

TEG GROUP PLC  
Interim Report  
For the six months ended 30 June 2008

Company number 3109613

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# Chairman's statement

I am delighted to present the Group's 2008 interim report for the half year ended 30 June 2008. The first half of 2008 has proved to be the defining period of development that the Board had expected and TEG has delivered a significant step change in revenues and performance.

Turnover for the interim period was £6,592,000 (2007 interim: £536,000) and losses were reduced to £535,000 (2007 interim: £1,426,000 loss), after share based administration expenses. No dividend is recommended.

The Group recorded a gross profit of £1,144,000 (2007 interim: £173,000 loss) and furthermore, the Group invoiced an additional £989,000 in the period that could not be recognised in turnover in compliance with accountancy standards for revenue recognition.

## **Greater Manchester Waste PFI Contract**

As announced on the 9 January and 30 April 2008, TEG received two Advanced Works Orders ("AWOs") for the contract, to commence works at Rochdale and Bredbury, the first two of the four projected TEG plants. Design work has advanced significantly on both projects and construction commenced at Rochdale in June 2008. Further significant progress has been made towards the conclusion of the main contracts and the Board anticipates that financial close for the whole project will be reached in the near future.

The scope of the project remains largely unchanged with TEG due to construct four plants between 2008 and 2011 to process 175,000 tonnes of waste per annum. The plants to be constructed by TEG are progressively scheduled for construction between the third quarter of 2008 and the first quarter of 2011.

It is anticipated that revenues will be in excess of £37m over the period of the contract, including the revenues from the AWOs, which will become a part of the main contract on completion.

## **Verdia Horticulture Limited**

Verdia Horticulture Limited ("Verdia"), a joint venture between TEG and Glendale Managed Services Limited, was formed in 2007 to focus on the horticulture market, manufacturing high grade compost and fertiliser products to be sold into the horticulture sector.

Construction of the first plant to be developed by Verdia at Hillbarton, a Glendale site near Exeter, commenced in March 2008. This 14,000 tonnes per annum facility is expected to be completed in October 2008 and will be commissioned in Quarter 4 2008.

## **Plant Sales and Construction**

The construction of TEG's sixth facility, for Gwynedd Council, was completed on schedule in April 2008. The Gwynedd Council plant is a 5,000 tonnes per annum facility and TEG's scope of work included the building and surrounding infrastructure in addition to the TEG Silo Cage plant and equipment. The total value of the contract is approximately £1.45m.

Expansion of the Todmorden facility has commenced as planned to accommodate increased sales volumes. It is expected that the further 12,000 tonnes per annum of capacity will be installed by the end of Quarter 3 of this year, bringing the total capacity to approximately 37,000 tonnes per annum.

## **Group Plant Operations**

Plant operations have generally been good in the first half of the year with no significant plant outages.

Sales in Perth were 16% higher than in the same period in 2007 and new customers have been introduced to the existing customer base of the plant. While competition from new capacity is increasing in Scotland, the market continues to grow. The Board believes that the plant was the first to achieve the higher PPC standard of licensing introduced in Scotland and the standard presents a significant barrier to entry into the market.

Sales at Sherdley Farm in Preston have increased by 98% on the same period in 2007. Customers now include two Local Authorities in addition to Veolia, Greater Manchester Waste Limited, Heinz and Schwan.

Todmorden has completed its first full year of trading and contracted waste volume now exceeds current capacity, hence the installation of additional capacity in Quarter 3. Whilst direct comparison in the first half of 2007 is not possible, waste sales in the first half of 2008 increased by 45% compared to the last six months of 2007.

### **R&D contracts**

The R&D work undertaken for Shell in conjunction with the University of Westminster was successful and while the Board still remains cautious in its expectations as the research is still at an early stage, it is anticipated that further pilot scale work will be undertaken at Perth.

### **Natural Organic Fertiliser Company (“NOFCO”)**

NOFCO has continued to make excellent progress in the development of end markets for TEG’s compost product. The first sales of product have been achieved at Perth where revenues exceed distribution costs and it is anticipated that such sales revenues will improve further in the second half of 2008.

The prestigious PAS100 Quality Protocol accreditation standard for TEG compost has been achieved at Perth and Todmorden and it is anticipated that this will further enhance the reputation and value of TEG products.

### **Market Update**

The market continues to grow strongly as both Landfill Allowance Trading Scheme (“LATS”) targets and Landfill Tax (“LFT”) make an impact on the Local Authority and private sector markets.

As previously announced, the increased rise in Landfill Tax was implemented in April 2008. LFT rose by £8 per tonne of waste landfilled which, together with annual cost increases by operators, resulted in price increases of £9-10 per tonne. This rise in LFT will also be imposed in 2009 and 2010 bringing the tax to a total of £48 per tonne by 2010, an increase of 100% over the 3 year period. TEG has observed an increase in market activity and recycling which it attributes to the increases in LFT.

### **Future Prospects**

The first half of 2008 has seen a significant step change in the revenues for the business with a 10 fold increase in revenues on the same period in 2007. Construction of the Manchester plants is underway and financial close is expected in the near future. Growth can be expected through Verdia where the first plant is already nearing completion and the performance of TEG’s own facilities is better than ever before with continuous growth in sales. As previously announced, the Group’s pipeline of opportunities remains pleasingly strong and it is actively bidding for a sizeable number of significant contracts in addition to a large number of smaller waste sales opportunities.

A number of potentially exciting business development opportunities are also being assessed by the Board including the potential to develop in related energy sectors. The organic waste market continues to strengthen and is projected to do so for the foreseeable future. The Board maintains its belief that the Group has an exciting future with a strong outlook for trading in the remainder of 2008 and beyond.



**Nigel Moore**  
**Chairman**

15 September 2008

# Consolidated condensed income statement

For the six months ended 30 June 2008

	Note	6 months ended 30 June 2008 Unaudited £'000	6 months ended 30 June 2007 Unaudited £'000	Year ended 31 December 2007 Audited £'000
<b>Revenue</b>	2	<b>6,592</b>	536	2,169
Cost of sales		<b>(5,448)</b>	(709)	(2,405)
<b>Gross profit/(loss)</b>		<b>1,144</b>	(173)	(236)
Other expenses		<b>(1,771)</b>	(1,321)	(3,118)
<b>Operating loss</b>	2	<b>(627)</b>	(1,494)	(3,354)
Finance income		<b>217</b>	144	436
Finance costs		<b>(125)</b>	(76)	(202)
<b>Loss before tax</b>		<b>(535)</b>	(1,426)	(3,120)
Income tax		-	-	86
<b>Loss for the period</b>		<b>(535)</b>	(1,426)	(3,034)
<b>Attributable to:</b>				
Equity holders of the parent		<b>(535)</b>	(1,426)	(3,034)
<b>Retained loss</b>		<b>(535)</b>	(1,426)	(3,034)
<b>Loss per share</b>				
Basic and diluted loss per share (pence)	4	<b>(1.108)</b>	(3.405)	(6.725)

# Consolidated condensed balance sheet

As at 30 June 2008

	Note	30 June 2008 Unaudited £'000	30 June 2007 Unaudited £'000	31 December 2007 Audited £'000
<b>ASSETS</b>				
<b>Non-current assets</b>				
Goodwill		2,270	2,270	2,270
Interest in joint venture		-	-	-
Property, plant and equipment		10,526	9,647	9,839
Trade and other receivables		90	-	-
		<u>12,886</u>	<u>11,917</u>	<u>12,109</u>
<b>Current assets</b>				
Inventories		240	222	234
Trade and other receivables		5,817	773	1,106
Taxation receivable		86	61	86
Cash and cash equivalents		6,308	8,989	8,916
		<u>12,451</u>	<u>10,045</u>	<u>10,342</u>
<b>Total assets</b>		<u><u>25,337</u></u>	<u><u>21,962</u></u>	<u><u>22,451</u></u>
<b>LIABILITIES</b>				
<b>Current liabilities</b>				
Trade and other payables		4,497	973	1,084
Current portion of long-term borrowings		232	147	150
Current portion of deferred consideration		245	260	252
		<u>4,974</u>	<u>1,380</u>	<u>1,486</u>
<b>Non-current liabilities</b>				
Long-term borrowings		2,013	142	2,099
Long-term deferred consideration		1,487	1,677	1,585
		<u>3,500</u>	<u>1,819</u>	<u>3,684</u>
<b>Total liabilities</b>		<u><u>8,474</u></u>	<u><u>3,199</u></u>	<u><u>5,170</u></u>
<b>Net assets</b>		<u><u>16,863</u></u>	<u><u>18,763</u></u>	<u><u>17,281</u></u>
<b>EQUITY</b>				
<b>Equity attributable to equity holders of the parent</b>				
Share capital	3	2,414	2,414	2,414
Share premium		29,357	29,357	29,357
Other reserves		668	425	551
Profit and loss account - deficit		(15,576)	(13,433)	(15,041)
<b>Total equity</b>		<u><u>16,863</u></u>	<u><u>18,763</u></u>	<u><u>17,281</u></u>

# Consolidated condensed statement of changes in equity

For the six months ended 30 June 2008

	Share capital £'000	Share premium £'000	Other reserve £'000	Retained losses £'000	Total £'000
Balance at 1 January 2007	1,902	19,388	327	(12,007)	9,610
Loss for the year	-	-	-	(1,426)	(1,426)
Issue of new ordinary share capital	500	-	-	-	500
Premium on issue of new ordinary share capital	-	10,598	-	-	10,598
Issue costs	-	(629)	-	-	(629)
Recognition of share-based payments	-	-	98	-	98
Issue of ordinary shares under employee share option plan	12	-	-	-	12
<b>Balance at 30 June 2007</b>	<b>2,414</b>	<b>29,357</b>	<b>425</b>	<b>(13,433)</b>	<b>18,763</b>
Loss for the year	-	-	-	(1,608)	(1,608)
Recognition of share-based payments	-	-	126	-	126
<b>Balance at 31 December 2007</b>	<b>2,414</b>	<b>29,357</b>	<b>551</b>	<b>(15,041)</b>	<b>17,281</b>
Loss for the year	-	-	-	(535)	(535)
Recognition of share-based payments	-	-	117	-	117
<b>Balance at 30 June 2008</b>	<b>2,414</b>	<b>29,357</b>	<b>668</b>	<b>(15,576)</b>	<b>16,863</b>

# Consolidated condensed cash flow statement

For the six months ended 30 June 2008

	Note	6 months ended 30 June 2008 Unaudited £'000	6 months ended 30 June 2007 Unaudited £'000	Year ended 31 December 2007 Audited £'000
<b>Cash flows from operating activities</b>				
Loss after taxation		(535)	(1,426)	(3,034)
Adjustments for:				
Depreciation		365	223	579
Share based administrative expense		117	98	224
Taxation credit recognised in profit and loss		-	-	(86)
Interest expense		125	76	202
Investment income		(217)	(144)	(436)
Profit on sale of property, plant and equipment		17	-	10
Increase in trade and other receivables		(4,801)	(125)	(458)
(Increase)/decrease in inventories		(6)	134	122
Increase in trade payables		3,413	278	389
Cash used in operations		(1,522)	(886)	(2,488)
Interest paid		(80)	(26)	(102)
Income taxes received		-	-	61
<b>Net cash used in operating activities</b>		<b>(1,602)</b>	<b>(912)</b>	<b>(2,529)</b>
<b>Cash flows from investing activities</b>				
Acquisition of business - deferred consideration		(150)	(150)	(300)
Purchase of property, plant and equipment		(995)	(2,736)	(3,259)
Proceeds from sale of equipment		-	-	3
Interest received		217	144	436
<b>Net cash used in investing activities</b>		<b>(928)</b>	<b>(2,742)</b>	<b>(3,120)</b>
<b>Cash flows from financing activities</b>				
Proceeds from issue of share capital		-	10,481	10,481
New bank loans raised		-	-	2,000
Repayment of loan		(71)	(71)	(142)
Payment of finance lease liabilities		(7)	(9)	(16)
<b>Net cash from financing activities</b>		<b>(78)</b>	<b>10,401</b>	<b>12,323</b>
<b>Net (decrease)/increase in cash and cash equivalents</b>		<b>(2,608)</b>	<b>6,747</b>	<b>6,674</b>
<b>Cash and cash equivalents at beginning of period</b>		<b>8,916</b>	<b>2,242</b>	<b>2,242</b>
<b>Cash and cash equivalents at end of period</b>		<b>6,308</b>	<b>8,989</b>	<b>8,916</b>

# Notes to the interim report

## 1. Nature of operations and general information

The Group's interim results for the six months ended 30 June 2008 have been prepared in accordance with the recognition and measurement principles of International Financial Reporting Standards (IFRS). The accounting policies adopted are consistent with those adopted in the preparation of the annual financial statements for the year ended 31 December 2007 with the exception of the accounting policy relating to Joint Ventures. The revised accounting policy, which has no impact on prior years, is as follows:

### Joint Venture

A joint venture is a contractual arrangement whereby the Group undertakes an economic activity which is subject to joint control with third parties. The Group's interests in jointly controlled entities are accounted for using the equity method.

Under this method the Group's share of the profit less losses of joint ventures is included in the consolidated income statement and its interest in the net assets is included in non-current assets in the consolidated balance sheet. Where the share of losses in a joint venture exceeds the interest in the entity, the carrying amount is reduced to nil and recognition of further losses is discontinued unless there is a commitment by the Group to make further investment.

The profit recognised on sales to joint ventures, where the asset is retained by the joint venture, is generally restricted to that proportion of the gain that is attributable to the interests of the other venturers. The exception to this being when the elimination of the unrealised profit element would create a liability in relation to the Group's interest in the joint venture. In this situation, the restriction of the unrealised profit element would be limited to the amount which would reduce the Group's interest in the joint venture to nil and any remaining profit arising on the transaction would be recognised.

Following this revision the accounting policies adopted in this interim report represent those to be used in the preparation of the annual financial statements for the year ended 31 December 2008.

The comparative figures are an abridged version of the Group's full financial statements and, together with other financial information contained in this interim report, do not constitute statutory financial statements of the Group within the meaning of section 240 of the Companies Act 1985. Statutory financial statements for the year ended 31 December 2007 have been filed with the Registrar of Companies for England and Wales and have been reported on by the Group's auditors. The report of the auditors was not qualified and did not contain a statement under section 273(2) or (3) of the Companies Act 1985.

## 2. Business segments

For management purposes, the Group is organised into the following business segments: Build own and operate facilities, Sales to third parties, Product management and Other revenue.

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

	6 months ended 30 June 2008		6 months ended 30 June 2007		Year ended 31 December 2007	
	Revenue £'000	Operating (loss) / profit £'000	Revenue £'000	Operating (loss) / profit £'000	Revenue £'000	Operating (loss) / profit £'000
Build, own, operate	917	(514)	515	(328)	1,257	(963)
Sale to third parties	5,648	1,017	-	(91)	882	(22)
Product management	27	(264)	3	(107)	12	(260)
Other	-	-	18	9	18	6
	<b>6,592</b>	<b>239</b>	<b>536</b>	<b>(517)</b>	<b>2,169</b>	<b>(1,239)</b>
Unallocated corporate expenses		<b>(866)</b>		<b>(977)</b>		<b>(2,115)</b>
Operating loss		<b>(627)</b>		<b>(1,494)</b>		<b>(3,354)</b>

Unallocated corporate expenses include future business development costs of £213,000 for the 6 months to 30 June 2008, £52,000 for the 6 months to June 2007 and £568,000 for the 12 months to December 2007.

### 3. Share Capital

Share capital for the period under review may be summarised as follows:

#### 6 months to 30 June 2008

	<b>Number</b>	<b>£'000</b>
At 1 January 2008	48,288,381	2,414
Issue of shares	-	-
At 30 June 2008	<u>48,288,381</u>	<u>2,414</u>

#### 6 months to 30 June 2007

	<b>Number</b>	<b>£'000</b>
At 1 January 2007	38,045,381	1,902
Issue of shares	10,243,000	512
At 30 June 2007	<u>48,288,381</u>	<u>2,414</u>

#### Year to 31 December 2007

	<b>Number</b>	<b>£'000</b>
At 1 January 2007	38,045,381	1,902
Issue of shares	10,243,000	512
At 31 December 2007	<u>48,288,381</u>	<u>2,414</u>

### 4. Loss per share

The loss per share is calculated by reference to the loss attributable to ordinary shareholders divided by the weighted average of 48,288,381 ordinary shares for the 6 months to 30 June 2008, 41,882,939 ordinary shares for the 6 months to 30 June 2007, and 45,111,984 for the 12 months to 31 December 2007.

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

# Independent review report to TEG Group PLC

## Introduction

We have been engaged by the company to review the financial information in the half-yearly financial report for the six months ended 30 June 2008 which comprises the consolidated condensed income statement, the consolidated condensed balance sheet, the consolidated condensed statement of changes in equity, the consolidated condensed cash flow statement and notes 1 to 4. We have read the other information contained in the half yearly financial report which comprises only the Chairman's statement and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the company in accordance with guidance contained in ISRE (UK and Ireland) 2410, 'Review of Interim Financial Information performed by the Independent Auditor of the Entity'. 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 half-yearly financial report is the responsibility of, and has been approved by, the directors. The AIM rules of the London Stock Exchange require that the accounting policies and presentation applied to the interim figures are consistent with those which will be adopted in the annual accounts having regard to the accounting standards applicable for such accounts.

## Our responsibility

Our responsibility is to express to the company a conclusion on the financial information in the half-yearly financial report based on our review.

## Scope of review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity' issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

## Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the financial information in the half-yearly financial report for the six months ended 30 June 2008 is not prepared, in all material respects, in accordance with the basis of accounting described in Note 1.

**GRANT THORNTON UK LLP  
CHARTERED ACCOUNTANTS  
MANCHESTER**

**15 September 2008**