



IN-VESSEL COMPOSTING:

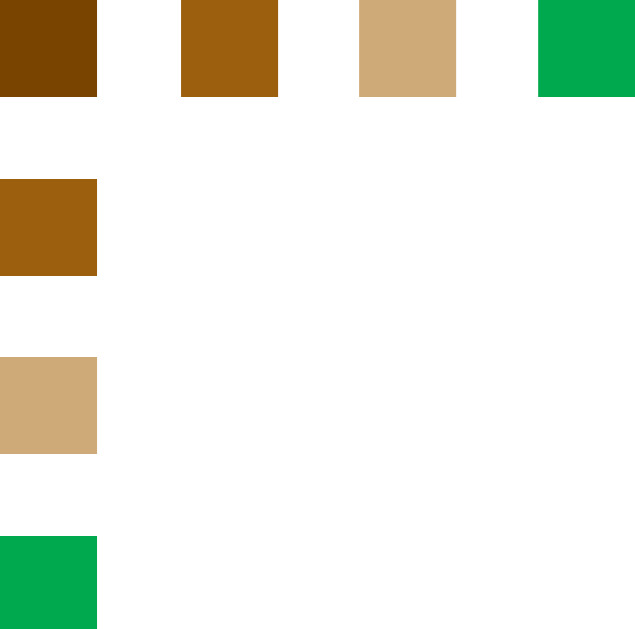
THE WAY FORWARD WITH ORGANIC WASTE

The TEG Group PLC

Interim Report

For the six months ended 30 June 2007





## Contents

Chairman's statement	4-6
Consolidated condensed income statement	7
Consolidated condensed balance sheet	8
Consolidated condensed statement of changes in equity	9
Consolidated condensed cash flow statement	10
Notes to the interim report	11-24
Independent review report	25

# Chairman's Statement

I am pleased to present the Group's 2007 interim report. TEG has continued to make excellent progress and its sales pipeline has expanded impressively. During the period, the Group announced it had been selected as a supplier 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. In addition, a further contract has been recently secured with Gwynedd Council, further evidence of local authority confidence in the TEG system, and a joint venture, Verdia Horticulture Limited, was recently established with Glendale Managed Services Ltd, the leading parks maintenance company. This business, together with an excellent pipeline of other opportunities, is expected to yield significant future revenues for the Group.

Revenue of £536,045 reflects the fact that a large proportion of the new business outlined above will materialise in future periods whilst the previous year's figure (2006 interim: £1,070,750) included revenues from the Swansea construction project. Losses were £1,426,417 compared to £602,348 in the same period in 2006. No dividend is recommended.

For the first time, these results are in accordance with the International Financial Reporting Standards ("IFRS"). The comparative figures have been restated on a consistent basis.

## Plant Construction

During the first half of 2007, TEG completed the handover of the plants built for The City and County of Swansea and for Banham Compost Limited. The Board was very pleased with the execution of these contracts and particularly pleased with the performance of the Banham facility, the first large scale plant sale by the Group.

The Todmorden facility which the Group operates was completed to schedule and the first two lines were successfully commissioned in May and June of this year. Revenue from this plant has been encouraging and we expect the plant to have proceeded up to full production by October.

A second 12-cage line was installed at the Sherdley facility, increasing capacity to approximately 12,000 tonnes per annum. The construction of a new waste receipt building commenced in August and once finished, it will complete the planned development of that facility.

Final modifications to the plant in Perth were completed to ensure compliance with the Scottish Environmental Protection Agency's (SEPA) Pollution Prevention and Control (PPC) permit conditions, which were introduced by SEPA in 2006. These modifications included the installation of air extract equipment and a product off-take gantry. The Board believes the plant is the first to achieve the higher PPC standard of licensing introduced in Scotland.

## Contract Wins

The most notable success for the Group was its selection as preferred supplier to the Viridor-Laing consortium that was awarded preferred bidder status for the Greater Manchester Waste PFI. TEG is the exclusive supplier of In Vessel Composting ("IVC") technology to the consortium and following commercial and financial closure, TEG expects to receive orders to supply all the IVC capacity in the Greater Manchester region.

TEG is expected to build four plants as part of the consortium, over the period from 2007 to 2010 with a combined capacity of 180,000 tonnes per annum, producing 125,000 tonnes of compost product per annum. The plants will all process green waste and kitchen waste collected from households in the Greater Manchester region.

It is intended that the first plant to be constructed by TEG will be sited at Waithlands, Rochdale. Planning permission has been secured which will allow construction activities to commence following commercial closure of the contract. The detailed contractual terms for the facility are close to completion.

The three further plants to be constructed by TEG are progressively scheduled for construction between the second quarter of 2008 and the second quarter of 2010. The planning application for the second site is due to be submitted in September and the development of the two remaining sites is already underway in anticipation of gaining planning approvals in 2008.

The Company also secured an interim waste management contract with Greater Manchester Waste Ltd to process green and garden waste at Todmorden and Sherdley Farm. The contract is for a period of two years with a further one year extension option. Over the first two-year period, TEG will receive 44,000 tonnes of waste and the contract value will be approximately £900,000.

## Plant Operations

We announced on 5 June that our plant near Perth was being affected by the slower than expected development of the waste and local authority markets in Scotland and that sales of higher value waste had been below plan. Operationally however, the plant at Perth has run well and has achieved its planned capacity and I am now pleased to report that significant progress has been made and we anticipate that the plant's sales will be close to plan by the end of quarter four.

The Sherdley Farm plant is expected to ramp up to full capacity following completion of construction of the waste receipt building in early October 2007.

## Other Contracts

The R&D project for Shell continues. Pilot scale work at Perth was encouraging and some immediate success was noted but the need for further laboratory work has been identified and this is underway.

The United Utilities trials were completed successfully and the Company awaits the outcome of a review of strategy by United Utilities.

## Fundraising

In preparation for the Greater Manchester contract and in anticipation of future build own and operate opportunities, TEG successfully raised £11,000,000 before expenses of £628,571 which have been charged against the share premium account. The placing was over-subscribed with significant institutional demand and with several new investors participating.

## Management

The Company has continued to strengthen its business development, engineering, operational and technical teams in advance of the anticipated construction programme for Greater Manchester and other projects that are close to completion. This has of course been balanced by the knowledge that revenues have not yet commenced for these projects, but it is important that the Group is prepared for the increase in activity on completion.

#### Post period-end events

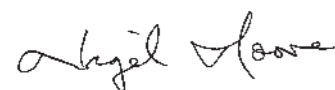
TEG was delighted to advance its collaboration with Glendale Managed Services Ltd ("Glendale") and to conclude a new joint venture company (JV), Verdia Horticulture Limited ("Verdia"). Verdia's focus will be on building and operating medium scale facilities, typically 10-15,000 tonnes per annum to produce horticultural grade compost products for sale to Glendale and to regional horticultural markets. It is anticipated that Verdia will build between 6 and 8 facilities over the next 2 to 3 years, geographically spread throughout the UK.

TEG will supply TEG Silo Cage plants to Verdia and will provide technical expertise and support, as well as marketing services for waste supply to the plants. This is another significant endorsement of TEG and its technology and offers an opportunity for the Group to establish itself in the horticultural products sector and develop a new revenue stream.

In addition, TEG has secured a further plant sale to Gwynedd Council for the construction and supply of a £1.45m facility to process green and kitchen waste. Construction commenced on 10 September and it is anticipated that the plant will be completed and handed over in April 2008. Revenues are anticipated to commence this month.

#### Future Prospects

The Group's pipeline of opportunities is stronger than ever and it is actively bidding for numerous significant contracts in addition to a large number of smaller waste sales opportunities. The operational success of the TEG facilities to date and the endorsement demonstrated by the Greater Manchester and Gwynedd contracts further strengthens the Board's belief that the Group has an exciting future and that significant growth will be achieved.



**Nigel Moore**  
Chairman  
24 September 2007

## Consolidated condensed income statement

for the sixth months ended 30 June 2007

		6 months ended 30 June 2007 Unaudited £	6 months ended 30 June 2006 Unaudited £	Year ended 31 December 2006 Unaudited £
	Note			
<b>Revenue</b>	3	536,045	1,070,750	3,559,330
Cost of sales		(708,769)	(838,496)	(2,951,550)
<b>Gross (loss)/profit</b>		<u>(172,724)</u>	<u>232,254</u>	<u>607,780</u>
Other expenses		(1,321,113)	(827,702)	(1,964,422)
<b>Operating loss</b>	3	<u>(1,493,837)</u>	<u>(595,448)</u>	<u>(1,356,642)</u>
Finance costs		(76,369)	(57,409)	(115,547)
Finance income		143,789	50,509	154,579
<b>Loss before tax</b>		<u>(1,426,417)</u>	<u>(602,348)</u>	<u>(1,317,610)</u>
Income tax		-	-	60,663
<b>Loss for the period</b>		<u>(1,426,417)</u>	<u>(602,348)</u>	<u>(1,256,947)</u>
<b>Attributable to:</b>				
Equity holders of the parent		<u>(1,426,417)</u>	<u>(602,348)</u>	<u>(1,256,947)</u>
<b>Retained loss</b>		<u>(1,426,417)</u>	<u>(602,348)</u>	<u>(1,256,947)</u>
<b>Loss per share</b>				
Basic loss per share (pence)		<u>(3.406)</u>	<u>(2.082)</u>	<u>(3.757)</u>

# Consolidated condensed balance sheet

As at 30 June 2007

	Note	30 June 2007 Unaudited £	30 June 2006 Unaudited £	31 December 2006 Unaudited £
<b>ASSETS</b>				
<b>Non-current assets</b>				
Property, plant and equipment		9,647,330	4,915,181	7,594,271
Goodwill		2,269,584	2,269,584	2,269,584
		<u>11,916,914</u>	<u>7,184,765</u>	<u>9,863,855</u>
<b>Current assets</b>				
Inventories		221,820	355,833	355,638
Trade and other receivables		773,011	394,549	647,648
Taxation receivable		60,663	63,573	60,663
Cash and cash equivalents		8,989,430	5,467,677	2,242,554
		<u>10,044,924</u>	<u>6,281,632</u>	<u>3,306,503</u>
<b>Total assets</b>		<u>21,961,838</u>	<u>13,466,397</u>	<u>13,170,358</u>
<b>LIABILITIES</b>				
<b>Current liabilities</b>				
Trade and other payables		973,252	770,412	1,154,761
Current portion of long-term borrowings		146,967	161,547	155,790
Current portion of deferred consideration		259,442	266,999	266,999
		<u>1,379,661</u>	<u>1,198,958</u>	<u>1,577,550</u>
<b>Non-current liabilities</b>				
Long-term borrowings		142,000	288,976	213,000
Long-term deferred consideration		1,677,463	1,866,901	1,769,941
		<u>1,819,463</u>	<u>2,155,877</u>	<u>1,982,941</u>
<b>Total liabilities</b>		<u>3,199,124</u>	<u>3,354,835</u>	<u>3,560,491</u>
<b>Net assets</b>		<u>18,762,714</u>	<u>10,111,562</u>	<u>9,609,867</u>
<b>EQUITY</b>				
<b>Equity attributable to equity holders of the parent</b>				
Share capital	4	2,414,419	1,894,269	1,902,269
Share premium		29,357,073	19,339,544	19,387,544
Other reserves		424,217	229,728	326,632
Profit and loss account - deficit		(13,432,995)	(11,351,979)	(12,006,578)
<b>Total equity</b>		<u>18,762,714</u>	<u>10,111,562</u>	<u>9,609,867</u>

# Consolidated condensed statement of changes in equity

	6 months ended 30 June 2007 Unaudited £	6 months ended 30 June 2006 Unaudited £	Year ended 31 December 2006 Unaudited £
Equity at the beginning of the period	9,609,867	3,032,828	3,032,828
Loss for the period	(1,426,417)	(602,348)	(1,256,947)
<b>Total recognised income and expense for the period</b>	<u>(1,426,417)</u>	<u>(602,348)</u>	<u>(1,256,947)</u>
IFRS 2 share option charge	97,585	76,531	173,435
Issue of share capital	10,481,679	7,604,551	7,660,551
<b>Equity at the end of the period</b>	<u>18,762,714</u>	<u>10,111,562</u>	<u>9,609,867</u>

# Consolidated condensed cash flow statement

For the six months ended 30 June 2007

	6 months ended 30 June 2007 Unaudited £	6 months ended 30 June 2006 Unaudited £	Year ended 31 December 2006 Unaudited £
<b>Cash flows from operating activities</b>			
Loss after taxation	(1,426,417)	(602,348)	(1,256,947)
Adjustments for:			
Depreciation	223,185	125,114	309,640
Share based administrative expense	97,585	76,531	173,435
Taxation credit recognised in profit and loss	-	-	(60,663)
Interest expense	76,369	57,409	115,547
Investment income	(143,789)	(50,509)	(154,579)
Profit on sale of property, plant and equipment	-	(9,559)	(3,379)
Increase in trade and other receivables	(125,363)	(28,141)	(281,240)
Decrease / (increase) in inventories	133,818	(232,763)	(232,568)
Increase / (decrease) in trade payables	278,424	(263,018)	(338,599)
Cash used in operations	(886,188)	(927,284)	(1,729,353)
Interest paid	(26,404)	(1,375)	(36,408)
Income taxes received	-	-	63,573
<b>Net cash used in operating activities</b>	<b>(912,592)</b>	<b>(928,659)</b>	<b>(1,702,188)</b>
<b>Cash flows from investing activities</b>			
Acquisition of business - deferred consideration	(150,000)	(150,000)	(300,000)
Purchase of property, plant and equipment	(2,736,177)	(3,943,898)	(6,328,991)
Proceeds from sale of equipment	-	6,452	11,614
Interest received	143,789	50,509	154,579
<b>Net cash used in investing activities</b>	<b>(2,742,388)</b>	<b>(4,036,937)</b>	<b>(6,462,798)</b>
<b>Cash flows from financing activities</b>			
Proceeds from issue of share capital	10,481,679	7,604,551	7,660,551
New bank loans raised	-	426,000	426,000
Repayment of loan	(71,000)	-	(71,000)
Payment of finance lease liabilities	(8,823)	(11,670)	(22,403)
<b>Net cash from financing activities</b>	<b>10,401,856</b>	<b>8,018,881</b>	<b>7,993,148</b>
<b>Net increase / (decrease) in cash and cash equivalents</b>	<b>6,746,876</b>	<b>3,053,285</b>	<b>(171,838)</b>
<b>Cash and cash equivalents at beginning of period</b>	<b>2,242,554</b>	<b>2,414,392</b>	<b>2,414,392</b>
<b>Cash and cash equivalents at end of period</b>	<b>8,989,430</b>	<b>5,467,677</b>	<b>2,242,554</b>

# Notes to the interim report

## 1. Nature of operations and general information

TEG Group plc and its subsidiaries' ('the Group') principal activities continue to be the design and production of Silo-cage plants for sale to third party clients, and the design, build and operation of TEG owned facilities.

Refer to note 3 for further information about the Group's operating segments.

TEG Group plc is the Group's ultimate parent company. It is incorporated and domiciled in Great Britain. The address of TEG Group plc's registered office, which is also its principal place of business, is Houston House, 12 Sceptre Court, Sceptre Point, Preston, PR5 6AW, United Kingdom. TEG Group plc's shares are listed on the Alternative Investment Market of the London Stock Exchange.

TEG Group plc's consolidated interim financial statements are presented in Pounds Sterling (£), which is also the functional currency of the parent company.

These consolidated condensed interim financial statements have been approved for issue by the Board of Directors on 24 September 2007.

The financial information set out in this interim report does not constitute statutory accounts as defined in Section 240 of the Companies Act 1985. The Group's statutory financial statements for the year ended 31 December 2006, prepared under UK GAAP, have been filed with the Registrar of Companies. The auditors' report on those financial statements was unqualified and did not contain a statement under Section 237(2) of the Companies Act 1985.

### Basis of preparation

These interim condensed consolidated financial statements are for the six months ended 30 June 2007. They have been prepared in accordance with the requirements of IFRS 1 "First-time Adoption of International Financial Reporting Standards" relevant to interim reports, because they are part of the period covered by the Group's first IFRS financial statements for the year ended 31 December 2007. They do not include all of the information required for full annual financial statements, and should be read in conjunction with the consolidated financial statements of the Group for the year ended 31 December 2006.

The financial statements have been prepared under the historical cost convention except that they have been modified to include the revaluation of certain non-current assets/financial assets and liabilities. The measurement bases and principal accounting policies of the Group are set out below.

These condensed consolidated interim financial statements (the interim financial statements) have been prepared in accordance with the accounting policies set out below which are based on the recognition and measurement principles of IFRS in issue as adopted by the European Union (EU) and are effective at 31 December 2007 or are expected to be adopted and effective at 31 December 2007, our first annual reporting date at which the Group is required to use IFRS accounting standards adopted by the EU.

TEG Group plc's consolidated financial statements were prepared in accordance with United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) until 31 December 2006. The date of transition to IFRS was 1 January 2006. The comparative figures in respect of 2006 have been restated to reflect changes in accounting policies as a result of the adoption of IFRS. The disclosures required by IFRS 1 concerning the transition from UK GAAP to IFRS are given in the reconciliation schedules, presented and explained in note 6.

The accounting policies have been applied consistently throughout the Group for the purposes of preparation of these condensed consolidated interim financial statements.

## 2. Summary of significant accounting policies

### Basis of consolidation

The Group financial statements consolidate those of the company and its subsidiary undertakings drawn up to the balance sheet date. Subsidiaries are entities over which the Group has the power to control the financial and operating policies so as to obtain benefits from its activities. The Group obtains and exercises control through voting rights.

Unrealised gains on transactions between the Group and its subsidiaries are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Amounts reported in the financial statements of subsidiaries have been adjusted where necessary to ensure consistency with the accounting policies adopted by the Group.

### Business combinations completed prior to date of transition to IFRS

The Group has elected not to apply IFRS 3 Business Combinations retrospectively to business combinations prior to date of transition.

Accordingly, the classification of the combination (acquisition) remains unchanged from that used under UK GAAP. Assets and liabilities are recognised at the date of transition if they would be recognised under IFRS, and are measured using their UK GAAP carrying amount immediately post-acquisition as deemed cost under IFRS, unless IFRS requires fair value measurement. Deferred tax is adjusted for the impact of any consequential adjustments after taking advantage of the transitional provisions.

### Goodwill

Goodwill representing the excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired, is capitalised and reviewed annually for impairment. Goodwill is carried at cost less accumulated impairment losses.

### Revenue

Revenue is measured by reference to the fair value of consideration received or receivable by the Group for goods supplied and services provided, excluding VAT and trade discounts. Revenue is recognised upon the performance of services or transfer of risk to the customer.

### Rendering of services relating to processing waste

When the outcome of a transaction involving the processing of waste can be estimated reliably, revenue associated with the transaction is recognised when the company receives the waste, being the point at which it fulfils its contractual obligation to the customer. The outcome of the transaction is deemed to be able to be estimated reliably when all the following conditions are satisfied:

- the amount of revenue can be measured reliably.
- it is probable that the economic benefits associated with the transaction will flow to the entity.
- the company receives the waste, being the point at which it fulfils its contractual obligation to the customer and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

### Interest

Interest is recognised using the effective interest method which calculates the amortised cost of a financial asset and allocates the interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

### Construction contracts

Contract revenue reflects the contract activity during the year and is measured at the fair value of consideration received or receivable. When the outcome can be assessed reliably, contract revenue and associated costs are recognised as revenue and expenses respectively by reference to the stage of completion of the contract activity at the balance sheet date. The stage of completion of the contract at the balance sheet date is assessed by reference to completed key milestones, those being;

- Design
- Procurement
- Component manufacture
- Enabling works
- Civil Engineering
- Building fabrication
- Mechanical and electrical installation of various components of the TEG Silo-cage plant
- Functional testing
- Commissioning

Where the outcome of a long term contract cannot be estimated reliably revenue is recognised only to the extent of contract costs incurred that it is probable will be recoverable, and contract costs are recognised as an expense in the period in which they are incurred. In the case of a fixed price contract, the outcome of a construction contract is deemed to be estimated reliably when all the following conditions are satisfied:

- total contract revenue can be measured reliably
- it is probable that economic benefits associated with the contract will flow to the Group
- both the contract costs to complete the contract and the stage of completion at the balance sheet date can be measured reliably, and
- the contract costs attributable to the contract can be clearly identified and measured reliably so that actual contract costs incurred can be compared with prior estimates.

The gross amount due from customers for contract work is presented as an asset for all contracts in progress for which costs incurred plus recognised profits (less recognised losses) exceeds progress billings. The gross amount due to customers for contract work is presented as a liability for all contracts in progress for which progress billings exceed costs incurred plus recognised profits (less losses).

Full provision is made for losses on all contracts in the year in which the loss is first foreseen.

### Property, plant and equipment

Property, plant and equipment is stated at cost, net of depreciation and any provision for impairment. No depreciation is charged during the period of construction.

Borrowing costs on property, plant and equipment under construction are capitalised during the period of construction based on specific funds borrowed.

### Disposal of assets

The gain or loss arising on the disposal of an asset is determined as the difference between the disposal proceeds and the carrying amount of the asset and is recognised in the income statement.

### Depreciation

Depreciation is calculated to write down the cost less accumulated depreciation of all property, plant and equipment other than freehold land over their estimated useful economic lives. The rates generally applicable are:

Vehicles	3 years straight line
Silo-cage systems	15 years straight line
Fixtures and fittings	25% reducing balance
Plant and machinery	25% reducing balance
Buildings	4% straight line

### Impairment testing of goodwill and property, plant and equipment

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level. Goodwill is allocated to those cash-generating units that are expected to benefit from synergies of the related business combination and represent the lowest level within the Group at which management monitors the related cash flows.

Goodwill, other individual assets or cash-generating units that include goodwill are tested for impairment at least annually. All other individual assets or cash-generating units are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised for the amount by which the asset's or cash-generating unit's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of fair value, reflecting market conditions less costs to sell, and value in use based on an internal discounted cash flow evaluation. Impairment losses recognised for cash-generating units, to which goodwill has been allocated, are credited initially to the carrying amount of goodwill. Any remaining impairment loss is charged pro rata to the other assets in the cash generating unit. With the exception of goodwill, all assets are subsequently reassessed for indications that an impairment loss previously recognised may no longer exist.

### Leased assets

In accordance with IAS 17, the economic ownership of a leased asset is transferred to the lessee if the lessee bears substantially all the risks and rewards related to the ownership of the leased asset. The related asset is recognised at the time of inception of the lease at the fair value of the leased asset or, if lower, the present value of the minimum lease payments plus incidental payments, if any, to be borne by the lessee. A corresponding amount is recognised as a finance leasing liability. Leases of land and buildings are split into land and buildings elements according to the relative fair values of the leasehold interests at the date of entering into the lease agreement.

The interest element of leasing payments represents a constant proportion of the capital balance outstanding and is charged to the income statement over the period of the lease.

All other leases are regarded as operating leases and the payments made under them are charged to the income statement on a straight line basis over the lease term. Lease incentives are spread over the term of the lease.

### Inventories

Inventories are stated at the lower of cost and net realisable value after making allowance for obsolete and slow moving items.

Cost includes 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.

### Taxation

Current tax is the tax currently payable based on taxable profit for the year.

Deferred income taxes are calculated using the liability method on temporary differences. Deferred tax is generally provided on the difference between the carrying amounts of assets and liabilities and their tax bases. However, deferred tax is not provided on the initial recognition of goodwill, nor on the initial recognition of an asset or liability unless the related transaction is a business combination or affects tax or accounting profit. Deferred tax on temporary differences associated with shares in subsidiaries and joint ventures is not provided if reversal of these temporary differences can be controlled by the Group and it is probable that reversal will not occur in the foreseeable future. In addition, tax losses available to be carried forward as well as other income tax credits to the Group are assessed for recognition as deferred tax assets.

Deferred tax liabilities are provided in full, with no discounting. Deferred tax assets are recognised to the extent that it is probable that the underlying deductible temporary differences will be able to be offset against future taxable income. Current and deferred tax assets and liabilities are calculated at tax rates that are expected to apply to their respective period of realisation, provided they are enacted or substantively enacted at the balance sheet date.

Changes in deferred tax assets or liabilities are recognised as a component of tax expense in the income statement, except where they relate to items that are charged or credited directly to equity (such as the revaluation of land) in which case the related deferred tax is also charged or credited directly to equity.

### Financial assets

Financial assets are divided into the following categories: loans and receivables; financial assets at fair value through profit or loss; available-for-sale financial assets; and held-to-maturity investments. Financial assets are assigned to the different categories by management on initial recognition, depending on the purpose for which they were acquired. The designation of financial assets is re-evaluated at every reporting date at which a choice of classification or accounting treatment is available.

All financial assets are recognised when the Group becomes a party to the contractual provisions of the instrument. Financial assets other than those categorised as at fair value through profit or loss are recognised at fair value plus transaction costs. Financial assets categorised as at fair value through profit or loss are recognised initially at fair value with transaction costs expensed through the income statement.

Financial assets at fair value through profit or loss include financial assets that are either classified as held for trading or are designated by the entity as at fair value through profit or loss upon initial recognition. Subsequent to initial recognition, the financial assets included in this category are measured at fair value with changes in fair value recognised in the income statement. Financial assets originally designated as financial assets at fair value through profit or loss may not be reclassified subsequently.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are measured subsequent to initial recognition at amortised cost using the effective interest method, less provision for impairment. Any change in their value through impairment or reversal of impairment is recognised in the income statement.

Provision against trade receivables is made when there is objective evidence that the Group will not be able to collect all amounts due to it in accordance with the original terms of those receivables. The amount of the write-down is determined as the difference between the asset's carrying amount and the present value of estimated future cash flows.

An assessment for impairment is undertaken at least at each balance sheet date.

A financial asset is de-recognised only where the contractual rights to the cash flows from the asset expire or the financial asset is transferred and that transfer qualifies for de-recognition. A financial asset is transferred if the contractual rights to receive the cash flows of the asset have been transferred or the Group retains the contractual rights to receive the cash flows of the asset but assumes a contractual obligation to pay the cash flows to one or more recipients. A financial asset that is transferred qualifies for de-recognition if the Group transfers substantially all the risks and rewards of ownership of the asset, or if the Group neither retains nor transfers substantially all the risks and rewards of ownership but does transfer control of that asset.

#### **Financial liabilities**

Financial liabilities are obligations to pay cash or other financial assets and are recognised when the Group becomes a party to the contractual provisions of the instrument. Financial liabilities categorised as at fair value through profit or loss are recorded initially at fair value, all transaction costs are recognised immediately in the income statement. All other financial liabilities are recorded initially at fair value, net of direct issue costs.

Financial liabilities categorised as at fair value through profit or loss are re-measured at each reporting date at fair value, with changes in fair value being recognised in the income statement. All other financial liabilities are recorded at amortised cost using the effective interest method, with interest-related charges recognised as an expense in finance costs in the income statement. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are charged to the income statement on an accruals basis using the effective interest method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

Financial liabilities are categorised as at fair value through profit or loss where they are classified as held-for-trading or designated as at fair value through profit or loss on initial recognition.

A financial liability is de-recognised only when the obligation is extinguished, that is, when the obligation is discharged or cancelled or expires.

#### **Cash and cash equivalents**

Cash and cash equivalents comprise cash on hand and demand deposits, together with other short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to insignificant risk of changes in value.

#### **Equity**

Equity comprises the following:

- "Share capital" represents the nominal value of equity shares.
- "Share premium" represents the excess over nominal value of the fair value of consideration received for equity shares, net of expenses of the share issue.
- "Other reserve" represents equity-settled share-based employee remuneration until such share options are exercised.
- "Profit and loss reserve" represents retained profits.

#### **Foreign currency**

Transactions in foreign currencies are translated at the exchange rate ruling at the date of the transaction.

Monetary assets and liabilities in foreign currencies are translated at the rates of exchange ruling at the balance sheet date.

Any exchange differences arising on the settlement of monetary items or on translating monetary items at rates different from those at which they were initially recorded are recognised in the profit or loss in the period in which they arise.

#### **Employee benefits - defined contribution pension scheme**

The pension costs charged against profits are the contributions payable to the scheme in respect of the accounting period.

#### **Share-based payment - equity settled**

All share-based payment arrangements granted after 7 November 2002 that had not vested prior to 1 January 2006 are recognised in the financial statements.

All goods and services received in exchange for the grant of any share-based payment are measured at their fair values. Where employees are rewarded using share-based payments, the fair values of employees' services are determined indirectly by reference to the fair value of the instrument granted to the employee. This fair value is appraised at the grant date.

All equity-settled share-based payments are ultimately recognised as an expense in the income statement with a corresponding credit to "other reserve".

The expense is allocated over the vesting period, based on the best available estimate of the number of share options expected to vest. Estimates are subsequently revised if there is any indication that the number of share options expected to vest differs from previous estimates. Any cumulative adjustment prior to vesting is recognised in the current period. No adjustment is made to any expense recognised in prior periods if share options ultimately exercised are different to that estimated on vesting.

Upon exercise of share options the proceeds received net of attributable transaction costs are credited to share capital, and where appropriate share premium.

### 3. Business segments

The principal activity of the Group during the period continued to be the design and production of Silo-cage plants for sale to third party clients, and the design, build and operation of TEG owned facilities.

For management purposes, the Group is currently organised into the following divisions: Build Own Operate facilities and Sale to third party clients.

The revenues and net result generated by each of TEG Group plc's business segments are summarised as follows:

	Revenue			Group operating loss		
	6 months ended 30 June 2007	6 months ended 30 June 2006	Year ended 31 December 2006	6 months ended 30 June 2007	6 months ended 30 June 2006	Year ended 31 December 2006
Build own operate	518,219	485,150	885,080	(140,965)	(79,148)	(300,713)
Sale to third parties	-	585,600	2,650,000	(90,643)	223,900	723,018
Other	17,826	-	24,250	8,669	-	14,529
	<u>536,045</u>	<u>1,070,750</u>	<u>3,559,330</u>	<u>(222,939)</u>	<u>144,752</u>	<u>436,834</u>
*Unallocated head office expenses				<u>(1,270,898)</u>	<u>(740,200)</u>	<u>(1,793,476)</u>
Group operating loss				<u>(1,493,837)</u>	<u>(595,448)</u>	<u>(1,356,642)</u>

\*Unallocated head office expenses include £52,163 (2006:nil) in respect of future business development costs.

### 4. Share capital issues

On 23 April 2007, the company placed 10,000,000 new ordinary shares of £0.05 at a price of £1.10 per share, raising £11,000,000 before issue costs of £628,571. The difference between the total consideration of £11,000,000 and the total nominal value of £500,000 and related issue cost of £628,571 has been credited to the share premium account. In addition, on 30 April 2007 and 3 May 2007, 168,000 and 75,000 shares respectively were issued pursuant to share options that were exercised at a price of £0.50 and £0.35 respectively.

Shares issued for the period under review may be summarised as follows:

	Number	£
<b>6 months to 30 June 2007</b>		
At 1 January 2007	38,045,381	1,902,269
Issue of shares	10,243,000	512,150
At 30 June 2007	<u>48,288,381</u>	<u>2,414,419</u>
<b>6 months to 30 June 2006</b>		
At 1 January 2006	26,385,381	1,319,269
Issue of shares	11,500,000	575,000
At 30 June 2006	<u>37,885,381</u>	<u>1,894,269</u>
<b>Year to 31 December 2006</b>		
At 1 January 2006	26,385,381	1,319,269
Issue of shares	11,660,000	583,000
At 31 December 2006	<u>38,045,381</u>	<u>1,902,269</u>

### 5. Loss per share

The loss per share is calculated by reference to the loss attributable to ordinary shareholders divided by the weighted average of 41,882,939 ordinary shares for the 6 months to 30 June 2007, 28,926,817 ordinary shares for the 6 months to 30 June 2006, and 33,451,682 for the 12 months to 31 December 2006.

The share options in issue are anti-dilutive in respect of the basic loss per share calculation and have therefore not been included.

### 6. Explanation of transition to IFRS

As stated in the 'Basis of preparation', these are the Group's first condensed consolidated interim financial statements for the part of the period covered by the first IFRS annual consolidated financial statements prepared in accordance with the measurement and recognition rules of IFRS.

An explanation of how the transition from UK GAAP to IFRS has affected the Group's financial position, financial performance and cash flows is set out below.

IFRS 1 permits companies adopting IFRS for the first time to take certain exemptions from the full requirements of IFRS in the transition period. These interim financial statements have been prepared on the basis of taking the following exemptions:

- business combinations prior to 1 January 2006, the Group's date of transition have not been restated to comply with IFRS 3 'Business Combinations'.

Explanation of reconciliation from UK GAAP to IFRS for the balance sheet and income statement.

The adoption of IFRS by the Group has resulted in some reordering of the presentation of certain balances within both the income statement and balance sheet.

Goodwill recognised by the Group on the acquisition of the composting business in Perthshire under UK GAAP was amortised over a period of 11 years. Under IFRS, goodwill is not amortised, but tested annually for impairment. The goodwill amortisation charge recognised in accordance with UK GAAP in 2006 was written back.

Borrowing costs incurred with regards to the development of the Todmorden facility under UK GAAP were recognised as interest expense incurred. Under IFRS, borrowing costs which are directly attributable to the acquisition, construction or production of a qualifying asset have been capitalised. This includes interest on borrowings made specifically for the purpose of obtaining the qualifying assets.

Application of IFRS has resulted in reclassification of certain items in the cash flow statement as follows:

- 1) Under UK GAAP, payments to acquire property, plant and equipment were classified as part of 'Capital expenditure and financial investment'. Under IFRS, payments to acquire property, plant and equipment have been classified as part of 'Investing activities'.
- 2) Income taxes received by the Group in respect of Research and Development tax credits are now classified as an operating cash flow under IFRS, however these were included in a separate category of tax cash flows under UK GAAP.
- 3) There are no other material differences between the cash flow statement presented under IFRS and the cash flow statement presented under UK GAAP.

## Reconciliation of equity

at 1 January 2006 (date of transition to IFRS)

	UK GAAP	IFRS
<b>ASSETS</b>		
<b>Non-current assets</b>		
Property, plant and equipment	1,093,289	1,093,289
Goodwill	2,269,584	2,269,584
	<u>3,362,873</u>	<u>3,362,873</u>
<b>Current assets</b>		
Inventories	123,070	123,070
Trade and other receivables	366,408	366,408
Taxation receivable	63,573	63,573
Cash and cash equivalents	2,414,392	2,414,392
	<u>2,967,443</u>	<u>2,967,443</u>
<b>Total assets</b>	<u><u>6,330,316</u></u>	<u><u>6,330,316</u></u>
<b>LIABILITIES</b>		
<b>Current liabilities</b>		
Trade and other payables	1,033,429	1,033,429
Current portion of long-term borrowings	22,396	22,396
Current portion of deferred consideration	283,019	283,019
	<u>1,338,844</u>	<u>1,338,844</u>
<b>Non-current liabilities</b>		
Long-term borrowings	13,797	13,797
Long-term deferred consideration	1,944,847	1,944,847
	<u>1,958,644</u>	<u>1,958,644</u>
<b>Total liabilities</b>	<u><u>3,297,488</u></u>	<u><u>3,297,488</u></u>
<b>Net assets / liabilities</b>	<u><u>3,032,828</u></u>	<u><u>3,032,828</u></u>
<b>EQUITY AND LIABILITIES</b>		
<b>Equity attributable to equity holders of the parent</b>		
Share capital	1,319,269	1,319,269
Share premium	12,309,993	12,309,993
Other reserves	153,197	153,197
Profit and loss account - deficit	(10,749,631)	(10,749,631)
<b>Total equity</b>	<u><u>3,032,828</u></u>	<u><u>3,032,828</u></u>

Investment in shares of subsidiaries of £2 in the parent company financial statements of TEG Group Plc as at 1 January 2006 has been eliminated for the preparation of the consolidated financial statements.

## Reconciliation of loss

for the year ended 31 December 2006

	UK GAAP 2006 £	Goodwill IFRS 3 £	Interest IAS 23 £	IFRS 2006 £
<b>Revenue</b>	3,559,330	-	-	3,559,330
Cost of sales	(2,951,550)	-	-	(2,951,550)
<b>Gross profit</b>	<u>607,780</u>	<u>-</u>	<u>-</u>	<u>607,780</u>
Other expenses	(2,177,194)	212,772	-	(1,964,422)
<b>Operating result</b>	<u>(1,569,414)</u>	<u>212,772</u>	<u>-</u>	<u>(1,356,642)</u>
Finance costs	(145,481)	-	29,934	(115,547)
Finance income	154,579	-	-	154,579
<b>Loss before tax</b>	<u>(1,560,316)</u>	<u>212,772</u>	<u>29,934</u>	<u>(1,317,610)</u>
Income tax	60,663	-	-	60,663
<b>Loss for the year</b>	<u><u>(1,499,653)</u></u>	<u><u>212,772</u></u>	<u><u>29,934</u></u>	<u><u>(1,256,947)</u></u>
<b>Attributable to:</b>				
Equity holders of the parent	<u>(1,499,653)</u>	<u>212,772</u>	<u>29,934</u>	<u>(1,256,947)</u>
<b>Retained loss</b>	<u><u>(1,499,653)</u></u>	<u><u>212,772</u></u>	<u><u>29,934</u></u>	<u><u>(1,256,947)</u></u>
<b>Loss per share</b>				
Basic and diluted loss per share (pence)	<u>(4.483)</u>	<u>0.636</u>	<u>0.089</u>	<u>(3.757)</u>

## Reconciliation of equity

for the year ended 31 December 2006

	UK GAAP 2006 £	Goodwill IFRS 3 £	Interest IAS 23 £	IFRS 2006 £
<b>ASSETS</b>				
<b>Non-current assets</b>				
Property, plant and equipment	7,564,337	-	29,934	7,594,271
Goodwill	2,056,812	212,772	-	2,269,584
	<u>9,621,149</u>	<u>212,772</u>	<u>29,934</u>	<u>9,863,855</u>
<b>Current assets</b>				
Inventories	355,638	-	-	355,638
Trade and other receivables	647,648	-	-	647,648
Taxation receivable	60,663	-	-	60,663
Cash and cash equivalents	2,242,554	-	-	2,242,554
	<u>3,306,503</u>	<u>-</u>	<u>-</u>	<u>3,306,503</u>
<b>Total assets</b>	<u><b>12,927,652</b></u>	<u><b>212,772</b></u>	<u><b>29,934</b></u>	<u><b>13,170,358</b></u>
<b>LIABILITIES</b>				
<b>Current liabilities</b>				
Trade and other payables	1,154,761	-	-	1,154,761
Current portion of long-term borrowings	155,790	-	-	155,790
Current portion of deferred consideration	266,999	-	-	266,999
	<u>1,577,550</u>	<u>-</u>	<u>-</u>	<u>1,577,550</u>
<b>Non-current liabilities</b>				
Long-term borrowings	213,000	-	-	213,000
Long-term deferred consideration	1,769,941	-	-	1,769,941
	<u>1,982,941</u>	<u>-</u>	<u>-</u>	<u>1,982,941</u>
<b>Total liabilities</b>	<u><b>3,560,491</b></u>	<u><b>-</b></u>	<u><b>-</b></u>	<u><b>3,560,491</b></u>
<b>Net assets / liabilities</b>	<u><b>9,367,161</b></u>	<u><b>212,772</b></u>	<u><b>29,934</b></u>	<u><b>9,609,867</b></u>
<b>EQUITY AND LIABILITIES</b>				
<b>Equity attributable to equity holders of the parent</b>				
Share capital	1,902,269	-	-	1,902,269
Share premium	19,387,544	-	-	19,387,544
Other reserves	326,632	-	-	326,632
Profit and loss account - deficit	(12,249,284)	212,772	29,934	(12,006,578)
<b>Total equity</b>	<u><b>9,367,161</b></u>	<u><b>212,772</b></u>	<u><b>29,934</b></u>	<u><b>9,609,867</b></u>

Investment in shares of subsidiaries of £2 in the parent company financial statements of TEG Group Plc as at 1 January 2006 has been eliminated for the preparation of the consolidated financial statements.

## Reconciliation of loss

for the six months ended 30 June 2006

	UK GAAP 2006 £	Goodwill IFRS 3 £	IFRS 2006 £
<b>Revenue</b>	1,070,750	-	1,070,750
Cost of sales	(838,496)	-	(838,496)
<b>Gross profit</b>	<u>232,254</u>	<u>-</u>	<u>232,254</u>
Other expenses	(934,088)	106,386	(827,702)
<b>Operating result</b>	<u>(701,834)</u>	<u>106,386</u>	<u>(595,448)</u>
Finance costs	(57,409)	-	(57,409)
Finance income	50,509	-	50,509
<b>Loss before tax</b>	<u>(708,734)</u>	<u>106,386</u>	<u>(602,348)</u>
Income tax	-	-	-
<b>Loss for the period</b>	<u>(708,734)</u>	<u>106,386</u>	<u>(602,348)</u>
<b>Attributable to:</b>			
Equity holders of the parent	<u>(708,734)</u>	<u>106,386</u>	<u>(602,348)</u>
<b>Retained loss</b>	<u>(708,734)</u>	<u>106,386</u>	<u>(602,348)</u>
<b>Loss per share</b>			
Basic and diluted loss per share (pence)	<u>(2.450)</u>	<u>0.368</u>	<u>(2.082)</u>

# Reconciliation of equity

at 30 June 2006

	UK GAAP 2006 £	Goodwill IFRS 3 £	IFRS 2006 £
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	4,915,181	-	4,915,181
Goodwill	2,163,198	106,386	2,269,584
	<u>7,078,379</u>	<u>106,386</u>	<u>7,184,765</u>
<b>Current assets</b>			
Inventories	355,833	-	355,833
Trade and other receivables	394,549	-	394,549
Taxation receivable	63,573	-	63,573
Cash and cash equivalents	5,467,677	-	5,467,677
	<u>6,281,632</u>	<u>-</u>	<u>6,281,632</u>
<b>Total assets</b>	<u><b>13,360,011</b></u>	<u><b>106,386</b></u>	<u><b>13,466,397</b></u>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Trade and other payables	770,412	-	770,412
Current portion of long-term borrowings	161,547	-	161,547
Current portion of deferred consideration	266,999	-	266,999
	<u>1,198,958</u>	<u>-</u>	<u>1,198,958</u>
<b>Non-current liabilities</b>			
Long-term borrowings	288,976	-	288,976
Long-term deferred consideration	1,866,901	-	1,866,901
	<u>2,155,877</u>	<u>-</u>	<u>2,155,877</u>
<b>Total liabilities</b>	<u><b>3,354,835</b></u>	<u><b>-</b></u>	<u><b>3,354,835</b></u>
<b>Net assets / liabilities</b>	<u><b>10,005,176</b></u>	<u><b>106,386</b></u>	<u><b>10,111,562</b></u>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity attributable to equity holders of the parent</b>			
Share capital	1,894,269	-	1,894,269
Share premium	19,339,544	-	19,339,544
Other reserves	229,728	-	229,728
Profit and loss account - deficit	(11,458,365)	106,386	(11,351,979)
<b>Total equity</b>	<u><b>10,005,176</b></u>	<u><b>106,386</b></u>	<u><b>10,111,562</b></u>

Investment in shares of subsidiaries of £2 in the parent company financial statements of TEG Group Plc as at 1 January 2006 has been eliminated for the preparation of the consolidated financial statements.

# Independent Review Report to TEG GROUP PLC

## Introduction

We have been instructed by the company to review the financial information for the six months ended 30 June 2007 which comprises the consolidated condensed income statement, the consolidated condensed balance sheet, consolidated condensed statement of changes in equity, the consolidated condensed cash flow statement and the related notes 1 to 6. We have read the other information contained in the interim report which comprises only the chairman's statement and considered whether it contains any apparent misstatements or material inconsistencies with the financial information.

This report is made solely to the company in accordance with guidance contained in APB Bulletin 1999/4 "Review of Interim Financial Information". Our review work has been undertaken so that we might state to the company those matters we are required to state to them in a review 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, for our review work, for this report, or for the conclusion we have formed.

## Directors' responsibilities

The interim report including the financial information contained therein is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the interim report. As disclosed in note 1, the next annual financial statements of the Group will be prepared in accordance with International Financial Reporting Standards as adopted by the European Union. The accounting policies are consistent with those that the directors intend to use in the next annual financial statements.

## Review work performed

We conducted our review in accordance with guidance contained in Bulletin 1999/4 "Review of Interim Financial Information" issued by the Auditing Practices Board for use in the United Kingdom. A review consists principally of making enquiries of management and applying analytical procedures to the financial information and underlying financial data and, based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit performed in accordance with International Standards on Auditing (UK and Ireland) and therefore provides a lower level of assurance than an audit. Accordingly, we do not express an audit opinion on the financial information.

## Review conclusion

On the basis of our review we are not aware of any material modifications that should be made to the financial information as presented for the six months ended 30 June 2007.

GRANT THORNTON UK LLP  
CHARTERED ACCOUNTANTS  
Manchester  
24 September 2007

The maintenance and integrity of the TEG Group plc website is the responsibility of the directors: the interim review does not involve consideration of these matters and, accordingly, the company's reporting accountants accept no responsibility for any changes that may have occurred to the interim report since it was initially presented on the website. Legislation in the United Kingdom governing the preparation and dissemination of the interim report differ from legislation in other jurisdictions.





TEG Group Plc, Houston House, 12 Sceptre Court, Sceptre Point, Preston PR5 6AW

Tel: 01772 314100 Fax: 01772 314114

Email: [enquiries@theteggroup.plc.uk](mailto:enquiries@theteggroup.plc.uk)

[www.theteggroup.plc.uk](http://www.theteggroup.plc.uk)