



THE TEG GROUP PLC

Financial Statements

For the year ended 31 December 2009



Company number 3109613



Company Information

Company registration number: 3109613



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Contents

Chairman's statement	4-6
Report of the Directors	7-17
Corporate governance	18-22
Directors' remuneration report	23-25
Report of the independent auditors	26-27
Consolidated statement of comprehensive income	28
Consolidated statement of financial position	29
Consolidated statement of changes in equity	30
Consolidated statement of cash flows	31
Notes to the consolidated financial statements	32-59
Company balance sheet	60
Notes to the company financial statements	61-66



Chairman's statement

I am delighted to present the Group's annual report for the year ended 31 December 2009, the most successful trading year in the Group's history.

Trading for 2009 has been good and fully met expectations, and the Group continues to deliver significant growth. Full year revenue for 2009 increased by 21% to £15,394,000 (2008: £12,706,000) and the Group achieved a profit of £243,000 (2008: £1,475,000 loss), after share based payment expenses and a one-off gain of £956,000 relating to negative goodwill arising from the highly successful acquisition in June 2009 of Banham Compost Limited ("BCL"). No dividend is recommended.

The Group maintains a healthy cash position with a closing balance as at 31 December 2009 of £3,770,000.

Greater Manchester Waste PFI Contract

The contract was signed on 8 April 2009. TEG's contract with Costain is for the construction of 4 in-vessel composting ("IVC") plants with a combined capacity of 175,000 tonnes per annum and the value of the contract is in excess of £38 million over the period to 2011.

Construction of the first facility at Waithlands, Rochdale, was completed in June and the plant was handed over in November 2009. Construction of the second plant in Bredbury commenced in August 2009 and is proceeding well. Planning approval has been gained at the two remaining sites in Trafford and Bolton and the instruction to proceed was received for Trafford in December 2009.

Plant Sales

The Group was pleased to announce it has secured the £1.6 million sale of a further TEG Silo Cage plant to Taywell Composting Limited ("Taywell") to be installed at its plant in Matlock, Derbyshire. TEG has been informed by Taywell that it still expects to return to planning committee regarding its Matlock project in early 2010, to determine compliance with Defra guidelines on odour management and the outstanding Section 106 Agreement.

Group Plant Operations

Revenues at Todmorden continued to grow impressively with an increase of 64% on 2008. The additional capacity installed at the end of 2008 has been largely filled and the Group expects a further strong performance in 2010.

Revenues at Perth increased by 36% compared to 2008 and the Company was pleased to announce it has secured a four year contract with Perth & Kinross Council that will underpin revenues until at least the end of 2013.

The Group previously announced that it is seeking to relocate the Sherdley Farm composting plant to a larger facility meeting modern standards. With a 45% increase in revenues on 2008, the demand at Sherdley Farm exceeds capacity and the buildings housing the plant do not meet revised regulatory requirements for a composting facility. The Group intends to run down the composting operation during 2010 and relocate waste supplies to other Group plants until the new facility is constructed. Given the small scale of the facility, the Board does not anticipate this will have a material impact on projections for 2010. The Group is examining a number of longer term options for the Sherdley farm site and will update the market in due course.

The satisfactory overall plant performance was in spite of operational difficulties and waste shortages due to the unusually adverse weather conditions in the latter part of the year.

Natural Organic Fertiliser Company Limited ("NOFCO")

NOFCO has continued to make excellent progress in the development of end markets for TEG's compost product.

The prestigious PAS100 Quality Protocol accreditation standard for TEG compost has been achieved at all four TEG facilities and this has enhanced the value of TEG's products. New markets are developing for PAS100 standard compost and NOFCO has achieved positive sales value for all plants during 2009.

Strategic Activities

As announced on 25 June 2009, the Group completed the acquisition of BCL, following a successful share placing to raise £1.9 million before expenses. As part of the acquisition, the Group acquired the freehold site, buildings and business of the composting operation based at Carleton Rode in Norfolk. The site has a capacity of 28,000 tonnes per annum. Under the terms of the acquisition, TEG was able to acquire the business, including plant and equipment, freehold land and buildings at below-fair value, producing a provisional one-off gain of £956,000, reflected as a negative goodwill credit in the statement of comprehensive income. The accounting treatment of the BCL composting facility as an operating lease has resulted in the interest element of payments being charged to operating profit. This resulted in a charge of £198,000 in 2009 and will result in a charge of approximately £400,000 per annum until the operating lease ends in 2011.

The integration of the Carleton Rode facility has proceeded to plan and pleasingly the operation has exceeded expectation. Subsequent to the acquisition, the planned improvement works were completed to the buildings and air management systems and a new biofilter was installed. Waste supply sales for 2010 have already been completed, all compost products are currently being sold for a positive value and the Board anticipates a strong performance for the remainder of the year. The Board expects the plant to be operating at full capacity from the middle of 2010

In March 2009, TEG announced a collaboration agreement with UTS Biogastechnik GmbH ("UTS"). UTS is a Munich based market leader in Anaerobic Digestion ("AD") technology with an impressive track record of facilities throughout Europe. The ability to offer both IVC and AD components on tenders greatly enhances TEG's attractiveness as a bidder to potential customers. A number of Local Authorities are now procuring AD capacity in addition to the now well established TEG Silo Cage technology.

Further to the collaboration with UTS, TEG announced in December 2009 a collaboration agreement with Alkane Energy PLC ("Alkane"). The partnership brought together TEG's experience in the waste sector and its proven ability to secure projects and operate waste treatment facilities, with Alkane's knowledge and experience of the energy sector and its ability to secure electricity prices, Renewable Obligation Certificates ("ROCS") and Feed in Tariffs ("FITs"), and heat sales. The partnership enhances the Group's ability to successfully bid for Local Authority and other large AD based contracts.

Finally, in October 2009 the Group sold its interest in Verdia Horticulture Limited to its former joint venture partner, Glendale Grounds Management Limited, generating a profit on sale of £135,000 after disposal costs.

Market Update

The market continues to grow strongly as Local Authorities increasingly implement the separation of organic wastes from the municipal waste stream. Statutory obligations to divert waste from landfill are increasing annually and are expected to increase continuously until 2020. Landfill Tax (LFT) continues to rise annually; landfill tax rose by £8 per tonne in April 2009 and is expected to rise by a further £8 per tonne in April 2010, increasing the tax to a total of £48 per tonne.



Market Update (continued)



The Group has observed increased levels of Local Authority procurement activity and anticipates the elevated levels of activity to be maintained for the foreseeable future. The Group has also noted a significant change in procurement policy by Local Authorities with more emphasis on the letting of long term contracts in return for private sector investment as opposed to direct plant procurement.



The general market conditions continue to look very favourable for both the In Vessel Composting ("IVC") and Anaerobic Digestion ("AD") prospects. As I have previously commented, the Group has noted a significant increase in market interest in energy generation from food waste and an emergence of interest in technologies such as anaerobic digestion (AD).

Government policy continues to support the expansion of the organic waste market. In addition to the established LFT and the landfill diversion obligations, the Group has noted significant encouragement towards diversion of organic materials from landfill and has noted a consultation process has commenced with regard to a potential total ban of the disposal of organic materials to landfill. TEG anticipates Government policy will continue to support the expansion of the market for the foreseeable future.

The Environment Agency is expected to announce an enhanced level of regulation for the composting sector. This enhanced level of regulation will limit the extent of open composting and is likely to oblige operators to enhance the level of containment of some of the older existing operations, and the Board also considers it likely that the regulatory pressure will lead to future composting facilities being increasingly "in vessel" further utilising technology such as the TEG Silo Cages.

Future Prospects

TEG has a strong pipeline of projects and anticipates that a number of these will move into construction in 2010. The Group has already announced its proposed development with Anagest at Stormy Down, Bridgend and the Group is evaluating a number of opportunities to further expand its range of operations in 2010.

The need for diversion of organic waste from landfill is ever increasing and is supported by both EU and UK legislation, driving the continuous expansion of the market. In addition, TEG is one of the few technology companies able to supply plants that fully meet the latest Defra guidance on environmental control. The Company is very well placed to continue to take advantage of that expanding market with its Silo Cage in vessel composting technology and its collaborations in the AD sector with UTS and Alkane.

The Board is confident that the Group has an exciting future with a strong outlook for trading in the remainder of 2010 and beyond.

Nigel Moore

Chairman

17 March 2010

Report of the Directors

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 or for other purposes. Forward-looking statements have been made up to the date of this report and such forward-looking statements should be regarded with caution because of the inherent uncertainties in economic trends and business risks.

The Directors present their report together with the audited financial statements for the year ended 31 December 2009.

Nature of operations and general information

The principal activities of The TEG Group Plc and its subsidiaries ('the Group') 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.

The TEG Group Plc is the Group's ultimate parent company. It is incorporated and domiciled in Great Britain. The address of The TEG Group Plc's registered office, which is also its principal place of business, is Westmarch House, 42 Eaton Avenue, Buckshaw Village, Chorley, PR7 7NA. The TEG Group Plc's shares are listed on the Alternative Investment Market of the London Stock Exchange.

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

Results and dividends

The results for the year and the Group's financial position at the end of the year are shown in the attached financial statements. The Directors do not recommend the payment of a dividend leaving the profit of £243,000 (2008: loss of £1,475,000) to be transferred to reserves.

Revenue

Revenue has grown by 21% during the year. Plant sales to third party clients increased by 14% to £11,949,000, whilst revenue in the build own and operate segment increased by 52% to £3,206,000. Revenue from product management increased by 95% to £111,000.

Margins

The increasing maturity in our contract base helps drive margins upwards. We continue to invest in people and systems to improve our future business whilst ensuring that our cost base is efficient and fit for the anticipated growth of our business.

Future development

An indication of future developments is contained in the Chairman's statement on pages 4 to 6.



Business review



Marketplace

The market continues to grow as Local Authorities increasingly implement the separation of organic wastes from the municipal waste stream. Statutory obligations to divert waste from landfill are increasing annually and are expected to increase continuously until 2020. Landfill Tax (LFT) continues to rise annually; landfill tax rose by £8.00 per tonne in April 2009 and is expected to rise by a further £8.00 per tonne in April 2010, increasing the tax to a total of £48.00 per tonne. TEG has continued to observe an increase in market activity in recycling which it attributes to the increases in LFT and the increasing landfill diversion targets.

TEG has observed increased levels of Local Authority procurement activity and anticipates the elevated levels of procurement activity to be maintained for the foreseeable future. TEG has noted a significant change in procurement policy by Local Authorities with more emphasis on the letting of long term contracts in return for private sector investment as opposed to direct plant procurement.

In 2009 TEG has noticed a significant increase in market interest in energy generation from food waste and an emergence of interest in technologies such as anaerobic digestion (AD). TEG has responded to a number of tender enquiries for AD capacity in addition to a continuing interest in IVC technology. Government incentives for AD and other renewable energy technologies are largely by subsidy for sales of power in the form of either renewable obligation certificates (ROCs) or feed in tariffs (FITs). The level of subsidy available through ROCs and FITs has now been determined by Government and it is TEG's opinion that the levels set are likely to promote a stable waste market whilst still encouraging the use of renewable energy.

Government policy continues to support the expansion of the organic waste market. In addition to the established LFT and the landfill diversion obligations, TEG has noted significant encouragement towards diversion of organic materials from landfill and has noted a consultation process has commenced with regard to a potential total ban of organic materials from landfill. TEG anticipates Government policy will continue to support the expansion of the market for the foreseeable future.

Strategy and objectives

TEG's principal strategy remains to grow the business by a combination of:

- Build Own and Operate projects (BOO's) which provide sustainable long term revenue and allow TEG to take advantage of rising prices; and
- Plant sales which provide large revenues and cater for markets which prefer to run their own operations.

Considering the purchasing patterns in its market place, the Board believes this strategy is the most suitable for the UK market.

TEG continues to develop its Anaerobic Digestion ("AD") partnership with UTS. The ability to offer both IVC and AD components on tenders greatly enhances TEG's attractiveness as a bidder to potential customers and offers both defence and opportunities for growth.

We appreciate the importance of delivering organic growth, and also maintain a policy of selectively pursuing complementary, value-enhancing acquisitions.

During the year we successfully acquired, integrated and renamed BCL, the operator of a 28,000 tonnes per annum composting facility based in Norfolk. We have been pleased by the success of the integration process and the acquisition represents a significant step forward in the expansion of TEG's waste management operations in the UK. BCL was renamed TEG Energy Limited on 25 June 2009.

Risk management

We operate a robust risk management regime addressing all aspects of the business including bidding, project mobilisation, project implementation, operations and final account. This regime ensures that risks are visible at every stage and risk management processes can be effectively implemented to maintain compliance and business efficiency and to maximise margins.

Commercial risk

Commercial risk is identified and reported to the Plc Board and its management is delegated to the subsidiary Boards.

The Group monitors market activity through commercially available systems including trade press monitoring and tender monitoring systems. Market information is electronically circulated amongst key managers.

The Group 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 a Business Development Manager and the Commercial Director.

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 Group's engineering supply chain. 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 process.

As TEG is exposed to changes in relationships with both customers and suppliers, it is a key task for the operational management to maintain and develop relationships with these customers and suppliers and where possible TEG maintains at least two suppliers for key equipment.

Competitor risk

TEG monitors competitor activity through trade press, trade exhibitions and customer feedback. Trade press specialist services are employed to ensure competitor activity is comprehensively monitored. The company uses ACT to record and distribute information.

Environment risk

TEG has an Environmental Policy which is communicated clearly to all employees. Effective management systems are in place which are independently reviewed and updated and environmental impact is monitored and reported to the Board. Risk assessment processes are in place to assess potential environmental impact of operations, changes in legislation and guidance are monitored and dialogue is maintained with regulators.

Management responsibility is clearly identified at all levels in the business and environmental performance is measured against clear objectives.

Operations and facilities are designed to at least meet the environmental standards in place at the time and future standards are anticipated where possible. Changes in legislation and guidance are implemented as soon as reasonably practicable.



Product defect risks

TEG manages product defect risk through:

- Clearly defined warranty conditions in contracts
- Professional indemnity insurance
- Product liability insurance



Key performance indicators (KPIs)

TEG monitors KPIs in relation to all its capital projects and operational activities, and performance is reported to the subsidiary Board and the Plc Board on a monthly basis.

In addition, the operations team utilises a balanced scorecard system for routine measurement of key operational statistics. These include cost control, process optimisation, compliance and HR management.

Financial and Performance Trends

The business monitors revenue and EBITDA trends for each individual plant and overall on a monthly basis. Trends showing rolling means and progressive means are monitored by both the subsidiary Board and the Plc Board.

The following individual KPIs are utilised routinely throughout the business:

Plant operations

- Plant utilisation - Plant utilisation is defined as the percentage of actual tonnage throughput against the notional tonnage throughput. This is a measure used routinely at operator level
- Waste mix ratio - Waste mix ratio is defined as the ratio of animal by products tonnage against total tonnage
- Optimisation of loading and offloading regime
- Average gate fee per tonne
- Average cost per tonne

Capital projects

- Average sales price
- Prices by detailed individual component
- Installation programme versus key milestones
- Project cost versus budget
- Post project review process led by the Engineering Director

The business uses project tracking processes to monitor and report performance against KPIs.

Compliance

- Accidents, incidents and near-misses
- Risk assessment action tracking
- Animal by product ('ABP') compliance
- Environmental compliance

The business employs an independent EHS consultant who reports quarterly to the Board.

Product management

- Cost of distribution of end product
- End product revenue

Summary Key Performance Indicators for the Group

The following is a summary of KPI trends for the Group. These figures are summaries of the detailed KPIs reported internally:

	2009	2008	Notes
Operations			
Gate fee revenue	£3,206,000	£2,108,000	
Average gate fee trend ¹	7%	2%	Excludes Carleton Rode
Sherdley	7%	12%	
Perth	-3%	-6%	Includes low value compost additives
Todmorden	17%	21%	
Carleton Rode	Not available	Not available	Measured from July 2009
Average cost of sale trend ²	16%	-17%	Excludes Carleton Rode
Sherdley	-6%	-3%	
Perth	28%	-21%	
Todmorden	14%	-18%	
Carleton Rode	Not available	Not available	Measured from July 2009
Capital sales			
Average sales price ³	£6,866,000	£6,197,000	Average of sales value of TEG Silo Cage plants secured during year
Average cost of sales ⁴	70%	81%	Cost of sales of TEG Silo Cage plants
Compliance			
Total accidents ⁵	41	29	
Reportable accidents ⁶	3	1	Accidents reportable to the HSE
OPA performance ⁷	Not available	Satisfactory	Perth plant only. Assessment not carried out at time of announcement
Product management			
Average price ⁸	£1.71	£1.05	

- The increase or decrease in average revenue per tonne received as gate fee payable to TEG for waste streams delivered to each facility. The Perth gate fee includes materials used as compost additives which increase the overall revenue but reduce the average gate fee to the facility.
- The increase or decrease in the cost of sales per tonne of waste processed. The overall increase relates to increases in rates and scheduled refurbishments.
- The average overall value of capital plant sales secured during the year.
- The weighted average cost of sale of capital sales projects.
- Total accidents recorded across the Group operations.
- Accidents or incidents requiring notification to the Health and Safety Executive under the requirements of the Health and Safety at work Act.
- The Operator Performance Assessment (OPA) is an annual assessment carried out by SEPA for sites regulated under the Pollution Prevention and Control (PPC) regime to assess the overall operational performance of the sites against the requirement of the PPC permit.
- The overall average selling price per tonne of compost across the Group's operations.



Treasury risk management



Surplus funds are intended to support short term working capital requirements and to place bonds necessary for plant build projects. These funds are invested through the use of short term, medium 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 Group 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 as the business grows.

Interest rate risk

Interest rate risk arises from:

- The fixed element of finance leases where the Group 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;
- The term loan facility which bears a floating interest rate; and
- Cash and short term deposits which bear floating interest rates

Other bank loans are subject to fixed interest rates.

Credit risk

The principal credit risk relates to recovery of amounts due under contracts. The risk is mitigated by regular application for and certification of works completed under contract arrangements.

Liquidity risk

The Group 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 placed on deposit to maximise returns to the Group whilst maintaining flexibility to meet day-to-day working capital requirements.

Foreign currency risk

The Group does not have any foreign currency denominated trade receivables or payables and therefore is not subject to foreign exchange risk.

Borrowing facilities

In 2006, a bank loan of £426,000 was secured against plant and equipment. This loan was fully paid as at 31 December 2009 (2008: outstanding balance of £71,000).

In addition, a further facility of £2,000,000 was secured to help fund the acquisition of the property and the development costs of the Todmorden project. At 31 December 2009, £2,000,000 (2008: £2,000,000) was drawn down as a term loan. This loan is repayable over 180 equal annual instalments commencing in January 2009. The floating interest rate on the term loan is 1.75% above the Bank of Scotland Plc base rate. The outstanding balance at 31 December 2009 was £1,856,000 (2008: £2,000,000).

Government legislation

TEG operates in a commercial environment encompassing environmental, legal, health and safety, employment and tax matters. TEG is committed to complying with all of its legal requirements and the clear delegation of responsibility to operating management together with the employment of competent advisers supports this requirement. Changes to legislation are considered carefully and appropriate actions taken to ensure they are incorporated into our business policies and procedures.

Corporate responsibility

Our business impacts on the lives of everyone in the community. We therefore see it as our corporate responsibility to deliver social and environmental sustainability alongside our financial goals.

At TEG, corporate responsibility is much more than a set of policies. It is delivered on the ground, every day through our operational teams working in partnership with our customers, our supply chain and our local communities.

As a sustainable business, our commitment is to establish the optimum balance of economic, environmental and social aspects. We aim to help create a healthy environment and society through the management of our business.

This commitment affects all areas of our business – our people, our customers, our performance, our supply chain, our investors, our health and safety and our environment. Our success has come from changing and influencing the behaviours of our stakeholders so that good social and environmental practice becomes a habit, delivering sustainability together, throughout our operations.

We focus on developing long term relationships with key customers with whom we can develop innovative solutions. We set high standards for ourselves, but additionally seek to develop an understanding of our customers' corporate responsibility and sustainability business drivers and provide leadership, added value and support.

As a recycling business, the environmental impact of our work is of increasing concern to our customers and their customers – the public. Stakeholder expectations have changed and it is no longer sufficient to deliver economic value alone – we need to deliver social and environmental value too and are mindful of how our actions impact both present and future generations.

We ensure active relationships with local communities. We ensure there is clear communication with neighbours, we hold plant visits and we host community relation groups.

TEG is regulated by the Environment Agency, Animal Health Department, Health and Safety Executive and Local Authorities. Good relationships with regulators are key to an environmental business and we ensure proactive relations with regulators in all these fields. In addition to routine communication, TEG hosts educational visits and sets itself as the benchmark organisation in its sector.

People

The commitment, drive and enthusiasm of all TEG's employees are its greatest asset and TEG's ability to meet the demands of customers, suppliers and shareholders is dependent upon their efforts. TEG is committed to providing employees with a professional working environment where hard work and commitment is encouraged and rewarded accordingly. We aim to create an environment where our people can flourish.



People (continued)



TEG is dedicated to providing high quality service to its customers and therefore needs to have the most skilled and experienced staff available within the industry. Training, coaching and the opportunity for personnel career advancement within the Group are important features of how TEG seeks to recruit, retain and develop staff. TEG has continued to invest more resources in developing and training its employees, and has further strengthened the sales and project delivery team to capitalise on opportunities.



TEG incentivises staff through paying market-based salaries, bonuses for individual and Group achievement and share options for key staff members. TEG operates a loyalty based share option scheme.

Employment policy

The Group's policy is to provide equal opportunities to all existing employees and prospective employees. TEG recognises that its reputation is dependent on the quality, effectiveness and skill base of its employees and is committed to the fair and equitable treatment of all its employees and specifically to prohibit discrimination on the grounds of race, religion, sex, nationality or ethnic origin.

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 Group could continue.

The Group 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 Group.

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

TEG recognises the importance of good communications with employees and acknowledges that there should be clear channels of communication and dialogue on issues, which affect both business performance and employee's work lives. This is achieved through a variety of media including the Group's intranet, e-mail, meetings and a quarterly newsletter.

The Group operates a childcare voucher scheme whereby UK employees can elect to receive childcare vouchers in lieu of part of their salary in a tax efficient manner.

The Group operates a defined contribution pension scheme which is open to all employees. The Finance Director has responsibility for human resource issues within the Group.

Health and safety

It is Group policy to fulfil its duties under the Health and Safety Act 1974 and all other associated acts and legal obligations applicable to the waste management industry. TEG retains an independent consultant who reports quarterly on health and safety to the Board. In order to achieve the standards required, line management will provide suitable and sufficient resources and properly trained supervision to ensure all work places can carry out their activities in a safe manner.

The Health and Safety management system adapted across the operating business is continuously reviewed and enhanced to ensure it is sufficiently robust to protect the health and safety of all our employees. We monitor the safety of our employees by the number of lost time accidents which is measured by lost time accident frequency rate, which has been 3 for 2009 (2008: 1).

It is the responsibility of the Group's management at all levels to be conversant with the contents of the policy and to plan work such that foreseeable risks are identified and reduced to an acceptable level through the implementation of risk assessments. All employees must take care of the health and safety of themselves and actively participate and co-operate with the Group to enable the Group to discharge its statutory responsibilities and fulfil its desire for continual improvement in all safety and welfare matters.

Major interest in shares

As at 9 March 2010 the Group had been notified of the following interests in 3% or more, of the Group's issued share capital:

	Number of ordinary shares	% of issued ordinary share capital
The Bank of New York (Nominees) Limited	5,082,539	9.58%
Euroclear Nominees Limited	4,777,500	9.00%
Nortrust Nominees Limited TDS Acct	1,715,623	3.23%
Nortrust Nominees Limited IEM01	2,425,800	4.57%
Vidacos Nominees Limited	2,611,506	4.92%

Property, plant and equipment

In the opinion of the Directors, the market value of the freehold land and buildings does not differ materially from the carrying value in the financial statements.

Research and development

The research and development expenditure incurred during the year primarily relates to product development.

Share options

The grant of share options is at the discretion of the Board. All grants are intended to promote a longer term involvement in the well-being of the Group and capital growth benefits for option holders. Options are not routinely granted on an annual basis but made on an individual basis to reflect performance, increased responsibilities, promotions and loyalty.

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 Group wide scheme and options are granted at market value.

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 Group. It is the Group'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:



- Maintenance of effective management systems.
- Assessment and regular re-assessment of the environmental effects of the Group's activities.
- Assessment and regular re-assessment of the Group'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.
- Reduction and/or limitation of the production of pollutants to water, land and air.
- Control of environmental impact from operations.
- Minimisation of the risk to the general public and employees from operations and activities undertaken by the Group.



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

Supplier payment policy

The Group's policy is to adopt "industry typical" payment terms and to clearly agree the terms of payment with suppliers when terms of business are established, by means of a contract or purchase order, and to implement such terms thereafter. Wherever possible, supplier terms for projects are matched with payment terms to TEG.

Key plant and equipment suppliers are normally paid on a milestone basis as parts are manufactured, delivered or installed.

At 31 December 2009, the Group's trade payables represented 90 (2008: 51) days of purchases.

Going concern

At 31 December 2009, the Group's statement of financial position showed net funds of £1,500,000 (2008: £4,560,000). In forming their views, the Directors have prepared cash flow forecasts for a 2 year period following the balance sheet date. As part of the preparation of these forecasts, the Directors have estimated the likely conversion of potential future contracts. Before entering into a contract, the Directors ensure that the Group has sufficient working capital facilities available to allow the completion of the contract. Based on these forecasts, the Directors have confirmed that there are sufficient cash reserves to fund the ongoing build, own and operate business for the period under review. After reviewing these forecasts, consideration of the Group's cash resources and other appropriate enquiries, the Directors have a reasonable expectation that the Company and Group have adequate resources to continue in operational existence for the foreseeable future. For this reason they continue to adopt the going concern basis in preparing the financial statements.

Statement of Directors' responsibilities

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare financial statements for the Group in accordance with International Financial Reporting Standards as adopted by the European Union and financial statements for the parent company in accordance with United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

The financial statements are required by law to give a true and fair view of the state of affairs of the Group as at the end of the financial year and of the profit or loss of the Group 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;
- state whether applicable accounting standards have been followed subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Group and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for the system of internal control, for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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 Group's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

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 489 of the Companies Act 2006.

On behalf of the Board




17 March 2010

T. Willis

Finance Director and Company Secretary



Corporate governance



The Board is committed to maintaining high standards of corporate governance. Whilst the Company is not bound by the provisions of the Combined Code on Corporate Governance, the Board endeavours, so far as practical, to comply with the Code.

The Board

At 31 December 2009, the Board was made up of five members comprising two non-executive Directors, N S J Moore and D W Benjafield, and three executive Directors, M Fishwick, T Willis and A Heyworth. Taking into account the provisions of the 2008 Combined Code, the non-executive Directors are considered by the Board to be independent of management, each other and free of any relationship which could materially interfere with the exercise of their independent judgement.

The Directors believe that the Board continues to include an appropriate balance of skills and, with them, the ability to provide effective leadership for the Group. The Board continues to review the composition of the Board and is aware that as the Company grows there may be the need for additional non-executive and or executive Directors to be appointed.

All the Directors shown served throughout the year. All Directors are subject to election at the first AGM following appointment and then to re-election at the appropriate AGM every three years.

The role of the Board

The Board's principal responsibility is to deliver shareholder value and provide an overall vision and leadership for the Group. It also has an oversight role, monitoring operational plans and ensuring internal controls and risk management are effective. There is a formal schedule of matters reserved for the Board which provides a framework for the Board to oversee the control of the Group's direction and affairs, these include:

- Strategy and management – approval of annual operating and capital expenditure budgets; extension of the Group's activities into new business or geographic areas.
- Structure and capital – changes to the Group's capital structure; major changes to the Group's corporate structure; changes to the Group'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.
- Corporate governance matters.

The Group has an established strategic review process that involves the Directors of both the subsidiary Boards and the Group Board. The business strategy is reviewed regularly throughout the year, the strategy is circulated to all Directors and the overall strategic objectives are communicated to all employees. Whilst the Board is responsible for the overall strategy of the Group, and meets at least once a year to review strategy and the future of the business, the implementation of the strategy is delegated to the Chief Executive.

The Board is assisted in carrying out its duties by the audit and remuneration committees, which have specific and documented responsibilities, described below.

Directors' liability insurance

The Group maintains liability insurance for the Directors and officers of all Group companies. The Directors and officers have also been granted a qualifying third party provision under Section 236 of the Companies Act 2006. Neither the Group's indemnity nor insurance providers cover in the event that a director or officer is proved to have acted fraudulently or dishonestly.

Board procedures

To enable the Board to perform its duties effectively all Directors have full access to all relevant information and the services of the Company Secretary whose responsibility it is for ensuring that Board procedures and applicable rules and regulations are followed.

The Company Secretary, in consultation with the Chief Executive, ensures that the information presented to the Board is not only timely but is of sufficient quality to enable members to make an informed decision. The Board considers the wider implications of their decision by taking the following factors into account:

- The likely consequences of any decision in the long term
- The interest of the company's employees
- The need to foster the company's business relationships with customers, suppliers and others
- The impact of the company's operation on the community and the environment
- The desirability of the company maintaining a reputation for high standards of business conduct
- The need to act fairly between members of the company

The Board met formally 9 times during 2009. The tabled below details attendance by Directors at Board meetings during the year:

	Attendance		Attendance
Executive		Non-executive	
Michael Fishwick	9	Nigel Moore	9
Alan Heyworth	9	Douglas Benjafield	9
Tanja Willis	9		





Audit Committee

The audit committee is chaired by NSJ Moore and its membership comprises both the Non-Executive Directors and two Executive Directors, by invitation.

The committee meets on a bi-annual basis and its terms of reference give the committee responsibility for:

- Monitoring the integrity of the financial statements of the Group, and any formal announcement relating to financial performance;
- Reviewing significant financial reporting judgements and accounting policies;
- Reviewing the effectiveness of the Group's financial reporting and internal control systems;
- Considering, and making recommendations to the Board in relation to appointment, reappointment and removal of the Group's auditors;
- Monitoring the external auditor's independence and effectiveness;
- Considering the requirements of the AIM rules.

The Committee does not consider that an internal audit function is yet required for the Group due to the size of the business.



The audit committee has responsibility for monitoring the independence of the Group's auditors, Grant Thornton UK LLP ('Grant Thornton'). The Group used Grant Thornton for non-audit matters such as tax compliance. In accordance with auditing standards, Grant Thornton has advised the Group in writing that the firm is independent within the meaning of regulatory and professional requirements and that the objectivity of the engagement partner and audit staff is not impaired. Having reviewed that opinion, the Board believes that the continuing provision to the Group of both audit and non-audit services has not compromised the independence of the auditors in relation to their audit of the affairs of the Company and the Group.

Sums payable to Grant Thornton in relation to the 2009 audit of the Company and its subsidiaries was £40,000, and in relation to non-audit services provided in the year were £10,000. An analysis of the non-audit services provided is included in note 6 of the financial statements.

Remuneration Committee

The remuneration committee is chaired by D W Benjafield.

The purpose of the remuneration committee is to establish a formal and transparent procedure for developing policy on executive remuneration and to set remuneration packages for individual Directors. The committee's report on Directors' remuneration may be found on pages 23 to 25.

In addition to the executive and Directors' remuneration, the remuneration committee's terms of reference also extend to the Directors of the subsidiary companies.

Non-executive Directors

The non-executive Directors are appointed by the Board for specific terms. They are subject to periodic reappointment by shareholders and statutory provisions regarding removal.

Both non-executives have significant external commercial experience, and bring expert advice and strong judgement to the Board. The Board believes that the non-executive Directors are independent of management and have no business or other relationships which could materially interfere with the exercise of their independent judgement.

The roles of the Chairman and Chief Executive are separate and clearly defined.

The remuneration of the non-executive Directors is detailed in the Directors' remuneration report, on page 24.

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 Group's position and prospects.

Risk management and internal control

The Board is responsible for the Group's system of internal control and for reviewing its effectiveness. It is the role of management to implement the Board's policies on risk and control through the design and operation of appropriate internal control systems.

For the whole year under review and up to the date of approval of the annual report and accounts, the Board has had formal procedures in place to ensure that it is in a position to consider all aspects of internal control.

The Board continuously reviews the effectiveness of the Group's system of internal control including operational, compliance and risk management procedures, as well as financial. This is part of an ongoing process for identifying, evaluating and managing the significant risks faced by the Group. This process is summarised as follows:

- Operating management is charged with the ongoing responsibility for identifying risks facing each of the operating units and for putting in place procedures to mitigate, manage and monitor risks;
- Operating units formally review all business risks and set out the significant risks to the operations, the controls in place and additional controls, which could be implemented. These proposals are approved by each operating unit's management and submitted to subsidiary board for review and approval. Any significant matters arising from this review are formally reported to the Group Board by the Finance Director to ensure that appropriate initiatives are developed and implemented to manage these risks. The Board is advised in this process by the Audit Committee;

The key elements of the control framework within which the Group operated are:

- An organisational structure with clearly defined lines of responsibility, delegation of authority and reporting requirements;
- An embedded culture of openness of communication between operating divisional management and the group executive management on matters relating to risk and control;
- Defined expenditure authorisation levels;
- Operating reviews covering all aspects of each business segment;
- Comprehensive system of financial reporting. An annual budget for each operating segment is prepared in detail and approved by the Chief Executive. The Group Board approves the overall Group's budget and plans. Monthly actual results are reported against budget and the forecast for the year is revised where necessary. Any significant changes and adverse variances are questioned by the Board and remedial action is taken where appropriate. There is weekly cash and treasury reporting to the Finance Director and periodic reporting to the Board on the Group's treasury position;
- Each operating plant and each project has a defined budget which is clearly communicated to all staff members and is reviewed monthly;
- Operating plants operate a balanced scorecard management process. Monthly reviews assess performance against targets covering operational, financial, compliance and HR matters. Performance is reported to each operational site and to the Board;
- All operations are regularly risk assessed and a compliance action programme is in place to monitor corrective actions and approvals;
- Procedures are in place to ensure compliance of operations against the regulatory requirements in force and this is monitored continuously by the technical team.

The system of internal controls is designed to manage rather than eliminate the risk failing to achieve business objectives and provide only reasonable and not absolute assurance against material misstatements or loss.



The risk outlined above, gives reasonable assurance that the structure of controls in operations is appropriate to the Group's situation and that there is an acceptable level of risk throughout the business.



The Board confirms that there is an ongoing process for identifying, evaluating and managing the significant risks faced by the Group and that this has been in place for the year under review and up to the date of approval of the annual report and accounts.



Relations with shareholders

The Group recognises the importance of communication with its shareholders to ensure that its strategy and performance is understood. This is achieved principally through the Annual Report and the Annual General Meeting. The Group's preliminary and interim results, as well as all announcements issued to the London Stock Exchange are published on the Group's website. In addition, a range of other corporate information is available to investors on the Group's website at www.thetegggroup.plc.uk

The Group responds to all queries and requests for information from existing and prospective shareholders. In addition, the Chief Executive and Finance Director are available to shareholders to ensure that any potential concerns can be raised directly.

The Chief Executive and Finance Director are primarily responsible for direct investor relations. Formal presentations are made to institutional shareholders following the announcement of the Group's annual and interim results. The Board recognises that the Annual General Meeting is the principal forum for dialogue with private shareholders and all shareholders are invited to attend. The Board arranges for a separate presentation at the AGM meetings to further inform private shareholders. All Directors attend the Annual General Meeting and are available to answer any questions that shareholders may wish to raise.

This report has been approved by the Board and has been signed on behalf of the Board by:

T. Willis

Finance Director and Company Secretary

17 March 2010

Directors' remuneration report

Remuneration Committee

The remuneration committee is comprised of the two non-executive Directors and is chaired by D W Benjafield. Executive Directors may also attend meetings as appropriate to the business in hand but are not members of the committee. None of the executive Directors were present at meetings of the committee during consideration of their own remuneration.

Executive Directors' remuneration policy

The committee's role is to set the remuneration policy for the executive Directors, with the aim of attracting, motivating and retaining executive Directors of a high calibre. To this end, the remuneration committee takes external independent advice where it considers it appropriate to do so and monitors salaries in similar roles by means of benchmarking with reports and surveys.

Basic salary

The salary of each director is determined by the committee, taking into account their personal performance and the prevailing rates in the employment market for executives of comparable status, responsibility, skill, and position in other relevant companies. When determining Directors' salaries, the committee is always sensitive to pay and employment conditions throughout the Group.

Bonus scheme

Each of the executive Directors participates in an annual bonus scheme. The payment of any such bonus is dependent upon the extent to which certain financial targets of the Group are met, or exceeded. Payment is also dependent on the extent to which each director achieves, or exceeds, personal objectives in the year. Such targets and objectives are determined by the remuneration committee in relation to each director at the beginning of the financial year. Any such bonus is paid in the financial year following the period during which the targets and objectives have been met.

Share options

An Enterprise Management Incentive Share Option Scheme ('EMI') was established on 27 April 2001, granted under the provisions of Section 62 and Schedule 14 of the Finance Act 2000. All employees of the Company and any of its subsidiaries may be granted options over ordinary shares under the EMI scheme provided that they are not prohibited under the relevant legislation relating to HMRC approved company share option plans from being granted an option by virtue of having a material interest in the Company.

The remuneration committee has absolute discretion to select the persons to whom options are to be granted. Options are not routinely granted on an annual basis but made on an individual basis to reflect performance, increased responsibilities, promotions and loyalty. All grants are intended to promote a longer term involvement in the well-being of the Group and capital growth benefits for option holders. No consideration is payable for the grant of an option.

Each employees participation is limited so that the total outstanding share options shall not exceed 10% of the Company's issued share capital.

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 Group before the options vest. The only performance criteria relating to the options is the continuing employment of the holder.

Retirement benefit plan

The Group operates a defined contribution pension scheme. Each executive director contributes a percentage of their pensionable salary into the scheme and the Company matches such contribution up to a specific cap.

Non-executive Directors' remuneration policy

The non-executive Directors' remuneration is determined by the Board. The level of remuneration reflects the time commitment and responsibilities of the roles.

Service contracts

Details of the Directors' service contracts are set out below:

Directors		Date of agreement	Unexpired term	Notice period by company	Notice period by director
Executive					
Michael Fishwick	- Chief Executive	17.01.2005	N/A	1 year	1 year
Alan Heyworth	- Research Director	12.11.1995	N/A	2 years	6 months
Tanja Willis	- Finance Director and Company Secretary	28.06.2004	N/A	1 year	1 year
Non-executive					
Nigel Moore	- Non-executive Chairman	09.12.2003	12 months	3 months	3 months
Douglas Benjafield	- Non-executive Director	01.05.2006	29 months	3 months	3 months

Directors' emoluments

Directors' emoluments is analysed between the following categories:

	2009 Number	2008 Number
Up to £50,000	2	2
£50,001 - £100,000	2	2
£100,001 - £200,000	1	1

Share Options

Directors held awards over ordinary shares as follows:

	Date of award	Exercise price	Earliest vesting date	Awarded at 1 January 2009	Granted in the year	Vested	Awarded as at 31 December 2009
Directors							
Michael Fishwick	03.03.2005	£ 0.360	04.03.2008	277,778	-	277,778	277,778
	23.08.2005	£ 0.370	24.08.2008	249,930	-	249,930	249,930
	15.08.2006	£ 0.700	16.08.2009	230,000	-	230,000	230,000
	18.07.2007	£ 1.130	19.07.2010	207,640	-	-	207,640
	01.07.2009	£ 0.460	02.07.2012	-	625,803	-	625,803
Alan Heyworth	01.05.2001	£ 1.300	02.05.2004	56,731	-	56,731	56,731
	23.08.2005	£ 0.370	24.08.2008	132,122	-	132,122	132,122
Tanja Willis	03.03.2005	£ 0.380	04.03.2008	131,580	-	131,580	131,581
	23.05.2005	£ 0.370	24.05.2008	132,275	-	132,275	132,275
	18.07.2007	£ 1.130	19.07.2010	120,721	-	-	120,721
	06.05.2008	£ 0.700	07.05.2011	96,577	-	-	96,577
	01.07.2009	£ 0.460	02.07.2012	-	314,423	-	314,423
Douglas Benjafield	15.02.2007	£ 1.215	16.02.2010	76,000	-	-	76,000

Directors' interest in shares

The interest of the Directors (including their spouses' interest) in the shares of the Company at 31 December 2009 were as follows:

Directors	5p ordinary shares at 31 December 2009	5p ordinary shares at 31 December 2008
Beneficial		
Michael Fishwick	41,000	11,000
Alan Heyworth	209,482	209,482
Tanja Willis	21,000	11,000
Nigel Moore	321,547	321,547
Douglas Benjafield	70,000	70,000

The figures stated above are in relation to Directors of the TEG Group Plc and not of its subsidiary companies.

This report has been approved by the Board and has been signed on behalf of the Board by:



D. Benjafield
Chairman of the Remuneration Committee
17 March 2010



Report of the independent auditors to the members of The TEG Group Plc



We have audited the group and parent company financial statements (the "financial statements") of TEG Group plc for the year ended 31 December 2009 which comprise the consolidated statement of financial position and parent company balance sheet, the consolidated statement of comprehensive income, the consolidated statement of cash flows, the consolidated statement of changes in equity and the related notes 1 to 31 on pages 32 to 59 and notes 1 to 14 on pages 61 to 66. The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. 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 auditor's 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

As explained more fully in the statement of Directors' responsibilities set out in the Report of the Directors, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's website at www.frc.org.uk/apb/scope/UKNP.

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2009 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRS as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006

As explained in Note 1 to the group financial statements, the group in addition to complying with its legal obligation to comply with IFRSs as adopted by the European Union, has also complied with IFRSs as issued by the International Accounting Standards Board (IASB).

In our opinion the group financial statements comply with IFRSs as issued by the IASB.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Report of the Directors for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Grant Thornton UK LLP

Stuart Muskett
Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
Manchester
17 March 2010

Consolidated statement of comprehensive income

for the year ended 31 December 2009

	Note	2009 £'000	2008 £'000
Continuing operations			
Revenue	2	15,394	12,706
Cost of sales		<u>(11,905)</u>	<u>(10,709)</u>
Gross profit		3,489	1,997
Administrative expenses		<u>(4,344)</u>	<u>(3,773)</u>
Profit on sale of joint venture	24	135	-
Negative goodwill	25	956	-
Total administrative expenses		<u>(3,253)</u>	<u>(3,773)</u>
Operating profit / (loss) from continuing operations	3	236	(1,776)
Finance income	4	71	407
Finance costs	5	(152)	(248)
Profit / (loss) before tax	6	<u>155</u>	<u>(1,617)</u>
Income tax	9	88	142
Profit / (loss) for the year		<u>243</u>	<u>(1,475)</u>
Other comprehensive income		-	-
Total comprehensive income / (loss) for the year		<u><u>243</u></u>	<u><u>(1,475)</u></u>
Attributable to:			
Equity holders of the parent		<u>243</u>	<u>(1,475)</u>
Retained profit / (loss)		<u><u>243</u></u>	<u><u>(1,475)</u></u>
Earnings / (loss) per share			
Basic earnings / (loss) per share (pence)	10	<u><u>0.479</u></u>	<u><u>(3.055)</u></u>
Diluted earnings / (loss) per share (pence)	10	<u><u>0.476</u></u>	<u><u>(3.055)</u></u>

Consolidated statement of financial position

at 31 December 2009

	Note	2009 £'000	2008 £'000
ASSETS			
Non-current assets			
Goodwill	11	2,270	2,270
Property, plant and equipment	13	14,400	11,014
		<u>16,670</u>	<u>13,284</u>
Current assets			
Inventories	14	407	192
Trade and other receivables	15	8,880	3,646
Taxation receivable	9	88	142
Cash and cash equivalents	16	3,770	6,831
		<u>13,145</u>	<u>10,811</u>
Total assets		<u><u>29,815</u></u>	<u><u>24,095</u></u>
LIABILITIES			
Current liabilities			
Trade and other payables	18	7,955	4,189
Current portion of long-term borrowings	19	328	247
Current portion of deferred consideration	20	224	238
		<u>8,507</u>	<u>4,674</u>
Non-current liabilities			
Long-term borrowings	19	1,942	2,024
Long-term deferred consideration	20	1,183	1,390
		<u>3,125</u>	<u>3,414</u>
Total liabilities		<u><u>11,632</u></u>	<u><u>8,088</u></u>
Net assets		<u><u>18,183</u></u>	<u><u>16,007</u></u>
EQUITY			
Equity attributable to equity holders of the parent			
Share capital	22	2,651	2,414
Share premium		30,907	29,357
Other reserve		898	752
Retained losses		(16,273)	(16,516)
Total equity		<u><u>18,183</u></u>	<u><u>16,007</u></u>

These financial statements were approved by the Board of Directors on 17 March 2010.



M Fishwick
Director



T Willis
Director

The TEG Group Plc
Company number 3109613



Consolidated statement of changes in equity

for the year ended 31 December 2009

	Share capital £'000	Share premium £'000	Other reserve £'000	Retained losses £'000	Total £'000
Balance at 1 January 2008	2,414	29,357	551	(15,041)	17,281
Loss for the period	-	-	-	(1,475)	(1,475)
Total comprehensive loss for the period	-	-	-	(1,475)	(1,475)
Recognition of share-based payments	-	-	201	-	201
Transactions with owners	-	-	201	-	201
Balance at 1 January 2009	2,414	29,357	752	(16,516)	16,007
Profit for the period	-	-	-	243	243
Total comprehensive income for the period	-	-	-	243	243
Issue of share capital	237	-	-	-	237
Premium on issue of share capital	-	1,663	-	-	1,663
Issue costs	-	(113)	-	-	(113)
Recognition of share-based payments	-	-	146	-	146
Transactions with owners	237	1,550	146	-	1,933
Balance at 31 December 2009	2,651	30,907	898	(16,273)	18,183

Consolidated statement of cash flows

for the year ended 31 December 2009

	Note	2009 £'000	2008 £'000
Cash flows from operating activities			
Profit / (loss) after taxation		243	(1,475)
Adjustments for:			
Negative goodwill		(956)	-
Depreciation		1,140	804
Share-based administrative expense		146	201
Taxation credit recognised in consolidated statement of comprehensive income		(88)	(142)
Interest expense		152	248
Investment income		(71)	(407)
Loss on sale of property, plant and equipment		6	47
Profit on sale of joint venture		(135)	-
Increase in trade and other receivables		(5,112)	(2,540)
(Increase) / decrease in inventories		(215)	42
Increase in trade payables		2,887	3,106
		<hr/>	<hr/>
Cash used in operations		(2,003)	(116)
Interest paid		(73)	(158)
Income taxes received		142	86
		<hr/>	<hr/>
Net cash used in operating activities		(1,934)	(188)
Cash flows from investing activities			
Acquisition of business - deferred consideration		(300)	(300)
Acquisition of subsidiary net of cash acquired		(612)	-
Purchase of property, plant and equipment		(1,922)	(1,861)
Proceeds from sale of property, plant and equipment		18	47
Proceeds from sale of joint venture		135	-
Interest received		71	407
		<hr/>	<hr/>
Net cash used in investing activities		(2,610)	(1,707)
Cash flows from financing activities			
Proceeds from issue of share capital		1,787	-
Repayment of loan		(215)	(142)
Payment of finance lease liabilities		(89)	(48)
		<hr/>	<hr/>
Net cash from / (used in) financing activities		1,483	(190)
		<hr/>	<hr/>
Net decrease in cash and cash equivalents		(3,061)	(2,085)
Cash and cash equivalents at beginning of the year		6,831	8,916
		<hr/>	<hr/>
Cash and cash equivalents at end of the year	16	3,770	6,831

Notes to the consolidated financial statements

for the year ended 31 December 2009

General information

The TEG Group Plc is a Company incorporated in the United Kingdom under the Companies Act 2006. The address and registered office is Westmarch House, 42 Eaton Avenue, Buckshaw Village, Chorley, PR7 7NA. The nature of the Group's operations and its principal activities are set out in the Report of the Directors on page 7.

The financial statements are presented in Pounds Sterling (£), which is also the functional currency of the parent company, as this is the currency of the primary economic environment in which the Company operates.

1. Significant accounting policies

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU), including International Accounting Standards (IAS) and interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC). Further standards may be issued by the International Accounting Standards Board (IASB) and standards currently in issue and endorsed by the EU may be subject to interpretations issued by IFRIC.

IFRS, as adopted by the EU, differs in certain respects from IFRS as issued by the IASB. However, the consolidated financial statements for the period presented would be no different had the Group applied IFRS as issued by the IASB. References to IFRS hereafter should be construed as references to IFRS as adopted by the EU.

The preparation of financial statements, in conformity with generally accepted accounting principles under IFRS, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results may ultimately differ from those estimates.

Critical judgements in applying accounting policies

The following is the critical judgement, apart from those involving estimations, that the Directors have made in the process of applying the entity's accounting policies and that has the most significant effect on the amounts recognised in the financial statements:

- i. The Group applies the stage of completion method in accounting for revenue on fixed price construction contracts. This requires the Group to calculate the proportion of the total contract that has been completed at the balance sheet date by reference to the physical completion of key milestones.

Key sources of estimation uncertainty

The following is the key assumption concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that has a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year:

- i. Future cash flows and discount rates applied in the 'value in use' goodwill and property, plant and equipment impairment tests incorporate the inherent uncertainties involved in predicting future cash flows, operating performance, cost of capital and other variables. The carrying value of goodwill at 31 December 2009 was £2,270,000, whilst the carrying value of property, plant and equipment at cash-generating units subject to impairment review was £13,945,000.
- ii. The Group applies an estimated total contract profit margin when applying the stage of completion method in accounting for fixed price construction contracts. This requires estimates to be made of costs to complete on each contract and hence involves an element of uncertainty.

The financial statements have been prepared using the measurement basis specified by IFRS for each type of asset, liability, income and expense. The measurement bases are more fully described in the detailed accounting policies below.

The accounting policies that have been applied in the opening balance sheet have also been applied throughout all periods presented in these financial statements. These accounting policies comply with each IFRS that is mandatory for accounting periods ending on 31 December 2009.

Going concern

The Group meets its day to day working capital requirements through the significant level of cash reserves held. The Group's forecasts and projections, which take into account reasonable possible changes in trading performance, show that the Group has sufficient levels of cash resources to allow the Group to continue in operational existence for the foreseeable future. As such the financial statements have been prepared using the going concern assumption.

Basis of consolidation

The consolidated 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.

Acquisitions of subsidiaries are dealt with by the purchase method. The purchase method involves the recognition at fair value of all identifiable assets and liabilities, including contingent liabilities of the subsidiary, at the acquisition date, regardless of whether or not they were recorded in the financial statements of the subsidiary prior to acquisition. On initial recognition, the assets and liabilities of the subsidiary are included in the consolidated balance sheet at their fair values, which are also used as the bases for subsequent measurement in accordance with the Group accounting policies.

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.

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 statement of comprehensive income 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 legal 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 ventures.

**Joint venture (continued)**

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.

**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 consolidated statement of comprehensive income.

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

Material residual value estimates are updated as required, but at least annually.

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.

Taxation

The income tax credit represents the tax currently receivable in respect of research and development tax credits.

Taxable loss differs from loss before tax as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's asset for current tax is calculated using the rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on the differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill nor from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on interest in subsidiaries and associates, and interest in joint ventures where the Group is able to control the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the average tax rates that are expected to apply in the periods in which the timing difference are expected to reverse based on tax rates and laws that have been substantially enacted by the balance sheet date.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Research and development

Expenditure on research (or the research phase of an internal project) is recognised as an expense in the period in which it is incurred. Development costs that do not meet the relevant recognition criteria are expensed as incurred.

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. Cost is calculated using the weighted average method. Net realisable value is based on estimated selling price less further costs expected to be incurred to completion.

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 Group 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 Group receives the waste, being the point at which it fulfils its contractual obligation to the customer and
- the costs incurred in processing the waste can be measured reliably.



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

The stage of completion at the balance sheet date is determined by confirmation from the customer with regards to the key milestones that have been completed.

Where the outcome of construction contracts 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.

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.

Employee benefits – retirement benefit costs

The Group operates a defined contribution pension scheme. The pension costs charged to the income statement are the contributions payable to the scheme in respect of the accounting period.

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 consolidated statement of comprehensive income 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.

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 consolidated statement of comprehensive income 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.

Financial assets

Financial assets are divided into the following categories: loans and receivables and financial assets at fair value through profit or loss. 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.



Financial assets (continued)



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 consolidated statement of comprehensive income.



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 consolidated statement of comprehensive income. 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. Trade receivables are classified as loans and receivables. 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 consolidated statement of comprehensive income.

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 derecognised 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.

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.

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 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.

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.

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

Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or equity in accordance with the substance of the contractual arrangement.

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.
- "Retained losses" represents retained losses.

Borrowing costs

Borrowing costs directly attributable to the acquisition and construction of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use, are added to the cost of those assets until such time as the assets are substantially ready for their intended use.

All other borrowing costs are recognised in the consolidated statement of comprehensive income in the period in which they are incurred.

Adoption of new and revised standards

During the year the Group has applied IAS 1 Presentation of Financial Statements (Revised 2007) and IFRS 8 Operating Segments. IAS 1 Presentation of Financial Statements (Revised 2007) requires presentation of a comparative balance sheet as at the beginning of the first comparative period, in some circumstances. Management considers that this is not necessary this year because the 2008 balance sheet is the same as that previously published.

The adoption of IAS 1 Presentation of Financial Statements (Revised 2007) has introduced a number of terminology changes (including titles for the financial statements) and has resulted in a number of changes in presentation and disclosure. The revised standard has had no impact on the reported results or financial position of the Group.

The adoption of IFRS 8 has not changed the segments that are disclosed in the financial statements. The previous financial statements identified segments by reference to the dominant source and nature of the group's risks and returns. These segments are consistent with those used within internal management reporting information that is regularly reviewed by the chief operating decision maker, as required by IFRS 8.



Standards and Interpretations in issue not yet adopted

At the date of authorisation of these financial statements, certain new standards, amendments and interpretations to existing standards have been published but are not yet effective, and have not been adopted early by the Group.

The Directors anticipate that all of the pronouncements will be adopted in the Group's accounting policies for the first period beginning after the effective date of the pronouncement. Information on new standards, amendments and interpretations that are expected to be relevant to the Group's financial statements is provided below. Certain other new standards have been issued but are not expected to have a material impact on the Group's financial statements.

IFRS 3 Business Combinations (Revised 2008) (effective from 1 July 2009)

The standard is applicable for business combinations occurring in reporting periods beginning on or after 1 July 2009 and will be applied prospectively. The new standard introduces changes to the accounting requirements for business combinations, but still requires use of the purchase method, and will have a significant effect on business combinations occurring in future reporting periods.

IFRS 9 Financial Instruments (effective from 1 January 2013)

The IASB aims to replace a significant proportion of IAS 39 Financial Instruments: Recognition and Measurement, with the replacement standard to be effective for annual periods beginning 1 January 2013. IFRS 9 is the first part of Phase 1 of this project. The main phases are:

Phase 1: Classification and Measurement

Phase 2: Impairment methodology

Phase 3: Hedge accounting

In addition, a separate project is dealing with derecognition.

Management have yet to assess the impact that this amendment is likely to have on the financial statements of the Group. However, they do not expect to implement the amendments until all chapters of the IAS 39 replacement have been published and they can comprehensively assess the impact of all changes.

2. Revenue

An analysis of the Group's revenue for the year (excluding finance income – see note 4) is as follows:

	2009 £'000	2008 £'000
Revenue from build, own and operate	3,206	2,108
Other revenue	128	23
Rendering of services	3,334	2,131
Revenue from sales of equipment to third parties	11,949	10,518
Product management	111	57
Sale of goods	12,060	10,575
Total revenue	15,394	12,706

Of the total revenue from sales to third parties £11,478,000 (2008: £8,188,000) relates to transactions with a single customer.

3. 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.

Sale to third parties includes the design, production and installation of Silo-cage plants for sale to third party clients. The build, own and operate segment relates to facilities which are owned and operated by the Group. These sites process waste received from customers. Product management is the management of the compost produced by the facilities that are owned and operated. Other revenue is as a result of maintenance contracts and consulting work carried out for third parties. The revenues and net result generated by each of the Group's business segments are summarised as follows:

2009

	Build, own and operate £'000	Sales to third parties £'000	Product management £'000	Other revenue £'000	Consolidated £'000
Revenue from external customers	3,206	11,949	111	128	15,394
Gross (loss) / profit	(76)	3,563	(126)	128	3,489
Segment corporate expenses	(1,237)	(868)	(314)	(128)	(2,547)
Segment (loss) / profit before taxation	(1,313)	2,695	(440)	-	942
Negative goodwill					956
Share-based payment expense					(146)
Unallocated corporate expenses					(1,516)
Operating profit					236
Finance income					71
Finance costs					(152)
Profit before taxation					155
Taxation					88
Profit for the period					243

Unallocated corporate expenses include £694,000 in respect of future business and research and development costs.



3. Business Segments (continued)

2008

	Build, own and operate £'000	Sales to third parties £'000	Product management £'000	Other revenue £'000	Consolidated £'000
Revenue from external customers	2,108	10,518	57	23	12,706
Gross profit / (loss)	120	2,074	(197)	-	1,997
Segment corporate expenses	(997)	(775)	(216)	-	(1,988)
Segment (loss) / profit before taxation	(877)	1,299	(413)	-	9
Negative goodwill					-
Share-based payment expense					(202)
Unallocated corporate expenses					(1,583)
Operating loss					(1,776)
Finance income					407
Finance costs					(248)
Loss before taxation					(1,617)
Taxation					142
Loss for the period					(1,475)

Unallocated corporate expenses include £768,000 in respect of future business and research and development costs.

Other information

2009

	Build, own and operate £'000	Sales to third parties £'000	Product management £'000	Other revenue £'000	Consolidated £'000
Capital additions	1,650	-	-	-	1,650
Unallocated corporate capital additions					486
					2,136
Depreciation	1,018	-	29	-	1,047
Unallocated corporate depreciation					93
					1,140

	Build, own and operate £'000	Sales to third parties £'000	Product management £'000	Other £'000	Consolidated £'000
Assets					
Segment assets	16,680	7,996	181	-	24,857
Unallocated corporate assets					4,958
Consolidated total assets					29,815

Liabilities					
Segment liabilities	4,235	6,640	123	-	10,998
Unallocated corporate liabilities					634
Consolidated total liabilities					11,632

Other information 2008

	Build, own and operate £'000	Sales to third parties £'000	Product management £'000	Other revenue £'000	Consolidated £'000
Capital additions	1,785	-	133	-	1,918
Unallocated corporate capital additions					155
					2,073
Depreciation	732	-	18	-	750
Unallocated corporate depreciation					54
					804

	Build, own and operate £'000	Sales to third parties £'000	Product management £'000	Other £'000	Consolidated £'000
Assets					
Segment assets	13,534	3,017	155	-	16,706
Unallocated corporate assets					7,389
Consolidated total assets					24,095
Liabilities					
Segment liabilities	4,223	3,407	89	-	7,719
Unallocated corporate liabilities					369
Consolidated total liabilities					8,088



4. Finance income

	2009 £'000	2008 £'000
Bank interest receivable	71	407
Investment income earned as financial assets, analysed by category of asset is as follows:		
Loans and receivables (including cash and bank balances)	71	407

5. Finance costs

	2009 £'000	2008 £'000
Interest on obligations under hire purchase	17	10
Interest on bank loans	55	148
	72	158
Unwinding of discount	80	90
Total finance costs	152	248

The unwinding of discount arises on the deferred consideration arising on the Binns Skips acquisition. See note 20 for further details.

6. Profit / (loss) on ordinary activities before taxation

The profit / (loss) on ordinary activities before taxation is stated after charging.

	2009 £'000	2008 £'000
Research and development costs	58	203
Depreciation		
- owned	1,058	779
- held under finance leases and hire purchase contracts	82	25
Auditors' remuneration		
- audit services for audit of parent company and consolidated financial statements	12	12
- non audit services	38	35
Loss on disposal of property, plant and equipment	6	47
Share based payments charge	146	201
Operating lease costs		
- land & buildings	226	187
- hire of plant and equipment	200	8
- motor vehicles	82	50

A more detailed analysis of auditors' remuneration for non audit services is provided below:

	2009 £'000	2008 £'000
Tax advisory	5	4
Other advisory	5	6
Audit of subsidiary undertakings	28	25
Total	38	35

7. Employee costs

Staff costs during the year were as follows:

	2009 £'000	2008 £'000
Wages and salaries	2,014	1,590
Social security costs	210	172
Pension costs	230	192
Equity settled share-based payment charge	146	201
	2,600	2,155

The average number of employees during the year was:

	2009 Number	2008 Number
Directors	5	5
Sales	9	8
Engineering	8	7
Technical	6	5
Administrative	7	7
Site	16	13
Total	51	45

The Group'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 27.

8. Directors' remuneration

Aggregate remuneration

The total amounts for Directors' remuneration and other benefits were as follows:

	2009 £'000	2008 £'000
Emoluments	323	302
Pension costs	89	88
	412	390

Directors' remuneration shown above included the following amounts payable in respect of the highest paid director:

	2009 £'000	2008 £'000
Emoluments	157	158
Pension costs	37	17
	194	175

The number of directors participating in the defined contribution pension scheme was 3 (2008: 3). An analysis of Directors' emoluments, pension entitlements and their interests in the share capital of the Company is contained in the Directors' remuneration report on pages 23 to 25.

9. Income tax

	2009 £'000	2008 £'000
Current income tax	(88)	(142)
Total income tax	<u>(88)</u>	<u>(142)</u>

The total credit for the year can be reconciled to the accounting profit / (loss) as follows:

	2009 £'000	2008 £'000
Profit / (loss) before tax	<u>155</u>	<u>(1,617)</u>
Income tax credit calculated at 28% (2008: 28.5%)	43	(461)
Effect of (income that is not chargeable) / expenses not deductible	(38)	51
Losses surrendered for R&D tax credit	177	252
Repayable R&D tax credit	(88)	(142)
Movement in unprovided deferred tax asset	(182)	87
Effect of change in rate of deferred tax	-	71
Income tax recognised in the consolidated statement of comprehensive income	<u>(88)</u>	<u>(142)</u>

Current tax assets and liabilities

	2009 £'000	2008 £'000
Current tax assets		
R&D tax credit recoverable	<u>(88)</u>	<u>(142)</u>

Unrecognised deferred tax asset

The following deferred tax assets have not been recognised at the balance sheet date on the basis that there is insufficient evidence that the deferred tax asset will be recoverable against future profits of the Group:

	2009 £'000	2008 £'000
Tax losses	(5,369)	(4,546)
Accelerated tax depreciation	264	706
Intangible assets	238	-
Temporary differences	(68)	(68)
	<u>(4,935)</u>	<u>(3,908)</u>

10. Earnings / (loss) per share

	2009 £'000	2008 £'000
Profit / (loss) for the period	243	(1,475)
Basic / diluted earnings / (losses)	243	(1,475)
Adjustments to basic earnings		
Negative goodwill	(956)	-
Underlying losses	(713)	(1,475)
Weighted average number of shares for the purposes of basic earnings per share	50,760,984	48,288,381
Effect of dilutive potential ordinary shares	244,885	-
Weighted average number of shares for the purposes of diluted earnings per share	51,005,869	48,288,381
Weighted average number of shares for the purposes of underlying earnings per share	50,760,984	48,288,381
	Pence	Pence
Basic earnings / (loss) per share	0.479	(3.055)
Diluted earnings / (loss) per share	0.476	(3.055)
Basic underlying loss per share	(1.405)	(3.055)

Underlying earnings per share has been disclosed to give a clear understanding of the Group's underlying trading performance. It has been calculated using the underlying earnings figures above and the weighted average number of ordinary shares above.

Diluted earnings per share is the basic earnings per share after allowing for the dilutive effect of the conversion into ordinary shares of the number of options outstanding during the period.

11. Goodwill

	Goodwill £'000
Cost and net book value	
At 1 January 2008	2,270
At 31 December 2008	2,270
At 31 December 2009	2,270

The carrying amount of goodwill has been allocated as follows:

	2009 £'000	2008 £'000
Build, own and operate	2,270	2,270

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

Annual test for impairment

The Group tests goodwill annually for impairment, or more frequently if there are incidents which indicate that the goodwill might be impaired.

The recoverable amounts of the cash generating unit (CGU) have been determined based on a value in use calculation which uses cashflow projections based on financial budgets approved by the Directors' covering the next five year period.

The key assumptions to the value in use calculation are those regarding the discount rate, growth rate and expected changes to the selling prices and direct costs.

The discount rate has been calculated using the Capital Asset Pricing Model (CAPM) which takes into account the required rate of return of the asset, market risk as well as the expected return of the market and the expected return of a theoretical risk-free asset. The discount rate of 6% (2008: 6%) is consistent with the rate of return expected by the market considering the CGU forecast cashflow amounts, timing and risk profile.

The annual tonnage growth rate is based on the Directors' growth forecasts and is calculated based on a projected plant utilisation that takes into account new contracts currently under negotiation and expectations in developments in regional markets. The assumed tonnage growth rate of 5% per annum (2008: 5%) is prudent compared with current plant performance.

Selling prices are based on current practices and future expected changes in the market. With the continued increase in Landfill Tax (LFT) of £8 per tonne per annum and the observed increase in recycling activity, the selling price growth rate assumption of 5% (2008 assumed rate: 5%) per annum is considered reasonable and is consistent with past experience.

Changes in direct costs of 3% (2008 assumed rate: 3%) per annum are based on historic trends.

Cashflows beyond the five year period have been extrapolated using a steady 2.5% per annum growth rate (2008 assumed rate: 2.5%) which is based on historic trends, anticipated market demand and the prospective increase in LFT over the period. The Group considers that 2.5% is an appropriate but conservative growth rate based upon current rates of inflation, the Group's targeted growth rates and the rate of growth that the Directors believe to be achievable from the market.

The Directors do not believe that any reasonably possible changes in the value of the key assumptions noted above would cause the CGU carrying amount to exceed its recoverable amount.

12. Other intangible assets

	Intellectual Property Rights £'000
Cost	
At 1 January 2008, 31 December 2008 and 31 December 2009	40
Amortisation	
At 1 January 2008, 31 December 2008 and 31 December 2009	40
Net book amount	
At 31 December 2009	-
At 31 December 2008	-

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.

13. Property, plant and equipment

	Vehicles	Plant and Machinery	Fixtures and fittings	Silo-Cage Systems	Assets in the course of construction / deferred development	Freehold land and buildings	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Cost							
At 1 January 2008	72	1,444	122	4,165	16	5,079	10,898
Additions	-	972	128	826	12	135	2,073
Disposals	-	(82)	(4)	(3)	(16)	(22)	(127)
At 31 December 2008	72	2,334	246	4,988	12	5,192	12,844
Acquisition of company	10	323	20	150	-	1,911	2,414
Additions	-	852	146	786	46	306	2,136
Disposals	-	(74)	(2)	-	-	-	(76)
At 31 December 2009	82	3,435	410	5,924	58	7,409	17,318
Accumulated depreciation							
At 1 January 2008	72	381	59	390	-	157	1,059
Charge for the year	-	346	21	317	-	120	804
Disposals	-	(15)	(2)	(4)	-	(12)	(33)
At 31 December 2008	72	712	78	703	-	265	1,830
Charge for the year	1	566	37	391	-	145	1,140
Disposals	-	(52)	-	-	-	-	(52)
At 31 December 2009	73	1,226	115	1,094	-	410	2,918
Net book amount							
At 31 December 2009	9	2,209	295	4,830	58	6,999	14,400
At 31 December 2008	-	1,622	168	4,285	12	4,927	11,014

Assets in the course of construction include capitalised interest of £Nil (2008: Nil).

Assets pledged as security

Freehold land with a carrying value of £2,136,000 (2008: £2,136,000) has been pledged to secure the term loan of the Group (see note 19). The Group is not allowed to pledge these assets as security for other borrowings or to sell them to another entity. In addition, the Group's obligation under finance leases are secured by the lessors' title to the leased assets, which have a carrying amount of £410,000 (2008: £234,000).

During the year, the Group carried out a review of the recoverable amount of its plant and machinery and its Silo-Cage systems. The assets are used in the Group's reportable segments. The review did not lead to a recognition of an impairment. The recoverable amounts of the CGU's have been determined based on a value in use calculation which uses cashflow projections based on financial budgets approved by the Director's covering the next five year period. The key assumptions to the value in use calculation are those regarding the discount rate, growth rate and expected changes to the selling prices and direct costs.

The discount rate has been calculated using the Capital Asset Pricing Model (CAPM) which takes into account the required rate of return of the asset, market risk as well as the expected return of the market and the expected return of a theoretical risk-free asset.

Cashflows beyond the five year period have been extrapolated using a steady 2.5% per annum growth rate (2008: 2.5%) which is based on historic trends, anticipated market demand and the prospective increase in landfill tax over the period. The Group considers that 2.5% is an appropriate but conservative growth rate based upon current rates of inflation, the Group's targeted growth rates and the rate of growth that the Directors believe to be achievable from the market.

The Directors do not believe that any reasonably possible changes in the value of the key assumptions noted above would cause the CGU carrying amount to exceed its recoverable amount.

14. Inventories

	2009 £'000	2008 £'000
Raw materials	17	115
Work in progress	345	19
Consumables	45	58
	<u>407</u>	<u>192</u>

There were no write downs of inventory in the year (2008: £Nil). The cost of inventories recognised as a cost of sale in the year was £111,000 (2008: £Nil).

15. Trade and other receivables

	2009 £'000	2008 £'000
Trade receivables	646	3,093
Other receivables	397	97
Prepayments	319	150
Accrued income	7,518	306
	<u>8,880</u>	<u>3,646</u>

The average credit period taken on trade receivables excluding retention and deferred income is 15 days (2008: 50 days). Trade receivables do not carry interest. No provision (2008: No provision) has been made for overdue receivables as all amounts are considered recoverable.

Before accepting any new customers, the Group uses an external credit scoring system to assess the potential customer's credit quality and defines credit limits by customer. Limits attributed to customers are reviewed twice a year.

The proportion of the trade receivables balance relating to customers who represent more than 5% of the total is disclosed in note 21. The value of trade receivables that are past due at the reporting date is £17,000 (2008 : £Nil).

16. Cash and cash equivalents

	2009	2008
	£'000	£'000
Cash in hand and at bank	3,770	6,831

17. Construction contracts

Contracts in progress at balance sheet date

	2009	2008
	£'000	£'000
Construction costs incurred plus recognised profits less recognised losses to date	11,949	10,518
Less: progress billings	(4,431)	(10,212)
Accrued income	7,518	306
Recognised and included in the financial statements as amounts due:		
From customers under construction contracts	7,066	2,934

At 31 December 2009, retentions held by customers for contract work amounted to £452,000 (2008: £485,000).

The total revenue arising from construction contracts during the year was £11,949,000 (2008: £10,518,000)

Within accruals and deferred income there is a provision of £315,000 in respect of warranty and contingency costs relating to ongoing contracts at the year end. An analysis of the movement of these provisions is set out below:

	Warranty / contingency provision £'000
At 1 January 2008	-
Provided	130
At 31 December 2008	130
Provided	485
Utilised	(300)
At 31 December 2009	315

The provision is made for future warranty and contingency costs relating to construction contracts ongoing at the year end.

18. Trade and other payables

	2009	2008
	£'000	£'000
Trade payables	2,942	1,494
Other payables	349	36
Other taxation and social security	83	15
Accruals and deferred income	4,581	2,644
	7,955	4,189

Trade payables and accruals principally comprise amounts outstanding from trade purchases and ongoing costs. The average credit period taken for trade purchases is 90 days (2008: 51 days). No interest is charged on the trade payables. The Directors consider that the carrying amount of trade payables approximates to their fair value.

19. Borrowings

	Current		Non-current
	2008	2009	2008
	£'000	£'000	£'000
Secured - at amortised cost			
Bank loans (i)	71	-	-
Term loan (ii)	133	1,683	1,867
Hire Purchase agreements (iii)	43	259	157
	328	1,942	2,024

Summary of borrowing arrangements

- (i) The bank loan was repaid in full in 2009.
- (ii) Secured against freehold land. The term loan is repayable over a remaining 168 equal monthly instalments. The interest rate on the facility is 1.75% above the Bank of Scotland Plc base rate.
- (iii) Secured by the leased assets. The borrowings are at fixed interest rates with repayment periods not exceeding 4 years.

20. Deferred consideration

	Current		Non-current
	2008	2009	2008
	£'000	£'000	£'000
Deferred consideration	300	1,350	1,650
Discounted element	(62)	(167)	(260)
	224	1,183	1,390

The deferred consideration relates to the acquisition of the Binns Skips composting business in Perthshire in 2005. The consideration is payable in equal quarterly instalments over a remaining period of 6 years.

21. Financial Instruments

Capital risk management

The Group manages capital to ensure that entities in the Group will be able to continue as a going concern whilst maximising the return to stakeholders through optimisation of the debt and equity balance.

The capital structure of the Group consists of debt, which includes the borrowings disclosed in note 19, cash and cash equivalents disclosed in note 16 and equity attributable to equity holders of the parent as disclosed in note 22.

The disclosure of the gearing ratio has not been included on the basis that the Group was in a net funds position at both 31 December 2009 and 31 December 2008.

Significant accounting policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in note 1 to the financial statements.

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 Group 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.

Categories of financial instruments

	2009 £'000	2008 £'000
Financial assets		
Loans and receivables	5,132	10,171
Financial liabilities		
Other financial liabilities	10,142	6,445

Interest rate risk management

The Group is exposed to interest rate risk as the Group borrows funds at both fixed and floating interest rates. Interest rate risk arises from:

- The fixed element of finance leases where the Group 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;
- The term loan facility which bears a floating interest rate; and
- Cash and short term deposits which bear floating interest rates.

Other bank loans are subject to fixed interest rates.

Interest rate sensitivity analysis

If interest rates had been 50 basis points higher/lower and all other variables were held constant, the Group's profit for the ended 31 December 2009 would increase/decrease by £9,300 (2008: increase/decrease by £10,000). This is attributable to the Group's exposure to interest rates on its variable rate borrowings.

Financial Instruments

At 31 December 2009, the Group's liabilities have contractual maturities which are summarised below:

	Current				Non-current			
	within 6 months		6 to 12 months		1 to 5 years		Later than 5 years	
	2009 £'000	2008 £'000	2009 £'000	2008 £'000	2009 £'000	2008 £'000	2009 £'000	2008 £'000
Long-term bank loans	108	84	108	84	860	843	1,235	1,519
Finance lease obligations	101	27	78	27	306	195	-	-
Trade payables	2,942	1,494	-	-	-	-	-	-
Other short-term financial liabilities	5,013	2,695	-	-	-	-	-	-
Totals	8,164	4,300	186	111	1,166	1,038	1,235	1,519

The above contractual maturities reflect the gross cash flows, which may differ to the carrying values of the liabilities at the balance sheet date.

A reconciliation between the total of future minimum lease payments at the balance sheet date and their present value is noted below:

	2009 £'000	2008 £'000
Amounts payable under finance leases :		
Within 6 months	101	27
Between 6 and 12 months	78	27
In the second to fifth years inclusive	306	195
	<u>485</u>	<u>249</u>
Less : future charges	(71)	(49)
Present value of lease obligations	<u>414</u>	<u>200</u>

Credit risk management

Credit risk refers to the credit risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The principal credit risk arises from the Group's trade receivables. The trade receivable balance of £646,000 (2008: £3,093,000) includes 3 (2008: 3) customers who represent more than 5% of the total balance. At 31 December 2009, 49% (2008: 87%) of the trade receivables balance related to these customers. In order to manage credit risk, the Directors set limits for customers based on a combination of payment history, third party credit references and an independent rating agency. The Group's exposure and the credit rating of its counterparties are continuously monitored. Credit exposure is controlled by counterparty limits that are reviewed bi-annually. The value of trade receivables that are past due at the reporting date is £17,000 (2008: £Nil). Ongoing credit evaluation is performed on the financial condition of accounts receivable. None are deemed to be impaired, therefore a provision for credit losses is not necessary.

Liquidity risk management

The Group 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 management

The Group does not have any foreign currency denominated trade receivables or payables and therefore is not subject to foreign exchange risk.

Borrowing facilities

In 2006, a bank loan of £426,000 was secured against plant and equipment. This loan was repayable in 36 equal instalments at a fixed interest rate of 4.3%. The outstanding balance at 31 December 2009 was £Nil (2008: £71,000).

In addition to the above, further facilities of £2,000,000 (2008: £2,000,000) have been secured to help fund the acquisition of the property and the development costs of the Todmorden project, of which £1,856,000 (2008: £2,000,000) was outstanding at the year end. The floating interest rate on the term loan is 1.75% above the Bank of Scotland Plc base rate.

Interest rate risk profile of financial assets and liabilities

	Interest rate			Total £'000
	Fixed £'000	Floating £'000	Zero £'000	
Financial assets				
At December 2009				
Sterling	2,141	1,629	-	3,770
Financial liabilities				
At December 2009				
Term loan	-	1,856	-	1,856
Hire purchase agreements	414	-	-	414
	414	1,856	-	2,270

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.

22. Issued capital

	2009 £'000	2008 £'000
Authorised		
100,000,000 (2008: 100,000,000) Ordinary shares of £0.05 each	5,000	5,000
Allotted, called up and fully paid		
53,038,381 (2008: 48,288,381) Ordinary shares of £0.05 each	2,651	2,414
	Number	£'000
At 1 January 2008 and 1 January 2009	48,288,381	2,414
Issue of shares at £0.40 per share	4,750,000	237
At 31 December 2009	53,038,381	2,651

On 25 June 2009, the Company placed 4,750,000 new ordinary shares of £0.05 at a price of £0.40 per share, raising £1,900,000 before issue costs of £113,000. The difference between the total consideration of £1,900,000 and the total nominal value of £237,000 and related issue cost of £113,000 has been credited to the share premium account.

Share options

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
01.05.2001	£1.300	02.05.2006	01.05.2011	69,731
22.04.2002	£1.150	23.04.2007	22.04.2012	25,000
20.02.2003	£0.500	21.02.2006	20.02.2013	25,000
03.10.2003	£0.500	04.10.2006	03.10.2013	120,300
03.03.2005	£0.380	04.03.2008	03.03.2015	355,235
03.03.2005	£0.360	04.03.2008	03.03.2015	277,778
23.08.2005	£0.370	24.08.2008	23.08.2015	514,327
17.10.2005	£0.370	18.10.2008	17.10.2015	263,854
30.06.2006	£0.370	01.07.2009	30.06.2016	66,138
15.08.2006	£0.700	16.08.2009	15.08.2016	328,063
15.12.2006	£0.715	16.12.2009	15.12.2016	189,427
15.02.2007	£1.125	16.02.2010	15.02.2017	76,000
18.07.2007	£1.130	19.07.2010	18.07.2017	487,712
02.01.2008	£0.775	03.01.2011	02.01.2018	48,288
06.05.2008	£0.700	07.05.2011	06.05.2018	410,451
18.07.2008	£0.530	19.07.2011	18.07.2018	24,144
19.11.2008	£0.345	20.11.2011	19.11.2018	120,720
01.07.2009	£0.460	02.07.2012	01.07.2019	940,226
				4,342,394

The mid market price of the Company's shares on 31 December 2009 was 37 pence. The highest and lowest mid market prices during the year were 56 pence and 37 pence respectively.

Capital management policies and procedures

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of debt and equity balance. The strategy remains unchanged from 2008.

23. Subsidiaries

Details of the Company's subsidiaries at 31 December 2009 are as follows

Name of subsidiary	Place of incorporation and operation	Proportion of ownership interest %	Proportion of voting power held %	Principal activity
TEG Environmental Limited	England and Wales	100	100	Design, build and operation of TEG owned facilities and the sale of Silo-cage plants to third parties.
Natural Organic Fertiliser Company Limited	England and Wales	100	100	End product placement
TEG Energy Limited	England and Wales	100	100	Operation of TEG leased facility

24. Joint ventures

The Group disposed its 50% share in the ownership of Verdia Horticulture Limited on 16 October 2009, a joint venture company established in the United Kingdom, for a total consideration after legal fees of £135,000.

The Group's share of the net assets at the date of disposal was £Nil. As such the Group has recognised a profit on disposal of £135,000 in respect of its disposal of its shares in Verdia Horticulture Limited.

25. Business combination

On 25 June 2009, the Group acquired 100% of the issued share capital of Banham Compost Limited, a company based in the UK, for a consideration of £615,000 including costs which was settled in cash. The transaction has been accounted for by the purchase method of accounting.

The impact on Group revenues and profit attributable to the equity holders if the acquisition had been completed on the first day of the financial year has not been disclosed on the basis that a significant proportion of Banham Compost Limited's trade and assets were transferred to its then parent company immediately prior to the acquisition. It was not possible to separately identify the results of the remaining business.

Fair values are provisional and will be reassessed during the hindsight period as further information is gathered relating to the fair values at the acquisition date. The amounts provisionally recognised for each class of the acquiree's assets and liabilities recognised at the acquisition date are as follows :

	Carrying amount under IFRS £'000	Provisional fair value adjustments £'000	Provisional fair value to Group £'000
Net assets acquired			
Property, plant and equipment	2,387	27	2,414
Trade and other receivables	130	(7)	123
Cash and cash equivalents	3	-	3
Total assets	2,520	20	2,540
Trade and other payables	(866)	(13)	(879)
Hire purchase agreements	(90)	-	(90)
Total liabilities	(956)	(13)	(969)
Net assets			1,571
Negative goodwill arising on acquisition			(956)
			615
Satisfied by			
Acquisition costs			133
Cash consideration			482
			615

The negative goodwill arising on the above business combination has been recognised as income in the statement of comprehensive income in the year and has been disclosed as negative goodwill.

On acquisition, the company name was changed to TEG Energy Limited. TEG Energy Limited contributed £324,000 of revenue and £257,000 of loss before tax to the Group's results for the period between the date of acquisition and the balance sheet date.

26. Operating lease arrangements

	2009	2008
	£'000	£'000
Operating lease payments recognised as an expense in the year	310	245

Operating lease arrangements

At the balance sheet date, the Group had outstanding commitments for future minimum lease payments under non cancellable operating leases, which fall due as follows:

	Land and buildings		Other	
	2009	2008	2009	2008
	£'000	£'000	£'000	£'000
- within one year	226	223	463	56
- in the second to fifth years inclusive	790	849	368	72
- after five years	402	571	-	-
	<u>1,418</u>	<u>1,643</u>	<u>831</u>	<u>128</u>

Leases of land and buildings are typically subject to rent reviews at specific intervals and provide for the lessee to pay all insurance, maintenance and repair costs.

27. Share-based payments

Equity-settled share option scheme

The Group has a share option scheme for all employees of the Group. 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 Group before the options vest. The only performance criteria relating to the options is the continuing employment of the holder.

The following reconciles the outstanding share options granted under the employee share option scheme at the beginning and end of the financial year:

	2009	2009	2008	2008
	Number of	Weighted	Number of	Weighted
	share options	average	share options	average
		exercise price £		exercise price £
Outstanding at beginning of year	3,414,168	0.63	2,810,565	0.63
Granted during the year	940,226	0.46	603,603	0.63
Lapsed during the year	(12,000)	0.85	-	-
Outstanding at the end of the year	<u>4,342,394</u>	<u>0.59</u>	<u>3,414,168</u>	<u>0.63</u>
Exercisable at the end of the year	<u>2,234,853</u>	<u>0.49</u>	<u>1,663,225</u>	<u>0.44</u>

The options outstanding at 31 December 2009 had a weighted average exercise price of 59 pence. In 2009, options were granted on 1 July 2009. The aggregate of the estimated fair values of the options granted on that date was £145,000. In 2008, options were granted on 2 January, 6 May, 18 July and 11 November. The aggregate of the estimated fair values of the options granted on those dates was £143,000. The weighted average contractual life of share options outstanding at the 31 December 2009 was 5 years.

No share options were exercised in 2009 (2008: Nil).

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.

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

	2009	2008
Weighted average exercise price	£0.58	£0.60
Expected volatility	34.26% - 104.98%	29.21% - 104.98%
Expected life	5 years	5 years
Risk-free rate	2.41 – 5.63%	2.78% - 5.63%
Expected dividends	0.00%	0.00%

The volatility of the Group'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 Group recognised total expenses of £146,000 (2008: £201,000) related to equity-settled share-based payment transactions in the period.

28. Retirement benefit plan

The Group operates a defined contribution pension scheme. The pension cost charge for the period represents contributions payable by the Group to the scheme and amounted to £230,000 (2008: £192,000).

29. Capital commitments

At 31 December 2009, the Group had outstanding capital commitments of £254,000 (2008: £426,000)

30. Other commitments

The Group remains a joint guarantor in relation to the debt finance for the plant procured by its former joint venture company Verdia Horticulture Limited. At 31 December 2009, the outstanding debt was approximately £1,399,000. Parkwood Holdings PLC (the ultimate parent company of Verdia Horticulture Limited) has provided a full guarantee to the Group in relation to any possible liabilities.

31. Related party transactions

Transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation and are not disclosed in this note. Apart from those disclosed below, there are no other related party transactions to be disclosed.

Key management compensation

The remuneration of Directors, who are the key management personnel of the Group, is set out below, in aggregate for each of the categories specified in IAS 24 'Related Party Disclosures'.

	2009	2008
	£'000	£'000
Short term employee benefits	846	757
Charge to income in the year in respect of share based payments	146	201



Company balance sheet

as at 31 December 2009

	Note	2009 £'000	2008 £'000
Fixed assets			
Investments	4	615	-
Current assets			
Debtors	5	18,153	13,128
Cash at bank and in hand		2,283	6,259
		<u>20,436</u>	<u>19,387</u>
Creditors: amounts falling due within one year	6	<u>(42)</u>	<u>(71)</u>
Net current assets		<u>20,394</u>	<u>19,316</u>
Total assets less current liabilities		<u>21,009</u>	<u>19,316</u>
Net assets		<u>21,009</u>	<u>19,316</u>
Capital and reserves			
Called up share capital	7	2,651	2,414
Share premium account	9	30,907	29,357
Other reserve	9	640	562
Profit and loss account	9	(13,189)	(13,017)
Shareholders' funds	10	<u>21,009</u>	<u>19,316</u>

The financial statements were approved by the Board of Directors on 17 March 2010 and signed on their behalf by:



M Fishwick
Director



T Willis
Director

The TEG Group Plc
Company number 3109613

Notes to the company financial statements

For the year ended 31 December 2009

Basis of preparation

The accounts have been prepared in accordance with the Companies Act 2006 and United Kingdom Generally Accepted Accounting Practice ("UK GAAP"), under the historical cost convention.

The consolidated financial statements of The TEG Group Plc, which are presented separately, have been prepared in accordance with International Financial Reporting Standards.

1. Principal accounting policies

The principal accounting policies of the Company, applied under UK GAAP, have remained unchanged during the year. The Directors have reviewed the accounting policies in accordance with FRS 18 and believe them to be the most appropriate to the Company.

Investments

Investments are included at cost less any provision for impairment.

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. Dividends and distributions relating to equity instruments are debited directly to reserves.

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.

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, FRS 20 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 8.

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.

2. Directors and employees

Staff costs during the year were as follows:

	2009 £'000	2008 £'000
Wages and salaries	130	302
Social security costs	12	32
Pension costs	10	88
Equity settled share based payment charge	78	102
	230	524

The average number of employees during the year was:

	2009 Number	2008 Number
Directors	5	5

Directors' remuneration disclosure is included in note 8 to the consolidated financial statements.

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 8.

3. Loss for the financial year

The parent Company has taken advantage of Section 408 of the Companies Act 2006 and has not included its own profit and loss account in these financial statements. The parent company's loss for the year was £172,000 (2008: £316,000).

4. Investments

	Subsidiary undertakings £	Joint venture £
Cost		
At 1 January 2009	2	50
Additions	615,000	-
Disposals	-	(50)
At 31 December 2009	<u>615,002</u>	<u>-</u>

On 25 June 2009, the Company subscribed to 100% of the share capital of Banham Compost Limited for a consideration of £615,000. On acquisition, the company changed its name to TEG Energy Limited.

On 19 October 2009, the Company disposed of its 50% shareholding in Verdia Horticulture for a consideration of £135,000 after professional fees.

At 31 December 2009, the Company held 20% or more of the allotted share capital of the following companies:

Company name	Country of Incorporation	Shareholding %	Shareholding £	Principal business activities
TEG Environmental Limited	UK	100%	1	Design and construction of Silo-Cage plants
Natural Organic Fertiliser Company Limited	UK	100%	1	End product placement
TEG Energy Limited	UK	100%	100	Operation of TEG leased facility

5. Debtors

	2009 £'000	2008 £'000
Other debtors	25	54
R&D tax credit recoverable	-	26
Amounts due from subsidiary undertakings	18,128	13,036
Prepayments and accrued income	-	12
	<u>18,153</u>	<u>13,128</u>

6. Creditors: amounts falling due within one year

	2009 £'000	2008 £'000
Trade creditors	17	5
Other creditors	-	15
Other taxation and social security	19	10
Accruals and deferred income	6	41
	<u>42</u>	<u>71</u>

7. Share capital

	2009 £'000	2008 £'000
Authorised		
100,000,000 (2008: 100,000,000) Ordinary shares of £0.05 each	<u>5,000</u>	<u>5,000</u>
Allotted, called up and fully paid		
53,038,381 (2008: 48,288,381) Ordinary shares of £0.05 each	<u>2,651</u>	<u>2,414</u>
	Number	£'000
At 1 January 2008 and 1 January 2009	48,288,381	2,414
Issue of shares at £0.40 per share	4,750,000	237
At 31 December 2009	<u>53,038,381</u>	<u>2,651</u>

On 25 June 2009, the Company placed 4,750,000 new ordinary shares of £0.05 at a price of £0.40 per share, raising £1,900,000 before issue costs of £113,000. The difference between the total consideration of £1,900,000 and the total nominal value of £238,000 and related issue cost of £113,000 has been credited to the share premium account.

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
01.05.2001	£1.300	02.05.2006	01.05.2011	69,731
22.04.2002	£1.150	23.04.2007	22.04.2012	25,000
20.02.2003	£0.500	21.02.2006	20.02.2013	25,000
03.10.2003	£0.500	04.10.2006	03.10.2013	120,300
03.03.2005	£0.380	04.03.2008	03.03.2015	355,235
03.03.2005	£0.360	04.03.2008	03.03.2015	277,778
23.08.2005	£0.370	24.08.2008	23.08.2015	514,327
17.10.2005	£0.370	18.10.2008	17.10.2015	263,854
30.06.2006	£0.370	01.07.2009	30.06.2016	66,138
15.08.2006	£0.700	16.08.2009	15.08.2016	328,063
15.12.2006	£0.715	16.12.2009	15.12.2016	189,427
15.02.2007	£1.125	16.02.2010	15.02.2017	76,000
18.07.2007	£1.130	19.07.2010	18.07.2017	487,712
02.01.2008	£0.775	03.01.2011	02.01.2018	48,288
06.05.2008	£0.700	07.05.2011	06.05.2018	410,451
18.07.2008	£0.530	19.07.2011	18.07.2018	24,144
19.11.2008	£0.345	20.11.2011	19.11.2018	120,720
01.07.2009	£0.460	02.07.2012	01.07.2019	940,226
				<u>4,342,394</u>

The mid market price of the Company's shares on 31 December 2009 was 37 pence. The highest and lowest mid market prices during the year were 56 pence and 37 pence respectively.

8. 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.

	2009 Number of share options	2009 Weighted average exercise price £	2008 Number of share options	2008 Weighted average exercise price £
Outstanding at beginning of year	3,414,168	0.63	2,810,565	0.63
Granted during the year	940,226	0.46	603,603	0.63
Lapsed during the year	(12,000)	0.85	-	-
Outstanding at the end of the year	<u>4,342,394</u>	<u>0.59</u>	<u>3,414,168</u>	<u>0.63</u>
Exercisable at the end of the year	<u>2,234,853</u>	<u>0.49</u>	<u>1,663,225</u>	<u>0.44</u>

The options outstanding at 31 December 2009 had a weighted average exercise price of 59 pence. In 2009, options were granted on 1 July 2009. The aggregate of the estimated fair values of the options granted on those dates was £145,000. In 2008, options were granted on 2 January, 6 May, 18 July and 11 November. The aggregate of the estimated fair values of the options granted on that date was £143,000.

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.

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

	2009	2008
Weighted average exercise price	£0.58	£0.60
Expected volatility	34.26% - 104.98%	29.21% - 104.98%
Expected life	5 years	5 years
Risk-free rate	2.41% - 5.63%	2.78% - 5.63%
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 £78,000 (2008: £102,000) 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.

9. Reserves

	Share premium account £'000	Other reserves £'000	Profit and loss account £'000
At 1 January 2009	29,357	562	(13,017)
Premium on issue of share capital	1,663	-	-
Issue costs	(113)	-	-
Loss for the financial year	-	-	(172)
FRS 20 share option charge	-	78	-
At 31 December 2009	<u>30,907</u>	<u>640</u>	<u>(13,189)</u>

'Other reserves' arises on the grant of share options to employees under the share option plan. Further information about share-based payments to employees is set out in note 8.

10. Reconciliation of movement in shareholders' funds

	2009 £'000	2008 £'000
Loss for the financial year	(172)	(316)
Issue of shares	1,787	-
FRS 20 share option charge	78	102
Net addition / (reduction) to shareholders' funds	<u>1,693</u>	<u>(214)</u>
Opening shareholders' funds	19,316	19,530
Closing shareholders' funds	<u>21,009</u>	<u>19,316</u>

11. Leasing commitments

	Land and buildings £'000	2009 Other £'000	Land and buildings £'000	2008 Other £'000
- within two to five years	36	-	36	7
- in five years or more	-	-	-	-
	<u>36</u>	<u>-</u>	<u>36</u>	<u>7</u>

12. Pension scheme

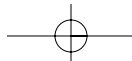
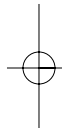
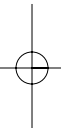
The Company operates a defined contribution pension scheme. The pension cost charge for the period represents contributions payable by the Company to the scheme and amounted to £10,000 (2008: £88,000).

13. Capital commitments

At 31 December 2009, the Company had outstanding capital commitments of £Nil (2008: Nil)

14. Related party transactions

Other than the disposal of Verdia Horticulture Limited as detailed in note 24 of the Consolidated financial statements, no transactions with related parties were undertaken such as are required to be disclosed under FRS 8 Related Party Disclosures.





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