

TEG Environmental Plc

Registered No. 3109613

DIRECTORS

A Sykes (Chairman)
R C Bilborough
P L Drown
Dr A Heyworth
J L Hough

SECRETARY

Monica Bolton

AUDITORS

Ernst & Young
Rolls House
7 Rolls Buildings
Fetter Lane
London EC4A 1NH

BANKERS

Midland Bank plc
140 Leadenhall Street
London EC3V 4PS

SOLICITORS

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

REGISTERED OFFICE

16/20 Ely Place
London EC1



TEG Environmental Plc

DIRECTORS' REPORT

The directors present their report and accounts for the 10 months ended 31 October 1997.

RESULTS AND DIVIDENDS

The company made a loss before taxation of £424,611 (1996 - loss £182,981).

The directors do not propose to pay a dividend in respect of the period ended 31 October 1997 and recommend that the loss after taxation is transferred to reserves.

PRINCIPAL ACTIVITY AND REVIEW OF THE BUSINESS

The principal activity of the company is that of design, development and production of silos, plant and equipment for composting organic waste.

FIXED ASSETS

Changes in fixed assets during the period are disclosed in note 8 and 9 to the accounts.

DIRECTORS AND THEIR INTERESTS

The directors during the period and their interests in the share capital of the company were as follows:

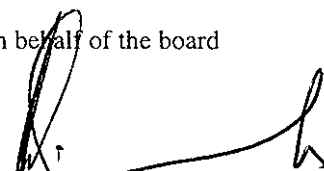
	<i>At beginning and end of period No.</i>
A Sykes	132,000
R C Bilborough	227,000
P L Drown	66,666
Dr A Heyworth	112,000
J L Hough	132,000
L J Olivier	310,000
A Rabett (resigned 23 June 1997)	112,000

On 27 November 1997, L J Olivier resigned as a director.

AUDITORS

A resolution to reappoint Ernst & Young as auditors will be put to the members at the Annual General Meeting.

On behalf of the board


Director

11 DEC 1997

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE
ACCOUNTS

Company law requires the directors to prepare accounts 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 accounts, 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 accounts; and
- prepare the accounts on the going concern basis unless it is inappropriate to presume that the company will continue in business.

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

REPORT OF THE AUDITORS
to the members of TEG Environmental Plc

We have audited the accounts on pages 5 to 15, which have been prepared under the historical cost convention and the accounting policies set out on page 8.

Respective responsibilities of directors and auditors

As described on page 3 the company's directors are responsible for the preparation of the accounts. It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion to you.

Basis of opinion

We conducted our audit in accordance with 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 accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts, 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 accounts 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 accounts.

Fundamental uncertainty

In forming our opinion, we have considered the adequacy of the financing available to the company. The additional finance that is required to support the adoption of the going concern basis, is dependent upon the successful placing and offer of ordinary shares in 1998. In the absence of this additional finance, the going concern basis would not be appropriate and adjustments to the amounts in the accounts may be required. In view of the significance of this uncertainty, we consider that it should be drawn to your attention, but our opinion is not qualified in this respect.

Opinion

In our opinion the accounts give a true and fair view of the state of affairs of the company as at 31 October 1997 and of its loss for the period then ended and have been properly prepared in accordance with the Companies Act 1985.

Ernst & Young
Chartered Accountants
Registered Auditor
London

11 DEC 1997

TEG Environmental Plc

PROFIT AND LOSS ACCOUNT

for the 10 months ended 31 October 1997

		<i>10 months ended 31 October 1997</i>	<i>15 months ended 31 December 1996</i>
	<i>Note</i>	<i>£</i>	<i>£</i>
TURNOVER - continuing operations	2	9,756	6,539
Cost of sales		18,658	2,662
GROSS (LOSS)/PROFIT		(8,902)	3,877
Selling and administrative expenses		410,604	192,895
OPERATING LOSS	3	(419,506)	(189,018)
Other interest receivable and similar income		-	6,037
Interest payable and similar charges	6	(5,105)	-
LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION		(424,611)	(182,981)
Tax on loss on ordinary activities	7	-	-
LOSS FOR THE FINANCIAL PERIOD		(424,611)	(182,981)

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

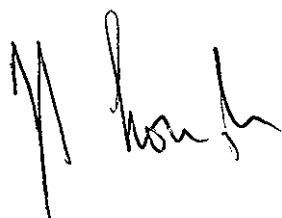
TEG Environmental Plc

BALANCE SHEET

at 31 October 1997

		31 October 1997	31 December 1996
	Notes	£	£
FIXED ASSETS			
Intangible fixed assets	8	32,668	36,000
Tangible fixed assets	9	141,093	90,675
		<u>173,761</u>	<u>126,675</u>
CURRENT ASSETS			
Stocks	10	15,772	6,332
Debtors	11	45,428	18,096
Cash at bank and in hand	12	160,543	38,883
		<u>221,743</u>	<u>63,311</u>
CREDITORS: amounts falling due within one year	13	80,650	57,195
		<u>141,093</u>	<u>6,116</u>
NET CURRENT ASSETS			
		<u>314,854</u>	<u>132,791</u>
TOTAL ASSETS LESS CURRENT LIABILITIES			
		<u>226,523</u>	<u>132,791</u>
CREDITORS: amounts falling due after more than one year	14	88,331	-
		<u>226,523</u>	<u>132,791</u>
CAPITAL AND RESERVES			
Called up share capital	16	167,105	95,000
Share premium account	17	667,010	220,772
Profit and loss account	17	(607,592)	(182,981)
		<u>226,523</u>	<u>132,791</u>
Shareholders' funds			
		<u>226,523</u>	<u>132,791</u>

Director



11 DEC 1997

TEG Environmental Plc

STATEMENT OF CASH FLOWS

for the 10 months ended 31 October 1997

	<i>10 months ended 31 October 1997 £</i>	<i>15 months ended 31 December 1996 £</i>
Net cash outflow from operating activities (note 3(b))	(379,947)	(189,301)
Returns on investments and servicing of finance (note 22)	(5,105)	6,037
Taxation	-	-
Capital expenditure and financial investment (note 22)	(111,631)	(93,625)
Net cash outflow before use of liquid resources and financing	(496,683)	(276,889)
Financing (note 22) - Issue of shares	518,343	315,772
- Increase in debt	100,000	-
Increase in cash in the period	121,660	38,883

RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET FUNDS (note 12)

	<i>1997 £</i>	<i>1996 £</i>
Increase in cash in the period	121,660	38,883
Net cash inflow from increase in debt and lease financing	(100,000)	-
Change in net debt resulting from cash flows	21,660	38,883
Movement in net cash in the period	21,660	38,883
Net funds at beginning of period	38,883	-
Net funds at end of period	60,543	38,883

NOTES TO THE ACCOUNTS

at 31 October 1997

1. ACCOUNTING POLICIES

Basis of preparation

The accounts have been prepared on a going concern basis, which assumes the availability of additional finance. To date the company has been funded in tranches at each stage of the development of its products. Consistent with start up businesses creating new products and having reached the point where marketing and production can proceed, additional finance is required. The raising of this additional finance is dependent upon the successful placing and offer of ordinary shares in 1998. The directors' believe that it is therefore appropriate to prepare the accounts on a going concern basis.

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 over its expected useful life, as follows:

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

Amortisation

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

Stocks

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

Leasing commitments

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

Development costs

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

2. TURNOVER

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

TEG Environmental Plc

NOTES TO THE ACCOUNTS

at 31 October 1997

3. OPERATING LOSS

(a) This is stated after charging:

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

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

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

4. DIRECTORS' EMOLUMENTS

	<i>10 months ended 31 October 1997 £</i>	<i>15 months ended 31 December 1996 £</i>
Directors' emoluments	66,845	46,375
	<u> </u>	<u> </u>

TEG Environmental Plc

NOTES TO THE ACCOUNTS

at 31 October 1997

5. STAFF COSTS

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

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

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

6. INTEREST PAYABLE

	<i>10 months ended 31 October 1997 £</i>	<i>15 months ended 31 December 1996 £</i>
Bank loans and overdrafts	5,105	-

7. TAX ON LOSS ON ORDINARY ACTIVITIES

No tax is payable on the result for the period due to the availability of trading losses.

NOTES TO THE ACCOUNTS

at 31 October 1997

8. INTANGIBLE FIXED ASSETS

	<i>Intellectual Property Rights</i> £
Cost:	
At 1 January 1997 and 31 October 1997	40,000
Amortisation:	
At 1 January 1997	4,000
Provided during the period	3,332
At 31 October 1997	7,332
Net book value:	
At 31 October 1997	32,668
At 1 January 1997	36,000

This represents the purchase of the Intellectual Property Rights of both an innovative system of accelerated composting for £35,000 from Dr A Heyworth and design of the Twin Cage Composter for £5,000 from A Rabett.

9. TANGIBLE FIXED ASSETS

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

TEG Environmental Plc

NOTES TO THE ACCOUNTS at 31 October 1997

10. STOCKS

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

11. DEBTORS

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

12. ANALYSIS OF NET FUNDS

	<i>At 1 January 1997</i>	<i>Cash flow</i>	<i>At 31 October 1997</i>
	£	£	£
Cash at bank and in hand	38,883	121,660	160,543
Overdrafts		<u>121,660</u>	
Debt due after one year		(11,669)	(11,669)
Debt due within one year		<u>(88,331)</u>	<u>(88,331)</u>
		21,660	
	<u>38,883</u>	<u>21,660</u>	<u>60,543</u>

13. CREDITORS: amounts falling due within one year

	<i>31 October 1997</i>	<i>31 December 1996</i>
	£	£
Bank loan (note 15)	11,669	-
Trade creditors	-	3,834
Other taxes and social security costs	10,334	-
Accruals	58,647	53,361
	<u>80,650</u>	<u>57,195</u>

TEG Environmental Plc

NOTES TO THE ACCOUNTS

at 31 October 1997

14. CREDITORS: amounts falling due after more than one year

	31 October 1997 £	31 December 1996 £
Bank loan (note 15)	88,331	-

15. BANK LOAN

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

16. SHARE CAPITAL

	1997 No.	1996 No.	1997 £	Authorised 1996 £
Ordinary shares of 5 pence each	100,000,000	100,000,000	5,000,000	5,000,000
	1997 No.	1996 No.	1997 £	Allotted, called up and fully paid 1996 £
Ordinary shares of 5 pence each	3,342,111	1,900,020	167,105	95,000

Since incorporation total shares issued for cash amounted to £936,550.

During the year, 1,442,091 ordinary shares of 5 pence each, with an aggregate nominal value of £72,105, were issued fully paid for cash of £526,550, in order to help finance the working capital requirements of the business.

17. RECONCILIATION OF SHAREHOLDERS' FUNDS AND MOVEMENTS ON RESERVES

	Share capital £	Share premium account £	Profit and loss account £	Total £
Shares issued	95,000	315,000	-	410,000
Pre incorporation expenditure	-	(94,228)	-	(94,228)
Loss for the period	-	-	(182,981)	(182,981)
At 1 January 1997	95,000	220,772	(182,981)	132,791
Loss for the period	-	-	(424,611)	(424,611)
Shares issued	72,105	454,445	-	526,550
Issue costs	-	(8,207)	-	(8,207)
At 31 October 1997	167,105	667,010	(607,592)	226,523

NOTES TO THE ACCOUNTS

at 31 October 1997

18. POST BALANCE SHEET EVENTS

The directors are planning to raise £1,200,000 from a placing and offer of ordinary shares during January 1998, after which the company proposes to trade its entire issued share capital on OFEX, a facility operated by J P Jenkins Limited, which allows trading in shares of unquoted companies.

19. OTHER FINANCIAL COMMITMENTS

At 31 October 1997 the company had annual commitments under non-cancellable operating leases as set out below:

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

20. TRANSACTIONS WITH DIRECTORS

P L Drown is a partner in Beavis Walker. During the period, Beavis Walker charged professional fees of £15,096 (1996 - £33,750) to the company. A service agreement has been signed with the company to cover the services of P L Drown as a director of the company, to make its offices available as the company's registered office and to provide other financial services to the company. Fees are charged at a rate of £15,420. The agreement is terminable after 23 November 2000 on 3 months notice in writing.

21. 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.

TEG Environmental Plc

NOTES TO THE ACCOUNTS at 31 October 1997

22. ANALYSIS OF CASH FLOWS FOR HEADINGS NETTED IN THE CASH FLOW STATEMENT

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