Company.

Send the completed Application Form by post or by hand to New Issues Department, IRG plc, P.O. Box 166, Bourne House, 34 Beckenham Road, Beckenham, Kent BR3 4TH duly completed.

**(b) The Priority Application Form**

The maximum number of Offer Shares to which priority will be given, is the number of Ordinary Shares registered in your name on the Record Date. You may apply for a larger number of Offer Shares, but priority will only be given in respect of your priority entitlement.

1. Insert in Box 1 (in figures) the number of Ordinary Shares for which you are applying.
2. Insert in Box 2 (in figures) the amount of your cheque or banker's draft.
3. Insert your full name and address in BLOCK CAPITALS in Box 3, if different from the details set out at the top of the Priority Application Form.
4. Sign and date the Priority Application Form in Box 4.

The Priority Application Form may be signed by another person on your behalf if that person is duly authorised to do so, but the power(s) of attorney (or copy(ies) thereof duly certified by a solicitor) or form(s) of authority must be enclosed for inspection. A corporation should sign under the hand of a duly authorised official whose representative capacity must be stated.

5. You must pin a single cheque or banker's draft to your completed Application Form in Box 5. Your cheque or banker's draft must be payable to "IRG plc A/C TEG Environmental Plc" for the amount payable on application (inserted in Box 2) and should be crossed "A/C payee only".

A separate cheque or banker's draft must accompany each application. No other method of payment is acceptable. No receipt will be issued for this payment.

Your cheque or banker's draft must be drawn in Sterling and bear a UK bank sorting code in the top right-hand corner.

*Money Laundering Regulations 1993 – Important note for Applications of £10,000 or more*

If an application for £10,000 or more by an individual is accompanied by a cheque or banker's draft drawn by someone other than the applicant named in Box 3 (for example, a building society cheque), one of the following additional documents must be enclosed with the Priority Application Form: a copy of the applicant's passport or driving licence or a recent original bank or building society statement or utility bill in the applicant's name. A copy passport or driving licence should be certified by a solicitor or a bank. Original documents will be returned by post at the applicant's own risk. Please note that if the above requirements are not fulfilled and suitable evidence of identity cannot be obtained, your application may not be accepted.

6. By completing and returning the Priority Application Form you irrevocably undertake, confirm and agree that:
  - (A) you are not a national or resident of the United States of America (including its territories, its possessions and all areas subject to its jurisdiction) or Canada, or Australia or a corporation, partnership or other entity organised under the laws of the United States of America or Canada (or any political sub-division of either) or Australia and that you will not offer, sell or deliver directly or indirectly any of the Offer Shares in the United States or Canada or Australia or to or for the benefit of any person resident in the United States of America or Canada or Australia;

- (B) you are entitled to subscribe for the Offer Shares comprised therein under the laws of all relevant jurisdictions which apply to you, that you have fully observed such laws and obtained all governmental and other consents which may be required thereunder and complied with all necessary formalities; and
- (C) you have read the section headed "Risk Factors" found in PART TWO of this document and confirm that you understand the nature of the risks and that you could lose all your investment in the Company.

Send the completed Application Form and/or the Priority Application Form by post or by hand to New Issues Department, IRG plc, P.O. Box 166, Bourne House, 34 Beckenham Road, Beckenham, Kent BR3 4TH duly completed.

## APPLICATION FORM

## TEG ENVIRONMENTAL PLC

**IMPORTANT:** Before completing this Application Form you must read the risk factors set out in Part Two of the Prospectus, the terms and conditions of application and the notes on how to complete the Application Form set out in Part Five of the Prospectus. Your remittance must be pinned at Box 5. Applications must be for a minimum of 1,000 Ordinary Shares and thereafter in multiples of 1,000 Ordinary Shares.

**PLEASE RETURN YOUR COMPLETED APPLICATION FORM AND PAYMENT BY POST OR BY HAND TO NEW ISSUES DEPARTMENT, IRG plc, P.O. BOX 166, BOURNE HOUSE, 34 BECKENHAM ROAD, BECKENHAM, KENT BR3 4TH, MARKING THE ENVELOPE "TEG". IT MUST ARRIVE NO LATER THAN 5.00 P.M. ON 4 DECEMBER 1998, UNLESS EXTENDED BY THE DIRECTORS.**

I/We offer to subscribe for	Ordinary Shares of 5p at £1 each	<b>1</b>
-----------------------------	----------------------------------	----------

(or any lesser number of Ordinary Shares for which this application is accepted) in TEG Environmental Plc on the terms and subject to the conditions of application set out in the Prospectus of which this Application Form is part.

and I/we attach a cheque or banker's draft for the amount payable, namely £	<b>2</b>
---	----------

## PLEASE USE BLOCK CAPITALS

Mr/Mrs/Ms/Miss or Title	Forename(s) (in full)	Surname	<b>3</b>
Address (in full)			
Postcode			

I/We confirm that I/we have read the section headed "Terms and Conditions of the Offer" in PART FIVE and the section headed "Risk Factors" in PART TWO of the Prospectus.

Date	Signature	<b>4</b>
------	-----------	----------

Pin your cheque or banker's draft for the amount shown in Box 2 made payable to IRG plc A/C TEG Environmental Plc and crossed "A/C payee only"	<b>5</b>
--	----------

Stamp of Financial Intermediary or institution claiming commission	Acceptance No.	<b>6</b>
SRO/RPB No.		
Contact Name	Tel:	



IMPORTANT: Before completing this Priority Application Form you must read the risk factors set out in Part Two of the Prospectus, the terms and conditions of application and the notes on how to complete the Priority Application Form set out in Part Five of the Prospectus. Your remittance must be pinned at Box 5.

PLEASE RETURN YOUR COMPLETED PRIORITY APPLICATION FORM AND PAYMENT BY POST OR BY HAND TO NEW ISSUES DEPARTMENT, IRG plc, P.O. BOX 166, BOURNE HOUSE, 34 BECKENHAM ROAD, BECKENHAM, KENT BR3 4TH. A REPLY PAID ENVELOPE IS ENCLOSED FOR YOUR CONVENIENCE. IT MUST ARRIVE NO LATER THAN 5.00 P.M. ON 4 DECEMBER 1998, UNLESS EXTENDED BY THE DIRECTORS.

**PRIORITY APPLICATION FORM**  
**TEG ENVIRONMENTAL PLC**

FOR USE BY EXISTING SHAREHOLDERS ONLY

**Offer for Subscription of up to 1,000,000 Ordinary Shares of 5p each  
at a price of £1.00 per share payable in full on application**

Registered holding of Ordinary Shares on 26 October 1998	Total number of Offer Shares to which you have a priority entitlement	Total amount payable on subscription for all the Offer Shares to which you have a priority entitlement
I/We offer to subscribe for  Ordinary Shares of 5p at £1 each		<b>1</b>
(or any lesser number of Ordinary Shares for which this application is accepted) in TEG Environmental Plc on the terms and subject to the conditions of application set out in the Prospectus of which this Priority Application Form is part.		
and I/we attach a cheque or banker's draft for the amount payable, namely £		<b>2</b>

PLEASE USE BLOCK CAPITALS

Mr/Mrs/Ms/Miss or Title

Forename(s) (in full)

Surname

3	
Address (in full) _____	
_____	
_____	
_____	
_____ Postcode _____	

I/We confirm that I/we have read the section headed "Terms and Conditions of the Offer" in PART FIVE and the section headed "Risk Factors" in PART TWO of the Prospectus.

4	Date	Signature
5	Pin your cheque or banker's draft for the amount shown in Box 2 made payable to IRG plc A/C TEG Environmental Plc and crossed "A/C payee only"	
6	Stamp of Financial Intermediary or institution claiming commission	Acceptance No.
SRO/RPB No.		
Contact Name		
Tel:		



**THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION.** If you are in any doubt as to the contents of this document or the action that you should take, you should immediately consult your stockbroker, bank manager, solicitor, accountant, or other independent professional adviser authorised under the Financial Services Act 1986 who specialises in advising on the acquisition of shares and other securities.

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

A copy of this document, which has been drawn up in accordance with the requirements of the Public Offers of Securities Regulations 1995, has been delivered to the Registrar of Companies in England and Wales as required by Regulation 4(2) of those Regulations.

The Company's Ordinary Shares are traded on OFEX, which is an unregulated facility operated by J.P. Jenkins Limited, which allows trading in shares of unquoted companies. It is emphasised that OFEX is not a regulated market and that no application is currently being made for the admission of the Ordinary Shares to the Official List or the Alternative Investment Market of the London Stock Exchange.

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# TEG ENVIRONMENTAL PLC

(Incorporated in England and Wales under the Companies Act 1985. Registered No. 3109613)

## OFFER FOR SUBSCRIPTION

**of up to 1,000,000 Ordinary Shares of 5 pence each  
at a price of £1.00 per share payable in full on application**

---

### Share Capital following the Offer (assuming full subscription)

Authorised			Issued and fully paid	
Number	£		Number	£
100,000,000	5,000,000	Ordinary Shares of 5p each	5,238,253	261,912.65

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The subscription list for the Offer Shares will open at 10.00 a.m. on 9 November 1998 and may be closed at any time thereafter but will close not later than 5.00 p.m. on 4 December 1998, unless extended by the Directors. The terms and conditions of the Offer are set out in Part Five and an Application Form is set out at the end of this document. In the case of Existing Shareholders, a Priority Application Form is inserted in this document. The Offer has not been underwritten.

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

**The whole of this document should be read. An investment in the Company involves a significant degree of risk, may result in the loss of the entire investment and may not be suitable for all recipients of this document. Investors should consider carefully the risk factors which are set out in Part Two of this document.**

## CONTENTS

	<i>Page</i>
Directors, Secretary and Advisers	3
Definitions	4
PART ONE            Key Information	6
PART TWO            Information on the Company	8
Business of the Company	8
History and Background	8
TEGRO	8
Recent Progress	8
Current Trading and Prospects	9
Technical Background	9
The TEG Silo-Cage	9
EnVigro™ Organic Fertiliser	10
The Market	10
Directors and Management	11
The Offer	13
OFEX	14
Dividend Policy	14
Working Capital	14
Risk Factors	14
Tax Considerations	15
PART THREE        Financial Information	18
PART FOUR        Statutory and General Information	30
PART FIVE        Terms and Conditions of the Offer	37
How to Complete the Application Form and/or the Priority Application Form	39
Application Form	43

## DIRECTORS, SECRETARY AND ADVISERS

### Directors

Allen Sykes *Non-Executive Chairman*  
John Hough *Non-Executive Deputy Chairman*  
Dick Bilborough *Managing Director*  
Dr Alan Heyworth BSc, PhD *Technical Director*  
Alastair Leslie *Non-Executive Director*

The business address for each of the Directors is Crescent House,  
2-6 Sandy Lane, Leyland, Preston, Lancashire PR5 1EB

### Secretary and Registered Office

Monica Bolton  
Crescent House  
2-6 Sandy Lane  
Preston  
Lancashire PR5 1EB

### Financial Adviser

Matrix Corporate Finance  
9-10 Savile Row  
London W1X 1AF

### Auditors and Reporting Accountants

Ernst & Young  
100 Barbirolli Square  
Manchester M2 3EY

### Solicitors to the Company

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

### Bankers

Midland Bank plc  
140 Leadenhall Street  
London EC3V 4PS

### Registrars

IRG plc  
Bourne House  
34 Beckenham Road  
Beckenham  
Kent BR3 4TU



## DEFINITIONS

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

"advance treatment"	The processing of sewage sludge which eliminates or reduces pathogen counts to safe levels.
"the Act"	The Companies Act 1985, as amended.
"Application Form"	The form of application to subscribe for Offer Shares under the Offer which is set out at the end of this document.
"the Board" or "the Directors"	The board of directors of the Company.
"British Retail Consortium" or "BRC"	The trade association of British retailers.
"CGT"	Capital Gains Tax.
"Closing Date"	4 December 1998 or such later date as the Board shall determine not being later than 14 December 1998 or (if the Minimum Amount has been raised by such date) such later date as the Board shall determine.
"Enterprise Investment Scheme" or "EIS"	The Enterprise Investment Scheme and related reliefs as detailed in Chapter III, Part VII of the Income and Corporation Taxes Act 1988 and in Schedule 5B of the Taxation of Chargeable Gains Act 1992 (as amended).
"Existing Shareholder"	A shareholder on the register of members of the Company at the Record Date.
"Investor"	An individual who acquires Ordinary Shares pursuant to the Offer.
"Matrix"	Matrix Corporate Finance, a division of Matrix-Securities Limited, regulated by The Securities and Futures Authority.
"Minimum Amount"	£340,000.
"OFEX"	A facility operated by J.P. Jenkins Limited, a member of the London Stock Exchange Limited, which allows trading in the shares of unquoted companies.
"Offer"	The offer for subscription of up to 1,000,000 Ordinary Shares at the Offer Price set out in this document.
"Offer Price"	£1.00 per Ordinary Share.
"Offer Shares"	Up to 1,000,000 Ordinary Shares to be issued pursuant to the Offer.
"OFWAT"	The Office of Water Services, the economic regulator for the water industry in England and Wales.

"Ordinary Shares"	Ordinary Shares of 5 pence each in the Company.
"POS Regulations"	The Public Offers of Securities Regulations 1995.
"Priority Application Form"	The green form of application to subscribe for Offer Shares under the Offer for use by Existing Shareholders which, in the case of Existing Shareholders, accompanies this document.
"Record Date"	26 October 1998.
"Reinvestment Relief"	CGT holdover relief under Schedule 5B of the Taxation of Chargeable Gains Act 1992 (as amended).
"TEG" or "the Company"	TEG Environmental Plc.
"Water UK"	The water industry's trade association.

## PART ONE

### KEY INFORMATION

The following key information should be read in the context of the whole document including in particular the section headed "Risk Factors" on page 14.

#### TEG's Technology

- TEG's technology has been specifically designed to provide a low cost and efficient method of composting waste products, including sewage sludge, converting such waste into an organic fertiliser that can safely and viably be spread on land.
- The core product, the TEG Silo-Cage, is an industrial scale continuous flow composting plant, which enables the rapid decomposition of organic waste (including toxic and noxious materials) more quickly and efficiently than traditional composting methods.
- The legislative and other changes in the requirements of waste disposal and the Directors' experience over the past twelve months have reinforced their view that there is a significant need for the Company's technology.

#### Legislative and other changes

- On 29 October 1998, OFWAT published the 1999 price review "Prospects for Prices" consultation document which confirms that sewage sludge will by 2001 require "advance treatment" prior to application to fields in certain circumstances.
- Government policy, as announced by the Deputy Prime Minister in September 1998, is to require a higher standard of treatment of all sewage.
- From 31 December 1998 water companies in the UK will be forbidden by legislation from dumping sewage sludge at sea. Approximately 30% of sewage has been disposed of in this way.
- In October 1998, Water UK and the British Retail Consortium agreed that untreated sewage sludge must not be spread on farmland without further "advance treatment". This will affect untreated sludge from December 1998 and digested sludge from December 1999. Approximately 50% of sewage sludge is currently disposed of by land application, including farm and forest land, and it is anticipated that this will increase to 60% as a result of the end of marine disposal.
- Therefore, in future, before disposal, sewage sludge will require "advance treatment" to remove pathogens and this will apply to other noxious wastes such as abattoir waste.

#### Marketing progress

- The Company has made further progress during 1998 towards developing sales of its Silo-Cage composting plant and increasing sales of EnVigro™ and has been concentrating on marketing its Silo-Cages to the water industry.
- It has completed trials of its technology with three water companies, the Directors believe successfully. Discussions are continuing with all these companies and the Directors believe that significant orders should result. Quotations have been submitted to these companies for 6 Silo Cage composting plants, valued at £5,825,000.
- The agreement between the British Retail Consortium and Water UK for the changes to the methods of sewage sludge treatment has taken longer to be concluded than envisaged, but these new requirements are now agreed. The Directors expect to receive the water companies' tender documents for investment in plant for "advance treatment" in 1999.
- The Company is discussing its technology with a number of other potential customers which have significant waste disposal problems, particularly in the pharmaceutical, distillery, abattoir, food and waste management industries. It has supplied 2 companies with quotations totalling £740,000 and is involved in tenders to two local authorities, totalling £2,364,000.

- The Company produces EnVigro™, a humus rich organic fertiliser, which is being marketed to a number of selected customers, including golf courses and playing fields.

#### Taxation

- The Company has received advance assurance from the Inland Revenue of its EIS status in respect of the Offer.

#### Reasons for the Offer and use of proceeds

Following the £680,000 raised from the January 1998 prospectus, the Company raised a further £218,000 in September 1998 from a small number of shareholders and Directors. This has provided the Company with working and development capital. However, the delay in sales of Silo-Cages, which has resulted from the protracted negotiations and discussions between Water UK and BRC mentioned above concerning advanced treatment of sewage sludge and methods of disposal, means that the Company requires further working capital to enable sales to be developed. The Company is therefore raising up to £1,000,000 before expenses from the Offer.

The Minimum Amount to be raised under the Offer is £340,000.

#### Priority Applications from Existing Shareholders

Subject to the terms and conditions of the Offer set out in this document, valid applications received from Existing Shareholders made on green Priority Application Forms will be accepted in priority to applications received from new Investors for up to one Offer Share for each Ordinary Share held on the Record Date. Please see page 37 for further details.

#### New Investors

The white Application Form at the back of this document should be completed by new Investors. The Directors would welcome a widening of the shareholder base and anticipate that a minority of the Offer Shares will be subscribed by Existing Shareholders under the priority arrangements, a number having already invested further funds in a placing in September 1998.

#### Offer Statistics assuming Full Subscription

Offer Price per Ordinary Share	£1.00
Proceeds of the Offer before expenses	£1,000,000
Estimated proceeds of the Offer net of expenses	£890,000
Number of Ordinary Shares subject to the Offer	1,000,000
Number of Ordinary Shares in issue following the Offer	5,238,253
Percentage of issued share capital represented by the Offer Shares	19.1%
Market capitalisation at the Offer Price	£5.2 million

#### Expected Timetable

	1998
Subscription list for the Offer opens	10.00 a.m. on 9 November
Closing Date for applications under the Offer	5.00 p.m. on 4 December
Dealings in Ordinary Shares on OFEX commence	7 December

## PART TWO

### INFORMATION ON THE COMPANY

#### BUSINESS OF THE COMPANY

##### History and Background

TEG was formed in October 1995 to develop and exploit the knowledge, technology and invention of Dr Alan Heyworth, one of the UK's foremost authorities on the science and practical applications of composting. Over a period of thirty years, Dr Heyworth successfully conducted many trials of his technology, including evaluation of several difficult organic wastes by the Public Health Research Laboratory at Porton Down in 1993.

The water industry has been the Company's primary target sector. The Directors have been aware from the outset that changes in legislation would create opportunities for the Company. The first of these is the banning of marine disposal of sewage sludge from 31 December 1998. Other changes are expected to come into force in the period to 31 December 2005, which is covered by the price review announced by OFWAT on 29 October 1998.

Also of considerable importance is the agreement between the British Retail Consortium and Water UK, the water industry's trade association, announced in October 1998. This agreement requires that sewage sludge should be the subject of "advance treatment" before it is applied to agricultural land and has been the subject of protracted negotiations over the last 12 months. The need for "advance treatment" has been endorsed by both Government statements and by OFWAT in the price review proposals.

TEG has been funded to date by private shareholders who have invested £1.73 million since 1995. Following a placing and offer for subscription in January 1998 the Company's Ordinary Shares were admitted to trading on OFEX.

##### TEGRO

The Company entered into a collaboration agreement with Royal Ordnance, a division of British Aerospace plc, in January 1996, whereby the two companies would jointly market, under the TEGRO name, the TEG technology, plant and equipment specifically to UK-based companies in the pharmaceutical and chemical industries, particularly those with organic waste streams of a sensitive nature and with a high cost of disposal.

Royal Ordnance has provided a large building at Chorley, Lancashire as a site for the development and testing of TEG's prototype Silo-Cage industrial scale continuous flow composting plant.

##### Recent Progress

Composting trials of waste products began in April 1997, with commercial scale trials for prospective clients beginning in August 1997.

Good progress has been made with a number of prospective clients, although changes in the disposal and treatment of sewage sludge have taken longer to implement than anticipated. The 13 water and sewage companies in Great Britain regulated by OFWAT have been contacted and the Company is in negotiations with four major companies, for three of which the Company has been conducting trials, the Directors believe successfully. Discussions are continuing with all these companies and the Directors believe that significant orders should result. Quotations have been submitted to these companies for 6 Silo-Cage composting plants, valued at £5,825,000. The Company expects to submit formal tenders to be considered by these companies during 1999.

Similarly, marketing has been directed at a broad spectrum of other industries including pharmaceutical, distillery, abattoir, food and waste management companies. Quotations have been supplied to 2 companies with a potential value of £740,000. The Company is also involved in tenders, valued at £2,364,000, to two large local authorities.

Sales of EnVigro™, the Company's organic fertiliser product, first marketed in September 1997, amounted to £36,250 in the year ended 31 October 1998, and are expected by the Directors to increase substantially over the next year, following successful trials during the 1998 growing season.

### **Current Trading and Prospects**

The Company's interim results for the 10 months ended 31 August 1998 are set out on page 27 and demonstrate sales of £26,002, administration and development expenses of £736,197 and a pre-tax loss of £706,506. These results reflect the continued tight control of costs as the Company develops, as well as the delays referred to above.

The Directors believe that the Company's technology meets the requirements of legislation and provide the "advance treatment" of sewage sludge which the water companies need to implement.

The Directors are therefore confident that sales of Silo-Cages should be secured during 1999. They also expect that sales of EnVigro™ will increase significantly.

The Directors view the Company's prospects with confidence.

### **Technical Background**

#### **Composting**

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

Sensitive waste streams, such as sewage sludge, contain pathogens, disease-causing organisms. These are most active at body temperature (c. 36°C for warm-blooded animals) and are killed or inactivated by temperatures over 50°C, if such temperatures are maintained for long enough.

#### **How the TEG system works**

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

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

#### **The TEG Silo-Cage**

The Silo-Cage is the Company's core product and consists of a bank of 4 to 12 mesh walled silos each with a capacity of 32 cubic metres. Each silo is separated by channels to allow the passage of air to reach all parts of the compost mix without costly forced aeration, turning or agitation.

Each bank of Silo-Cages is fitted with a loading mechanism and travelling overhead feeder which evenly supplies the calculated amount of compost mix to each silo daily. The efficiency of the structure is such that the materials compost vigorously at temperatures up to 78°C, which speeds the process and reduces the composting period to 8 to 21 days, depending on the target waste. An unloading auger traverses beneath the bank of Silo-Cages, undermining the composting mix as it descends through each silo and carrying the end product to a conveyor which in turn feeds a grading rotary screen. The high temperatures generated and maintained during the process ensure the elimination or reduction of pathogens to safe levels.

The Silo-Cage has very low operating costs. It has a low energy requirement compared to other methods, of only £1.00 per 32 cubic metre silo per week. Labour efficiency is high with one man capable of operating 24 silos in two banks of 12. The space requirement is also low, particularly compared to the traditional open windrow system.

It is the Company's business to build (by subcontract) and sell Silo-Cages to clients such as water companies. In addition, the Directors have recently had preliminary discussions with two large potential customers about TEG providing Design, Build and Operate solutions.

### **EnVigro™ Organic Fertiliser**

Alan Heyworth has developed a consistent quality organic fertiliser based on poultry litter composted by the TEG system. This product was first marketed in September 1997 at the SALTEX exhibition in Windsor, where the Company exhibited again in 1998. Experience with the product by growers, groundsmen and green keepers has been excellent and from small beginnings sales are increasing with repeat orders. To date 37 golf courses have started to use EnVigro™ on a regular basis, following successful trials.

Sales of EnVigro™ are now expected to grow in volume. EnVigro™ is also an important part of the sales strategy for Silo-Cages. It demonstrates the Company's ability to market a product similar in many cases to the composted end product resulting from clients' use of Silo-Cages and the Company could eventually provide sales assistance by providing a complete disposal package.

The Company intends to produce EnVigro™ and similar products using Silo-Cages at its own premises and the Directors believe that there is a substantial market for this product which they are confident of exploiting over time. Already the reputation of the product is growing as the results of the last growing season become known to the market.

### **The Market**

#### ***The water industry***

The Urban Waste Water Treatment (England and Wales) Regulations 1994 will ban the marine dumping of sewage sludge from 31 December 1998, which will affect up to 30% of UK sewage production. Approximately 50% of sewage sludge is currently disposed of by land application, including farm and forest land, which is seen by the Government as the favoured and most sustainable disposal option. This is generally expected to increase to at least 60% in the next few years. In October 1998, Water UK and the British Retail Consortium agreed that sewage sludge must not be spread on farmland without "advance treatment". This will affect untreated sludge from December 1998 and digested sludge from December 1999.

This "advance treatment" to ensure the elimination or reduction of pathogens to safe levels is within the capabilities of the TEG Silo-Cage, which has the additional benefit of changing the sludge to an acceptable organic fertiliser of real value to farmers without its characteristic odour, which should increase public acceptability of land application.

For these reasons, it is the water companies on which the Company has focused the majority of its marketing efforts to date and it is now in contact with 13 of the OFWAT regulated water and sewage companies in Great Britain.

The negotiations to agree new treatment standards have caused a delay in the decision making process in an industry already awaiting the outcome of the OFWAT price review for the period 2000 to 2005. The consultation document in respect of the price review was published by OFWAT on 29 October 1998, setting out the constraints within which the industry is required to deliver higher standards of treatment including "advance treatment" to sewage sludge before it can be applied to farmland. John Prescott, the Deputy Prime Minister, announced on 23 September 1998 that the Government requires higher standards of treatment of all sewage coupled with a 10% reduction in prices charged to consumers and a reduced allowable capital spend by the industry to achieve their targets of £8.5 billion against the water industry's figure of £15 billion. As a result, the industry will need cost effective solutions for sewage treatment. The Directors believe that the TEG technology provides the "advance treatment" of sewage sludge to meet the new requirement.

#### ***Waste in general***

Current and expected legislation is changing the established disposal routes for many waste materials. In addition, the principal disposal route of landfill has become more expensive with a £10 per tonne tax levied on all organic waste from April 1999.

The Government is indicating a tougher waste management regime and is to transpose into UK law the requirements of the EU directive Integrated Pollution Prevention and Control (IPPC) in October 1999, to be followed by the proposed EC Council directive for landfill and landform sites, banning co-disposal and requiring the pre-treatment of organic wastes before disposal in landfill/landform.

The IPPC directive will apply to over 30 industry sectors, including some not previously affected by regulation such as:

- food processing and production plants
- large pig and poultry units
- waste disposal facilities including those receiving non-hazardous waste
- landfill sites receiving more than 10 tonnes per day excluding inactive waste (such as builders' rubble)

Composting is highlighted by the Government as one of the favoured methods for waste treatment and recycling and is now a cost effective solution for many industries that have historically discharged their waste into landfill, rivers and estuaries.

The main categories of organic waste within the UK, based on Government figures published in 1994, are set out below.

#### UK waste streams suitable for composting

Type	Annual Tonnage (approx. '000)	Suitable for Composting (approx. '000)
Pharmaceutical	350	350
Industrial	50,000	2,500
Sewage	30,000	24,000-30,000
Abattoir and meat industry	1,700	1,700
Household	14,000	2,500-4,500
Park and garden	2,500	1,800
Agricultural	250,000	250,000
Food processing and brewery/fermentation	2,600	2,600
Forestry and wood processing	4,500	4,500

#### The market in Europe and North America

The Company's primary focus is on the UK market and the Directors intend that this will remain so until the Company achieves strategic sales of its products in the UK. Once these have been achieved, the Company intends to target the European and North American markets.

Historically landfill has had the dominant role in the disposal of waste in Europe. Those countries with established recycling systems are already moving towards a ban on the disposing of organic matter in landfill sites, reflecting the progress made in the USA. EU directives are bringing change to the policy of Member States.

The Company's initial market development work in Europe has generated interest particularly from France, Spain, Portugal and Eire and the Company continues to receive enquiries from these countries.

The huge market of the USA and Canada, which is accustomed to substantial capital investment in the established business of composting, is an obvious target for the Company. Here the relatively low capital cost of the TEG Silo-Cage and its low operating cost should provide a key competitive edge.

The Company has attended three exhibitions and conferences in the USA during 1998 and received an excellent level of enquiry.

#### DIRECTORS AND MANAGEMENT

The Company has an experienced Board, who have the relevant skills and experience to develop the business, led by Dick Bilborough. As strategic sales develop, the Board intends both to strengthen management and provide suitable succession.

#### Research and Development

Dr Alan Heyworth, *Technical Director*, has developed the technology underlying the Company's products.

He is assisted by Fiona Maudsley, BSc (Hons), a graduate of Leeds University in microbiology who operates full time from the Company's laboratory.

A three year joint research and development initiative has been agreed with the University of Aberdeen where the Company intends to fund a graduate to work specifically with TEG research projects using the University's research laboratories and facilities. This will enable the Company to access the highly relevant research and information resources of the University.

In the opinion of the Directors, the University of Aberdeen is one of the few UK establishments where all the disciplines relevant to the Company's products and activities are present.



## Directors

**Allen Sykes**, aged 66, *Non-Executive Chairman* – Allen Sykes has mainly worked for British-based, major international companies, principally in the fields of mining, natural resources, energy and insurance.

He was a Managing Director of Consolidated Gold Fields Plc from 1986 until the September 1989 takeover. He was a non-executive director of Willis Corroon Group Plc (where he was formerly Finance Director) from July 1986 until the end of October 1998. He was Chairman of the small composite insurance company, Economic Insurance Company Limited, a "Management Buy-Out" financed by Candover Investments Plc, from February 1994 to July 1996. Between May 1990 and January 1994 he was a director of the Canadian based international packaging company, Lawson Mardon Group Limited, until the take-over by Alusuisse. He is also an active international adviser on the successful accomplishment of very large projects, including the £4 billion Protection of Venice Project. Since January 1998 he has been one of a panel of five industrial advisers to the Director General of OFWAT. His background is economics, finance, accountancy and law.

**John Hough**, aged 66, *Non-Executive Deputy Chairman* – John Hough has spent his entire career in the insurance industry. He was Deputy Chairman of a major Lloyds Broker until he resigned in 1973 to form a new independent organisation, Alwen Hough Johnson Limited, which over a period of fifteen years grew into a substantial insurance business.

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

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

**Dick Bilborough**, aged 67, *Managing Director* – Dick Bilborough has always worked in the property and agribusiness sector, concerned with rural land-based activity and its related industries. This has covered farm land acquisition and management, land development, machinery manufacture and distribution, irrigation and milling companies, feed lots and meat packing, and leisure use development. His strength is general management with a marketing bias.

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

He was instrumental in the formation of TEG in October 1995. He had spent the previous two and a half years actively researching the market for commercial composting, both here and in the United States, and identifying opportunities in both countries.

**Dr Alan Heyworth BSc PhD**, aged 60, *Technical Director* – Dr Heyworth has been involved with commercial composting since the late 1950's. Initially through family and associated firms manufacturing peat-based composts and organic fertilisers, this involvement developed into extensive research over a twenty year period at the University of Wales, culminating in the establishment of an environmental consultancy group, Environmental Consultants Limited. Through his work, Dr Heyworth has established the optimum material mix and process for commercial composting which now constitutes the Silo-Cage system.

**Alastair Leslie**, aged 63, *Non-Executive Director* – He has spent most of his business life at Lloyds where he was managing director of Willis Faber and Dumas Agencies Limited for 10 years until 1985. He formed A.P. Leslie Underwriting Agencies Ltd. in 1976 and retired in 1992. During the past 25 years he has had a particular interest in start-up companies and has been a founder director of six Lloyds underwriting companies and of United Gold Fields NL (subsequently quoted in Australia) and three BES companies. He was an early investor in TEG and joined the Board in July 1998.

## Management

**Kevin Chandler BEng (Hons)**, aged 34, *General Manager* – A qualified engineer with eleven years' experience in engineering industries with a wide variety of machinery and projects within the chemical process industry. He manages the machinery development and manufacturing side of the business. He joined TEG in October 1997.

**Monica Bolton** aged 55, *Accountant and Company Secretary* – An accountant with wide experience from working in a professional accountancy practice and as a company accountant. She joined the Company in October 1997.

**John Cooper**, aged 30, *Production Supervisor* – He has a farming background with good practical experience of poultry farming and the agricultural contracting business. He is skilled in the operation of many types of equipment and managing production line staff and transport. He has been working with the Company since April 1997.

**Steven Horsfield**, aged 40, *Sales Manager* – He has a background in local authority gardens and landscape management and as a landscaping contractor. He also has wide sales experience in horticultural and professional grower markets and of sales to ground managers of sports fields and golf courses. He joined the Company in May 1997.

### **Regional Managers**

The appointment of two Regional Managers for the South West of England and Scotland reflects the level of prospective clients for Silo-Cages in these areas. Both regions have traditionally disposed of sewage sludge by marine dumping and have limitations on land fill capacity with incoming legislation imposing further restrictions on their disposal routes, generating opportunities for the Company. Currently there 18 potential Silo-Cage sales opportunities to be developed in these two regions.

**Richard Ensor BSc FRICS**, aged 65, *Regional Manager, South West* – He is an experienced development director and project manager. He has been responsible for large scale projects throughout the UK, including Exeter, Taunton and Bristol. He was formerly a director of Laing Development Company Limited.

**Alastair Harper CA ACWA**, aged 63, *Regional Manager, Scotland* – He is an experienced managing director, financial director and project manager in the forest products industry. He was responsible for developing a new business and processing factory from greenfield site, dealing with all aspects including planning and securing grants.

### **THE OFFER**

1,000,000 new Ordinary Shares are offered for subscription at £1.00 per share, to raise £1,000,000 before expenses. The proceeds of the Offer are estimated to be approximately £890,000 after expenses.

Priority will be given to valid applications from Existing Shareholders on Priority Application Forms up to a maximum number of Offer Shares equal to the holding of the Existing Shareholder on the Record date. If the aggregate number of Offer Shares applied for under the Offer on Priority Application Forms exceeds the number of Offer Shares available under the Offer, such applications will be scaled down proportionately. If the aggregate number of Offer Shares applied for under the Offer on Priority Application Forms is less than the number of Offer Shares available under the Offer, Existing Shareholders will receive the number of Offer Shares validly applied for on Priority Application Forms. The balance of Offer Shares available under the Offer will be allotted to applicants using the Application Form and where appropriate applications will be scaled down proportionately.

**Applications by Existing Shareholders should be made on the green Priority Application Form which accompanies this document. Such applications may be made for up to one Offer Share for each existing Ordinary Share held on the Record Date.**

**Applications by new Investors should be made on the white Application Form at the end of this document and should be for a minimum of £1,000 and, thereafter, in multiples of £1,000.**

All applications for Offer Shares must be received by the Company's registrars, IRG Plc, on or before the Closing Date, which may be extended by the Directors.

The terms and conditions of the Offer and details of the procedure for application are set out in Part Five of this document. The Directors reserve the right to scale down, accept or reject in whole or in part any application.

A commission of 3% may be payable by the Company to authorised financial intermediaries who procure subscribers for Offer Shares pursuant to the Offer.

The subscription list will open at 10.00 a.m. on 9 November 1998 and may be closed at any time thereafter but will close not later than 5.00 p.m. on 4 December 1998, unless extended by the Directors. The Offer Price of £1.00 per share is payable in full on application.

The Offer Shares will, following allotment, rank *pari passu* in all respects with the existing Ordinary Shares and will have the right to receive all dividends and other distributions hereafter declared, made or paid in respect of the issued ordinary share capital of the Company.

**The Minimum Amount which must be subscribed under the Offer is £340,000. The Offer is conditional upon valid applications being received for the Minimum Amount.**

## OFEX

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

Under the OFEX arrangements, companies are provided with an independent market maker, screen based prices and a company information and announcement system provided by Newstrack Limited and distributed by Bloomberg, ICV-Topic, Reuters and QST.

## DIVIDEND POLICY

The Directors will not recommend the payment of a dividend on the Ordinary Shares until they believe that it is appropriate and prudent to do so. The Directors are unable, at this time, to suggest when Investors may expect to receive income from their shares.

## WORKING CAPITAL

The Directors consider that, taking into account the Minimum Amount receivable by the Company under the Offer, the working capital available to the Company is sufficient for the Company's present requirements.

## RISK FACTORS

**Attention is drawn to the Risk Factors set out below and to the Risk Warning on page 1 which must be read by potential Investors.**

### New Technology and Competition

New technology, changing commercial circumstances and new entrants to the market in which the Company operates may impinge on the Company's business.

### Intellectual Property

There is no assurance that the Company can commercially protect its rights to proprietary technology or that others will not independently develop substantially equivalent or superior technology.

### Retention of key personnel

There is a small number of Directors whose departure from the Company could, in the short term, materially adversely affect the Company. Whilst the Company has entered into service agreements with each of these Directors and they are shareholders in the Company, the retention of their services cannot be guaranteed. The Company will need to continue to increase its staffing levels to be able to deliver all its objectives.

### Sales and Revenue

The Company is at an early stage and has yet to achieve a significant level of sales. It is possible that the Company's products and services will not attract sufficient customers in the numbers or at the price levels anticipated by the Directors. In addition, the Company may never earn sufficient revenues to become profitable.

### Marketability of Shares

Some Investors may wish to sell their shares, particularly those who may not qualify for tax relief under the EIS.

Shares traded on OFEX may not be readily realisable and may carry a higher risk than investment in a share listed on the Official List or the Alternative Investment Market of the London Stock Exchange. The Offer Shares may be subject to sudden and large falls in value and there could be a large loss on realisation which could equal the

amount originally invested. OFEX is not a recognised investment exchange and no application is currently being made for admission of the Offer Shares or the Ordinary Shares to trading on the Alternative Investment Market or the Official List of the London Stock Exchange.

## TAX CONSIDERATIONS

### Enterprise Investment Scheme

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

The principal tax reliefs currently available to each individual are:

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

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

Primarily, those conditions are:

- the aggregate value of the gross assets of the issuing company and any qualifying subsidiary must not exceed £15 million immediately before the issue of the eligible shares nor £16 million immediately afterwards;
- the shares in question, and all other shares comprised in the same issue, must be issued for the purpose of raising funds which will be employed by the EIS company within 12 months wholly for the purposes of a qualifying business activity carried on by that company or a qualifying subsidiary;
- the shares must be subscribed for and issued for bona fide commercial purposes and not as part of a scheme or arrangement the main purpose, or one of the main purposes, of which is the avoidance of tax;
- the shares must not for the five years from the date of issue carry any present or future preferential rights to dividends or to the company's assets on a winding up nor any present or future right to be redeemed;
- to qualify for the income tax relief, an Investor must subscribe for a minimum of £500 in any one company under EIS. Relief is restricted to a maximum investment of £150,000 per Investor in any one tax year;
- in order to retain the income tax relief and capital gains tax exemption the Investor must hold the shares for at least five years from the date of their issue;
- with certain limited exceptions, the Investor must not be connected with the issuing company;
- the issuing company's shares must not be quoted for a minimum of three years from their date of issue and must all be fully paid. Shares traded on OFEX are not quoted; and
- the company must be a "qualifying company" for EIS purposes. One of the conditions is that the company's qualifying trade must continue for a minimum of three years from the date of issue of the shares. In order to count as qualifying, a trade must not consist to any substantial extent of certain prohibited activities.

**Availability of Tax Certificates**

The Company has received advance assurance of its EIS status from the Inland Revenue. A formal application for EIS qualification will be made once the Offer Shares have been issued. An EIS 2 form will then be issued by the Inland Revenue to the Company and an EIS 3 form will be issued by the Company to relevant Investors to enable them to claim their tax relief. It is the Company's intention to remain a qualifying company, as defined, for the relevant three year period, to ensure that any EIS relief given to shareholders is not put at risk. Subject to the above, the Directors consider that qualifying individuals subscribing for Offer Shares in the Company should be able to obtain EIS income tax relief within the EIS limits in respect of the year ending 5 April 1999 on the amounts subscribed for the EIS Shares provided they continue to satisfy the statutory conditions and the Company continues to be a qualifying company. Eligibility for relief will depend on individual Investors' circumstances. In addition the Offer Shares must have been issued and registered in the name of the Investors by 5 April 1999 to qualify for income tax relief in 1998/99.

**Reinvestment Relief**

If the Company is a qualifying company for EIS and Reinvestment Relief purposes, the subscription for Offer Shares by an individual will be considered as a qualifying investment for Reinvestment Relief purposes irrespective of whether EIS income tax relief is claimed by the individual in respect of such subscription. Where individuals have made a chargeable gain on the disposal of any asset in the period of three years before and twelve months after investment in qualifying shares, they should be eligible to claim deferment of some or all of the gains against the subscription for the Offer Shares under the Reinvestment Relief provisions, provided that the Company continues to satisfy the relevant statutory requirements.

The deferred gain would then crystallise when the Offer Shares were sold or when the Company ceased to satisfy the conditions for relief if earlier.

It should be noted that, for Reinvestment Relief purposes, a subscription for shares in the Company cannot be used to defer a gain on the disposal of other shares in the Company.

Reinvestment Relief, unlike EIS income tax relief, is available to trustees.

**Loss Relief**

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

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

**Inheritance Tax*****Business Property Relief***

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

**Other Tax Matters**

The Directors have been advised that the Company is a close company for tax purposes, as defined by the Income and Corporation Taxes Act 1988.

When paying a dividend to Shareholders, the Company is currently liable to account to the Inland Revenue for Advance Corporation Tax ("ACT"). ACT is currently payable at the rate of 25% of the cash dividend. For non-corporate shareholders resident in the United Kingdom, a tax credit equal to 25% of the cash dividend is available to frank all or part of the shareholder's income tax liability in respect of the dividend and tax credit and, in appropriate cases, any excess of the tax credits and the shareholder's income tax liability may be reclaimed in cash. United Kingdom resident corporate shareholders and pension providers are not entitled to claim payment of tax credits. Tax credits are currently payable to charitable companies and to some others which are entitled to special exemptions and reliefs.

Whether the holders of Ordinary Shares in the Company, who are resident in countries other than the United Kingdom, are entitled to repayment from the Inland Revenue of any proportion of the tax credit in respect of dividends on such shares depends in general upon the provisions of any double tax convention or agreement which exists between such countries and the United Kingdom.

The current ACT system will no longer apply from April 1999 onwards.

Following this change, individuals will continue to qualify for a tax credit equal to one ninth of the cash dividend, and the higher rate of income tax chargeable in respect of dividends received by UK resident individuals will reduce to 32.5%. As a result, taxpaying individuals will generally pay the same amount of tax on dividends as before, although tax credits will no longer be repayable. Special arrangements will apply to charities. The reduction in the tax credit from 6 April 1999 onwards is likely to reduce or eliminate the amount of any tax credit reclaimable by an overseas shareholder pursuant to the provisions of a double tax convention.

#### **Returns**

The capital growth or income achieved by TEG for its Shareholders from the development of its products and markets are expected to be enhanced by the returns earned from the benefits of the EIS and/or Reinvestment Relief.

**The above is intended only as a general outline of the taxation rules potentially applying to Investors.**

**If you are in any doubt about your tax position or require more detailed information than the general outline above you should immediately consult professional advisers.**

## PART THREE

### FINANCIAL INFORMATION

This part includes a copy of the Accountants' Report, the unaudited interim reports and the pro forma statement of net assets.

#### 3.1 The following is a copy of the Accountants' Report

#### **ERNST & YOUNG**

The Directors  
TEG Environmental Plc  
Crescent House  
2-6 Sandy Lane  
Leyland  
Preston  
Lancashire PR5 1EB

The Directors  
Matrix Corporate Finance  
9-10 Savile Row  
London W1X 1AF

100 Barbirolli Square  
Manchester M2 3EY

4 November 1998

Gentlemen,

#### 1. Introduction

We report on the financial information set out in paragraphs 1 to 6 below. This financial information has been prepared for inclusion in the Offer for Subscription document dated 4 November 1998 of TEG Environmental Plc (the "Company").

#### Basis of preparation

The financial information set out in paragraphs 1 to 6 is based on the audited financial statements of TEG Environmental Plc for the 15 months ended 31 December 1996 and the ten months ended 31 October 1997 to which no adjustments were considered necessary.

#### Responsibility

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

The Directors of TEG Environmental Plc are responsible for the contents of the Offer for Subscription document dated 4 November 1998 in which this report is included.

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

#### Basis of opinion

We conducted our work in accordance with the Statements of Investment Circular Reporting Standards issued by the Auditing Practices Board. Our work included an assessment of evidence relevant to the amounts and disclosures in the financial information. The evidence included that previously obtained by us relating to the audit of the financial statements for the ten months ended 31 October 1997 and that recorded by KPMG, 37 Hills Road, Cambridge CB2 1XL who audited the financial statements for the 15 months ended 31 December 1996. It also included an assessment of significant estimates and judgements made by those responsible for the preparation of the financial statements underlying the financial information and whether the accounting policies are appropriate to the entity's circumstances, consistently applied and adequately disclosed.

We planned and performed our work so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial information is free from material misstatement whether caused by fraud or other irregularity or error.

#### Opinion

In our opinion, the financial information gives, for the purposes of the Offer for Subscription document dated 4 November 1998, a true and fair view of the state of affairs of TEG Environmental Plc as at the dates stated and of its profits, cash flows and recognised gains and losses for the periods then ended.

**Consent**

We consent to the inclusion in the Offer for Subscription Document dated 4 November 1998 of this report and accept responsibility for this report for the purposes of paragraph 45(8)(b) of Schedule 1 to the Public Offers of Securities Regulations 1995.

**2. Accounting Policies****Basis of preparation**

The financial information in this report has been prepared on a going concern basis, which assumes the availability of additional finance. The raising of this additional finance is dependent upon the successful offer for the Minimum Amount of Ordinary Shares in November 1998.

**Accounting convention**

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

**Depreciation**

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

Fixtures and fittings – 25% reducing balance  
Plant and machinery – 25% reducing balance

**Amortisation**

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

**Stocks**

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

**Deferred taxation**

Provision is made for deferred taxation, using the liability method, on all timing differences to the extent that, in the opinion of the Directors, it is probable that the liability will crystallise.

**Leasing and hire purchase commitments**

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

**Development costs**

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

**3. Profit and Loss Accounts**

The profit and loss accounts of the Company, for the 15 months ended 31 December 1996 and 10 months ended 31 October 1997, are set out below:

	Notes	10 months ended 31 October 1997 £	15 months ended 31 December 1996 £
<b>Turnover</b>			
Continuing operations	(i)	9,756	6,539
Cost of sales		(18,658)	(2,662)
		<hr/>	<hr/>
<b>Gross (loss)/profit</b>		(8,902)	3,877
Selling and administrative expenses		(410,604)	(192,895)
		<hr/>	<hr/>
<b>Operating loss</b>	(ii)	(419,506)	(189,018)
Bank interest receivable		–	6,037
Interest payable and similar charges	(v)	(5,105)	–
		<hr/>	<hr/>
<b>Loss on ordinary activities before taxation</b>		(424,611)	(182,981)
Tax on loss on ordinary activities		–	–
		<hr/>	<hr/>
<b>Loss retained for the financial period</b>		(424,611)	(182,981)

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



#### 4. Cash Flow Statements

The cash flow statements of the Company, for the 15 months ended 31 December 1996 and 10 months ended 31 October 1997, are set out below:

		10 months ended 31 October 1997 £	15 months ended 31 December 1996 £
	<i>Notes</i>		
Net cash outflow from operating activities	(ii)	(379,947)	(189,301)
Returns on investments and servicing of finance	(xvii)	(5,105)	6,037
Capital expenditure and financial investment	(xvii)	(111,631)	(93,625)
Net cash outflow before use of liquid resources and financing		(496,683)	(276,889)
Financing			
– Issue of shares	(xvii)	518,343	315,772
– Increase in debt	(xvii)	100,000	–
Increase in cash in the period		121,660	38,883

#### Reconciliation of Net Cash Flow to Movement in Net Funds

		10 months ended 31 October 1997 £	15 months ended 31 December 1996 £
Increase in cash in the period	(x)	121,660	38,883
Net cash inflow from increase in debt financing		100,000	–
Change in net funds resulting from cash flows	(x)	21,660	38,883
Movement in net funds in the period		21,660	38,883
Net funds at beginning of period		38,883	–
Net funds at end of period		60,543	38,883

## 5. Balance Sheets

The balance sheets of the Company at 31 December 1996 and at 31 October 1997, are set out below:

		At 31 October 1997	At 31 December 1996
	Notes	£	£
<b>Fixed assets</b>			
Intangible fixed assets	(vi)	32,668	36,000
Tangible fixed assets	(vii)	141,093	90,675
		<u>173,761</u>	<u>126,675</u>
<b>Current assets</b>			
Stocks	(viii)	15,772	6,332
Debtors	(ix)	45,428	18,096
Cash at bank and in hand	(x)	160,543	38,883
		<u>221,743</u>	<u>63,311</u>
<b>Creditors: amounts falling due within one year</b>	(xi)	(80,650)	(57,195)
<b>Net current assets</b>		<u>141,093</u>	<u>6,116</u>
<b>Total assets less current liabilities</b>		<b>314,854</b>	<b>132,791</b>
<b>Creditors: amounts falling due after more than one year</b>	(xii)	(88,331)	—
		<u>226,523</u>	<u>132,791</u>
<b>Capital and reserves</b>			
Called up share capital	(xiii)	167,105	95,000
Share premium account	(xiv)	667,010	220,772
Profit and loss account	(xiv)	(607,592)	(182,981)
<b>Equity shareholders' funds</b>		<u>226,523</u>	<u>132,791</u>

**6. Notes to the Financial Information****(i) Turnover**

Turnover, represents net invoiced sales of goods, excluding value added tax. Turnover is attributable to the Company's principal continuing activity, the sale of compost and composting equipment and arose in the United Kingdom.

**(ii) Operating Loss**

(a) Operating loss is stated after charging:

	10 months ended 31 October 1997 £	15 months ended 31 December 1996 £
Auditors' remuneration – audit services	3,000	2,500
– non-audit services	–	3,900
Depreciation of owned fixed assets	28,209	6,397
Amortisation of intangible fixed assets	3,332	4,000
Operating lease rentals – plant and machinery	6,315	5,353
– land and buildings	21,183	9,108

Fees for audit services were paid to KPMG in the 15 months ended 31 December 1996 and to Ernst & Young in the 10 months ended 31 October 1997.

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

	10 months ended 31 October 1997 £	15 months ended 31 December 1996 £
Operating loss	(419,506)	(189,018)
Depreciation	28,209	6,397
Amortisation	3,332	4,000
Increase in stocks	(27,332)	(6,332)
Increase in debtors	(9,440)	(18,096)
Increase in creditors	44,790	13,748
Net cash outflow from operating activities	(379,947)	(189,301)

**(iii) Directors' Emoluments**

	10 months ended 31 October 1997 £	15 months ended 31 December 1996 £
Fees	64,000	46,375
Other emoluments (including pension contributions)	2,845	–
	66,845	46,375

Directors' emoluments, excluding pension contributions:

	10 months ended 31 October 1997 £	15 months ended 31 December 1996 £
Emoluments (excluding pension contributions) of the chairman	–	–
Emoluments (excluding pension contributions) of the highest paid Director (1996: 2 directors)	33,167	33,000

(iv) *Staff Costs*

	10 months ended 31 October 1997 £	15 months ended 31 December 1996 £
Wages and salaries	98,968	50,875
Social security costs	9,897	5,080
	<u>108,865</u>	<u>55,955</u>

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

	10 months ended 31 October 1997 No.	15 months ended 31 December 1996 No.
Administration and selling	<u>6</u>	<u>4</u>

(v) *Interest payable*

	10 months ended 31 October 1997 £	15 months ended 31 December 1996 £
Bank loans repayable after more than five years	<u>5,105</u>	<u>-</u>

(vi) *Intangible Fixed Assets*

	Intellectual Property Rights £
Cost:	
At 3 October 1995	-
Additions	40,000
At 31 December 1996 and 31 October 1997	<u>40,000</u>
Depreciation:	
At 3 October 1995	-
Charge for the period	4,000
At 31 December 1996	4,000
Charge for the period	3,332
At 31 October 1997	<u>7,332</u>
Net book value:	
At 31 October 1997	<u>32,668</u>
At 31 December 1996	<u>36,000</u>

This represents the purchase cost of the Intellectual Property Rights of an innovative system of accelerated composting for £35,000 and design of Silo-Cages for £5,000.

(vii) *Tangible Fixed Assets*

	Fixtures and fittings £	Plant and machinery £	Total £
Cost:			
At 3 October 1995	—	—	—
Additions	4,992	92,080	97,072
At 31 December 1996	4,992	92,080	97,072
Additions	5,172	73,455	78,627
At 31 October 1997	10,164	165,535	175,699
Depreciation:			
At 3 October 1995	—	—	—
Charge for the period	546	5,851	6,397
At 31 December 1996	546	5,851	6,397
Charge for the period	1,426	26,783	28,209
At 31 October 1997	1,972	32,634	34,606
Net book value:			
At 31 October 1997	8,192	132,901	141,093
At 31 December 1996	4,446	86,229	90,675

(viii) *Stocks*

	31 October 1997 £	31 December 1996 £
Finished goods	11,136	—
Raw materials and consumables	4,360	6,332
Work in progress	276	—
	<u>15,772</u>	<u>6,332</u>

(ix) *Debtors*

	31 October 1997 £	31 December 1996 £
Trade debtors	6,494	9,150
Other debtors	34,387	7,113
Prepayments and accrued income	4,547	1,833
	<u>45,428</u>	<u>18,096</u>

(x) *Cash and Net Debt*

	At 3 October 1995 £	Cash flow £	At 31 December 1996 £	Cash flow £	At 31 October 1997 £
Cash at bank and in hand	—	38,883	38,883	121,660	160,543
	—	38,883	38,883	121,660	160,543
Debt due after one year	—	—	—	(11,669)	(11,669)
Debt due within one year	—	—	—	(88,331)	(88,331)
	—	38,883	38,883	21,660	60,543

TEG ENVIRONMENTAL PLC

(xi) *Creditors: amounts falling due within one year*

	31 October 1997 £	31 December 1996 £
Bank loan	11,669	—
Trade creditors	—	3,834
Other taxation and social security costs	10,334	—
Accruals	58,647	53,361
	<u>80,650</u>	<u>57,195</u>

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

	31 October 1997 £	31 December 1996 £
Bank loan	88,331	—

In February 1997 the Company drew down a £100,000 bank loan under the Small Firms Loan Guarantee Scheme in which the loan is 70% guaranteed by the DTI. Interest is fixed at 10.76% for five years and then at 3½% over base thereafter. Repayments commence February 1998 at £1,667 per month for five years. The Company's bankers held a fixed charge over book debts and a floating charge over all other assets.

(xiii) *Share Capital*

	1997 No.	1996 No.	1997 £	1996 £ Authorised
Ordinary Shares of 5p each	100,000,000	100,000,000	5,000,000	5,000,000
				Allotted, called up and fully paid:
Ordinary Shares of 5p each	<u>3,342,111</u>	<u>1,900,000</u>	<u>167,105</u>	<u>95,000</u>

(xiv) *Reconciliation of Shareholders' Funds and Movements on Reserves*

	Share capital £	Share premium account £	Profit and loss account £	Total £
Shares issued	95,000	315,000	—	410,000
Pre incorporation expenditure	—	(94,228)	—	(94,228)
Loss for the year	—	—	(182,981)	(182,981)
At 31 December 1996	95,000	220,772	(182,981)	132,791
Loss for the period	—	—	(424,611)	(424,611)
Shares issued	72,105	454,445	—	526,550
Issue costs	—	(8,207)	—	(8,207)
At 31 October 1997	<u>167,105</u>	<u>667,010</u>	<u>(607,592)</u>	<u>226,523</u>

(xv) *Financial Commitments*

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

	Land and buildings 1997 £	1996 £	1997 £	Other 1996 £
Operating leases which expire:				
within one year	2,220	—	—	—
within two to five years	<u>14,040</u>	<u>—</u>	<u>12,458</u>	<u>4,057</u>
	<u>16,260</u>	<u>—</u>	<u>12,458</u>	<u>4,057</u>

(xvi) **Contingent liability**

Under the terms of the acquisition of the Intellectual Property Rights to the innovative system of accelerated composting from Dr Heyworth a royalty of 1% is payable based on future turnover and is dependent on turnover exceeding £1,000,000 in any financial year up to 31 July 2000.

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

	1997 £	1996 £
<b>Returns on investments and servicing of finance</b>		
Interest received	–	6,037
Interest paid	(5,105)	–
<b>Net cash (outflow)/inflow from returns on investments and servicing of finance</b>	<b>(5,105)</b>	<b>6,037</b>
<b>Capital expenditure and financial investment</b>		
Purchase of tangible fixed assets	(111,631)	(53,625)
Purchase of intangible fixed assets	–	(40,000)
<b>Net cash outflow from capital expenditure and financial investment</b>	<b>(111,631)</b>	<b>(93,625)</b>
<b>Financing</b>		
Issue of ordinary share capital	526,550	410,000
Pre incorporation expenses and share issue costs	(8,207)	(94,228)
Debt due beyond one year – new unsecured loan repayable in instalments commencing February 1998	100,000	–
<b>Net cash inflow from financing</b>	<b>618,343</b>	<b>315,772</b>

Yours faithfully

**ERNST & YOUNG**  
Registered Auditor

### 3.2 UNAUDITED INTERIM STATEMENT

#### Chairman's Statement

The interim results for the 10 months ended 31 August 1998 reflect the continued tight control of costs as the Company develops and the delays referred to in the previous interim report occasioned by extended negotiations between the British Retail Consortium and the water and sewage companies on the improved treatment to sewage sludge before it is applied to farmland.

Sales of the Company's organic fertiliser EnVigro™ are now showing the benefits of successful trials through the 1998 growing season and to date the Company has acquired 37 golf course customers with repeat orders providing strength to sales and development.

As announced on 5 October 1998 a small number of shareholders and Directors subscribed for a further 218,000 Ordinary Shares at a price of £1 per share.

The Board views the Company's prospects with confidence.

Crescent House  
2-6 Sandy Lane  
Leyland  
Preston  
Lancashire PR5 1EB

Allen Sykes  
Chairman

4 November 1998

### RESULTS

#### Summarised Profit and Loss Account

	Unaudited 10 months ended 31 August 1998 £	Unaudited 6 months ended 31 April 1998 £	Unaudited 10 months ended 31 October 1997 £
Turnover – continuing operations	26,002	16,019	9,756
Operating loss	(710,195)	(443,635)	(419,506)
Net interest receivable/(payable)	3,689	(2,062)	(5,105)
Loss on ordinary activities before tax	(706,506)	(445,697)	(424,611)
Tax on loss on ordinary activities	–	–	–
Loss for the financial period	(706,506)	(445,697)	(424,611)
Loss per ordinary share	(19.15)p	(12.87)p	(17.78)p



## Summarised Balance Sheet

	Unaudited 31 August 1998 £	Unaudited 30 April 1998 £	Audited 31 October 1997 £
<b>Fixed Assets</b>			
Intangible fixed assets	29,335	30,668	32,668
Tangible fixed assets	132,243	137,503	141,093
	<u>161,578</u>	<u>168,171</u>	<u>173,761</u>
<b>Current Assets</b>			
Stocks	7,750	11,515	15,772
Debtors	39,672	35,990	45,428
Cash at bank and in hand	148,347	400,699	160,543
	<u>195,769</u>	<u>448,204</u>	<u>221,743</u>
<b>Creditors: amounts falling due within one year</b>	<u>70,862</u>	<u>90,853</u>	<u>80,650</u>
<b>Net current assets</b>	<u>124,907</u>	<u>357,351</u>	<u>141,093</u>
<b>Total assets less current liabilities</b>	<u>286,485</u>	<u>525,522</u>	<u>314,854</u>
<b>Creditors: amounts falling due after more than one year</b>	<u>88,326</u>	<u>74,993</u>	<u>88,331</u>
	<u>198,159</u>	<u>450,529</u>	<u>226,523</u>
<b>Capital and Reserves</b>			
Called up share capital	201,012	201,012	167,105
Share premium account	1,311,245	1,312,806	667,010
Profit and loss account	(1,314,098)	(1,063,289)	(607,592)
<b>Equity Shareholders' funds</b>	<u>198,159</u>	<u>450,529</u>	<u>226,523</u>

## Notes:

- Basis of preparation**

The interim summarised financial statement has been prepared on a going concern basis, which assumes the availability of additional finance and that firm sales orders for the Company's core products are forthcoming. To date the Company has been funded at each stage of the development of its products. Consistent with start-up businesses creating new products and having reached the point where marketing and production can proceed, additional finance and firm sales orders are required. The Directors are of the opinion that the current cash balances together with the improved prospect for orders and the continued support from members will be adequate to meet the Company's needs for the foreseeable future. The Directors believe that it is therefore appropriate to prepare the summarised financial information on a going concern basis.
- The figures for the 10 months ended 31 August 1998 are unaudited and do not constitute full accounts within the meaning of Section 240 of the Companies Act 1985. The figures for the 10 months ended 31 October 1997 have been extracted from the full accounts for that period which have been delivered to the Registrar of Companies and on which the auditors have issued an unqualified audit report.

### 3.3 PRO FORMA STATEMENT OF NET ASSETS

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

	The Company at 31 August 1998 £	Adjustments £	Pro forma £
<b>Fixed assets</b>			
Intangible	29,335	—	29,335
Tangible	132,243	—	132,243
	<u>161,578</u>	<u>—</u>	<u>161,578</u>
<b>Current assets</b>			
Stocks	7,750	—	7,750
Debtors	39,672	—	39,672
Bank balances and cash	148,347	1,108,000	1,256,347
	<u>195,769</u>	<u>1,108,000</u>	<u>1,303,769</u>
<b>Creditors due within one year</b>	<u>70,862</u>	<u>—</u>	<u>70,862</u>
<b>Net current assets</b>	<u>124,907</u>	<u>1,108,000</u>	<u>1,232,907</u>
<b>Total asset less current liabilities</b>	<u>286,485</u>	<u>1,108,000</u>	<u>1,398,485</u>
<b>Creditors due after one year</b>	<u>88,326</u>	<u>—</u>	<u>88,326</u>
<b>Net assets</b>	<u>198,159</u>	<u>1,108,000</u>	<u>1,306,159</u>

#### Notes:

- The statement of net assets of the Company at 31 August 1998 is based on the unaudited balance sheet of the Company at that date.
- In preparing the pro forma statement, adjustment has been made to reflect:
  - the £1,000,000 to be raised by the Offer.
  - the estimated expenses of the Offer of £110,000 excluding VAT.
  - the issue of shares in September 1998 which raised £218,000.
- No account has been taken of any profits or losses of the Company since 31 August 1998.

## PART FOUR

### STATUTORY AND GENERAL INFORMATION

#### 1. Incorporation and Share Capital

- (a) The Company was incorporated in England and Wales on 3 October 1995, under the Companies Act 1985 with number 3109613, as Coincentral Public Limited Company. Its name was changed to TEG Environmental PLC on 6 November 1995.
- (b) TEG's initial authorised share capital was £100,000 divided into 100,000 Ordinary Shares of £1 each, of which two shares were issued at par on incorporation. On 21 November 1995 the authorised share capital was increased to £5,000,000 and then subdivided into 100,000,000 Ordinary Shares of 5 pence each.
- (c) TEG received a Certificate of Entitlement to do business and borrow under Section 117(1) of the Companies Act 1985 on 13 February 1996.
- (d) The Directors, pursuant to Ordinary and Special Resolutions respectively passed at an Extraordinary General Meeting of the Company held on 21 November 1995, are authorised and empowered:-
  - generally and unconditionally pursuant to Section 80 of the Companies Act 1985 to allot relevant securities (as defined in Section 80 of the Act) such authority and power being limited to a nominal amount of up to £5,000,000; and
  - pursuant to Section 95(1) of the Act to allot equity securities (as defined in Section 94 of the Act) as if Section 89(1) of the Act did not apply to such allotment and to make at any time prior to the expiry of the power conferred any offer or agreement which would or might require equity securities to be allotted after the expiry of such power.

Each of the authorities and powers referred to above expires on 21 November 2000. The authority for the purposes of Section 80 is subject to the condition that no Ordinary Shares would be allotted or issued if by reason thereof the Company would no longer be a qualifying Company under the terms of the Enterprise Investment Scheme as from time to time enacted.

- (e) Since the placing and offer for subscription contained in a prospectus dated 7 January 1998, which raised approximately £680,000 the Company has issued on 28 September 1998 an aggregate of 218,000 Ordinary Shares in each case at a price of £1.00 per share.
- (f) Immediately following completion of the Offer (on the assumption that the full subscription is achieved and no options referred to in paragraph 4 are exercised) the authorised and issued share capital of the Company will be as follows:

Class	Authorised		Issued and fully paid	
	Number	Nominal	Number	Nominal
Ordinary	100,000,000	£5,000,000	5,238,253	£261,912.65

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

#### 2. Directors and other interests

- (a) The Directors of the Company, each of whose business address for the purposes hereof is Crescent House, 2-6 Sandy Lane, Leyland, Preston, Lancashire PR5 1EB, are Allen Sykes, John Hough, Dick Bilborough, Dr Alan Heyworth and Alastair Leslie.

TEG ENVIRONMENTAL PLC

- (b) Other directorships held by the Directors in the last five years are:

	Date resigned (where applicable)
<b>Allen Sykes</b>	
Quenton Limited	
Willis Corroon Group Plc	30 October 1998
GSB (Holdings) Plc	
Major Projects Association	27 November 1995
Economic Insurance Holdings Limited	1 July 1996
Economic Insurance Company Limited	1 July 1996
<b>John Hough</b>	
AHJ Investments Limited	
FH Investments Limited	
HF Investments Limited	
Tudorfawn Limited	
The Griffin Insurance Association Limited	January 1998
AHJ Pension Fund Trustee Limited	
GSB (Holdings) Plc	
AHJ FS Limited	
<b>Dick Bilborough</b>	
Bilborough Consultancy & Finance Limited	
Green Wall Sound Barriers Limited	
GSB (Holdings) Plc	
<b>Alan Heyworth</b>	
Environmental Consultants Limited	
The Bracken Advisory Commission Ltd.	
Merlin Waste Management Limited	27 February 1995
<b>Alastair Leslie</b>	
Oilfield Expert Systems Limited	March 1994
Cornwall Resources NL	August 1997
Hardy Underwriting Group PLC	
Quill Underwriting Agency Limited	
The Clothworkers Foundation	
CWF (Underwriting Agencies) Limited	January 1997
A.P. Leslie Underwriting Agencies Limited	December 1994
Ramteazle Limited	
Ronald A Lee Plc	January 1997

None of the Directors have any unspent convictions, have been disqualified from acting as directors, were directors of any company at the time of or within 12 months preceding any bankruptcy, receivership or insolvent liquidation of such company save for Dick Bilborough's directorship of Coolpac Fresh Foods Limited, to which a receiver was appointed in May 1985, and there has been no public criticism of any of the Directors by any statutory or regulatory authority.

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

Name	Number of Shares Prior to Offer	% Holding Prior to Offer	% Holding Following Offer	Share Options
Allen Sykes	369,403	8.7	7.1	—
John Hough	533,156	12.6	10.2	—
Dick Bilborough	227,000	5.4	4.3	160,000
Dr Alan Heyworth	112,000	2.6	2.1	75,000
Alastair Leslie	284,947	6.7	5.4	—
	<u>1,526,506</u>	<u>36.0</u>	<u>29.1</u>	<u>235,000</u>

The percentage holding following the Offer (assuming full subscription), excludes any further Ordinary Shares that the Directors may subscribe for under the Offer. Prior to the Offer on the information available to them the Directors consider that no person or group of persons exercise control over the Company.

- (d) Other than the acquisition of the Intellectual Property Rights from Dr Alan Heyworth in connection with the Silo-Cages (see paragraph 5(b) below), no Director has or has had any direct or indirect interest in any asset which has been acquired or disposed of, by, or leased to TEG since the date of its incorporation or which is proposed to be so acquired, disposed of or leased.
- (e) The following Directors have service contracts with the Company on the following basic terms:
  - (i) Dick Bilborough is employed as Managing Director at a present salary of £48,000 per annum terminable on six months' notice by the Company at any time or by six months' notice by the employee expiring on or after 31 October 2002.
  - (ii) Dr Alan Heyworth is employed as Technical Director at a present salary of £36,000 per annum terminable on six months' notice by the Company at any time or by six months' notice by the employee expiring on or after 31 October 2003.

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

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

- (f) The following persons other than Directors have a holding of 3% or more in the share capital of TEG prior to the Offer:

Name	% Holding prior to Offer
L. Olivier	7.3
C. H. Birt	4.8
R. Jenks	4.1
S. J. Hough	3.8

- (g) The aggregate remuneration paid and benefits in kind granted to Directors was £88,544 for the year ended 31 October 1998 and is expected to be £97,771 for the year ending 31 October 1999.
- (h) Each of the Directors has given an undertaking not to dispose of any of his Ordinary Shares in the capital of the Company prior to the date on which TEG first reports an operating profit before tax in its audited accounts.
- (i) Except as detailed above there is no contract or arrangement to which the Company is a party and in which any Director is materially interested and which is significant in relation to the business of TEG and no amount or benefit has been or is intended to be paid or given to any promoter of TEG.
- (j) The Company holds £1,000,000 of personal accident cover in respect of Dick Bilborough and £500,000 in respect of Dr Alan Heyworth. In addition, the Company has insured the life of Dr Alan Heyworth for £200,000.

### 3. Memorandum and Articles of Association

- (a) The Memorandum of Association contains (*inter alia*) provisions to the following effect:
  - Liability – the liability of the members is limited.
  - Objects – the Company's principal objects are set out in Clause 4 of the Memorandum of Association and include the following:
    - to carry on the business of commercial composting and the disposal of organic waste;
    - to carry on any other trade or business whatever which can in the opinion of the Board of Directors be advantageously carried on in connection with or ancillary to any other businesses of the Company.

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

- *Share capital* – the Company's share capital comprises Ordinary Shares of 5p each which rank *pari passu* in all respects and, in particular, have the following rights:
  - *Voting* – on a show of hands every member who (being an individual) is present in person or (being a corporation) is present by a duly authorised representative, not being himself a member entitled to vote, shall have one vote and on a poll every member shall have one vote for every Ordinary Share of which he is a holder.
  - *Dividends* – subject to the provisions of the Act, the Company may by ordinary resolution declare dividends in accordance with the respective rights of the member but no dividend shall exceed the amount recommended by the Directors. Subject to the Act, the Directors may pay interim dividends if it appears to them that they are justified by the profits of the Company available for distribution. All dividends shall be declared and paid according to the amounts paid up on the shares on which the dividend is paid and shall be apportioned and paid proportionately to the amounts paid up on the shares during any portion or portions of the period in respect of which the dividend is paid. Dividends will be paid net of the appropriate rate of tax withheld at source. A general meeting declaring a dividend may, upon the recommendation of the Directors, direct that it shall be satisfied wholly or partly by the distribution of assets. Dividends may be paid by cheque, sent by post to the registered address of the person entitled. No dividend shall bear interest. Any dividend which has remained unclaimed for 12 years from the date when it became due for payment shall, if the Directors so resolve, be forfeited.
  - *Redemption* – the shares are not subject to redemption, other than as provided in the Act.
  - *Return of Capital* – if the Company is wound up the liquidator may, with the sanction of an extraordinary resolution of the Company, divide the assets of the Company among the shareholders.
  - *Variation of Rights* – subject to the Act, all or any of the rights or privileges attached to any class of shares may be varied in such a manner (if any) as may be provided by such rights or in the absence of any such provision, either with the consent of the holders of at least three quarters of the nominal amount of the issued shares of that class or with the sanction of an extraordinary resolution passed at a separate meeting of the holders of the issued shares of the class, but not otherwise.
  - *Transferability* – the Directors may during the period expiring on 16 April 2001 refuse to register any proposed transfer or transfers of shares that would give rise to a person or persons having a controlling interest (which expression means for the purpose of the relevant article the ability to exercise or control the exercise of in aggregate more than 50% of the total voting rights, within the meaning of Section 736(A)(2) of the Act, capable of being exercised at general meetings of the Company). The Directors may, in their absolute discretion, decline to register any transfer of any share which is not a fully paid share or of which the Company has a lien or in other limited circumstances. Subject to the foregoing, any member may transfer all or any of his shares by an instrument of transfer in any usual form or in other form which the Board may approve.
  - *Borrowing Powers* – the Directors may exercise all powers of the Company to borrow money without limit as to amount and upon such terms and in such manner as they think fit and subject (in case of any security convertible into shares) to Section 80 of the Act, to grant any mortgage, charge or standard security over its undertaking, property and uncalled capital or any part thereof and to issue debentures, debenture stock and other securities whether outright or as security for any debt, liability or obligation of the Company or of any third party.

#### 4. Share Options

##### (a) The Employee Share Option Scheme

The Company has adopted an unapproved Company Share Option Scheme (the "Company Scheme"). The Company may not grant an option under the Scheme if, as a result, the number of shares issued or issuable in respect of all options granted under the Scheme and any other employee share option plan operated by the Company would, as a result of options or rights granted within the preceding ten year period, exceed 10% of the ordinary share capital of the Company. Under the Company Scheme, options over 160,000 Ordinary Shares have been granted to Dick Bilborough with the subscription price of 35 pence per Ordinary Share. Under the terms and conditions of the Company Scheme, an Option Holder may exercise options in respect of any number of Ordinary Shares comprised in an option at any time within seven years of the date of grant.

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

The main features of the TEG Environmental Plc Company Share Option Plan are:

- *Eligibility*  
All employees and full-time (i.e.: those working more than 25 hours per week) Directors are eligible to participate. No eligible employee is entitled to participate as of right. The selection of those eligible employees who are to participate is within the discretion of the Directors.
- *Limit on number of shares*  
The Company may not grant an option under the Plan if, as a result, the number of shares issued or issuable in respect of all options granted under the Plan and any other employee share option plan operated by the Company would, as a result of options or rights granted within the preceding ten year period, exceed 10% of the ordinary share capital of the Company.
- *Limit on individual participation*  
No option shall be granted to an individual employee if the aggregate market value of shares subject to such option would exceed £30,000.
- *Acquisition price*  
The price per Ordinary Share at which an option may be exercised under the Plan shall not be less than the greater of its nominal value and its market value on the day the invitation to apply for an option was issued.
- *Time at which invitations may be issued*  
The Company may invite eligible employees to apply for an option at any time, subject to the OFEX code of best practice, but in any event no later than the tenth anniversary of the date that the Plan is approved by the Inland Revenue.
- *Exercise of options*  
An option under the Plan cannot be exercised more than ten years after the date on which it was granted, nor can it normally be exercised less than three years after its grant. However, options may be exercised (whether the initial three year period has expired or not) in the following circumstances:
  - (a) the participant is deceased, in which case his personal representatives may exercise the option within one year after the date of death, failing which the option will lapse;
  - (b) the participant ceases to be employed by reason of injury, disability or retirement in which case a participant may exercise the option no later than six months from the date of such termination of employment, failing which the option will lapse;

- (c) if the Company passes a resolution for voluntary winding up, any subsisting option may be exercised within six months after the date upon which the resolution is passed;
- (d) if as a result of a general offer a third party obtains control of the Company, the option is exercisable for a period of six months after such control has been obtained, although with the consent of the acquiring company, the existing option may be replaced by a new option over shares in the acquiring company or some other qualifying company.

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

- (b) Under an agreement dated 3 November 1998, the Company has granted options to Matrix-Securities Limited over a number of Ordinary Shares equal to 10% of the total number of Ordinary Shares issued pursuant to the Offer and in certain cases within three months of the Closing Date at a price of £1 per share.

## 5. Material Contracts and Arrangements

- (a) The executive service contracts referred to in 2(e) above.
- (b) The Transfer of Intellectual Property Rights dated 21 November 1995 between Dr Alan Heyworth and the Company whereby Dr Heyworth transferred all rights in TEG technology to the Company, in consideration for payments of £35,000 and a royalty of up to £140,000 based on profits.
- (c) The collaboration agreement with Royal Ordnance dated 12 January 1996.
- (d) A warranty agreement dated 3 November 1998 made between the Company, the Directors and Matrix-Securities Limited, under which the Company and the Directors have given certain warranties in respect of the Company and indemnities in respect of the Offer to Matrix-Securities Limited.
- (e) A Waste Management Licence granted to the Company by The Environment Agency authorising the Company to keep and treat "Controlled Waste" issued on 20 May 1998.

## 6. Indebtedness

At the close of business on 30 September 1998, the Company had cash balances of £265,509 and secured bank borrowing of £86,659 under the DTI Loan Guarantee Scheme and hire purchase commitments of £9,255. Save as aforesaid, at the close of business on 30 September 1998, the Company has no loan capital (including term loans) issued or created but unissued, or any borrowings or indebtedness in the nature of borrowings, including bank overdrafts, liabilities under acceptances (other than normal trade bills), acceptance credits, hire purchase commitments, obligations under finance leases, guarantees or other contingent liabilities.

## 7. Commission Arrangements

A commission of 3% will be paid to authorised financial intermediaries who procure subscribers for Offer Shares pursuant to the Offer.

## 8. Property

The Company does not own any freehold property. The Company occupies offices at the business address set out in this document pursuant to a licence granted by South Ribble Office Developments Limited for a period expiring 16 December 1998 at a licence fee of £1,545 per month.

## 9. General

- (a) The Minimum Amount which, in the opinion of the Directors, must be raised under the Offer to provide the sums required in respect of the matters specified in Schedule 1 of the POS Regulations is £340,000 as set out below:

	£
(i) Purchase of property	-
(ii) Expenses of the Offer (not including commissions)	66,000
(iii) Repayment of borrowings in respect of (a) and (b)	-
(iv) Working capital	274,000

- (b) The Company is not engaged in any litigation or arbitration and, so far as the Directors are aware, has no litigation or claim pending or threatened against it which has, has had or may have a significant effect on the Company's financial position.



- (c) Ernst & Young have given and not withdrawn their written consent to the issue of this document with inclusion therein of their report and references thereto in the form and context in which they are included.
- (d) TEG has no subsidiaries.
- (e) TEG's accounting reference date is 31 October in each year.
- (f) No financial information contained in this document is intended by the Company to represent or constitute a forecast of profits by TEG nor to constitute publication of accounts by it.
- (g) The estimated amount of expenses of the Offer, assuming full subscription, including corporate finance, accountancy and legal fees and the costs of printing and despatching this document, is £100,000 (exclusive of VAT) and will be payable by TEG. No figure has been included in the above amount in respect of commissions payable to authorised financial intermediaries who procure subscribers for Offer Shares pursuant to the Offer, which are estimated may amount to approximately £10,000.
- (h) No underwriter or paying agents are involved with the Offer.
- (i) Save as disclosed, no promoters of the Company in the two years preceding the date of this document have received directly or indirectly from the Company fees totalling £10,000 or more or any other benefit with a value of £10,000 or more.
- (j) Payments of fees of more than £10,000 to persons other than trade suppliers in the year ended 31 October 1998 were as follows:

	£
Beavis Walker	31,404
Ernst & Young	51,082
Sinclair Roche & Temperley	35,024

#### 10. Availability of Prospectus

Copies of this document will be available free of charge to the public during normal business hours on any weekday (excluding public holidays) at the Company's registered office and at the offices of the Company's financial adviser set out on page 3 of this document from the date of this document up to and including the Closing Date.

Dated 4 November 1998

## PART FIVE

### 5.1 TERMS AND CONDITIONS OF THE OFFER

#### Share Application and Issue Procedure

##### A. *Applications from New Investors*

- (a) Applications for Offer Shares must be made on the Application Form.
- (b) Applications for Offer Shares on the Application Form must be made for a minimum of £1,000 and, thereafter, in multiples of £1,000.

##### B. *Applications from Existing Shareholders*

- (c) Applications for Offer Shares on the green Priority Application Form must be made for a maximum of a number of Offer Shares equal to the holding of the Existing Shareholder on the Record date.

Existing Shareholders may apply for a greater number of Offer Shares than equals their existing shareholdings on the Record Date.

##### C. *All Applications*

- (d) All applications for Offer Shares must be received by the Company's registrars, IRG Plc, on or before the Closing Date, which may be extended by the Directors.
- (e) Subject to the terms and conditions of the Offer set out in this document, valid applications received from Existing Shareholders on Priority Application Forms will be accepted in priority to applications received from new Investors.

Priority will be given to applications on Priority Application Forms in respect of a maximum number of Offer Shares equal to the relevant Existing Shareholder's holding of Ordinary Shares on the Record Date, that is, one Offer Share for each Ordinary Share held on the Record Date.

Where an application is made by an Existing Shareholder on a Priority Application Form for a number of Offer Shares greater than the relevant Existing Shareholder's holding of Ordinary Shares on the Record Date, such excess application will be deemed to have been made on, and the appropriate proportion of the remittance will be deemed to have been attached to, an Application Form.

If the aggregate number of Offer Shares applied for under the Offer on Priority Application Forms exceeds the number of Offer Shares available under the Offer, such applications will be scaled down proportionately.

If the aggregate number of Offer Shares applied for under the Offer on Priority Application Forms is less than the number of Offer Shares available under the Offer, Existing Shareholders will receive the number of Offer Shares applied for on the Priority Application Form. The balance of Offer Shares available under the Offer will be allotted to applicants using the Application Form and where appropriate applications will be scaled down proportionately.

- (f) A currently dated cheque for the full subscription amount made payable to "IRG plc A/C TEG Environmental Plc" must accompany the application.
- (g) The right is reserved to scale down or reject or accept any application in whole or in part only and whether or not the Application Form or Priority Application Form is properly completed or, in the case of Application Forms, the amount subscribed for is not for a minimum of or multiple of 1,000 Ordinary Shares or, in the case of Priority Application Forms, if more than the maximum number of Offer Shares subject to priority has been applied for, in which case the right is reserved to treat the Priority Application as for the maximum number of Offer Shares applied for in excess of such maximum to have been made on, and subject to the terms and conditions applicable to, an Application Form. Share certificates will be posted to successful applicants within 14 days of the Closing Date, provided that the right is reserved to present all cheques and banker's drafts on receipt and to retain share certificates pending clearance of all cheques.
- (h) No person receiving a copy of this document and/or an Application Form or a Priority Application Form, in any territory other than the United Kingdom may treat the same as constituting an invitation to such person, nor should such person in any event use such Application Form or Priority Application Form unless

in the relevant territory such an invitation could lawfully be made to such person or such Application Form or Priority Application Form could lawfully be used without compliance with any registration or other legal requirements. It is the responsibility of any person outside the United Kingdom wishing to make an application hereunder to satisfy himself or herself as to full observance of the laws of the relevant territory in connection therewith including obtaining any governmental or other consents which may be required or observing any other formalities needing to be observed in such territory.

The Ordinary Shares have not been nor will they be registered under the United States Securities Act of 1933, as amended (the "Securities Act") or the Securities Exchange Act of 1934, as amended, and the relevant exemptions are not being obtained from the securities regulatory authority of any province of Canada. Accordingly, except in a transaction which is exempt under the relevant legislation, the Ordinary Shares may not be directly or indirectly offered, sold or delivered in the United States, Canada or Australia or to US persons or persons resident in Canada or Australia nor may an Application Form or Priority Application Form be lodged by any such persons.

**Persons resident in other overseas territories should consult their professional advisers as to whether they require any governmental or other consents or need to observe any other formalities to enable them to participate in the Offer.**

- (i) By completing and delivering an Application Form and/or Priority Application Form, you as the applicant (and if you sign the Application Form and/or the Priority Application Form on behalf of somebody else or a corporation, that person or corporation):
  - (i) irrevocably offer to subscribe for the number of Ordinary Shares specified in the Application Form or the Priority Application Form, on the terms of, and subject to, the conditions set out in this document, including these terms and conditions and subject to the Memorandum and Articles of Association of the Company;
  - (ii) agree that you will accept the number of Ordinary Shares stated in Box 1 of the Application Form or the Priority Application Form which are allotted to you or such lesser number of Ordinary Shares in respect of which this application may be accepted;
  - (iii) agree that all applications, acceptances, allotments and contracts arising from this application will be governed by and construed in accordance with English law;
  - (iv) warrant that if you sign the Application Form or the Priority Application Form on behalf of somebody else or a corporation you have the authority to do so and such person will also be bound accordingly and will be deemed also to have given the confirmations, warranties, and undertakings contained in these terms and conditions of application;
  - (v) confirm that you are not relying on any information or representations other than those contained in this document;
  - (vi) warrant that the remittance accompanying your Application Form or Priority Application Form will be honoured at first presentation and agree that if it is not so honoured the Company (without prejudice to any other rights it may have) may void the agreement to allot the relevant Ordinary Shares and may allot them to some other person in which case you will not be entitled to any refund or payment in respect thereof;
  - (vii) agree that this application constitutes a contract with the Company which shall become binding upon delivery of the Application Form or the Priority Application Form duly completed at the address shown on the Application Form or the Priority Application Form; and
  - (viii) do not expect any of the advisers named in this document to provide you with any protections afforded to their clients and are subscribing on an "execution only" basis.

#### **The Closing Date**

The date by which an application for Ordinary Shares under the Offer (accompanied by a currently dated cheque for the subscription amount) must be received by IRG plc is 4 December 1998. This date may be extended at the discretion of the Directors.

### Return of subscription Monies

Application monies may be presented on receipt and will be retained in a separate designated bank account pending allotment of Ordinary Shares. Interest earned on application monies pending allotment, or return to applicants, will be paid to the Company. If any application is not accepted the amount paid will be returned by cheque without interest. If any application is accepted for a lesser number of Ordinary Shares than the number applied for, the balance of the amount will be returned by cheque without interest. In each case the cheque will be sent to the applicant within 14 days of the Closing Date.

## 5.2 HOW TO COMPLETE THE APPLICATION FORM AND/OR THE PRIORITY APPLICATION FORM

Before making any application to acquire Ordinary Shares, you are recommended to consult an independent adviser authorised under the Financial Services Act 1986. The following instructions should be read in conjunction with the Application Form and (for Existing Shareholders) the Priority Application Form and the terms and conditions of application set out in this document.

### (a) The Application Form

Applications must be for a minimum of 1,000 Ordinary Shares and thereafter in multiples of 1,000 Ordinary Shares.

1. Insert in Box 1 (in figures) the number of Ordinary Shares for which you are applying.
2. Insert in Box 2 (in figures) the amount of your cheque or banker's draft.
3. Insert your full name and address in BLOCK CAPITALS in Box 3.
4. Sign and date the Application Form in Box 4.

The Application Form may be signed by another person on your behalf if that person is duly authorised to do so, but the power(s) of attorney (or copy(ies) thereof duly certified by a solicitor) or form(s) of authority must be enclosed for inspection. A corporation should sign under the hand of a duly authorised official whose representative capacity must be stated.

5. You must pin a single cheque or banker's draft to your completed Application Form in Box 5. Your cheque or banker's draft must be payable to "IRG plc A/C TEG Environmental Plc" for the amount payable on application (inserted in Box 2) and should be crossed "A/C payee only".

A separate cheque or banker's draft must accompany each application. No other method of payment is acceptable. No receipt will be issued for this payment.

Your cheque or banker's draft must be drawn in Sterling and bear a UK bank sorting code in the top right-hand corner.

### *Money Laundering Regulations 1993 – Important note for Applications of £10,000 or more*

If an application for £10,000 or more by an individual is accompanied by a cheque or banker's draft drawn by someone other than the applicant named in Box 3 (for example, a building society cheque), one of the following additional documents must be enclosed with the Application Form: a copy of the applicant's passport or driving licence or a recent original bank or building society statement or utility bill in the applicant's name. A copy passport or driving licence should be certified by a solicitor or a bank. Original documents will be returned by post at the applicant's own risk. Please note that if the above requirements are not fulfilled and suitable evidence of identity cannot be obtained, your application may not be accepted.

6. By completing and returning the Application Form you irrevocably undertake, confirm and agree that:
  - (A) you are not a national or resident of the United States of America (including its territories, its possessions and all areas subject to its jurisdiction) or Canada, or Australia or a corporation, partnership or other entity organised under the laws of the United States of America or Canada (or any political sub-division of either) or Australia and that you will not offer, sell or deliver directly or indirectly any of the Offer Shares in the United States or Canada or Australia or to or for the benefit of any person resident in the United States of America or Canada or Australia;

- (B) you are entitled to subscribe for the Offer Shares comprised therein under the laws of all relevant jurisdictions which apply to you, that you have fully observed such laws and obtained all governmental and other consents which may be required thereunder and complied with all necessary formalities; and
- (C) you have read the section headed "Risk Factors" found in PART TWO of this document and confirm that you understand the nature of the risks and that you could lose all your investment in the Company.

Send the completed Application Form by post or by hand to New Issues Department, IRG plc, P.O. Box 166, Bourne House, 34 Beckenham Road, Beckenham, Kent BR3 4TH duly completed.

**(b) The Priority Application Form**

The maximum number of Offer Shares to which priority will be given, is the number of Ordinary Shares registered in your name on the Record Date. You may apply for a larger number of Offer Shares, but priority will only be given in respect of your priority entitlement.

1. Insert in Box 1 (in figures) the number of Ordinary Shares for which you are applying.
2. Insert in Box 2 (in figures) the amount of your cheque or banker's draft.
3. Insert your full name and address in BLOCK CAPITALS in Box 3, if different from the details set out at the top of the Priority Application Form.
4. Sign and date the Priority Application Form in Box 4.

The Priority Application Form may be signed by another person on your behalf if that person is duly authorised to do so, but the power(s) of attorney (or copy(ies) thereof duly certified by a solicitor) or form(s) of authority must be enclosed for inspection. A corporation should sign under the hand of a duly authorised official whose representative capacity must be stated.

5. You must pin a single cheque or banker's draft to your completed Application Form in Box 5. Your cheque or banker's draft must be payable to "IRG plc A/C TEG Environmental Plc" for the amount payable on application (inserted in Box 2) and should be crossed "A/C payee only".

A separate cheque or banker's draft must accompany each application. No other method of payment is acceptable. No receipt will be issued for this payment.

Your cheque or banker's draft must be drawn in Sterling and bear a UK bank sorting code in the top right-hand corner.

***Money Laundering Regulations 1993 – Important note for Applications of £10,000 or more***

If an application for £10,000 or more by an individual is accompanied by a cheque or banker's draft drawn by someone other than the applicant named in Box 3 (for example, a building society cheque), one of the following additional documents must be enclosed with the Priority Application Form: a copy of the applicant's passport or driving licence or a recent original bank or building society statement or utility bill in the applicant's name. A copy passport or driving licence should be certified by a solicitor or a bank. Original documents will be returned by post at the applicant's own risk. Please note that if the above requirements are not fulfilled and suitable evidence of identity cannot be obtained, your application may not be accepted.

6. By completing and returning the Priority Application Form you irrevocably undertake, confirm and agree that:
  - (A) you are not a national or resident of the United States of America (including its territories, its possessions and all areas subject to its jurisdiction) or Canada, or Australia or a corporation, partnership or other entity organised under the laws of the United States of America or Canada (or any political sub-division of either) or Australia and that you will not offer, sell or deliver directly or indirectly any of the Offer Shares in the United States or Canada or Australia or to or for the benefit of any person resident in the United States of America or Canada or Australia;

- (B) you are entitled to subscribe for the Offer Shares comprised therein under the laws of all relevant jurisdictions which apply to you, that you have fully observed such laws and obtained all governmental and other consents which may be required thereunder and complied with all necessary formalities; and
- (C) you have read the section headed "Risk Factors" found in PART TWO of this document and confirm that you understand the nature of the risks and that you could lose all your investment in the Company.

Send the completed Application Form and/or the Priority Application Form by post or by hand to New Issues Department, IRG plc, P.O. Box 166, Bourne House, 34 Beckenham Road, Beckenham, Kent BR3 4TH duly completed.

## APPLICATION FORM

## TEG ENVIRONMENTAL PLC

IMPORTANT: Before completing this Application Form you must read the risk factors set out in Part Two of the Prospectus, the terms and conditions of application and the notes on how to complete the Application Form set out in Part Five of the Prospectus. Your remittance must be pinned at Box 5. Applications must be for a minimum of 1,000 Ordinary Shares and thereafter in multiples of 1,000 Ordinary Shares.

PLEASE RETURN YOUR COMPLETED APPLICATION FORM AND PAYMENT BY POST OR BY HAND TO NEW ISSUES DEPARTMENT, IRG plc, P.O. BOX 166, BOURNE HOUSE, 34 BECKENHAM ROAD, BECKENHAM, KENT BR3 4TH, MARKING THE ENVELOPE "TEG". IT MUST ARRIVE NO LATER THAN 5.00 P.M. ON 4 DECEMBER 1998, UNLESS EXTENDED BY THE DIRECTORS.

I/We offer to subscribe for	Ordinary Shares of 5p at £1 each	<b>1</b>
-----------------------------	----------------------------------	----------

(or any lesser number of Ordinary Shares for which this application is accepted) in TEG Environmental Plc on the terms and subject to the conditions of application set out in the Prospectus of which this Application Form is part.

and I/we attach a cheque or banker's draft for the amount payable, namely £	<b>2</b>
---	----------

## PLEASE USE BLOCK CAPITALS

Mr/Mrs/Ms/Miss or Title	Forename(s) (in full)	Surname	<b>3</b>
Address (in full)			
Postcode			

I/We confirm that I/we have read the section headed "Terms and Conditions of the Offer" in PART FIVE and the section headed "Risk Factors" in PART TWO of the Prospectus.

Date	Signature	<b>4</b>
------	-----------	----------

Pin your cheque or banker's draft for the amount shown in Box 2 made payable to IRG plc A/C TEG Environmental Plc and crossed "A/C payee only"	<b>5</b>
--	----------

Stamp of Financial Intermediary or institution claiming commission	Acceptance No.	<b>6</b>
SRO/RPB No.		
Contact Name	Tel:	



IMPORTANT: Before completing this Priority Application Form you must read the risk factors set out in Part Two of the Prospectus, the terms and conditions of application and the notes on how to complete the Priority Application Form set out in Part Five of the Prospectus. Your remittance must be pinned at Box 5.

PLEASE RETURN YOUR COMPLETED PRIORITY APPLICATION FORM AND PAYMENT BY POST OR BY HAND TO NEW ISSUES DEPARTMENT, IRG plc, P.O. BOX 166, BOURNE HOUSE, 34 BECKENHAM ROAD, BECKENHAM, KENT BR3 4TH. A REPLY PAID ENVELOPE IS ENCLOSED FOR YOUR CONVENIENCE. IT MUST ARRIVE NO LATER THAN 5.00 P.M. ON 4 DECEMBER 1998, UNLESS EXTENDED BY THE DIRECTORS.

# **PRIORITY APPLICATION FORM** **TEG ENVIRONMENTAL PLC**

FOR USE BY EXISTING SHAREHOLDERS ONLY

Offer for Subscription of up to 1,000,000 Ordinary Shares of 5p each  
at a price of £1.00 per share payable in full on application

Registered holding of Ordinary Shares on 26 October 1998	Total number of Offer Shares to which you have a priority entitlement	Total amount payable on subscription for all the Offer Shares to which you have a priority entitlement

I/We offer to subscribe for	Ordinary Shares of 5p at £1 each	1
-----------------------------	----------------------------------	---

(or any lesser number of Ordinary Shares for which this application is accepted) in TEG Environmental Plc on the terms and subject to the conditions of application set out in the Prospectus of which this Priority Application Form is part.

and I/we attach a cheque or banker's draft for the amount payable, namely £	2
---	---

PLEASE USE BLOCK CAPITALS

Mr/Mrs/Ms/Miss or Title	Forename(s) (in full)	Surname	3
Address (in full)			
Postcode			

I/We confirm that I/we have read the section headed "Terms and Conditions of the Offer" in PART FIVE and the section headed "Risk Factors" in PART TWO of the Prospectus.

Date	Signature	4
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Pin your cheque or banker's draft for the amount shown in Box 2 made payable to IRG plc A/C TEG Environmental Plc and crossed "A/C payee only"	5
--	---

Stamp of Financial Intermediary or institution claiming commission	Acceptance No.	6
SRO/RPB No.		
Contact Name	Tel:	



TAX RELIEF  
AVAILABLE

# Nunhead

Offer for subscription under the Enterprise Investment Scheme

*What is*

# Nunhead?

*A new film company,*

*unique in Britain, which*

*will make money out of*

*modestly budgeted, high*

*quality films*

# Nunhead Films plc

(Registered in England. Company Number 3546801)

THIS DOCUMENT IS IMPORTANT. IF YOU ARE IN ANY DOUBT ABOUT THE CONTENTS OF THIS DOCUMENT YOU SHOULD CONSULT A PERSON AUTHORISED UNDER THE FINANCIAL SERVICES ACT 1986 WHO SPECIALISES IN ADVISING ON THE ACQUISITION OF SHARES AND OTHER SECURITIES

This document comprises a prospectus and has been drawn up in accordance with the Public Offers of Securities Regulations 1995 ("the POS Regulations"). A copy has been delivered to the Registrar of Companies in England and Wales for registration in accordance with Regulation 4(2) thereof.

To the best of the knowledge of the Directors of the Company, who are the persons responsible for this Prospectus, the information contained in it is in accordance with the facts and there are no other facts the omission of which would affect the import of such information. The directors of the Company, whose names are set out on page 3, accept responsibility accordingly.

There is at present no listing or admission to dealing on any recognised investment exchange for any shares in the Company and no application for such admission has been made. It is not intended at present to apply for any shares to be admitted to the Official List of the Stock Exchange or to be traded on the Alternative Investment Market or any recognised exchange.

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## OFFER FOR SUBSCRIPTION

**of up to 3,000,000 New Ordinary Shares at £1.00 per share**

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The subscription list for applications will open at 10 am on Wednesday 4th November 1998 and may be closed at any time thereafter, but in any event, no later than 5pm on Monday 14th December 1998 (unless extended by the Directors).

The procedure for application and an application form is set out on pages 29 and 33.

The Company will pay to stockbrokers, banks in the United Kingdom and other intermediaries who are authorised pursuant to the Financial Services Act 1986 and who are accepted for this purpose, a commission of 3% of the subscription price in respect of accepted applications bearing their stamp.

Your attention is drawn to the risk factors set out on page 24.

## DEFINITIONS

The following definitions apply throughout this document and the Application Form unless the context requires otherwise:-

"the Act"	Companies Act 1985
"Shares"	Ordinary fully paid shares of 1p each in the capital of the Company
the "Board" or the "Directors"	the Board of Directors of the Company
the "Company", "we", "us"	Nunhead Films plc
"EIS"	The Enterprise Investment Scheme, comprised in Chapter III of Part VII of ICTA
"EIS" Relief	EIS Income Tax relief, EIS deferral and/or exemption from Capital Gains Tax which is available with EIS
"ICTA"	Income and Corporation Taxes Act 1988 (as amended)
"New Ordinary Shares"	up to 3,000,000 shares proposed to be issued pursuant to the Offer
"the Offer"	the offer for subscription for New Ordinary Shares as set out in the Prospectus
"the Regulations"	The Public Offers of Securities Regulations 1995
"the Small Print"	The Statutory and General Information in Part VII hereof
"TCGA"	Taxation of Chargeable Gains Act 1992 (as amended)

## OFFER STATISTICS ASSUMING FULL SUBSCRIPTION (OF 3,000,000 SHARES)

Offer Price	£1
Number of New Ordinary Shares being subscribed for	3,000,000
Shares in issue immediately following completion of the Offer	6,020,001
Proportion of enlarged share capital being offered	49.99999%

## DIRECTORS, SECRETARY AND ADVISERS

Directors	Carol A Lemon, John K Stewart, Harry F Rushton all of Pinewood Studios, Pinewood Road, Iver Heath, Bucks SL0 0NH. Tel: 01753 655800 Fax: 01753 655700
Company Secretary and Registered Office	D. Armour FCIS, 42-46 High Street, Esher, Surrey KT10 9QY.
Auditors and Reporting Accountants	BDO Stoy Hayward, Willoughby House, 439 Richmond Road, Middx TW1 2HA.
Registrars to the Company & Receiving Agents	SLC Registrars Limited, 42-46 High Street, Esher, Surrey KT10 9QY.
Solicitors	Hammond Suddands, 7 Devonshire Square, Cutlers Gardens, London EC2M 4YH.

Nunhead

*Hollywood film companies are successful because*

- ◆ they make films that people want to see
- ◆ they don't put all their eggs in one basket
- ◆ they retain and exploit long-term, the so-called back catalogue
- ◆ they retain distribution rights.

Nunhead will make a number of films to sell to known markets and territories, on budgets carefully tailored to be less than the predicted income. This means

- ◆ the risk is spread over several films
- ◆ the chances of making worthwhile gains (and a blockbuster) are improved
- ◆ economies of scale produce cost savings
- ◆ a back catalogue of films is created, which will earn revenue for investors for many years to come
- ◆ being able to keep a good team together to make film after film.

This is almost unheard of in the UK, where films are financed and made one at a time, often without regard to their financial viability.

*Our Promise*      **We will not make a film unless we believe that it will make a profit.**

*Where is Nunhead going?*      Nunhead plans to make and sell films for many years to come, building up a profitable company, for flotation at the end of the five year EIS period.

*What does this issue offer you?*      The issue offers you the opportunity to invest in the Entertainment Industry, one of the World's Biggest Growth Sectors.

As an eligible investor, you would receive tax relief and freedom from capital gains tax when you sell your shares.

- ◆ **EIS Income Tax relief of up to 20%.**
- ◆ **EIS Capital Gains Tax Deferral of up to 40%.**  
(Following the abolition of Reinvestment Relief, now only available from a qualifying issue.)
- ◆ **Potentially tax free gains.**
- ◆ **EIS Loss Relief.**
- ◆ **Various shareholder benefits.**

## "The Most Profitable Films of 1997"

It might be believed that spectacular box office returns are only achieved by the Hollywood studios, with big budgets, big star names and big ad campaigns. However, in what they call "*The 20 Most Profitable Films of 1997*," as shown below, *Variety* shows that the highest revenue to cost ratios were achieved by films which had none of these. Instead they were good films, with modest (even minimal) budgets, well made and aimed at audiences that flocked to see them.

Of the top four, three were made by Independent Producers on tiny budgets.

Three of these four were made for less than £250,000 and incredibly one for only £115,000.

The film at the top was made in England.

Rank	Title	Global Box Office Revenue (US \$)	Budget (US \$)	Revenue to Cost Ratio
1	The Full Monty	205,400,000 <sup>1</sup>	3,500,000	58.7 to 1
2	Chasing Amy	14,700,000	400,000	36.7 to 1
3	When the Cat's Away	7,600,000	300,000	25.3 to 1
4	In the Company of Men	4,200,000	200,000	21.0 to 1
5	Shine	89,100,000	5,500,000	16.2 to 1

### "List: The 20 Most Profitable<sup>2</sup> Films Of 1997"

Source & Copyright © Reuters/Variety 1998<sup>3 4</sup>

<sup>1</sup> In addition, over 2.6 million videos have been sold in the UK alone. As of 29 September 1998, *The Full Monty* had total worldwide box office receipts of US\$246 million. (Source: *World All-Time Box Office Chart*, [www.us.imdb.com/Charts/worldtopmovies](http://www.us.imdb.com/Charts/worldtopmovies)).

<sup>2</sup> Box office returns do not necessarily mean profitability. Exhibitors (cinema owners) and distributors retain a substantial portion of a film's box office takings.

<sup>3</sup> *Hollywood Reporter* Monday March 2 1998 8:22 AM EST Reuters/Variety Press Release.

<sup>4</sup> At the same time *Variety* released a list of the 20 most unprofitable Films in 1997. All 20 were made on huge budgets ranging from US\$16,000,000 (*Steel*) to US\$65,000,000 (*Father's Day*).

*The Directors believe that the following nine factors are important:*

- ◆ There is no point in making a film unless it is going to make money.
- ◆ Films don't need to cost a lot of money in order to make a lot of money.
- ◆ The entertainment and leisure industry is one of the world's biggest growth markets. We are on the verge of an explosion in the number of TV channels, with an unprecedented worldwide demand for filmed entertainment of all sorts.
- ◆ The experience of the last hundred years has shown that there are identifiable markets within the film industry, such as thrillers, comedy, science fiction and horror for which there is constant demand, in which consistent profitability is achievable.
- ◆ 76% of the world's feature films are made by small independents like Nunhead, not by the Hollywood majors.
- ◆ It is no longer considered unwise to invest in British-made films; *Four Weddings And A Funeral* and *The Full Monty* between them have now grossed over half a billion dollars at the box office, while *Bean* has taken more than \$200 million to date.
- ◆ By making a number of films, the chances of making worthwhile profits (including the chances of making windfall profits from a huge hit) are increased and the chances of loss are reduced.
- ◆ Nunhead will be operating in a worldwide market and will not be dependent on the UK economy for success. Nunhead will need only a tiny percentage of the worldwide market to make worthwhile returns.
- ◆ The Entertainment Industry is somewhat recession-proof, and people still go to the cinema during a recession.

*"The UK film industry is - despite its relatively small size - one of Britain's most successful and high profile business sectors."*

Source: *Film 2000, An insight into the future of the UK film industry*, Casson Beckman, 1996

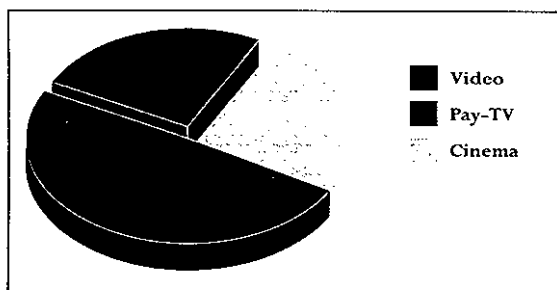
*"... most [UK] producers ... cannot easily reduce risk or raise finance by developing a slate of films..."*

Source: *A Bigger Picture*, The report of the Film Policy Review Group of the Department for Culture, Media and Sport, March 1998

## What Makes a Film Profitable?

It is a common misconception that a spectacular box office income is required to make a film profitable. However, this is not the case. A profitable film is simply one that *earns more than it costs* including distribution costs. This is achieved by first understanding the marketplace and by then producing the right films at the right price for that market. The marketplace is split into three main areas: cinema, TV and video. Although cinema attendances in the UK alone have more than doubled in the last 15 years, Cinema is becoming a smaller proportion of the potential return on a film because income from other media is rising at an even faster rate.

### UK Share of Expenditure on Filmed Entertainment by Media 1992



Source: *Budgets and Markets: a study of the budgeting of European film*, by Terry Hott, Routledge 1997

"If the budget is sensible, a small film can make money," [Gary Smith, chairman of Winchester Multimedia] says. The key is to get a film into as many markets as possible. For example, the television rights for *Vol au Vent* [a low-budget gangster comedy starring Dennis Waterman] for Australia alone went for £40,000. Bargain on a dozen similar sales, a modest outing at the box office and add in video sales and voila! The film's £750,000 budget is covered."

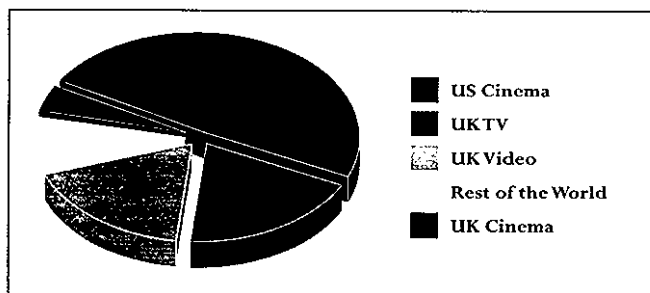
Source: *The Sunday Times*, 7 April 1996

## Examples of Film Income

Recent film *Lock, Stock and Two Smoking Barrels*, (budget of £1 million) grossed £3 million at the UK box office in its first ten days of theatrical release.<sup>1</sup>

Cromwell Films' *Macbeth* (budget £500,000) received £500,000 from a single UK television sale. Any other sales bring additional revenue.<sup>2</sup>

### Breakdown of Sources of Revenue\*



\* This example is for the film *Peter's Friends*.

Source: *Budgets and Markets: a study of the budgeting of European film*, by Terry Hott, Routledge 1997

<sup>1</sup> Source: *Screen International/The Hollywood Reporter*

<sup>2</sup> Source: *The Sunday Times*, 25 May 1997/*Screen Finance*



## Statement of Intent

- ◆ **We will make high quality British films aimed at, and to be sold aggressively to a worldwide market.**

British technicians and British film-making facilities are among the best in the world. *Star Wars*, *Indiana Jones*, *Alien*, *Lost in Space*, most of (including the current) *James Bond* films, *Mission Impossible* and many other Hollywood-backed productions are made at UK studios using largely UK personnel.

There is, however, a gap in the UK film industry, where commercial films are not being produced by British companies. We believe that by exploiting this gap in the market, capitalising on the perennial worldwide taste for British films, and adding a British flavour to universally appealing genres, we intend to achieve profitability for our 'products'.

The Company does not depend for its success on the performance of the UK Economy. There is a growing market for films worldwide, not only for cinema but also for video and television.

The market for film product is worldwide; we aim to sell worldwide. Britain is just one small part of the worldwide market.

- ◆ **We will spread Investors' risk over a number of films.**

In Britain, traditionally films are financed on a 'one off' per film basis. This means Investors are dependent for any return on the success or failure of *a single* film. This is a risky strategy.

Nunhead Films, however, aims to produce at least six feature films, thereby spreading Investors' risk and minimising the possibility of taking a loss on any one film and maximising the potential for profits from any of the six. This is how films are made in the USA, which has a thriving film industry.

- ◆ **We will make these films to a specification and within budgets with an eye to profit.**

We will, as does any successful company in any other industry, evaluate the likely returns from a particular film, with a particular cast, in a particular genre and make the film for less than the likely return.

*Statement of Intent  
(continued)*

- ♦ We will not produce any of the individual films unless we are convinced that they will be profitable.

The films we will make will be profit-driven and market-led. They will be the types of films which audiences worldwide consistently go to see: thrillers, science-fiction, comedy, horror, etc. We will make these films on budgets which, with aggressive worldwide marketing, should enable us to make profits from them.

i.e. We will make films that people want to see.

These are all unremarkable aims for most businesses. Sadly, they are statements all too rarely expressed by a British film company.

Until now.

*We are offering Investors a unique opportunity to spread their investment over a broad range of films in the manner of the Hollywood Studios with the real chance of making worthwhile returns.*



Nunhead

### *Key Points*

The film industry is a high growth sector. There is a steady and sustainable growth in demand for filmed product not only for cinema, but also for video and pay-TV and ancillary markets, especially given the huge growth in the number of TV channels worldwide.

Nunhead Films intends to supply this demand, producing a number of high-quality films over a range of genres and types, building up a profitable company.

### *How will we do this?*

#### **1 By giving the Customers what they want**

Thrillers, science fiction, comedy, horror, etc. are readily marketable and can be very profitable. Any business must make products that people want. In the case of films, this involves respect for what the audience wants to watch. We will produce films that people want to watch, supplying a high-quality product that doesn't insult the audiences' intelligence.

#### **2 By spreading risks over several films**

Investors will be investing in a company making a number of films, thereby spreading their risk over a wide base. This gives the opportunity for a financial return from the full range of films, rather than relying on the success of a single film.

This is rare in the UK but commonplace in the US where Major Studios and Independent Producers will make a *number* of films on a rolling production basis. *This means Investors' chances of achieving worthwhile gains are immeasurably improved.*

#### **3 By making high quality, modestly-budgeted, British films**

A film does not need to cost a fortune to make a fortune. The acknowledged excellence and expertise of British technical staff and facilities within the film industry has led to the production of a number of very successful high quality, modestly-budgeted, British films such as *Four Weddings And A Funeral* and *The Full Monty* which between them have now taken over half a billion dollars at the box office.

#### **4 By aggressively marketing the film worldwide in all media**

We intend to make films on budgets that enable us to make profits out of them. We will not rely on spectacular returns although a box office hit would be most welcome. Films can generate revenue for many years after they are made.

*"...for the industry to advance, British film-makers must... present a portfolio of 'products' (not just one film: investors want to 'spread the risk')."*

Source: *Film 2000, An insight into the future of the UK film industry*, Casson Beckman, 1996

# PART I

## *Information on the company*

*The Investment* Investors will be investing in a company making a number of films, thereby spreading their risk over a wide base. This gives the opportunity for a financial return from the full range of films, rather than relying on the success of a single film. The Company will exploit the rights to the films long-term.

This is rare in the UK but commonplace in the US where Major Studios and Independent Producers will make a number of films on a rolling production basis. The profitability of any single film cannot be guaranteed. However the chances of achieving overall profitability for the Company are greatly improved by making a number of films. *This means Investors' chances of achieving worthwhile gains are immeasurably improved.* Making films is a team effort. It makes sense to keep a good team together to make a number of films. (In the UK, a team will usually come together to make one film and then disband.)

Furthermore, by producing a number of films back to back, the Company will benefit from the economies of scale and shared overheads of several productions, thereby generating a steady cash flow and consistent income through regular distribution of films for TV broadcast, Video sale and Rental and Cinema viewing.

Film projects will be evaluated realistically, based on conservative return estimates.

The Company will strive to achieve a healthy return on all films without having to rely on any individual film performing exceptionally well in order to achieve profitability. However, by making a number of films the chances of making windfall profits from a box office hit are increased.

## The Films

THE

MACHINE

### THE MACHINE

*A light-hearted period adventure*

The beginning of the Twentieth Century saw the birth of powered flight and the development of the cinema. *The Machine* brings these two worlds together when a young filmmaker meets an elderly inventor tinkering with a prototype flying machine. The picturesque but hard life in the countryside conflicts with the dynamic late-Victorian technological revolution which will sweep much of its virtues and vices away.

*The Machine* combines several highly marketable elements including the comedy and inventiveness of primitive film production, the romance of early powered flight and, by no means least, the Victorian setting.

British period films have a ready market worldwide and this story exploits two surprisingly under-used but attractive elements, early film-making and aviation.

The  
Block

### THE BLOCK

*A stylish thriller/horror story*

A murder investigation leads to a Mayfair apartment block where the tenants' way of life has remained unchanged since the 1930s... but at what price and who pays?

*The Block* is a horror/thriller in the tradition of Hammer films, whose production of *Dracula* had one of the highest profit-to-cost ratios of any British film ever released in the USA.

Ingrid Pitt, star of *The Vampire Lovers* and *Countess Dracula* and with a marketable profile in the horror genre, has agreed to play the major role of the Countess.

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### MORGUE PLANET

*A science-fiction story of survival in outer space*

A novice woman co-pilot of a hearse spaceship is marooned on the surface of a supposedly uninhabited cemetery planet. She finds that she is both worshipped and feared as the new messiah by rival cults of the planet's inhabitants. Her powerful father races towards Morgue Planet, torn between his desire to rescue his daughter and his fear of secrets from his past being exposed.

Like the horror genre, the science fiction genre has extremely devoted fans and an exceptionally well developed network of information exchange, from magazine publishing to the Internet, all of which can be used at little cost to boost awareness of, and a desire to see, *Morgue Planet*.

Science fiction is one of the most reliable genres in terms of income. New technology in the field of Special Effects has made the production of such a film as *Morgue Planet* both far more economical and increasingly visually impressive.

## DYING A DEATH

*A theatrical black comedy*

A ramshackle repertory company limps its precarious way around the least glamorous theatres of post-war Britain. Disaster, financial and otherwise, is barely held at bay until scenes from the Whodunnit they are performing start to happen in real life and the ghoulish audiences flood in.

Comedy is a perennial favourite with audiences, with many of the most successful films made in Britain recently having been comedies, such as *Four Weddings and a Funeral*, *Staggered*, *Bean*, *Sliding Doors* and *The Full Monty*.



## RECOIL

*A tense post-Cold War spy mystery - A race to save London from total destruction*

*Recoil* is a tense atmospheric espionage thriller with a suspenseful Whodunnit element, leading up to a heart-stopping climax. A 1960s spy wakes from a 30 year coma facing a race against time to prevent the nuclear destruction of London.

British spy thrillers have been consistently and internationally popular. *Recoil* updates and freshens elements from such films as *The Ipcress File* and *The Man Who Came In From The Cold* with its story of a 1960s spy with deadly secrets from the past waking from a coma in the 1990s.

*Recoil* breathes new life into the spy genre by both comically and poignantly highlighting the changes 'progress' has wrought in the world.

**Recoil**

## THE ASYLUM

*A chilling, visually flamboyant psychodrama - A young woman confronts the terror from her past and the nightmares of her own psyche*

When a young woman discovers that her nightmares are really childhood memories she returns to the asylum where her mother was murdered - but so does her killer.

Horror films are probably the most reliably profitable genre, given a realistic budget. There is a consistent, loyal fan base which goes to see every new horror film.

There is an especially thriving market in low-budget horror films on video in the USA and in Europe. Apart from the UK, this genre is particularly popular in Germany, Spain, France, Italy, the Far East, South America and the USA.



Nunhead Films will, of course, continue to review and, if necessary, revise the order or the individual films it produces in order to maximise the likely possible returns given the nature of the market at the time of production.

Nunhead

## *The Stars*

The policy of Nunhead Films will be firstly to attract quality, established and popular performers with both a national and international profile.

Secondly, Nunhead Films will seek out emerging talent and, where appropriate, incorporate artists into several productions in order to raise their profiles, thereby increasing the likelihood of press and public attention for Nunhead Films should any of these performers achieve star status. This is a modern variation on the highly successful Hollywood star system of the 1920s to 1940s.



**Ingrid Pitt** - has starred in numerous feature films including *Where Eagles Dare*, with Clint Eastwood and Richard Burton, *Who Dares Wins*, with Richard Widmark and Lewis Collins and *The Wicker Man* with Edward Woodward and Christopher Lee but her most devoted international following stems from her leading roles in *Countess Dracula* and *The Vampire Lovers* for Hammer Films.



**Sir Donald Sinden, CBE** - Sir Donald's numerous starring roles in feature films include such classics as *The Cruel Sea* and *The Day of the Jackal*. His work spans thrillers such as *The Siege of Sydney Street* and *Villain* and comedy such as *Doctor in the House*, one of the biggest UK hits ever. His TV appearances include *Two's Company*, *Never the Twain* and the cult series *The Prisoner*.



**Jenny Agutter** - After achieving stardom as a child in *The Railway Children* and *Walkabout*, Ms Agutter has appeared in numerous feature films including *Logan's Run*, *The Eagle Has Landed*, *American Werewolf in London*, and *Darkman*. She received a British Academy Award for *Equus* and an Emmy for *The Snow Goose*. Her theatre work spans both Broadway and the Royal Shakespeare Company.



**Penn Linfield** - is an example of the emerging talent which Nunhead Films intends to nurture. Penn has extensive stage experience as well as screen experience in several short films and productions for Central TV, including the children's series *Woof*. She recently starred in *The Break-In*.



**Nick Waring** - starred in *The Break-In*, appeared with Sean Bean in *When Saturday Comes* and has featured in *Bugs*, *Harry Enfield* and *London's Burning* on TV. His theatrical work includes *Anthony and Cleopatra* with Vanessa Redgrave and *Gross Indecency* with Corin Redgrave.

Preliminary casting discussions have taken place with these and other stars, subject to contract.

## PART II

### *Details of Management*

*Carol Lemon,  
Joint Managing Director*

Carol has produced and line produced more than a dozen feature, TV, Documentary and short films including work for Channel 4, the BBC and the Arts Council and has supervised production on numerous projects for corporate clients such as Philips, Coopers and Lybrand, United Biscuits, Wall's, Cadbury's, Land Rover and Tonka Toys. She has extensive experience of containing production costs on many films, as financial controller.

She produced the award-winning *Crash* and is one of the few people to be awarded National Lottery funding, for *The Break-In*, which is currently in production.

Before entering the film world, Carol worked in the Financial Sector as a Project Manager and Production Consultant for clients such as Price Waterhouse, Global Asset Management, Shearson Lehman and British Telecom, including international projects.

*John Stewart,  
Joint Managing Director*

John has worked on over twenty feature, television, drama and documentary productions for clients including Central TV, Channel 4 and the BBC. He has developed feature film projects with major international film companies and an Oscar-winning producer. He also lectures on various aspects of film-making and has been a Visiting Lecturer at the University of London.

John wrote and directed *The Gaol*, the award-winning *Crash*, *Stairs*, selected for the New Contemporaries Exhibition, and most recently wrote and directed *The Break-In*, currently in production.

*Harry F Rushton,  
Director of Marketing  
and Distribution*

Harry has worked for more than thirty years in the British Film Industry and has produced countless films and commercials.

He has co-ordinated the sales and business development of a cost-effective new motion picture system. Formerly a Laboratory Manager of a major UK film processing laboratory, he also has had a long-standing association with a well-known Special Effects company.

As a director of Bucks Film Laboratories he has been in charge of Sales and Marketing in the Commercials and Features Markets, where he co-ordinates the theatrical release of films with major distributors such as United Artists, Walt Disney and Twentieth-Century Fox.



*Aims* The Directors overriding objectives are:-

- ◆ to build up a profitable company that will make money from films for many years to come, and
- ◆ to provide Investors with a mechanism to make a worthwhile capital gain at the end of the EIS period

by:-

- ◆ Making Films<sup>1</sup> that people want see i.e. films that make money!
- ◆ Producing top quality Films on modest budgets thereby maximising the potential for profit.
- ◆ Making a number of Films thereby spreading the investor's risk over a number of projects and enhancing the potential for profits (including windfall profits from a Box Office hit).
- ◆ Exploiting known gaps in the Market<sup>2</sup>.
- ◆ Benefiting from economies of scale arising from continuity of production.
- ◆ Pursuing an aggressive marketing and distribution plan to make money out of the films.
- ◆ Exploiting all available tax breaks and grants<sup>3</sup>.

<sup>1</sup> Apart from feature films, this may include other film productions for Television, including episodic dramas, sitcoms, animated series and TV movies produced for network broadcast (terrestrial and satellite), first-run syndication and for cable and pay television and software products for CD ROM and Game Stations.

<sup>2</sup> e.g. thrillers, science fiction, horror etc are readily marketable and can be very profitable. UK Companies having a regular output of such films have not been seen since the 1970s.

<sup>3</sup> Grants include funding from such bodies as British Screen or the National Lottery Film Fund, grants for regional development etc. No grant will be accepted if it is made on terms which would compromise the marketability of the films.

### *Our Plan*

Britain has some of the best Talent and Facilities for Film Production in the World. Many foreign producers are attracted to the UK because of special effects and other technical expertise.

We intend to make money by using British Talent and Facilities to make filmed entertainment for particular Markets and Territories on budgets that enable profits to be made within those Territories and Markets.

A number of films will be made on a rolling production basis. This strategy will immensely improve Investors' chances of achieving good returns as the risks are spread over a number of productions (and of course the chances of one film becoming a blockbuster).

### *What does this mean?*

#### **Targeting the Product to the Market**

A film does not need to cost a lot of money to make a lot of money. A film does not need a cinema release to make money.

Crime thrillers have a universal and timeless appeal and are staple diet for TV Stations in the UK, France, Germany, Sweden and the US.

Horror films have an exceptionally loyal cult following. A modestly budgeted horror film only has to reach that core audience to be successful; examples include *Scream*, *Night of the Living Dead*, *Nightmare on Elm Street*, numerous Hammer films as well as many more obscure titles. Hammer's film *Dracula* is believed to have had the highest profit to cost ratio of any British film released in the USA at its time of release.

### *What are the Markets?*

These include theatrical (i.e. cinema screenings), television, cable, satellite, pay-TV, pay per view, video sale/rental, video games and all new media as they develop over the next few years, throughout the world.

### *Who supplies these Markets?*

Not, for the most part, the Hollywood majors but mainly Independent Film-makers.

A report prepared by Arthur Andersen for the American Film Marketing Association<sup>1</sup> showed that in one year, 63% of movies produced for the cinema were produced by Independent Film-makers. The independents share of direct-to-video films stood even higher at 95% and 76% of all feature-length films were produced by Independents.

*"As the world's consumers demand more product to fill the many new outlets for entertainment created by emerging technologies, independent producers appear poised to supply the needs of the exploding information/entertainment market."*

Arthur Andersen<sup>2</sup>

<sup>1</sup> The Economic Consequence of Independent Film Making by Charles Cicchetti, Ph.D., W.B. Peale, Stefan Boedeker, Jeffrey Dubin, Ph.D., and Jeff Truitt published by Arthur Andersen Economic Consulting and Arthur Andersen LLP in January 1995

<sup>2</sup> *ibid*

## *Marketing and Distribution*

Films can be marketed via a distributor or sales agent, or a combination of the two.

### **What does a sales agent do?**

A sales agent sells the rights to exhibit the film in cinemas, on TV, on video, etc. to distributors and TV companies in individual countries (or territories). The agent earns a percentage of the sale price, thus increasing their incentive and, as a specialist in film sales, is in constant contact with the various distributors and buyers in the different countries and is also able to spread the cost of marketing a film at international festivals and markets across a number of films.

### **What does a distributor do?**

The distributor will buy the rights to exhibit a film in one or a number of territories. For example, the rights to show the film in cinemas in Germany only may be sold to one distributor, with a different distributor buying the rights for France. One distributor may buy only the cinema rights in a particular country, while another distributor buys only the television or video rights.

### **What is our strategy?**

Nunhead will employ a combination of its own marketing, direct sales to distributors where desirable (in the UK, for example) and/or appointment of international sales agents.

Marketing of films begins before the film is even made. 'Teaser' trailers and other marketing devices can be employed to raise interest in a film at an early stage. Nowadays the Internet provides an inexpensive way to promote films.

Film trade markets, such as MIFED, MIPCOM and the AFM, provide opportunities to market films worldwide.

Exposure can be gained for the films at appropriate international film festivals (for example, the Cannes, Berlin, London and New York Film Festivals, to name but a few). Favourable reviews (or even awards) at festivals can enhance a film's sales potential and perceived value with distributors.

We intend to pursue an aggressive marketing strategy in order to achieve the widest possible distribution worldwide in all media, including theatrical, television, cable, satellite, pay per view/pay-TV, play-on-demand, video, video games and all new media as they are developed over the next few years.

Our primary aim is to make profits from films. As has been explained a cinema release is not necessary to make profits. However, a theatrical release can generate publicity and kudos which can help to raise the profile and sale prices of the films in other media. We will therefore aggressively seek a theatrical release for all films.

## *The Marketplace*

The market for filmed entertainment continues to expand worldwide. New media, such as video, satellite cable and pay per view/pay-TV, video and computer games and other spin-offs, as well as traditional theatrical release and terrestrial TV offer a wide variety of markets in which to sell a film. With, in many cases, different distributors selling to these separate markets worldwide, revenue opportunities are effectively expanded.

Any one of Nunhead Films productions could earn revenue from a number of sources. The rights to show a film are sold separately for

1. cinema
2. broadcast, cable, satellite, pay per view/pay-TV screenings
3. home video, and
4. other media, such as CD-I and DVD.

All these rights can be sold in any of over one hundred countries, from Austria and Australia, to Zambia and Zimbabwe. In each country in the world there are several alternative sources, including the home video, CD-I, DVD, satellite, cable and broadcast TV markets. The explosion of 200 digital TV channels over the next few years will bring new, vastly expanded opportunities for revenue.

The rights to show these films are sold for a limited time period. These rights must be renewed every few years, bringing additional fees to Nunhead Films. For example, the rights to screen a feature film on a US network for a limited period would normally bring between US\$2 million and \$20 million<sup>1</sup>. Once that period has expired the rights can be sold again.

Film revenue is initially achieved in cinema and video markets, with cinema admissions worldwide increasing yearly. Cinema gross receipts in the USA alone in 1995 were US\$5.49 billion, in 1996 were US\$5.91 billion and in 1997 exceeded US\$6 billion<sup>2</sup>. Projections are for this increase to continue well into the next decade.

*"In 1996, UK companies' overseas earnings from film distribution (cinema and TV) totalled £320 million; compare this with the £56 million that British films took at the UK box office in that year."*

Source: *A Bigger Picture*, The report of the Film Policy Review Group of the Department for Culture, Media and Sport, March 1998

*"Regular Cinema-going Lifts by nearly 50%"*

Source: *Screen Finance* 19 March 1998

<sup>1</sup> Source: *TV World Prices Guide* 1996-97

<sup>2</sup> Source: *Screen Digest*, August 1997

## *The Film Industry*

While the Directors believe that the novel strategy of Nunhead Films would be successful at any time it is true to say that there could hardly be a better time to launch such an initiative. Recently there has been a spate of successful populist feature films, ranging from *The Full Monty*, *Lock Stock and Two Smoking Barrels*, *Trainspotting* and *Bean*, to *Sense and Sensibility* and *Sliding Doors*. A number of British stars have received worldwide accolades for their performances, which also helps to support the marketability of British films.

### **Cinema**

*"UK films ... have more than quadrupled their share of the domestic market since 1993."*

*Screen Digest* August 1997

*"UK Share of Box office rises by 80%"*

*Screen Finance* 22 January 1998

*Sliding Doors* grossed over \$9 million in the US in its first 6 weeks in release and £11.3 million in the UK in its first 5 weeks.

*Screen International* 5 June 1998

*U.K. Cinema Admissions have more than doubled since 1984.*

*British Film Institute* 1998

UK Cinema Admissions have risen dramatically to over 137 million in 1997, with box office takings of £512 million. British-produced or co-produced films takings more than doubled between 1996 and 1997, to over £117 million<sup>1</sup>.

UK films box office takings in the US rose from \$33 million in 1995 to \$88 million in 1996, while UK films box office takings in Western Europe rose from \$228.6 million to \$282.6 million in the same 12 month period<sup>2</sup>.

*"In 1997, cinema attendances were at their highest since 1974, and British Films earned more than twice as much at the box office as in 1996. there are 1,000 more screens in the UK than ten years ago and further investment is planned."*

Source: *A Bigger Picture*, The report of the Film Policy Review Group of the Department for Culture, Media and Sport, March 1998

Recent release *Lock, Stock and Two Smoking Barrels* (cost £1 million) grossed £3 million in its first ten days of theatrical release in the UK<sup>3</sup>.

<sup>1</sup> Source: *A Bigger Picture*, The report of the Film Policy Review Group of the Department for Culture, Media and Sport, March 1998

<sup>2</sup> Source: *Screen Digest*, August 1997

<sup>3</sup> Source: *Screen International*, 19 September 1998

## Television Sales

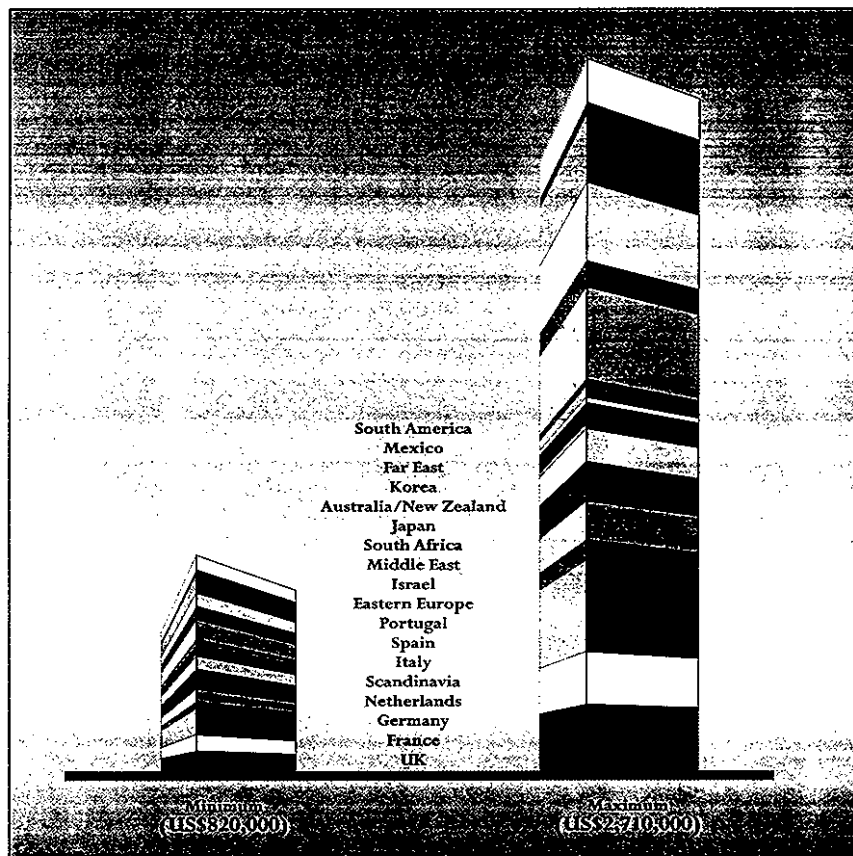
*"Total UK consumer spend on feature films through all media went up by 29% between 1995 and 1996."*

Source: *A Bigger Picture*, The report of the Film Policy Review Group of the Department for Culture, Media and Sport, March 1998

Every year the rights to broadcast films for a limited period are sold to TV companies throughout the world at the MIFED Market, held in Milan. The following chart shows estimated revenues for the world, excluding America, for typical films made for budgets between US\$1 million and US\$3 million.

Revenues for USA TV sales can equal the total for the rest of the world. From this it can be seen that TV sales alone can recoup the cost of a film.

### Estimated License Fees for selected non-US territories for films during the MIFED Market, Milan 1997. (Budgets US\$1m to \$3m)



Source: *Hollywood Reporter*

Note: These figures include television rights excluding the USA, sales to which can be as much as all other territories combined. These are typical figures; a successful film can earn a great deal more.

## *The Film Industry* (continued)

### **Video**

Video markets are a healthy source of income, especially for genre films. Video Retail rentals and sales are on the up<sup>1</sup>. While a consumer may purchase a video for, say £5 to £15, a rental store such as Blockbuster pays far more for each tape to compensate for the number of people who will rent the film. Popular films sell many copies to each video store. Films, which, like Nunhead's films, are readily classifiable, such as thrillers, horror, science fiction and comedy, are easy to find on the shelves and are greatly in demand.

The UK has the highest number of video sales per household in Western Europe<sup>2</sup>, where the amount earned by UK distributors rose from \$266 million in 1996 to \$324 million in 1997<sup>3</sup>. Home ownership of multimedia equipment including video recorders is undergoing record growth in Europe, especially France, Germany and the UK.

*The UK video Retail Market has expanded from £55 million in 1986 to £803 million in 1996.*  
Source: British Film Institute Film and Television Handbook 1998

*"Video Retail Rockets in First Quarter"*  
Source: Screen Finance 14 May 1998

*"The Full Monty has shifted a staggering 668,000 units on its first full day on sell-through [video] release in the UK"*  
Source: Screen International 6 March 1998

### **Pay-TV**

Newer markets such as pay-TV are still underdeveloped in many territories, but set to expand greatly in the next five years. Recent research has estimated that Western European pay-TV revenue in 1995 of £4.3 billion is expected to grow to £8.1 billion by the year 1999. Along with this, an explosion of new digital channels (200 in the UK alone) will bring with it a voracious demand for product.

*Last year (1997) UK cable and satellite subscribers spent £907 million on premium film pay-television services, nearly twice as much as cinema-goers spent watching films in the cinema.*  
Source: Screen Finance, 5 March 1998

### **European PayTV Growth**

Year	Penetration (%)	Subscribers (millions)	Revenue (£ billions)
1995	10.10	14.00	4.30
1996	11.60	16.20	5.10
1997	13.10	18.50	6.00
1998	14.70	20.90	7.00
1999	16.40	23.40	8.10

Source: Screen Digest/Lehman Brothers

*"It has been predicted that by 2003, revenues from all pay services will increase at a phenomenal rate by over 180% from 1993 figures."*

Source: Film 2000, An insight into the future of the UK film industry, Casson Beckman, 1996

<sup>1</sup> Screen Digest, September 1997    <sup>2</sup> Screen Digest, July 1996    <sup>3</sup> Screen Digest, June 1998

*Additional  
Shareholder  
Benefits during  
the EIS Period  
Include:*

- ◆ An invitation for yourself (or a nominated substitute) to be an extra in the films - subject to scheduling and logistics.
- ◆ An invitation for you and a guest to a reception at a pre-release screening of each film.\*
- ◆ An opportunity for you (or your nominated substitute) to visit the set of a film in progress.
- ◆ A special VHS copy of each feature film with your name on the credits.\*
- ◆ A copy of the script of each film.\*

*\* NB We will arrange third party sponsorship of these benefits, so as not to prejudice EIS relief, and also in the interests of channelling as much of Investors' money as possible into film production.*



Nunhead



## PART III

### *Risk Factors*

*The principal risk factors perceived by the Directors to be relevant are:*

- I The normal commercial risks involved with any investment (including total loss).
- II. The aims, strategies, targets plans, intentions and projections referred to in this prospectus are based upon assumptions which the Directors consider reasonable but any projections do not constitute forecasts and are subject to variation. Future profitability and performance is not guaranteed. Investment in the Company is speculative.
- III Changes in government or government policy could affect the return of Investors' investments.
- IV. Neither the Company, the Directors nor the Company's advisers gives any warranties or undertakings that EIS Reliefs will be available or that if given such relief will not be withdrawn.
- V The Company may utilise borrowings or enter into Joint Venture/Co-Financing deals to obtain the optimum return on a particular film. In consequence any increase in interest rates may adversely affect the profitability of that particular film but this would obviously be taken into account by the Directors in any costings. The Company may incur the cost of developing films which may not go into production. Budgets may be exceeded. A film might not be completed. Sales predicted for a given film may not materialise or reach anticipated levels.
- VI Shares in the Company are designed to be retained over a period of at least five years if the EIS reliefs are not to be withdrawn. Accordingly investment in the Issue may not be suitable as a medium or short-term investment.
- VII Subscriptions to the Issue are not covered by the Investors' Compensation Scheme as presently established by the Securities and Investments Board.
- VIII Prospective Investors are also reminded that:-
  - (i) investment in unquoted shares and stock carries higher risks than investment in quoted shares or stock and an investment in unquoted shares or stock may be difficult to realise. Proper information for determining their current value may not be available.
  - (ii) the value of shares or stock may go down as well as up.
  - (iii) the investment offered in this document may not be suitable for all recipients and Investors are accordingly advised to consult a person authorised under the Financial Services Act 1986 who specialises in advising on the acquisition of shares and other securities.

## **PART IV**

### ***Financial Information***

#### **Use of Proceeds**

The Directors intend to use the monies received from the offer to make films at the rate of about one a year. Where these are available, and when financially advantageous, the Company's funds will be supplemented with finance from other sources.

#### **Revenue**

A film will typically be shown in the Cinema, be distributed on video, then be shown on satellite and cable eventually ending up on terrestrial television. This process can be repeated for different countries and territories around the World. A typical film will have a revenue stream lasting many years. Filmed entertainment is sold into a global market with many outlets and insatiable demand.

Often the TV viewer does not pay to see the film. The broadcaster pays for the right to show the film. In the case of a commercial TV station, they pass on the cost to their advertisers. (This is a bit like Pop Music on the radio. Listeners listen for free rather than buy. The Radio Station pays for the right to broadcast the music.)

Films can go on making money for years to come. How many times at Christmas have you noticed old films being dished up on TV? Every time they are shown, someone somewhere is making money. The so called 'back catalogue' of Films made by a company is a valuable asset.

#### **Our Philosophy**

Typical Film Offerings are so organised that rights to the Films revert to the Promoters after the EIS Period. In our case Nunhead will retain these rights.

Nunhead intends to make films for many years to come and to exploit the rights to the films long term, building up a back catalogue, for the long term benefit of the Company and its Investors.

#### **Directors' & Staff Incentives**

The major objective is to maximise the capital value of the Company for the benefit of the Shareholders. The Directors consider that it is in the interests of the Company that suitable incentives be provided to staff. Accordingly, key staff will be granted share options.

The Directors themselves will not receive huge up front salaries and will receive no substantial funds from the Company unless the films make profits. As explained in the small print, the joint Managing Directors will each receive 10% of the profits of individual films.

#### **What happens if we just get the minimum?**

If only the minimum were to be raised, the company will finance the films in the usual industry manner to achieve their budgets by using one or a combination of additional sources of finance. These may include co-production finance (whereby another production company provides finance in return for certain distribution rights and/or profit participation), pre-sales (where a distributor pays for certain rights in advance of production), grants (including incentives for regional growth), quasi-government funding (such as British Screen and the National Lottery which provide soft loans), deficit financing (where a company provides the last part of the required financing based on sales estimates), insurance policies (where a policy is taken out against future earnings) and deferrals (where cast or crew agree to defer their wages until the film achieves some income).

#### **Dividend Policy**

The Directors believe that the best return for Investors which takes full advantage of EIS tax incentives will be achieved from the growth of the capital value of their investment, by building a profitable company and by seeking a quote for its shares.

The Directors therefore do not propose to recommend the payment of any dividends during the first year following the issue of shares or in the short term.

However, once profitability has been achieved, the Company will pursue a progressive dividend policy.

#### **Exit Route**

The Directors will seek a quote for the Company's shares at the end of the EIS period or alternatively arrange an appropriate exit route for Investors.

**Nunhead**

## PART V

### Summary of EIS Tax Relief

Set out below are summaries of the main provisions of the Enterprise Investment Scheme, so far as is relevant to the Company and investors, as set out in the Income and Corporation Taxes Act

1988 (as amended). It does not set out the provisions in full and potential investors are strongly advised to seek independent professional advice as to which reliefs to claim.

#### How much tax can I save/defer when I invest?

Investor Claiming EIS Income Tax Relief		Investor Claiming EIS CGT Deferral <sup>1</sup>		Investor Claiming Both EIS Income Tax & CGT Deferral <sup>1</sup>	
Amount Invested	£1,000	Amount Invested	£1,000	Amount Invested	£1,000
Tax Relief	-200	Tax Relief	-400	Tax Relief	-600
Net Cost to You	£800	Net Cost to You	£600	Net Cost to You	£400

#### The Rules

Eligible investors (in this section called "you" or "I" or "Investor") should be able to benefit from various EIS Tax Reliefs as follows:-

Type of Relief	Maximum Rate	Maximum tax you can save this year	Maximum annual investment eligible for relief
EIS Income Tax Relief	20%	£30,000 (single person) £60,000 (couple)	£150,000 (single person) £300,000 (couple)
EIS Capital Gains Tax Deferral	40%	No Upper Limit	There is now no maximum to the amount of CGT that can be deferred

**Eligible Investors may be able to combine the above reliefs so as to achieve reliefs of 60p in the £1.**

What happens if I sell my shares after 5 Years at a profit?

You don't pay any tax at all on any profit made out of your Nunhead Film plc shares (EIS Capital Gains Tax Exemption).

What happens if I lose some or all of my money?

EIS Loss Relief effectively limits your downside to 48% of your original investment (at current rates).

<sup>1</sup>Capital Gains Tax Reinvestment Relief has been abolished.

However, you can now defer CGT tax bills by investing in a qualifying EIS scheme.

## *Tax Relief in more detail*

### **EIS Tax Relief**

Income tax relief, CGT deferral relief, CGT exemption relief and loss relief may all be available to investors under the EIS legislation. EIS tax relief can only be claimed by a qualifying individual who subscribes for new eligible shares issued by a qualifying company.

#### **(i) Income tax relief**

Qualifying individuals may deduct an amount equal to tax at the lower rate on the amounts subscribed for qualifying shares in qualifying companies from their total liability to income tax for the tax year in which the shares are issued. For the tax year 1998/99 the relief is obtained at a rate of up to 20 per cent. (Maximum investment £150,000 (£300,000 a couple). It does not matter whether the individual is UK resident for tax purposes but relief is only available where an investor has a UK income tax liability. The amount of income tax relief cannot exceed an individual's tax liability before other reliefs given by way of discharge of tax. Relief is normally given in the tax year in which you invest.

#### **(ii) Capital gains tax deferral**

The 1998 Spring Budget abolished Re-investment Relief which enable investors to defer gains by reinvesting in qualifying investments.

Fortunately, however this has been replaced by EIS Capital Gains Tax Deferral

#### **(iii) CGT exemption**

To the extent EIS tax relief is given and not withdrawn, any capital gain accruing to an individual on the first disposal of the shares issued five or more years after the date of issue is not chargeable to CGT.

#### **(iv) Loss relief**

Where a loss is incurred by an investor on the first disposal of his shares the loss calculated after deducting EIS tax relief from the cost of the investment may be set against either chargeable gains or taxable income at the election of the investor, thereby obtaining relief at the marginal rate of tax applicable in the year the loss is realised. At current rates, the operation of this relief limits the downside to 48% of the cost of your original investment.

### **Individuals Qualifying for Relief**

Subject to certain exemptions an individual must not be, nor have been within the previous two years, connected with the Company, or become connected with it within the next five years, if he is to retain the tax reliefs. The main rules relating to connection are that:-

- (i) neither the individual nor his associates may be an employee, partner or paid Director of the Company (subject to (iii) below) or its subsidiaries. An unpaid Director is not disqualified if he is reimbursed travelling or subsistence expenses which would otherwise be allowable for taxation;
- (ii) neither the individual nor his associates may control the Company or possess more than 30 per cent of the issued ordinary share or loan capital or voting powers in the Company or rights carrying entitlements to 30 per cent of the assets available for distribution to equity holders;
- (iii) an individual may become a paid Director of the Company provided at the time he subscribes for eligible shares he was not, and had not previously been, otherwise connected with the Company nor with the trade carried on by the Company. Any remuneration paid to a Director must be reasonable.

## *Tax Relief in more detail - continued*

### **Claims**

Investors claim income tax relief by submitting a tax relief certificate (Form EIS 3) issued to them by the Company to the Inspector of Taxes dealing with their own tax affairs. The claim for relief must be made no later than 5 years after the 31 January following the end of the tax year in which the shares are issued.

### **Limits of Relief (1998/99)**

An individual can invest up to a total of £150,000 (a couple, £300,000) in the current Tax Year.

### **Qualification of the Company**

For a period of three years, following the issue of the shares, the Company must only:-

- (i) carry on a qualifying trade; and/or
- (ii) the parent company of a group which exists wholly, or substantially wholly for the purposes of carrying on qualifying trades.

### **Withdrawal of Relief**

If the conditions for the tax relief relating to a company cease to be satisfied during the period of three years from the issue of the shares, the relief will be withdrawn. Relief will also be wholly or partly withdrawn if, for example, the claimant receives value from the company (other than dividends) or disposes of the shares within five years of the date of issue. Relief will also be lost if an investor takes out a loan under special terms connected in any way with the shares.

### **How to claim reliefs**

Following the issue of the Ordinary Shares, the Company must apply to the Inland Revenue for authorisation to issue tax relief certificates (Form EIS 3) to investors. It cannot apply for authorisation until after the Company has been trading for four months. Although the time taken by the Inland Revenue to grant authorisation cannot be controlled by the Company every effort will be made by the Directors to expedite matters and, as soon as authorisation is given, Form EIS 3 will be distributed to investors. Investors should then submit the Forms EIS 3 to the Inspector of Taxes dealing with their own affairs.

If you have to fill a tax return before you have been sent your Form EIS 3, you or your advisors should complete the return to show that you have made a qualifying investment and claim the appropriate relief. You or they should state on the return that the Form EIS 3 will be forwarded when to hand. Do not on any account delay the submission of your tax return.

# PART VI

## *How to apply for shares*

### **1. Terms of the Offer**

The Company is offering up to 3,000,000 New Ordinary Shares at £1.00 per share payable in full on application.

Applications must be for a minimum of £500 for 500 New Ordinary Shares or a greater number.

### **2 Application and Payment**

The Application Form contains full details regarding application and payment.

Applicants must lodge the Application Form, together with full payment for the shares, with the Company's Registrars prior to 5.00pm on 14th December 1998. Applicants should note that the Directors may close the Offer immediately it is fully subscribed. The Directors may extend the closing date of the Offer.

All payments must be made by cheque or banker's draft in pounds sterling drawn on a bank or building society in the United Kingdom, which is either a settlement member of the Cheque and Credit Clearing Company Limited, or the CHAPS and Town Clearing Company Limited or a member of the Scottish or Belfast Clearing Houses, or which has arranged for its cheques and banker's drafts to be cleared through the facilities provided by those companies or committees. All such cheques or banker's drafts must bear the appropriate sort code in the top right hand corner.

Cheques or banker's drafts should be made payable to "Nunhead Films plc" and crossed "Not negotiable - A/C Payee Only". It is a term of the Offer that all cheques, which are liable to be presented on receipt, will be honoured on first presentation. The Company reserves the right to seek special clearance of cheques.

The Company intends to bank all cheques and banker's drafts received with Application Forms and allotments will only be made after the Offer closes. Application money will be held in a separate account in the name of the Company pending allotment or return if the application is unsuccessful. If an application is unsuccessful in whole or in part interest will be paid at the rate payable on deposits of an equivalent amount by the bankers of the Company on the return of any

funds where these exceed a cleared balance of £1,000 held for 7 days or more.

If the Offer is oversubscribed the Directors can exercise their discretion either to scale down applications or, pursuant to their general power to allot shares under the articles of association, to accept applications and allot shares accordingly.

It is expected that certificates will be despatched to successful applicants on or before a date which is within twenty eight days of the closing of the offer. In each case posting will be at the risk of the person entitled to them. If the Minimum Subscription is not achieved, applications will be returned.

### **3. Money Laundering Regulations**

It is a term of the Offer that, to ensure compliance with the Money Laundering Regulations 1993, the Directors may in their absolute discretion require verification of identity from any person lodging an Application Form ("applicant") including, without limitation, any applicant who (i) tenders payment by way of transfer cheque or banker's draft drawn on someone else's account or (ii) appears to the Directors to be acting on behalf of some other person. In either case, verification of the identity of any person on whose behalf the applicant appears to be acting may be required. Pending the provision of evidence as to identity, satisfactory to the Directors, Application Forms stamped "paid" with the receipt at the foot duly completed and definitive certificates in respect of the relevant New Ordinary Shares may be retained at the absolute discretion of the Directors. If within a reasonable period of time following a request for verification of identity, the Directors have not received evidence satisfactory to them as described, they may, in their absolute discretion, terminate the contract to subscribe, in which event the money payable on application will be returned without interest to the account at the paying bank from whence the funds originally came.

The application form is on page 33

Nunhead



BDO Stoy Hayward  
Chartered Accountants

Willoughby House 439 Richmond Road  
Nr Richmond Bridge Middlesex TW1 2HA  
Telephone +44 (0)181 744 2300  
Facsimile +44 (0)181 607 9100  
Web Site www.bdo.co.uk

**Private and Confidential**

4th November 1998

The Directors  
Nunhead Films plc  
42-46 High Street  
Esher  
Surrey  
KT10 9QY

Dear Sirs

**Nunhead Films plc ("The Company")**

We report on the financial information set out below. This information has been prepared for inclusion in this prospectus dated 4th November 1998.

**Basis of preparation**

The financial information set out below has been prepared by the Directors of the Company ("the Directors") for the purpose of this document and covers the period from incorporation to 22nd October 1998.

**Responsibility**

The financial information in this report is the responsibility of the Directors and has been approved by them.

The Directors are responsible for the contents of this document dated 4th November 1998 in which this report is included.

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

**Basis of opinion**

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

We planned and performed our work so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give

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l:\msoffice\cressy\wan00086.doc  
BDO Stoy Hayward - South East Firm  
Offices in London, Bromley, Chelmsford,  
Epsom, Reading, Richmond, Ware and Wembley  
BDO Stoy Hayward firms also in Ayr, Baccup, Basingstoke, Belfast, Birmingham,  
Blackpool, Bristol, Bury St Edmunds, Cardiff, Glasgow, Guildford, Ipswich, Liverpool,  
Manchester, Motherwell, Newmarket, Norwich, Nottingham, Peterborough, Poole,  
Preston, Rochdale, Saltcoats, Sheffield, Stranraer and Wolverhampton

A list of partners' names is open to inspection at  
the above address.  
Authorised by the Institute of Chartered Accountants  
in England and Wales to carry on investment business



FS 22857

## PART VII

### The 'Small Print'

### Statutory and General Information

**1 The Company and its Share Capital**

- 1.1 The Company was incorporated in England and Wales under the Act with the name "Nunhead Films Plc" as a public limited company with registration number 3546801 on the 16<sup>th</sup> April 1998. On incorporation the share capital of the Company was £1,000,000 divided into 10,000,000 shares of 10p each of which 2 shares were issued nil paid to the subscribers to the Memorandum of Association of the Company.
- 1.2 On 20<sup>th</sup> October 1998, the company in general meeting passed Resolutions subdividing its capital from 10p shares into 1p shares of which there were then 20 in issue. On the same date 3,019,981 of 1p were issued fully paid for cash.
- 1.3 The Company has not yet received a certificate of entitlement to commence business from the Registrar of Companies under section 117 of the Companies Act 1985 but will apply for such certificate if the Minimum amount is raised.

- 1.4 The Directors are authorised for the purposes of section 80 of the Act to allot relevant securities (as defined in that section) up to the maximum of the authorised but unissued share capital, such authority to expire on the 5<sup>th</sup> Anniversary of the date of the Resolution.
- 1.5 The Directors are authorised pursuant to section 95 of the Act to allot equity securities (as defined in section 94(2) of the Act) as if section 89(1) of the Act did not apply to such allotment. The power is limited to:-
  - 1.5.1 the allotment of equity securities in connection with the offer contained in this Prospectus (or any other Prospectus or any other prospectus complying with the Public Offers of Securities Regulations 1995 or any amendment or re-enactment thereof)
  - 1.5.2 the allotment of equity securities in connection with any invitation made concurrently to the holders of ordinary shares to subscribe by way of rights in the

reasonable assurance that the financial information is free from material misstatement whether caused by fraud or other irregularity or error.

**Opinion**

In our opinion, the financial information gives, for the purposes of this document dated 4th November 1998, a true and fair view of the state of affairs of the Company as at 22nd October 1998.

**Balance sheet as at 22nd October 1998**

	Note	£
<b>Current Assets</b>		
Cash at bank and in hand		30,200
<b>Capital and reserves</b>		
Called up share capital	3	30,200

**Notes to the financial information****1 Accounting policies**

The financial information has been prepared under the historical cost convention and in accordance with applicable accounting standards.

**2 Trading activity**

The Company did not trade in the period from incorporation on 16 April 1998 to 22nd October 1998 nor did it receive any income, incur any expenses or pay any dividends. Consequently, no profit and loss account has been prepared. The Company has entered into the conditional contracts referred to elsewhere in this document.

**3 Share Capital**

The Company was incorporated on 16 April 1998 with company number 3546801. The Company has issued 3,020,001 shares of 1p, fully paid for cash.

Yours faithfully

BDO Stoy Hayward  
Chartered Accountants and Registered Auditors

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2

same proportions (as nearly as may be) for further shares;

1.5.3 the allotment of equity securities for the purpose of any option, incentive or profit share scheme (whether or not an employee share scheme as defined in the Act) being a scheme approved by shareholders in general meeting

1.5.4 the allotment (otherwise than pursuant to paragraphs 1.4.1 to 1.4.4 above) of equity securities up to an aggregate nominal amount laid down from time to time by the Company by special resolution, such power to expire at the first annual general meeting of the Company.

1.6 The authorised and issued fully paid Share Capital of the Company as it is and will be following completion of the Offer (assuming maximum subscription of 3,000,000 new shares) is as follows:

Authorised Ordinary Shares	Issued Ordinary Shares
	Current Full Subscription
100,000,000	3,020,001 6,020,001

1.7 The Company is not a member of a group of companies.

1.8 No shares have been issued or agreed to be issued as fully or partly paid up otherwise than in cash.

1.9 Save as disclosed in the Prospectus there is no present intention to issue any further shares in the capital of the Company.

1.10 The accounting reference date of the Company is 31 October and its first audited accounts will be produced for the financial year ending 31 October 1999.

**2 Directors Interests**

2.1 The interests, all of which are beneficial, of the Directors (and persons connected with them, within the meaning of Section 346 of the Act) in the Ordinary Share Capital of the Company which have been notified to the Company pursuant to Sections 324 and 328 of the Act and which are recorded in the Company's register of directors' interests maintained under Section 325 of the Act at the date of this Prospectus are as follows:

Name	Ordinary Shares	Percentage of Current Issued Share Capital
C A Lemon	900,001	30%
J K Stewart	900,000	30%
H F Rushton	300,000	10%

continued on next page

Nunhead



- 2.2 On the 20th October 1998, the Company adopted a share option scheme under which up to 20% of the enlarged share capital may be offered to staff for subscription pursuant to the scheme. There are no outstanding loans granted by the Company to any of the Directors nor are there any guarantees provided by the Company for their benefit.
- 2.3 Save as disclosed herein no contract or arrangement subsists at the date hereof in which a Director is directly or indirectly materially interested and which is significant in relation to the business of the Company.
- 2.4 There are no service contracts in existence at present. Carol Lemon and John Stewart will each draw salaries of £24,000 per annum for the first year. Mr Rushton will not draw a salary in the first year. In the current financial year the estimated aggregate remuneration including benefits in kind to be paid under the arrangements in force at the date of this document will be approximately £48,000.
- 2.5 Other shares are held as follows:-
- |                |                            |
|----------------|----------------------------|
| 10,000 shares  | D Venus & D Armour         |
| 10,000 shares  | A G Bentley                |
| 900,000 shares | SLC Corporate Services Ltd |
- 2.6 Save as herein disclosed insofar as is known to the Company as at 20th October 1998 (the latest practicable date prior to printing of this document) there were no other persons directly or indirectly jointly or severally able to exercise control over the Company.

### 3 Litigation

There are no legal or arbitration proceedings active pending or threatened against or being brought by the Company which are having or may have a significant effect on the Company's financial position.

### 4 Proceeds of the Offer

4.1 The Minimum Amount which in the opinion of the Directors must be raised pursuant to the Offer in order to provide the sums required to be provided pursuant to paragraph 21 of schedule 1 of the Regulations is as follows:-

4.1.1 the purchase price of property	NIL
4.1.2 preliminary expenses (to achieve the Minimum only)	33,000
4.1.3 repayment of borrowings	NIL
4.1.4 working capital	467,000
	<u>£ 500,000</u>

4.2 The total proceeds which are expected to be raised by the Offer assuming full subscription for all the 3,000,000 Shares now offered is £3,000,000 and on this basis the expected net proceeds after deduction of preliminary expenses is estimated at £2,912,000 (full subscription) as preliminary expenses of marketing the issue (including printing & postage) will be increased in line with the marketing effort required to achieve full subscription. As disclosed in this prospectus, commissions may be paid to authorised intermediaries.

### 5 Memorandum and Articles of Association

5.1 The Memorandum of Association of the Company provides that the objects for which the Company is established are operation as a general commercial company. Accordingly by virtue of section 3A of the Companies Act the Company's objects are to carry on any trade or business which it desires and the Company has power to do all such things as may be incidental or conducive to any trade or business it carries on.

5.2 The liability of members is limited.

5.3 The Articles of Association of the Company contain inter alia provisions to the following effect:-

- (a) **Dividends**:- the Company in General Meeting may declare dividends out of profits but these shall not exceed the amount recommended by the board. [Article 115]
- (b) **Capital**:- On a return of assets on liquidation or otherwise the assets of the Company remaining after payment of its debts and liabilities shall (in the absence of some contrary resolution in any liquidation) be distributed among the members pro rata by reference to the amount paid up on the shares held by them.

(c) **Voting**

(i) **Voting rights of members**

Subject to the provisions of the Act and to any rights or restrictions as to voting attached to any class of shares, at any general meeting on a show of hands every member who (being an individual) is present in person or (being a corporation) is present by a duly authorised representative has one vote, and on a poll every member present in person or by proxy or (being a corporation) by a duly authorised representative has one vote for every share of which he is the holder. [Article 66 et seq]

(ii) The articles contain provisions which remove the right to receive dividends, transfer shares or attend meetings from persons who fail to comply with a notice under section 212 of the Act.

(d) **Transfer of Shares**: Subject to disenfranchisement in default of supplying information required under a notice under section 212 of the Act the Articles contain no restrictions on the free transferability of fully paid shares save that the Directors may in their absolute discretion refuse to register a transfer of any share which is not fully paid or any share on which the Company has a lien (article 38)

(e) **Variation of Rights**

Subject to the provisions of the Act and of the Articles, the special rights attached to any class of the shares in the Company may be varied or abrogated either with the consent in writing of the holders of not less than three quarters in nominal value of the issued shares of the class or with the sanction of an extraordinary resolution passed at a separate general meeting of the holders of the shares of the class (but not otherwise) and may be so varied or abrogated whilst the Company is a going concern or while the Company is or is about to be in liquidation. The quorum for such separate general meeting of the holders of the shares of the class shall be at least two persons holding or representing by proxy at least one-third in nominal value of the issued shares of the relevant class. [Article 6]

(f) **Directors**:

The number of Directors shall not be less than two and Director shall not be required to hold any qualification shares. (Article 77 and 78)

(g) **Borrowing Power**: The Board may exercise without limit all the powers of the Company to borrow money and to mortgage or charge all or any part of its undertaking, property, assets (present or future) and uncalled capital and, subject to the provisions of the Act, to issue debentures and other securities whether outright or as collateral security for any debt, liability or obligation of the Company or any third party [Article 111]

(h) **Purchase of Own Shares**

Subject to the provisions of the Act, the Company may purchase its own shares, whether or not redeemable. [Article 10]

### 6 Subsidiaries

The Company has no Subsidiaries. In accordance with standard industry practice, the Company will form in the UK a wholly owned Subsidiary for each film made ("the Subsidiaries"). The Memorandum of each will provide that the object for which the Subsidiary has been formed is operation as a general commercial company.

The Subsidiaries will be formed for the purpose of producing (inter alia) the 6 films referred to in the Prospectus ("the Works") and to take advantage of any available money from grant giving bodies that give grants to filmmakers. The subsidiaries will act as production Companies in the usual fashion. The Copyright and other rights in each finished film will wholly vest in Nunhead and not in the Subsidiary.

### 7 Intellectual Property Rights & Material Contracts

7.1 The Company has been formed to exploit the intellectual property rights in the Works and/or such other and/or additional films as the Directors shall decide.

7.2 Without prejudice to the generality of the expression, intellectual property rights includes Airline Right, Broadcasting Rights, Cable Rights, Legitimate Stage Rights, Motion Picture & all Allied Rights, Optical Rights, Pay Television Rights, Publication Rights, Radio Right, Satellite Television Rights, Theatrical Exhibition Rights and Video on Demand Right ("the Rights")

7.3 On 1st October 1998, John Stewart entered 6 five-yearly (extendable) Literary Property Option Agreements in favour of the Company. Each agreement gives the Company the right to call for an assignment of the use of Rights in the Works. Each Assignment has already been executed by Mr Stewart in escrow. The Assignment provides for 5% of the net profits of each film to be paid to Mr Stewart or at his direction.

7.4 In accordance with standard industry practice, it is proposed that the following contracts will be entered to:-

- (a) a Director's Agreement with John Stewart under which he will agree to direct the relevant film and will agree to assign to Nunhead (or relevant subsidiary) the use of such copyright/droits d'auteur or such other rights as might accrue to him as a Joint Author of the finished film. The assignment contained in such agreement provides for 5% of the net profits of each film to be paid to Mr Stewart or as he directs.
- (b) a Producers' Agreement with Carol Lemon under which she will agree to produce the relevant film and will agree to assign to Nunhead (or relevant subsidiary) the use of such copyright/droits d'auteur or such other rights as might accrue to her as a Joint Author of the finished film. These agreements will provide for payment of remuneration at less than 50% of the then current recommended minimum rates by the Guilds of Writers and Directors of Great Britain and PACT/BECTU (the part remaining unpaid to be deferred until the film has achieved profitability). The assignment contained in such agreement provides for 10% of the net profits of each film to be paid to Ms Lemon or as she directs.

7.5 Save as otherwise disclosed in this Prospectus, the Company is not dependent on any patent or other intellectual property rights, licence or contract.

### 8 Taxation

Dividends paid by United Kingdom resident companies currently carry a tax credit equivalent to one quarter of the amount of dividends paid. A UK resident corporate shareholder will not normally be liable for UK corporation tax on any dividend received and will be entitled to offset the related tax credit on that dividend against ACT due on the qualifying distributions. UK resident corporate shareholders cannot claim payment of tax credits on dividends received. Tax credits on dividends paid are available to individual taxpayers who are UK resident as a credit against their income tax liabilities but additional tax liabilities may be payable on such income. Currently non-tax paying individual shareholders are entitled to a repayment of the tax credit. However, with effect from 6 April 1999, tax credits on dividends will no longer be payable to non-tax paying shareholders.

The above statements are intended as a general guide to current UK Law and Statute. Any person who is in any doubt as to their particular position should contact their professional advisers.

These incentives should be read in conjunction with the Risk Factors as laid out on page 24.

Please note the incentives are only available if the relevant EIS conditions for both the individual and the Company are met.

*The above comments are intended as a general guide to the position under current law and practice in the UK and may not apply to certain classes of shareholders. Any person who is in doubt as to his tax position or who is subject to tax in a jurisdiction other than the UK should consult his own professional adviser.*

### 9 General

9.1 Save as disclosed in this Prospectus, no amount or benefit has been paid or given or is intended to be paid or given to any promoter. Save as disclosed in this Prospectus, no commissions, discounts, brokerages or other special terms have been granted in connection with the issue or sale of any shares, and no such commissions are payable by the Company to any person in consideration of his agreeing to subscribe for securities to which the Prospectus relates or his agreeing to subscriptions for such securities.

9.2 The financial information in this document does not amount to statutory accounts within the meaning of section 240 of the Act.

9.3 It is anticipated that in the current financial year the company will incur expenditure and that no trading income will arise.

9.4 The Company has not independently verified statements from third parties included in this Prospectus.

### 10 No convictions liquidations etc

No director has:

- 10.1 Any convictions
- 10.2 Had a bankruptcy order made against him
- 10.3 Been a director of a Company which has been placed in receivership or liquidation whilst he was a director of it or in the 12 months after he ceased to be a director of it;
- 10.4 Been publicly criticised by any statutory or regulatory authority; or
- 10.5 Been disqualified from acting as a director

### 11 Consent

Messrs BDO Stoy Hayward, Chartered Accountants, have given and have not withdrawn their consent to the issue of this Prospectus with the inclusion herein of its report and to its name in the form and context in which they appear.

### 12 Documents for inspection

Copies of the following documents may be inspected at the offices of the Company's Registrars at Escher during normal business hours from the date of issue of this document up to the date on which the Offer is closed:-

- (a) the Memorandum and Articles of Association of the Company
- (b) the Accountants' report reproduced herein.
- (c) the consent letter referred to in paragraph 11 above

4th November 1998

# PART VIII

## Application

### ISSUE OF UPTO 3,000,000 SHARES AT £1 PER SHARE PAYABLE IN FULL ON APPLICATION

- 1 In the box below, state number of shares you want and write out a cheque for the appropriate amount made payable to Nunhead Films Plc and crossed Subscription Account:-

Number of Shares	Amount of Cheque Enclosed

*(min £500 - max £150,000)*

- 2 Give your personal details requested below and sign.
- 3 Send the completed application form together with your cheque to Nunhead Films plc Offer SLC Registrars Limited 42-46 High Street Esher Surrey KT10 9QY to arrive not later than 5pm on 14th December 1998.

To: The Directors I/We offer to subscribe for the number of shares stated above, subject to the memorandum and articles of association of the Company. I/We enclose payment/ for the above mentioned sum, being the amount payable in full on application for the stated number of shares. I/We request that you send me/us a share certificate by post at my/our risk to the address given below for the number of Shares in respect of which this application may be accepted. I/We understand that the completion and delivery of this application form accompanied by a cheque constitute an undertaking that the cheque will be honoured on first presentation and on acceptance of the other terms and procedure for application set out in the Prospectus dated 4th November 1998 ("Prospectus"). I/We understand that no application will be accepted unless and until payment in full for the shares has been made. I/We agree to accept a lower number of shares should the Offer be oversubscribed and the Directors exercise their discretion to scale down applications.

Your Personal Details	Please Print in Ink
Mr / Mrs / Miss / Ms / Dr / etc	
Full Name	
Address	
	Post Code
Day Time Phone No	

I/We declare that I/we am/are over 18 and resident in the United Kingdom.

Please (✓) tick if you want to take advantage of any of these Shareholder Benefits

An invitation for you (and your Guest) to attend a Reception and a special pre-release screening of each film *	<input type="checkbox"/>
AVHS video copy of each feature film with your name in the credits *	<input type="checkbox"/>
An opportunity to appear in the films as an extra	<input type="checkbox"/>
A visit to a film shoot	<input type="checkbox"/>
A copy of the final script of each film. *	<input type="checkbox"/>

\* We shall arrange third party sponsorship of these items so as not to prejudice EIS relief

BROKERS STAMP  
(IF APPLICABLE)

Nunhead

## TERMS OF APPLICATION

The Offer is only being made to persons resident in the United Kingdom. Where an application appears to be made by a person not so resident, the Directors may request the applicant to prove that he is entitled to apply under the laws of the country in which he is resident and, if they are not satisfied, the application may be rejected by the Directors. This application form should be completed and sent to your cheque to Nunhead Films plc Offer SLC Registrars Limited 42-46 High Street Esher Surrey KT10 9QY to arrive not later than 5 pm on 14th December 1998. The expressions used in this application form have the same meaning as in the Prospectus, unless the context otherwise requires, and applicants are recommended to read the Prospectus before completing this application form.

Each application must be made on the Application Form and be accompanied either by a separate cheque or banker's draft drawn in sterling on a bank or building society in the United Kingdom, which is either a settlement member of the Cheque and Credit Clearing Company Limited or the CHAPS and Town Clearing Company Limited, or a member of the Scottish or Belfast Clearing Houses, or which has arranged for its cheques and banker's drafts to be cleared through the facilities provided by those companies or committees and must bear the appropriate sort code in the top right hand corner, for the full amount of the subscription money. These should be forwarded to:-

Nunhead Films plc  
(Share Offer)  
SLC Registrars Limited  
42-46 High Street  
Esher  
Surrey  
KT10 9QY

Applicants are advised to allow two full business days for delivery through the post and to use first class mail. Cheques or drafts must be made payable to Nunhead Films plc and crossed "A/C Payee Only". Cheques will be presented upon receipt. The Company reserves the right to retain share certificates and any surplus money pending clearance of applicant's cheques. Due compliance and delivery of the Application Form accompanied by a cheque will constitute an undertaking that a cheque will be paid on first presentation. Applications will be irrevocable.

If the Offer is oversubscribed the Directors can exercise their discretion either to scale down applications or pursuant to their general power to allot shares under the articles of association, to accept the application and allot shares accordingly. This discretion will be exercised as set out in part VI of the Prospectus.

The right is reserved to reject any application or to accept any application in part only. The right is also reserved to treat as valid any application which does not fully comply with the conditions set out in the Application Form. If any application is not accepted in whole or in part, the amount paid on application will be returned, in each case by cheque sent through the post at the applicant's risk.

Definitive share certificates will be despatched at the risk of the person entitled to them by post to the person in whose name the shares are to be issued.

# PART VIII

## Application

### ISSUE OF UP TO 3,000,000 SHARES AT £1 PER SHARE PAYABLE IN FULL ON APPLICATION

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Number of Shares	Amount of Cheque Enclosed

(min £500 - max £150,000)

- 2 Give your personal details requested below and sign.
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Your Personal Details	Please Print in Ink
Mr / Mrs / Miss / Ms / Dr / etc	
Full Name	
Address	
Post Code	
Day Time Phone No	

I/We declare that I/we am/are over 18 and resident in the United Kingdom.

Please (✓) tick if you want to take advantage of any of these Shareholder Benefits

An invitation for you (and your Guest) to attend a Reception and a special pre-release screening of each film *	<input type="checkbox"/>
AVHS video copy of each of the feature film with your name in the credits *	<input type="checkbox"/>
An opportunity to appear in the films as an extra	<input type="checkbox"/>
A visit to a film shoot	<input type="checkbox"/>
A copy of the final script of each film. *	<input type="checkbox"/>

\* We shall arrange third party sponsorship of these items so as not to prejudice EIS relief

BROKERS STAMP (IF APPLICABLE)
----------------------------------

Nunhead

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(Share Offer)  
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The right is reserved to reject any application or to accept any application in part only. The right is also reserved to treat as valid any application which does not fully comply with the conditions set out in the Application Form. If any application is not accepted in whole or in part, the amount paid on application will be returned, in each case by cheque sent through the post at the applicant's risk.

Definitive share certificates will be despatched at the risk of the person entitled to them by post to the person in whose name the shares are to be issued.

Further copies of this brochure are available free of charge from the  
Company's Registrars (01372 467 308) or from

## **Nunhead Films plc**

Pinewood Studios

Pinewood Road, Iver Heath, Bucks SL0 0NH.

Telephone: 01753 655 800 Facsimile: 01753 655 700

Email: [info@nunheadfilms.com](mailto:info@nunheadfilms.com)

Website: [www.nunheadfilms.com](http://www.nunheadfilms.com)



This letter should be read in conjunction with the enclosed Prospectus. It is not itself an invitation to subscribe for shares.

# Nunhead FILMS PLC

PINEWOOD STUDIOS  
PINEWOOD ROAD, IVER HEATH  
BUCKS SL0 0NH

TEL: 01753 655800

FAX: 01753 655700

Reference 35-8-0110

«ADDRESSEE»  
«ADDRESS1»  
«ADDRESS2»  
«ADDRESS3»  
«ADDRESS4»  
«ADDRESS5»  
«POSTCODE»

9<sup>th</sup> November 1998

«SALUTATION»

Investors are often invited to back a film.

**You might just as well back a horse.** The chances of achieving a worthwhile or any return are pretty small. Typically, the investor kisses his money good-bye.

We do not offer you the chance to invest in a *film* but the chance to invest in a **business**, unique in Britain, which will make money from the Film Industry.

**Please take a few minutes to glance through the enclosed Prospectus so you can see why our approach is radically different from the British approach but the accepted practice in the US which has a large and flourishing Film Industry.**

The Offering has been structured to give you valuable tax reliefs. As an eligible investor, **you** could enjoy the following tax benefits: -

- **EIS Income Tax Relief:** You would pay less Income Tax this Year.
- **EIS Capital Gains Tax Relief:** If you have paid Capital Gains Tax for something you sold in the last three years, you could get a refund (or reduce or eliminate the bill if you have not paid it yet). This also applies if you know you are going to sell something in the next 12 months (Capital Gains Tax Reinvestment Relief has been abolished). The only way you can now defer gains is by investing in a qualifying EIS/VCT issue)
- **The opportunity to realise a totally tax free gain on any profit arising from the sale of these shares.**

Where both reliefs apply (up front income tax relief and capital gains tax deferral), an investor will become entitled to a **total initial tax relief of up to 60 per cent.**

For tax relief, the minimum investment is £500 and the maximum £150,000.  
(£300,000 Couples)

For example, if you invest say £1,000 the net cost to you of the investment could be between £800 and £400 depending on your tax profile.

Furthermore you, as an eligible investor, would not pay one penny of capital gains tax on any profit made on these shares when you sell them at the end of the 5-year EIS period.

Some shareholders like **perks**. So, we have included some.  
You can nominate a recipient if you don't want them (You might consider this as an original Christmas Present for some-one, perhaps a star struck teenager).  
They are listed in the Prospectus.

It is no longer considered unwise to invest in British-made films; *Four Weddings And A Funeral* and *The Full Monty* between them have now grossed over *half a billion dollars* at the box office.

There has never been a better time to invest in the British Film Industry.

While the Directors believe that the novel strategy of Nunhead Films would be successful at any time, it is true to say that there could hardly be a better time to launch such an initiative.

Yours sincerely



**Carol Lemon**

PS To avoid disappointment, send an application today in the envelope provided

(The form is on pages 33/35 of the Prospectus)  
(Couples should send one form each)

If you would like an additional prospectus, please call 01372 467 308