

THE TEG GROUP PLC

(formerly known as TEG Environmental PLC)

Financial Statements

For the year ended 31 December 2006

Company No. 3109613

Company Information

Company registration number:	3109613
Registered office:	Houston House 12 Sceptre Court Sceptre Point Preston PR5 6AW
Directors:	N S J Moore FCA (Chairman) D W Benjafield Dr A Heyworth M Fishwick T Willis
Secretary:	T Willis
Bankers:	Bank of Scotland Plc 36 Castle Street Liverpool L2 0NT
Solicitors:	Jones Day LLP 21 Tudor Street London EC4Y 0DJ
Auditors:	Grant Thornton UK LLP Registered Auditors Chartered Accountants Heron House Albert Square Manchester M60 8GT

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Chairman's Statement

I am delighted to present the company's 2006 annual report. TEG has continued to make tremendous progress and it is a pleasure to report a further period of very significant growth. Turnover of £3,559,330 is well ahead of the previous year's figure (2005:£555,250). Losses narrowed from £1,675,984 to £1,499,653. No dividend is recommended. Following the progress made in 2005, it is very pleasing to see the company build on its success and establish itself as a force in the composting market.

This progress has continued into 2007 and we announced on 29 January that TEG is to be the exclusive composting technology provider to the Viridor-Laing consortium that was selected as preferred bidder by Greater Manchester Waste Disposal Authority in its PFI process, considered to be the largest single waste management contract to be tendered in Europe. This quantum leap contract should bring a major increase in turnover and should place TEG in a strong position with prospective customers in the Local Authority sector.

These accounts are the first to apply 'FRS20 Share based payment', the newly introduced accounting standard that requires companies to ascribe a cost to employee share options. This has introduced a non cash cost of £173,435 for the year, and the results for the same period in 2005 have been restated accordingly by £104,917.

Plant Construction

During 2006, TEG installed four plants and all plants were operational by the end of the year. A single line was constructed at Sherdley Farm (6,000 tonnes per annum), a two line plant was installed at Glenfarg, Perthshire (38,000 tonnes per annum), a single line plant was installed in Swansea (7,000 tonnes per annum) and a further two line plant was constructed in Norfolk (24,000 tonnes per annum).

In addition, TEG acquired a freehold site in Todmorden and commenced construction of a new 50,000 tonnes per annum facility. Demolition of the existing buildings was completed in August 2006 and building construction was completed in January 2007. The construction programme is a month ahead of schedule and TEG is confident the first 2 lines of TEG Silo Cages will be operational in April 2007. The third and fourth lines are scheduled for construction in Quarter 3 of 2007, subject to market demand.

TEG placed its first orders to its Polish contractor for the supply of the steelwork to the Todmorden facility. I am pleased to report the products were of excellent quality and delivery was on schedule. I can confirm that TEG will continue to work with its partner in Poland, both for engineering supply to the UK and for marketing of TEG in Eastern Europe.

Contract Wins

During 2006, TEG secured its first sale to the private sector, which was a £1.8m contract with Banham Compost Limited to construct a TEG plant and equipment within a new building at Carleton Rode, Norfolk. The plant was constructed in 2006 and commissioning commenced in December. It is anticipated that the plant will be handed over to the customer in March 2007.

The sale to the City and County of Swansea was announced in 2005 and construction took place during 2006. The plant was handed over to the customer on 5 February 2007. The final contract value was £920,000 and the plant has been operating since November 2006. The majority of the revenue for both plants is recognised in our 2006 figures.

During 2006, TEG also secured its first contract with Greater Manchester Waste Limited, for supply of green waste into the Sherdley Farm facility.

Plant Operations

The transition in Perth from the existing technology to the TEG plant proved more challenging than had been anticipated and it was unfortunately necessary to terminate some waste streams to facilitate the changeover process. I am pleased to report that the transition is complete and TEG has been able to commence waste sales to replace the waste streams that were terminated.

The Scottish Environment Protection Agency ("SEPA") made the decision in early 2006 to apply Pollution Prevention and Control (PPC) legislation to composting plants in Scotland. The application process is time consuming and the application of environmental technology to meet the legislation is costly, but I am pleased to report that TEG has been awarded its PPC permit, the first composting business to achieve that in Scotland. I believe the application of PPC legislation will act as a barrier to new entrants.

The second line at Sherdley Farm is now under construction. A new waste receipt building is to be constructed to accommodate the increased capacity.

Other Contracts

We were delighted to sign a research agreement with Shell in July 2006 to investigate the potential to remediate oil based mud drill cuttings. The laboratory work was carried out successfully and TEG progressed to pilot scale trials in November 2006. The outcome of the pilot scale trials will be known by early in Quarter 2 of 2007 and if successful will progress to full scale plant trials.

TEG also secured an order from United Utilities Plc to construct a pilot scale facility at a United Utilities site in Manchester. The facility, a single Silo-Cage unit, was installed in January 2007.

In February 2006, TEG announced a collaboration with Glendale Managed Services Ltd, the UK's largest parks maintenance company. The collaboration with Glendale has proved very helpful in achieving qualification with Local Authorities and it is hoped this will progress to some contract gains in 2007.

Fundraising

Funding of the continued expansion of the Todmorden facility was achieved through a successful share issue fundraising in April 2006. TEG was able to raise £8,050,000 before expenses of £445,449, the cost of which has been charged against the share premium account.

Market Update

As predicted, the market continues to grow as legislation introduced in 2005 takes effect. The Landfill Directive 2001 and the Landfill Allowance Trading Scheme ("LATS") introduced under the Waste and Emissions Trading Act 2003 annually increases the requirements on Local Authorities to recycle and compost waste. As widely reported in the press, a number of Local Authorities are already failing to achieve targets and all Local Authorities are under increasing financial pressure to increase recycling and composting rates. To this end, TEG is in discussions with a number of Local Authorities.

The National Audit Office report (Reducing the Reliance on Landfill in England dated 26 July 2006) indicated that a further step change in Local Authority procurement activity could reasonably be expected in late 2006 and early 2007. I am pleased to confirm that TEG is experiencing the predicted increase in market activity. As one of the few proven composting technologies meeting the standards of the ABP Regulations, TEG is able to tender for a range of applications.

Management and group structure

As the company continues its strong growth, it is vital that the management team is continually strengthened to manage the increased activity. Doug Benjafield joined the board as non-executive Director in May 2006. In addition, Jayne Pierre, an experienced waste management professional, joined us in April 2006 from Mouchel Parkman.

At the beginning of 2007, TEG re-structured the business, creating two new subsidiaries that will take operational responsibility for the group. TEG Environmental Limited will be the principal operating company, managing operations, engineering, sales and research and development. Fergus Healy, Fiona Maudsley-Drain and Jayne Pierre were appointed to the board of the subsidiary, which will be chaired by the group Chief Executive, Mick Fishwick. Tanja Willis, Finance Director, and Alan Heyworth will also sit on this board. The Natural Organic Fertilizer Company Limited ("NOFCO") will focus on developing markets for compost sales and placement. Mike Orr was appointed to the board of NOFCO, along with Mick Fishwick and Tanja Willis.

In addition, TEG has further strengthened its engineering development teams in the knowledge of the major business opportunities that are presenting themselves.

Post Year-end events

Most significantly, TEG was delighted to announce it is the exclusive compost technology provider to the Viridor-Laing consortium that was awarded preferred bidder status for the Greater Manchester Waste PFI contract. Assuming financial close, TEG expects to be awarded contracts to build 4 large facilities with sales orders worth up to £35m over the next three years. Financial close is expected by 1 June 2007, at which point TEG's contract will become unconditional. The plants will process 180,000 tonnes per annum of food and garden waste collected in Greater Manchester.

This is a hugely significant step forward for TEG and an endorsement of TEG's technology and its ability to construct and operate large scale composting plants.

Future Prospects

Based on the contracts achieved, the TEG plants now in operation, the number of enquiries the company has received and the number of active projects, the Board expects to achieve further significant growth in turnover in 2007.

Shareholders will be advised of the date and location of the Annual General Meeting in due course.



Nigel Moore
Chairman
6 March 2007

Report of the directors

The Directors present their report together with the audited financial statements for the year ended 31 December 2006.

Principal activity

The company's principal activity is that of the design and production of the Silo-Cage plants for thermophilic composting of organic wastes for sale to third party clients, and the design, build and operation of TEG owned facilities.

Results and dividends

The loss for the year after taxation amounted to £1,499,653 (2005:£1,675,984). The Directors do not recommend the payment of a dividend leaving the amount of £1,499,653 (2005:£1,675,984) to be transferred to reserves.

Business Review

Details of the company's performance during the year and expected future developments are contained in the Chairman's statement pages 3 to 6. Information relating to the environment and employees is set out in this report on pages 11 and 12. This information has been prepared solely to assist shareholders to assess the Board's strategies and their potential to succeed. It should not be relied on by any other party, for other purposes. Forward-looking statements have been made up to the date of this report. Forward-looking statements should be regarded with caution because of the inherent uncertainties in economic trends and business risks.

Risk review process

The directors have monitored the progress of the overall company strategy. Key performance indicators are still in the process of being developed as the company is at an embryonic stage of development.

Commercial risk is identified and reported to the Board and its management is delegated to the Executive Management Team. The company monitors market activity through commercially available systems including trade press monitoring and tender monitoring systems. Market information is electronically circulated amongst key managers.

The company has established price models and all prices are approved by a Director. All capital sales prices are approved by the Chief Executive and Finance Director who consider market pricing, risk and target margins in establishing prices for each project. Major contract tenders are managed by tender teams that as a minimum include the Business Development Manager and the Chief Executive.

Key commercial risks for the business have been identified, including security and price of waste streams to TEG plants, stability of end markets for compost products, security and stability of the company's engineering supply chain. Although still being developed, TEG monitors KPIs as they stand in relation to all its operations and performance is reported to the Executive management Team and Board on a monthly basis. Standard contracts have been established for key suppliers to ensure commercial risk is adequately addressed and suppliers are monitored and audited against an established supplier review programme.

Financial Instruments

Treasury policies and financial risk

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

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

Interest rate risk

Apart from using short term and period deposits, interest rate risk arises from

- The fixed element of finance leases where the company typically uses finance leases for fixed periods of up to 5 years to finance the purchase of assets where it is considered to be a more effective use of funds; and
- The overdraft facility which bears a floating interest rate.

Other bank loans are subject to fixed interest rates.

Credit risk

The principal credit risk arises from the company's trade debtors. In order to manage credit risk the directors set limits for customers based on a combination of payment history and third party credit references.

Liquidity risk

The company seeks to manage financial risk by ensuring sufficient liquidity is available to meet foreseeable needs and to invest cash assets safely and profitably.

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

Foreign currency risk

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

Borrowing facilities

A bank loan of £426,000 has been secured against plant and equipment. This loan is repayable in 36 equal instalments at a fixed interest rate of 4.3%. The outstanding balance at 31 December 2006 was £355,000.

In addition to the above, further facilities of £2,000,000 have been secured to help fund the acquisition of the property and the development costs of the Todmorden project. At 31 December 2006 £900,000 was drawn down as an overdraft facility, this is set off against cash deposits. The floating interest rate on the overdraft facility is 1.75% above the Bank of Scotland Plc base rate.

Interest rate risk profile of financial assets and liabilities

	Interest rate			Total £
	Fixed £	Floating £	Zero £	
Financial Assets				
At December 2006				
Euro	-	-	3,862	3,862
Sterling	-	2,195,549	43,143	2,238,692
Trade debtors	-	-	455,862	455,862
	-	2,195,549	502,867	2,698,416
Financial Liabilities				
At December 2006				
Bank loan	355,000	-	-	355,000
Hire purchase agreements	13,790	-	-	13,790
Trade creditors	-	-	940,517	940,517
	368,790	-	940,517	1,309,307

Fair value of financial assets and financial liabilities

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

Directors

The directors of the company and their interests in the share capital of the company are listed below. All served on the Board throughout the year unless otherwise stated.

	Ordinary shares of £0.05 each	
	31 December 2006	31 December 2005 Or date of appointment if later
N S J Moore FCA (Chairman)	291,547	220,177
D W Benjafield (appointed 1 May 2006)	-	-
Dr A Heyworth	134,482	134,482
M Fishwick	-	-
T Willis	-	-

Mr J L Hough resigned as a Director on 19 May 2006.

The Director retiring by rotation is T Willis, who being eligible, offers herself for re-election at the Annual General Meeting.

Corporate Governance

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

The Board

The Board consists of two Non-Executive directors, N S J Moore and D W Benjafield, and three Executive directors. The Board has reviewed the position of its Non-Executive directors and has determined that they are all independent in character and judgement in accordance with the guidance as set out in the Combined Code. The Board is of sufficient size that the balance of skills and experience is appropriate for the requirements of the business and that changes to the Board's composition can be managed without undue disruption.

The directors met formally 9 times during 2006. The Board sets the company's strategic aims, ensures that the necessary financial and human resources are in place for the company to meet its objectives and reviews management performance.

The Board controls the business but delegates the day-to-day responsibility to the executive management. The company has an Executive Management Group in place consisting of the senior managers in the company, chaired by the Chief Executive. Board information is distributed to this group. Management supply the Board with regular information on the company's operational and financial performance and the Board is free to seek any further information that it considers necessary. However, there are a number of matters which in the interest of the company, are only decided by the Board of directors as a whole. A summary of the decisions reserved for the Board are listed below.

Schedule of matters reserved for the Board

- Strategy and management – approval of annual operating and capital expenditure budgets; extension of the company's activities into new business or geographic areas.
- Structure and capital – changes to the company's capital structure; major changes to the company's corporate structure; changes to the company's management or control structure.
- Financial reporting and controls – approval of interim and preliminary announcements; approval of annual reports and accounts; approval of resolutions and documentation to be put to shareholders in general meeting; approval of press releases concerning matters decided by the Board.
- Communication – approval of resolutions and documentation to be put to shareholders in general meeting; approval of press releases concerning matters decided by the board.
- Board membership and other appointments to senior management.
- Corporate governance matters.

All directors are subject to election at the first AGM following appointment and then to re-election at the appropriate AGM every three years.

Board Committees

The Board has appointed the following principal committees

The Audit Committee is chaired by N S J Moore and its membership comprises both the Non-Executive directors and two Executive directors, by invitation. It meets on a bi-annual basis and its primary tasks are to receive reports from the external auditors and to review the preliminary results, interim information and the annual financial statements before they are presented to the Board, concentrating particularly on accounting policies and compliance, areas of management judgement and estimates, and the monitoring of the controls which are in place to ensure the integrity of the financial information to be reported to shareholders. The Committee has the authority to review specific matters relating to internal control on an ad hoc basis and has unrestricted access to the company's auditors and ensures that auditor independence has not been compromised. The Committee does not consider that an internal audit function is yet required for the company due to the size of the business.

The Remuneration Committee is made up of the two Non-Executive directors and two Executive directors, by invitation. The Committee's role is to set the remuneration policy for the Executive directors and all the staff of the company. Specifically, the Remuneration Committee agrees the principal terms of their service contracts, including salaries and other benefits, such as bonuses paid and share options, and other terms and conditions of employment. The Committee met twice during 2006, with all Committee members attending each meeting.

The Committee's executive remuneration policy is designed to attract, retain and motivate individuals to ensure the success of the company. Remuneration packages are based on a market price principle and are designed to reward directors and Executive Management Group members fairly for their contributions.

Communication with Shareholders

In addition to ensuring that sufficient information is disseminated in order to maintain an orderly market in the ordinary shares of the company, the company maintains a regular dialogue with major institutional shareholders and analysts, particularly following trading updates and results announcements. Trading updates, results announcements and significant additional company information are also posted on the London Stock Exchange Regulatory News Service and on the company's website, which is regularly updated.

The Board members attend the Annual General Meeting and are available to answer questions.

At Annual General Meetings, separate resolutions are proposed on each substantially separate issue and the number of proxy votes received for and against each resolution is announced. Notices of Annual General Meetings are sent to shareholders at least 21 days before the meeting.

Financial Reporting

The directors who have sole responsibility for the preparation and presentation of this report and accounts and other price sensitive public records, seek to prepare those reports in a way that represents a balanced and understandable assessment of the company's position and prospects.

Fundraising

On 22 May 2006 the company placed 11,500,000 ordinary new shares of £0.05 per share at a price of £0.70 per share, raising £8,050,000 before expenses.

Environmental Policy

The TEG Group PLC recognises the importance of environmental protection and is committed to operating its business responsibly and in compliance with all environmental regulations, legislation and approved codes of practice relating to the waste processing industry and the activities of this company. It is the company's objective to operate with, and to maintain good relations with all regulatory bodies.

It is the declared policy of The TEG Group PLC to carry out all measures reasonably practicable to meet, exceed or develop all necessary or desirable requirements and to continually improve environmental performance through implementation of the following:

- Assessment and regular re-assessment of the environmental effects of the company's activities.
- Assessment and regular re-assessment of the company's environmental objectives and targets.
- Training of all employees and management in environmental issues.
- Minimisation of the production of waste.
- Minimisation of material wastage.
- Minimisation of energy wastage.
- Promotion of the use of recyclable and renewable materials.
- Reduction and/or limitation of the production of pollutants to water, land and air.
- Control of noise emissions from operations.
- Minimisation of the risk to the general public and employees from operations and activities undertaken by the company.

This policy is communicated to all employees, suppliers and sub contractors and is made available to the public.

Share options

The company has established the TEG Group PLC Company Share Option Plan (the "Plan") which has been approved by the Inland Revenue under schedule 9 to the Income and Corporation Taxes Act 1988. Under the Plan, options over ordinary shares have been granted to a director, as set out below. These options may be exercised at any time between the dates given below. The Plan is intended to motivate, retain and reward selected key employees who, by their efforts, are able to influence the performance and success of the company's business.

Director	Date Granted	Exercise Price	Number of Shares	First Date of Exercise	Expiry Date
Dr A Heyworth	05.09.1997	£0.35	75,000	06.09.2000	05.09.2007

In addition to the above scheme, an Enterprise Management Incentive Share Option Scheme was established on 27 April 2001, granted under the provisions of Section 62 and Schedule 14 of the Finance Act 2000. This is a company wide scheme. Options under this scheme have been granted to directors as below.

Director	Date Granted	Exercise Price	Number of Shares	First Date of Exercise	Expiry Date
Dr A Heyworth	01.05.2001	£1.30	56,731	02.05.2004	01.05.2011
Dr A Heyworth	23.08.2005	£0.37	132,122	24.08.2008	23.08.2015
T Willis	03.03.2005	£0.38	131,580	04.03.2008	03.03.2015
T Willis	23.08.2005	£0.37	132,275	24.08.2008	23.08.2015
M Fishwick	03.03.2005	£0.36	277,778	04.03.2008	03.03.2015
M Fishwick	23.08.2005	£0.37	249,930	24.08.2008	23.08.2015
M Fishwick	15.08.2006	£0.70	230,000	16.08.2009	15.08.2016

Post balance sheet event

On 1 January 2007 the company changed its name to The TEG Group PLC.

The TEG Group PLC has two wholly owned subsidiaries, TEG Environmental Ltd and The Natural Organic Fertiliser Company Ltd ("NOFCO"). TEG Environmental Ltd is the principal operating company and NOFCO is a marketing company, focused on the development of compost markets. Both companies were dormant as at 31 December 2006.

Accounting standards and IFRS

The company has adopted 'FRS 20 Share-based Payment'. The adoption of this standard represents a change in accounting policy and the comparative figures have been restated accordingly. Details of the effect of the prior year adjustments are given in note 16.

The Board has considered the company's transition towards full adoption of IFRS in the light of the concessions granted by the London Stock Exchange which permits AIM companies to delay the introduction of IFRS financial statements until accounting periods commencing on or after 1 January 2007. The company therefore is not currently adopting IFRS except where UK GAAP has been converged with IFRS. A transition plan is currently being developed which will cover two phases:

Phase One - Preliminary assessment: this will involve the initial identification of GAAP differences between current accounting standards and company accounting policies, and those applicable under IFRS

Phase Two - Detailed impact study and implementation: this phase will include the quantification of the impact of the change to IFRS and the review and development of a separate IFRS financial reporting system.

Charitable and political donations

No charitable or political donations were made during the year (2005:£Nil).

Employee involvement and disabled employees

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

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

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

Payments to suppliers

The company's policy is to comply with the terms of payment agreed with supplier when terms of business are established. At 31 December 2006 the company's trade creditors represented 62 (2005:58) days of purchases.

Statement of Directors' responsibilities

The directors are responsible for preparing the directors' report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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

- Select suitable accounting policies and then apply them consistently;
- Make judgements and estimates that are reasonable and prudent; and
- State whether applicable accounting standards have been followed.

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

**The TEG Group PLC (formerly known as TEG Environmental Plc)
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In so far as the directors are aware:

- There is no relevant audit information of which the company's auditors are unaware; and
- The directors have taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Going concern

After making appropriate enquiries, the directors are confident that the company has adequate resources to continue in operational existence for the foreseeable future. For this reason, the directors adopt the going concern basis in the preparation of the financial statements.

Major interest in shares

As at 5 March 2007 the company had been notified of the following interests in 3% or more, of the company's issued share capital:

	Number of ordinary shares	% of issued ordinary share capital
Euroclear Nominees Limited	3,603,300	9.47%
Nortrust Nominees Limited	2,978,665	7.83%
Vidacos Nominees	1,853,700	4.87%
Harewood Nominees Limited	1,700,000	4.46%
HSBC Global Custody Nominees ACCT 750749	1,621,000	4.26%
HSBC Global Custody Nominees ACCT 813259	1,387,352	3.65%

Auditors

A resolution to re-appoint Grant Thornton UK LLP as auditors for the ensuing year will be proposed at the Annual General Meeting in accordance with section 385 of the Companies Act 1985.

ON BEHALF OF THE BOARD



T Willis
Company Secretary

Report of the independent auditors to the members of The TEG Group PLC (formerly known as TEG Environmental Plc)

We have audited the financial statements (the "financial statements") of The TEG Group Plc (formerly known as TEG Environmental PLC) for the year ended 31 December 2006 which comprise the principal accounting policies, the profit and loss account, the balance sheet, the cash flow statement and notes 1 to 28. These financial statements have been prepared under the accounting policies set out therein.

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

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report and the financial statements in accordance with United Kingdom law and Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the statement of directors' responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the report of the directors is consistent with the financial statements. The information given in the report of the directors includes that specific information presented in the Chairman's statement that is cross referred from the business review section of the report of the directors.

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

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

Basis of audit opinion

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

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

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2006 and of the company's loss for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the report of the directors is consistent with the financial statements.

Grant Thornton UK LLP
Registered Auditors
Chartered Accountants
Manchester
6 March 2007

Principal accounting policies

Basis of preparation

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

The principal accounting policies of the company which are set out below, have remained unchanged from the previous year with the exception of the adoption of 'FRS 20 Share-based Payment'. The adoption of this standard represents a change in accounting policy and the comparative figures have been restated accordingly. Details of the effect of prior year adjustments are given in note 16.

Turnover

Turnover is the total amount receivable by the company for goods supplied and services provided, excluding VAT and trade discounts. Revenue from the sale of plant and equipment is recognised when the significant risks and rewards of ownership of the plant and equipment have been transferred to the buyer, which is when the equipment has been fully installed and is capable of operation, based on specific contract terms. Sales relating to waste processed on behalf of customers are recognised when the company receives the waste, being the point at which it fulfils its contractual obligation to the customer.

Tangible fixed assets

Tangible fixed assets are stated at cost less accumulated depreciation net of any provision for impairment. Depreciation is calculated to write down the cost of all tangible fixed assets other than freehold land over their expected useful economic lives. The rates generally applicable are:

Vehicles	3 years straight line
Plant and machinery	25% reducing balance
Fixtures and fittings	25% reducing balance
Silo-Cage systems	10 years straight line

Goodwill

Purchased goodwill representing the excess of the fair value of the consideration over the fair value of the identifiable net assets acquired is capitalised and is amortised on a straight line basis over its estimated useful economic life.

Amortisation

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

Intellectual Property Rights	10 years straight line
Goodwill	11 years straight line

Goodwill is amortised over the useful economic life of the asset to which it relates.

Investments

Investments are included at cost less any provision for impairment.

Stocks and work in progress

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

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

Financial instruments

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into.

A financial liability exists where there is a contractual obligation to deliver cash or another financial asset to another entity, or to exchange financial assets or financial liabilities under potentially unfavourable conditions.

Finance costs and gains or losses relating to financial liabilities are included in the profit and loss account. The carrying amount of the liability is increased by the finance cost and reduced by payments made in respect of that liability. Finance costs are calculated so as to produce a constant rate of charge on the outstanding liability.

An equity instrument is any contract that evidences a residual interest in the assets of the company after deducting all of its liabilities.

Deferred taxation

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

Leased assets

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

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

Foreign currency

Transactions in foreign currencies are recorded at the rate of exchange at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are reported at the rates of exchange prevailing at that date. Any gain or loss arising from a change in exchange rates subsequent to the date of the transaction is included as an exchange gain or loss in the profit and loss account.

Research and development costs

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

Liquid reserves

For the purpose of the cash flow statement liquid reserves are defined as short term money market deposits and notice accounts.

Share based payments

In accordance with FRS 20, the fair value of equity-settled share-based payments to employees is determined at the date of grant and is expensed on a straight-line basis over the vesting period based on the company's estimate of shares or options that will eventually vest. In the case of options granted, fair value is measured by the Black-Scholes pricing model. In accordance with the transitional provisions, FRS20 has been applied only to grants of equity instruments after 7 November 2002 that had not vested at 1 January 2005. Further details are set out in note 15.

Contribution to pension funds

The pension costs charged against profits represents the amount of the contributions payable to the defined contribution scheme in respect of the accounting period.

Profit and loss account

for the year ended 31 December

	Note	2006 £	Restated Note 16 2005 £
Turnover – continuing activities	1	3,559,330	555,250
Cost of sales		<u>(2,951,550)</u>	<u>(510,298)</u>
Gross profit		607,780	44,952
Share based administrative expenses	15	(173,435)	(104,917)
Other operating charges		<u>(2,003,759)</u>	<u>(1,698,993)</u>
Total operating charges		<u>(2,177,194)</u>	<u>(1,803,910)</u>
Operating loss – continuing activities		(1,569,414)	(1,758,958)
Interest receivable – bank interest		154,579	69,971
Interest payable and similar charges	3	<u>(145,481)</u>	<u>(40,107)</u>
Loss on ordinary activities before taxation	1	(1,560,316)	(1,729,094)
Tax on loss on ordinary activities	4	60,663	53,110
Loss for the financial year transferred to reserves	17	<u>(1,499,653)</u>	<u>(1,675,984)</u>
Loss per share – basic and diluted	5	<u>(4.48p)</u>	<u>(8.44p)</u>

There were no recognised gains or losses other than the loss for the current and preceding financial year. Accordingly a statement of total recognised gains and losses has not been presented.

Balance sheet

At 31 December

	Note	2006 £	Restated Note 16 2005 £
Fixed assets			
Intangible assets	6	2,056,812	2,269,584
Tangible assets	7	7,564,337	1,093,289
Investments	8	2	2
		<u>9,621,151</u>	<u>3,362,875</u>
Current assets			
Stocks	9	355,638	123,070
Debtors	10	708,311	429,981
Cash at bank and in hand		2,242,554	2,414,392
		<u>3,306,503</u>	<u>2,967,443</u>
Creditors: amounts falling due within one year	11	<u>(1,577,552)</u>	<u>(1,338,846)</u>
Net current assets		<u>1,728,951</u>	<u>1,628,597</u>
Total assets less current liabilities		11,350,102	4,991,472
Creditors: amounts falling due after more than one year	12	<u>(1,982,941)</u>	<u>(1,958,644)</u>
Net assets		<u><u>9,367,161</u></u>	<u><u>3,032,828</u></u>
Capital and reserves			
Called up share capital	14	1,902,269	1,319,269
Share premium account	17	19,387,544	12,309,993
Other reserves	17	326,632	153,197
Profit and loss account	17	(12,249,284)	(10,749,631)
Equity shareholders' funds	18	<u>9,367,161</u>	<u>3,032,828</u>

The financial statements were approved by the Board of directors on 6 March 2007 and signed on their behalf by:



M Fishwick
 Director
 6 March 2007

Cash flow statement

For the year ended 31 December

	Note	2006 £	2005 £
Net cash outflow from operating activities	19	(1,729,354)	(1,126,123)
Returns on investments and servicing of finance			
Interest received		154,579	69,971
Finance lease interest paid		(2,648)	(2,749)
Loan interest paid		(33,759)	-
Net cash inflow from returns on investments and servicing of finance		118,172	67,222
R&D tax credit		63,573	65,311
Taxation		63,573	65,311
Capital expenditure and financial investment			
Purchase of tangible fixed assets		(6,328,991)	(841,771)
Sale of tangible fixed assets		11,614	3,859
Net cash outflow from capital expenditure and financial investment		(6,317,377)	(837,912)
Acquisitions and disposals			
Acquisition of business – initial payment		-	(202,500)
Acquisition of business – deferred consideration		(300,000)	(150,000)
Net cash outflow from acquisitions and disposals		(300,000)	(352,500)
Financing			
New bank loan		426,000	-
Repayment of loan		(71,000)	-
Issue of shares		8,106,000	3,700,000
Expenses paid in connection with share issues		(445,449)	(242,550)
Capital element of finance lease rentals		(22,403)	(23,340)
Net cash inflow from financing		7,993,148	3,434,110
(Decrease) / increase of cash	20	(171,838)	1,250,108

Notes to the financial statements

1. Turnover and loss on ordinary activities before taxation

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

The loss on ordinary activities before taxation is stated after charging / (crediting):

	2006 £	2005 £
Research and development	15,002	34,375
Amortisation	212,772	74,914
Depreciation		
- owned	291,935	51,769
- held under finance leases and hire purchase contracts	17,706	23,871
Auditors' remuneration		
- audit services	25,095	23,055
- non audit services – taxation advice	6,500	5,500
Release of other creditors – site provision	(190,045)	-
(Profit)/loss on disposal of fixed assets	(3,378)	78,032
Operating lease costs		
- land & buildings	176,000	103,813
- hire of plant and equipment	2,797	4,521
- motor vehicles	26,999	2,954
	26,999	2,954

2. Directors and employees

Staff costs during the year were as follows:

	2006 £	Restated Note 16 2005 £
Wages and salaries	980,665	776,793
Social security costs	115,243	86,805
Pension costs	43,749	-
Equity settled share based payment charge	173,433	104,917
	1,313,090	968,515

The average number of employees during the year was:

	2006 Number	2005 Number
Directors	5	5
Sales	6	3
Engineering	3	1
Technical	1	1
Administrative	3	2
Site	8	2
Total	26	14

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

	2006 £	2005 £
Emoluments	296,756	274,254
Pension costs	25,643	-
	322,399	274,254

During the year 3 directors (2005: no directors) participated in money purchase pension schemes.

2. Directors and employees (continued)

Directors' remuneration shown above included the following amounts payable in respect of the highest paid director:	2006 £	2005 £
Emoluments	119,883	109,237
Pension cost	8,946	-
	128,829	109,237

The company's equity-settled share-based payments comprise the Enterprise Management Incentive Share Option Scheme. The amount of shares held in the Employee Share Option plan and details of shares and share options subject to equity-settled share based payment charges are set out in note 15.

3. Interest payable and similar charges

	2006 £	2005 £
Hire purchase interest	2,648	2,749
Bank loan interest	33,759	-
Deemed interest on acquisition	109,074	37,358
	145,481	40,107

4. Tax on loss on ordinary activities

The tax credit for the year represents:	2006 £	2005 £
Corporation tax	(60,663)	(63,573)
Adjustments in respect of prior periods	-	10,463
	(60,663)	(53,110)

The corporation tax recoverable relates to claims made, or to be made, by the company in respect of the research and development tax credit scheme. Unrelieved tax losses of £11,141,773 (2005 restated:£9,042,279) remain available to offset against future taxable trading profits.

No provision has been made for deferred tax on losses carried forward as they will only be available for offset when the company makes taxable profits. As the timing of these profits is not certain it has been assumed that the losses will not be recoverable in the foreseeable future. The unprovided deferred tax asset comprises:

	2006 £	Restated 2005 £
Accelerated capital allowances	372,048	94,082
Other timing differences	(99,859)	(46,470)
Trade losses	(3,342,533)	(2,712,684)
	(3,070,344)	(2,665,072)

4. Tax on loss on ordinary activities (continued)

Factors affecting the tax credit for the year

The tax credit for the year is lower than the standard rate of corporation tax in the United Kingdom of 30% (2005:30%). The differences are explained as follows:

	2006 £	2005 £
Loss on ordinary activities before taxation	<u>(1,560,316)</u>	<u>(1,729,094)</u>
Loss on ordinary activities before taxation multiplied by standard rate of corporation tax in the United Kingdom of 30% (2003:30%)	(468,095)	(518,728)
Effect of:		
Expenses not deductible / (chargeable) for tax purposes	(13,004)	23,663
Capital allowances for the period in excess of depreciation	(277,967)	(90,780)
Losses surrendered for R&D tax credit	75,828	79,467
Other short term differences	53,389	31,475
Increase in trade losses carried forward	629,849	474,903
Repayable R&D tax credit	(60,663)	(63,573)
Adjustment in respect of prior period	-	10,463
	<u>(60,663)</u>	<u>(53,110)</u>

5. Loss per share

The loss per share is calculated by reference to the losses attributable to ordinary shareholders divided by the weighted average of 33,451,682 ordinary shares for the 12 months to 31 December 2006, and 19,859,354 for the 12 months to 31 December 2005.

	2006 £	Restated 2005 £
Attributable loss	<u>(1,499,653)</u>	<u>(1,675,984)</u>
	No.	No.
Average number of shares in issue for basic and diluted loss per share	<u>33,451,682</u>	<u>19,859,354</u>
Loss per share	<u>(4.48p)</u>	<u>(8.44p)</u>

The loss for the period and the weighted average number of ordinary shares for the purpose of calculating the diluted loss per share are the same as for the basic loss per share calculation. This is because the outstanding share options would have the effect of reducing the loss per ordinary share and would therefore not be dilutive under the terms of Financial Reporting Standard No. 22 ('FRS 22').

6. Intangible fixed assets

	Goodwill £	Intellectual Property Rights £	Total £
Cost			
At 1 January 2006 and 31 December 2006	2,340,508	40,000	2,380,508
Amortisation			
At 1 January 2006	70,924	40,000	110,924
Provided in the year	212,772	-	212,772
At 31 December 2006	283,696	40,000	323,696
Net book amount			
At 31 December 2006	2,056,812	-	2,056,812
At 31 December 2005	2,269,584	-	2,269,584

The goodwill relates to the acquisition of the composting business in Perthshire in 2005.

The Intellectual Property Rights represent the purchase of an innovative system of accelerated composting for £35,000 and the design of the Twin Cage Composter for £5,000.

7. Tangible fixed assets

	Vehicles £	Plant and Machinery £	Fixtures and fittings £	Silo- Cage Systems £	Assets in the course of construction £	Freehold land £	Total £
Cost							
At 1 January 2006	95,899	378,548	99,868	755,180	-	-	1,329,495
Additions	-	206,136	8,668	1,528,126	2,994,774	2,080,720	6,818,424
Disposals	(24,282)	(37,368)	-	(6,179)	-	-	(67,829)
At 31 December 2006	71,617	547,316	108,536	2,277,127	2,994,774	2,080,720	8,080,090
Depreciation							
At 1 January 2006	62,310	67,850	44,715	61,331	-	-	236,206
Provided in the year	17,706	95,522	15,102	181,311	-	-	309,641
Disposals	(22,059)	(8,035)	-	-	-	-	(30,094)
At 31 December 2006	57,957	155,337	59,817	242,642	-	-	515,753
Net book amount							
At 31 December 2006	13,660	391,979	48,719	2,034,485	2,994,774	2,080,720	7,564,337
At 31 December 2005	33,589	310,698	55,153	693,849	-	-	1,093,289

Included within the net book value is £13,662 (2005:£31,367) relating to vehicles held under hire purchase agreements. The depreciation charged to the accounts in the period in respect of such assets amounted to £17,706 (2005:£23,871).

8. Investment in subsidiary undertakings

	2006 £	2005 £
Cost		
At 1 January 2006	2	-
Additions	-	2
At 31 December 2006	<u>2</u>	<u>2</u>

Shares in other group undertakings

Company name	Country of Incorporation	Shareholding %	Shareholding £	Principal business activities
TEG Environmental Limited	UK	100%	1	Dormant
Natural Organic Fertiliser Company Limited	UK	100%	1	Dormant

These subsidiary undertakings have not been consolidated as they are considered immaterial.

9. Stocks

	2006 £	2005 £
Raw materials	5,552	3,384
Work in progress	311,135	119,686
Consumables	38,951	-
	<u>355,638</u>	<u>123,070</u>

10. Debtors

	2006 £	2005 £
Trade debtors	455,862	187,501
Other debtors	150,159	132,359
R&D tax credit recoverable	60,663	63,573
Prepayments and accrued income	41,627	46,548
	<u>708,311</u>	<u>429,981</u>

11. Creditors: amounts falling due within one year

	2006 £	2005 £
Deferred consideration	300,000	300,000
Deferred consideration discounted element	(33,001)	(16,981)
	<u>266,999</u>	<u>283,019</u>
Trade creditors	940,517	356,216
Other creditors	10,673	191,174
Other taxation and social security	33,929	38,809
Bank loan	142,000	-
Hire purchase agreements	13,790	22,396
Accruals and deferred income	169,644	447,232
	<u>1,577,552</u>	<u>1,338,846</u>

12. Creditors: amounts falling due after more than one year

	2006 £	2005 £
Deferred consideration	2,250,000	2,550,000
Deferred consideration - discounted element	(480,059)	(605,153)
	<u>1,769,941</u>	<u>1,944,847</u>
Bank loan	213,000	-
Hire purchase agreements	-	13,797
	<u>1,982,941</u>	<u>1,958,644</u>

13. Borrowings

Borrowings are repayable as follows

	2006 £	2005 £
Within one year		
Hire purchase agreements	13,790	22,396
Bank loan	142,000	-
After one and within two years		
Hire purchase agreements	-	13,797
Bank loan	142,000	-
Between two and five years		
Bank loan	71,000	-
	<u>368,790</u>	<u>36,193</u>

The bank loan is repayable over 30 equal monthly instalments. The interest rate is fixed at 4.3% per annum. The loan is secured on plant and equipment.

14. Share capital

	2006 £	2005 £
Authorised		
100,000,000 Ordinary shares of £0.05 each	<u>5,000,000</u>	<u>5,000,000</u>
Allotted, called up and fully paid		
38,045,381 (2005:26,385,381) Ordinary shares of £0.05 each	<u>1,902,269</u>	<u>1,319,269</u>

The company placed 11,500,000 new ordinary shares of £0.05 at a price of £0.70 per share, raising £8,050,000 before issue costs of £445,449. The difference between the total consideration of £8,050,000 and the total nominal value of £575,000 has been credited to the share premium account. In addition, on 12 December 2006, 160,000 shares were issued pursuant to share options that were exercised at a price of £0.35 per share.

14. Share capital (continued)

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

Date Granted	Exercise Price	First Date of Exercise	Expiry Date	Number of Shares
05.09.1997	£0.35	06.09.2000	05.09.2007	235,000
29.11.1999	£0.85	30.11.2002	29.11.2009	12,000
01.05.2001	£1.30	02.05.2006	01.05.2011	286,654
22.04.2002	£1.15	23.04.2007	22.04.2012	25,000
20.02.2003	£0.50	21.02.2006	20.02.2013	75,000
03.10.2003	£0.50	04.10.2006	03.10.2013	238,300
03.03.2005	£0.38	04.03.2008	03.03.2015	355,235
03.03.2005	£0.36	04.03.2008	03.03.2015	277,778
23.08.2005	£0.37	24.08.2008	23.08.2015	514,327
17.10.2005	£0.37	18.10.2008	17.10.2015	263,854
30.06.2006	£0.37	01.07.2009	30.06.2016	66,138
15.08.2006	£0.70	16.08.2009	15.08.2016	328,063

The mid market price of the company's shares on 31 December 2006 was 79.5 pence. The highest and lowest mid market prices during the year were 85 pence and 60.5 pence respectively.

15. Share based payments

Equity-settled share option scheme

The company has a share option scheme for all employees of the company. Options are exercisable at a price equal to the average quoted market price of the company's shares on the date of grant. Options are forfeited if the employee leaves the company before the options vest. The only performance criteria relating to the options is the continuing employment of the holder.

	2006 Number of share options	2006 Weighted average exercise price £	2005 Number of share options	2005 Weighted average exercise price £
Outstanding at beginning of period	1,724,494	0.42	313,300	0.50
Granted during the period	394,201	0.64	1,411,194	0.40
Outstanding at the end of the period	2,118,695	0.46	1,724,494	0.42
Exercisable at the end of the period	313,300	0.50	-	-

The options outstanding at 31 December 2006 had a weighted average exercise price of 46 pence. In 2006, options were granted on 30 June and 15 August. The aggregate of the estimated fair values of the options granted on those dates was £119,531. In 2005, options were granted on 3 March, 23 August and 17 October. The aggregate of the estimated fair values of the options granted on those dates was £476,913.

The fair value of the employees services received in exchange for the grant of share options is recognised as an expense. The total amount to be expensed over the vesting period of three years is determined by reference to the fair value of the share options granted. Fair value is determined by reference to the Black-Scholes option pricing model.

15. Share based payments (continued)

The inputs into the Black-Scholes option pricing model are as follows:

	2006	2005
	£	£
Weighted average exercise price	0.46	0.42
Expected volatility	46.65% - 104.98%	46.65% - 104.98%
Expected life	5 years	5 years
Risk-free rate	3.85% - 4.87%	3.85% - 4.87%
Expected dividends	0.00%	0.00%

The volatility of the company's share price on each date of grant was calculated as the average of volatilities of share prices of companies in the peer group on the corresponding dates. The volatility of share price of each company in the peer group was calculated as the average of annualized standard deviations of daily continuously compounded returns on the company's stock, calculated over 1, 2, 3, 4 and 5 years back from the date of grant, where applicable.

The company recognised total expenses of £173,435 (2005: £104,917) related to equity-settled share-based payment transactions in the period.

The company has applied the requirements of 'FRS 20 Share-based Payments'. In accordance with the transition provisions, FRS 20 has been applied only to grants of equity instruments after 7 November 2002 that had not vested as at 1 January 2005.

16. Prior year adjustments

The prior year adjustments relate to the implementation of FRS 20 'Share-based payment' and the reclassification of certain administration expenses.

FRS 20 'Share-based payment'

During the year, the company adopted FRS 20 'Share-based payment'. The adoption of this standard constitutes a change in accounting policy. Therefore the impact has been reflected as a prior year adjustment in accordance with Financial Reporting Standard 3.

FRS 20 requires that where shares or rights to shares are granted to third parties, including employees, a charge should be recognised in the profit and loss account based on the fair value of the shares at the date of the grant of shares or right to shares is made.

Reclassification

Following a review by management, certain costs totalling £253,506 which had previously been included in operating charges have now been more appropriately included within cost of sales. The profit and loss account for the year ended 31 December 2005 has been restated accordingly. There is no impact on the loss as a result of this reclassification.

16. Prior year adjustments (continued)

The effect of the adoption of FRS 20 'Share-based payment' and the reclassification on the comparatives is as follows:

	Year ended 31 December 2005			As restated £
	As previously reported £	Impact of FRS 20 £	Reclassification £	
Turnover	555,250	-	-	555,250
Cost of sales	(256,793)	-	(253,505)	(510,298)
Gross profit	298,457	-	(253,505)	44,952
Operating charges	(1,952,498)	(104,917)	253,505	(1,803,910)
Operating loss	(1,654,041)	(104,917)	-	(1,758,958)
Loss for the financial year	(1,571,067)	(104,917)	-	(1,675,984)
Net assets	3,032,828	-	-	3,032,828

17. Reserves

	Other reserves £	Share premium account £	Profit and loss account £
At 31 December 2005 as previously reported	-	12,309,993	(10,596,434)
Prior years adjustment – Adoption of FRS 20 'Share-based payment'			
- At 1 January 2005	48,280	-	(48,280)
- During the year ended 31 December 2005	104,917	-	(104,917)
At 1 January 2006 as restated	153,197	12,309,993	(10,749,631)
Loss for the financial year	-	-	(1,499,653)
Gross premium on allotment	-	7,523,000	-
Issue costs	-	(445,449)	-
FRS 20 share option charge	173,435	-	-
At 31 December 2006	326,632	19,387,544	(12,249,284)

18. Reconciliation of movements in shareholders' funds

	2006 £	Restated Note 16 2005 £
Loss for the financial year	(1,499,653)	(1,675,984)
Issue of shares	7,660,551	3,457,450
FRS 20 share option charge	173,435	104,917
Net addition to shareholders' funds	6,334,333	1,886,383
Opening shareholders' funds as restated	3,032,828	1,146,445
Closing shareholders' funds	9,367,161	3,032,828

19. Net cash outflow from operating activities

	2006	Restated 2005
	£	£
Operating loss	(1,569,414)	(1,758,958)
Amortisation	212,772	74,914
Depreciation	309,641	75,640
Share based administrative expense	173,435	104,917
(Profit) / loss on sale of tangible fixed assets	(3,378)	78,032
Increase in stocks	(232,568)	(114,904)
Increase in debtors	(281,240)	(342,060)
(Decrease) / increase in creditors	(338,602)	756,296
Net cash outflow from operating activities	<u>(1,729,354)</u>	<u>(1,126,123)</u>

20. Reconciliation of net cash flow to movement in net funds

	2006	2005
	£	£
(Decrease) / increase in cash in the year	(171,838)	1,250,108
Cash (inflow) / outflow from (increase) / decrease in debt and lease financing	<u>(332,597)</u>	23,340
Movement of net funds in the year	<u>(504,435)</u>	1,273,448
Net funds at 1 January 2006	<u>2,378,199</u>	1,104,751
Net funds at 31 December 2006	<u><u>1,873,764</u></u>	<u><u>2,378,199</u></u>

21. Analysis of changes in net funds

	At 1 January 2006	Cashflow	At 31 December
	£	£	2006
			£
Cash at bank and in hand	2,414,392	(171,838)	2,242,554
Bank loan	-	(355,000)	(355,000)
	<u>2,414,392</u>	<u>(526,838)</u>	<u>1,887,554</u>
Hire purchase agreements	(36,193)	22,403	(13,790)
	<u>2,378,199</u>	<u>(504,435)</u>	<u>1,873,764</u>

22. Leasing commitments

	2006 Land and buildings	Other	2005 Land and buildings	Other
	£	£	£	£
- within one year	-	-	-	-
- within two to five years	-	35,786	-	15,874
- in five years or more	176,000	-	176,000	-
	<u>176,000</u>	<u>35,786</u>	<u>176,000</u>	<u>15,874</u>

23. Financial Instruments

Treasury policies and financial risk

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

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

Interest rate risk

Apart from using short term and period deposits, interest rate risk arises from

- The fixed element of finance leases where the company typically uses finance leases for fixed periods of up to 5 years to finance the purchase of assets where it is considered to be a more effective use of funds; and
- The overdraft facility which bears a floating interest rate.

Other bank loans are subject to fixed interest rates.

Credit risk

The principal credit risk arises from the company's trade debtors. In order to manage credit risk the directors set limits for customers based on a combination of payment history and third party credit references.

Liquidity risk

The company seeks to manage financial risk by ensuring sufficient liquidity is available to meet foreseeable needs and to invest cash assets safely and profitably.

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

Foreign currency risk

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

As permitted by Financial Reporting Standard No.13 ("FRS13"), the disclosure set out below exclude short term debtors and creditors.

Borrowing facilities

A bank loan of £426,000 has been secured against plant and equipment. This loan is repayable in 36 equal instalments at a fixed interest rate of 4.3%. The outstanding balance at 31 December 2006 was £355,000.

In addition to the above, further facilities of £2,000,000 have been secured to help fund the acquisition of the property and the development costs of the Todmorden project. At 31 December 2006 £900,000 was drawn down as an overdraft against this facility, this is set off against cash deposits. The floating interest rate on the overdraft facility is 1.75% above the Bank of Scotland Plc base rate.

Interest rate risk profile of financial assets and liabilities

	Interest rate			Total £
	Fixed £	Floating £	Zero £	
Financial Assets				
At December 2006				
Euro	-	-	3,862	3,862
Sterling	-	2,195,549	43,143	2,238,692
	-	2,195,549	47,005	2,242,554
Financial Liabilities				
At December 2006				
Bank loan	355,000	-	-	355,000
Hire purchase agreements	13,790	-	-	13,790
	368,790	-	-	368,790

23. Financial Instruments (continued)

Fair value of financial assets and financial liabilities

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

24. Pension scheme

The company operates a defined contribution pension scheme. The pension cost charge for the period represents contributions payable by the company to the scheme and amounted to £43,749 (2005:£nil).

25. Contingencies

Contingent liabilities

Under the terms of the acquisition of Intellectual Property Rights relating to the innovative system of composting from Dr A Heyworth, a director, a royalty of 1% is payable, based on future profits before tax of The TEG Group Plc (formerly known as TEG Environmental Plc) and its subsidiaries, as shown in the audited consolidated profit and loss account if the profits before tax exceed £100,000. The royalty payment is subject to a maximum of £50,000 in any one financial year and to £140,000 in total.

26. Capital Commitments

At 31 December 2006 the company had outstanding capital commitments of £971,129 (2005:£1,512,900)

27. Related party transactions

Apart from as disclosed in note 25, no transactions with related parties were undertaken such as are required to be disclosed under Financial Reporting Standards 8.

28. Post balance sheet event

On 1 January 2007 the company changed its name to The TEG Group PLC.

The TEG Group PLC has two wholly owned subsidiaries, TEG Environmental Limited and The Natural Organic Fertiliser Company Limited ("NOFCO"). TEG Environmental Limited is the principal operating company and NOFCO is a marketing company, focused on the development of compost markets. Both companies were dormant as at 31 December 2006.