

TEG Environmental PLC

Financial statements

For the year ended 31 December 2004



Company No. 3109613

Company information

Company registration number :	3109613
Registered office :	Unit 6 Meadowcroft Business Park Pope Lane Whitestake Preston PR4 4BA
Directors :	N S J Moore FCA (Chairman) J L Hough (Deputy Chairman) R C Bilborough Dr A Heyworth M Fishwick T Willis
Secretary :	T Willis
Bankers :	HSBC Bank Plc 140 Leadenhall Street London EC3V 4PS
Solicitors :	Jones Day 21 Tudor Street London EC4Y 0DJ
Auditors :	Grant Thornton UK LLP Registered Auditors Chartered Accountants Heron House Albert Square Manchester M60 8GT

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Chairman's Statement

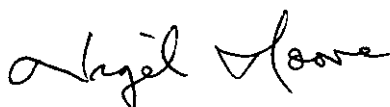
I am delighted to present the company's first annual report since its admission to AIM on 27 July 2004. The placing and open offer at that time raised £1.95 million. New institutional investors, from London and Switzerland, were introduced to the company by the company's brokers, Canaccord, and 30% of the total money raised was from existing private shareholders. The cost of the fund raising has been charged against the share premium account.

Due to timing delays on contracts the company continued to operate in lean mode and annual operating costs were consequently below those anticipated at the time of our listing. We have recorded a post tax loss of £1.112 million (2003: loss £1.871 million). No dividend is proposed.

A significant improvement in the planning climate for waste management facilities has now been signalled by the government. Obtaining 'planning consent' has been TEG's principal barrier to progress in several locations and in many cases postponing sales which were otherwise in place. On the 6 December, an announcement from the Head of Minerals and Waste Planning in the Office of the Deputy Prime Minister advised of a significant revision to the planning guidance rules. These changes should have a beneficial effect on TEG's planning applications and current appeals. We have now been formally advised by the City and County of Swansea that our proposal in response to their revised tender has been approved by the Cabinet of the Council on 14 February 2005. The contract should be significant in that not only does it involve the sale of the Silo-Cage plant but awards the company the management of the whole contract. This reflects well on the quality and strength of our technical team and we believe it is a unique award for a company such as TEG. Tenders are in preparation for other major local authorities and detailed negotiations continue on a number of other sales projects in the UK and on sites for build own and operate projects. The planning application for an additional building at our Preston facility was approved on 9 February.

Michael Fishwick joined the Company in the role of Chief Executive Elect and was appointed to the Board of Directors on 17 January. He will understudy Dick Bilborough in the interim. Tanja Willis joined the Board on 7 March as Finance Director, she continues as Company Secretary. Together with other key executives heading sales, project management, engineering, technical and scientific, we have a strong, committed executive team to take the Company forward.

The Company's Annual General Meeting will be held on Tuesday 12 July in London. Members will be circulated with further information in due course.



NIGEL MOORE
Chairman

22 March 2005

Report of the directors

The directors present their report together with the audited financial statements for the year ended 31 December 2004.

Principal activity

The company's principal activity continues to be that of the design and production of the Silo-Cages plant for thermophilic composting of organic wastes both for sale to third party clients and design, build & operate projects.

Results and dividends

The loss for the year after taxation amounted to £1,111,744 (14 months to 31 December 2003 : £1,870,566). The directors do not recommend the payment of a dividend leaving the amount of £1,111,744 (14 months to 31 December 2003 : £1,870,566) to be deducted from reserves.

Directors

The directors of the company and their interests in the share capital as at 31 December 2004 or date of appointment if later of the company are listed below. All served on the Board throughout the year unless otherwise stated.

	Ordinary shares of £0.05 each	
	2004	2003
N S J Moore FCA (Chairman)	142,556	72,556
J L Hough (Deputy Chairman)	917,267	764,267
R C Bilborough	262,010	257,010
Dr A Heyworth	118,482	118,482
M Fishwick (appointed 17 January 2005)	—	—
T Willis (appointed 7 March 2005)	—	—

In addition to the above, Mr J L Hough is a non-executive director of AHJ Investments Limited, which holds 922,944 Ordinary shares, and he has a non-beneficial holding of a further 594,032 shares.

The directors retiring by rotation are J L Hough and A Heyworth, who being eligible, offer themselves for re-election at the Annual General Meeting. M Fishwick and T Willis, having been appointed during the year and being eligible, offer themselves for election at the Annual General Meeting.

Corporate Governance

The company takes Corporate Governance seriously and its policies in respect of this are set out below.

The Board comprises two Non-Executive Directors, N S J Moore and J L Hough, and four Executive Directors. The Directors met formally seven times during 2004 as a basis to receive and discuss reports covering each of the company's key areas and to consider strategic issues, financial performance and policy matters which arise from time to time.

The Board has appointed an Audit Committee and a Remuneration Committee with formally delegated duties, responsibilities and terms of reference. Each committee is chaired by a Non-Executive Director.

The Audit Committee, which comprises the Non-Executive Directors and the Company Secretary, meets on a bi-annual basis to consider all aspects of the company's systems of internal control. In particular, the Committee considers all reports from the external auditors and has the authority to review specific matters relating to internal control on an ad hoc basis. The Committee has unrestricted access to the company's auditors and ensures that the auditor independence has not been compromised.

The Remuneration Committee is made up of the two Non-Executive Directors and one Executive Director. The Committee's role is to set the remuneration policy for the Executive Directors and all the members of the company. Specifically, the Remuneration Committee agrees the principal terms of their service contracts, including salaries and other benefits, such as bonuses and share options, and other terms and conditions of employment. The Committee met six times during the 2003-04 financial year, with all three committee members attending each meeting.

The Committee's executive remuneration policy is designed to attract, retain and motivate individuals to ensure the success of the company. Remuneration packages are designed to reward Directors and Executive Group members fairly for their contributions.

Admission to AIM

Following a placing and open offer the company issued 3,901,247 new ordinary shares of £0.05 at a price of £0.50 per share, raising £1,950,624 before expenses. The shares were admitted to AIM for trading on 27 July 2004 along with the company's existing share capital.

Share Options

The company has adopted an unapproved share option scheme (the "Company Scheme"). The company may not grant an option under the scheme if, as a result, the number of shares issued or issuable in respect of all options granted under the scheme and any employee share option plan operated by the company would, as a result of options or rights granted within the preceding ten year period, exceed 10% of the ordinary share capital of the company. Under the Company Scheme, options over ordinary shares have been granted to R C Bilborough as set out below.

Date granted	Exercise price	Number of shares	First Date of exercise	Expiry date
05.09.1997	£0.35	160,000	06.09.2000	05.09.2007
01.05.2001	£1.30	140,000	02.04.2005	01.05.2011

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 ordinary shares have been granted to a director, as set out below. These options may be exercised at any time between the dates given below. 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.

TEG Environmental PLC**Financial statements for the year ended 31 December 2004**

Director	Date granted	Exercise price	Number of shares	First Date of exercise	Expiry
Dr A Heyworth	05.09.1997	£0.35	75,000	06.09.2000	05.09.2007

In addition to the above schemes, an Enterprise Management Incentive Share Option Scheme was established on 27 April 2001, granted under the provisions of Section 62 and Schedule 14 of the Finance Act 2000. The aggregate market value of shares in the company in respect of which options are granted will not exceed £1,500,000 and individuals may not hold unexercised options whose market value exceeds £100,000. Options under this scheme have been granted as below.

Director	Date granted	Exercise price	Number of shares	First Date of exercise	Expiry
R C Bilborough	01.05.2001	£1.30	76,923	02.05.2004	01.05.2011
Dr A Heyworth	01.05.2001	£1.30	56,731	02.05.2004	01.05.2011
T Willis	13.12.2004	£0.38	50,000	14.12.2007	13.12.2014
M Fishwick	17.01.2005	£0.36	100,000	18.01.2008	17.01.2015

Accounting standards and IFRS

No new accounting standards were adopted during the year.

International Financial Reporting Standards ("IFRS") were set to replace United Kingdom generally accepted accounting practice ("UK GAAP") for consolidated reporting in 2005. However, on 7 October 2004 the London Stock Exchange announced following changes to existing AIM rules that AIM companies can continue until financial periods commencing on or after 1 January 2007 to report in either UK GAAP or International Accounting Standards ("IAS"). These accounts have been prepared under UK GAAP. The Board will consider the impact of adopting IFRS in 2005.

Research and development

Research and plant development includes further engineering refinements, materials handling improvement, and testing of industrial waste streams in response to new market opportunities.

Charitable and political donations

No charitable or political donations were made during the year (2003: £Nil).

Employee involvement and disabled employees

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

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

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

Payments to suppliers

The company's policy is to comply with the terms of payment agreed with suppliers when terms of business are established. At 31 December 2004 the company's trade creditors represented 59 days of purchases.

Directors' responsibilities for the financial statements

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing those financial statements, the directors are required to :

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

The directors are responsible for maintaining proper accounting records, for safeguarding the assets of the company and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for ensuring the directors' report is prepared in accordance with company law in the United Kingdom.

The maintenance and integrity of the website is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the information contained in the financial statements since they were initially presented on the website. Legislation in the UK governing the preparation and dissemination of the financial statements and other information included in annual reports may differ from legislation in other jurisdictions.

Major interests in shares

As at 1 March 2005 the company had been notified of the following interests in 3%, or more, of the company's issued share capital:

	Number of ordinary shares	% of issued ordinary share capital
Chase Nominees	1,074,605	6.56%
Harewood Nominees	1,200,000	6.10%
Nortrust Nominees	1,000,000	7.32%

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Auditors

Moore and Smalley resigned as auditors during the year and Grant Thornton UK LLP were appointed to fill the casual vacancy. Grant Thornton UK LLP offer themselves for reappointment as auditors in accordance with Section 385 of the Companies Act 1985.

ON BEHALF OF THE BOARD



T Willis
Secretary

22 March 2005

Report of the independent auditors to the members of TEG Environmental PLC

We have audited the financial statements of TEG Environmental PLC for the year ended 31 December 2004 which comprise the principal accounting policies, the profit and loss account, the balance sheet, the cash flow statement and notes 1 to 21. These financial statements have been prepared in accordance with the accounting policies set out therein.

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

Respective responsibilities of the directors and auditors

The directors' responsibilities for preparing the Report of the Directors' and the financial statements in accordance with United Kingdom law and accounting standards are set out in the statement of directors' responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom auditing standards.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company is not disclosed.

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

Basis of opinion

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

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

Report of the independent auditors to the members of TEG Environmental PLC

Going concern

In forming our opinion, we have considered the adequacy of the disclosures made in the financial statements concerning the future funding of the company. The financial statements have been prepared on a going concern basis, the validity of which depends on future funding being available. The financial statements do not include any adjustments that would result from the failure to obtain funding. Details of the circumstances relating to this fundamental uncertainty are described in the accounting policies. Our opinion is not qualified in this respect.

Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs as at 31 December 2004 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Grant Thornton UK LLP

GRANT THORNTON UK LLP
REGISTERED AUDITORS
CHARTERED ACCOUNTANTS
MANCHESTER

22 March 2005

Principal accounting policies

Basis of preparation

The financial statements have been prepared under the historical cost convention and in accordance with applicable accounting standards.

The principal accounting policies of the company have remained unchanged from the previous year, save for the reallocation of certain expense headings in the profit and loss account and cash flow statement for 2003, and are set out below.

Going Concern

The company currently meets its daily working capital requirements through funds raised from shareholders on the company's admission to AIM in July 2004.

The directors have concluded that the continued development of the business will result in a net cash outflow until operating revenues exceed expenditure. Consequently, the current funds available are believed to be insufficient to finance the future development of the business. The directors intend to undergo a further fund raising exercise within the next few months to raise working capital sufficient to enable the company to continue its development for the foreseeable future.

Therefore, the directors consider it appropriate to prepare the financial statements on the going concern basis. The financial statements do not include any adjustments that would result from the failure to raise the additional finance.

Turnover

Turnover is the total amount receivable by the company for goods supplied and services provided, excluding VAT and trade discounts. Revenue is recognised at the point of despatch.

Depreciation

Depreciation is calculated to write down the cost less residual value of all tangible fixed assets other than freehold land by equal annual instalments over their expected useful economic lives. The rates generally applicable are:

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

Amortisation

Amortisation is calculated so as to write off the cost of an asset over the useful economic life of that asset as follows:

Intellectual Property Rights	10 years straight line
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Stocks and work in progress

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

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

Deferred taxation

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

Leased assets

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

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

Foreign currency

Transactions in foreign currencies are recorded at the rate of exchange at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are reported at the rates of exchange prevailing at that date.

Research and development costs

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

Profit and loss account

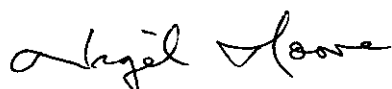
		2004	Restated 14 m 31 D 2003
	Note	£	£
Turnover – continuing activities	1	21,572	33,147
Cost of sales		<u>(12,017)</u>	<u>(58,299)</u>
Gross profit/(loss)		9,555	(25,152)
Administrative expenses – other		(1,227,550)	(1,522,206)
– exceptional items		–	(450,000)
Total administrative expenses		<u>(1,227,550)</u>	<u>(1,972,206)</u>
Operating loss – continuing activities		(1,217,995)	(1,997,358)
Interest receivable		34,598	6,887
Interest payable	3	<u>(4,121)</u>	<u>(5,740)</u>
Loss on ordinary activities before taxation		(1,187,518)	(1,996,211)
Tax on loss on ordinary activities	4	75,774	125,645
Loss for the financial year transferred from reserves	13	<u>(1,111,744)</u>	<u>(1,870,566)</u>
Loss per share	5	<u>(7.9p)</u>	<u>(16.2p)</u>

There were no recognised gains or losses other than the loss for the financial year.

Balance sheet

	Note	2004 £	2003 £
Fixed assets			
Intangible assets	6	3,990	7,986
Tangible assets	7	<u>206,549</u>	<u>158,121</u>
		210,539	166,107
Current assets			
Stocks	8	8,166	6,881
Debtors	9	<u>100,122</u>	<u>98,513</u>
Cash at bank and in hand		<u>1,164,284</u>	<u>813,505</u>
		1,272,572	918,899
Creditors: amounts falling due within one year	10	<u>(300,479)</u>	<u>(317,286)</u>
Net current assets		<u>972,093</u>	<u>601,613</u>
Total assets less current liabilities		1,182,632	767,720
Creditors : amounts falling due after more than one year	11	<u>(36,187)</u>	<u>(10,447)</u>
Net assets		<u><u>1,146,445</u></u>	<u><u>757,273</u></u>
Capital and reserves			
Called up share capital	12	819,269	624,207
Share premium account	13	9,352,543	8,046,689
Profit and loss account	13	<u>(9,025,367)</u>	<u>(7,913,623)</u>
Equity shareholders' funds	14	<u><u>1,146,445</u></u>	<u><u>757,273</u></u>

The financial statements were approved by the Board of Directors on 22 March 2005 and signed on their behalf by :



N S J Moore

Director



R C Billborough

Director

Cash flow statement

		2004	Restated 14 months ending 31 December 2003
	Note	£	£
Net cash outflow from operating activities	15	(1,196,815)	(1,676,067)
Returns on investments and servicing of finance			
Interest received		34,598	6,887
Finance lease interest paid		(4,121)	(5,740)
Net cash inflow from returns on investments and servicing of finance		30,477	1,147
Taxation		71,137	154,508
Capital expenditure			
Purchase of tangible fixed assets		(27,972)	(34,849)
Sale of tangible fixed assets		2,859	2,000
Net cash outflow from capital expenditure		(25,113)	(32,849)
Financing			
Receipt from sale of shares		–	550,000
Proceeds on issue of shares		1,500,916	1,623,234
Repayment of bank loans		–	(4,943)
Capital element of finance lease rentals		(29,823)	(31,635)
Net cash inflow from financing		1,471,093	2,136,656
Increase in cash	16	350,779	583,395

Notes to the financial statements

1 Turnover and loss on ordinary activities before taxation

The turnover and loss on ordinary activities before taxation is attributable to the principal activity and was all generated within the United Kingdom.

	2004	14 months ending 31 December 2003
The loss on ordinary activities before taxation is stated after :	£	£
Research and development		
– current year expenditure	14,176	296,405
Depreciation		
– owned	22,451	111,304
– held under finance leases and hire purchase contracts	10,215	38,838
Auditors' remuneration		
– audit services current auditors	15,322	–
– audit services previous auditors	2,448	3,800
– non audit services previous auditors	9,421	–
(Profit)/loss on disposal of fixed assets	(2,859)	2,000
Operating lease costs		
– hire of plant and equipment	5,446	11,745
– land and buildings	66,186	52,296
Net profit on foreign currency translation	–	(3,343)
Exceptional loss on NOIT shares	–	450,000
Exceptional write down of sale contract to net realisable value	–	257,906

In addition to the above, non-audit corporate finance fees of £40,012 (gross of VAT) charged by the current auditors have been offset against the share premium account.

2 Directors and employees

	2004	14 months ending 31 December 2003
Staff costs during the year were as follows :	£	£
Wages and salaries	561,914	502,782
Social security costs	60,960	51,623
	622,874	554,405

	2004	14 months ending 31 December 2003
The average number of employees during the year was :	Number	Number
Sales and administration	10	9

TEG Environmental PLC**Financial statements for the year ended 31 December 2004****Directors and employees (continued)**

The total amounts for directors' remuneration and other benefits was as follows :

	2004 £	14 months ending 31 December 2003 £
Emoluments	<u>240,664</u>	<u>204,590</u>

Directors' remuneration in respect of the highest paid director was as follows :

	2004 £	14 months ending 31 December 2003 £
Emoluments	<u>132,164</u>	<u>139,124</u>

3 Interest payable and similar charges

	2004 £	14 months ending 31 December 2003 £
Finance lease interest	<u>4,121</u>	<u>5,740</u>

4 Tax on loss on ordinary activities

	2004	14 months ending 31 December 2003
	£	£
The tax credit for the year represents:		
Corporation tax		
– current year	(75,774)	(71,137)
– prior year	–	(54,508)
	<u>(75,774)</u>	<u>(125,645)</u>

Factors affecting the tax charge for the year

The tax assessed for the year is different from the standard rate of corporation tax in the United Kingdom of 30% (2003 : 30%). The differences are explained as follows :

	2004	14 m 31 D 2003
	£	£
Loss on ordinary activities before taxation	<u>(1,187,518)</u>	<u>(1,996,211)</u>
Loss on ordinary activities before taxation multiplied by standard rate of corporation tax in the United Kingdom of 30% (2003 : 30%)	(356,255)	(598,863)
Effect of:		
Expenses not deductible for tax purposes	18,953	10,677
Exceptional items	–	135,000
Difference between capital allowances and depreciation	(21,581)	21,066
Losses surrendered for R & D tax credit	94,718	88,525
Trade losses carried forward	264,165	343,595
Repayable R & D tax credit	(75,744)	(71,137)
Adjustments in respect of prior periods	–	(54,508)
	<u>(75,774)</u>	<u>(125,645)</u>

Unrelieved tax losses of £7,407,392 remain available to offset against future taxable trading profits.

5 Loss per share

The loss per share is calculated by reference to the earnings attributable to ordinary shareholders divided by the weighted average of 14,060,383 ordinary shares for the 12 months to December 2004, and 11,531,864 for the 14 months to 31 December 2003

	2004	14 months ending 31 December 2003
	£	£
Attributable loss	(1,111,744)	(1,870,566)
Average number of shares in issue for basic and diluted loss per share	14,060,383	11,531,864
Loss per ordinary share	<u>(7.9p)</u>	<u>(16.2p)</u>

6 Intangible fixed assets

	Intellectual property rights £
Cost	
At 1 January 2004 and 31 December 2004	<u>40,000</u>
Amortisation	
At 1 January 2004	32,014
Provided in the year	<u>3,996</u>
At 31 December 2004	<u>36,010</u>
Net book amount	
At 31 December 2004	<u>3,990</u>
At 31 December 2003	<u>7,986</u>

This represents the purchase of the Intellectual Property Rights of both an innovative system of accelerated composting for £35,000 and design of the Twin Cage Composter for £5,000. They are being amortised over their useful economic life of 10 years.

7 Tangible fixed assets

	Motor vehicles £	Plant and machinery £	Fixtures and fittings £	Silo-Cage System £	Total £
Cost					
At 1 January 2004	92,031	290,985	85,723	374,093	842,832
Additions	53,122	2,718	17,464	7,790	81,094
Disposals	(42,254)	—	—	—	(42,254)
At 31 December 2004	<u>102,899</u>	<u>293,703</u>	<u>103,187</u>	<u>381,883</u>	<u>881,672</u>
Depreciation					
At 1 January 2004	72,798	269,171	62,078	280,664	684,711
Provided in the year	13,665	7,273	8,248	3,480	32,666
Disposals	(42,254)	—	—	—	(42,254)
At 31 December 2004	<u>44,209</u>	<u>276,444</u>	<u>70,326</u>	<u>284,144</u>	<u>675,123</u>
Net book amount					
At 31 December 2004	<u>58,690</u>	<u>17,259</u>	<u>32,861</u>	<u>97,739</u>	<u>206,549</u>
At 31 December 2003	<u>19,233</u>	<u>21,814</u>	<u>23,645</u>	<u>93,429</u>	<u>158,121</u>

Included within the net book value of £206,549 is £55,238 (2003 : £34,173) relating to vehicles held under finance leases. The depreciation charged to the accounts in the period in respect of such assets amounted to £10,215 (2003 : £38,838).

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8 Stocks

	2004 £	2003 £
Raw materials	5,486	4,291
Work in progress	430	1,090
Finished goods	2,250	1,500
	<u>8,166</u>	<u>6,881</u>

9 Debtors

	2004 £	2003 £
Trade debtors	6,904	3,061
Other debtors	7,015	17,145
R & D tax recoverable	75,774	71,137
Prepayments and accrued income	10,429	7,170
	<u>100,122</u>	<u>98,513</u>

10 Creditors : amounts falling due within one year

	2004 £	2003 £
Trade creditors	46,076	18,523
Other creditors	190,045	220,671
Other taxation and social security	18,007	20,769
Amounts due in respect of finance leases	23,346	25,787
Accruals and deferred income	23,005	31,536
	<u>300,479</u>	<u>317,286</u>

Amounts due in respect of finance leases are secured on assets to which they relate.

11 Creditors : amounts falling due after more than one year

	2004 £	2003 £
Amounts due after two and within five years :		
Amounts due in respect of finance leases	<u>36,187</u>	<u>10,447</u>

12 Share capital

	2004 £	2003 £
Authorised		
100,000,000 Ordinary shares of £0.05 each	<u>5,000,000</u>	<u>5,000,000</u>
Allotted, called up and fully paid		
16,385,381 (2003 : 12,484,134) Ordinary shares of £0.05 each	<u>819,269</u>	<u>624,207</u>

The Company placed 3,901,247 new ordinary shares of £0.05 at a price of £0.50 per share, raising £1,950,624 before expenses. The shares were admitted to AIM for trading on 27 July 2004.

In accordance with the terms of the Company share option schemes, options granted and remaining in issue are as follows:

Date Granted	Exercise Price	First Date of Exercise	Expiry Date	Number of Shares
05/09/97	£0.35	06/09/2000	05/09/2007	235,000
29/11/99	£0.85	30/11/2002	29/11/2009	21,500
01/05/01	£1.30	02/05/2006	01/05/2011	302,154
22/04/02	£1.15	23/04/2007	22/04/2012	25,000
20/02/03	£0.50	21/02/2006	20/02/2013	100,000
03/10/03	£0.50	04/10/2006	03/10/2013	238,300
13/12/04	£0.38	14/12/2007	13/12/2014	355,262
17/01/05	£0.36	18/01/2008	17/01/2015	277,778

The mid-market price of the company's ordinary shares on 31 December 2004 was 36.5 pence. The highest and lowest mid-market prices during the year were 56 pence and 36.5 pence respectively.

13 Share premium account and reserves

	Share premium account £	Profit and loss account £
At 1 January 2004	8,046,689	(7,913,623)
Loss for the financial year	—	(1,111,744)
Gross premium on allotment	1,755,561	—
Issue costs	(449,707)	—
At 31 December 2004	<u>9,352,543</u>	<u>(9,025,367)</u>

14 Reconciliation of movements in shareholders' funds

	2004 £	2003 £
Loss for the financial year	(1,111,744)	(1,870,566)
Issue of shares	1,500,916	2,173,234
Net addition to funds	389,172	302,668
Opening shareholders' funds	757,273	454,605
Closing shareholders' funds	<u>1,146,445</u>	<u>757,273</u>

15 Net cash outflow from operating activities

	2004 £	Restated 14 months ending 31 December 2003 £
Operating loss	(1,217,995)	(1,997,358)
Amortisation	3,996	4,662
Depreciation	32,666	150,142
(Profit)/loss on sale of tangible fixed assets	(2,859)	2,000
(Increase)/decrease in stocks	(1,285)	262,738
Decrease in debtors	3,028	78,319
Decrease in creditors	(14,366)	(176,570)
Net cash outflow from operating activities	<u>(1,196,815)</u>	<u>(1,676,067)</u>

16 Reconciliation of net cash flow to movement in net debt

	2004 £	14 months ending 31 December 2003 £
Increase in cash in the year	350,779	583,395
Cash outflow from bank loans	—	4,943
Cash outflow from finance leases	29,823	31,635
Change in net funds resulting from cashflows	380,602	619,973
Inception of finance lease	(53,122)	—
Movement of net funds in the year	327,480	619,973
Net funds at 1 January 2004	777,271	157,298
Net funds at 31 December 2004	<u>1,104,751</u>	<u>777,271</u>

17 Analysis of changes in net debt

	At 1 January 2004 £	Cashflow £	Non cash items £	At 31 December 2004 £
Cash at bank and in hand	813,505	350,779	–	1,164,284
Finance leases	(36,234)	29,823	(53,122)	(59,533)
	<u>777,271</u>	<u>380,602</u>	<u>(53,122)</u>	<u>1,104,751</u>

18 Leasing commitments

Operating lease payments amounting to £50,818 (2003: £70,471) are due within one year. The leases to which these amounts relate expire as follows:

	2004		2003	
	Land and buildings £	Other £	Land and buildings £	Other £
Operating leases which expire :				
– within one year	4,520	–	–	2,540
– within two to five years	–	6,298	31,640	–
– in five years or more	40,000	–	36,291	–
	<u>44,520</u>	<u>6,298</u>	<u>67,931</u>	<u>2,540</u>

19 Financial instruments

Treasury policies and financial risk

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

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

Interest rate risk

Apart from using short term and period deposits, interest rate risks is limited to the fixed element of finance leases. Typically, the Company uses finance leases for fixed periods of up to 5 years to finance purchase of assets where it is considered to be a more effective use of funds.

Liquidity risk

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

Foreign currency risk

The Company does not have any foreign currency denominated trade debtors or creditors and therefore is not subject foreign exchange risk.

As permitted by Financial Reporting Standard No.13 ("FRS 13"), the disclosures set out below exclude short term debtors and creditors.

Interest rate risk profile of financial assets

The interest rate risk profile of financial assets was confined to floating rate sterling assets.

	Floating rate financial assets £	Financial assets on which no interest is earned £	Total £
At 31 December 2004			
Euro	—	1,186	1,186
Sterling	955,000	208,098	1,163,098
	<u>955,000</u>	<u>209,284</u>	<u>1,164,284</u>

The weighted average interest rate of the fixed rate financial assets is 4.53%. The average period for which the interest rate is fixed is three months.

At 31 December 2003

Sterling	<u>177,284</u>	<u>636,221</u>	<u>813,505</u>
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Borrowing facilities

As at 31 December 2004 the Company had no bank overdraft facility.

Fair values of financial assets and financial liabilities

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

20 Contingencies

Contingent liabilities

Under the terms of the acquisition of Intellectual Property Rights to the innovative system of composting from Dr A Heyworth, a director, a royalty of 1% 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.

21 Related party transactions

Apart from as disclosed in note 20, no transactions with related parties were undertaken such as are required to be disclosed under Financial Reporting Standard 8.