

# TEG Environmental Plc

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Registered No. 3109613

## DIRECTORS

A Sykes	(Chairman)
R C Bilborough	
P L Drown	(Resigned 21 April 1998 )
Dr A Heyworth	
J L Hough	(Deputy Chairman)
A P Leslie	(Appointed 22 April 1998)
L J Olivier	(Resigned 27 November 1997)

## SECRETARY

M Bolton

## AUDITOR

Ernst & Young  
100 Barbirolli Square  
Manchester  
M2 3EY

## BANKERS

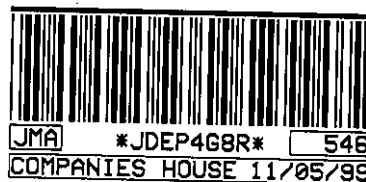
Midland Bank plc  
140 Leadenhall Street  
London EC3V 4PS

## SOLICITORS

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

## REGISTERED OFFICE

Crescent House  
2-6 Sandy lane  
Preston  
Lancashire  
PR5 1EB



# TEG Environmental Plc

## DIRECTORS' REPORT

The directors present their report and accounts for the year ended 31 October 1998.

### RESULTS AND DIVIDENDS

The company made a loss before taxation of £714,442 (1997 - loss £424,611).

The directors do not propose to pay a dividend in respect of the year ended 31 October 1998 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.

During the year the company issued 896,142 Ordinary Shares of 5 pence for a total consideration of £896,142 to provide the company with working capital.

### FUTURE DEVELOPMENTS

Subsequent to the year end, the company has raised additional funds of £631,205 through a new issue of shares. Following the early stages of development of the company and its products, the directors are now actively pursuing order for the business during the early part of 1999.

### FIXED ASSETS

Changes in fixed assets during the year are disclosed in note 9 and 10 to the accounts.

### DIRECTORS AND THEIR INTERESTS

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

	<i>At beginning of year No.</i>	<i>At end of year No.</i>
A Sykes	326,193	348,403
R C Bilborough	227,000	227,000
P L Drown	24,525	26,721
Dr A Heyworth	112,000	112,000
J L Hough	426,829	476,578
L J Olivier	310,000	309,500
A P Leslie	-	215,000

On 27 November 1997, L J Olivier resigned as a director, on 21 April 1998 P L Drown resigned as a director, and on 22 April 1998 A P Leslie was appointed a director.

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 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 R C Bilborough with a 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 the grant.

In addition, the company has established the TEG Environmental Plc Company Share Option Plan (the "Plan") which has been approved by the Inland Revenue under schedule 9 to the Income and Corporation

**DIRECTORS' REPORT**

Taxes Act 1988. Under the Plan, options over 75,000 Ordinary Shares have been granted to Dr A Heyworth with a subscription price of 35 pence per Ordinary Share. The future grant of any options to employees will be subject to performance targets set by the remuneration committee. The Plan is intended to motivate, retain and reward selected key employees who by their efforts are able to influence the performance and success of the Company's business.

**YEAR 2000**

The directors do not believe that the year 2000 problem will have a significant effect on the company. The costs expected to be incurred in ensuring year 2000 compliance are not expected to be significant.

**EURO**

The directors do not expect the introduction of the Euro to have a significant impact on the company.

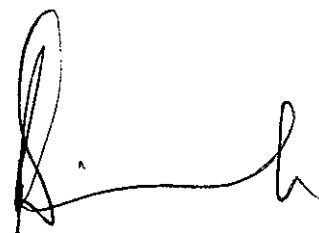
**CREDITOR PAYMENT POLICY AND PRACTICE**

It is the company's policy that payments to suppliers are made in accordance with the terms and conditions agreed between the company and its suppliers, providing that all trading terms and conditions have been complied with.

**AUDITOR**

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

On behalf of the board on 11 February 1999

A handwritten signature in black ink, appearing to be 'R C Bilborough', written over a horizontal line.

R C Bilborough  
Director

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 year. 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 6 to 17, which have been prepared under the historical cost convention and the accounting policies set out on page 9.

**Respective responsibilities of directors and auditors**

As described on page 4 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.

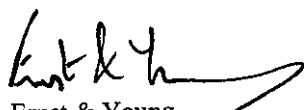
**Basis of opinion**

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.

**Opinion**

In our opinion the accounts give a true and fair view of the state of affairs of the company as at 31 October 1998 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

A handwritten signature in black ink, appearing to be 'Ernst & Young', with a long, sweeping underline.

Ernst & Young  
Registered Auditor  
Manchester

Date : 11 February 1999

# TEG Environmental Plc

## PROFIT AND LOSS ACCOUNT for the year ended 31 October 1998

		<i>Year ended 31 October 1998</i>	<i>10 months ended 31 October 1997</i>
	<i>Note</i>	<i>£</i>	<i>£</i>
TURNOVER - continuing operations	2	35,873	9,756
Cost of sales		(47,073)	(18,658)
<b>GROSS LOSS</b>		<b>(11,200)</b>	<b>(8,902)</b>
Selling and administrative expenses		(704,351)	(410,604)
<b>OPERATING LOSS</b>	3	<b>(715,551)</b>	<b>(419,506)</b>
Other interest receivable and similar income	6	11,719	-
Interest payable and similar charges	7	(10,610)	(5,105)
<b>LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION</b>		<b>(714,442)</b>	<b>(424,611)</b>
Tax on loss on ordinary activities	8	-	-
<b>LOSS FOR THE FINANCIAL PERIOD</b>	19	<b>(714,442)</b>	<b>(424,611)</b>

### STATEMENT OF RECOGNISED GAINS AND LOSSES

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

# TEG Environmental Plc

## BALANCE SHEET at 31 October 1998

	Notes	1998 £	1997 £
<b>FIXED ASSETS</b>			
Intangible fixed assets	9	28,668	32,668
Tangible fixed assets	10	129,093	141,093
		<u>157,761</u>	<u>173,761</u>
<b>CURRENT ASSETS</b>			
Stocks	11	4,291	15,772
Debtors	12	79,332	45,428
Cash at bank and in hand		218,559	160,543
		<u>302,182</u>	<u>221,743</u>
<b>CREDITORS: amounts falling due within one year</b>	14	(100,016)	(80,650)
<b>NET CURRENT ASSETS</b>		<u>202,166</u>	<u>141,093</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<u>359,927</u>	<u>314,854</u>
<b>CREDITORS: amounts falling due after more than one year</b>	15	(70,805)	(88,331)
		<u>289,122</u>	<u>226,523</u>
<b>CAPITAL AND RESERVES</b>			
Called up share capital	18,19	211,913	167,105
Share premium account	19	1,399,243	667,010
Profit and loss account	19	(1,322,034)	(607,592)
<b>EQUITY SHAREHOLDERS' FUNDS</b>		<u>289,122</u>	<u>226,523</u>

These financial statements were approved by the board on 11 February 1999 and signed on its behalf by

  
A Sykes  
Director

# TEG Environmental Plc

## STATEMENT OF CASH FLOWS for the year ended 31 October 1998

		<i>Year ended 31 October 1998</i>	<i>10 months ended 31 October 1997</i>
	<i>Notes</i>	<i>£</i>	<i>£</i>
Net cash outflow from operating activities	3b	(679,852)	(379,947)
Returns on investments and servicing of finance	24	1,109	(5,105)
Taxation		-	-
Capital expenditure and financial investment	24	(22,364)	(111,631)
Net cash outflow before use of liquid resources and financing		(701,107)	(496,683)
Financing	24	759,123	618,343
Increase in cash in the period	13	58,016	121,660

### RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET FUNDS

		<i>1998</i>	<i>1997</i>
	<i>Notes</i>	<i>£</i>	<i>£</i>
Increase in cash in the period	13	58,016	121,660
Net cash outflow/(inflow) from increase in debt and lease financing	13	17,917	(100,000)
Change in net debt resulting from cash flows		75,933	21,660
New finance leases	13	(11,899)	-
Movement in net cash in the period		64,034	21,660
Net funds at beginning of period	13	60,543	38,883
Net funds at end of period	13	124,577	60,543

#### **Material Non Cash Transactions**

During the year the company entered into a finance lease contract in order to purchase a JCB, the total balance payable being £13,983.



NOTES TO THE ACCOUNTS  
for the year ended 31 October 1998

1. ACCOUNTING POLICIES

*Basis of preparation*

The accounts have been prepared on a going concern basis on the grounds that after the year end the company obtained £752,500 of further funding via the placing of 752,500 Ordinary Shares of 5 pence at a price of £1 each. The placing raised £631,205 after issue costs of £121,295. The directors believe that funds raised as a result of this placing are sufficient to enable the company to continue as a going concern for the foreseeable future.

*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 for the year ended 31 October 1998

### 3. OPERATING LOSS

(a) This is stated after charging/(crediting):

	Year ended 31 October 1998 £	10 months ended 31 October 1997 £
Auditors' remuneration - audit services	4,250	3,000
- non audit services	28,218	-
Depreciation of owned fixed assets	40,057	28,209
Depreciation of assets held under HP agreements	2,975	-
Amortisation	4,000	3,332
Adjustments to fixed assets	(2,211)	-
Operating lease rentals - plant and machinery	13,907	6,315
- land and buildings	18,025	21,183

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

	Year ended 31 October 1998 £	10 months ended 31 October 1997 £
Operating loss	(715,551)	(419,506)
Depreciation of tangible fixed assets	43,032	28,209
Amortisation of intangible fixed assets	4,000	3,332
Adjustments to fixed assets	3,232	-
Decrease/(increase) in stocks	11,481	(9,440)
Increase in debtors	(33,904)	(27,332)
Increase in creditors	7,858	44,790
Net cash outflow from operating activities	(679,852)	(379,947)

### 4. DIRECTORS' EMOLUMENTS

	Year ended 31 October 1998 £	10 months ended 31 October 1997 £
Directors' emoluments	88,344	66,845

In addition to the amounts shown above fees paid to third parties during the year for the services of Directors amounted to £15,420 (1997:£15,420).

# TEG Environmental Plc

## NOTES TO THE ACCOUNTS for the year ended 31 October 1998

### 5. STAFF COSTS

	<i>Year ended 31 October 1998 £</i>	<i>10 months ended 31 October 1997 £</i>
Wages and salaries	205,596	98,968
Social security costs	21,692	9,897
	<u>227,288</u>	<u>108,865</u>

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

	<i>Year ended 31 October 1998 No.</i>	<i>10 months ended 31 October 1997 No.</i>
Administration and selling	<u>8</u>	<u>6</u>

### 6. INTEREST RECEIVABLE

	<i>Year ended 31 October 1998 £</i>	<i>10 months ended 31 October 1997 £</i>
Bank interest	<u>11,719</u>	<u>-</u>

### 7. INTEREST PAYABLE

	<i>Year ended 31 October 1998 £</i>	<i>10 months ended 1997 £</i>
Bank loans and overdraft	10,523	5,105
Hire purchase agreements	87	-
	<u>10,610</u>	<u>5,105</u>

### 8. TAX ON LOSS ON ORDINARY ACTIVITIES

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

# TEG Environmental Plc

## NOTES TO THE ACCOUNTS for the year ended 31 October 1998

### 9. INTANGIBLE FIXED ASSETS

	<i>Intellectual Property Rights</i> £
Cost:	
At 1 November 1997 and 31 October 1998	40,000
Amortisation:	
At 1 November 1997	7,332
Provided during the period	4,000
At 31 October 1998	11,332
Net book value:	
At 31 October 1998	28,668
At 1 November 1997	32,668

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.

### 10. TANGIBLE FIXED ASSETS

	<i>Fixtures and fittings</i> £	<i>Plant and machinery</i> £	<i>Total</i> £
Cost or valuation:			
At 1 November 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
Depreciation:			
At 1 November 1997	1,972	32,634	34,606
Provided during the period	6,082	36,950	43,032
Adjustments	-	(2,211)	(2,211)
At 31 October 1998	8,054	67,373	75,427
Net book value:			
At 31 October 1998	18,244	110,849	129,093
At 1 November 1997	8,192	132,901	141,093

Included within plant and machinery are assets held under hire purchase agreements, the net book value of these assets totals £8,925 and the depreciation charged during the year was £2,975.

# TEG Environmental Plc

## NOTES TO THE ACCOUNTS for the year ended 31 October 1998

### 11. STOCKS

	<i>31 October 1998</i>	<i>31 October 1997</i>
	<i>£</i>	<i>£</i>
Finished goods	715	11,136
Raw materials and consumables	1,636	4,360
Work in progress	1,940	276
	<u>4,291</u>	<u>15,772</u>

### 12. DEBTORS

	<i>31 October 1998</i>	<i>31 October 1997</i>
	<i>£</i>	<i>£</i>
Trade debtors	9,755	6,494
Other debtors	25,474	34,387
Prepayments and accrued income	44,103	4,547
	<u>79,332</u>	<u>45,428</u>

### 13. ANALYSIS OF NET FUNDS

	<i>At 1 November 1997</i>	<i>Cash flow</i>	<i>Other Changes</i>	<i>At 31 October 1998</i>
	<i>£</i>	<i>£</i>	<i>£</i>	<i>£</i>
Cash at bank and in hand	160,543	58,016	-	218,559
Debt due within one year	(11,669)	15,009	(23,344)	(20,004)
Debt due after one year	(88,331)	-	23,344	(64,987)
Finance leases	-	2,908	(11,899)	(8,991)
	<u>(100,000)</u>	<u>17,917</u>	<u>(11,899)</u>	<u>(93,982)</u>
Net funds	<u>60,543</u>	<u>75,933</u>	<u>(11,899)</u>	<u>124,577</u>

### 14. CREDITORS: amounts falling due within one year

		<i>31 October 1998</i>	<i>31 October 1997</i>
	<i>Notes</i>	<i>£</i>	<i>£</i>
Bank loan	16	20,004	11,669
Trade creditors		26,925	-
Other taxes and social security costs		9,094	10,334
Hire purchase creditor	17	3,173	-
Accruals		40,820	58,647
		<u>100,016</u>	<u>80,650</u>

# TEG Environmental Plc

## NOTES TO THE ACCOUNTS for the year ended 31 October 1998

### 15. CREDITORS: amounts falling due after more than one year

	Notes	31 October 1998 £	31 October 1997 £
Bank loan	16	64,987	88,331
Hire purchase creditor	17	5,818	-
		<u>70,805</u>	<u>88,331</u>

### 16. BANK LOAN

	Notes	1998 £	1997 £
Amounts repayable by instalments:			
within one year		20,004	11,669
between one and two years		20,004	20,004
between two and five years		44,983	60,012
after five years		-	8,315
		<u>84,991</u>	<u>100,000</u>
Included in CREDITORS: amounts falling due within one year	14	(20,004)	(11,669)
		<u>64,987</u>	<u>88,331</u>

#### Analysis of changes in loans during the current and previous years:

	1998 £	1997 £
Balance at 1 November	100,000	-
Drawn down in year	-	100,000
Repaid in year	(15,009)	-
	<u>84,991</u>	<u>100,000</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 for five years. The company's bankers hold a fixed charge over book debts and a floating charge over all other assets.

NOTES TO THE ACCOUNTS  
for the year ended 31 October 1998

## 17. OBLIGATIONS UNDER HIRE PURCHASE CONTRACTS

	1998 £	1997 £
Amounts due:		
within one year	3,697	-
within two to five years	6,778	-
	<hr/>	<hr/>
	10,475	-
Less: finance charges allocated to future periods	(1,484)	-
	<hr/>	<hr/>
	8,991	-

Finance leases and hire purchase contracts are analysed as follows:

	<i>Notes</i>	<i>1998</i> £	<i>1997</i> £
Current obligations	14	3,173	-
Non-current obligations	15	5,818	-
		<hr/> 8,991	<hr/> -

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

	1998	1997
	£	£
Balance at 1 November	-	-
Inception of finance leases in the year	11,899	-
Repaid in year	(2,908)	-
	<hr/>	<hr/>
Balance at 31 October	8,991	-
	<hr/>	<hr/>

## 18. SHARE CAPITAL

	1998	1997	1998	Authorised 1997
	No.	No.	£	£
Ordinary shares of 5 pence each	100,000,000	100,000,000	5,000,000	5,000,000
-	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
				Allotted, called up and fully paid
	1998	1997	1998	1997
	No.	No.	£	£
Ordinary shares of 5 pence each	4,238,253	3,342,111	211,913	167,105
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>

# TEG Environmental Plc

## NOTES TO THE ACCOUNTS for the year ended 31 October 1998

Since incorporation total shares issued for cash amounted (1997: £936,550).

During the year, 896,142 ordinary shares of 5 pence each, with an aggregate nominal value of £44,807, were issued fully paid for cash of £896,142, in order to help finance the working capital requirements of the business. The costs associated with the issue amounted to £119,101.

Since the year end the company has issued 752,500 Ordinary Shares of 5 pence for a total consideration of £752,500, the net proceeds of this issue after deducting issue costs were £631,205.

### 19. RECONCILIATION OF SHAREHOLDERS' FUNDS AND MOVEMENTS ON RESERVES

	Share capital £	Share premium account £	Profit and loss account £	Total £
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
Loss for the period	-	-	(714,442)	(714,442)
Shares issued	44,808	851,334	-	896,142
Issue costs	-	(119,101)	-	(119,101)
At 31 October 1998	211,913	1,399,243	(1,322,034)	289,122

### 20. POST BALANCE SHEET EVENTS

Since the year end the company has raised £631,205, net of issue costs, from a placing and offer of ordinary shares.

### 21. OTHER FINANCIAL COMMITMENTS

At 31 October 1998 the company had annual commitments under non-cancellable operating leases as set out below:

	1998 £	Land and buildings 1997 £	1998 £	Other 1997 £
Operating leases which expire:				
within one year	1,600	2,220	3,956	-
within two to five years	-	14,040	13,493	12,458
	1,600	16,260	17,449	12,458



NOTES TO THE ACCOUNTS

for the year ended 31 October 1998

**22. TRANSACTIONS WITH DIRECTORS**

P L Drown is a partner in Beavis Walker. During the period, Beavis Walker charged professional fees of £17,270 (1997 - £15,096) 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 during the year totalled £15,420. The agreement was terminated when P L Drown resigned as director of TEG Environmental Plc on 21 April 1998.

**23. CONTINGENT LIABILITY**

Under the terms of the acquisition of the Intellectual Property Rights to the innovative system of accelerated composting from Dr A 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.

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

	1998 £	1997 £
<b>Returns on investments and servicing of finance</b>		
Interest received	11,719	-
Interest paid	(10,523)	(5,105)
Interest element of HP rentals	(87)	-
<b>Net cash inflow/(outflow) from returns on investments and servicing of finance</b>	<b>1,109</b>	<b>(5,105)</b>
<b>Capital expenditure and financial investment</b>		
Purchase of tangible fixed assets	(22,364)	(111,631)
Purchase of intangible fixed assets	-	-
<b>Net cash outflow from capital expenditure and financial investment</b>	<b>(22,364)</b>	<b>(111,631)</b>
<b>Financing</b>		
Issue of ordinary share capital	896,141	526,550
Pre incorporation expenses and share issue costs	(119,101)	(8,207)
Loan drawn down	-	100,000
Loan repayments	(15,009)	-
Capital element of HP repayments	(2,908)	-
<b>Net cash inflow from financing</b>	<b>759,123</b>	<b>618,343</b>