

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 a person authorised under the Financial Services and Markets Act 2000 who specialises in advising on the acquisition of shares and other securities. The whole of the text of this document should be read. You should be aware that an investment in the Company involves a high degree of risk and prospective investors should consider carefully the section headed "Risk Factors and Tax Considerations" which is set out in Part 2 of this document.

A copy of this document (which has been drawn up in accordance with the requirements of the POS Regulations and the AIM Rules and comprises a prospectus for the purposes of the POS Regulations) has been delivered to the Registrar of Companies in England and Wales for registration in accordance with Regulation 4(2) of the POS Regulations.

If you have sold or otherwise transferred all of your Ordinary Shares prior to the Record Date, you should complete Box H on the Application Form and deliver the Application Form together with this document, as soon as possible to the purchaser or transferee or to the stockbroker, bank or other agent through whom the sale or transfer was effected for onward transmission to the purchaser or transferee except that this document and the accompanying Application Form should not be forwarded or transferred into the United States, Canada, Australia, Japan or the Republic of Ireland or their respective territories or possessions. If you have sold or otherwise transferred part of your holding of Ordinary Shares you should immediately consult the stockbroker, bank or other agent through whom the sale and transfer was effected.

The Directors of the Company, whose names appear on page 3 of this document, accept responsibility, including individual and collective, for the information contained in this document and for compliance with the AIM Rules. 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 does not omit anything likely to affect the import of such information.

It is expected that Admission will become effective and that trading in the existing Ordinary Shares and New Ordinary Shares will commence on AIM on 27 July 2004.

Application has been made for the existing Ordinary Shares and the New Ordinary Shares, to be admitted to trading on AIM, a market regulated by the London Stock Exchange. AIM is a market designed primarily for emerging or smaller companies to which a higher investment risk tends to be attached than to larger or more established companies. AIM securities are not admitted to the Official List. A prospective investor should be aware of the risks of investing in such companies and should make the decision to invest only after careful consideration and, if appropriate, consultation with an independent financial adviser. The AIM Rules are less demanding than those of the Official List. It is emphasised that no application is being made for admission of the Ordinary Shares and the New Ordinary Shares to the Official List. Further, neither the United Kingdom Listing Authority nor the London Stock Exchange has examined or approved the contents of this document.

Copies of this document, which is dated 6 July 2004, will be available free of charge to the public during normal business hours on any weekday (except Saturdays and public holidays) from the registered office of the Company and at the offices of Jones Day, 21 Tudor Street, London EC4Y 0DJ for a period of one month following Admission.

TEG ENVIRONMENTAL PLC

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

Placing and Open Offer of up to 5,731,826 New Ordinary Shares at a price of 50 pence per New Ordinary Share and Admission to trading on AIM

Nominated Adviser and Broker Canaccord Capital (Europe) Limited

The Open Offer is not being made, directly or indirectly, in or into the United States, Canada, Australia, Japan or the Republic of Ireland or any other jurisdiction in which such Open Offer is unlawful. Accordingly, this document and the accompanying Application Form should not be posted or otherwise distributed or sent in, into or from the United States, Canada, Australia, Japan, the Republic of Ireland or any other jurisdiction where to do so would be a breach of any applicable law and/or regulation.

The New Ordinary Shares have not been, and will not be, registered or qualified under the United States Securities Act 1933, as amended, or under the securities laws of any state or other jurisdiction of the United States, nor have the relevant clearances been, nor will they be, obtained from the Securities Commission or similar authority of any province or territory of Canada and no prospectus has been or will be filed or registration made under any securities laws of any province or territory of Canada, nor has a prospectus in relation to the New Ordinary Shares been lodged, nor will one be lodged with, or registered by the Australian Securities and Investments Commission, nor have any steps been taken nor will any steps be taken to enable the New Ordinary Shares to be offered in compliance with applicable securities laws of Japan or the Republic of Ireland. Accordingly, unless an exemption under the relevant securities laws is available, the New Ordinary Shares may not be offered, sold, re-sold or delivered, directly or indirectly, in or into the United States, Canada, Australia, the Republic of Ireland or Japan or any other jurisdiction in which the offer of the New Ordinary Shares would constitute a violation of the relevant laws or require registration thereof, or to or for the account or benefit of any US person(s) or residents of Canada, Australia, the Republic of Ireland or Japan. All recipients of this document who would, or otherwise intend to, forward this document and/or any of the accompanying documents to any jurisdiction outside the United Kingdom or to overseas persons should seek appropriate advice before taking any action.

The latest time and date for acceptance and payment in full for the Open Offer Shares under the Open Offer is 3.00 p.m. on 22 July 2004. The procedure for acceptance and payment is set out in Part III of this document and in the accompanying Application Form. An application may only be made on the Application Form, which is personal to the Shareholder(s) named thereon and may not be sold, assigned, transferred or split, except to satisfy bona fide market claims. Qualifying Shareholders who wish to apply for Open Offer Shares under the Open Offer should complete the Application Form in accordance with the instructions printed on it, and return it, together with the appropriate remittance, by post in the reply-paid envelope provided or (during normal business hours only) by hand, so as to be received by the Corporate Actions, Capita IRG Plc, PO Box No. 166, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TH not later than 3.00 p.m. on 22 July 2004.

All the Ordinary Shares will, on Admission, rank *pari passu* in all respects and will rank in full for all dividends or other distributions hereafter declared, made or paid on the Ordinary Shares after Admission.

Canaccord Capital (Europe) Limited ("Canaccord"), which is authorised and regulated by The Financial Services Authority, has been appointed as the Company's nominated adviser and broker for the purposes of the AIM Rules. Canaccord's responsibilities as the Company's nominated adviser under the AIM Rules are owed solely to the London Stock Exchange. Canaccord is acting exclusively for the Company in relation to the Canaccord Placing. Canaccord is not acting for, and will not be responsible to, any person other than the Company for providing the protections afforded to customers of Canaccord or for advising any other person on the transactions or arrangements referred to herein, or the contents of this document. Canaccord has not authorised the contents of any part of this document and (without limiting the statutory rights of any person to whom this document is issued) no liability whatsoever is accepted by Canaccord for the accuracy of any information or opinions contained in this document or for the omission of any material information from the document, for which the Company and the Directors are solely responsible.

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DIRECTORS, SECRETARY AND ADVISERS

Directors	Nigel Sandford Johnson Moore <i>Non-Executive Chairman</i> John Leonard Hough <i>Non-Executive Deputy Chairman</i> Richard Crossley Bilborough <i>Chief Executive</i> Dr Alan Heyworth <i>Technical Director</i> all of: Unit 6 Meadowcroft Business Park Pope Lane Whitestake Preston PR4 4BA
Company Secretary	Steve Bonney
Registered Office	Unit 6 Meadowcroft Business Park Pope Lane Whitestake Preston PR4 4BA
Nominated Adviser and Broker	Canaccord Capital (Europe) Limited First Floor 27 Upper Brook Street London W1K 7QF
Solicitors to the Company	Jones Day 21 Tudor Street London EC4Y 0DJ
Solicitors to the Placing	Charles Russell 8-10 New Fetter Lane London EC4A 1RS
Auditors	Moore and Smalley Richard House Winckley Square Preston Lancashire PR1 3HP
Reporting Accountants	Grant Thornton UK LLP Heron House Albert Square Manchester M60 8GT
Bankers	HSBC Bank Plc 140 Leadenhall Street London EC3V 4P5
Registrars	Capita Registrars The Registry 34 Beckenham Road Beckenham Kent BR3 4TU
Receiving Agents	Capita IRG Plc Corporate Actions PO Box 166 34 Beckenham Road Beckenham Kent BR3 4TH
Public Relations	Binns & Co PR Ltd 9th Floor City Point 1 Ropemaker Street London EC2Y 9HT

DEFINITIONS

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

“Admission”	the admission of the existing Ordinary Shares and the New Ordinary Shares to trading on AIM becoming effective in accordance with the AIM Rules
“AIM”	the market operated by the London Stock Exchange
“AIM Rules”	the AIM Rules of the London Stock Exchange
“Application Form”	the application form accompanying this document on which Qualifying Shareholders may apply for Open Offer Shares under the Open Offer and which forms part of the terms and conditions of the Open Offer
“Board” or “Directors”	the board of directors of the Company
“Canaccord”	Canaccord Capital (Europe) Limited, the Company’s nominated adviser and broker
“Canaccord Placing”	the conditional firm placing of 2,080,000 New Ordinary Shares by Canaccord, on behalf of the Company, at the Issue Price on the terms of, and subject to the conditions contained in the Placing Agreement
“Companies Act”	the Companies Act 1985, as amended
“Company” or “TEG”	TEG Environmental Plc
“CREST”	the electronic share settlements system operated by CRESTCo Limited
“EU”	the European Union
“Existing Ordinary Shares”	the existing Ordinary Shares in issue at the Record Date
“FSMA”	the Financial Services and Markets Act 2000
“Issue Price”	50 pence per New Ordinary Share
“Jones”	Jones Environmental (Ireland) Limited
“Kildare Contract”	a contract for the supply of a total of 24 Silo-Cages to treat sewage sludge entered into between the Company and Jones, further details of which are set out in paragraph 8 of Part I and paragraph 9 of Part VI of this document
“London Stock Exchange”	London Stock Exchange plc
“New Ordinary Shares”	the new Ordinary Shares to be issued pursuant to the Placing and Open Offer
“OFEX”	a market operated by OFEX plc, which allows trading in the shares of unquoted companies
“Official List”	Official List of the United Kingdom Listing Authority
“Open Offer”	the invitation made by the Company to Qualifying Shareholders to apply to subscribe for the Open Offer Shares on the terms and subject to the conditions set out in Part III of this document and in the Application Form
“Open Offer Shares”	the 2,496,826 New Ordinary Shares being offered pursuant to the Open Offer

“Ordinary Shares”	ordinary shares of 5p each in the Company
“Placing”	the TEG Placing and the Canaccord Placing
“Placing Agreement”	the agreement dated 6 July 2004, between the Company, the Directors and Canaccord, summarised in paragraph 9(d) of Part VI of this document
“POS Regulations”	the Public Offers of Securities Regulations 1995, as amended
“Qualifying Shareholders”	Shareholders on the register of members of the Company on the Record Date with the exception of certain overseas Shareholders who are excluded, as set out in Part III of this document.
“Record Date”	the close of business on 5 July 2004
“the Regulation”	the Animal By-Products Regulation 2003
“Securities Act”	United States Securities Act of 1933, as amended
“Shareholders”	holder(s) of Ordinary Shares
“Share Option Schemes”	The TEG unapproved Share Option Scheme, The Company Share Option Plan and the Company Enterprise Management Incentive Share Option Plan, further details of which are set out in paragraph 7 of Part VI of this document
“Subscription Letter”	the letter dated 1 June 2004 sent to certain Shareholders inviting them to subscribe for New Ordinary Shares as part of the TEG Placing
“TEG Placing”	the conditional private placing of up to 1,155,000 New Ordinary Shares by the Company at the Issue Price on the terms of, and subject to the conditions contained in the Subscription Letter
“UK” or “United Kingdom”	the United Kingdom of Great Britain and Northern Ireland
“United States”	the United States of America

PLACING AND OPEN OFFER STATISTICS

Issue Price per New Ordinary Share	50 pence
Number of Existing Ordinary Shares	12,484,134
Number of New Ordinary Shares to be issued pursuant to the Placing and Open Offer	up to 5,731,826
Number of Ordinary Shares in issue upon completion of the Placing and Open Offer (assuming subscription in full)	18,215,960
Market capitalisation, upon completion of the Placing and Open Offer, at the Issue Price (assuming subscription in full)	£9.10 million
Gross proceeds of the Placing and Open Offer (assuming subscription in full)	£2.86 million
Net proceeds of the Placing and Open Offer (assuming subscription in full)	£2.49 million

EXPECTED TIMETABLE OF PRINCIPAL EVENTS

	2004
Record Date for the Open Offer	5 July
Latest time and date for splitting Application Forms (to satisfy bona fide market claims)	3 p.m. on 20 July
Latest time and date for receipt of completed Application Forms and payment in full under the Open Offer	3 p.m. on 22 July
Admission and dealings commence in the Existing Ordinary Shares and New Ordinary Shares on AIM	27 July
CREST member accounts credited by	27 July
Despatch of definitive share certificates in respect of the New Ordinary Shares by	3 August

If you have any queries on the procedure for acceptance and payment under the Open Offer, you should contact Capita IRG. Please note that Capita IRG cannot offer you any investment advice in relation to the Open Offer.

KEY INFORMATION

The following information must be read in conjunction with the rest of this document, from which it is derived and of which it forms part.

The Company

TEG's principal activity is the design and production of specialised plant and equipment for the composting of organic waste for sale to third party customers and in-house projects. The TEG Silo-Cage composting system is the result of over ten years of design and testing and has been operating successfully since first launched in 2000. The system's method of treating waste and providing a viable product provides a proven, efficient and cost-effective alternative to disposal to landfill or incineration as a means of treating organic waste.

The Company's expanding market is driven by increasingly stringent EU and UK legislation regulating the treatment and disposal of organic waste. Composting has been recognised as the Best Practicable Environmental Option in relation to such treatment and the Directors believe that the Company is well-placed to benefit from this legislative trend towards more environmentally friendly methods of treatment.

The Company has recently been nominated as the sole preferred bidder in connection with a potential contract for the installation of an in-vessel composter for the City and County Council of Swansea. Planning applications have also been submitted for two other sites and the Company is in advanced negotiations with a number of other potential customers.

Driven by the prospect of further environmental legislation and an increasing number of prospective customers and projects, the Directors believe that the time is right to seek admission to trading on AIM and raise the capital to fund the next stage of the Company's development.

TEG's Competitive Advantage

The Directors consider that the TEG Silo-Cage System offers the following advantages over other existing systems:

- (a) it is a continuous flow process as opposed to a batch production;
- (b) it exceeds current legislative requirements;
- (c) it has low operating costs and competitive capital costs;
- (d) it does not require forced aeration, agitation or turning resulting in a low power requirement and low labour costs;
- (e) as forced aeration, agitation and turning are not necessary, the Company's process has minimal releases of odour and bioaerosols;
- (f) the process is a dry operation monitored by multiple temperature probes providing an audit trail and does not produce a leachate; and
- (g) it produces a viable end product of a natural organic fertiliser similar to the Company's product, *EnVigro*TM.

The Management

The Board and senior management have significant experience in aerobic thermophilic in-vessel composting systems.

The Placing and Open Offer

The Company is proposing to raise approximately £2.49 million, net of expenses, by issuing up to 5,731,826 New Ordinary Shares at a price of 50p per New Ordinary Share of which 2,080,000 have been placed firm pursuant to the Canaccord Placing, 2,496,826 comprise Open Offer Shares and 1,155,000 have been conditionally placed pursuant to the TEG Placing. The Directors expect that the net proceeds of the Placing and Open Offer will be used to:

- (a) build the team to deliver orders and roll out projects;
- (b) finance the delivery of plant sales and build, own and operate projects;
- (c) research and development for future products and services; and
- (d) finance working capital.

Risk Factors

An investment in the Company involves a high degree of risk and prospective investors should consider carefully the section headed “Risk Factors and Tax Considerations” which is set out in Part II of this document.

PART I

Letter from the Chairman of the Company

TEG Environmental plc

(Registered in England and Wales with number 3109613)

Directors:

Nigel Moore
John Hough
Richard Bilborough
Alan Heyworth

Registered Office:

Unit 6
Meadowcroft Business Park
Pope Lane
Whitestake
Preston
P3 4BA

6 July 2004

Dear Shareholder

Placing and Open Offer of up to 5,731,826 New Ordinary Shares to raise up to £2.49 million and Admission to AIM

1. Introduction

As you will be aware, the Company has engaged Canaccord to act as its nominated adviser and broker in connection with a proposed placing to institutional places and the admission of the Company's share capital to trading on AIM. As part of the fundraising, the Company also sought to complement the Canaccord Placing by raising further funds through a private placing. Following discussions between Canaccord and prospective places, the placing price has been set at 50 pence per share. Bearing in mind the discount to the price of the shares in the Company and the risk of dilution to Shareholders, we feel it is appropriate to provide Shareholders with an opportunity to participate in the issue of New Ordinary Shares and we are, therefore, making an open offer to all shareholders in conjunction with the Canaccord Placing to raise the funds required to take the Company forward.

As at the date of this document, £1,040,000 has been firmly placed with institutions pursuant to the Canaccord Placing and we have received commitments in the sum £577,500 from Shareholders pursuant to the TEG Placing. We, therefore, now offer to all Qualifying Shareholders the opportunity to subscribe up to a further £1,248,413 for the Open Offer Shares at a price of 50 pence per Open Offer Share on a *pro rata* basis of 1 Open Offer Share for every 5 Ordinary Shares held. In addition, Qualifying Shareholders are entitled to apply for New Ordinary Shares in excess of their *pro rata* entitlement.

This document provides you with details of the Placing and Open Offer and explains why your board considers them to be in the best interests of the Company and its shareholders as a whole.

2. Background

TEG's principal activity is the design and production of specialised plant and equipment for the composting of organic wastes for sale to third party customers and for in-house projects. The TEG Silo-Cage composting system is the result of over ten years of design and testing and has been operating successfully since first launched in 2000. The system's method of treating waste and producing a viable product provides a proven, efficient and cost-effective alternative to disposal to landfill or incineration as a means of treating organic waste.

The Company's expanding market is driven by increasingly stringent EU and UK legislation regulating the treatment and disposal of organic waste. Composting has been recognised as the Best Practicable Environmental Option ("BPEO") in relation to such treatment and the Directors believe that the Company is well-placed to benefit from this legislative trend towards more environmentally friendly methods of treatment.

Since its incorporation in 1995, TEG has raised over £8 million from shareholders to fund its development costs to date and its shares have been traded on OFEX since 1998. Following successful prototype and pilot plant trials, the first production model of the TEG Silo-Cage was

built and launched in 2000 at the Company's site at Sherdley Farm near Preston with an initial planning permission expiring in June 2004. Since launch, the site has operated without complaint for four years and planning permission has recently been extended until December 2019.

The Company has recently been nominated as the sole preferred bidder in connection with a potential contract for the installation of an in-vessel composter for the City and County Council of Swansea. Planning applications have also been submitted for two other sites and the Company is in advanced negotiations with a number of other potential customers.

Driven by the prospect of further environmental legislation beneficial to the Company and an increasing number of prospective customers and projects, the Directors believe that the time is right to seek admission to trading on AIM and raise the capital to fund the next stage of the Company's development.

3. The TEG System

The TEG Silo-Cage system is a large scale continuous-flow thermophilic composting plant that converts organic wastes into a useful natural organic fertiliser. The system uses selected materials which, when mixed with the target waste streams in the correct ratio, will create conditions suitable for rapid thermophilic composting activity. The design of the Silo-Cage System provides an environment for vigorous composting. When the mixed waste is introduced to the Silo-Cage, the micro-organisms already present in the mix quickly multiply, generate high temperatures and rapidly degrade the waste.

The TEG Silo-Cage consists of a bank of between 8 and 32 steel framed cages with ventilated insulated walls. 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 by a mixer into a loading mechanism (travelling overhead feeder) which evenly supplies the calculated amount of compost mix to each silo on a daily basis. Composted product is removed from the base of the Silo-Cage system by an unloading mechanism (also on a daily basis).

Industrial Scale Trials

Extensive trials demonstrated that the TEG Silo-Cage exceeds the accepted standard for pathogen control and provides a treatment at a competitive price that the Directors believe can satisfy any likely future upward ratcheting of treatment standards. Independent laboratory analysis showed the reduction of all pathogens to undetectable levels. This high standard of treatment is now appropriate to a wide range of organic waste streams, particularly former foodstuffs now categorised as animal by-products, food industry, catering, paper and pharmaceutical waste.

The Company completed industrial scale trials of sewage sludge through the Silo-Cage pilot plant in 1999. These trials demonstrated that the Company's plant could process de-watered sewage sludge (liquid sewage which has had the water extracted to produce a cake-like material of approximately 25 per cent. dry matter), remove pathogens and produce a natural organic fertiliser. The compost produced was 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. Trials of a variety of other organic wastes have been undertaken with equal success.

4. Legislative Drivers

The market for the TEG Silo-Cage system and the services that its process provides is driven by environmental legislation. Traditional methods of disposal, for example, landfill, incineration, spreading untreated organic waste onto land and dumping untreated organic waste in rivers or out to sea are being phased out by the Government. Since 2000, a number of key legislative measures have been enacted with clear compliance dates established and the Directors believe that two further significant EU Directives will follow during 2005.

The incremental effect of each new Directive, Regulation and Statutory Target increases the size of the Company's market as the compliance dates for enforcement are reached. The legislation the Directors consider to be the most important to the Company is set out in the indicative legislation compliance date timetable on page 11 of this document. Specifically, the Directors believe the following to be of particular importance to the Company:

KEY UK LEGISLATION AND EU DIRECTIVES – INDICATIVE COMPLIANCE TIMETABLE

Legislation	Compliance Date									
	2003	2004	2005	2006	2007	2008	2009	2010		
Integrated Pollution Prevention Control 2000:										
Paper Mill	Existing									
Food & Drink & Dairy Waste		Phasing	December							
Other waste : food animal based		August								
Intensive Farming (eg pig and poultry manures)				November	January					
Waste recovery food vegetable based			March							
Landfill Directive 1999: Banned Wastes										
All liquid wastes										
Animal By-Products	July									
Dead stock (animals and birds)	July									
Retail food wastes			December							
MSW organic fraction mechanically bio-treated										
Animal By-Products Regulations 2003:										
Some food processing/abattoir waste/butchers	July									
Cooking oil and fats		October								
Food industry (catering – pies, pastries, pizza, sausage rolls, sandwiches etc.)		Phasing	December							
Retailers and all other food processors			December							
Catering facilities, restaurants, canteens, kitchen waste	Also see	Biowaste Directive	Phasing	?						
Proposed Revision to UK Sludge to Land Regulations			2004/2005							
Proposed EU (All) Sludge Directive	Also see	IPPC above	EU Directive			Estimated Compliance				
Proposed EU Biowaste (Composting) Directive					Estimated Compliance					
Catering waste	See ABPR				Estimated Compliance					
Kitchen waste (separated)									Estimated Compliance	

Landfill Directive 1999

The Landfill Directive 1999 (1999/31/EC) came into effect on 16 July 2001 requiring significant reductions in the quantity of biodegradable municipal waste disposed of by landfilling and prohibiting the disposal of hazardous and non-hazardous wastes in the same landfill.

As part of the drive to comply with the Landfill Directive, the Government set mandatory recycling targets for local authorities. Set against a 1995 baseline, the Landfill Directive requires a reduction of 25 per cent. by 2010, 50 per cent. by 2013 and 65 per cent. by 2020. However, given that the UK average for recycling waste was 11.2 per cent. in 2000/01, it has been estimated that, in order to meet the 2005/6 target of 25 per cent. of household waste to be composted or recycled set by the Waste Strategy 2000, the UK will have to provide new facilities at a rate of one per week nationally.

Failure to meet the Landfill Directive targets within the next decade will result in the UK facing substantial fines from the EU. The Directors believe that such financial sanctions will most probably be passed on to Local Authorities and then collected through council tax and that the threat of these sanctions will provide the catalyst for change.

Animal By-Products Regulation 2003

The EU Regulation concerning Animal By-Products became effective from 1 May 2003, and the Regulation came into force in England and Wales on 1 July 2003 introducing higher standards of treatment and banning the use of certain traditional methods for disposal. Given the outbreaks of human and animal disease which have focused attention on the safety of the food chain, the need to protect against pathogens, such as Salmonella, E Coli. 0157, and the need to protect against animal diseases, such as Foot and Mouth and Swine Fever, has become imperative in the Government's policy. It has become clear that traditional and current methods of disposal are unsafe and that organic wastes should be treated to a high standard so that they may safely be recycled to land. The EU Commission was therefore charged with preparing further implementing measures, including the approval of alternative disposal methods.

The Regulation bans the disposal of animal by-products including most food wastes to landfill, although temporarily catering waste may continue to be landfilled. There is a transition period until December 2005, after which certain former foodstuffs from retail, wholesale, distribution and manufacturing outlets will be banned from landfill and must be treated before application to land.

Sewage Sludge Directive

The water industry was one of the first key industries to be affected by the impact of environmental legislative changes and it continues to be targeted to influence capital expenditure decisions by water companies for the next review period beginning April 2005.

All untreated sewage sludge was banned, in the UK, from application to farmland used for food production from December 2001. The revised UK Sewage Sludge to Land Regulation is expected to become effective by December 2005. It has been stated by DEFRA that landfill and incineration as a means of disposal are unlikely to be sustainable options for sewage sludge.

The impending EU Sludge to Land Directive (expected 2005) relates to all organic sludge waste (includes sewage sludge) and will require the enforcement of the higher standards of treatment before such waste may be applied to land. This directive will also bolster the Landfill Directive provisions.

5. The Market

The Directors believe that the Company is well placed to take advantage of the increasing regulation of the waste treatment and disposal market which will reduce the emphasis on the current methods of disposal, most notably landfill and incineration, and create further opportunities for the Company's system for composting, which is recognised as a BPEO. The total waste suitable for composting in the UK in 2000 was at least 120 million tonnes per annum, being made up of industrial waste (16 million tonnes), municipal waste (19 million tonnes) and agricultural waste (85 million tonnes).

In particular, the Directors anticipate that the Company's markets will develop in the following ways:

Waste Management

Landfill tax was introduced in 1996 at £7 per tonne for organic waste in order to accelerate the end of disposal routes to landfill. It increased to £15 per tonne in April 2004 and is legislated to increase to £21 per tonne by 2007 with a Government stated mid to long term target of £35 per tonne. The Directors estimate that landfill costs (tax plus gate fee) will increase from the current £30 – £50 per tonne to £50 – £70 per tonne by the end of the decade. These costs are the current benchmark cost for waste disposal and set levels with which the Directors believe the TEG Silo-Cage system can profitably compete.

The combination of:

- (a) the closing of the disposal route to landfill;
- (b) the increasing costs associated with other methods of disposal;
- (c) the waste management industry and Local Authorities with responsibility for waste being compelled by statutory targets; and
- (d) the EU Landfill Directive to use recycling and composting as the preferred option for disposal;

gives the Company a significant opportunity to earn market share in the treatment of waste. Composting is at the top of the preferred treatment and disposal hierarchy with incineration and landfill as the last resort. Composting is the BPEO and for many organic wastes, only the higher standards of thermophilic composting, which the TEG Silo-Cage system provides, will satisfy the level of treatment required.

Food production, processing and retailers

As a result of increased regulation, the Directors believe further major sales opportunities in the area of food industry and animal by-products have now developed. At present, the Company is involved in negotiating several new contracts with prospective clients and, whilst some of these are in the advanced stages, all are still dependent on planning consent.

Kitchen and Catering Wastes

Composting trials of organic waste from industries affected by the Regulation and the forthcoming Biowaste (Composting) Directive are being undertaken at the site at Sherdley Farm which has been authorised for the treatment of such wastes. The Directors believe the trials are producing satisfactory results.

Contractors

Private contractors are an important and growing area in waste handling and are a segment which TEG is actively targeting. Farm diversion schemes are creating opportunities for large farms and estates who have appropriate facilities and resources.

6. TEG's Competitive Advantage

The Company believes its principal competitors in the organic waste treatment and disposal market are the present disposal routes of landfill and incineration, both of which are expected to be subject to further increased costs from green taxation.

There are other thermophilic in-vessel systems available on the market in addition to the TEG Silo-Cage System. However, the Directors consider that the TEG Silo-Cage System offers the following advantages over other existing systems:

- (a) it is a continuous flow process as opposed to a batch production;
- (b) it exceeds current legislative requirements;
- (c) it has low operating costs and competitive capital costs;
- (d) it does not require forced aeration, agitation or turning resulting in a low power requirement and low labour costs;
- (e) as forced aeration, agitation and turning are not necessary, the Company process has minimal releases of odour and bioaerosols;

- (f) the process is a dry operation monitored by multiple temperature probes providing an audit trail and does not produce a leachate; and
- (g) it produces a viable end product of a natural organic fertiliser similar to the Company's product, *EnVigro*TM.

7. Strategy

The Company's business is principally aimed at the sale of in-vessel compost units and the commission and operation of TEG Silo-Cages.

Turnkey Sales

The Company is able to offer TEG Silo-Cages directly to potential clients for them to manage and operate independently. The Company is in discussions with over 20 potential clients, being contractors, local authorities, waste management companies, food processors and farmers. All such enquiries are subject to confidentiality agreements. TEG currently expects a typical headline sales price of £960,000 for each 28 Silo-Cage system.

Build, own and operate

The Company is also equipped to build, own and operate TEG Silo-Cages on potential leasehold sites in partnership with landowners and typically would invoice a gate fee charge per tonne on a guaranteed monthly and annual tonnage. The Company aims to sub-contract the construction of the TEG Silo-Cages and is currently in negotiations for six potential sites, each of which comprise 2 × 28 banks of Silo-Cages located in Gloucester, Perth, Exeter, Derby, Lincolnshire and Bedford. The Directors believe that if these contracts are secured these plants could prove profitable on a stand-alone basis. Furthermore they believe that these potential sites could act as sales reference points and generate income from the treatment of waste streams from waste producers.

*EnVigro*TM

The Company also produces a viable end-product from its process at its Preston plant – a consistent quality natural organic fertiliser sold as *EnVigro*TM. This plays a key part in the Company's marketing of Silo-Cages. *EnVigro*TM demonstrates the ability of the TEG process to produce a viable product similar, in many cases, to the composted end-product that will result from clients' own use of Silo-Cages.

The Company has made progress over the past four years with sales of *EnVigro*TM to, amongst others, golf courses, bowling greens, sports grounds, local authority sites, environmental projects and to landscape contractors.

Future Prospects

The Company will aim to secure a significant share of the organic waste treatment market. In addition to the discussions highlighted above, TEG has had a further 60 enquiries from potential clients/users of both "sales" and "build, own and operate" and anticipates that progress will be made over the current year. The Directors consider that the opportunity exists for the Company to seize a significant market share.

A key part of the Company's marketing strategy is to provide commercial scale operations and commercial trial facilities in certain areas of the country on a contractual basis with waste producers. Suitable sites have been identified in six locations where TEG plants are expected to be established during 2005/6, subject to planning consent. These facilities will be in addition to the existing plant near Preston where the Company produces *EnVigro*TM, a natural organic fertiliser. This demonstrates the efficiency of the Company's plant and the quality and value of the end product of the process. Planning consent and a waste management licence for a wider use of waste for trial and demonstration purposes has been obtained for this existing plant at Preston.

The Company intends to continue to invest in research and development of its process and plant and to seek opportunities to acquire products which are complementary to its core business. This would both broaden its product base and provide a more comprehensive package to those industries wishing to outsource their waste treatment and disposal. It is not the Company's intention to invest in manufacturing but it does anticipate that it will be necessary to maintain a store of emergency spare parts and key components for supply to its customers.

8. Summary financial information

The table below sets out a summary of selected key financial information for the Company for the periods indicated. This information has been extracted without material adjustment, should be read in conjunction with, and is qualified in its entirety by reference to Part IV of this document. Investors should read the whole of this document and should not rely on this summary.

	<i>Year ended</i>		<i>14 months</i>
	<i>31 October</i>		<i>ended</i>
	<i>2001</i>	<i>2002</i>	<i>31 December</i>
	<i>£'000</i>	<i>£'000</i>	<i>2003</i>
			<i>£'000</i>
Turnover	56	44	33
Cost of sales	(83)	(112)	(58)
Gross loss	(27)	(68)	(25)
Administrative expenses	(1,085)	(2,056)	(1,522)
Operating loss	(1,112)	(2,124)	(1,547)
Exceptional loss on NOIT shares	—	—	(450)
Loss before interest and taxation	(1,112)	(2,124)	(1,997)
Interest	35	12	1
Loss on ordinary activities before taxation	(1,077)	(2,112)	(1,996)
Taxation	—	100	125
Loss retained and transferred to reserves	<u>(1,077)</u>	<u>(2,012)</u>	<u>(1,871)</u>

Kildare Contract

The accounts of the Company for the periods ended 31 October 2002 and 31 December 2003 contain charges of approximately £647,000 and £258,000 respectively in relation to the Kildare Contract. The contract was to process sewage sludge to be supplied to an agreed specification and to produce a composted organic fertiliser suitable for spreading on a landfill site. Jones had previously entered into a separate contract with Kildare County Council, the provider of the sewage sludge feedstock.

In summary, the principal difficulties encountered by the Company were as follows:

- (a) the waste material (sewage sludge) delivered for treatment at the plant in Kildare did not meet the contract specification. It had a much lower dry matter content than the minimum 20 per cent. agreed in the terms of the Kildare Contract, increased the volume of waste to be composted and increased the cost of production for the Company;
- (b) significant cost overruns were incurred in relation to a building that TEG was contracted to build as a result of change of specification;
- (c) certain design changes were required in the plant as a result of provision of sub-standard material;
- (d) the conditions imposed by the Ireland Environmental Protection Agency (“EPA”) for the waste management licence issued to the Kildare County Council in May 2002 were more onerous than anticipated by Jones;
- (e) although the plant successfully processed the sub-standard material and produced a satisfactory product, the material supplied caused the contract to be commercially unacceptable; and
- (f) the plant and building owned by the Company is located on a site provided by Kildare County Council and the Company has to negotiate a formal lease with the council.

The Company terminated the Kildare Contract in 8 December 2003 and has written off the full cost of the plant it owns which is installed on the site. The Directors believe that the Company has made a prudent provision in respect of any further liability that may arise as a result of the Kildare Contract and do not expect any further liability to exceed the amount of the aggregate provisions taken in the Company's accounts up to 31 December 2003.

The above statements regarding the Kildare Contract should be viewed in the light of the specific risk factors set out in Part II of this document and a summary of the terms of the Kildare Contract set out in paragraph 9(c) of Part VI of this document.

9. Directors and Management

The Executive and senior management have significant experience in aerobic thermophilic in-vessel composting systems. Their details are as follows:

Directors

Nigel Moore, aged 60, *Non-Executive Chairman* – Nigel Moore qualified as a Chartered Accountant and then spent his entire career with Ernst & Young based in the London office until he retired on 30 June 2003 after 30 years as a Partner. As well as serving as Client Service Partner for a number of the significant clients of Ernst & Young he also had a number of management roles including Head of Marketing, Managing Partner of the London office and Regional Managing Partner, Eastern Europe and Russia.

Nigel is also currently a Non Executive Director of the Vitec Group plc and a trustee of the Butten Trust.

John Hough, aged 72, *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 broking 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 72, *Chief Executive* – Dick Bilborough has always worked in the agribusiness sector, concerned with rural land-based activity and its related industries. This has covered machinery manufacture and distribution, farm land acquisition and management, land development, irrigation and milling companies, feed lots and meat packing, and leisure use development. He has been responsible for international sales development for a major US company and, in the USA domestic market, business acquisition and disposal.

While principally UK based, his work has 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 new product development to improve production efficiency in a range of markets.

He established, funded, operated and successfully marketed three UK companies, based on the anticipation of legislation change, from 1971 to 1988. A further rural land based development company was sold in 1993.

In May 1993 Dick Bilborough embarked on due diligence, both in Europe and the USA, on the technology to be used by TEG which he was instrumental in founding in October 1995. The Company has grown from prototype development to an industrial scale pilot plant progressing to the production model, the TEG Silo-Cage, processing many different organic waste streams to the enhanced treatment standards required by new and impending legislation changes which have shifted the focus of organic waste treatment and disposal.

His experience in large scale agribusiness, machinery manufacture, marketing and business development (including fund raising) and legislation driven market opportunities provided a diverse level of experience which particularly fitted the multi-dimensional management skills required for the development of the TEG business.

Dr Alan Heyworth BSc, PhD, aged 65, *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 inverted the process for commercial composting which now constitutes the Silo-Cage system.

Future appointments (CEO and Finance Director)

In addition, the Company has engaged headhunters to identify potential candidates for the positions of Chief Executive and Finance Director within the Company and the Board believe that suitable appointments should be made in due course.

Existing Senior Management

Fiona Maudsley aged 31, *Technical Manager* – Fiona Maudsley joined the Company in 1998 and is a graduate of Leeds University in microbiology with exceptional organisational and management skills. She works with and assists Alan Heyworth and is a key member of the scientific and technical team. She project managed the successful commercial scale trials of sewage sludge and provides technical sales support.

Steve Bonney aged 50, *B Com FCA* – Steve joined the Company in November 2002 on a part time basis to oversee the accounts department and work with Wendy Hughes. He is also Company Secretary. He was formerly Finance Director of Clarks Energy Ltd, a specialist green energy company turnover £45 million and previously was founding partner of Latham Crossley and Davis, Chartered Accountants.

Wendy Hughes, aged 31, *Finance Manager* – Wendy is responsible for management accounts, accounting records, VAT returns and payroll. She joined the company in April 2001. Wendy was formerly Cash Manager of Time Group, retailer of computers and mobile phones and an Assistant Accountant with Blackpool Borough Council. She is currently studying for CIMA and is AAT qualified.

Robert Lewis aged 37, *Project Engineer and Engineering Development* – Robert is a qualified incorporated engineer with a wide range of experience over 13 years in marine engineering with the Royal Fleet Auxiliary. His responsibilities include material specification for procurement, involvement with Nial Rees in project management and the co-ordination of the construction and commissioning team for plants. He also leads on engineering development.

Nial Rees, aged 44, *Project Manager and Procurement* – Nial Rees is an experienced general sales manager, formerly with Shufflebottom Limited, an agricultural and industrial building company, with a wide range of contacts in the agribusiness sector. He has excellent experience of site acquisition and the appointment and management of contractors and in project management. His knowledge and skills are highly relevant to the TEG sales and project management activity and he works closely with the Chief Executive and the technical and engineering team.

10. Corporate Governance

The Directors support high standards of corporate governance. This section identifies areas where compliance may appear to be in doubt and sets out the reasons why the board nevertheless considers that TEG is in compliance with the Combined Code. The Combined Code currently recommends that the board of directors of a UK public company should include a balance of executive and non-executive directors (and in particular independent non-executive directors) such that no individual or small group of individuals can dominate the board's decision taking. The

Combined Code recommends that non-executives should comprise at least half of the board. The Combined Code further recommends that a majority of non-executive directors should be independent and that there should be a senior independent director. The Combined Code also provides that the remuneration committees of UK public companies should consist exclusively of non-executive directors who are independent. Except as set out below, the Company complies with the Combined Code in these respects and has put in place the required procedures to comply where practicable with the internal control aspects of the Combined Code.

The Company considers Nigel Moore to be independent for the purposes of the Combined Code and it would consider appointing further independent non-executive directors as and when opportunities for a company of its size arise.

The audit committee which comprises John Hough and Nigel Moore is chaired by Nigel Moore and is responsible for ensuring that the financial performance of the Company is properly monitored and reported on. It receives and reviews reports from management and the Company's auditors relating to annual accounts and the accounting and internal control systems in use throughout of the Company.

The remuneration committee, which comprises John Hough, Nigel Moore and Dick Bilborough, reviews the performance of the executive Directors and sets the scale and structure of their remuneration having due regard to the interest of the shareholders and the performance of the Company. The remuneration committee also recommends the allocation of share options to Directors and other employees. The remuneration committee is chaired by Nigel Moore.

11. Details of the Placing and Open Offer

The Company is proposing to raise up to approximately £2.49 million, net of expenses, by issuing up to 5,731,826 New Ordinary Shares at a price of 50p per New Ordinary Share of which 2,080,000 have been placed firm pursuant to the Canaccord Placing, 2,496,826 comprise Open Offer Shares and 1,155,000 have been conditionally placed pursuant to the TEG Placing.

The Placing and Open Offer are conditional, *inter alia*, upon Admission. It is expected that dealings in the existing Ordinary Shares and the New Ordinary Shares will commence on AIM at 8.00 a.m. on 27 July 2004.

Details of the Canaccord Placing

2,080,000 New Ordinary Shares have been placed firm pursuant to the Canaccord Placing under the arrangements referred to in paragraph 9(d) of Part VI of this document.

Under the Placing Agreement, Canaccord has agreed, as agent for the Company and conditional, *inter alia*, upon Admission, to use its reasonable endeavours to procure places for 2,080,000 New Ordinary Shares at the Issue Price. The Canaccord Placing is not being underwritten. Further details of the Placing Agreement are set out in paragraph 9(d) of Part VI.

The Company has granted Canaccord an option to subscribe for up to 350,000 new Ordinary Shares at the Issue Price, exercisable, in whole or in part, at any time from Admission up to the second anniversary of Admission. Further details of the option agreement are set out in paragraph 9(f) of Part VI.

Details of the TEG Placing

1,155,000 New Ordinary Shares have been conditionally placed pursuant to the TEG Placing with certain Qualifying Shareholders at the Issue Price on the terms of, and subject to, the conditions contained in the Subscription Letter.

Details of the Open Offer

Qualifying Shareholders who wish to subscribe for Open Offer Shares are invited to apply at the Issue Price, free of expenses, *pro rata* to their existing shareholdings on the basis of:

1 Open Offer Share for every 5 Existing Ordinary Shares

held at the close of business on the Record Date (and so in proportion for any number of Existing Ordinary Shares then held). Fractions of Open Offer Shares will not be allotted and entitlements will be rounded down to the nearest whole number of Open Offer Shares. The Open Offer Shares are to be paid for in full on application.

In addition, Qualifying Shareholders are entitled to apply for New Ordinary Shares in excess of their *pro rata* entitlement.

Qualifying Shareholders will receive with this document an Application Form containing details of their entitlement to subscribe for Open Offer Shares. To be valid, Application Forms must be completed in accordance with the instructions thereon and received by Capita IRG Plc by post or (during normal business hours only) by hand at PO Box No. 166, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TH not later than 3.00 p.m. on 22 July 2004.

Subject to fulfillment of the conditions of the Open Offer, the Open Offer Shares will be issued, credited as fully paid, and will be registered in the names of the Qualifying Shareholders validly applying for them and it is expected that certificates in respect of the Open Offer Shares will be despatched to relevant shareholders by first class post at their own risk by 3 August 2004 or, if appropriate, delivery will be made to their CREST accounts by 27 July 2004. No temporary documents of title will be issued. Pending the receipt of definitive share certificates in respect of Open Offer Shares (other than in respect of those shares settled through CREST), transfers will be certified against the register.

Further details of the Open Offer and the terms and conditions on which it is being made, including the procedure for acceptance and payment, are contained in Part III of this document and in the accompanying Application Form. The attention of overseas Shareholders is drawn specifically to the section entitled "Overseas Shareholders" contained in Part III of this document.

In the event that any of the Open Offer Shares have not been taken up by Qualifying Shareholders, the Company may seek to place such shares to trade investors who have shown an interest in the Company.

12. Use of Proceeds

The Directors expect that the net proceeds of the Placing and Open Offer will be used to:

- (a) build the team to deliver orders and roll out projects;
- (b) finance the delivery of plant sales and build, own and operate projects;
- (c) research and development for future products and services; and
- (d) finance working capital

13. CREST

CREST is a paperless settlement system enabling securities to be evidenced otherwise than by a certificate and transferred otherwise than by written instrument. It is expected that the Ordinary Shares will be admitted to CREST with effect from Admission. Accordingly, settlement of transactions in Ordinary Shares following Admission can take place within the CREST System.

14. Share Incentives

Directors and employees have been granted share options under the Share Option Schemes. The Directors believe that performance based share incentives are the best means to motivate and retain the best calibre people whilst aligning their interest with those of shareholders. Following Admission, the executive Directors and employees will continue to be eligible to participate in the Share Option Schemes, the terms of which are summarised in paragraph 7 of Part VI of this document.

15. Dividend Policy

TEG is seeking primarily to achieve capital growth for its Shareholders. It is the Board's intention during the current phase of the Company's development to retain any future distributable profits for use within the business. Thereafter, subject to the availability of distributable reserves, the

Directors intend to pursue a dividend policy reflecting the Company's growth in earnings and cash flow generated from operations, whilst maintaining an appropriate level of dividend cover and having regard to further development of the Company's activities. The Directors do not anticipate declaring any dividends for the foreseeable future.

16. Dealing Arrangements

Application has been made for the existing Ordinary Shares and New Ordinary Shares to be admitted to trading on AIM. It is expected that, subject to the Placing Agreement having become unconditional and not having been terminated in accordance with its terms, trading will commence on or around 27 July 2004.

17. Interest of Directors and lock in arrangements

Assuming full take up of entitlements under the Open Offer, on Admission, the Directors and their connected persons will together be interested in 2,574,310 Ordinary Shares, representing 14.13 per cent. in total of the enlarged issued ordinary share capital of the Company following the Placing and Open Offer. The Directors and their connected persons have undertaken to Canaccord and the Company that (save in limited circumstances) they will not, without the prior written consent of Canaccord and the Company, for a period of 12 months following Admission, dispose of any of their interests in Ordinary Shares in the Company. The lock-in agreements also contain orderly market provisions which apply after the lock-in period.

18. Recommendation

The Directors consider that the terms of the Placing and Open Offer are in the best interests of the Company and its shareholders as a whole.

Yours faithfully

Nigel Moore
Chairman

PART II

Risk Factors and Tax Considerations

Risk Factors

Prospective investors should be aware that an investment in the Company involves a higher than normal degree of risk. Accordingly, in addition to the other relevant information contained in this document, the following specific factors should be considered carefully in evaluating whether to make an investment in the Company. The following list is not exhaustive and does not summarise all risks which may be pertinent. Prospective investors should be aware that there may be other risks associated with making an investment in the Company.

Dependence on key personnel

- There are a small number of Directors and key employees 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.

Additional funding

- The Company may need to raise additional funds to ensure future growth. And, while it is difficult for the Directors to predict accurately the timing or amount of the Company's future requirements, the Company may require further funding before reaching profitability. There is no certainty that the Company will be able to obtain such additional funding as and when required.

Competition and changing legislation

- New technology, changing legislative and commercial circumstances and new entrants to the market in which the Company operates may impinge on the Company's business, make its technology uncompetitive or undermine the Company's financial viability.

Kildare Contract

- As set out in paragraph 8 of Part I and paragraph 9 of Part VI of this document, the terms of the Kildare Contract are not set out in a single written agreement. The contractual correspondence between Jones and TEG is very limited and there are a number of omissions which make the terms of the contract ambiguous. The Directors have provided in the Accounts for a potential claim by Jones in respect of what they allege to be the Company's default, however, they have not provided for any potential claim made by Jones for loss of profit. While the Company would defend vigorously any such proceedings, there is no guarantee that a court will hold in favour of the Company. Any adverse ruling may require the Company to make a significant compensation payment to Jones.

Property

- As at the date of this document, the wording of a lease to be granted by Arthur Sanderson and Grace Sanderson (the landlords) of the Sherdley Farm property has been agreed but the consent of Lancashire County Council is required before the lease can be granted. There can be no assurance that this consent will be forthcoming and there is no binding obligation on the landlords to grant the lease. If such consent is withheld or the landlords decide not to grant the lease, the Company could face significant relocation and development costs and substantial time delays as a result of having to obtain the required planning permissions and necessary waste management licenses.

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.

Planning consents and waste management licences

- There is no guarantee that planning consents and waste management licences will be given or granted or, where relevant, renewed or that suitable sites can be located to enable the Company to operate even where contracts have been secured.

Contracts

- Contracts currently in discussion and negotiation may not proceed to binding agreements. Contracts which have been or may in the future be concluded which contain conditions, may never become unconditional or it may take longer than anticipated for the conditions to be satisfied. The Company may never earn sufficient revenues to become profitable.

Investment risk and AIM

- Shares traded on AIM may not be readily realisable and may carry a higher risk than investment in a share listed on the Official List. The Ordinary 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 and its liquidity in the relevant market cannot be guaranteed.

Patents and patent litigation

- There can be no guarantee that the Company will not infringe patents held by third parties in the course of carrying on its business, and any such patents may inhibit the Company's ability to exploit its own technology, unless the Company can obtain either a licence under the third party patents or replacement technology as well as giving rise to a potential claim for damages.

Tax Considerations

The following paragraphs are intended as a general guide to certain aspects of current tax law and United Kingdom Inland Revenue practice.

The statements made relate to shareholders who are resident and ordinarily resident in the United Kingdom for tax purposes, holding as absolute beneficial owners Ordinary Shares as investments and not as an asset of a financial trade.

Prospective subscribers for Ordinary Shares who are in any doubt about their tax position and, in particular, those who are subject to taxation in a jurisdiction other than the United Kingdom, are strongly advised to consult their own professional advisor.

The analysis set out below is based upon the law reflecting The Finance Bill 2004 published on 8 April 2004 and assumes that it will be unchanged when The Finance Bill receives Royal Assent.

Enterprise Investment Scheme ("EIS")

The Inland Revenue has informally indicated, based on information provided that the Company should meet the relevant company conditions under Chapter III Part VII Income and Corporation Taxes Act 1988. The Directors believe the current structure and activities of the Company should enable it to meet the requirements of a qualifying company under the EIS legislation, although no undertakings can be given as to the Company's future activities or structure.

In order for the shares to be qualifying shares certain detailed conditions must be satisfied by the company issuing the shares. In addition, the individual investor must qualify as an individual entitled to the relief under the EIS rules.

The EIS scheme was introduced to encourage investment in companies by providing for relief from income tax in respect of certain investments at 40 per cent. of the amount subscribed for in qualifying shares up to the annual subscription limit, currently £200,000 and relief from capital gains tax on a disposal of the EIS shares held by the investor. Subject to various time limits Capital Gains Tax deferral is also available where sale proceeds are reinvested in EIS qualifying investments.

The availability of these investment reliefs depends upon, amongst other things, the circumstances of the investor and the Company continuing to satisfy the requirements of being a relevant company. The Company does not make any representations as to whether any such investment will be or will continue to be one in respect of which relief under the EIS legislation will be available.

Venture Capital Trusts (“VCT”)

The Inland Revenue has informally indicated, based on information provided, that the Company should for VCT purposes meet the relevant company conditions under Schedule 28B Income and Corporation Taxes Act 1988. The Directors believe the current structure and activities of the Company should enable it to meet the requirements of a qualifying company under the VCT legislation, although no undertakings can be given as to the Company’s future activities or structure.

In order for the company to be a relevant company for a VCT qualifying holding, certain detailed conditions must be satisfied by the company issuing the shares.

The VCT scheme was introduced to encourage investment in companies by VCTs by providing for relief from income tax in respect of certain investments in VCTs (at 40 per cent. of the amount subscribed for in VCT shares up to the annual subscription limit, currently £200,000) and relief from capital gains tax on a disposal of the VCT shares held by the investor. In addition, subject to complying with the applicable legislation, the VCT should not be charged to tax in respect of any gain realised on the disposal of Ordinary Shares.

The availability of these investment reliefs depends upon, amongst other things, the circumstances of the investor and the Company continuing to satisfy the requirements of being a relevant company. The Company does not make any representations as to whether any such investment will be or will continue to be one in respect of which relief under the VCT legislation will be available.

Corporate Venturing Scheme (“CVS”)

The Corporate Venturing Scheme was introduced in The Finance Act 2000, providing tax incentives to certain corporate investors in qualifying trading companies.

The Directors believe that the Company’s current structure and activities should enable it to meet the requirements of a qualifying company under the CVS legislation.

The Company does not have provisional approval from the UK Inland Revenue that it fulfils the requirements for investment by companies under the CVS.

The qualifying conditions and reliefs under the CVS are similar, but not identical, to those under the EIS.

If the investor and investee company meet the detailed qualifying conditions, a subscription for shares under the CVS gives the following reliefs to a corporate investor:

- initial tax relief at 20 per cent. of the qualifying subscription for shares (or the tax liability for the accounting period if lower);
- chargeable gains made on disposal of CVS shares can be deferred by re-investment into further CVS shares; and
- losses incurred on CVS shares can be relieved against income of the Company’s accounting period in which the loss is incurred, or ending in the preceding 12 months.

Loss Relief

If an investor is an investment company, relief for losses incurred by that investor on disposal of the qualifying shares should, in principle, be available under Sections 573 to 576 of the Income and Corporation Act 1988 against income of the same or previous accounting period.

Taxation of 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 per cent. 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 per cent. less the tax credit. The overall effect for higher rate taxpayers is an income charge of 25 per cent. of the dividend received. Non-taxpayers are not entitled to any payment of the tax credit.

A United Kingdom resident corporate Shareholder will not generally be liable to corporation tax on any dividend received.

The trustees of certain trusts may also have further tax to pay on dividends.

United Kingdom pension funds and charities are generally exempt from tax on dividends which they receive but are not entitled to claim repayment for the tax credit.

Any person who may be resident for tax purposes in a jurisdiction outside the UK should consult his own tax adviser on his tax liabilities on dividends received, whether he is entitled to reclaim any part of the tax credit and, if so, the procedure for doing so.

Taxation of capital gains for UK resident Shareholders

A disposal of all or part of the Ordinary Shares by a person who is resident or ordinarily resident in the UK for tax purposes may give rise to a liability to taxation on chargeable gains ("CGT") depending on individual circumstances. Individuals, personal representatives and trustees may be entitled to taper relief which may operate to reduce the chargeable gains subject to CGT. Companies are not entitled to taper relief, but are entitled to indexation relief which may reduce the taxable chargeable gains. Indexation relief cannot be used to create or increase a loss. There are provisions contained in the Finance Act 2002 which operate to remove from the scope of taxation on chargeable gains for UK companies certain gains (or losses) arising on disposals of shares where such shares constitute part of a substantial holding (defined as at least 10 per cent. of the ordinary share capital) in a company subject to a number of detailed conditions.

UK stamp duty and stamp duty reserve tax

Except in relation to depository receipt arrangements and clearance systems, where special rules apply:

- no stamp duty or stamp duty reserve tax (SDRT) will be payable on the issue and allotment of Ordinary Shares by the Company;
- the conveyance or transfer on sale of Ordinary Shares following the allotment of shares and issue of the definitive share certificate will normally be subject to stamp duty at a rate of 0.5 per cent. of the amount of value of the consideration paid for the conveyance or transfer rounded up to the nearest £5. Where an agreement to purchase Ordinary Shares is not, before the seventh day of the month following the month in which the agreement was entered into (extended to 60 days from the date of agreement by a concession from the Inland Revenue), completed by a duly stamped transfer in favour of the purchaser, a charge to SDRT will arise at a rate of 0.5 per cent. of the amount of value of the consideration. The system of rounding up to the nearest £5 does not apply to SDRT. Any SDRT paid can be reclaimed if a duly stamped instrument is entered into within six years of the agreement and the appropriate stamp duty paid (although if this does not take place within the 60 day period referred to above, a liability to interest and penalties may arise);
- SDRT is generally payable by the purchaser except where the purchase is effected through a stockbroker or other financial intermediary in which case that person should normally account for the SDRT and indicate this has been done on the contract note issued to the purchaser. Stamp duty is generally payable by the purchaser or transferee. Where the sale transaction takes place in CREST, generally SDRT will be automatically deducted and no liability to stamp duty will arise; and
- UK stamp duty and SDRT apply to non-UK resident Shareholders in the same manner as to UK resident Shareholders set out above.

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.

The Company has been provided with provisional advance assurance of its EIS status from the Inland Revenue and has had final approval for all past funding.

The above is intended only as a general outline of the taxation rules potentially applying to existing Shareholders and potential investors and should not be construed as constituting advice. 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

Details of Open Offer

1. Introduction

The Company proposes to raise up to £2.86 million (before expenses) by way of an issue of up to 5,731,826 New Ordinary Shares, at an issue price of 50p per share of which 2,080,000 have been placed firm pursuant to the Canaccord Placing, 2,496,826 comprise Open Offer Shares and 1,155,000 have been conditionally placed pursuant to the TEG Placing. This Part III and the accompanying Application Form contain the formal terms and conditions of the Open Offer.

In order to provide Qualifying Shareholders with the opportunity to participate in the issue of the New Ordinary Shares, the Company invites applications from Qualifying Shareholders to subscribe for up to 2,496,826 Open Offer Shares at the price of 50 pence per share.

If you do not wish to apply for any Open Offer Shares you should not complete or return the Application Form.

Qualifying Shareholders should be aware that the Open Offer is not a rights issue. Qualifying Shareholders' entitlements under the Open Offer are not transferable and the Application Form is not a document of title and cannot be traded.

2. The Open Offer

The Company hereby invites Qualifying Shareholders, subject to the terms and conditions set out in this Part III and in the Application Form, to apply to subscribe for Open Offer Shares at a price of 50 pence per share (free of all expenses and payable in full on application) on the basis of:

1 Open Offer Share for every 5 Existing Ordinary Shares

held by Qualifying Shareholders on the Record Date and so in proportion for any greater or lesser number of Ordinary Shares then held. Fractions of Open Offer Shares will not be allotted and entitlements will be rounded down to the nearest whole number of Open Offer Shares.

In addition, Qualifying Shareholders are entitled to apply for New Ordinary Shares in excess of their *pro rata* entitlement ("Excess Shares").

Qualifying Shareholders will be allotted any Excess Shares for which they apply, except where total applications for New Ordinary Shares under the Open Offer exceed 2,496,826 New Ordinary Shares resulting in a need for scaling back. Applications may be scaled back, and Excess Shares will be allotted, in such proportions as the Directors consider appropriate. In exercising their discretion, the Directors may take into account Qualifying Shareholders' existing shareholdings in the Company and the number of Excess Shares for which they have applied. Any subscription monies paid in excess of the required amount shall be returned to the applicant without interest. Accordingly, each Qualifying Shareholder has a guaranteed entitlement under the Open Offer of 1 New Ordinary Share for every 5 Existing Ordinary Shares held by him at the Record Date.

The Open Offer Shares will, when issued, rank *pari passu* in all respects with the Existing Ordinary Shares and will rank in full for all dividends and other distributions hereafter declared, made or paid by the Company.

The Open Offer is subject to Admission becoming effective no later than 27 July 2004 or such later date as the Company may in its discretion determine (being no later than 31 July 2004).

3. Procedure for Application and Payment

The Application Form enclosed with this document shows the number of Existing Ordinary Shares registered in your name on the Record Date and also shows your *pro rata* entitlement of Open Offer Shares and the amount you should pay if you wish to apply for such entitlement of Open Offer Shares. Qualifying Shareholders may indicate on the Application Form whether they wish to apply for Excess Shares, and if so, how many. The Application Form incorporates further terms of the Open Offer and must be used if you wish to apply for Open Offer Shares. You may apply for less than such number of Open Offer Shares if you so wish.

If you wish to apply for Open Offer Shares you must complete the Application Form in accordance with the instructions printed on it. Completed Application Forms should be returned by post in the reply-paid envelope provided or by hand to Corporate Actions, Capita IRG, PO Box 166, The Registry, 34 Beckenham Road, Kent BR3 4TH with a remittance for the full amount payable on application. Applications must be received by no later than 3.00 p.m. on 22 July 2004 after which time Application Forms will not be valid. Once submitted, applications are irrevocable.

If an Application Form is being sent by post in the UK, Qualifying Shareholders are recommended to allow at least four working days for delivery. Cheques should be made payable to Capita IRG plc – a/c TEG Environmental plc and crossed “A/C Payee Only”. It is a condition of application that cheques will be honoured on first presentation and the Company may elect not to treat as valid any application in respect of which a cheque is not so honoured. A pre-paid addressed envelope is enclosed for your use in the UK. The Company may, in its sole discretion, treat an Application Form as valid and binding on the person by whom or on whose behalf it is lodged, even if not completed in accordance with the relevant instructions or not accompanied by a valid power of attorney where required, or if it otherwise does not strictly comply with the terms and conditions of application, including as to time of receipt.

Cheques and banker’s drafts are liable to be presented for payment upon receipt. If they are presented before the condition of the Open Offer is fulfilled, the application monies will be kept in a separate bank account and any interest earned on such monies will be retained for the benefit of the Company.

If Admission has not become effective on or before 27 July 2004, or such later date as the Company may in its discretion determine (being no later than 31 July 2004), the Open Offer will lapse and application monies will be returned without interest by crossed cheque in favour of the applicant(s) through the post at the risk of the applicant(s) as soon as is practicable after that date.

If you do not wish to apply for any Open Offer Shares you should not take any action in respect of the application.

All enquiries in relation to the Application Forms should be referred to Capita IRG Plc on 0870 162 3100.

4. Money Laundering

The Money Laundering Regulations 1993 (the “Money Laundering Regulations”) may require Capita to establish the identity of the person by whom or on whose behalf an Application Form is lodged with payment (which requirements are referred to below as the “verification of identity requirements”). Any person (the “acceptor”) who, by lodging an Application Form with payment, as described above, accepts the Open Offer and any agent lodging such Application Form on his behalf shall hereby be deemed to agree to provide Capita with such information and other evidence as they may require to satisfy the verification of identity requirements. The Open Offer Shares in respect of which the acceptor makes a valid application are described below as the “relevant shares”.

If the Application Form is submitted by, and/or payment is made by, a US regulated broker or intermediary acting as agent, and which is itself subject to the Money Laundering Regulations, any verification of identity requirements are the responsibility of such broker or intermediary and not

Capita. Subject to this, if Capita determines that the verification of identity requirements apply to any acceptance of the Open Offer, the relevant shares will be allotted to the acceptor but (notwithstanding any other terms of the Open Offer) will not be issued to him until the verification of identity requirements have been fulfilled. If the verification of identity requirements are not satisfied within a period of not less than 15 business days after a request for evidence of identity is despatched to the acceptor, as Capita may in its absolute discretion allow, the Company will be able to make arrangements (as to manner, timing and terms) to sell the relevant shares. For the sale of the relevant shares, the Company will be authorised to act as the agent of the acceptor. Any proceeds from such sale of the relevant shares (net of expenses of sale), which shall be issued to and registered in the name of the purchaser(s), will be held in trust by the Company for the acceptor, subject to the requirements of the Money Laundering Regulations.

Capita is entitled in its absolute discretion to determine whether the verification of identity requirements apply to any acceptor and whether such requirements have been satisfied and neither Capita nor the Company will be liable to any person for any loss suffered or incurred as a result of the exercise of such discretion or as a result of any sale of relevant shares.

If the verification of identity requirements apply, failure to provide the necessary evidence of identity within a reasonable time may result in a delay in the despatch of a share certificate or the crediting of a CREST stock account. The verification of identity requirements will not usually apply:

- (a) if the acceptor is an organisation required to comply with the EU Money Laundering Directive (no. 91/308/EEC) as amended by Council Directive 2001/97/EC; or
- (b) if the acceptor (not being an acceptor who delivers its acceptance in person) makes payment by way of a cheque drawn on an account in the name of such acceptor; or
- (c) if the aggregate subscription price for the relevant shares is less than €15,000 (which is treated for these purposes as being equivalent to approximately £10,000 (unless there is a series of linked applications, the aggregate value of which exceeds that amount)).

In other cases where the verification of identity requirements may apply, satisfaction of requirements may be facilitated in the following ways:

- (i) if payment is made by a building society or bank cheque (not being a cheque drawn on an account of the acceptor or bankers draft), by the building society or bank endorsing on the cheque or draft the acceptor's name and the number of an account held in the acceptor's name at such building society or bank, such endorsement being validated by a stamp and authorised signature;
- (ii) if payment is not made by a cheque drawn on an account in the name of the acceptor and (i) above does not apply, the acceptor should enclose with the Application Form evidence of his name and address from an appropriate third party, or an example of a recent bill from a gas, electricity or telephone company or a bank statement, in each case being in the acceptor's name and address. Originals of such documents (not copies) are required and such documents will be returned in due course; and
- (iii) if the Application Form is lodged with payment by an agent which is an organisation of the kind referred to in (a) above required or which is subject to any money laundering regulation in a country which is a member of the Financial Action Task Force (the non-European Union member of which are Australia, Canada, Hong Kong, Iceland, Japan, New Zealand, Norway, Singapore, Switzerland, Turkey and the US) the agent should provide with the Application Form(s) written assurance that it has that status and written assurance that it has obtained and recorded evidence of the identity of the persons for whom it acts and that it will, on demand, make such evidence available to Capita IRG or the relevant authority.

In order to confirm the acceptability of any written assurance referred to in (iii) above or in any other case, the acceptor should contact Corporate Actions Department Capita IRG Plc, PO Box 166, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TH. The telephone number of Capita is 0870 162 3100.

If an Application Form(s) in respect of Open Offer Shares with an aggregate subscription price of €15,000 or more is/are lodged by hand the acceptor in person, he should ensure that he has with him evidence of identity, being a document including his photograph (for example his passport) and evidence of his address.

5. Overseas Shareholders

General

The making of the Open Offer to persons who are not resident in the UK or who are citizens of countries other than the UK may be affected by the laws or regulatory requirements of relevant jurisdictions. No person receiving a copy of this document and/or any Application Form in any territory other than the UK may treat the document and/or any Application Form as constituting an invitation or offer to him, nor should he in any event use such Application Form, unless in the relevant territory such invitation or offer could lawfully be made and such Application Form could lawfully be used without compliance with any registration or other legal or regulatory requirements other than any which may have been fulfilled.

It is the responsibility of any person outside the UK wishing to apply for New Ordinary Shares under the Open Offer to satisfy himself as to the full observance of the laws of the relevant territory, including the obtaining of any governmental or other consents which may be required and compliance with other necessary formalities and the payment of issue, transfer or other taxes due in such territory.

Persons (including, without limitation, nominees and trustees) receiving this document and/or an Application Form should not distribute or send it in or into any jurisdiction where to do so would or might contravene local securities laws or regulations. If an Application Form is received by any person in any such jurisdiction or by the agent or nominee of such a person, he must not seek to apply for New Ordinary Shares except pursuant to an express agreement with the Company. Any person who does forward the Application Form into any such jurisdiction, whether pursuant to a contractual or legal obligation or otherwise, should draw the attention of the recipient to the contents of this paragraph of this document.

The Company reserves the right to treat as invalid any application or purported application to subscribe for Open Offer Shares comprised in any Application Form which appears to the Company or its agent to have been executed, effected or despatched in a manner which may involve a breach of any securities legislation or regulations of any jurisdiction or which does not include the warranties set out in the Application Form.

In particular, Overseas Shareholders should note the following:

United States and Canada

The Open Offer Shares have not been and will not be registered under the United States Securities Act of 1933, as amended, (the “Securities Act”) and the relevant exemptions are not being obtained from the Securities Commission of any province of Canada. Accordingly, subject to certain exceptions, the New Ordinary Shares are not being offered and may not be directly or indirectly, offered, sold, transferred or delivered in the United States or Canada or to or for the benefit of any US persons or residents of Canada. Application Forms will therefore not be sent to Shareholders who have registered addresses in the United States or Canada, nor will applications be accepted from anyone who does not make the declaration of non-United States and non-Canadian beneficial ownership on the Application Form. The Company reserves the right to treat as invalid any Application Form that appears to the Company or its agents to have been executed in or despatched from the United States or Canada, or that provides an address in the United States or Canada for the delivery of definitive certificates for the Open Offer Shares or which does not make the warranty set out in the Application Form to the effect that the person applying for Open Offer Shares is not a US person or resident of Canada, does not have a registered address (and is not otherwise located) in the United States or Canada and is not acquiring the Open Offer Shares with a view to the offer, sale, re-sale, transfer, delivery, or distribution, directly or indirectly, of any such Open Offer Shares in the United States or Canada.

For the purposes of this document: “United States” means the United States of America, each state thereof (including the District of Columbia), its territories, possessions and all areas subject to its jurisdiction; “Canada” means Canada and each province thereof; “US person” has the meaning given in Regulation S promulgated under the Securities Act; and “resident of Canada” means a citizen, national or resident of Canada, the estate of any such person, a partnership, corporation or other entity created or organised in or under the laws of Canada or any estate or trust the income of which is liable to Canadian income tax regardless of its source.

Australia

The Open Offer is not being made in Australia, its states, territories or possessions, nor will or may this document, any advertisement or other offering material in relation to the Open Offer Shares be distributed directly or indirectly in Australia. This document has not and will not be lodged with, or registered by, the Australian Securities Commission. The Open Offer Shares have not been nor will be available for subscription or purchase by any resident of Australia (including corporations and other entities organised under the laws of Australia but not including a permanent establishment of any such corporation or entity located outside Australia).

Republic of Ireland

As a result of regulations in the Republic of Ireland, the Open Offer is not being made to Shareholders resident in the Republic of Ireland. Neither this document nor the Application Form will be circulated in the Republic of Ireland. Application Forms sent from or post marked in the Republic of Ireland will be deemed to be invalid and the Company will not be bound to allot or issue Open Offer Shares to any Shareholder or any other person with an address in the Republic or Ireland.

Japan

The Open Offer is not being made in Japan and the Open Offer Shares will not be available for purchase by any resident of Japan, including any corporations organised under the laws of Japan.

Other overseas territories

Shareholders 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 further formalities to enable them to apply for Open Offer Shares under the Open Offer.

6. Taxation and Stamp Duty

The attention of Shareholders is drawn to Part II of this document which contains a general guide to the current UK tax position. **Shareholders who are in any doubt as to their tax position should consult their professional advisers immediately.**

7. Settlement and Dealings

Application has been made to the London Stock Exchange for the admission of the Existing Ordinary Shares and New Ordinary Shares to be admitted to trading on AIM. It is expected that Admission will take place, and that dealings in the Existing Ordinary Shares and New Ordinary Shares on AIM will commence, on 27 July 2004. Share certificates in respect of New Ordinary Shares to be held in certificated form are expected to be despatched by no later than 3 August 2004.

Subject to the satisfaction of the condition of the Open Offer, the New Ordinary Shares issued pursuant to the Open Offer will be registered in the names of the Qualifying Shareholders validly applying for them. It is expected that definitive share certificates will be despatched to those Qualifying Shareholders who have elected to receive their Open Offer Shares in certificated form within five business days of the commencement of dealings in the Open Offer Shares. No temporary documents of title will be issued. The CREST accounts of those Qualifying Shareholders who have

elected to receive their Open Offer Shares in uncertificated form are expected to be credited on 27 July 2004. All documents or remittances sent by or to an applicant, or as he/she may direct, will be sent through the post at his/her risk. Pending the despatch of definitive share certificates, expected to take place by 3 August 2004, instruments of transfer will be certified against the register. Qualifying Shareholders who hold their Ordinary Shares in CREST should note that they will not be sent any communication of the credit of their Open Offer Shares to their CREST stock accounts nor any written communication by the Company in respect of the issue of the Open Offer Shares. The terms and conditions of the Open Offer, as set out in this document and in the Application Form, shall be governed by and construed in accordance with English law.

If applications are received for more than 2,496,826 New Ordinary Shares, each Qualifying Shareholder's application will be scaled back *pro rata* to the aggregate number of applications received pursuant to the Open Offer. In such circumstances, a cheque in respect of subscription monies received from any Qualifying Shareholder in respect of his application for Open Offer Shares which are not issued to him due to such scaling back, shall be sent by registered post, at the risk of the Qualifying Shareholder within 14 days of the announcement of the result of the Open Offer. The Company shall not be liable to account to any such Qualifying Shareholder for any interest earned on such subscription monies.

8. Further Information

Your attention is drawn to the additional information set out in the remainder of this document and the terms and conditions set out in the Application Form.

PART IV
Accountants' Report

Grant Thornton 

The Directors
TEG Environmental plc
Unit 6 Meadowcroft Business Park
Whitestake
PRESTON
PR4 4BA

The Directors
Canaccord Capital (Europe) Limited
First Floor
Brook House
27 Upper Brook Street
LONDON
W1K 7QF

6 July 2004

TEG Environmental plc (“the Company”)

1. Introduction

1.1 We report on the financial information set out in paragraphs 2 to 6. This financial information has been prepared for inclusion in the Prospectus dated 6 July 2004 of TEG Environmental plc.

Basis of preparation

1.2 The financial information set out in paragraphs 2 to 6 below is based on the audited financial statements of TEG Environmental plc for the two years ended 31 October 2002 and the 14 months ended 31 December 2003, after making such adjustments as we considered necessary.

1.3 The Company was incorporated on 3 October 1995 as Coincentral Public Limited Company and subsequently changed its name to TEG Environmental plc on 6 November 1995.

Responsibility

1.4 The financial statements are the responsibility of the directors of TEG Environmental plc who approved their issue.

1.5 The directors of TEG Environmental plc are responsible for the contents of the Prospectus dated 6 July 2004 relating to the proposed admission of the Company's shares to AIM in which this report is included.

1.6 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

1.7 We conducted our work in accordance with the Statements of Investment Circular Reporting Standards issued by the Auditing Practices Board. Our work included an assessment of evidence relevant to the amounts and disclosures in the financial information. The evidence included that previously obtained by Moore & Smalley relating to their audit of the financial statements underlying the financial information for the two years ended 31 October 2002

and the 14 months ended 31 December 2003. 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.

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

Opinion

- 1.9 In our opinion the financial information gives, for the purposes of the Prospectus dated 6 July 2004, a true and fair view of the losses and cash flows of the Company for the years ended 31 October 2001 and 2002 and the 14 months ended 31 December 2003 and the state of affairs of the Company at the end of each of those periods.

Consent

- 1.10 We consent to the inclusion in the Prospectus dated 6 July 2004 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

- 2.1 The financial information has been prepared under the historical cost convention and in accordance with applicable accounting standards.
- 2.2 The principal accounting policies of the Company have remained unchanged throughout the years ended 31 October 2001 and 2002 and the 14 months ended 31 December 2003 and are set out below. The effect on the Company's financial information of new Financial Reporting Standards introduced during the years ended 31 October 2001 and 2002 and the 14 months ended 31 December 2003 has been immaterial.

Turnover

- 2.3 Turnover is in relation to the sale of EnVigro to sports clubs and golf courses and is recognised on delivery, excluding VAT and trade discounts.

Research and development

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

Intangible fixed assets and amortisation

- 2.5 Amortisation is calculated so as to write off the cost of an asset less its estimated residual value over the useful economic life of that asset as follows:

Intellectual property rights 10% straight line

Tangible fixed assets and depreciation

- 2.6 Depreciation is provided so as to write off the cost of an asset less its estimated residual value over the useful economic life of that asset as follows:

Plant and machinery	25% reducing balance
Motor vehicles	33% straight line
Fixtures and fittings	25% reducing balance
Silo-Cage system	25% reducing balance

Investments

- 2.7 Investments are stated at the lower of cost and net realisable value.

Stocks and work in progress

- 2.8 Stocks and work in progress are valued at the lower of cost and net realisable value after making due allowances for obsolete or slow-moving items and foreseeable losses.

- 2.9 Work in progress is valued on the basis of direct costs plus attributable overheads based on a normal level of activity. Provision is made for foreseeable losses where appropriate. No element of profit is included in the valuation of work in progress.

Deferred taxation

- 2.10 Deferred tax is recognised on all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or a right to pay less or to receive more tax except that deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.
- 2.11 Deferred tax is measured on an undiscounted basis at the rates of tax that are expected to apply in the periods in which the timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

Leasing commitments

- 2.12 Assets held under finance leases, which are leases where substantially all the risks and rewards of ownership of the asset have passed to the Company, and hire purchase contracts are capitalised and depreciated over their expected useful lives.
- 2.13 The capital element of future obligations under the leases and hire purchase contracts are included as liabilities in the balance sheet.
- 2.14 The interest elements of leasing payments represent a constant proportion of the capital balance outstanding and are charged to the profit and loss account over the period of the lease on a straight line basis.

Foreign currencies

- 2.15 Assets and liabilities in foreign currencies are translated into sterling at the rates of exchange ruling at the balance sheet date. Transactions in foreign currencies are translated into sterling at the rate of exchange ruling at the date of the transaction. Exchange differences are taken into account in arriving at the operating loss.

Pensions

- 2.16 The Company operates a 'stakeholder' pension scheme. Contributions are charged to the profit and loss account as they become payable in accordance with the rules of the scheme.

3. Profit and loss accounts

		<i>Year ended</i>		<i>14 months</i>
		<i>31 October</i>		<i>ended</i>
		<i>2001</i>	<i>2002</i>	<i>31 December</i>
	<i>Notes</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
Turnover	6.1	56	44	33
Cost of sales		<u>(83)</u>	<u>(112)</u>	<u>(58)</u>
Gross loss		(27)	(68)	(25)
Administrative expenses		<u>(1,085)</u>	<u>(2,056)</u>	<u>(1,522)</u>
Operating loss		(1,112)	(2,124)	(1,547)
Exceptional loss on NOIT shares	6.3	<u>—</u>	<u>—</u>	<u>(450)</u>
Loss before interest and taxation		(1,112)	(2,124)	(1,997)
Interest	6.4	<u>35</u>	<u>12</u>	<u>1</u>
Loss on ordinary activities before taxation	6.1	(1,077)	(2,112)	(1,996)
Taxation	6.5	<u>—</u>	<u>100</u>	<u>125</u>
Loss retained and transferred to reserves	6.16	<u><u>(1,077)</u></u>	<u><u>(2,012)</u></u>	<u><u>(1,871)</u></u>

There were no recognised gains or losses other than the loss in each period.

4. Balance Sheets

		<i>As at 31 October</i>		<i>As at</i>
	<i>Notes</i>	<i>2001</i>	<i>2002</i>	<i>31 December</i>
		<i>£'000</i>	<i>£'000</i>	<i>2003</i>
				<i>£'000</i>
Fixed assets				
Intangible	6.7	17	13	8
Tangible	6.8	365	277	158
		<u>382</u>	<u>290</u>	<u>166</u>
Current assets				
Stocks	6.9	4	270	7
Debtors	6.10	53	206	98
Cash at bank and in hand		1,023	230	814
		<u>1,080</u>	<u>706</u>	<u>919</u>
Creditors: amounts falling due within one year	6.11	<u>(203)</u>	<u>(515)</u>	<u>(318)</u>
Net current assets		<u>877</u>	<u>191</u>	<u>601</u>
Total assets less current liabilities		1,259	481	767
Creditors: amounts falling due after more than one year	6.12	<u>(73)</u>	<u>(26)</u>	<u>(10)</u>
Net assets		<u>1,186</u>	<u>455</u>	<u>757</u>
Capital and reserves				
Called up share capital	6.14	401	472	624
Share premium account	6.15	4,816	6,026	8,047
Profit and loss account	6.16	(4,031)	(6,043)	(7,914)
Equity shareholders' funds	6.17	<u>1,186</u>	<u>455</u>	<u>757</u>

5. Cash Flow Statements

		Year ended 31 October		14 months ended 31 December
	Notes	2001 £'000	2002 £'000	2003 £'000
Net cash outflow from operating activities	6.18	<u>(888)</u>	<u>(2,010)</u>	<u>(1,224)</u>
Returns on investments and servicing of finance				
Interest received		40	17	7
Interest paid		(4)	(1)	—
Interest element of hire purchase		<u>(1)</u>	<u>(4)</u>	<u>(6)</u>
Net cash inflow from returns on investments and servicing of finance		<u>35</u>	<u>12</u>	<u>1</u>
Taxation		<u>—</u>	<u>—</u>	<u>154</u>
Capital expenditure and financial investment				
Purchase of tangible fixed assets		(247)	(21)	(35)
Receipts from sale of fixed assets		<u>7</u>	<u>—</u>	<u>2</u>
Net cash outflow from capital expenditure and financial investment		<u>(240)</u>	<u>(21)</u>	<u>(33)</u>
Net cash outflow before financing		<u>(1,093)</u>	<u>(2,019)</u>	<u>(1,102)</u>
Financing				
Receipt from sale of NOIT shares		—	—	550
Proceeds on issue of shares		1,698	1,281	1,173
Repayment of bank loans		(20)	(20)	(5)
Capital element of hire purchase		<u>101</u>	<u>(35)</u>	<u>(32)</u>
Net cash inflow from financing		<u>1,779</u>	<u>1,226</u>	<u>1,686</u>
Increase/(decrease) in cash	6.19	<u><u>686</u></u>	<u><u>(793)</u></u>	<u><u>584</u></u>

6. Notes to the financial information

6.1 Turnover and loss on ordinary activities before taxation

The turnover and loss on ordinary activities before taxation arose within the United Kingdom. Turnover was attributable to the sale of the products (EnVigro) of the development tests and the loss on ordinary activities before taxation was attributable to developing the TEG Silo-Cage composting system.

The loss on ordinary activities before taxation is stated after:

	<i>12 months</i> 2001 £'000	<i>12 months</i> 2002 £'000	<i>14 months</i> 2003 £'000
Amortisation of Intellectual Property Rights	4	4	5
Research and development expenditure written off	229	275	296
Depreciation of tangible fixed assets			
– owned assets	90	87	111
– held under hire purchase agreements	30	22	39
(Profit)/loss on disposal of fixed assets	(2)	—	2
Auditors' remuneration			
– audit services	4	3	4
Operating lease rentals			
– plant and equipment	4	5	—
– vehicles	19	17	12
Net profit on foreign currency translation	—	—	(3)
Exceptional write down of Kildare sale contract	—	647	258
	<u> </u>	<u> </u>	<u> </u>

The exceptional write down of the Kildare contract represents the difference between the cost of construction and the current net realisable value expected at the end of each period.

6.2 Employees

Staff costs including directors during each period were as follows:

	<i>12 months</i> 2001 £'000	<i>12 months</i> 2002 £'000	<i>14 months</i> 2003 £'000
Wages and salaries	357	601	503
Social security costs	37	55	51
	<u> </u>	<u> </u>	<u> </u>
	394	656	554

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

	<i>12 months</i> 2001 Number	<i>12 months</i> 2002 Number	<i>14 months</i> 2003 Number
Number of administrative staff	<u> </u>	<u> </u>	<u> </u>
	13	11	9

Remuneration in respect of directors in each period was as follows:

	<i>12 months</i> 2001 £'000	<i>12 months</i> 2002 £'000	<i>14 months</i> 2003 £'000
Emoluments	<u> </u>	<u> </u>	<u> </u>
	172	190	205

The amounts set out above include remuneration in respect of the highest paid director in each period as follows:

	<i>12 months</i> 2001 £'000	<i>12 months</i> 2002 £'000	<i>14 months</i> 2003 £'000
Emoluments (excluding pension contributions)	<u> </u>	<u> </u>	<u> </u>
	73	93	139

6.3 *Exceptional loss on NOIT shares*

On 6 November 2002 the Company subscribed for 1,000,000 shares of 5 pence each and 200,000 warrants in New Opportunity Investment Trust Plc (NOIT) by issuing 1,111,111 ordinary shares of 5 pence each. On 30 December 2003 the Company sold its NOIT shareholding for £550,000 cash.

6.4 *Interest*

	<i>12 months</i> 2001 £'000	<i>12 months</i> 2002 £'000	<i>14 months</i> 2003 £'000
Interest receivable	40	17	7
Interest payable on bank borrowing	(4)	(1)	—
Finance charges	(1)	(4)	(6)
	<u>35</u>	<u>12</u>	<u>1</u>

6.5 *Taxation*

	<i>12 months</i> 2001 £'000	<i>12 months</i> 2002 £'000	<i>14 months</i> 2003 £'000
Corporation tax recoverable	—	100	71
Under provision of tax recoverable in prior periods	—	—	54
	<u>—</u>	<u>100</u>	<u>125</u>

The taxation recoverable relates to claims made, or to be made, by the Company in respect of the Research and Development tax credit scheme.

Factors affecting the tax credit in each period

Where the effective rate of corporation tax for each period is different from the mainstream rate of corporation tax in the United Kingdom of 30 per cent. (2002: 30 per cent., 2001: 30 per cent.) applicable to the Company, the differences are explained below:

	<i>12 months</i> 2001 £'000	<i>12 months</i> 2002 £'000	<i>14 months</i> 2003 £'000
Loss on ordinary activities before taxation	<u>1,077</u>	<u>2,112</u>	<u>1,997</u>
Loss on ordinary activities before taxation multiplied by rate of corporation tax in the UK of 30% (2002 : 30%; 2001 : 30%)	323	634	599
Actual tax credit	—	(100)	(125)
Difference	<u>323</u>	<u>534</u>	<u>474</u>
Effect of:			
Disallowed differences	5	5	11
Capital loss on disposal of NOIT shares	—	—	135
Research and Development claim	(34)	(47)	(44)
Under recognition of available credit in prior period	—	—	(54)
Deferred tax not provided on losses carried forward	352	387	364
Effect of rate adjustment regarding use of Research and Development tax credits	—	189	62
	<u>323</u>	<u>534</u>	<u>474</u>

Tax losses carried forward at the end of the period were £6,525,000 (2002: £5,381,000, 2001: £4,116,000).

6.6 *Loss per share*

	<i>12 months</i> 2001 <i>pence</i>	<i>12 months</i> 2002 <i>pence</i>	<i>14 months</i> 2003 <i>pence</i>
Loss per ordinary share	<u>(0.13)</u>	<u>(0.23)</u>	<u>(0.19)</u>

Loss per share has been calculated on the net basis on the loss on ordinary activities after taxation of £1,871,000 (2002: £2,012,000, 2001: £1,077,000) using the average number of ordinary shares in issue.

6.7 *Intangible fixed assets*

	<i>Intellectual property rights £'000</i>
Cost	
At 1 November 2000, 31 October 2001 and 2002, and 31 December 2003	<u>40</u>
Amortisation	
At 1 November 2000	19
Charge for the year	<u>4</u>
At 31 October 2001	23
Charge for the year	<u>4</u>
At 31 October 2002	27
Charge for the period	<u>5</u>
At 31 December 2003	<u>32</u>
Net book amount	
At 31 October 2001	<u>17</u>
At 31 October 2002	<u>13</u>
At 31 December 2003	<u>8</u>

Intangible fixed assets represent the amortised cost of the Intellectual Property Rights of the Silo-Cage system of accelerated composting purchased for £35,000 from Dr A Heyworth and the design of the Twin Cage Composter purchased for £5,000 from Mr A Rabett.

6.8 Tangible fixed assets

	<i>Plant & vehicles £'000</i>	<i>Fixtures & fittings £'000</i>	<i>Silo-Cage System £'000</i>	<i>Total £'000</i>
Cost				
At 1 November 2000	276	37	248	561
Additions	93	38	116	247
Disposals	(12)	—	—	(12)
At 31 October 2001	357	75	364	796
Additions	—	11	10	21
At 31 October 2002	357	86	374	817
Additions	35	—	—	35
Disposals	(9)	—	—	(9)
At 31 December 2003	383	86	374	843
Depreciation				
At 1 November 2000	235	21	62	318
Charge for the year	30	14	76	120
Disposals	(7)	—	—	(7)
At 31 October 2001	258	35	138	431
Charge for the year	37	12	60	109
At 31 October 2002	295	47	198	540
Charge for the period	52	15	83	150
Disposals	(5)	—	—	(5)
At 31 December 2003	342	62	281	685
Net book amount				
At 31 October 2001	99	40	226	365
At 31 October 2002	62	39	176	277
At 31 December 2003	41	24	93	158

Included within the net book value of £158,000 (31 October 2002: £277,000, 31 October 2001: £365,000) is £34,000 (31 October 2002: £67,000, 31 October 2001: £89,000) relating to assets held under hire purchase agreements. The depreciation charged in respect of such assets amounted to £39,000 (31 October 2002: £22,000, 31 October 2001: £30,000).

6.9 Stocks

	<i>2001 £'000</i>	<i>2002 £'000</i>	<i>2003 £'000</i>
Raw materials	3	2	4
Work in progress	1	267	1
Finished goods	—	1	2
	4	270	7

Work in progress at 31 October 2002 includes the Directors' assessment of the amounts due to the Company in respect of the Kildare contract. In the following period, this amount was reversed due to developments on this contract.

6.10 Debtors

	2001 £'000	2002 £'000	2003 £'000
Trade debtors	12	13	3
Other debtors	25	49	17
Taxation	—	100	71
Prepayments and accrued income	16	44	7
	<u>53</u>	<u>206</u>	<u>98</u>

6.11 Creditors: amounts falling due within one year

	2001 £'000	2002 £'000	2003 £'000
Bank loan	20	5	—
Trade creditors	83	393	239
Social security and other taxes	16	14	21
Hire purchase agreements	35	42	26
Accruals and deferred income	49	61	32
	<u>203</u>	<u>515</u>	<u>318</u>

6.12 Creditors: amounts falling due after more than one year

	2001 £'000	2002 £'000	2003 £'000
Bank loan	5	—	—
Hire purchase agreements	68	26	10
	<u>73</u>	<u>26</u>	<u>10</u>

6.13 Commitments under bank loan and hire purchase agreements

	2001 £'000	2002 £'000	2003 £'000
Amounts payable within one year	55	47	26
Amounts payable between one and two years	73	26	10
	<u>128</u>	<u>73</u>	<u>36</u>

6.14 Called up share capital

	2001		2002		2003	
	Number '000	£'000	Number '000	£'000	Number '000	£'000
<i>Authorised</i>						
Ordinary shares of 5 pence each	<u>100,000</u>	<u>5,000</u>	<u>100,000</u>	<u>5,000</u>	<u>100,000</u>	<u>5,000</u>
<i>Issued</i>						
Ordinary shares of 5 pence each	<u>8,019</u>	<u>401</u>	<u>9,429</u>	<u>472</u>	<u>12,484</u>	<u>624</u>

During 2001, the Company issued 1,443,241 ordinary shares of 5 pence each. The shares were issued fully paid for cash of £1,804,000 (before costs of issue of £106,000) in order to help finance the working capital requirements of the business.

During 2002, the Company issued 1,410,000 ordinary shares of 5 pence each. The shares were issued fully paid for cash of £1,410,000 (before costs of issue of £129,000) in order to help finance the working capital requirements of the business.

In December 2002 the Company completed an Open Offer to shareholders which resulted in the issue of 594,609 ordinary shares of 5 pence each for a total consideration of £535,000 (before costs of issue of £21,000). The Company also undertook a Private Placing in August 2003 which resulted in the issue of 1,349,600 ordinary shares of 5 pence each for a total consideration of £675,000 (before costs of issue of £5,000). The fundraisings provided the Company with working capital.

In November 2002 the Company exchanged 1,111,111 ordinary shares in TEG for 1,000,000 shares at £1 per share and 200,000 warrants (see 6.24) in New Opportunities Investment Trust Plc, a listed company on the London Stock Exchange. The issue costs were £11,000.

Share options

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

<i>Date granted</i>	<i>Exercise price per share</i>	<i>First date of exercise</i>	<i>Expiry date</i>	<i>Number of shares</i>
5 Sept 1997	£0.35	6 Sept 2000	5 Sept 2007	235,000
29 Nov 1999	£0.85	30 Nov 2002	29 Nov 2009	81,500
1 May 2001	£1.30	2 May 2006	1 May 2011	376,192
24 July 2001	£1.30	25 July 2006	24 July 2011	76,923
22 Apr 2002	£1.15	23 Apr 2005	22 Apr 2012	25,000
22 Apr 2002	£1.15	23 Apr 2007	22 Apr 2012	25,000
3 Oct 2003	£0.50	4 Oct 2006	3 Oct 2013	238,300

6.15 *Share premium account*

	<i>12 months 2001 £'000</i>	<i>12 months 2002 £'000</i>	<i>14 months 2003 £'000</i>
At the start of the period	3,190	4,816	6,026
Premium on shares issued in the period	1,626	1,210	2,021
At the end of the period	<u>4,816</u>	<u>6,026</u>	<u>8,047</u>

The premium on allotment is stated after deducting costs of £57,000 (2002: £129,000, 2001: £106,000) in respect of share issues.

6.16 *Profit and loss account*

	<i>12 months 2001 £'000</i>	<i>12 months 2002 £'000</i>	<i>14 months 2003 £'000</i>
At the start of the period	(2,954)	(4,031)	(6,043)
Retained loss for the period	(1,077)	(2,012)	(1,871)
At the end of the period	<u>(4,031)</u>	<u>(6,043)</u>	<u>(7,914)</u>

6.17 *Reconciliation of movement in equity shareholders' funds*

	<i>12 months 2001 £'000</i>	<i>12 months 2002 £'000</i>	<i>14 months 2003 £'000</i>
Loss for the financial period	(1,077)	(2,012)	(1,871)
New equity share capital subscribed	72	71	152
Premium on new share capital subscribed	1,626	1,210	2,021
Net addition/(reduction) in equity shareholders' funds	621	(731)	302
Opening equity shareholders' funds	565	1,186	455
Closing equity shareholders' funds	<u>1,186</u>	<u>455</u>	<u>757</u>

6.18 *Reconciliation of operating loss to net cash outflow from operating activities*

	12 months 2001 £'000	12 months 2002 £'000	14 months 2003 £'000
Operating loss	(1,112)	(2,124)	(1,547)
Amortisation	4	4	5
Depreciation	120	109	150
(Profit)/loss on disposal of fixed assets	(2)	—	2
Decrease/(increase) in stocks	4	(266)	263
Decrease/(increase) in debtors	21	(53)	79
Increase/(decrease) in creditors	77	320	(176)
Net cash outflow from operating activities	<u>(888)</u>	<u>(2,010)</u>	<u>(1,224)</u>

6.19 *Reconciliation of net cash flow to movement in net cash funds*

	12 months 2001 £'000	12 months 2002 £'000	14 months 2003 £'000
Increase/(decrease) in cash in the year	686	(793)	584
Cash outflow from bank loans	20	20	5
Cash (inflow)/outflow from hire purchase	(101)	35	32
Increase/(decrease) in net funds	605	(738)	621
Net cash funds at the start of the period	290	895	157
Net cash funds at the end of the period	<u>895</u>	<u>157</u>	<u>778</u>

6.20 *Analysis of net cash funds*

	At 1 November 2000 £'000	Cash flow £'000	At 31 October 2001 £'000
Cash at bank and in hand	337	686	1,023
Hire purchase	(2)	(101)	(103)
Bank loan	(45)	20	(25)
Net cash funds	<u>290</u>	<u>605</u>	<u>895</u>

	At 1 November 2001 £'000	Cash flow £'000	At 31 October 2002 £'000
Cash at bank and in hand	1,023	(793)	230
Hire purchase	(103)	35	(68)
Bank loan	(25)	20	(5)
Net cash funds	<u>895</u>	<u>(738)</u>	<u>157</u>

	At 1 November 2002 £'000	Cash flow £'000	At 31 December 2003 £'000
Cash at bank and in hand	230	584	814
Hire purchase	(68)	32	(36)
Bank loan	(5)	5	—
Net cash funds	<u>157</u>	<u>621</u>	<u>778</u>

6.21 *Leasing commitments*

Operating lease payments amounting to £3,000 (31 October 2002: £10,000, 31 October 2001: £46,000) are due within one year. The leases to which these amounts relate expire as follows:

	<i>Land and buildings</i>			<i>Other</i>		
	<i>2001</i>	<i>2002</i>	<i>2003</i>	<i>2001</i>	<i>2002</i>	<i>2003</i>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
Within one year	—	—	—	5	7	3
Within two to five years	24	—	—	17	3	—
	<u>24</u>	<u>—</u>	<u>—</u>	<u>22</u>	<u>10</u>	<u>3</u>

6.22 *Related party transactions*

No transactions with related parties were undertaken such as are required to be disclosed under Financial Reporting Standard 8.

6.23 *Pensions*

The Company operates a 'stakeholder' pension scheme for the benefit of its employees but has made no contributions on behalf of its employees. The assets of the scheme are administered by trustees in funds independent from those of the Company.

6.24 *Contingencies*

Contingent Liabilities

- (i) Under the terms of the acquisition of Intellectual Property Rights to the Silo-Cage system of composting, a royalty of 1 per cent. was payable to Dr A Heyworth, based on future profits before tax of the Company and its subsidiaries (if any), as shown in the audited consolidated profit and loss account if the profit before tax in any year exceeded £100,000. The royalty payment was subject to a maximum of £50,000 in any one financial year and to £140,000 in total. From 1 January 2004 the royalty arrangement has changed to 2 per cent. of profits before tax for each year to a maximum royalty payable of £1 million in aggregate over five years to 31 December 2008, as part of the renegotiation of the directors' service contracts.
- (ii) The Company's bankers held a charge of £17,000 over the Company's cash balances as security for unpaid credit card balances which was released in January 2004.

Contingent Assets

- (i) NOIT warrants
TEG own 200,000 NOIT warrants to subscribe for redeemable ordinary shares of 5 pence each. These are not exercisable until after 24 September 2007. At present these are not tradable and have nil carrying value in the accounts.
- (ii) The Company has a potential deferred taxation asset at 31 December 2003 of £1.9 million. The realisation of this asset is dependent upon the Company making taxable profits in the near future.

Yours faithfully

GRANT THORNTON UK LLP

PART V

PRO FORMA STATEMENT OF NET ASSETS

The following unaudited pro forma statement of net assets of the Company has been prepared to illustrate the impact on the Company's net assets of the Placing and Open Offer and Admission of the Company to AIM. The pro forma financial information is based upon the Company's audited balance sheet as at 31 December 2003 as set out in Part IV of this document and adjusted to reflect the net proceeds from the Placing and Open Offer as if the proceeds had been received by the Company at that date. This statement is prepared for illustrative purposes only and, because of its nature, cannot give a complete picture of the Company's financial position.

	<i>As at 31 December 2003 Note 1 £'000</i>	<i>Net proceeds from Placing and Open Offer Note 2 £'000</i>	<i>Pro forma net assets Note 3 £'000</i>
Fixed assets			
Intangible assets	8	—	8
Tangible assets	158	—	158
	166	—	166
Current assets			
Stocks	7	—	7
Debtors	98	—	98
Cash at bank and in hand	814	2,495	3,309
	919	2,495	3,414
Creditors: amounts falling due within one year	(318)	—	(318)
Net current assets	601	2,495	3,096
Total assets less current liabilities	767	2,495	3,262
Creditors: amounts falling due after more than one year	(10)	—	(10)
Net assets	757	2,495	3,252

NOTES:

1. The figures relating to the Company have been extracted from the Company's audited balance sheet as at 31 December 2003 as shown in Part IV of this Prospectus.
2. The proceeds of the Placing and Open Offer (assuming full subscription) have been provisionally estimated at £2.86 million less estimated costs of issue totalling £0.37 million (including VAT) which have been treated as paid and charged against the Company's share premium account.
3. The pro forma statement of net assets does not constitute statutory accounts within the meaning of section 240 of the Companies Act, and no adjustment has been made to take account of trading, capital expenditure or other movements subsequent to 31 December 2003.

The Directors
TEG Environmental plc
Unit 6 Meadowcroft Business Park
Whitestake
PRESTON
PR4 4BA

and

The Directors
Canaccord Capital (Europe) Limited
First Floor
Brook House
27 Upper Brook Street
LONDON
W1K 7QF

6 July 2004

Dear Sirs

Pro forma financial information

We report on the pro forma statement of net assets of the Company (the pro forma financial information) set out in Part IV of the Prospectus dated 6 July 2004, which has been prepared, for illustrative purposes only, to provide information about how the Placing and Open Offer might have affected the financial information presented.

Responsibilities

It is the responsibility solely of the directors of TEG Environmental plc to prepare the pro forma financial information.

It is our responsibility to form an opinion on the pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information, including our accountants' report included in Part IV of the Prospectus, used in the compilation of the pro forma financial information beyond that owed to those to whom the reports were addressed by us at the dates of their issue.

Basis of opinion

We conducted our work in accordance with the Statements of Investment Circular Reporting Standards and Bulletin 1998/8 "Reporting on pro forma financial information pursuant to the Listing Rules" issued by the Auditing Practices Board. Our work, which involved no independent examination of any of the underlying financial information, consisted primarily of comparing the unadjusted financial information with the source documents, considering the evidence supporting the adjustments and discussing the pro forma financial information with the directors of TEG Environmental plc.

Opinion

In our opinion:

- the pro forma financial information has been properly compiled on the basis stated
- such basis is consistent with the accounting policies of the issuer
- the adjustments are appropriate for the purposes of the pro forma financial information as disclosed.

Yours faithfully

GRANT THORNTON UK LLP

PART VI

Additional Information

1. The Company

- (a) The Company was incorporated in England and Wales on 3 October 1995, under the Companies Act with number 3109613, as a public company limited by shares with the name of Coincentral Public Limited Company. Its name was changed to TEG Environmental Plc on 6 November 1995. On 13 February 1996 the Company was issued with a certificate to commence business and borrow pursuant to section 117(1) of the Companies Act.
- (b) The Company's registered office is at Unit 6, Meadowcroft Business Park, Pope Lane, Whitestake, Preston, Lancashire PR4 4BA.
- (c) The principal legislation under which the Company operates is the Companies Act and the regulations made thereunder.
- (d) The Company has no subsidiaries.

2. Share Capital

- (a) As at the date of this document, and following Admission (assuming full subscription under the Placing and full take up of entitlements under the Open Offer), the Company's authorised and issued share capital is and will be as follows:

	<i>Authorised Number of Ordinary Shares</i>	<i>£</i>	<i>Issued and credited as fully paid Number of Ordinary Shares</i>	<i>£</i>
At Present	100,000,000	5,000,000	12,484,134	624,207
Following Admission	100,000,000	5,000,000	18,215,960	910,798

- (b) On its incorporation the Company's 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. Since its incorporation, there have been the following changes in the issued and authorised share capital of the Company:
 - (i) 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.
 - (ii) On 22 November 1995 the Company issued 799,980 Ordinary Shares at 10 pence per share.
 - (iii) On 1 February 1996, pursuant to an offer for subscription contained in a prospectus dated 24 November 1995, which raised £330,000, the Company issued 1,100,000 Ordinary Shares at a price of 30 pence per share.
 - (iv) On 2 April 1997, pursuant to a rights issue the Company raised £154,000, the Company issued 440,000 Ordinary Shares at a price of 35 pence per share.
 - (v) On 1 September 1997, pursuant to an offer for subscription the Company raised £312,550, the Company issued 893,000 Ordinary Shares at a price of 35 pence per share.
 - (vi) On 10 October 1997 the Company issued 109,091 Ordinary Shares at 55 pence per share.
 - (vii) On 16 March 1998, pursuant to a placing and an offer for subscription contained in a prospectus dated 7 January 1998, which raised approximately £678,142, the Company issued 663,142 Ordinary Shares at a price of £1.00 per share; and on 21 April 1998 15,000 Ordinary Shares at a price of £1.00 per share.

- (viii) On 28 September 1998 and 2 October 1998, pursuant to a placing and offer for subscription which raised approximately £970,500, the Company has issued an aggregate of 218,000 Ordinary Shares at a price of £1.00 per share; and between 3 February 1999 and 15 February 1999 an aggregate of 752,500 Ordinary Shares at £1.00 per share.
 - (ix) On 25 November 1999, pursuant to a rights issue and offer for subscription contained in a prospectus dated 28 September 1999, which raised £1,347,097, the Company issued an aggregate of 1,514,232 Ordinary Shares at 85 pence per share; and on 6 October 2000 70,588 Ordinary Shares at 85 pence each.
 - (x) On 27 March 2001, pursuant to an offer for subscription contained in a prospectus dated 15 February 2001 which raised £1,804,051, the Company issued 1,335,929 Ordinary Shares at £1.25 per share; and on 1 May 2001 107,312 Ordinary Shares at £1.25 per share.
 - (xi) Between 22 April 2002 and 24 May 2002 the Company raised £1,410,000 and issued 1,410,000 Ordinary Shares at £1.00 per share. 1,320,000 of these shares were offered pursuant to a private placing contained in a private placing memorandum dated 5 April 2002.
 - (xii) On 6 November 2002, the Company issued 1,111,111 Ordinary Shares at 90p per Ordinary Share to New Opportunities Investment Trust (“NOIT”), in consideration of the allotment to the Company of 1,000,000 ordinary shares in NOIT, which shares are listed on the Official List of the UK Listing Authority and trading on the London Stock Exchange. The Company sold its entire holding of 1,000,000 ordinary shares in New Opportunities Investment Trust Plc on 30 December 2003 at a price of 55 pence per share, realising £550,000 cash.
 - (xiii) On 19 December 2002, pursuant to an open offer contained in a prospectus dated 19 November 2002 which raised £535,148, the Company issued 594,609 Ordinary Shares at 90 pence per share.
 - (xiv) On 20 August 2003, pursuant to a private placing contained in a private placing memorandum dated 18 June 2003 which raised £674,800 (before expenses), the Company issued 1,267,600 Ordinary Shares at 50 pence per share; and on 3 October 2003 82,000 Ordinary Shares at 50 pence per share.
- (c) Pursuant to a resolution passed on 21 May 2004, the Company resolved, *inter alia*, that:
- (i) the Directors be generally and unconditionally authorised in accordance with section 80 of the Act to exercise all the powers of the Company to allot relevant securities (as defined in section 80 of the Act) up to an aggregate nominal amount of £1,325,000 (in substitution for and to the exclusion of previous allotment authorities granted prior to that meeting), such authority to expire on the fifth anniversary of the passing of the resolution; and
 - (ii) the Directors be empowered pursuant to section 95 of the Act to allot equity securities (as defined in section 94 of the Act) for cash pursuant to the authority conferred by paragraph (i) above as if section 89(1) of the Act did not apply to any such allotment, and that such power was limited to the allotment of equity securities pursuant to paragraph (i) above and would expire at the conclusion of the next annual general meeting of the Company or 15 months from the passing of the resolution (if sooner).
- (d) Save to the extent disapplied by the resolution referred to in paragraph (c) above, the provisions of section 89 of the Companies Act (which confer on shareholders rights of pre-emption in respect of the allotment of equity securities which are paid up in cash) apply to the authorised but unissued share capital of the Company.

(e) The following options are outstanding over the share capital of the Company:

(i) The Unapproved Scheme

<i>Name</i>	<i>Number of Ordinary Shares subject to option</i>	<i>Exercise Price (£)</i>	<i>Date of Grant</i>	<i>Exercise Period</i>
R C Bilborough	160,000	0.35	05.09.97	06.09.00 – 05.09.07
R C Bilborough	140,000	1.30	01.05.01	02.05.06 – 01.05.11

(ii) The TEG Environmental Plc Company Share Option Plan

<i>Name</i>	<i>Number of Ordinary Shares subject to option</i>	<i>Exercise Price (£)</i>	<i>Date of Grant</i>	<i>Exercise Period</i>
A Heyworth	75,000	0.35	05.09.97	06.09.00 – 05.09.07
F Maudsley	12,000	0.85	29.11.99	30.11.02 – 29.11.09
C Beeston	9,500	0.85	29.11.99	30.11.02 – 29.11.09

(iii) Enterprise Management Incentive Share Option Scheme

<i>Name</i>	<i>Number of Ordinary Shares subject to option</i>	<i>Exercise Price (£)</i>	<i>Date of Grant</i>	<i>Exercise Period</i>
R C Bilborough	76,923	1.30	01.05.01	02.05.06 – 01.05.11
A Heyworth	56,731	1.30	01.05.01	02.05.06 – 01.05.11
F Maudsley	13,000	1.30	01.05.01	02.05.06 – 01.05.11
	25,000	0.50	20.02.03	21.02.06 – 20.02.11
	120,800	0.50	03.10.03	04.10.06 – 03.10.13
C Beeston	15,500	1.30	01.05.01	02.05.06 – 01.05.11
	25,000	0.50	20.02.03	21.02.06 – 20.02.11
N Watkin-Rees	25,000	1.15	22.04.02	23.04.05 – 22.04.12
	25,000	0.50	20.02.03	21.02.06 – 20.02.11
	117,500	0.50	03.10.03	04.10.06 – 03.10.13
W Hughes	25,000	1.15	22.04.02	23.04.05 – 22.04.12
	25,000	0.50	20.02.03	21.02.06 – 20.02.11
R Lewis	25,000	0.50	20.02.03	21.02.06 – 20.02.11

(f) The Company has agreed to grant an option to Canaccord to subscribe for up to 350,000 Ordinary Shares at 50p per share further details of which are set out in paragraph 9(f) of this Part VI.

(g) Save as disclosed in paragraphs 2(e) and (f) above no share of the Company is under option or has been agreed, conditionally or unconditionally, to be put under option.

(h) Save as disclosed in this paragraph 2, 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) The Company's issued share capital is admitted to trading on OFEX.

3. Memorandum and Articles of Association

The Memorandum of Association contains (*inter alia*) provisions to the following effect:

(i) Liability – the liability of the members is limited.

- (ii) 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.

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

(a) *Voting*

Subject to any rights or restrictions as to voting attached to any class of shares at any general meeting:

- on a show of hands every member who is present in person shall have one vote; and
- on a poll every member who is present in person or by proxy has one vote for every share of which he is the holder. A member is not entitled to vote if any calls or other monies due in respect of his shares remain unpaid and a shareholder may be disenfranchised where he, or a person appearing to be interested in shares fails to comply with a notice from the Company requiring him to indicate the capacity in which he holds such shares or any interest in them.

(b) *Dividends, distributions and return of capital*

Dividends may be declared by ordinary resolution but shall in no event exceed the amount recommended by the directors.

Subject to the rights of persons (if any) entitled to shares with special dividend rights, all dividends will be paid according to the amounts paid up (other than amounts paid up in advance) on the shares in respect of which the dividend is paid.

If any member or any other person appearing to be interested in shares held by that member representing 0.25 per cent. or more of the class of shares concerned shall be in default in supplying to the Company any information required by any notice given pursuant to section 212 of the Act, the directors may by notice to such member direct that any dividend (or any part thereof) or other monies payable on such shares shall be retained by the Company (until such time as the direction ceases to have effect) and that any right to receive any additional shares in the Company in lieu of any dividends in accordance with the Articles shall be of no effect.

For so long as the Company has only one class of shares, on a liquidation of the Company the holders of shares are entitled *pari passu* amongst themselves in proportion to their shareholdings and to the amounts paid up or credited as paid up on their shares to share in any surplus assets of the Company.

(c) *Unclaimed dividends*

Any dividends unclaimed may be used for the benefit of the Company until claimed. Any dividend which is still unclaimed twelve years after having become due for payment shall be forfeited and shall revert to the Company.

(d) *Untraced shareholders*

The Company may sell any shares in the Company of a member who is untraceable if, during a period of twelve years:

- no cheque order or warrant addressed to the member or the person entitled to such shares by transmission has been cashed;
- at least three dividends have become payable;
- no communication has been received from such member or any person entitled to the shares by transmission;

- (iv) no cash dividend payable on the shares has been satisfied by the transfer of funds to the bank account of the member or person entitled by transmission to the share;
 - (v) the Company gives notice to in a national newspaper and a newspaper circulating in the area where the member's last known address is located of its intention to sell and receives no communication from the member in the three months period following the date of the advertisement; and
 - (vi) the Company has informed the UKLA of its intention to make such sale.
- (e) *Variation of rights*
- If at any time the capital of the Company is divided into different classes of shares, all or any of the rights or privileges attached to any class of share may be varied or abrogated either with the consent in writing of the holders of three-quarters of the issued shares of that class or with the sanction of an extraordinary resolution passed at a separate general meeting of the holders of the shares of that class.
- (f) *Alteration of capital*
- The Company may by ordinary resolution:
- (i) increase its share capital;
 - (ii) consolidate all or any of its share capital;
 - (iii) cancel any shares where at the date of passing of the resolution no person has taken, or agreed to take, such shares and diminish the amount of its capital by the amount of shares so cancelled; and/or
 - (iv) sub-divide its shares or any of them into shares of smaller amounts.
- The Company may by special resolution reduce its share capital or any capital redemption reserve or share premium account in any manner and with and subject to any conditions, authorities and consents required by law.
- (g) *Transfer of shares*
- All transfers of shares shall be effected by instrument in writing, in any usual or common form or in any other form acceptable to the directors and shall be signed by or on behalf of the transferor and, if the share is partly paid, by the transferee. In the case of uncertificated shares, without a written instrument in accordance with the Uncertificated securities Regulations. The directors may, in their absolute discretion and without assigning any reason therefor, decline to register any transfer of a share which is not fully paid. The Articles contain no restrictions on the free transferability of fully paid shares (unless to an infant or a person in respect of whom a receiving order or adjudication order in bankruptcy has been made which remains undischarged or a person who is a patient within Part VII of the Mental Health Act 1983) provided that the instrument of transfer is in favour of not more than four transferees, is duly stamped (if so required), the provisions in the Articles relating to the deposit of instruments of transfer have been complied with and the member is not in default of any notice duly served under section 212 of the Act in circumstances described in the Articles.
- (h) *Directors*
- (i) The salary or remuneration of a Director appointed to hold employment or executive office in accordance with the Articles may be a fixed sum of money, or wholly or in part governed by business done or profits made, or as otherwise decided by the Board (including, for the avoidance of doubt, by the Board acting through a duly authorised Board committee), and may be in addition to or instead of a fee payable to him for his services as Director pursuant to these Articles. The board may also grant special remuneration to any director who, being called upon, performs any special duties outside his ordinary duties as a director. The aggregate fees payable to non-executive directors shall not exceed £150,000.

- (ii) A director shall not be disqualified from his office by contracting with the Company, nor is any contract or arrangement entered into on behalf of the Company in which any director is in any way interested liable to be avoided, nor is any director so contracting or being so interested liable to account to the Company for the profit realised thereby, but the nature of his interest must be declared by the director at a meeting of the board.
- (iii) Save as provided below, a director may not vote in respect of any contract or arrangement or any other proposal in which he has any material interest otherwise than by virtue of his interest in shares or debentures or other securities of or otherwise in or through the Company. A director will not be counted in the quorum for a meeting in relation to any resolution on which he is debarred from voting.
- (iv) A director shall (in the absence of some other material interest than is indicated below) be entitled to vote (and be counted in a quorum) in respect of any resolution concerning any of the following matters:
 - (aa) relating to the giving of any security, guarantee or indemnity to him in respect of money lent or obligations incurred by him or by any other person at the request of or for the benefit of a Group Undertaking;
 - (bb) relating to the giving of any security, guarantee or indemnity in respect of a debt or obligation of a Group Undertaking for which he himself has assumed responsibility in whole or in part under a guarantee or indemnity or by the giving of security;
 - (cc) relating to, or in the context of, an offer of securities by a Group Undertaking in which he is or may be entitled to participate as a holder of securities or in the underwriting or sub-underwriting of which he is to participate;
 - (dd) relating to another company in which he does not have to his knowledge an interest in shares (as that term is used in sections 198 to 211 of the Act) representing one per cent. or more of either any class of the equity share capital, or the voting rights in, such company;
 - (ee) relating to an arrangement for the benefit of employees of any Group Undertaking which does not award him any privilege or benefit not generally awarded to the employees to whom such arrangement relates; or
 - (ff) concerning insurance which the Company proposes to maintain or purchase for the benefit of Directors or for the benefit of persons including Directors.
- (v) There is no requirement for directors to hold qualification shares.
- (vi) The Articles do not specify any age limit for directors, who may remain in office when they are over 70.

(i) *Borrowing powers*

The directors may exercise all the powers of the Company to borrow money, and to mortgage or charge the whole or any part of its undertaking, property and uncalled capital, and to issue debentures and other securities. The directors must ensure that the aggregate amount for the time being all borrowings of the Company and its subsidiaries of all borrowing of the Company and its subsidiaries (other than owing by the Company and any of its subsidiary undertakings in respect of intra group borrowings) shall not at the date of any such borrowings, without the previous sanction of an ordinary resolution of the Company, exceed a sum equal to two times the Adjusted Capital and Reserves or £5,000,000 (whichever is the higher).

4. Directors' shareholdings and other interests

- (a) The interests of the Directors and persons connected with the Directors within the meaning of section 346 of the Companies Act, in the share capital of the Company, as required to be notified to Company pursuant to sections 324 and 328 of the Companies Act and required to be entered in the register of Directors' interests maintained under section 325 of the Companies Act or which are known to the Directors or could with reasonable diligence be ascertained by them, all of which are beneficial, as at the date of this document and as they are expected to be immediately following Admission (assuming subscription in full under the Placing and Open Offer) are, and will be, as follows:

<i>Director</i>	<i>At the date of this document</i>			<i>Following Admission*</i>		
	<i>Number of Ordinary Shares</i>	<i>Percentage of Ordinary Share capital</i>	<i>Number of Ordinary Shares subject to option</i>	<i>Number of Ordinary Shares</i>	<i>Percentage of Ordinary Share capital</i>	<i>Number of Ordinary Shares subject to option</i>
Dick Bilborough ¹	257,010	2.06	376,923	308,412	1.69	376,923
Dr Alan Heyworth	118,482	0.95	131,731	142,178	0.78	131,731
John Hough ²	1,687,211	13.51	—	2,024,653	11.11	—
Nigel Moore	82,556	0.66	—	99,067	0.54	—

Notes:

- Dick Bilborough's interests include his interest in 29,410 Ordinary Shares held by Mrs J Bilborough.
- John Hough's interests include his interest in (i) 76,078 Ordinary Shares held by Alison Hough, (ii) 661,611 shares in John Hough EIS, (iii) 26,578 Ordinary Shares held by John Hough K/EIS and (iv) 922,944 Ordinary Shares held by AHJ Investments Limited.

* These figures assume full subscription under the Placing and full take up of entitlements under the Open Offer.

- (b) Save as disclosed in paragraph 4(a) above, the Directors are only aware of the following persons who, at the date of this document and immediately following Admission (assuming subscription in full under the Placing and Open Offer), are interested or will be interested, directly or indirectly, jointly or severally, in 3 per cent. or more of the issued share capital of the Company or exercise or could exercise control over the Company:

<i>Shareholder</i>	<i>At the date of this document</i>		<i>Following Admission*</i>	
	<i>Number of Ordinary Shares</i>	<i>Percentage of Ordinary Share capital</i>	<i>Number of Ordinary Shares</i>	<i>Percentage of Ordinary Share capital</i>
Capita Trust Company Limited	1,111,111	8.90	1,333,333	7.31
Chase Nominees Limited	1,074,065	8.60	1,288,878	7.07
Allen Sykes EIS Account	426,403	3.42	511,683	2.80
Allen Sykes	1,000	0.008	1,200	0.006

* These figures assume full subscription under the Placing and full take up of entitlements under the Open Offer.

5. Additional Information on the Directors

- (a) Save as set out below, or as disclosed elsewhere in this document, no directorships of any company, other than the Company, have been held or occupied over the previous five years by any of the Directors, nor over that period has any of the Directors been a partner in a partnership:

<i>Name</i>	<i>Current Directorships/Partnerships</i>	<i>Former Directorships/Partnerships</i>
Dick Bilborough	National Organic Fertiliser Company Limited	Bilborough Consultancy & Finance Limited (Dissolved 07/03/2000) Green Wall Sound Barriers Limited (Dissolved 24/12/2002) GSB (Holdings) Plc (Voluntary liquidation 11/03/1999)

<i>Name</i>	<i>Current Directorships/Partnerships</i>	<i>Former Directorships/Partnerships</i>
John Hough	AHJ Investments Limited FH Investments Limited HF Investments Limited Tudorfawn Limited AHJ Pension Fund Trustees Limited	GSB (Holdings) Plc (Voluntary liquidation 11/03/1999)
Dr Alan Heyworth	Environmental Consultants Limited	The Bracken Advisory Commission Limited (Dissolved 16/12/2003)
Nigel Moore	Park Street Nominees Limited EY Securities Limited Vitec Group plc	Ernst & Young LLP

- (b) None of the Directors has any unspent convictions in relation to indictable offences, has been declared bankrupt or has made or been the subject of an individual voluntary arrangement.
- (c) Save as disclosed below, none of the Directors has been a director of any company at the time of or within 12 months preceding the date of its receivership, compulsory liquidation, creditors' voluntary liquidation, administration, company voluntary arrangement or composition or arrangement with its creditors generally or any class of its creditors.
- (i) Dick Bilborough was a director of Coolpac Fresh Foods Limited to which a receiver was appointed in May 1985; and
- (ii) John Hough and Dick Bilborough were 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 Sound Barriers Limited by way of, *inter alia*, on acquisition of its business. This did not succeed.
- (d) None of the Directors has been a partner of any partnership at the time of or within 12 months preceding the date of its compulsory liquidation, administration, partnership voluntary arrangement or the receivership of any assets of such partnership nor have any of their assets been the subject of a receivership.
- (e) There have been no public criticisms of any of the Directors by any statutory or regulatory authority (including recognised professional bodies) and none of the Directors have been disqualified by a court from acting as a director of a company or from acting in the management or conduct of the affairs of any company.

6. Directors Service Contracts and Emoluments

- (a) The Directors have entered into the following agreements with the Company:
- (i) On 6 July 2004 the Company entered into a 12 month rolling service agreement with Dick Bilborough under which he is employed as Chief Executive of the Company at a salary of £113,000 per annum. The appointment is terminable on 12 months notice by either party to the other at any time on or after the initial 12 month period.
- (ii) On 6 July 2004 the Company entered into a 12 month rolling service agreement with Dr Alan Heyworth under which he is employed as Technical Director of the Company at a salary of £56,000 per annum. The appointment is terminable on 12 months notice by either party to the other at any time on or after the initial 12 month period.
- (iii) Pursuant to a letter of appointment dated 6 July 2004 Mr Nigel Moore agreed to act as non-executive Chairman of the Company for an annual fee of £30,000 on the basis of a maximum of 8 days per month. The appointment is for an initial period of 12 months from Admission and thereafter subject to 3 months notice by the Company to expire at any time on or after the initial 12 month period.

- (iv) Pursuant to a letter of appointment dated 6 July 2004 Mr John Hough agreed to act as non-executive deputy chairman of the Company for an annual fee of £20,000 on the basis of a maximum of 8 days per month. The appointment is for an initial period of 12 months from Admission and thereafter subject to 3 months notice by the Company to expire at any time on or after the initial 12 month period.
- (b) Save as disclosed in paragraph 6(a) above, 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.
- (c) The aggregate remuneration paid and benefits in kind granted to the Directors was for the 14 month period ended 31 December 2003 was £204,590. It is estimated that, under the arrangements currently in force, the aggregate remuneration and benefits in kind to be paid to Directors for the financial year ending 31 December 2004 will be approximately £244,448.
- (d) Other than the acquisition of the Intellectual Property Rights from Dr Alan Heyworth in connection with the Silo-Cages (see paragraph 9(a) below), no Director has or has had any direct or indirect interest in any transaction which is or was unusual in its nature or conditions or is or was significant to the business of the Company and which was effected during the current or immediately preceding financial year and remains in any respect outstanding or unperformed.
- (e) The Company holds two keyman insurance policies in respect of Dick Billborough. Both policies are assured for £1,000,000 which is payable on death (as defined in the respective policies) or terminal illness (as also defined in the respective policies). The Company also holds £200,000 of death and terminal illness cover in respect of Dr Alan Heyworth.
- (g) None of the Directors, their spouses or infant children have any interest in any financial product whose value is wholly or partly determined, directly or indirectly, by reference to the price of the Ordinary Shares of the Company.

7. Share Option Schemes

(a) *The Employee Share Option Scheme*

The Company has adopted an unapproved Company Share Option Scheme (the “Company Scheme”) (amended on 6 July 2004). The Company may not grant an option under the Company Scheme if, as a result, the number of shares issued or issuable in respect of all options granted under the Company 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 per cent. of the ordinary share capital of the Company. 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”) (amended on 6 July 2004) which has been approved by the Inland Revenue under Schedule 9 to the Income and Corporation Taxes Act 1988. 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 (i.e. those working more than 25 hours per week) Directors are eligible to participate. No eligible employee is entitled to participate as of right. The selection of those eligible employees who are to participate is within the discretion of the Directors.

- *Limit on number of shares*

The Company may not grant an option under the Plan if, as a result, the number of shares issued or issuable in respect of all options granted under the Plan and any other employee share option plan operated by the Company would, as a result of options or rights granted within the preceding ten year period, exceed 10 per cent. 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, 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 minimum 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; or
- (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) *Enterprise Management Incentive Share Option Scheme*

In addition, the Company has established the TEG Environmental Plc Enterprise Management Incentive Share Option Scheme (the “EMI”) (amended on 6 July 2004) under the provisions of Schedule 14 to the Finance Act 2000.

The main features of the EMI are:

- *Eligibility*

All employees of the Company who either work at least 25 hours per week or, if less, commit 75 per cent. of their working time to the Company 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 absolute discretion of the Directors.

- *Limit on number of shares*

Any option granted to an Eligible Employee (as defined in the rules of the EMI) by the Directors shall be limited and take effect so that, immediately following such grant, the aggregate market value of:

- (a) all shares subject to unexercised EMI options then held by him and granted by reason of his employment with any one or more group companies; and

- (b) all shares subject to unexercised subsisting options granted to him under the rules of the EMI or any other company share option plan approved by the Inland Revenue as defined in section 521(4) of the Act) by virtue of his employment with the employer company (as defined in paragraph 2 of Schedule 5) or any other group company,

shall not exceed £100,000 or such other sum as may be specified from time to time.

The aggregate number of shares over which EMI options may be granted shall be limited and take effect so that the aggregate market value (as determined in accordance with Rule 3.2 of the EMI) of shares subject to unexercised EMI options does not exceed £3,000,000 or such other sum as may be specified from time to time.

- *Acquisition Price*

The price per Ordinary Share at which an option may be exercised under the EMI 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 only invite eligible employees to apply for an option during an Invitation Period, being a period of 42 days commencing on the day following either the EMI becoming an approved scheme or on announcement from the Company of its results for any year, half-year or other period notwithstanding this time limit, the Directors may in exceptional circumstances grant options outside an Invitation Period.

- *Exercise of options*

An option under the EMI cannot be exercised more than ten years after the date on which it was granted. However, options may be exercised in the following circumstances:

- (i) the participant is deceased, in which case his personal representatives may exercise the option within six months 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 gives notice to holders of shares of a resolution for voluntary winding up of the Company, any subsisting option may be exercised at any time before the commencement of the winding up; or
- (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 forty days 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 for a period of six months after control is obtained.

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

8. Premises

The Company does not own any freehold property. The Company occupies the following premises:

- (i) Land at Sherdley Farm, Rattan Lane, Hutton near Preston, Lancashire. Although the Company has occupied the land at Sherdley Farm for a number of years without documentation in place, it is currently in the process of agreeing a lease for a term of 15 years from 1 April 1999 (including any statutory continuation). As at the date of this document, the agreed lease has been signed by both the landlords and the Company but there is no binding obligation on the landlords to grant the lease. As the lease requires the prior consent of Lancashire County Council, it has been agreed that the lease will not be formally executed until such consent is received.

- (ii) Residential premises at Trafalgar Wharf, 214 Mountbatten Close, Ashton on Ribble, Preston, PR2 2XF. The Company occupies this premises without documentation.
- (iii) The Company occupies offices on the Ground and First Floor of Unit 6 Enterprise House, Meadcraft Business Park, Pope Lane, Whitestate, Preston. The proposed term of the tenancy is a term of 3 years terminating on 13 February 2005 at a monthly rent of £2262.00 plus VAT.

9. Material Contracts

The following contracts (being contracts otherwise than in the ordinary course of business), which have been entered into by the Company since incorporation, are or may be considered material:

- (a) The Transfer of Intellectual Property Rights dated 21 November 1995, as amended on 13 April 2004, and on 6 July 2004 between Dr Alan Heyworth and the Company whereby Dr Heyworth transferred all Intellectual Property Rights (as defined in this agreement) in TEG technology to the Company. Under this agreement Dr Heyworth received a one-off payment of £35,000 and a royalty equal to one per cent. of the amount of the Company's turnover in excess of £1,000,000 for each of the five financial years beginning 31 July 1996. This agreement was subsequently amended on 13 April 2004 to provide Dr Heyworth with a royalty of two per cent of TEG's pre-tax profits each year to a maximum aggregate over five years of £1,000,000.
- (b) A Waste Management Licence (ref EAWML/54315) granted to the Company by the Environment Agency authorising the Company to keep and treat Controlled Waste (as defined in the Waste Management Licence) dated 1 November 2000.
- (c) By a letter from Jones to the Company dated 24 October 2001, Jones confirmed that it had been awarded a contract by Kildare County Council ("KCC"), following receipt of a tender document produced by agents to KCC (the "Tender Document"), to provide a composting plant at Brownstown, County Kildare. Jones confirmed that TEG was instructed to proceed with the detailed design of the plant and the manufacture of the silo-cages to meet KCC's specification set out in the Tender Document. The confirmation stated that an official priced order would be given to TEG upon approval of TEG's insurance. On 9 November 2001, Jones confirmed in writing the order number to TEG to design and build a 24 cage composting plant to handle 2000tds of minimum 20 per cent. dry solids at an agreed rate of £262 per tonne.

The terms of the Kildare Contracts are not set out in a single written agreement. The contractual correspondence between Jones and TEG is limited in nature and there are a number of omissions which make the terms of the contract ambiguous. For example, there are no provisions setting out the circumstances in which either party may terminate the contract or whether there are financial liabilities arising on either party as a result of such termination. Furthermore, although TEG confirmed to Jones that it would comply with the specifications set out in the Tender Document, there are a number of contradictions between these obligations and those mentioned in correspondence between Jones and TEG. For instance, the written confirmation of the order from Jones specifies a minimum of 20 per cent. dry solids while the Tender Document refers to a range of between 18-30 per cent. dry solids. Consequently, a number of the terms of the Kildare Contract are ambiguous and would need to be implied or interpreted by the parties or, ultimately, the court. The Company terminated the Kildare Contract on 8 December 2003.

- (d) A placing agreement dated 6 July 2004 made between the Company, the Directors and Canaccord under which Canaccord has agreed as agent for the Company to use its reasonable endeavours to procure subscribers for 2,080,000 New Ordinary Shares at the Issue Price. The Canaccord Placing is not underwritten. Under this Agreement the Company has agreed, subject to Admission, to pay Canaccord a corporate finance fee and commission of 5.5 per cent. on the value at the Issue Price of the New Ordinary Shares placed pursuant to the Canaccord Placing together with any applicable VAT. The Placing Agreement contains

warranties given by the Company and the Directors and an indemnity given by the Company to Canaccord and a tax indemnity given by the Directors to the Company in respect of certain limited tax liabilities of the Company. Canaccord is entitled to terminate its obligations under the Canaccord Placing in certain specified circumstances prior to Admission.

- (e) An agreement dated 6 July 2004 made between Canaccord, the Company and the Directors under which Canaccord has agreed to act as the Company's nominated adviser and broker for a period of 12 months from the date of Admission and thereafter unless terminated by at least 1 month's prior written notice by Canaccord or the Company to expire at any time after the initial 12 month period (the "Nominated Adviser Agreement"). Under the Nominated Adviser Agreement the Company has agreed to pay Canaccord for its services a fee of £40,000 plus VAT for the first year and thereafter a fee of £50,000 plus VAT per annum.
- (f) An option agreement dated 6 July 2004 made between the Company and Canaccord under which the Company has, conditional upon Admission, granted to Canaccord an option to subscribe for up to 350,000 Ordinary Shares at 50p per share. The Canaccord option is exercisable in whole or in part at any time in the period of 24 months from the date of Admission.
- (g) Lock-in agreements dated 6 July 2004 between Canaccord, the Company and the Directors and certain persons connected with the Directors as specified below, under which the Directors and their connected persons have each agreed with Canaccord and the Company not to dispose of any interest in Ordinary Shares in the Company for a period of 12 months from the date of Admission, except in limited circumstances. The agreements also contain orderly market provisions which apply after expiry of the lock-in period. These agreements have been entered into by Richard Bilborough, Jennifer Bilborough, Dr Alan Heyworth, John Hough, Alison Wendy Hough, Nigel Moore and AHJ Investments Limited.
- (h) A consultancy agreement dated 26 August 2003 between the Company and Richard Crocker under which Richard Crocker has been engaged as a consultant by the Company to advise the Company in relation to the acquisition of certain sites and the necessary planning and Waste Management Licensing consents for the Company's in-vessel composting facilities.
- (i) Planning Permission 07/01/0325, granted on 12 November 2001 and subsequently varied on 12 March 2004 in connection with the diversification of the range of organic wastes to be co-composted with locally derived chicken manure at Sherdley Farm, Preston.
- (j) Planning Permission 07/99/0289, granted on 9 December 1999 and subsequently varied on 12 March 2004 in which Lancashire County Council granted permission for the Company and continue using existing livestock buildings for the composting operation at Sherdley Farm, Preston.
- (k) Planning Permission 7/99/664, granted on 15 February 2000 and subsequently varied on 12 March 2004 in which Lancashire County Council granted permission for the Company to replace existing livestock sheds at Sherdley Farm, Preston.

10. Working Capital

The Directors are of the opinion, having made due and careful enquiry and having regard to the net proceeds of the Placing and Open Offer, that the working capital available to the Company will be sufficient for its present requirements, that is for at least 12 months from the date of Admission.

11. Litigation

Save as disclosed in paragraph 8 of Part I and paragraph 9 of this Part VI of this document, the Company is not engaged in any litigation or arbitration proceedings which has had or may have a significant effect on the financial position of the Company and, so far as the Directors are aware, there are no such proceedings pending or threatened by or against the Company.

12. General

- (a) In the opinion of the Directors the minimum amount which must be raised under the Placing and Open Offer is £1,570,000 in order to provide the sums required in respect of the matters set out below:

Purchase price of property	£Nil
Expenses of the Placing and Open Offer and commission	£370,000
Repayment of borrowings	£Nil
Working capital	£1,200,000

- (b) Ernst & Young resigned as auditors of the Company on 18 August 1999 and, in accordance with s.394(1) of the Companies 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.
- (c) Moore and Smalley were appointed auditors of the Company on 17 September 1999.
- (d) The Company's accounting reference date is 31 December in each year.
- (e) The financial information contained in this document does not constitute statutory accounts within the meaning of section 240 of the Companies Act.
- (f) Save as disclosed in Part I of this document, there has been no significant change in the financial or trading position of the Company since 31 December 2003, being the date to which the last audited accounts were prepared.
- (g) Grant Thornton UK LLP has given and not withdrawn its written consent to the issue of this document and the inclusion of its name and the references to it in the form and context in which they appear and to the inclusion of its report and letter in Parts IV and V of this document for the purposes of paragraph 13(1)(g) of the POS Regulations.
- (h) Canaccord has given and not withdrawn its written consent to the inclusion in this document of its name and the references to it in the form and context in which they appear.
- (i) The total costs, charges and expenses payable by the Company in connection with or incidental to the Placing and Open Offer and Admission including registration and London Stock Exchange fees, printing, advertising and distribution costs, legal and accounting fees and expenses, are estimated to amount to approximately £370,000.
- (j) No persons (excluding professional advisers and trade suppliers) have received, directly or indirectly, from the Company within the 12 months preceding the date of this document nor have they entered into contractual arrangements to receive, directly or indirectly, from the Company, on or after Admission, fees totalling £10,000 or more, or securities in the Company with a value of £10,000 or more calculated by reference to the Issue Price or any other benefit with a value of £10,000 or more at the date of Admission.
- (k) Save as disclosed in this document, the Directors are not aware of any exceptional factors that have influenced the Company's activities.
- (l) Save as disclosed in paragraph 9 of Part VI of this document, there are no patents or intellectual property rights, licences or particular contracts which are of fundamental importance to the business.
- (m) Save as set out in this document, as at the date of this document, the Company has no intention to make any new principal investments.
- (n) The New Ordinary Shares are not being offered generally and no applications have or will be accepted other than under the respective terms of the Canaccord Placing and the TEG Placing. The 2,080,000 New Ordinary Shares which are the subject of the Canaccord Placing have been conditionally placed. The Placing is not being underwritten by any person.
- (o) The Issue Price represents a premium of 45 pence over the nominal value of 5p per Ordinary Share.

13. Documents Available for Inspection

Copies of the following documents may be inspected at the registered office of the Company and at the offices of Jones Day, 21 Tudor Street, London, EC4Y 0DJ during usual business hours on any week day (Saturdays and public holidays excepted) from the date of this document up to and including 14 days from the date of Admission;

- (a) the Memorandum and Articles of Association of the Company;
- (b) the Accountants Report and letter contained in Parts IV and V of this document;
- (c) the Accountants Statement of Adjustments;
- (d) the service agreements and letters of appointment referred to in paragraph 6(a) above;
- (e) the material contracts referred to in paragraph 9 above;
- (f) the written consents referred to in paragraphs 12(g) and (h) above; and
- (g) this Prospectus dated 6 July 2004.

14. Availability of this document

Copies of this document will be available free of charge from the offices of Canaccord at Brook House, 27 Upper Brook Street, London, W1K 7QF and from Jones Day at 21 Tudor Street, London, EC4Y 0DJ from 6 July 2004 and will remain available for at least one month after the date of Admission.

Dated 6 July 2004

GLOSSARY

“ABP”	Animal By-Products (consisting of animal processing wastes such as blood, food wastes and former foodstuffs)
“ABPR”	Animal By-Product Regulation – EU Regulation enforcing treatment and disposal of animal by-products
“aerobic”	in the presence of oxygen
“aerobic composting”	breakdown/degradation of organic material in the presence of oxygen
“agronomic value”	has a value to soil, agriculture and farming
“anaerobic”	in the absence of oxygen
“anaerobic digester”	a method of treating liquid waste in a vessel without oxygen
“Biowaste”	organic material suitable for treatment by aerobic composting and anaerobic digestion
“Biowaste Directive”	impending EU legislation controlling standards of treatment by aerobic composting and anaerobic digestion
“BPEO”	Best Practicable Environmental Option – definition of treatment defined by DEFRA
“BRC”	British Retail Consortium (trade body of food retailers)
“enhanced treatment”	the processing of sewage sludge which eliminates or reduces pathogen counts to safe levels. Under EU legislation, this is referred to as “advanced treatment”
“Environment Agency”	Regulatory Government sponsored by DEFRA
“EPA”	Environmental Protection Agency (Irish Environment Agency)
“forced aeration”	supplying oxygen with force of pumped air
“Former Foodstuffs”	food wastes such as food processing wastes, waste meat and savoury products categorised as former foodstuffs under Category III of the ABP Regulations
“high temperature thermophilic composting”	composting at temperatures above 50°C
“in-vessel”	in-vessel composting systems are those which fully contain the composting mix within a vessel with access to air to allow the aerobic process to develop. In-vessel systems are either batch or continuous flow
“IPPC”	Integrated Pollution Prevention and Control – EU Regulation
“MBT”	mechanical biological treatment
“MSW”	municipal solid waste, which includes household waste
“pathogen”	disease-causing organism
“PIU”	Performance and Innovation Unit of the Cabinet Office
“Plant”	the Silo-Cage plant
“State Veterinary Service”	Government Veterinary Body
“thermophilic microorganisms”	microorganisms that live at temperatures above 50°C
“Water Companies”	companies in the Water Industry
“Water Industry”	the regulated part of the water industry consisting of those companies and authorities which have the responsibility of treating and disposing of sewage sludge
“Water UK”	the Water Industry’s trade association

