

The  Exchange

TEP Exchange Group PLC

Report and Financial Statements

for the year ended 31 December 2005

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Directors

G Kynoch *Chairman (Non-Executive)*
P Sands *Managing Director*
A Weitz *Non-Executive Director*
M Kraus *Non-Executive Director*
D Roxburgh *Non-Executive Director*

Secretary and registered office

J Murphy
12 Grosvenor Court
Foregate Street
Chester
Cheshire CH1 1HG

Company number

3877125

Auditors

BDO Stoy Hayward LLP
8 Baker Street
London W1U 3LL

Registrars

Capita IRG plc
The Registry
34 Beckenham Road
Beckenham
Kent BR3 4TU

Nominated adviser and broker

John East & Partners Limited
Crystal Gate
28-30 Worship Street
London EC2A 2AH

Bankers

Bank of Scotland plc
Queen Square House
15 Queen Square
Brighton
East Sussex BN1 3FD

Chairman's statement

I am pleased to report the results for the year ended 31 December 2005. Turnover for the year totalled £404,118 (2004 – £187,028) resulting in an operating loss of £69,032 compared to an operating loss of £496,616 in 2004. The loss on ordinary activities before and after taxation was £96,077 compared to a loss before and after taxation of £508,108 in 2003. The loss per share was 0.04 pence compared to a loss per share last year of 0.28 pence.

The greatly improved trading results in 2005 was due to a combination of:

- The increase in activity in the traded endowment policy (TEP) market as demonstrated by the substantial increase in turnover in 2005 compared to 2004;
- The beneficial cost effect of the renegotiated Agreement for the outsourcing of operational management to Surrenda-link;
- The continued focus on reducing costs.

The increase of activity in the TEP market due largely to demand emerging from Germany for British TEPs continued in 2005 and has continued in 2006.

During 2005, opportunities to add non U.K. based TEP trading activity and additional non-TEP related products have been identified and are expected to be realised in the coming year.

The renegotiated Agreement on the outsourcing of operational management to Surrenda-link Limited, which runs for three years from December 2004, has reduced the company's fixed cost structure and has assisted in stabilising the company's ongoing cash flow position.

Your Board continues to focus its efforts on financial viability and the creation of shareholder value.

Your Board is not proposing a dividend for the year under review.

G Kynoch
Chairman

4 May 2006

Corporate governance statement

TEP Exchange Group PLC is highly committed to high standards of corporate governance and the Company supports the provisions of the Combined Code on Corporate Governance laid out in the Financial Services Authority Listing Rules.

Companies on the Alternative Investment Market of the London Stock Exchange are not required to comply with the Combined Code and, due to the size of the Company, TEP Exchange Group PLC is not in full compliance. The Company is, however, working towards full compliance with the Combined Code and expects to be fully compliant in the near future.

The Board

The Board of TEP Exchange Group PLC consisted of one Executive Director and four Non-Executive Directors. The composition of the Board ensures no one individual or group of persons dominates the decision making process.

The Board is responsible to the shareholders for setting the direction of the Company through the establishment of strategic objectives and key policies. The Board meets on a regular basis and considers the strategic direction, approves major capital expenditure, appoints and monitors senior management and any other matters having a material effect on the Company. Presentations are made to the Board by senior management on the activities and both the Executive and Non-Executive Directors undertake regular visits to operations.

All Directors have access to management, including the Company Secretary, and to such information as is needed to carry out their duties and responsibilities fully and effectively.

Furthermore, all Directors are entitled to seek independent professional advice concerning the affairs of the Company at its expense. All Directors are subject to election by shareholders at the first annual general meeting following their appointment. In addition, Directors will retire and stand for re-election at least once every three years in accordance with the Company's Articles of Association.

The interests of the Directors in the shares and share options of the Company serve to align their interests with the shareholders generally and the Company does not consider this to have an adverse effect on their independence.

Nominations Committee

The Directors do not consider that, given the size of the Board, it is appropriate to have a Nominations Committee. The appropriateness of such a committee will, however, be kept under regular review by the Company.

Internal controls

The Directors are responsible for the Group's systems of internal control and reviewing its effectiveness. Any such system is designed to manage rather than eliminate risk of failure to achieve business objectives and can only provide reasonable assurance against material misstatement or loss.

Internal controls and business risks were monitored in the course of 2005 through regular Board meetings. A formal review of internal controls is scheduled for 2006.

Corporate governance statement

continued

Communication with shareholders

The Board recognises it is accountable to shareholders for the performance and activities of the Group.

The forthcoming Annual General Meeting of the Company will provide an opportunity for the Chairman to present to the shareholders a report on current operations and developments and enable the shareholders to express their views about the Company's business.

Remuneration Committee

The Directors do not consider that, given the size of the Group, it is appropriate to have a Remuneration Committee. The appropriateness of such a committee will, however, be kept under regular review by the Board. At present, remuneration of Directors and senior management is determined at the Board meetings.

Audit Committee

The Audit Committee, comprising solely of independent Non-Executive Directors, meets at least twice a year and considers the Company's financial reporting (including accounting policies) and internal financial controls.

Meetings are normally attended, by invitation, by a representative of the auditors.

The audit committee presently comprises G Kynoch, M Kraus and D Roxburgh.

Going concern

The Board is required to assess whether the Group has adequate financial resources to continue in operation for the foreseeable future. The Directors' statement on the appropriateness of the going concern basis is set out on pages 8 and 9.

Report of the Directors

for the year ended 31 December 2005

The Directors present their report together with the audited financial statements for the year ended 31 December 2005.

Principal activities and business review

The principal activity of the Group during the year was arranging the sale and purchase of with profit endowment policies on-line utilising its proprietary trading platform known as The TEP Exchange. The principle activity of the Group remained unchanged during the year.

A review of the business and future developments is given in the Chairman's statement on page 2.

Results and dividends

The consolidated profit and loss account is on page 11 and shows the result for the year. The Directors do not recommend the payment of a dividend (2004 – Nil).

Research and development

The Group has a policy of continual product development and enhancement of the modules, systems and facilities that constitute The TEP Exchange trading platform.

Directors and their interests

The Directors who served in office during the year and their interests in the Company's ordinary shares of 1p each are as follows:

Ordinary shares held at:	31 December 2005 (or date of resignation if earlier)		31 December 2004 (or date of appointment if earlier)	
	Number	%	Number	%
M Kraus	22,034,698*	11.50	22,034,698*	11.50
A Weitz	–	–	–	–
P Sands	–	–	–	–
G Kynoch	324,167	0.17	324,167	0.17
D Roxburgh	–	–	–	–

*Of these shares, M Kraus holds 3,125,000 ordinary shares. The remaining shares are held by the M Kraus Family Foundation pursuant to the terms of which M Kraus and members of his family are potential beneficiaries.

G Kynoch retires by rotation in accordance with the Articles of Association and being eligible offers himself for re-election. The terms of the Directors' service contracts or terms of engagement are set out below.

M Kraus, G Kynoch and D Roxburgh consider themselves to be independent Non-Executive Directors. M Kraus has been nominated as Senior Non-Executive Director.

Report of the Directors

continued

Directors and their interests continued

Share options

The Directors' interests in share options are set out below:

Interest held at:	31 December 2005	31 December 2004
M Kraus	287,273	287,273
A Weitz	295,545	295,545
P Sands	200,000	200,000
G Kynoch	–	–
D Roxburgh	–	–

Share options were granted to M Kraus and A Weitz on 16 February 2001 pursuant to the rules of the Enterprise Management Incentive Scheme (“the EMI Rules”). The subscription price payable under the terms of the share options granted to M Kraus and A Weitz were 10 pence per share. The terms of the share options granted under the EMI Rules permit exercise after the expiry of three years from the date of grant and before ten years after date of grant. There are no other restrictions preventing exercise under the terms of the share options or EMI Rules. Share options were granted to P Sands on 24 August 2001 pursuant to the rules of the Unapproved Share Option Scheme 2000. The subscription price payable under the share option was 8 pence per share. The terms of the Unapproved Share Option Plan permit exercise after the expiry of three years from the date of grant and before ten years after date of grant. There are no other restrictions preventing exercise under the terms of the share option or pursuant to the rules of the Unapproved Share Option Plan.

P Sands entered into a letter of engagement with the Company for his services as a Non-Executive Director of the Company. The agreement was deemed to commence on 7 June 2000 and is terminable on six months' written notice given by either party at any time. On 27 January 2006, P Sands was appointed Managing Director of the company.

Pursuant to a letter agreement dated 29 August 2001 with Drumduan Associates the Company secured the services of G Kynoch as Non-Executive Chairman. The agreement with Drumduan Associates is terminable on six months' written notice given by either party at any time.

M Kraus and D Roxburgh do not have service agreements with the Company.

The service agreement with A Weitz as an Executive Director terminated on the 18 January 2006. For a period of 9 months after termination Mr Weitz is prohibited from being interested in any matter or other entity which competes with the business of the Company other than as the holder of shares which confer not more than three per cent of the voting rights in a company listed on a Recognised Investment Exchange and for a period of 12 months after termination Mr Weitz is prohibited from soliciting or enticing Directors or senior employees, clients or customers of the Company. Mr Weitz is now a Non-Executive Director of the Company.

Report of the Directors

continued

Directors profile

George Kynoch (Non-Executive Chairman), aged 59, has over 30 years' experience in industry and was Chief Executive of G & G Kynoch plc (the predecessor of Kynoch Group plc, now called Bioquell PLC, the Officially Listed designer and manufacturer of healthcare equipment for use in contamination control). He was Grampian Industrialist of the Year in 1988 and received the Highland Business Award. Mr Kynoch was the Scottish Office Industry and Local Government Minister from 1995 to 1997, while serving as a Member of Parliament for Kincardine and Deeside between 1992 and 1997. He is also chairman of RDF Group Plc and ToLuna Plc and a director of Talent Group plc, all listed on AIM.

Paul Sands (Managing Director), aged 62, has 20 years experience in the UK Life Assurance and Financial Services market. He is Chief Executive of Portfolio Design Group International Limited (the parent company of Surrenda-link Limited), which he established in 1990 and under his direction the company has grown to a position of considerable prominence in the market for traded endowment policies (TEPs). Mr Sands is a Director of various TEP related funds, designed and created by Surrenda-link Limited, and is a former Chairman of the Association of Policy Market Makers (APMM). Mr Sands has also recently been appointed as a non-executive Director to Smart Move Pensions plc.

A Weitz (Non-Executive Director), aged 41, has many years of experience in the property industry, having joined Highdorn Co. Limited, a property management company, in early 1992. Mr Weitz has for some time had an interest in merging the new e-commerce ideas with more traditional business and is joint founder of the Company.

M Kraus (Non-Executive Director), aged 48, has been an active participant in the TEP market for several years. After finishing Rabbinical and Talmudic studies in 1980, Mr Kraus was a teacher in a religious school in Zurich between 1981 and 1985. In 1983 he trained as a life insurance salesman, in his spare time, with Winterthur Insurance in Zurich, where he was first exposed to the endowment policy market. In 1984 he became a significant shareholder in Caruso AG, which was formed in 1983 to sell life insurance and associated products. It currently holds endowment policies with a value of approximately CHF 200 million in its clients' portfolios. Mr Kraus' shareholding in Caruso AG has now reduced to less than 10 per cent and he has no executive role in that company. He moved from Switzerland to the United Kingdom in 1994 with residential status of "Person of Independent Means" which prevented him from working as an employee or engaging in business in the United Kingdom until he obtained indefinite residence in March 1999. He founded TEP Exchange Group PLC in November 1999.

David Roxburgh (Non-Executive Director), aged 42, a member of the Institute of Certified Public Accountants in Ireland and is Managing Director of the Fitzwilton Group of Companies. One of Fitzwilton's investments is a 36% shareholding in Portfolio Design Group International Limited (the parent company of Surrenda-link Limited). The business of Portfolio Design Group International Limited includes, inter alia, the purchase, sale and valuation of with profit endowment policies in the secondary market and management of portfolios of with profit endowment policies. Outside of the Fitzwilton Group, Mr. Roxburgh is a Non-Executive Director of Waterford Crystal Limited (the world renowned luxury branded company).

Report of the Directors

continued

Substantial shareholdings

Excluding Directors whose shareholdings are set out above, the following had declared an interest of 3% or more in the Company's issued ordinary share capital at 30 April 2006.

Name	Ordinary Shares	Percentage of Ordinary Shares
Surrenda-link Limited	100,671,279	44.83%
Mr Zwi Holles, Transcontex AG	18,602,858	8.28%
Surrenda Link (IOM) Limited	7,500,000	3.34%

None of the Directors are aware of any interest, apart from those listed above which represents 3% or more of the issued share capital of the Company or which directly or indirectly, jointly or severally, exercises or could exercise control of the Company.

The market price of the Company's shares at the end of the financial year was 0.25p; the highest and lowest share prices during the year were 1.16p and 0.25p respectively.

Group policy on payment of creditors

It is the Group's policy to agree terms of payment prior to commencing business with suppliers. The average creditor payment period for the Company at 31 December 2005 was 107 days (2004 – 144 days).

Statement of risk management policies

The Board agrees and reviews policies and financial instruments for risk management. The primary objectives of the treasury function are to provide competitively priced funding for the activities of the Group and to identify and manage financial risk. Short term liquidity risk is managed by obtaining and reviewing the adequacy of banking facilities. Credit risk is managed by regular assessment of customers.

Going concern

During the year ended 31 December 2005 the Group incurred a loss of £96,077 (2004 – £508,108) and at 31 December 2005 had net liabilities of £489,866 (2004 – £723,570).

The Group relies on support from one of its major shareholders, Surrenda-link Limited, in order to meet its obligations as they fall due. It is also financed through a bank loan, repayable by a one off amount of £95,000 in July 2006 and with the remainder over 36 months, together with a bank overdraft facility of £10,000. In addition, in 2005 the directors restructured the trading operation in particular with Surrenda-link Limited, who now charge for their services on a commission rather than a fixed fee basis. As a result of this and improved performance since the year end, the directors anticipate improved trading results for the forthcoming year and have projected cash flow information which shows creditors with the exception of Surrenda-link Limited can be repaid out of cash flow.

The Directors have received written confirmation from Surrenda-link Limited that the repayment of outstanding charges will be deferred for not less than one year from the date of the approval of these financial statements until such time as the Company has sufficient liquid resources after repaying all other creditors to repay them.

Report of the Directors

continued

Going concern continued

The Directors have also received assurances from Surrenda-link Limited that it will advance to the Company on a quarterly basis, the lesser of the sum of £20,000 and the specific corporate costs incurred by the Company, as defined in the Outsourcing Agreement signed in December 2004. The Company will utilise the quarterly advance from Surrenda-link to discharge the specific corporate costs. The Company has undertaken to use its reasonable endeavours to minimise specific corporate costs.

On the basis of the above, and all other available information, the Directors consider that the Group will become profitable and continue to operate within the facilities currently agreed and those likely to be agreed in the future with Surrenda-link Limited and its bankers and therefore that it is appropriate to prepare the financial statements on the going concern basis.

Directors' responsibilities

The Directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and United Kingdom Generally Accepted Accounting Practice.

Company law requires the Directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and of the Group and of the profit or loss of the Group for that year. In preparing those 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 Company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Auditors

BDO Stoy Hayward LLP have expressed their willingness to continue in office and a resolution to re-appoint them will be proposed at the annual general meeting.

By order of the Board

J Murphy
Secretary

4 May 2006

Report of the independent auditors

to the shareholders of TEP Exchange Group PLC

We have audited the financial statements of TEP Exchange Group PLC for the year ended 31 December 2005 which comprise the consolidated profit and loss account, consolidated reconciliation of movements in shareholders' funds, consolidated balance sheet, company balance sheet, consolidated cash flow statement and the related notes. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of Directors and auditors

As described in the Statement of Directors' Responsibilities the company's directors are responsible for the preparation of the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Chairman's Statement, Corporate Governance Statement and Report of the Directors is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

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

Our report has been prepared pursuant to the requirements of the Companies Act 1985 and for no other purpose. No person is entitled to rely on this report unless such a person is a person entitled to rely upon this report by virtue of and for the purpose of the Companies Act 1985 or has been expressly authorised to do so by our prior written consent. Save as above, we do not accept responsibility for this report to any other person or for any other purpose and we hereby expressly disclaim any and all such liability.

Basis of audit opinion

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

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

Opinion

In our opinion:

- the group financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the group's affairs as at 31 December 2005 and of its loss for the year then ended;
- the parent company financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the parent company's affairs as at 31 December 2005; and
- the financial statements have been properly prepared in accordance with the Companies Act 1985.

BDO Stoy Hayward LLP

Chartered Accountants
and Registered Auditors
London W1U 3LL

4 May 2005

Consolidated profit and loss account

for the year ended 31 December 2005

	Note	2005 £	2004 £
Turnover	2	404,118	187,028
Cost of sales		(120,834)	(43,297)
Gross profit		283,284	143,731
Administrative expenses		(525,363)	(906,622)
Other operating income	4	173,047	266,275
Operating loss	5	(69,032)	(496,616)
Interest receivable		1,352	253
Interest payable	6	(28,397)	(11,745)
Loss on ordinary activities before taxation		(96,077)	(508,108)
Tax on loss on ordinary activities	8	–	–
Loss on ordinary activities after taxation		(96,077)	(508,108)
Retained loss brought forward		(6,307,118)	(5,799,010)
Retained loss carried forward		(6,403,195)	(6,307,118)
Loss per share			
Basic and diluted loss per share	10	(0.04)p	(0.28)p

All amounts relate to continuing activities.

All recognised gains and losses are included in the profit and loss account.

The notes on pages 15 to 21 form part of these financial statements.

Reconciliation of movements in shareholders funds

for the year ended 31 December 2005

	2005 £	2004 £
Loss for the year	(96,077)	(508,108)
New share capital subscribed and issued	329,781	478,676
	233,704	(29,432)
Opening shareholders' funds	(723,570)	(694,138)
Closing shareholders' funds	(489,866)	(723,570)

Consolidated balance sheet

at 31 December 2005

	Note	2005 £	2005 £	2004 £	2004 £
Fixed assets					
Tangible assets	11		175		11,041
Current assets					
Stock	13	2,825		2,708	
Debtors	14	208,224		128,650	
Cash at bank and in hand		13,446		13,427	
		<u>224,495</u>		<u>144,785</u>	
Creditors: amounts falling due within one year					
	15	<u>(680,991)</u>		<u>(879,396)</u>	
Net current liabilities					
			<u>(456,496)</u>		<u>(734,611)</u>
Total assets less current liabilities					
			<u>(456,321)</u>		<u>(723,570)</u>
Creditors: amounts falling due after more than one year					
	16		<u>(33,545)</u>		<u>-</u>
Net liabilities					
			<u>(489,866)</u>		<u>(723,570)</u>
Capital and reserves					
Called up share capital	17		2,245,428		1,915,647
Share premium account	18		3,667,901		3,667,901
Profit and loss account	18		<u>(6,403,195)</u>		<u>(6,307,118)</u>
Shareholders' funds					
			<u>(489,866)</u>		<u>(723,570)</u>

The financial statements were approved by the board and authorised for issue on 4 May 2006

G Kynoch
Chairman

D Roxburgh
Director

The notes on pages 15 to 21 form part of these financial statements.

Company balance sheet

at 31 December 2005

	Note	2005 £	2005 £	2004 £	2004 £
Fixed assets					
Tangible assets	11		175		11,041
Investments	12		100,006		100,006
			<u>100,181</u>		<u>111,047</u>
Current assets					
Debtors – due within one year	14	359,335		287,242	
Cash at bank and in hand		<u>2</u>		<u>149</u>	
		359,337		287,391	
Creditors: amounts falling due within one year					
	15	<u>(1,392,926)</u>		<u>(1,316,577)</u>	
Net current liabilities					
			<u>(1,033,589)</u>		<u>(1,029,186)</u>
Total assets less current liabilities					
			(933,408)		(918,139)
Creditors: amounts falling due after more than one year					
	16		<u>(33,545)</u>		<u>-</u>
Net liabilities					
			<u>(966,953)</u>		<u>(918,139)</u>
Capital and reserves					
Called up share capital	17		2,245,434		1,915,647
Share premium account	18		3,667,901		3,667,901
Profit and loss account	18		<u>(6,880,288)</u>		<u>(6,501,687)</u>
Shareholders' funds					
			<u>(966,953)</u>		<u>(918,139)</u>

The financial statements were approved by the board and authorised for issue on 4 May 2006

G Kynoch
Chairman

D Roxburgh
Director

The notes on pages 15 to 21 form part of these financial statements.

Consolidated cash flow statement

for the year ended 31 December 2005

	Note	2005 £	2005 £	2004 £	2004 £
Net cash outflow from operating activities	22		(278,364)		(449,094)
Returns on investments and servicing of finance					
Interest received		1,352		253	
Interest paid		(28,397)		(11,745)	
New cash outflow from returns on investment and servicing of finance			(27,045)		(11,492)
Financing					
New bank loan		190,000		-	
Bank loan repaid		(29,375)		-	
Issue of ordinary share capital		329,787		478,676	
			490,412		478,676
Movement in net cash	23		185,003		18,090

The notes on pages 15 to 21 form part of these financial statements.

Notes forming part of the financial statements

for the year ended 31 December 2005

1 Accounting policies

The financial statements have been prepared under the historical cost convention and are in accordance with applicable United Kingdom accounting standards. The following principal accounting policies have been applied consistently in dealing with items that are considered material to the Group's financial statements.

Going concern

During the year ended 31 December 2005 the Group incurred a loss of £96,074 (2004 – £508,108) and at 31 December 2005 had net liabilities of £489,866 (2004 – £723,570).

The Group relies on support from one of its major shareholders, Surrenda-link Limited, in order to meet its obligations as they fall due. It is also financed through a bank loan, repayable by a one off amount of £95,000 in July 2006 and with the remainder over 36 months, together with a bank overdraft facility of £10,000. In addition, in 2005 the directors restructured the trading operation in particular with Surrenda-link Limited, who now charge for their services on a commission rather than a fixed fee basis. As a result of this and improved performance since the year end, the directors anticipate improved trading results for the forthcoming year and have projected cash flow information which shows creditors with the exception of Surrenda-link Limited can be repaid out of cash flow.

The Directors have received written confirmation from Surrenda-link Limited that the repayment of outstanding charges will be deferred for not less than one year from the date of the approval of these financial statements until such time as the Company has sufficient liquid resources after repaying all other creditors to repay them.

The Directors have also received assurances from Surrenda-link Limited that it will advance to the Company on a quarterly basis, the lesser of the sum of £20,000 and the specific corporate costs incurred by the Company, as defined in the Outsourcing Agreement signed in December 2004. The Company will utilise the quarterly advance from Surrenda-link to discharge the specific corporate costs. The Company has undertaken to use its reasonable endeavours to minimise specific corporate costs.

On the basis of the above, and all other available information, the Directors consider that the Group will become profitable and continue to operate within the facilities currently agreed and those likely to be agreed in the future with Surrenda-link Limited and its bankers and therefore that it is appropriate to prepare the financial statements on the going concern basis.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of TEP Exchange Group PLC and all of its subsidiary undertakings made up to 31 December 2005. Uniform accounting policies are adopted by all companies in the Group. The acquisition method of accounting is used to consolidate the results of subsidiary undertakings in the Group financial statements.

Turnover

Turnover represents fees and commission from arranging the sale and purchase of with profit endowment policies sales to outside customers less value added tax. Fee and commission income is recognised when contractually due.

Depreciation

Depreciation is provided to write off the cost, less estimated residual values, of all fixed assets over their expected useful lives. It is calculated at the following rates:

Fixtures, fittings and equipment	–	4 years
Computer equipment	–	3 years

Investments

Investments held as fixed assets are stated at cost less provision for impairment in value.

Notes forming part of the financial statements

continued

1 Accounting policies continued

Stocks

Stocks of endowment policies are valued at the lower of cost and net realisable value. Cost is based on the cost of purchase. Net realisable value is based on surrender value less additional costs to completion and disposal.

Operating leases

Annual rentals are charged to the profit and loss account on a straight-line basis over the term of the lease.

Financial instruments

The Group does not use derivative financial instruments for trading purposes or to manage risk.

Deferred tax

Deferred tax is recognised in respect of all timing differences that have originated but not reversed by the balance sheet date except for deferred tax assets which are only recognised to the extent that the Group anticipates making sufficient taxable profits in the future to absorb the reversal of the underlying timing differences.

2 Turnover

Turnover is wholly attributable to the principal activity of the Group and arises solely within the United Kingdom.

3 Employees

	2005 £	2004 £
Staff costs, including Directors, consist of:		
Wages and salaries	3,975	84,000
Social security costs	442	8,657
	4,417	92,657

The Group and Company had no employees other than the executive director (2004 – 1).

4 Other operating income

	2005 £	2004 £
Rent receivable	173,047	152,618
Expenses recharged	-	113,657
	173,047	266,275

5 Operating loss

	2005 £	2004 £
Operating loss is stated after charging:		
Depreciation	10,860	10,860
Auditors' remuneration – audit services	13,500	12,000
– non-audit services	2,500	2,500
Operating lease rentals – equipment	-	-
– land and buildings	140,900	140,900
	140,900	140,900

The audit fees of the Company are £13,500 (2004 – £12,000).

Notes forming part of the financial statements

continued

6 Interest payable	2005	2004
	£	£
Bank interest	<u>28,397</u>	<u>11,745</u>

7 Directors		
Directors' emoluments consist of:	2005	2004
	£	£
Fees and remuneration for management services	<u>3,975</u>	<u>84,000</u>

No pension contributions were made in respect of the Directors (2004 – Nil). Only one Director received any emoluments for his services (2004 – 1) and is therefore the highest paid Director.

8 Taxation on loss ordinary activities

No liability to corporation tax arises on the results for the year due to the losses incurred.

The tax assessed for the year varies from the standard rate of corporation tax in the UK. The differences are explained below:

	2005	2004
	£	£
Loss on ordinary activities before taxation	<u>(96,077)</u>	<u>(508,108)</u>
Loss on ordinary activities before taxation multiplied by the standard rate of UK corporation tax of 30% (2004 – 30%)	(28,823)	(152,432)
Tax losses not recognised as a deferred tax asset	<u>28,823</u>	<u>152,432</u>
Current year tax credit	<u>–</u>	<u>–</u>

At 31 December 2005 the Group had a deferred tax asset of £1,624,129 (2004 – £1,595,306) in respect of losses which have not been recognised in these financial statements.

9 Loss for the year attributable to the members of TEP Exchange Group PLC

	2005	2004
	£	£
Dealt with in financial statements of the Parent Company	<u>378,594</u>	<u>649,547</u>

The Company has taken advantage of the exemption allowed under section 230 of the Companies Act 1985 and has not presented its own profit and loss account in these financial statements.

10 Loss per share

The calculation of the basic loss per share is based on the loss after tax of £96,074 (2004 – £508,108) and on 211,678,109 (2004 – 181,073,202) ordinary shares, being the weighted average number of ordinary shares in issue. The options in issue at the 31 December 2004 and 31 December 2005 are antidilutive.

Notes forming part of the financial statements

continued

11 Tangible assets

Group and Company	Computer equipment £	Fixtures, fittings and equipment £	Total £
Cost			
At 1 January and 31 December 2005	173,446	65,474	238,920
Depreciation			
At 1 January 2005	173,446	54,439	227,885
Charge for the year	-	10,860	10,860
At 31 December 2005	173,446	65,299	238,745
Net book value			
At 31 December 2005	-	175	175
At 31 December 2004	-	11,035	11,035

12 Investments

	Company 2005 £	Company 2004 £
Subsidiary undertakings – shares at cost and net book value	100,006	100,006

The following were subsidiary undertakings held directly by Company at the end of the year:

Name	Country of incorporation	Proportion of voting rights and ordinary share capital held	Nature of business
TEP-Exchange Limited	England	100%	Intermediary to the traded endowment policy market
TEP-Exchange Interim Portfolio Limited	England	100%	Trading of traded endowment policies
TEP Transfer Limited	England	100%	Dormant
Interactive Intelligence Limited	England	100%	Dormant

13 Stocks

	2005 Group £	2004 Group £	2005 Company £	2004 Company £
Stocks of endowment policies held for resale	2,825	2,708	-	-

There is no material difference between the replacement cost of stocks and the amounts stated above.

Notes forming part of the financial statements

continued

14 Debtors	2005 Group £	2004 Group £	2005 Company £	2004 Company £
Trade debtors	21,732	58,150	14,541	44,613
Amount due from subsidiary undertaking	-	-	172,129	172,129
Other debtors and prepayments	186,492	70,500	172,665	70,500
	<u>208,224</u>	<u>128,650</u>	<u>359,335</u>	<u>287,242</u>

Included in amounts due from subsidiary undertakings is an amount of £150,000 (2004 – £150,000) in respect of an unsecured loan to TEP-Exchange Limited which is subject to a tripartite agreement with TEP Exchange Group PLC (the lender) and the Financial Services Authority. Interest can be demanded by TEP Exchange Group PLC and if so demanded will be calculated at the annual rate of 5% above the London Inter-Bank Offered Rate for deposits of pounds sterling. The earliest repayment date was 25 September 2003.

15 Creditors: amounts falling due within one year

	2005 Group £	2004 Group £	2005 Company £	2004 Company £
Bank overdraft	5,189	190,173	5,189	190,322
Bank loan	129,080	-	129,080	-
Trade creditors	307,779	384,859	306,750	376,403
Amount due to subsidiary undertaking	-	-	724,739	452,578
Creditors for taxation and social security	19,187	18,667	19,187	18,667
Other creditors	48,155	130,750	48,155	130,750
Accruals and prepaid income	171,601	154,947	159,826	147,857
	<u>680,991</u>	<u>879,396</u>	<u>1,392,926</u>	<u>1,316,577</u>

Of the Company's bank term loan of £160,625, £129,080 is repayable during 2006, and £31,545 over a further 2 years to December 2008. The company also has a bank overdraft facility of £10,000.

16 Creditors: amounts falling due over one year

	2005 Group £	2004 Group £	2005 Company £	2004 Company £
Bank loan	31,545	-	31,545	-
Other creditors	2,000	-	2,000	-
	<u>33,545</u>	<u>-</u>	<u>33,545</u>	<u>-</u>

Notes forming part of the financial statements

continued

17 Share capital

	2005 Number	2004 Number	2005 £	2004 £
Authorised				
Ordinary shares of 1p each	400,000,000	400,000,000	4,000,000	4,000,000
Allotted, called up and fully paid				
Ordinary shares of 1p each	224,543,426	191,564,726	2,245,434	1,915,647

During the year, the company issued 32,978,700 ordinary shares of 1p each at par.

Details of the share option schemes are shown below:

	Number of shares under option	Exercise price	Exercise period	
			From	To
Enterprise Management	1,027,879	3p	16.2.04	16.2.11
Incentive Scheme	600,000	8p	6.9.04	6.9.11
	582,818	10p	16.2.04	16.2.11
	1,500,000	12p	6.9.04	6.9.11
	<u>3,710,697</u>			
Unapproved Share Option Plan	200,000	8p	24.8.04	24.8.14
	<u>3,910,697</u>			

18 Reserves

	Profit and loss account £	Share premium account £
Group		
Balance at 1 January 2005	(6,307,118)	3,667,901
Loss for the year	(96,077)	-
At 31 December 2005	<u>(6,403,195)</u>	<u>3,667,901</u>
Company		
Balance at 1 January 2005	(6,501,687)	3,667,901
Loss for the year	(378,594)	-
At 31 December 2005	<u>(6,880,281)</u>	<u>3,667,901</u>

19 Commitments under operating leases

As at 31 December 2005, the Group and Company had annual commitments under non-cancellable operating leases as set out below:

	Land and building 2005 £	2004 £
Operating leases which expire:		
Between two and five year	-	140,900

20 Related party transactions

The Company has taken advantage of the exemption allowed by Financial Reporting Standard 8, 'Related Party Transactions', not to disclose any transactions with entities that are included in these consolidated financial statements.

During the year, the Group recharged expenditure of £nil (2004 – £113,657) to Surrenda-link Limited, a major shareholder in the Group. In addition, the Group charged fees to Surrenda-link Limited of £55,097 (2004 – £nil) and Surrenda-link Limited charged commission to the Group of £169,727 (2004 – £501,458). A loan of £40,000 (2004 – £40,000) from Surrenda-link Limited was outstanding at the year end. The total balance owing to Surrenda-link Limited at the year end was £228,436 (2004 – £427,680).

Notes forming part of the financial statements

continued

21 Financial instruments

The Board agrees and reviews policies and financial instruments for risk management. The primary objectives of the treasury function are to provide competitively priced funding for the activities of the Group and to identify and manage financial risk. Short term liquidity risk is managed by obtaining and reviewing the adequacy of banking facilities.

All bank borrowings are in sterling and on floating interest rates. The Group does not hedge interest rate risk. The Group does not face any significant foreign currency risk. As at 31 December 2005 the Group had unutilised bank facilities of £4,811 (2004 – £9,827), secured against the stocks.

Various financial instruments, such as trade debtors and trade creditors, arise directly from the Group's operations and the Group does not treat these as financial instruments for disclosure purposes.

Floating rate financial assets of £13,446 (2004 – £13,427) comprise sterling cash deposits the majority of which earn interest at the bank base rate minus 3%. Floating rate financial liabilities of £165,814 (2004 – £190,173) represents a sterling bank overdraft repayable on demand of £5,189 (2004 – £190,173), which attracts interest at the bank base rate plus 3%, and a term loan of £160,625 (2004 – £nil), which attracts interest at the bank base rate plus 3%.

There are no material differences between the book values and fair values of the Group's financial instruments.

22 Reconciliation of operating loss to net cash outflow from operating activities

	2005 £	2004 £
Operating loss	(69,029)	(496,616)
Depreciation	10,860	10,860
(Increase)/decrease in stock	(117)	(117)
Decrease/(increase) in debtors	(79,574)	79,017
(Decrease)/increase in creditors	(140,504)	(42,238)
Net cash outflow from operating activities	<u>(278,364)</u>	<u>(449,094)</u>

23 Reconciliation of net cash outflow to movement in cash and net debt

	2005 £	2004 £
Increase in cash in the year	185,003	18,090
Cash inflow from increase in debt	(160,625)	-
Changes in net debt resulting from cash flows	<u>24,378</u>	<u>18,090</u>
Opening cash and net debt	(176,746)	(194,836)
Closing cash and net debt	<u>(152,368)</u>	<u>(176,746)</u>

24 Analysis of net debt

	At 31 December 2004 £	Cash flow £	Non-cash movement £	At 31 December 2005 £
Cash in hand and at bank	13,427	19	-	13,446
Overdrafts	(190,173)	184,984	-	(5,189)
Cash equivalents	(176,746)	185,003	-	8,257
Bank loan	-	(160,625)	-	(160,625)
Net debt	<u>(176,746)</u>	<u>24,378</u>	<u>-</u>	<u>(152,368)</u>

Notice of annual general meeting

Notice is given that the annual general meeting of TEP Exchange Group PLC (“the Company”) will be held at the offices of John East & Partners Limited, Crystal Gate, 28-30 Worship Street, London EC2A 2AH on 27 June 2006 at 4 pm for the following purposes:

Ordinary Business

To consider and, if thought fit, pass the following resolutions as ordinary resolutions:

1. To receive, consider and adopt the report of the directors and the audited financial statements for the year ended 31 December 2005.
2. To re elect George Kynoch, who is retiring by rotation, as a director of the Company.
3. To re appoint BDO Stoy Hayward LLP as auditors and to authorise the directors to fix the their remuneration.

Special Business

To consider and, if thought fit, pass the following resolutions as special resolutions:

4. THAT the directors be and they are hereby generally and unconditionally authorised to exercise all the powers of the Company to allot relevant securities (as defined in section 80 of the Companies Act 1985 (the “Act”)) up to an aggregate nominal amount of £787,585 provided that this authority shall expire on the date preceding the fifth anniversary of the date of the passing of this resolution, except that the Company may before such expiry make an offer or agreement which would or might require relevant securities to be allotted after such expiry and the directors may allot relevant securities in pursuance of any such offer or agreement as if the authority conferred by this resolution had not expired and that this authority shall be in substitution for all previous authorities conferred upon the directors pursuant to section 80 of the Act but without prejudice to the allotment of any relevant securities already made or to be made pursuant to such authorities.
5. THAT, subject to and conditional upon the passing of resolution number 4 above, the directors be and they are hereby empowered, pursuant to section 95 of the Act, to allot equity securities (as defined in section 94 of the Act) for cash as if section 89(1) of the Act did not apply to any such allotment provided that this power shall be limited to:
 - (a) the allotment of equity securities in connection with a rights issue or other pro rata offer in favour of holders of ordinary shares where the equity securities respectively attributable to the interests of all the ordinary shareholders are proportionate (as nearly as may be) to the respective numbers of equity securities held by them subject in each case to such exclusions or other arrangements as the directors may consider necessary or expedient to deal with fractional entitlements or legal difficulties under the laws of any territory or the requirements of a regulatory body;

Notice of annual general meeting

continued

(b) the allotment (otherwise than pursuant to sub paragraph (a) above) of equity securities up to an aggregate nominal amount of £224,544,

and shall expire on whichever is the earlier of the date preceding the fifth anniversary of the date of the passing of this resolution or the expiry of the authority contained in resolution number 4 above except that the Company may before such expiry make an offer or agreement which would or might require equity securities to be allotted after such expiry and the directors may allot equity securities in pursuance of such offer or agreement as if the power conferred by this resolution had not expired.

By order of the Board

J Murphy
Company Secretary

Registered Office:
12 Grosvenor Court
Foregate Street
Chester CH1 1HG

1 June 2006

Notes:

1. A member entitled to attend and vote at the meeting is entitled to appoint a proxy to attend and to vote instead of him/her. A proxy need not be a member of the Company.
2. A form of proxy is provided with this notice and instructions for use are shown on the form. To be valid, completed forms must be received at the Company's registered office not less than 48 hours before the time fixed for the meeting.
3. The following documents are available for inspection at the registered office of the Company during normal business hours on each weekday (public holidays excluded) and at the place of the annual general meeting for 15 minutes prior to and during the meeting:
 - (a) the register of directors' interests (and their families) in shares of the Company;
 - (b) copies of directors' service contracts;
 - (c) copies of the Company's memorandum and articles of association.

