

**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 of this document, 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.

## **OFFER FOR SUBSCRIPTION WITH PRIORITY FOR EXISTING SHAREHOLDERS**

by

### **TEG ENVIRONMENTAL PLC**

*(Incorporated in England and Wales under the Companies Act 1985 Registered Number 3109613)*

*Registered Office: Crescent House, 2-6 Sandy Lane, Leyland, Preston, Lancashire PR25 2EB*

**Offer for Subscription with Priority for Existing Shareholders of up to 1,095,929  
Ordinary Shares of 5 pence each at a price of £1.25 pence per Ordinary Share**

**Share Capital following the Offer for Subscription with Priority for Existing Shareholders  
(assuming full subscription to 1,095,929 Ordinary Shares)**

<i>Authorised</i>		<i>Issued and fully paid</i>	
<i>Number</i>	<i>£</i>	<i>Number</i>	<i>£</i>
100,000,000	5,000,000	7,671,500	383,575.00

**Notice of an Extraordinary General Meeting of the Company to be held in the Selkirk Room at the Caledonian Club, 9 Halkin Street, London SW1X 7DR at 11 a.m. on 9 March 2001 is enclosed in Part V of this document. To be valid, the enclosed Form of Proxy must be completed and returned to Capita IRG Plc, Bourne House, 34 Beckenham Road, Beckenham, Kent BR3 4TU so as to be received no later than 11 a.m. on 7 March 2001.**

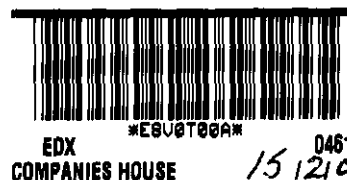
The Offer for Subscription with Priority for Existing Shareholders is being made to Existing Shareholders and Potential Investors. If you have recently sold or transferred all or any shares held by you in TEG Environmental Plc, please send this document and accompanying Form of Proxy and Application Forms at once to the purchaser or transferee or to the stockbroker, bank or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

The Subscription list for the Offer for Subscription with Priority for Existing Shareholders will open at 10.00 a.m. on 15 February 2001 and will close at 5.00 p.m. on 16 March 2001, unless such period is extended by the Directors. If this period is so extended, the Directors may decide to close the Offer at any time thereafter but in any event no later than 27 March 2001. The terms and conditions of the Offer for Subscription with Priority for Existing Shareholders and the procedure for application are set out at the end of this document. The Offer for Subscription with Priority for Existing Shareholders 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 for Subscription with Priority for Existing Shareholders.

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. Existing Shareholders and Potential Investors should consider carefully the risk factors which are set out in Part II of this document.

Dated 15 February 2001



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## DIRECTORS, SECRETARY AND ADVISERS

### Directors

Allen Sykes — *Non-Executive Chairman*  
John Hough — *Non-Executive Deputy Chairman*  
Dick Bilborough — *Managing Director*  
Michael C Cox — *Financial Director*  
Dr Alan Heyworth — *Technical Director*

The business address for each of the Directors is Crescent House,  
2-6 Sandy Lane, Leyland, Preston, Lancashire PR25 2EB

### Secretary and Registered Office

Michael C Cox  
Crescent House  
2-6 Sandy Lane  
Leyland  
Preston  
Lancashire PR25 2EB

### Solicitors to the Company

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

### Auditors and Reporting Accountants

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

### Bankers

HSBC Plc  
140 Leadenhall Street  
London EC3V 4PS

### Registrars

Capita IRG Plc  
Bourne House  
34 Beckenham Road  
Beckenham  
Kent BR3 4TU



A bank of eight Silo-Cages, erected in a custom built barn, on a concrete base, processes 100 tonnes of waste material producing 70 tonnes of organic composted product every week, using the unique TEG Composting System. Silo-Cages can be supplied in banks of up to 20 Silo-Cages processing c. 350 cubic metres per week. Multiple banks can be supplied to meet any waste volume.

## PART I – KEY INFORMATION

The following key information should be read in the context of the whole document including in particular the section headed Risk Factors (page 19).

### The Company's Product

- The core business of the Company is the design, construction and supply of Silo-Cages and, in some instances, their operation on a contract fee basis over a term of years.
- The TEG Silo-Cages are supplied in banks of eight to twenty, each Silo-Cage consisting of a louvred stainless steel cage holding 32m<sup>3</sup> of composting mix and suspended within a steel framework above a concrete base. Each Silo-Cage is loaded daily and an unloading mechanism traverses beneath the bank of Silo-Cages extracting the end product.
- The TEG Silo-Cage is an industrial-scale continuous-flow thermophilic composting plant, which has been designed to provide the optimal environment for microbial activity, allowing thermophilic species of microbes to multiply rapidly, generating high temperatures and very high rates of degradation of organic waste material thus reaching the Enhanced Treatment standard required by legislation and producing a safe, natural organic fertiliser for application to land.
- The accelerated composting process provides the rapid decomposition of most organic wastes (including toxic and noxious materials) more quickly and economically than other composting methods, reducing pathogens to undetectable levels. It is naturally aerated and the process does not require agitation, turning or forced aeration of the composting material. This results in low emissions and odour, a low cost operation and provides the Enhanced Treatment.
- Successful trials have been conducted on sewage sludge and organic wastes from the food and drink industry, pharmaceuticals and tanneries.
- Each Silo-Cage can be equipped with multiple temperature probes to monitor time and temperature and provide an audit trail to verify the virtual elimination of pathogens where these are present, an essential feature when processing sewage sludge or similar materials.
- Enhanced Treatment processes of organic waste are essential for the continued application to land on which crops are grown for human consumption. The TEG Silo-Cage system provides this high standard of treatment at a lower operating cost than any known competition.

### Factors influencing the market for waste disposal

- Legislation is the principal factor determining the selection of the method of waste disposal together with increasing costs and green taxation of traditional and environmentally unhealthy disposal routes.
- The Water Industry was the first sector to feel the impact of the twin drivers of changes in legislation and cost. The industry regulator, OFWAT, has set a tough financial climate for the five year period beginning 1 April 2000 with the burden of new legislation requiring higher standards of treatment to be achieved at a lower cost. The TEG technology provides this.
- The TEG Silo-Cage system can provide the Water Industry with the lowest operating cost for the Enhanced Treatment of sewage sludge compared with other competing technologies and traditional disposal routes together with a competitive capital cost.
- The Government's document released in May 2000, "Waste Strategy 2000", significantly advances the role of composting in the waste recycling and disposal hierarchy which is to the benefit of TEG.
- Further UK legislation that will result from current EU Directives, some in draft form, is due to impact over the next two to seven years and will affect all organic waste producing industries and is expected to be to the long term benefit of the Company.

Prospectus. In particular, the Offer is conditional upon valid applications being received for the Minimum Amount within the 40 day period specified under Section 83 of the Companies Act 1985 (as amended) and the resolutions being passed by the Company as set out in the Notice of EGM at Part V of this document. The Directors shall be entitled to allot Offer Shares in respect of applications for such number of Offer Shares as are received before the Closing Date, notwithstanding that the total amount of Offer Shares under the Offer has not been subscribed for in full.

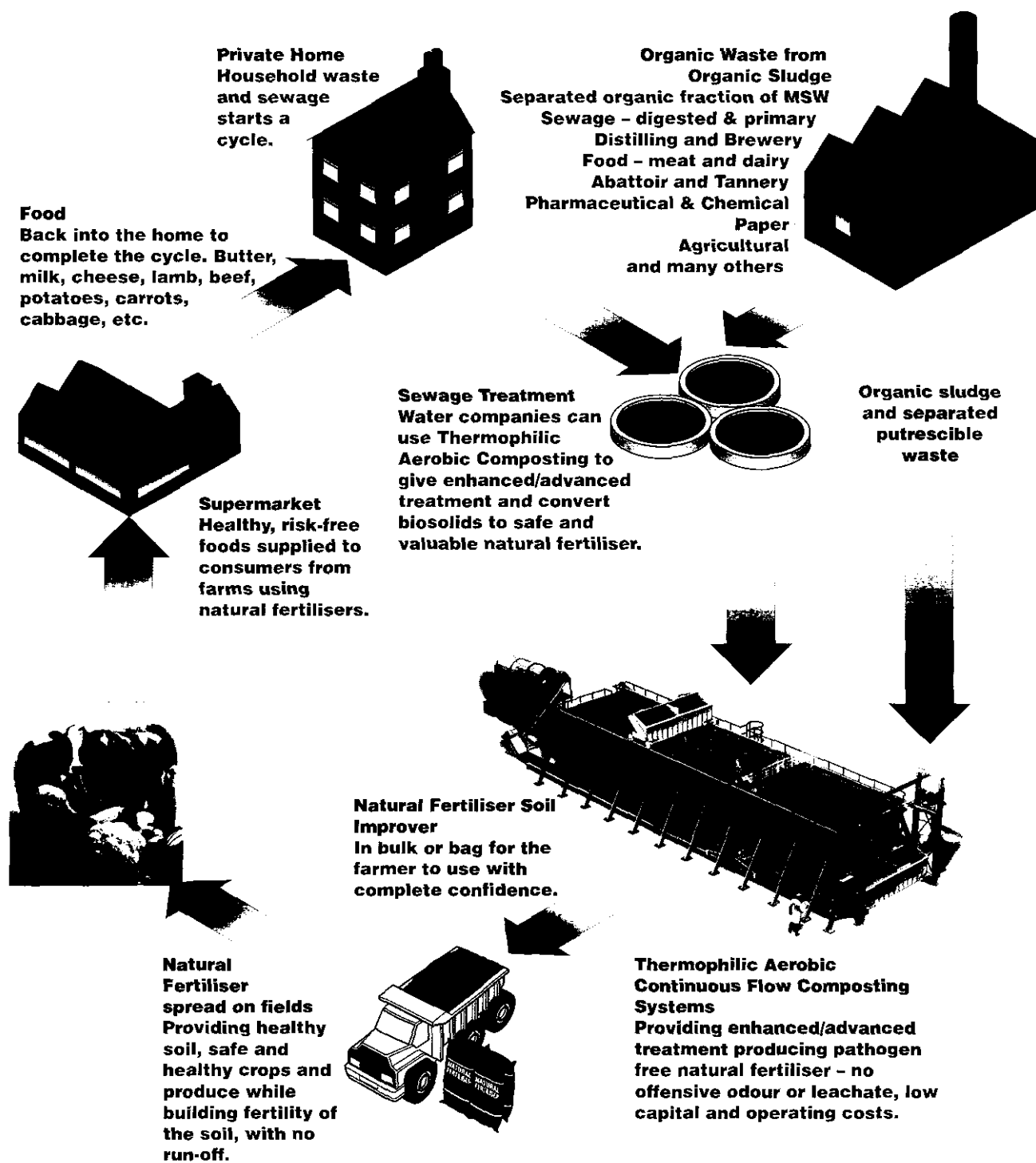
**Offer Statistics assuming full subscription to 1,095,929 Ordinary Shares**

Offer Price per Ordinary Share	£1.25
Proceeds of the Offer before expenses	£1,369,911
Estimated proceeds of the Offer net of expenses	£1,292,911
Number of Ordinary Shares subject to the Priority Entitlement	1,095,929
Number of Ordinary Shares in issue following the Offer	7,671,500
Percentage of issued share capital represented by the Offer Shares	14.29%
Market capitalisation at the Offer Price	£9.59 million

**Expected Timetable**

Subscription list for the Offer opens	10 a.m. on 15 February 2001
Extraordinary General Meeting	11 a.m. on 9 March 2001
Subscription list for the Offer closes	5 p.m. on 16 March 2001, unless extended

## The Advanced Clean Waste Cycle in the Industrialised World



## PART II – GENERAL INFORMATION CONCERNING THE COMPANY AND THE OFFER

### **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 Company built a commercial scale Silo-Cage pilot Plant at Chorley, Lancashire in 1996 through which, over a period of 4 years, extensive trials of a variety of organic waste streams were successfully completed. A production model Plant was then built at Hutton, Preston and launched by David Bellamy in September 2000.

Following a placing and offer for subscription in January 1998, the Company's Ordinary Shares were admitted to trading on OFEX.

#### **Current Trading and Prospects**

The Company's audited results for the 12 months ending 31 October 2000 are set out in Part III and show EnVigro™ sales of £85,000, selling and administrative expenses of £922,000 and a pre-tax loss of £877,000. The selling and administrative expenses include £98,000 written down in respect of the original pilot Plant. These results reflect the continued tight control of costs as the Company develops.

TEG has been a development company that has been funded in tranches as need and progress justified. *The Company has been funded by private shareholders who have invested £3.5 million since 1995.* The Company has, in the past year, moved from the development phase to the commercial exploitation phase and is currently negotiating significant contracts with companies in the Water Industry and in other sectors including the pharmaceutical, food processing, distillery and tanning industries.

The Board has always been absolutely clear that as soon as orders are confirmed the Company would strengthen the management structure and this need is now being addressed. Three senior executives will be appointed. A managing director elect, with the intention that he will, at the appropriate time, take over the role of Chief Executive and a Sales Director, (both to be sourced through a headhunter). A senior General Manager to be responsible for technical sales and public affairs has been identified. The first of two field sales managers is ready to join the Company. These initiatives will be implemented when contracts are signed.

#### **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 thermophilic composting activity. Typically, the amendments consist of nitrogen rich materials (such as poultry litter) and, where appropriate, neutral material (e.g. 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 important to achieve rapid composting. This 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 between 8 and 20 stainless steel louvered walled Silo Cages. Multiple banks of Silo-Cages can be supplied for large contracts.

Each bank of Silo-Cages is suspended in a rigid steel frame above a concrete base and is supplied with a mixer, fitted with a loading mechanism and travelling overhead feeder which evenly supplies the calculated amount of compost mix to each silo on a daily basis. Each Silo Cage has a capacity of 32 cubic metres and 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. The efficiency of the structure is such that the materials compost vigorously at temperatures up to 80°C, which speeds the process and reduces the composting period, compared to that of traditional windrow methods, to between 8 and 21 days depending on the target waste. An unloading auger traverses each day beneath the bank of Silo-Cages, undermines and extracts the composted mix from the bottom of each silo and carries the end-product to conveyors for removal to store or for grading prior to sale. The high temperatures generated and maintained as the material descends through the Silo-Cages ensure the elimination or reduction of pathogens to safe levels.

The Silo-Cage has very low operating costs. It has a low energy cost compared to other methods of only £2.00 per 32 cubic metre silo per week. Labour efficiency is high with one man (skilled tractor driver) capable of operating 20 silos. The space requirement is also low, particularly compared to the traditional windrow system.

It is the Company's business to build (by subcontract), supply and operate Silo-Cages to clients such as the Water Companies, abattoirs, waste management companies, pharmaceutical companies *etc.*

An independent comparison by an authoritative Water Industry consultant has confirmed that the TEG Silo-Cage system has the lowest operating cost of any treatment of sludge to Enhanced Treatment standards and provides a lower cost than the traditional disposal routes of incineration and landfill.

#### **Comparative costs for alternative disposal and enhanced treatment systems for sewage sludge**

	<b>Capital Cost (£000's)</b>	<b>Operating Cost £ per tds</b>
<b>Enhanced Treatment</b>		
Thermal Drying: Digested Sludge	4,600	64
Raw Sludge	2,225	84
Thermal Hydrolysis	4,500	47
Anaerobic Digester + pasteurisation	3,275	42
<b>Thermophilic In-Vessel Composting TEG Silo-Cage</b>	<b>1,350</b>	<b>32</b>
Gasification	3,500	64
Lime Stabilisation	420	61
<b>Disposal</b>		
Landfill	Nil	110 to 130
Incineration	4,400	145
Traditional Processes which do not provide Enhanced Treatment		
Anaerobic Digestion	2,750	32
Windrow compost - in building	900	49
- outside	400	45

tds = tonnes dry solids. Based on plants processing 3000 tds per year at 25% dry matter. Costs reduce further with the benefit of scale.

**The above is a summary of the report dated 22nd September 2000 of an independent authoritative Water Industry consultant. Copies of the full report are available on request from TEG Environmental Plc.**

#### **Sale of the TEG Silo-Cage**

In the Directors' experience, the analysis of sales to Water Companies and to large businesses in other sectors shows the long path for the decision making process to be negotiated leading through strategy, engineering, finance, senior management and a board strategy group before approval is given and agreement reached. Site selection for the Plant is usually in the latter part of this process. Sites normally require planning consent and a waste management licence (from the Environment Agency), approval from the Highway Authority and frequently an Environmental Impact Assessment. Once all necessary consents

are in place, work on a site can begin. The lead time from the contract date to Plant commissioning is up to 6 months but is site and size specific.

### **Legislation and Other Changes**

The Directors believe businesses producing waste have historically opted for the lowest-cost available method of disposal and that these attitudes persist until driven to change by legislation.

One of the first industries to receive the impact of legislative changes is the Water Industry, beginning with the *Urban Waste Water Treatment Bill of 1994*. The first effect of the Bill was the banning of marine dumping of sewage from December 1998, bringing a further 30% of UK sewage production onto land for disposal. All untreated sewage is banned from land application from 31 December 2001. It is forecast that by 2005, 60% of UK sewage will be recycled by land application and increase to 900,000 tds all requiring treatment.

The food retailing industry became a major driver for change during the past three years following concerns for food safety. The result was an agreement between the Water Industry and BRC members requiring improved standards for the treatment of sewage sludge by December 2001. This agreement, known as the Matrix Agreement, is to be enshrined in both UK regulations and EU Directives. In future, all sewage sludge should receive Enhanced Treatment to reduce pathogens prior to application to farmland used for the production of food for human consumption. (Enhanced Treatment is achieved by the TEG Silo-Cage system and meets the requirement for the virtual elimination of pathogens.) The Government endorsed this position with a *A Way With Waste* policy document in June 1999 and this is now to be included in the revised UK regulations on Sludge to Land expected to be issued Summer 2001.

The Directorate-General Environment of the European Commission, has recognised the good agronomic properties of sewage sludge composted to Enhanced Treatment standards so guaranteeing the hygienisation of the composted material. This will allow it to be considered a product and opens up new and wider possibilities for its use.

The Government's Waste Strategy 2000, issued May 2000, embodied the requirements of the EU Landfill Directive and promotes recycling/composting for organic wastes above other disposal options in the waste treatment hierarchy.

The Directors believe that the effect of the new and incoming legislation will impact on the whole of the waste producing and management industry over the next 5 to 10 years as some waste disposal routes are closed and the costs associated with others increase. Landfill tax was introduced in 1996 at £7 per ton for organic waste. It will increase to £12 per ton in April 2001 and is scheduled to increase annually.

Apart from the OFWAT determination and the BRC – Water UK agreement, the principal legislation affecting the waste disposal industries is:

- 1994 Urban Waste Water Treatment Act;
- EU Landfill Directive announced in July 1999 requiring organic waste to be treated before landfilling with target dates for compliance;
- The Pollution Prevention and Control Act 1999, effective from 31 October 1999. This transposes into UK law the European Directive which will cover 30 industries and 5,000 additional types of installation including landfill;
- UK Government Waste Strategy 2000;
- UK Sludge to Land Regulations;
- EU Sludge to Land Directive; and
- EU Composting Directive.

The Directors anticipate that the draft of the EU directive to control the landspreading of other commercial and industrial wastes will be published in 2001.

## EnVigro™

After delays largely due to planning consent, a new Silo-Cage pilot Plant has been built and is located at the EnVigro™ production site at Hutton, Preston where it will increase production capacity of EnVigro™. It will also provide a demonstrator of the production model Plant in operation, processing animal wastes and food residuals and producing a valuable product.

The production of a viable end-product plays a key part in the Company's marketing of Silo-Cages. EnVigro™ demonstrates the Company's ability to produce similar products, in many cases, to the composted end-product that will result from clients' own use of Silo-Cages.

EnVigro™ is a consistent quality organic fertiliser composted by the TEG system. It has made progress. Sales to golf courses, bowling greens, sports grounds, local authority sites and to landscape contractors were £84,000 in the year to 31 October 2000 but Autumn 2000 orders were largely postponed until Spring 2001 due to ground conditions. Sales are dependent on the successful experience of users during the growing season and, from these successes, growth by recommendation, as well as repeat orders. The Company exhibits at the major shows attended by buyers and users of its product and is experiencing an increasing level of interest.

## 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 throughout the body of the composting mix. This is achieved by a process known as thermophilic aerobic composting which the TEG Silo-Cage delivers with temperatures of 70°C to 80°C.

Composting is highlighted by the Government as one of the favoured methods in the waste treatment hierarchy confirmed by the Waste Strategy 2000 policy document published in May 2000.

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*

*It should be noted that the right hand column of the table below shows the potential market when legislation drives waste producers to an environmentally sound disposal practice at an economic cost.*

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

\*Note:

- (1) UK sewage production above is shown as wet tonnes containing an average circa 3% dry solids. This equates to 1.1m tds.
- (2) The sewage output represents around 26% of the total potential market excluding the agriculture and forestry sectors.

### *Large Scale Sewage Sludge Trials*

The Company successfully completed large scale trials of sewage sludge through the Silo-Cage pilot Plant in 1999. These trials demonstrated that the TEG plant could process de-watered sewage sludge, remove pathogens and produce an organic fertiliser safe for application to land used for food production in accordance with the safe sludge policy agreed between BRC and Water UK and now to be embodied in both EU and UK legislation.

The TEG system provides an audit trail of treatment, temperatures being monitored and recorded on a data logger as the mix containing the de-watered sewage sludge descends vertically down each Silo-Cage over a period of fourteen days; it is monitored by multiple temperature probes, in every Silo-Cage, passing through temperature zones of 80°C to 70°C for 24 hours, then 65°C to 60°C for six to seven days before exiting at 55°C to 50°C.

The trials demonstrate that the TEG Silo-Cage exceeds the accepted standard for pathogen control and provides a treatment that can satisfy any future upward ratcheting of treatment standards that the Directors can foresee. The independent laboratory analysis showed the reduction of all pathogens to undetectable levels.

The sewage sludge trials have established that the TEG technology can apply an Enhanced Treatment standard of sludge recycling at a competitive price.

## **Directors and Management**

### **Directors**

**Allen Sykes**, aged 69, *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; a non-executive director of Willis Corroon Group Plc (formerly Finance Director) from July 1986 until October 1998; 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. From 1990 to January 1994 he was a director of the Canadian based international packaging company, Lawson Mardon Group Limited, until the take-over by Alusuisse. He was a senior adviser on the £4 billion Protection of Venice Project. From 1998 to 1999 he was an industrial adviser to the Director General of OFWAT. His background is economics, finance, accountancy and law. He is the author of 'Capitalism for Tomorrow – Reuniting Ownership and Control'.

**John Hough**, aged 68, *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 69, *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 established Farmstake Limited, a land owning and operating UK company, in 1970 in anticipation of the gains available to farming on joining the Common Market in 1973. It was sold to an institutional investor in 1974. A similar but larger company, Hallsworth Limited, was established in the same year to acquire major land holdings for institutional investors and was sold in 1985.

New Dimensions Investments Limited was founded by Dick Bilborough in 1985 to invest in farmland with long term development potential. It was acquired in 1998 by Landmatch Limited at which point he became Managing Director. Landmatch Limited acquired strategically located income producing land blocks and in 1990 a major sporting estate through a subsidiary, the River Beaulieu Fishings Company. Landmatch Limited was sold to the Lands Improvement Group in 1993.

In May 1993 Dick Bilborough embarked on due diligence, both in Europe and the USA, on the technology to be acquired by TEG which he was instrumental in founding in October 1995.

**Michael C Cox F.C.A.**, aged 54, *Financial Director* – Mike Cox joined the company in November 1999. He previously managed his own company in project shipping which involved multi million dollar contracts for the erection of engineering plant for major PLC's. Prior to joining TEG he was Managing Director of a division of an Engineering and Insurance Group with sales in excess of £12m. He also acts as Company Secretary and General Manager.

**Dr Alan Heyworth BSc, PhD**, aged 62, *Technical Director* – Dr Heyworth has been involved with commercial composting since the late 1950s. 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.

## Management

**Fiona Maudsley** aged 27, *Technical Manager* – Fiona Maudsley is a graduate of Leeds University in microbiology and has exceptional organisational and management skills. She project managed the successful commercial scale trials of sewage sludge and supervises the demonstration plant and production of EnVigro<sup>TM</sup> and provides technical sales support.

**Kevin Chandler B Eng (Hons)**, aged 37, *Production Manager* – A qualified engineer with twelve years experience in engineering industries with a wide variety of machinery and projects within the chemical process industry. Kevin manages the machinery development and manufacturing side of the business and the management of sub-contractors. He is responsible for progress of projects and co-ordinating deliveries to clients' sites and meeting deadlines for Plant commissioning.

**Ian Ramsden MICE**, aged 60, *Sales Executive and Water Industry Consultant*. – A Chartered Engineer. Formerly a General Manager with Anglian Water, Ian provides consultancy services on marketing to the Water Industry. He works with Dick Bilborough on sales of Silo-Cages to Water Companies.

**Richard Ensor BSc FRICS**, aged 68. Richard Ensor 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. He is involved in site location, assessment and organising necessary surveys and applications for planning consents, waste management licensing and dealing with Highway issues.

**Steven Horsfield**, aged 43, *EnVigro<sup>TM</sup> Sales* – Steven Horsfield 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 and operates on a commission basis.

## **OFEX**

The Company's Ordinary Shares were accepted for trading on OFEX in January 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, Pri Mark (formerly ICV-Topic) and Reuters. Newstrack is an electronic and news information service for intermediaries which is available to private investors to access through the Internet (<http://www.newstrack.co.uk>).

## **Dividend Policy**

The Directors will recommend the payment of a dividend on the Ordinary Shares when 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 Ordinary Shares.

## **Condition of the Offer**

The Offer is conditional on the Company passing the resolutions summarised below and set out in full in the notice of EGM in Part V of this document, to be held on 9 March 2001:

1. to grant the Directors a general authority to allot Ordinary Shares up to the level of the authorised but unissued share capital of the Company provided that such authority and power expires five years after the passing of the resolution and subject to the condition that no securities may 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 and that the Directors may not exercise their powers to allot shares as above such that the Company would be under any obligation to remain a qualifying company for EIS purposes after four years from the passing of the resolution; and
2. to authorise the Directors to allot equity securities as if s89(1) of the Companies Act 1985, as amended, does 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 provided that such power and authority expires five years from the passing of this resolution.

## **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 and at least for the next 12 months.

## **Risk Factors**

Attention is drawn to the Risk Factors set out below and to the Risk Warning on page 1 of the Prospectus, which must be read by Existing Shareholders and 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 are 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 either shareholders or option holders in the Company, the retention of their services cannot be guaranteed.

### **Sales and Revenue**

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. The Company's progress is dependent upon it securing contracts for Silo-Cages. The Company may never earn sufficient revenues to become profitable.

### **Marketability of Shares**

Some Existing Shareholders and Potential 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 for ordinary shares in such companies.

The principal tax reliefs currently available to each individual are:

- an amount 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. Husband and wives can each subscribe for up to £150,000;

- provided a qualifying EIS investment is held for at least three 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 EIS Capital Gains Tax Deferral (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 up to 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 either the investor's 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 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:

1. 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;
2. 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 carried on by that company or a qualifying subsidiary;
3. the shares must be subscribed for and be 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;
4. the shares must not for the three years from the date of issue carry any present or future preferential rights to dividends or the company's assets on a winding up nor any present or future rights to be redeemed;
5. 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 of £150,000 per investor in any one tax year;
6. in order to retain the income tax relief and capital gains tax exemptions the investor must hold the shares for at least three years from the date of their issue;
7. with certain limited exceptions, the investor must not be connected with the issuing company;
8. 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
9. 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 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 applied for provisional advance assurance of its EIS status from the Inland Revenue and has had final approval for all past fundraising. 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 2001 on the amounts subscribed for the EIS Shares provided they continue to satisfy the

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 2001 to qualify for tax relief in 2000/2001.

Levels, bases of and reliefs from taxation are subject to change and the tax reliefs referred to in this document are those currently applying.

Even when provisional EIS tax clearance has been received there is no guarantee that formal clearance will be achieved or that it will not be subsequently withdrawn and in those circumstances subscription monies will not be returned to investors. Returns to investors would be lower in the event that the Company fails to obtain EIS tax relief or that it is subsequently withdrawn, in which case tax relief from CGT would not be granted.

### **EIS Capital Gains Tax Deferral**

The subscription for Offer Shares by an individual will be considered as a qualifying investment for EIS Capital Gains Tax Deferral 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 EIS Capital Gains Tax Deferral provisions, provided that the Company continues to satisfy the relevant statutory requirements. Unlike EIS income tax relief, there is no limit on the amount of the share subscription monies which can qualify for EIS Capital Gains Tax Deferral in each tax year.

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 or if the individual becomes non-resident and not ordinarily resident in the UK within three years of the share issue.

It should be noted that, for EIS Capital Gains Tax Deferral purposes, a subscription for shares in the Company cannot be used to defer a gain on the disposal of other shares in the Company.

EIS Capital Gains Tax Deferral, 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 in principle should be available under Sections 573 to 576 of the Income and Corporation 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.

Alternatively, any capital loss arising on disposal of the shares will be available against capital gains of the investor in the same or future tax years in the normal manner.

### **Inheritance Tax**

#### ***Business Property Relief***

The ordinary shares representing minority interests in trading companies such as the Company 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, then 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. Existing Shareholders and Potential Investors should note that a gift of shares within three 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 not a close company for tax purposes, as defined by the Income and Corporation Taxes Act 1988.

**Dividends**

Under UK tax legislation, no tax is withheld at source from UK company dividend payments, although such payments carry a notional tax credit of 1/10th of the gross dividend.

Where such income falls within the basic rate income tax limit, the applicable tax rate is 10% and hence entirely covered by the tax credit. To the extent that the basic rate income tax limit is exceeded, the tax rate on the excess dividends is 32.5% less the tax credit. The overall effect for higher rate taxpayers is an income tax charge of 25% of the dividend received, which provides the same net receipt for dividends paid pre 6 April 1999.

**Venture Capital Trusts**

The Company has applied to the Inland Revenue for provisional confirmation that the Offer Shares should constitute a "Qualifying Holding" and the Offer Shares should constitute "Eligible Shares" for the purpose of investments by Venture Capital Trusts.

**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 EIS Capital Gains Tax Deferral.

The above is intended only as a general outline of the taxation rules potentially applying to Existing Shareholders and Potential 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 III – FINANCIAL INFORMATION

The following is a copy of the Accountants' Report:



The Directors  
TEG Environmental Plc  
Crescent House  
2-6 Sandy Lane  
Leyland  
Preston  
Lancashire PR25 2EB

Richard House  
Winckley Square  
Preston PR1 3HP

15 February 2001

Gentlemen,

### 1. Introduction

We report on the financial information set out in paragraphs 2 to 6 below. This financial information has been prepared for inclusion in the Offer for Subscription document dated 15 February 2001 of TEG Environmental Plc (the Company).

#### *Basis of Preparation*

The financial information set out in paragraphs 2 to 6 is based on the audited financial statements of TEG Environmental Plc for the years ended 31 October 1998, 31 October 1999 and 31 October 2000 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 15 February 2001 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 recorded by Ernst & Young, 100 Barbirolli Square, Manchester, M2 3EY relating to the audit of the financial statements for the year ended 31 October 1998. 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.

In forming our opinion we have considered the basis of preparation set out in note 2. This indicates that these accounts have been prepared on a going concern basis which assumes the availability of additional finance. This would be resolved by the subscription for the Minimum Amount of Ordinary Shares. Our opinion is not qualified in this respect.

#### *Opinion*

In our opinion, the financial information gives, for the purposes of the Offer for Subscription document dated 15 February 2001, 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 15 February 2001 of this report and accept responsibility for this report for the purposes of paragraph 45(1)(b)(iii) 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. This will be achieved by the raising of the Minimum Amount under this Offer.

#### *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
Other fixed assets	— 25% reducing balance

#### *Amortisation*

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

#### *Stocks*

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

#### *Deferred Taxation*

Provision is made 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*

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

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

#### *Research and Development Costs*

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

### **3. Profit and Loss Accounts**

The profit and loss accounts of the Company, for the years ended 31 October 2000, 31 October 1999 and 31 October 1998, are set out below:

		Year ended 31 October 2000 £	Year ended 31 October 1999 £	Year ended 31 October 1998 £
Notes				
<b>Turnover</b>				
Continuing operations	(i)	84,626	94,204	35,873
Cost of sales		(76,294)	(85,014)	(47,073)
<b>Gross profit/(loss)</b>		8,332	9,190	(11,200)
Selling and administrative expenses		(922,372)	(771,732)	(704,351)
<b>Operating loss</b>	(ii)	(914,040)	(762,542)	(715,551)
Bank interest receivable and similar income	(v)	44,066	17,195	11,719
Interest payable and similar charges	(vi)	(7,332)	(9,136)	(10,610)
<b>Loss on ordinary activities before taxation</b>		(877,306)	(754,483)	(714,442)
Tax on loss on ordinary activities		—	—	—
<b>Loss retained for the financial period</b>		(877,306)	(754,483)	(714,442)

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

## 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 continuing activities and arose principally in the United Kingdom.

### (ii) Operating Loss

(a) Operating loss is stated after charging:

	Year ended 31 October 2000 £	Year ended 31 October 1999 £	Year ended 31 October 1998 £
Auditors' remuneration			
– audit services	3,750	3,750	4,250
– non-audit services	4,400	24,840	28,218
Depreciation of owned fixed assets	200,033	46,938	40,057
Depreciation of assets held under HP agreements	1,674	2,231	2,975
Amortisation of intangible fixed assets	3,996	4,032	4,000
Operating lease rentals			
– plant and machinery	1,891	5,395	13,907
– land and buildings	18,540	18,540	18,025
Loss on disposal of fixed assets	1,398	1,624	3,232

Depreciation of owned fixed assets for the year ended 31 October 2000 is stated after accounting for an exceptional depreciation charge of £98,283. This charge has been calculated to write down the carrying value of the prototype Silo-Cage Plant and associated goodwill to nil. The prototype has been replaced by the new Silo-Cage Plant and is now fully operational.

Ernst & Young received fees for audit services in the year ended 31 October 1998, fees for non-audit services in the year ended 31 October 1998 and £23,590 of the non-audit services in the year ended 31 October 1999. Moore and Smalley received fees of £13,900 in respect of the Rights Issue which have been charged to the share premium account.

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

	Year ended 31 October 2000 £	Year ended 31 October 1999 £	Year ended 31 October 1998 £
Operating loss	(914,040)	(762,542)	(715,551)
Depreciation	201,707	49,169	43,032
Amortisation	3,996	4,032	4,000
Loss on sale of fixed assets	1,398	1,624	3,232
Increase in stocks	(1,429)	(2,621)	11,481
Decrease/increase in debtors	26,599	(21,080)	(33,904)
Decrease/increase in creditors	(49,717)	42,669	7,858
Net cash outflow from operating activities	(731,486)	(688,749)	(679,852)

(iii) *Directors' Emoluments*

	Year ended 31 October 2000 £	Year ended 31 October 1999 £	Year ended 31 October 1998 £
Directors' emoluments	139,183	78,750	88,344

(iv) *Staff Costs*

	Year ended 31 October 2000 £	Year ended 31 October 1999 £	Year ended 31 October 1998 £
Wages and salaries	259,039	256,114	205,596
Social security costs	25,197	21,413	21,692
	284,236	277,527	227,288

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

	Year ended 31 October 2000 No	Year ended 31 October 1999 No	Year ended 31 October 1998 No
Administration	11	10	8

(v) *Interest Receivable*

	12 months ended 31 October 2000 £	Year ended 31 October 1999 £	Year ended 31 October 1998 £
Bank interest	44,066	17,195	11,719

(vi) *Interest Payable*

	Year ended 31 October 2000 £	Year ended 31 October 1999 £	Year ended 31 October 1998 £
Bank loans and overdraft	6,808	8,612	10,523
Hire purchase agreements	524	524	87
	7,332	9,136	10,610

(vii) *Intangible Fixed Assets*

	<b>Intellectual Property Rights £</b>
<b>Cost:</b>	
At 31 October 1997 and 31 October 2000	40,000
<b>Depreciation:</b>	
At 31 October 1997	7,332
Charge for the period	4,000
At 31 October 1998	11,332
Charge for the period	4,032
At 31 October 1999	15,364
Charge for the period	3,996
At 31 October 2000	19,360
<b>Net book value:</b>	
<b>At 31 October 2000</b>	<b>20,640</b>
At 31 October 1999	24,636
At 31 October 1998	28,668

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.

(viii) Tangible Fixed Assets

	Silo Cage System £	Fixtures and Fittings £	Plant and Machinery £	Total £
<b>Cost:</b>				
At 31 October 1997	—	10,164	165,535	175,699
Additions	—	16,134	18,130	34,264
Adjustments	—	—	(5,443)	(5,443)
At 31 October 1998	—	26,298	178,222	204,520
Additions	—	3,280	109,373	112,653
Disposals	—	—	(16,867)	(16,867)
At 31 October 1999	—	29,578	270,728	300,306
Additions	248,367	7,589	8,132	264,088
Disposals	—	—	(2,995)	(2,995)
At 31 October 2000	248,367	37,167	275,865	561,399
<b>Depreciation:</b>				
At 31 October 1997	—	1,972	32,634	34,606
Charge for the period	—	6,082	36,950	43,032
Adjustments	—	—	(2,211)	(2,211)
At 31 October 1998	—	8,054	67,373	75,427
Charge for the period	—	4,751	44,418	49,169
Disposals	—	—	(7,243)	(7,243)
At 31 October 1999	—	12,805	104,548	117,353
Charge for the period	62,068	8,170	131,469	201,707
Disposals	—	—	(797)	(797)
At 31 October 2000	62,068	20,975	235,220	318,263
<b>Net Book Value:</b>				
<b>At 31 October 2000</b>	<b>186,299</b>	<b>16,192</b>	<b>40,645</b>	<b>243,136</b>
At 31 October 1999	—	16,773	166,180	182,953
At 31 October 1998	—	18,244	110,849	129,093

(ix) Stocks

	31 October 2000	31 October 1999	31 October 1998
	£	£	£
Finished goods	2,391	515	715
Raw materials and consumables	5,040	3,647	1,636
Work in progress	910	2,750	1,940
	<u>8,341</u>	<u>6,912</u>	<u>4,291</u>

(x) Debtors

	31 October 2000	31 October 1999	31 October 1998
	£	£	£
Trade debtors	9,589	22,078	9,755
Other debtors	43,979	29,478	25,474
Prepayments and accrued income	20,245	48,856	44,103
	<u>73,813</u>	<u>100,412</u>	<u>79,332</u>

(xi) Cash and Net Debt

	At 31 October 1998	Cashflow	At 31 October 1999	Cashflow	At 31 October 2000
	£	£	£	£	£
Cash at bank and in hand	218,559	(177,140)	41,419	295,384	336,803
Debt due within one year	(20,004)	—	(20,004)	—	(20,004)
Debt due after one year	(64,987)	20,012	(44,975)	20,012	(24,963)
Finance leases	(8,991)	3,174	(5,817)	3,173	(2,644)
	<u>(93,982)</u>	<u>23,186</u>	<u>(70,796)</u>	<u>23,185</u>	<u>(47,611)</u>
	<u>124,577</u>	<u>(153,954)</u>	<u>(29,377)</u>	<u>318,569</u>	<u>289,192</u>

(xii) Creditors: amounts falling due within one year

	31 October 2000	31 October 1999	31 October 1998
	£	£	£
Bank loan	20,004	20,004	20,004
Trade creditors	27,373	86,372	26,925
Other taxation and social security costs	8,910	6,793	9,094
Hire purchase creditor	2,644	3,173	3,173
Accruals	33,508	26,343	40,820
	<u>92,439</u>	<u>142,685</u>	<u>100,016</u>

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

	31 October 2000 £	31 October 1999 £	31 October 1998 £
Hire purchase creditor	—	2,644	5,818
Bank loan	24,963	44,975	64,987
	<u>24,963</u>	<u>47,619</u>	<u>70,805</u>

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 DTL. Interest is fixed at 10.76% for five years and then at 3½% over base thereafter. Repayments commenced in February 1998 at £1,667 per month and will continue for five years. The Company's bankers held a fixed charge over book debts and a floating charge over all other assets.

(xiv) Obligations under Hire Purchase Contracts

	31 October 2000 £	31 October 1999 £	31 October 1998 £
Amounts due:			
within one year	3,080	3,697	3,697
within two to five years	—	3,080	6,778
	<u>3,080</u>	<u>6,777</u>	<u>10,475</u>
Less: finance charges allocated to future periods	(436)	(960)	(1,484)
	<u>2,644</u>	<u>5,817</u>	<u>8,991</u>

Finance leases and hire purchase contracts are analysed as follows:

	31 October 2000 £	31 October 1999 £	31 October 1998 £
Current obligations	2,644	3,173	3,173
Non-current obligations	—	2,644	5,818
	<u>2,644</u>	<u>5,817</u>	<u>8,991</u>

Analysis of changes in finance and hire purchase contracts during the current and previous years:

	31 October 2000 £	31 October 1999 £	31 October 1998 £
Balance at 1 November	5,817	8,991	—
Inception of finance leases in the year	—	—	11,899
Repaid in year	(3,173)	(3,174)	(2,908)
Balance at 31 October	<u>2,644</u>	<u>5,817</u>	<u>8,991</u>

(xv) *Share Capital*

	31 October 2000		31 October 1999		31 October 1998	
	No.	£	No.	£	No.	£
Authorised	<u>100,000,000</u>	<u>5,000,000</u>	<u>100,000,000</u>	<u>5,000,000</u>	<u>100,000,000</u>	<u>5,000,000</u>
Allotted, called up and fully paid	<u>6,575,580</u>	<u>328,779</u>	<u>4,990,760</u>	<u>249,538</u>	<u>4,238,253</u>	<u>211,913</u>

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

	Share capital £	Share premium account £	Profit and loss account £	Total £
At 31 October 1997	167,105	667,010	(607,592)	226,523
Shares issued	44,808	851,334	—	896,142
Issue Costs	—	(119,101)	—	(119,101)
Loss for the year	—	—	(714,442)	(714,442)
At 31 October 1998	211,913	1,399,243	(1,322,034)	289,122
Loss for the period	—	—	(754,483)	(754,483)
Shares issued	37,625	714,875	—	752,500
Issue costs	—	(121,111)	—	(121,111)
At 31 October 1999	249,538	1,993,007	(2,076,517)	166,028
Loss for the period	—	—	(877,306)	(877,306)
Shares issued	79,241	1,267,857	—	1,347,098
Issue costs	—	(70,489)	—	(70,489)
<b>At 31 October 2000</b>	<b><u>328,779</u></b>	<b><u>3,190,375</u></b>	<b><u>(2,953,823)</u></b>	<b><u>565,331</u></b>

(xvii) *Financial Commitments*

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

	Land and buildings			Other		
	2000 £	1999 £	1998 £	2000 £	1999 £	1998 £
Operating leases which expire:						
within one year	<b>18,540</b>	18,540	1,600	<b>6,240</b>	3,287	3,956
within two to five years	<u>—</u>	<u>—</u>	<u>—</u>	<b>21,698</b>	4,117	13,493
	<b><u>18,540</u></b>	<u>18,540</u>	<u>1,600</u>	<b><u>27,938</u></b>	<u>7,404</u>	<u>17,449</u>

(xviii) *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 3% is payable based on future profits before tax of TEG Environmental Plc and its subsidiaries (if any), as shown in the audited consolidated profit and loss account if the profits before tax exceed £100,000. The royalty payment is subject to a maximum of £50,000 in any one financial year and to £140,000 in total.

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

	2000 £	1999 £	1998 £
<b>Returns on investments and servicing of finance</b>			
Interest received	44,066	17,195	11,719
Interest paid	(6,808)	(8,612)	(10,523)
Interest element of HP rentals	(524)	(524)	(87)
<b>Net cash inflow from returns on investments and servicing of finance</b>	<b>36,734</b>	<b>8,059</b>	<b>1,109</b>
<b>Capital expenditure and financial investment</b>			
Purchase of tangible fixed assets	(264,088)	(112,653)	(22,364)
Proceeds from the sale of tangible fixed assets	800	8,000	—
<b>Net cash outflow from capital expenditure and financial investment</b>	<b>(263,288)</b>	<b>(104,653)</b>	<b>(22,364)</b>
<b>Financing</b>			
Issue of ordinary share capital	1,347,098	752,500	896,141
Issue costs	(70,489)	(121,111)	(119,101)
Decrease in bank loans due in more than one year	(20,012)	(20,012)	(15,009)
Capital element of HP repayments	(3,173)	(3,174)	(2,908)
<b>Net cash inflow from financing</b>	<b>1,253,424</b>	<b>608,203</b>	<b>(759,123)</b>

Yours faithfully

**Moore and Smalley**  
**Chartered Accountants**  
**and Registered Auditors**

### Pro Forma Statement of Net Assets

Set out below is an unaudited pro forma statement of net assets following the Offer, assuming full subscription, 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.

	<b>The Company at 31 October 2000 £</b>	<b>Adjustments £</b>	<b>Pro forma £</b>
<b>Fixed assets</b>			
Intangible	20,640	—	20,640
Tangible	243,136	—	243,136
	<u>263,776</u>	<u>—</u>	<u>263,776</u>
<b>Current assets</b>			
Stocks	8,341	—	8,341
Debtors	73,813	—	73,813
Bank balances and cash	336,803	1,292,911	1,629,714
	<u>418,957</u>	<u>1,292,911</u>	<u>1,711,868</u>
<b>Creditors due within one year</b>	<u>(92,439)</u>	<u>—</u>	<u>(92,439)</u>
<b>Net current assets</b>	<u>326,518</u>	<u>1,292,911</u>	<u>1,619,429</u>
<b>Total assets less current liabilities</b>	<u>590,294</u>	<u>1,292,911</u>	<u>1,883,205</u>
<b>Creditors due after one year</b>	<u>(24,963)</u>	<u>—</u>	<u>(24,963)</u>
<b>Net assets</b>	<u><u>565,331</u></u>	<u><u>1,292,911</u></u>	<u><u>1,858,242</u></u>

#### Notes:

1. The statement of net assets of the Company at 31 October 2000 is based on the audited balance sheet of the Company at that date.
2. In preparing the pro forma statement, adjustment has been made to reflect:
  - the £1,369,911 to be raised by the offer
  - the estimated expenses of the offer of £77,000 exc VAT
3. No account has been taken of any profits or losses of the Company since 31 October 2000.

## PART IV – 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 Ordinary Shares were issued not paid 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) Notice of an Extraordinary General Meeting of the Company to be held on 9 March 2001 is attached to this Prospectus in order for the following Ordinary and Special Resolutions to be considered:

That the Directors of the Company be authorised and empowered:

- (A) 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
- (B) 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 if passed will expire on 9 March 2006. 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 and that the Directors shall not exercise their powers to allot shares as above such that the Company would be under any obligation to remain a qualifying company for EIS purposes four years from the passing of this resolution.

- (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 at a price of £1.00 per share; and between 22 December 1998 and 15 February 1999 an aggregate of 752,500 Ordinary Shares at a price of £1.00 per share.
- (f) Pursuant to the Rights Issue contained in a prospectus dated 28 September 1999, which raised approximately £1,277,000, the Company has issued an aggregate of 1,584,820 Ordinary Shares at a price of 85 pence per share.
- (g) Immediately following completion of the Offer (on the assumption that the full subscription is achieved, that no options referred to in paragraph 4 below are exercised and that the Directors do not supplement the Offer Shares such that they comprise more than 1,095,929 Ordinary Shares in aggregate) 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	7,671,500	£383,575.00

- (h) 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.

- (i) 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 PR25 2EB, are Allen Sykes, John Hough, Dick Bilborough, Michael Cox and Dr Alan Heyworth.
- (b) Other Directorships held by the Directors in the last five years are:

	<b>Date resigned (where applicable)</b>
<b>Allen Sykes</b>	
Quenton Limited	
Willis Corroon Group Plc	30 October 1998
GSB (Holdings) Plc	
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	
<b>Dick Bilborough</b>	
Bilborough Consultancy & Finance Limited	
Green Wall Sound Barriers Limited	
GSB (Holdings) Plc	
<b>Michael Cox</b>	
Quaylink International Shipping Limited (dissolved)	
Sarton Forwarding Limited (dissolved)	
Rodney Street Developments Limited (dissolved)	
Wellcare Construction Limited	16 June 1999
Wellcare Holdings Limited	16 June 1999
Wellcare Nursing Homes NW Limited (dissolved)	16 June 1999
Wellcare Nursing Homes Limited	16 June 1999
<b>Dr Alan Heyworth</b>	
Environmental Consultants Limited	
The Bracken Advisory Commission Limited	

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:

- (i) Dick Bilborough's Directorship of Coolpac Fresh Foods Limited to which a receiver was appointed in May 1985;
- (ii) each of Allen Sykes, John Hough and Dick Bilborough, who are non executive directors of GSB (Holdings) PLC which was the subject of a creditors voluntary liquidation on 11 March 1999. GSB Holdings PLC was formed by Allen Sykes, John Hough and Dick Bilborough with the

intention of facilitating a revival of Greenwall Soundbarriers Limited by way of, *inter alia*, acquisition of its business. This did not succeed; and

- (iii) Michael Cox's directorship of Quaylink International Shipping Limited, which went into administrative receivership in July 1993 and was dissolved after having satisfied all its debts. Sarton Forwarding Limited and Rodney Street Developments Limited were dissolved having never traded.

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:

<b>Name</b>	<b>Number of Shares prior to Offer</b>	<b>% Holding prior to Offer</b>	<b>% Holding following Offer</b>	<b>Share Options</b>
Allen Sykes	400,603	6.09%	5.22%	
John Hough	583,156	8.87%	7.60%	
Dick Bilborough	256,410	3.90%	3.34%	160,000
Michael Cox	—	—	—	35,000
Dr Alan Heyworth	117,882	1.79%	1.54%	75,000
	<u>1,358,051</u>	<u>20.65%</u>	<u>17.70%</u>	<u>270,000</u>

In addition to the above, John Hough is a non-executive director of AHJ Investments Limited which prior to the Offer holds 353,000 Ordinary Shares (which is a 5.36% holding in the Company). John Hough also has a non-beneficial interest prior to the Offer in 357,500 Ordinary Shares (which is a 5.44% holding in the Company) which are held in his capacity as one of the trustees of two trusts, the immediate beneficiaries of which are his children and grandchildren.

The percentage holding following the Offer (assuming full subscription), excludes any Offer 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.
  - (iii) Michael Cox is employed as Finance Director at a present salary of £54,000 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.

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 have a holding of 3% or more in the share capital of TEG prior to the Offer.

Name	Holding prior to Offer %
Laurence Olivier	4.71%
Alastair Leslie	4.33%
Christopher Burt	3.07%
AJH Investments Limited	5.36%
Chase Nominees Limited	3.57%

- (g) The aggregate remuneration paid and benefits in kind granted to the Directors was £139,183 for the year ended 31 October 2000 and is expected to be £150,000 for the year ending 31 October 2001.
- (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 Dick Bilborough for £1,000,000 under a three year term insurance expiring 25 November 2001 (it is intended that this be extended.)

### 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 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 5 pence 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.

(b) *The TEG Environmental Plc Company Share Option Plan*

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 and options over 35,000 Ordinary Shares have been granted to Michael Cox at 85 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 Plan are:

● Eligibility

All employees and full-time (ie: 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.

● 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 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:

- (i) 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;
- (ii) 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;
- (iii) 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;
- (iv) 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.

- (c) It is the intention of the Directors that the Company shall utilise the advantages of the Enterprise Management Incentives Scheme.
- (d) Under the Option Agreement dated 3 November 1998, the Company 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 that offer at a price of £1.00 per share, which is equivalent to 75,250 Ordinary Shares, expiring on the fifth anniversary of the date of that Option Agreement.

## 5. Material Contracts

- (a) The executive service contracts and the agreement for services 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) A warranty agreement dated 27 September 1999 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 Rights Issue to Matrix-Securities Limited.
- (d) A Waste Management Licence (ref C00018) granted to the Company by the Environment Agency authorising the Company to keep and treat "Controlled Waste" dated on 20 May 1998.
- (e) A Waste Management Licence (ref EAWML/54315) granted to the Company by the Environment Agency authorising the Company to keep and treat "Controlled Waste" dated 1 November 2001.
- (f) Planning consent at Sherdley Farm, Hutton, Preston.
- (g) Various irrevocable undertakings dated between 2 and 7 February 2001 made between the Company and certain Existing Shareholders whereby certain Existing Shareholders have;
  - (i) undertaken to subscribe for £134,140 worth of Offer Shares at the Offer Price by 1 May 2001; and
  - (ii) agreed to waive their rights as shareholders of the Company to participate in the Priority Entitlement element of the Offer

conditional upon the Extraordinary General Meeting of the Company to be held on 9 March 2001 passing the Ordinary and Special Resolutions set out in the notice of the EGM at Part V. The above subscriptions will, together with full subscription under the Offer, result in total fundraising of £1,504,051.

## 6. Indebtedness

At the close of business on 31 December 2000, the Company had cash balances, as recorded by the bank, of £205,585 and bank borrowing of £41,632 under the DTI Loan Guarantee Scheme and hire purchase commitments of £2,115. Save as aforesaid, at the close of business on 31 December 2000, the Company had 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) A commission of 3% will be paid to authorised financial intermediaries who procure Potential Investors to subscribe for Offer Shares pursuant to the Offer and, in certain cases, to the extent that an Existing Shareholder subscribes for Offer Shares and that Existing Shareholder was previously introduced to the Company by the authorised financial intermediary. In order to claim commission, intermediaries should stamp the appropriate box on the white Application Form in this Prospectus.
- (b) Following the Rights Issue, Williams de Broe plc ("WDB") were entitled to receive 3% commission on the amount they raised totalling £214,200. The Company and WDB have agreed that instead of receiving a cash payment for this commission WDB will be granted options to buy 4,284 Ordinary Shares in the Company at £1.50 per Ordinary Share exercisable at any time within 3 years. A contract between the Company and WDB has not been concluded, although the Directors of the Company have approved the arrangement.
- (c) The Board and WDB have agreed that in respect of the Offer, WDB will not receive commission but will receive options equal in value to 3% commission on the amount they raise at a price of £1.50 per Ordinary Share.

## 8. Property

The Company does not own any freehold property. The Company occupies offices at the business address set out in this Prospectus pursuant to a licence granted by South Ribble Office Developments Limited for a period ending on 13 December 2001 at a licence fee of £1,545 per month.

## 9. General

- (a) The Minimum Amount which, in the option 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 as set out below:

	£
(i) Purchase of Property	NIL
(ii) Expense of the Offer (not including commissions)	60,000
(iii) Repayment of borrowings in respect of (i) and (ii)	NIL
(iv) Working capital	745,000

- (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 resigned as auditors of the Company on 18 August 1999 and, in accordance with s.394(1) of the Act, confirmed that there were no circumstances connected with their resignation which they considered should be brought to the attention of the members or creditors of the Company.
- (d) Moore and Smalley were appointed auditors of the Company on 17 September 1999 and have given and not withdrawn their written consent to the issue of this Prospectus with inclusion therein of their name and their report set out in Part III and references thereto in the form and context in which they are included.
- (e) TEG has no subsidiaries.

- (f) TEG's accounting reference date is 31 October in each year.
- (g) No financial information contained in this Prospectus is intended by the Company to represent or constitute a forecast of profits by TEG nor to constitute publication of accounts by it.
- (h) The estimated amount of expenses of the Offer, assuming full subscription including accountancy and legal fees and the costs of printing and despatching this document is £60,000 (exclusive of VAT). Commission will be payable to authorised financial intermediaries who procure new subscribers for Offer Shares pursuant to the Offer, which the Directors estimate may amount to approximately £17,000.
- (i) No underwriter or paying agents are involved with the Offer.
- (j) Save as disclosed, no promoters of the Company in the two years preceding the date of this Prospectus 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.
- (k) Payments of fees or more than £10,000 to persons other than trade suppliers in the year ended 31 October 2000 were as follows:

Moore & Smalley	£26,903
Sinclair Roche & Temperley	£20,794
Matrix Securities Limited	£23,049

## 10. Availability of Prospectus

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

## 11. Documents Available for Inspection

Copies of the following documents are available for inspection up to the Closing Date during normal business hours on any weekday (Saturdays and Public Holidays excepted);

- (a) Water Industry consultant report dated 22 September 2000 referred to in Part II;
- (b) the Memorandum and Articles of Association of TEG;
- (c) the audited consolidated accounts of TEG for the financial years ended 31 October 1999 and 2000;
- (d) the accountants' report set out in Part III of this document;
- (e) the Service Contracts referred to in paragraph 2(e) of this Part IV; and
- (f) the material contracts referred to in paragraph 5 of this Part IV.

Dated 15 February 2001

# PART V – NOTICE OF EXTRAORDINARY GENERAL MEETING

## TEG Environmental Plc

NOTICE IS HEREBY GIVEN that an extraordinary general meeting of the company will be held at 11 a.m. on 9 March 2001, in the Selkirk Room at the Caledonian Club, 9 Halkin Street, London SW1X 7DR for the purposes of considering, and if thought fit, passing the following Resolutions, of which Resolution 1 will be proposed as an Ordinary Resolution and Resolution 2 will be proposed as a Special Resolution.

### Ordinary resolution

1. **THAT** the directors be generally and unconditionally authorised and empowered generally and unconditionally pursuant to section 80 of the Companies Act 1985 (the "Act") to exercise any power of the company to allot relevant securities (as defined in section 80 of the Act) such authority and power being limited to a maximum nominal amount equal to the nominal amount of the authorised but unissued share capital at the date of the passing of this resolution **PROVIDED THAT** the authority hereby given shall expire five years after the passing of this resolution and is subject to the condition that no securities may 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 ("EIS") as from time to time enacted and **THAT** the Directors shall not exercise their powers to allot shares as above such that the Company would be under any obligation to remain a qualifying company for EIS purposes after four years from the passing of this resolution.

### Special Resolution

2. **THAT** the directors be generally and unconditionally authorised and empowered pursuant to section 95(1) of the Act to allot equity securities (as defined in section 94 of that Act) as if section 89(1) of that 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 **PROVIDED THAT** such authority and power expires after five years of passing this resolution.

By order of the Board

CHAIRMAN

DATED THE 15 FEBRUARY 2001

#### Notes:

1. A member entitled to attend and vote at the meeting of the Company is entitled to appoint a proxy to attend and, on a poll, to vote instead of him. A proxy need not be a member of the Company.
2. A Form of Proxy is enclosed which, to be valid, must be completed and delivered, together with the power of attorney or other authority (if any) under which it is signed (or a certified copy of such authority) to the Company's registrars Capita IRG Plc, Bourne House, 34 Beckenham Road, Beckenham, Kent BR3 4TU so as to arrive not later than 48 hours before the time of the meeting.
3. Completion and return of a Form of Proxy does not preclude a member from attending and voting in person should they wish to do so.

## PART VI – TERMS AND CONDITIONS OF THE OFFER

### 1. Share Application and Issue Procedure

- (a) The Offer is available to Existing Shareholders and Potential Investors. However, the Priority Entitlement is only available to Existing Shareholders.
- (b) The Offer is conditional on valid applications being received for the Minimum Amount and the resolutions set out in the notice of EGM in Part V being passed by the Company at the EGM.

#### *Offer for Subscription with Priority Entitlement for Existing Shareholders*

- (c) Up to 1,095,929 Offer Shares are initially being offered to Existing Shareholder under the Offer on the terms and conditions in paragraphs 5.1(d) and 5.1(h) below.
- (d) An Existing Shareholder may apply for and, if so, will be allotted up to one Offer Share for every six Ordinary Shares registered in the name of the Existing Shareholder on the Record Date (their "Priority Entitlement"). Existing Shareholders may apply for their Priority Entitlement by specifying the number of shares for which they are subscribing in Box 1 of the green Application Form. If subscribed in full, the Priority Entitlement would result in no Offer Shares being available for subscription by other Existing Shareholders or Potential Investors under the Open Offer.
- (e) If the Offer Shares initially offered to Existing Shareholders are not all taken up under the Priority Entitlement in accordance with the provisions of paragraph 5.1(d), those Offer Shares not taken up will be offered on a *pari passu* basis to those Existing Shareholders who wish to subscribe for Offer Shares in excess of their Priority Entitlement and Potential Investors on the terms and conditions of paragraphs 5.1(e) to 5.1(h).
- (f) Existing Shareholders may apply on the same green Application Form for Offer Shares in excess of their Priority Entitlement but subject to the maximum number being offered under the Offer by specifying in Box 3 the total number of further Offer Shares applied for.
- (g) Potential Investors may apply by completing the white Application Form for any number of Offer Shares up to the maximum number being offered under the Offer subject, however, to applications by Potential Investors being for a minimum of **10,000** Offer Shares.
- (h) In the event of over subscription for Offer Shares under the Open Offer, such applications will be reduced pro-rata according to the size of such applications. The Directors reserve the right to scale down or reject or accept any such application in whole or in part and whether or not the whole Application Form is properly completed.

#### *All applicants*

- (k) All applications for Offer Shares must be made on the relevant Application Form:
  - (i) Existing Shareholders should complete the green Application Form; and
  - (ii) Potential Investors should complete the white Application Form.
- (l) Applications from Potential Investors must be for a minimum of **10,000** Offer Shares and in multiples thereafter of **2,000** Offer Shares.
- (m) All applications for Offer Shares must be received by New Issues Department, Capita IRG Plc, on or before the Closing Date, which may be extended by the Directors.
- (n) Each Offer Share is being offered at the Offer Price. A currently dated cheque for the full subscription amount made payable to "Capita IRG Plc A/C TEG Environmental Plc" must accompany the Application Form.
- (o) Share certificates will be posted by 3 April 2001, provided that the right is reserved to present all cheques and bankers drafts on receipt and to retain share certificates pending clearance of all cheques.

- (p) No person receiving a copy of this document and/or an 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 unless in the relevant territory such an invitation could lawfully be made to such person or such 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.**

- (q) By completing and delivering an Application Form, you as the applicant (and if you sign the 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, 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 3 of the green Application Form or Box 1 of the white Application Form, whichever is the relevant 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 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 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 duly completed at the address shown on the 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 Offer Shares under the Offer (accompanied by a currently dated cheque for the subscription amount) must be received by Capita IRG Plc is 16 March 2001. This date may be extended at the discretion of the Directors but in any event shall be no later than 27 March 2001.

### *Return of subscription monies*

Application monies may be presented on receipt and will be retained in a separate designated bank account pending allotment of Offer 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 Offer 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.

## **2. How to complete the green Application Form for Existing Shareholders**

**Before making any application to acquire Offer 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 green Application Form and the terms and conditions of application set out in this document.

### **(a) The Application Form**

#### **1. Box A states the number of Ordinary Shares that you held on the Record Date.**

**Box B states your Priority Entitlement of Offer Shares based on one Offer Share for every six Ordinary Shares held by you at the Record Date.**

**Box C states the amount payable by you in respect of the maximum of your Priority Entitlement as set out in Box B.**

#### **2. Insert in Box 1 (*in figures*) the number of Offer Shares for which you are applying up to the maximum of your Priority Entitlement as set out in Box B.**

#### **3. Insert in Box 2 (*in figures*) the number of Offer Shares for which you are applying over and above your Priority Entitlement.**

#### **4. Insert in Box 3 (*in figures*) the total number of Offer Shares you are applying for. This is the total number of the Offer Shares applied for in Boxes 1 and 2.**

#### **5. Insert in Box 4 (*in figures*) the amount of your cheque or banker's draft.**

#### **6. Sign and date the Application Form in Box 5.**

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. All applications by more than one applicant must be signed by all applicants.

#### **7. Pin a single cheque or banker's draft to your completed Application Form in Box 6. Your cheque or banker's draft must be payable to "Capita IRG Plc A/C TEG Environmental Plc" for the amount payable on application (inserted in Box 4) 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.

8. *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 6 (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.

9. 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 II and the Risk Warning on Page 1 of this Prospectus and you confirm that you understand the nature of the risks and that you could lose all your investment in the Company.

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

3. **How to complete the white Application Form for Potential Investors**

Before making any application to acquire Offer 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 white Application Form and the terms and conditions of application set out in this document.

(a) **The Application Form**

- 1. Insert in Box 1 (*in figures*) the number of Offer 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. **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 "Capita 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.

6. ***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.

7. **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 II and the Risk Warning on Page 1 of this Prospectus and you confirm that you understand the nature of the risks and that you could lose all your investment in the Company.
8. **Send the completed Application Form by post or by hand to New Issues Department, Capita IRG Plc, P.O. Box 166, Bourne House, 34 Beckenham Road, Beckenham, Kent BR3 4TH duly completed.**

# OFFER FOR SUBSCRIPTION WITH PRIORITY ENTITLEMENT APPLICATION FORM FOR EXISTING SHAREHOLDERS

for 5 pence Ordinary Shares in

## TEG ENVIRONMENTAL PLC

**IMPORTANT:** Before completing this Application Form you must read the section headed "Risk Factors" found in Part II and the Risk Warning on Page 1 of the Prospectus and the terms and conditions of application and the notes on how to complete the Application Forms set out in Part VI of the Prospectus. Your remittance must be pinned at Box 4.

PLEASE RETURN YOUR COMPLETED APPLICATION FORM AND PAYMENT BY POST OR BY HAND TO NEW ISSUES DEPARTMENT, CAPITA 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 16 MARCH 2001, UNLESS EXTENDED BY THE DIRECTORS.

<b>Box A</b> Number of Ordinary Shares registered in your name(s) at the close of business on 9 February 2001.	<b>Box B</b> Maximum number of Offer Shares for which you are entitled to apply based on one Offer Share for every six Ordinary Shares held on the Record Date ("Priority Entitlement").	<b>Box C</b> Amount payable in full in respect of your Priority Entitlement to Offer Shares.

<b>Box 1</b> Number of Offer Shares at 125 pence per share for which application is made under the Priority Entitlement. The number you enter in Box 1 must not exceed, but may be less than the figure set out in Box B above.	<b>Box 2</b> Number of Offer Shares at 125 pence per share for which application is made over and above your Priority Entitlement.	<b>Box 3</b> Total number of Offer Shares applied for (Total of Box 1 and Box 2).

(or any lesser number of Offer 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 (the number of Offer Shares in Box 3 multiplied by 125 pence), namely £	<b>4</b>
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I/We confirm that I/We have read the section headed "Terms and conditions of the Offer" in PART VI of the Prospectus and the section headed "Risk Factors" in PART II of the Prospectus.

Signature	Date	<b>5</b>
Signature	Date	
Signature	Date	
Signature	Date	

Pin your cheque or banker's draft for the amount shown in Box 4 made payable to "CAPITA IRG Plc A/C TEG Environmental Plc" and crossed "A/C payee only".	<b>6</b>
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TEG ENVIRONMENTAL PLC

OPEN OFFER  
APPLICATION FORM FOR POTENTIAL INVESTORS  
for 5 pence Ordinary Shares in  
**TEG ENVIRONMENTAL PLC**

**IMPORTANT:** Before completing this Application Form you must read the section headed "Risk Factors" found in Part II and the Risk Warning on Page 1 of the Prospectus and the terms and conditions of application and the notes on how to complete the Application Forms set out in Part VI of the Prospectus. Your remittance must be pinned at Box 5. Applications must be for a minimum of **10,000** Offer Shares and thereafter in multiples of **2,000** Offer Shares.

**PLEASE RETURN YOUR COMPLETED APPLICATION FORM AND PAYMENT BY POST OR BY HAND TO NEW ISSUES DEPARTMENT, CAPITA 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 16 MARCH 2001, UNLESS EXTENDED BY THE DIRECTORS.**

I/We offer to subscribe for	Offer Shares of 5 pence at 125 pence each	<b>1</b>
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(or any lesser number of Offer 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, (the number of Offer Shares in Box 1 multiplied by 125 pence) namely £	<b>2</b>
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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 VI of the Prospectus and the section headed "Risk Factors" in PART II of the Prospectus.

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

Contact Name	Tel:
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