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If you have sold or otherwise transferred all of your Ordinary Shares, please immediately forward this document, together with the Proxy Form 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. However, such documents should not be distributed, forwarded or transmitted in or into the United States, Canada, Australia, the Republic of Ireland or Japan or any other jurisdiction if to do so would constitute a violation of the relevant laws of such jurisdiction. If you have sold or transferred only part of your holding of Ordinary Shares you should retain these documents, and immediately consult the stockbroker, bank or other agent through whom the sale or transfer was effected.

Canaccord Adams Limited ("Canaccord"), which is authorised and regulated by the Financial Services Authority, is acting for the Company and no other person in connection with the Placing and will not be responsible to anyone other than the Company for providing the protections afforded to customers of Canaccord nor for advising any other person on the contents of this document or any matter referred to herein. In particular, Canaccord, in its capacity of Nominated Adviser and Broker to the Company, owes certain responsibilities to London Stock Exchange plc which are not owed to the Company or the Directors or to any other person in respect of their decision to acquire New Ordinary Shares. No representation or warranty, express or implied, is made by Canaccord as to the contents 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, for which the Directors are solely responsible.

This document should be read in conjunction with the accompanying Proxy Form and the Notice of Extraordinary General Meeting set out at the end of this Circular.

Notice of an Extraordinary General Meeting of The TEG Group plc to be held at The Bridgewater Hall, Lower Mosley Street, Manchester M2 3WS at 11:50 a.m. on 20 April 2007 is set out at the end of this document. Shareholders are urged to complete and return the enclosed Proxy Form, in accordance with the instructions printed thereon, as soon as possible and, in any event, so as to be received by the Proxy Processing Centre, Telford Road, Bicester OX26 4LD, no later than 11:50 a.m. on 18 April 2007. Completion and return of the Proxy Form will not preclude Shareholders from attending the meeting and voting in person should they subsequently wish to do so.

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## **THE TEG GROUP PLC**

*(Incorporated in England and Wales with Company Number 03109613)*

### **Placing of 10,000,000 New Ordinary Shares**

### **Notice of Extraordinary General Meeting**

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The New Ordinary Shares referred to in this Circular have not been and will not be registered under the US Securities Act of 1933, as amended (the "Securities Act") and may not be offered or sold in the United States except pursuant to an exemption from, or in a transaction not subject to, the requirements of the Securities Act. There will be no public offer of the New Ordinary Shares in the United States, the United Kingdom or elsewhere. The New Ordinary Shares are being offered and sold outside the United States in reliance on Regulation S under the Securities Act. The New Ordinary Shares have not been approved or disapproved by the US Securities and Exchange Commission, any state securities commission or other regulatory authority, nor have the foregoing authorities passed upon or endorsed the merits of this offering. Any representation to the contrary is unlawful.

The distribution of this Circular and the offering or sale of the New Ordinary Shares in certain jurisdictions may be restricted by law. No action has been taken by the Company or Canaccord that would permit an offering of the New Ordinary Shares or possession or distribution of this Circular or any other offering or publicity material relating to the New Ordinary Shares in any jurisdiction where action for that purpose is required. Persons into whose possession this Circular comes are required by the Company and Canaccord to inform themselves about and to observe any such restrictions.

This Circular is directed only at members of the Company falling within the meaning of Article 43(2)(a) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended (all such persons together being referred to as "Relevant Persons"). This Circular must not be acted on or relied on by persons who are not Relevant Persons.

Nothing in this Circular shall impose any obligation on either the Company or Canaccord to enter into any arrangement or commitment referred to herein which has not been entered into on the date hereof. Either party shall be entitled not to enter into the Placing Agreement or proceed with the Placing described in this Circular without incurring any liability to any party.

Copies of this document will be available free of charge at the registered office of the Company until 27 April 2007.

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## **EXPECTED TIMETABLE OF PRINCIPAL EVENTS**

Circular posted to Shareholders	26 March 2007
Latest time and date for receipt of Proxy Form	11:50 a.m. on 18 April 2007
Extraordinary General Meeting	11:50 a.m. on 20 April 2007
Admission of the New Ordinary Shares to trading on AIM	8:00 a.m. on 23 April 2007
CREST member accounts expected to be credited for the New Ordinary Shares in uncertificated form	23 April 2007
Despatch of definitive share certificates for the issued New Ordinary Shares in certificated form	By 30 April 2007

## **PLACING STATISTICS**

Number of New Ordinary Shares being placed on behalf of the Company pursuant to the Placing	10,000,000
Total number of Ordinary Shares in issue immediately on completion of the Placing	48,045,381
Percentage of enlarged issued share capital represented by the New Ordinary Shares being placed on behalf of the Company pursuant to the Placing	20.8%
Placing Price per New Ordinary Share	£1.10
Market capitalisation at the Placing Price following completion of the Placing	£52,849,919
Gross proceeds of the Placing	£11,000,000

## DEFINITIONS AND GLOSSARY

The following definitions apply throughout this document and in the accompanying Proxy Form unless the context requires otherwise:

"ABP"	animal by-product;
"Act"	the Companies Act 1985 (as amended);
"Admission"	admission of the New Ordinary Shares to trading on AIM and such admission becoming effective in accordance with the AIM Rules;
"Admission Document"	The admission document relating to the Company dated 6 July 2004;
"AIM"	the market of that name operated by the London Stock Exchange;
"AIM Rules"	the AIM Rules for Companies published by the London Stock Exchange as in force at the date of this document or, where the content requires, as amended or modified after the date of this document;
"Board" or "Directors"	the board of directors of the Company;
"BOO"	build, own and operate;
"Canaccord"	Canaccord Adams Limited, the Company's nominated adviser and broker;
"Circular" or "this document"	this document dated 26 March 2007;
"Company" or "TEG"	The TEG Group plc;
"CREST"	means the computer-based system established under the Uncertificated Securities Regulations 2001 which enables title to units of relevant securities (as defined in the Regulations) to be evidenced and transferred without a written instrument and in respect of which CRESTCo Limited is the Operator (as defined in the Regulations);
"Existing Ordinary Shares"	the 38,045,381 Ordinary Shares in issue at the date of this document;
"Extraordinary General Meeting" or "EGM"	the extraordinary general meeting of the Company to be held at The Bridgewater Hall, Lower Mosley Street, Manchester M2 3WS at 11:50 a.m. on 20 April 2007, notice of which is set out at the end of this document;
"GMW PFI Announcement"	the announcement made by the Company on 29 January 2007 that the Viridor-Laing consortium had

	been awarded preferred bidder status in relation to the Greater Manchester Waste PFI contract;
<b>"IVC"</b>	in-vessel composting;
<b>"New Ordinary Shares"</b>	the 10,000,000 Ordinary Shares to be issued pursuant to the Placing;
<b>"NOFCO"</b>	the Natural Organic Fertilizer Company Ltd, a subsidiary of the Company;
<b>"Ordinary Shares"</b>	ordinary shares of 5 pence each in the share capital of the Company;
<b>"PFI"</b>	Private Finance Initiative;
<b>"Placing"</b>	the conditional placing by Canaccord of the New Ordinary Shares at the Placing Price;
<b>"Placing Agreement"</b>	the agreement dated today, a summary of which is set out in paragraph 13 of the letter to Shareholders set out in this Circular;
<b>"Placing Price"</b>	the price at which the New Ordinary Shares will be issued pursuant to the Placing, being £1.10 per New Ordinary Share;
<b>"Proxy Form"</b>	the form of proxy accompanying this document for use by Shareholders at the Extraordinary General Meeting;
<b>"Resolutions"</b>	the special resolution and the ordinary resolution to be proposed at the EGM, as set out at the end of this Circular;
<b>"Share Option Schemes"</b>	the TEG Unapproved Share Option Scheme, the Company Share Option Plan and the Company Enterprise Management Incentive Share Option Plan;
<b>"Shareholders"</b>	holders of Ordinary Shares.

# THE TEG GROUP PLC

(Incorporated in England and Wales with Company Number 03109613)

## LETTER FROM THE CHAIRMAN OF THE TEG GROUP PLC

### Directors:

Michael Fishwick (*Chief Executive*)  
Nigel Moore (*Non-Executive Chairman*)  
Doug Benjafield (*Non-Executive Director*)  
Alan Heyworth (*Technical Director*)  
Tanja Willis (*Financial Director and Company Secretary*)

### Registered Office:

Houston House  
12 Sceptre Court  
Sceptre Point  
Preston  
PR5 6AW  
Lancashire

26 March 2007

*To all Shareholders and, for information only, holders of options granted under the Share Option Schemes.*

Dear Shareholder

### Placing of 10,000,000 New Ordinary Shares

#### Notice of Extraordinary General Meeting

#### 1. Introduction

Further to the announcement on Friday 23 March 2007 that the Company is intending to raise up to approximately £11 million before expenses by way of an institutional placing of 10,000,000 New Ordinary Shares at a placing price of £1.10 per New Ordinary Share, I am writing to you to inform you about the Placing and to convene an EGM at which shareholder approval will be sought for authority to issue shares in order to enable the Placing to take place. The Placing Price represents a discount to the volume weighted average price since 29 January 2007, being the date of the GMW PFI Announcement, of 4.4%.

#### 2. Background

TEG was incorporated in 1995 and its ordinary share capital was admitted to trading on AIM in July 2004. The Company'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 in-house projects. The TEG Silo Cage composting system is the result of over ten years of design and testing and TEG has now commissioned four plants in the UK.

Legislation governing the treatment and disposal of organic waste is increasingly stringent and drives the market for the TEG Silo Cage system and the services that its process provides. In 2005, new legislation became effective relating to the disposal of animal by-products and the use of landfills, increasing the Company's market in the organic waste recycling sector in the UK.

The Company earns revenues from both (i) gate fees for waste treatment and (ii) the sale of composting plants.

As announced on 6 March 2007, the Company has reported a significant increase in its turnover from £555,250 (2005) to £3,559,330 (2006) and has achieved the following:

- (i) the installation of the TEG plant at the Company's facility in Perth, Scotland has been completed and the transition from the existing technology was completed in Quarter 4 of 2006;
- (ii) the first line at the Company's facility at Sherdley Farm, Preston has been installed and commissioned and the second line, with an additional capacity of 7,000 tonnes, is expected to be completed by the second quarter of 2007;
- (iii) TEG has been named as a principal sub-contractor to the Viridor-Laing consortium that has been awarded preferred bidder status for the Greater Manchester Waste PFI contract. Assuming financial close, TEG expects to be the exclusive supplier of IVC technology to the consortium in the Greater Manchester region;
- (iv) TEG completed the acquisition of the site at Todmorden, Yorkshire in May 2006 and is developing one of the largest composting plants in the UK;
- (v) planning consent for the Company's facility in Kildare, Ireland was revised and re-issued in January 2007 and contract terms have been agreed McCartney Contracting for waste supply and compost product placement;
- (vi) the Company has entered into a research and development project with Shell UK Limited to investigate opportunities for the composting of oil-based mud drill cuttings;
- (vii) the Company has completed the construction of a TEG Silo Cage plant for the City and Council of Swansea and handover of the plant took place in February 2007. The final invoiced contract value was £920,000;
- (viii) the Company has completed the construction of a TEG Silo Cage plant for Banham Compost Ltd and handover is expected to take place in March 2007; and
- (ix) the Company has been awarded a contract by Lancashire County Council which has created business for the TEG plant at Sherdley Farm, Preston.

The Directors believe that the recent success of the Company has been driven by the TEG System offering an attractive, efficient and cost-effective alternative to landfill. It is also an attractive alternative to other forms of ABP disposal, namely rendering, incineration and anaerobic digestion.

### **3. The TEG System**

The TEG Silo Cage system is a large-scale continuous-flow thermophilic composting plant that converts organic wastes into a natural organic fertiliser. By mixing appropriate waste streams in the correct ratio, conditions are created 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 composting process, which is a continuous-flow and essentially dry operation requiring no mechanical turning, takes 12 to 14 days, during which time the temperature of the process is continuously monitored by multiple probes. The insulated walls maintain the temperature within the cages, which each have a nominal capacity of 600 tonnes per annum.

The TEG Silo Cage consists of a bank of between 8 and 32 steel-framed cages with insulated walls. Multiple banks of Silo Cages are supplied for large contracts. Each bank of Silo Cages is suspended in a rigid steel frame and is supplied via a bio chopper mixer that feeds onto a conveyor loading

mechanism, 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 by an unloading mechanism.

As Shareholders will be aware, a full scale waste composting plant has been developed by the Company at its demonstration plant at Sherdley Farm near Preston which has been operational since 2000. In November last year, the plant was validated to process Category III ABP to the highest UK and EU standard. The ABP approval represents the highest classification possible in the organic waste treatment market and it allowed the Company to commercialise the Sherdley Farm facility, install new larger plants and generate revenues, whilst also creating the opportunity to open up larger markets for the Company.

The Company has a pipeline of possible opportunities, including the sale of plant, and several BOO projects.

#### **4. Greater Manchester Waste PFI Contract**

As announced by the Company on 29 January 2007, TEG is the principal sub-contractor to the Viridor-Laing consortium that has been awarded preferred bidder status for the Greater Manchester Waste PFI contract. Costain Limited has been retained to manage the construction projects on behalf of the consortium and will be TEG's immediate customer.

Assuming the consortium achieves financial close, TEG will be the exclusive supplier of IVC technology to the consortium and will receive an order to supply all the IVC capacity specified by the PFI contract. It is anticipated that financial close will be completed by 1 June 2007 and that contracts will become binding at that point.

The Company expects to be awarded contracts to build four plants over the period from 2007 to 2010. The combined capacity of the plants will be 180,000 tonnes per annum, producing 125,000 tonnes of compost product per annum. It is envisaged that the plants will all process green waste and kitchen waste collected from households in the Greater Manchester region. Depending upon the final scope of supply, the total value of the construction projects to TEG could be up to £35 million over the period 2007 to 2010.

The PFI contract is believed to be the largest waste management contract offered to date in Western Europe. Total capital investment could be in excess of £300 million and the overall contract value is projected to be £3 billion.

#### **5. Todmorden BOO**

In May 2006, TEG acquired a freehold site in Todmorden, West Yorkshire for a cost of £2 million. The Company has since completed the demolition of the buildings on the site and completed the construction of a new building to house the TEG plant and equipment. It is expected that the facility will be operational by April 2007, considerably ahead of schedule. The facility will be one of the largest composting plants in the UK and the site has been granted full planning permission for a TEG IVC plant with a capacity of 50,000 tonnes per annum of waste feed. The Directors understand that this is the only site in development with such planning permission within its Local Authority area (Calderdale) and neighbouring Local Authorities (Greater Manchester, Blackburn and Darwen).

Market demand is extremely encouraging at this stage and to date negotiations are currently under way with two Local Authorities (including Calderdale Council) and numerous private sector food waste customers, both directly and through the Company's WRAP-funded relationship with Urban Mines Limited.

Plant and equipment installation at the plant is underway and two lines are due to become operational in April 2007 with a capacity of 25,000 tonnes per annum. The Company intends that a further two lines will become operational later in 2007, bringing the total capacity to 50,000 tonnes per annum.

## **6. Recent Developments**

### *Perth Plant, Scotland*

As reported in 2005, the Company secured an 11 year contract to acquire the rights to take over and develop a composting operation at a waste management site in Perthshire, Scotland. Two 32-cage lines have been constructed with a joint capacity of 38,000 tonnes per annum and both lines are now operational. The site's principal customers are SITA UK Ltd (Local Authority service with Perth & Kinross Council), Binns Skips (collections from food manufacturers), Scot Loo and Grampian Foods.

The Scottish Environment Protection Agency has granted TEG a Pollution Prevention and Control ("PPC") permit to carry out ABP composting activities at the Perth plant. Due to the long lead time, the expense associated with PPC compliance and the requirement under PPC for the operator to use Best Available Techniques in respect of the technology and its operation, the Directors believe that the application of the Pollution Prevention and Control (Scotland) Regulations to the type of activities carried on by the Company may represent a significant barrier to competitors attempting to enter into markets governed by the PPC regime.

### *Sherdley Farm Plant, Preston*

Further to receiving validation to process Category III ABP to the highest UK and EU standard, the Company has upgraded the Sherdley Farm plant and the first line was commissioned in February 2006 with a commercially available capacity of approximately 6,000 tonnes per annum. The Company has reserved some of the total plant capacity for continued R&D activity for prospective customers. The Company has also completed a new maturation building and upgraded the infrastructure on the plant.

By securing contracts with Schwan's, H.J. Heinz and Greater Manchester Waste, the Company has confirmed demand for its waste disposal service and with the first line effectively full, the Company is now constructing a second line with a capacity of 7,000 tonnes per annum and anticipates this line being completed by the second quarter of 2007. Subject to planning consent, it is intended to upgrade the waste receipt building and install offices for plant and engineering staff.

As disclosed previously in the Admission Document, the Company has occupied the land at Sherdley Farm for a number of years without documentation in place. As at the date of this Circular, the Company awaits formal execution by the landlord and Lancashire County Council of a deed of release to allow a lease to be granted. The Directors believe that both the deed of release and the lease will be executed shortly.

### *Kildare Plant, Ireland*

The planning consent for the Kildare plant was revised and reissued to the Company in January 2007, dated October 2006 and the Company is planning to upgrade the plant to ABP standard with a capacity of 15,000 tonnes per annum by July 2007. The Company will be installing new panels, upgrading material handling and improving the building to meet the planning conditions for ABP waste streams at an estimated cost of £550,000.

The Company now awaits the licence agreement from Kildare County Council to allow the development to proceed.

In addition, the Company has agreed contract terms with McCartney Contracting for the supply of waste and the placement of compost product. This will ensure the facility is fully utilised and will ensure a secure outlet for compost product following approval by the regulator in Ireland, the Department of Agriculture.

#### *Swansea*

As announced by the Company on 6 February 2007, TEG has completed the construction of the TEG Silo Cage plant for the City and County of Swansea. The plant has been operating under TEG management since November 2006 and, following training and mechanical completion, it was handed over to the City and County of Swansea on 5 February 2007. The final invoiced contract value for TEG was approximately £920,000.

TEG will continue to work closely with The City and County of Swansea and will lead the Authority in gaining State Veterinary Service ("SVS") approval for the plant, a process that is expected to be completed by the second quarter of 2007. TEG will provide a 12-month warranty period that commences after the SVS approval is obtained.

#### *Banham*

The Company reported in July last year that Banham Compost Limited had placed an order with TEG for the purchase and installation of two banks of 24 Silo Cages for approximately £1.7 million. In April 2006, Banham received planning permission to operate an IVC facility at its Carleton Rode site in Norfolk with a capacity of 28,000 tonnes per annum. The final contract value was £1.75 million.

The installation of the plant was completed in December 2006 and commissioning of the first line began in December 2006. The final handover to the customer is scheduled for March 2007.

#### *Clayland's Corner*

The Company reported on 6 April 2006 that it had obtained planning permission for a composting facility at Clayland's Corner, Somerset. The Company has been addressing the pre-conditions of the planning permission and believes those will be satisfied by April 2007. Development of the facility will commence thereafter and the Directors anticipate the site will be operating by August 2007. The planning permission is for an 8,100 tonnes per annum facility and the Company intends to install an 18 Silo Cage plant.

#### *Other Arrangements*

##### (i) Research and Development Project with Shell UK Limited

The Company has entered into a Research and Development Project with Shell UK Limited to investigate the opportunities for the composting of oil based mud drill cuttings from North Sea exploration activities using TEG Silo Cage technology. The contract is initially to trial bioremediation of oil-based mud cuttings and, if this is successful, the parties will consider further the commercial potential to develop TEG Silo Cage plants for oil-based mud drill cutting processing.

The R&D work will focus on bioremediation of oil based mud drill cuttings, which, if successful would convert a hazardous waste to a less hazardous end product which can be used as a beneficial product, such as landfill cover.

The project is for Shell to fund research & development work by TEG followed by full-scale trials at TEG's plant in Perth, Scotland. Macaulay Enterprises Limited, the commercial arm of the Macaulay Institute and a specialist environmental consultancy and laboratory services

company, will work with the parties assessing the products and potential end use opportunities.

The laboratory work is complete and the pilot scheme is in progress in purpose built rigs at the TEG site in Perthshire. The Company expects the results of the pilot scale work to be available during Quarter 2 of 2007.

(ii) Launch of Natural Organic Fertilizer Company Limited ("NOFCO")

TEG launched a new marketing subsidiary, NOFCO, in January 2007 with the sole aim of developing new markets for compost products, both for the Company and for its customers. The beneficial use of compost products is key to all Local Authority contracts and TEG believes its expertise in this area will benefit its customers and give the Company a further competitive advantage. The Company expects to commence commercial scale crop growing trials near Sherdley Farm in April 2007.

## 7. The Market

Total waste in the UK is estimated at 360 million tonnes per annum, of which 118 million tonnes is controlled and 42 million tonnes is potentially suitable for composting. By the year 2020, the UK target is that 25 million tonnes per annum of waste should have been diverted from landfill. An additional 1.6 million tonnes of ABP is forecast to be entering the organic treatment market due to implementation of ABP legislation.

The Waste Resource Action Programme estimates the need for 450 composting plants by 2020 for Local Authorities, with the increase in ABP providing opportunities for over 100 plants. The National Audit Office conducted a study in July 2006 into progress with landfill diversion in the UK. The study includes illustrations of increased composting and recycling requirements from which it is estimated that a further 1.1 million tonnes per annum of material will require composting by 2012, the equivalent to approximately 60 TEG plants. In addition, Defra has recently announced a revision to the PFI process for waste management contracts and stated it expects increased deals in the sector, ramping up to a peak in 2010/11.

Parallel to this increase in the requirement for facilities, it is estimated that the potential market for compost product is nine million tonnes, which the Directors believe will support the development of up to 640 composting plants.

Furthermore, gate fees are very attractive and the cost of landfill, the benchmark for waste disposal, is rising sharply. Published prices for ABP disposal are up to £82 per tonne, up to £55 per tonne for catering waste, between £21 and £29 per tonne for green waste, and an average of £47 per tonne for landfill disposal.

## 8. Legislation

### *Landfill Directive 1999*

The Landfill Directive 1999 (1999/31/EC) was transposed into English law as the Landfill (England and Wales) Regulations 2002 and became effective on 15 June 2002. The Directive requires significant reductions in the quantity of biodegradable municipal waste disposed of by landfilling and the prohibition of 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. Failure to meet the Landfill Directive targets within the next decade will result in the UK facing substantial fines from the EU. A penalty system was imposed in April 2005 pursuant to which Local Authorities may be fined £150 for every

tonne landfilled beyond the limit set by the Local Authority's allowance, and the Directors believe that such financial sanctions will most probably be passed on to Local Authorities and then collected through Council Tax, and the threat of these sanctions will provide a further catalyst for change.

Regulation 11 of the Landfill (England and Wales) Regulations 2002 states that a landfill operator cannot charge a price per tonne of waste to be landfilled which is equivalent to less than the cost to the operator of operating that landfill site in respect of each tonne of waste. The result of this is that the price of using landfill as a method of waste disposal is likely to become more expensive and the Directors believe that demand for the attractive, efficient and cost-effective TEG system will increase as a result.

Furthermore, there are now limits on the amounts of biodegradable waste that can be landfilled. These changes are in addition to the landfill tax, which has increased at a rate of £3 per tonne per annum since April 2005 and is expected to rise by £8 per tonne per annum from April 2008, further increasing the attractiveness of recycling and composting options over landfill.

#### *Waste and Emissions Trading Act 2003*

The Landfill Allowance Trading Scheme ("LATS") was implemented in April 2005 under the Waste and Emissions Trading Act 2003. The purpose of LATS is to encourage recycling by the trading of recycling credits whereby Local Authorities that fail to achieve recycling and composting targets can buy excess recycling capacity from those that have exceeded their targets. The price for recycling credits will be market driven and is expected to fall between the cost of recycling and composting, and the cost of fines implemented under the Landfill Directive, thus stimulating investment in additional recycling and composting facilities.

#### *Animal By-Products Regulations 2003*

The EU Regulation concerning ABP 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 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 implementing further 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 continued to be landfilled during a transition period which, with the exception of a further derogation for some supermarket-type waste, ended in December 2005.

The Company believes that the development and enforcement of environmental legislation will continue to strengthen the Company's markets. However, whilst the Company operates within and aims to comply with the current waste industry regulatory framework, there can be no assurance that such regulatory framework will not change to the detriment of the Company.

## **9. Strategy**

The Directors remain committed to developing the business in three main areas:

### **(i) Build Own and Operate projects**

BOOs provide sustainable, long-term revenues, and allow the Company to take advantage of rising waste disposal prices. Gate fees of just under £40 per tonne will enable the Company to secure favourable returns with estimated revenues of at least £1.3 million per annum for a

plant with capacity of 35,000 tonnes. The Company currently has two BOOs in operation and a further three BOOs in development.

(ii) Plant Sales

The Company sells plant to third parties who prefer to run their own waste disposal operations. This area of the business provides large revenues to the Company. A single bank of 28 cages is valued by TEG at over £1 million and the Company has received interest in increasing the scope of supply to include buildings and civils infrastructure, raising the overall potential value of a sale to £5-10 million. The main clients that might purchase a TEG plant are local authorities, waste management companies, water companies and other utilities and a variety of private sector businesses, including major food producers/processors.

(iii) Development of the compost marketing business

This is seen by the Company as a key strategic element and the Company has given clear focus to its subsidiary, NOFCO, to develop secure markets and to leverage value by demonstrating the quality of the compost product. The Directors believe the compost from the TEG system is of a high quality and gives the Company a competitive advantage.

The Company is committed to continuing its investment in R&D whilst developing the compost marketing business to support plant sales and BOOs. It also intends to strengthen its commercial skills in sales, operations and project delivery, through several key appointments.

## 10. Future Developments

TEG has a pipeline of numerous actual and potential projects. In addition, the Company believes there will be considerable further interest in TEG technology as the market grows and the number of Local Authority tenders and PFI projects grow. Developments of particular note include:

- (i) a number of potential medium scale BOO projects and some in development with waste management operators. The most advanced BOO opportunity is in Tempsford, Bedfordshire, where TEG has secured an exclusive option to lease a site. The Company intends to submit a planning application by the end of March 2007;
- (ii) two early stage potential large BOOs;
- (iii) ongoing trials with Shell UK Ltd;
- (iv) discussions and tenders with Local Authorities and large waste management companies; and
- (v) TEG is developing the NOFCO business and about to commence trials on large scale crop management and production of industrial crops for potential industrial and renewable power applications.

## 11. Use of Proceeds of the Placing

It is intended that the proceeds of the Placing will be used as follows:

- (i) funding of bonds and working capital for the Greater Manchester build projects;
- (ii) providing capital for the construction of BOO projects over the period from 2007 to 2009;
- (iii) the strengthening of the sales, business development and project development teams for the UK and European markets as a result of increasing interest from both the UK and abroad; and

- (iv) the development of the NOFCO industrial crop business.

## **12. Working Capital**

The Directors are of the opinion that, taking into account the net proceeds receivable under the Placing, the working capital available to the Group is sufficient for its present requirements, that is, for at least the next twelve months from the date of Admission.

## **13. Principal Terms of the Placing**

Canaccord has agreed to use their reasonable endeavours to procure places for 10,000,000 New Ordinary Shares at the Placing Price and the New Ordinary Shares, when issued, will rank *pari passu* with the Existing Ordinary Shares, including the right to receive all dividends and other distributions, thereafter declared, made or paid.

The Placing, which is not underwritten, will be conditional, *inter alia*, on Admission taking place.

## **14. Extraordinary General Meeting**

You will find set out at the end of this document a notice of the Extraordinary General Meeting to be held at The Bridgewater Hall, Lower Mosley Street, Manchester M2 3WS at 11:50 a.m. on 20 April 2007 at which one ordinary resolution and one special resolution will be proposed as follows:

### ***ORDINARY RESOLUTION***

1. to grant the Directors a general authority pursuant to section 80 of the Act to allot relevant securities (within the meaning of section 80(2) of the Act) of the Company up to an aggregate nominal amount equal to £500,000, representing 26.28 per cent. of the Existing Ordinary Shares as at 23 March 2007 (being the last practicable date prior to the publication of this circular) all of which will be used for the Placing.

### ***SPECIAL RESOLUTION***

2. to disapply statutory pre-emption rights in relation to shares with a nominal value of £500,000 representing 26.28 per cent. of the Existing Ordinary Shares as at 23 March 2007 (being the last practicable date prior to the publication of this circular) and representing the allotments contemplated in this letter pursuant to the Placing.

## **15. Action to be taken by Shareholders**

A Proxy Form is enclosed for use by Shareholders at the EGM. Whether or not you intend to be present at the EGM, it is important that you complete the Proxy Form in accordance with the instructions printed thereon and return it to the Proxy Processing Centre, Telford Road, Bicester OX26 4LD as soon as possible and in any event no later than 11:50 a.m. on 18 April 2007. Completion and return of the Proxy Form will not preclude you from attending the EGM and voting in person should you wish to do so.

CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so by using the procedures described in the CREST manual. CREST personal members or other CREST sponsored members and those CREST members who have appointed a voting service provider should refer to their CREST sponsor or voting service provider, who will be able to take the appropriate action on their behalf. Any message, regardless of whether it relates to the appointment of a proxy or to an amendment to an instruction given to a previously

appointed proxy must, in order to be valid, be transmitted so as to be received by the issuer's agent (CREST ID RA10) by 11:50 a.m. on 18 April 2007.

The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5) of the Uncertificated Securities Regulations 2001.

## 16. Recommendation

**The Directors consider that the Placing is in the best interests of the Company and Shareholders as a whole and we unanimously recommend that Shareholders vote in favour of the Resolutions, as we intend to do in respect of our own beneficial holdings which, in aggregate, amount to 426,029 Ordinary Shares representing approximately 1.1 per cent. of the existing issued share capital of the Company.**

Yours sincerely,

A handwritten signature in cursive script that reads "Nigel Moore".

Nigel Moore  
*(Non-Executive Chairman)*

**THE TEG GROUP PLC**  
(Incorporated in England and Wales with Company Number 03109613)

**NOTICE OF EXTRAORDINARY GENERAL MEETING**

**NOTICE IS HEREBY GIVEN** that an **EXTRAORDINARY GENERAL MEETING** of The TEG Group plc (the "**Company**") will be held at The Bridgewater Hall, Lower Mosley Street, Manchester M2 3WS at 11:50 a.m. on 20 April 2007, for the purpose of considering and, if thought fit, passing the following resolutions, of which resolution number 1 will be proposed as an ordinary resolution and resolution number 2 will be proposed as a special resolution:

**ORDINARY RESOLUTION**

1. **THAT** the Directors of the Company be and are hereby generally and unconditionally authorised for the purposes of Section 80 of the Companies Act 1985 (the "**Act**") to exercise all powers of the Company to allot relevant securities (as defined in Section 80 of the Act) up to an aggregate nominal amount of £500,000 provided that this authority shall expire at the conclusion of the next annual general meeting of the Company or 15 months from the passing of this resolution (if sooner) save that the Company may before such expiry make any offer or agreement which would or might require relevant securities to be allotted after such expiry and the Directors may allot relevant securities in pursuance of any such offer or agreement as if the authority conferred hereby had not expired and such authority shall be in substitution for all authorities previously conferred upon the Directors pursuant to Section 80 of the Act.

**SPECIAL RESOLUTION**

2. **THAT** subject to the passing of Resolution 1, the Directors of the Company be and are hereby empowered pursuant to Section 95 of the Act to allot equity securities for cash pursuant to the general authority conferred upon them by Resolution 1 as if Section 89(1) of the Act did not apply to any such allotment, provided however that the power hereby conferred shall be limited to the allotment of equity securities having, in the case of relevant shares, an aggregate nominal value of £500,000, and shall expire such time as the general authority conferred on the Directors by Resolution 1 expires save that before such expiry the Company may make any offer or agreement which would or might require equity securities to be allotted after such expiry and, notwithstanding such expiry, the Directors may allot equity securities pursuant to any such offer or agreement previously made as if the power conferred hereby had not expired and such power shall be in substitution for any power previously conferred upon the Directors for the purposes of Section 95. Words and expressions defined in or for the purposes of the Act shall bear the same meaning in this Resolution.

**By order of the Board**



**T Willis**  
**Company Secretary**

**26 March 2007**

Registered Office:

The TEG Group plc  
Houston House  
12 Sceptre Court  
Sceptre Point  
Walton Summit  
Preston  
PR5 6AW

Notes:

- 1. A member entitled to attend and vote at the above meeting is entitled to appoint one or more proxies to attend and, on a poll, to vote on his/her behalf. A proxy need not be a member of the Company. A Proxy Form is enclosed for use by Shareholders.**
- 2. To be effective, the Proxy Form, together with any power of attorney or other authority (if any) under which is it signed, or a notarially certified copy thereof, must be completed in accordance with the instructions set out on the form and reach the offices of the Proxy Processing Centre, Telford Road, Bicester OX26 4LD, not later than 48 hours prior to commencement of the Extraordinary General Meeting. The completion and return of a Proxy Form will not preclude a member from attending and voting at the meeting in person.**
- 3. Crest members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so by using the procedures described in the CREST manual. CREST personal members or other CREST sponsored members and those CREST members, who have appointed a voting service provider, should refer to their CREST sponsor or voting service provider, who will be able to take the appropriate action on their behalf. Any message, regardless of whether it relates to the appointment of a proxy or to an amendment to an instruction given to a previously appointed proxy must, in order to be valid, be transmitted so as to be received by the issuer's agent (CREST ID RA10) by 11:50 a.m. on 18 April 2007. The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5) of the Uncertificated Services Regulations 2001.**
- 4. As permitted by Regulation 41 of the Uncertificated Securities Regulations 2001, members must be entered on the Company's register of members before 5:00 p.m. on 18 April 2007 in order to attend and vote at the meeting in respect of the number of shares registered in their name at that time. Changes to entries on the register of members after that time will be disregarded in determining the rights of any person to attend and vote at the meeting.**