The TEP Exchange

TEP Exchange Group PLC

Report and Financial Statements

for the year ended 31 December 2006

Contents and company details

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 Street
Brighton
East Sussex BN1 3FD

Chairman's statement

I am pleased to report the results for the year ended 31 December 2006. Turnover for the year totalled £384,015 (2005 – £404,118) resulting in an operating loss of £21,011 compared to an operating loss of £69,032 in 2005. The loss on ordinary activities before and after taxation was £58,635, compared to a loss before and after taxation of £96,077 in 2005. The loss per share was 0.03 pence, compared to a loss per share last year of 0.04 pence.

Turnover increased significantly in the second half of the year compared to the first half due to a continuation of the increased activity in the traded endowment policy market as well as the 50 per cent increase in transaction charges which the Company implemented in the middle of the year.

In the first quarter of 2007, turnover as recorded in the internal management accounts of the Company matched the turnover achieved in the entire first half of 2006. In addition to this, your Directors have successfully negotiated a reduction in the variable fee percentage which is payable to Surrenda-link Limited for the outsourcing of the operational management of the business. This will result in a thirty five percent. saving in 2007 on the variable fee percentage which is payable to Surrenda-link Limited compared to last year. With the increase in turnover and the reduction in cost the Company is well placed to achieve further improvements in trading performance.

In March 2007, the Company raised £350,913 before expenses, by means of a share issue. The net proceeds of the share issue will be used to reduce debt and to fund the extension and development of the Company's electronic trading platform for its current range of products into the German and subsequently other European markets.

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

G Kynoch
Chairman

30 April 2007

Corporate governance statement

TEP Exchange Group PLC is highly committed to high standards of corporate governance and the Company is supportive of the provisions set out in Section 1 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 2006 through regular Board meetings. A formal review of internal controls is scheduled for 2007.

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 page 9.

Report of the Directors

for the year ended 31 December 2006

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

Principal activities and business review

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

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

Details of the Group's risk management policies in respect of financial instruments are given in note 20 to the financial statements.

The Group is also exposed to general business risks, such as:

- fluctuations in general economic conditions;
- demand for the type of products and services provided by the Company generally;
- fluctuations in the budgets of clients and the end-users serviced by the Company's clients; and
- the development of products and services by the Company's competitors.

In addition, factors within the Company's control, such as its capacity to deliver projects to its clients in a timely fashion, have caused its operating results to fluctuate in the past and may affect it similarly in the future.

The factors listed above may affect both the Company's periodical operating results as well as its long-term success. Given the fluctuations in its operating results, investors should not rely on periodical comparisons of the Company's results of operations as an indication of its future performance or to determine any trend in its performance.

Results and dividends

The consolidated profit and loss account is on page 12 and shows the result for the year. The Directors do not recommend the payment of a dividend (2005 – 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.

Report of the Directors

continued

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 2006 (or date of resignation if earlier)		31 December 2005 (or date of appointment if earlier)	
	Number	%	Number	%
M Kraus	22,034,698*	9.81	22,034,698*	9.81
A Weitz	–	–	–	–
P Sands	–	–	–	–
G Kynoch	324,167	0.14	324,167	0.14
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.

D Roxburgh 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.

Share options

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

Interest held at:	31 December 2006	31 December 2005
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.

On 29 August 2001, the Company entered into a letter of appointment with Drumduan Associates, to provide the services of George Kynoch to act as a non-executive director and chairman of the Company. The appointment is terminable by either party giving to the other not less than six months' written notice. In return for the provision of the services of the Company will pay Drumduan Associates an annual fee (exclusive of VAT) of £25,000. In the event that Mr Kynoch is

Report of the Directors

continued

Directors and their interests continued

required to provide his services in excess of 3 days per calendar month, the Company shall pay an additional fee of £800 per eight hours for such excess time. The letter of appointment contains a customary confidentiality clause. Upon termination, no benefits (other than those accruing during the notice period) are due to Drumduan Associates and Mr Kynoch shall resign as a director.

Mr Sands has a service agreement dated 15 February 2007. The service agreement continues until terminated by either party giving not less than three months' written notice. Mr Sands is entitled to a fee of £5,000 per annum in the event that the Company achieves profits of at least £50,000 per annum.

Mr Weitz has a letter of engagement dated 15 February 2007. The appointment is terminable by either party giving not less than three months' written notice. Mr Weitz will receive a monthly fee of £300 (exclusive of VAT). In the 2007 financial period Mr Weitz will receive a monthly fee of £600, £300 per month of which is payable in lieu of fees not paid during the course of 2006.

Mr Kraus has a letter of engagement dated 15 February 2007. The appointment is terminable by either party giving not less than three months' written notice. Mr Kraus will receive a monthly fee of £300 (exclusive of VAT) during the period of his appointment.

Save as disclosed above, there are no existing or proposed service agreements, between any Director and the Company or any of its subsidiaries, whether providing for benefits upon termination of employment or otherwise, and no such agreements have been entered into, replaced or amended within the six months preceding the date of this document.

Directors profile

George Kynoch (Non-Executive Chairman), aged 60, 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 chairman of OCZ Technology Group, Inc., ToLuna Plc and Mercury Group plc and a non-executive director of Talent Group plc, all of which are admitted to trading on AIM.

Paul Sands (Managing Director), aged 63, has 20 years' experience in the UK Life Assurance and Financial Services market. He is Chief Executive of Portfolio Design Group (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 42, 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.

Report of the Directors

continued

Directors profile continued

M Kraus (Non-Executive Director), aged 49, 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 % 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 43, 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 (the parent company of Surrenda-link Limited). The business of Portfolio Design Group includes the purchase, sale and valuation of secondary life policies, the valuation and procurement of US traded senior life interest policies and investment adviser on specialist investment products. Outside of the Fitzwilton Group, Mr. Roxburgh is a Non-Executive Director of Waterford Crystal Limited (the world renowned luxury branded company).

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 31 December 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%
Close Horizons 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.

On completion of the allotment of new share capital on 14 March 2007, Surrenda-link Limited holds 209,032,798 ordinary shares, equivalent to 52.26% of the enlarged issued ordinary share capital and Close Horizons Limited holds 20,833,333 ordinary shares, equivalent to 5.21% of the enlarged issued ordinary share capital. The shareholding of Mr Zwi Holles, Transcontex AG, now represents 4.65% of the enlarged issued ordinary share capital.

The market price of the Company's shares at the end of the financial year was 0.50p; the highest and lowest share prices during the year were 0.55p and 0.50p 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 2006 was 85 days (2005 – 107 days).

Report of the Directors

continued

Post balance sheet events

On 14 March 2007, the Company issued a total of 175,456,573 new ordinary shares at 0.2p per share. Following allotment of the new ordinary shares, the Company has a total of 399,999,999 ordinary shares of 0.01p each in issue.

International Financial Reporting Standards

It is a requirement that all AIM quoted companies adopt International Financial Reporting Standards ("IFRS") for reporting their group results for financial years beginning on or after 1 January 2007. Both the Group's June 2007 interim results and December 2007 full year results will therefore be presented under IFRS. This is purely an accounting change and will not affect the Group's business operations or underlying cash flows.

The implications of the transition to IFRS for TEP Exchange Group PLC are being reviewed and an announcement will be made in due course summarising the expected principal changes arising from the transition.

Going concern

During the year ended 31 December 2006 the Group incurred a loss of £58,635 (2005 – £96,077) and at 31 December 2006 had net liabilities of £548,501 (2005 – £489,866).

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 together with a bank overdraft facility of £10,000. In addition, the directors have restructured the trading operation and in particular with Surrenda-link Limited, who charge for their services on a commission 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 show creditors can be repaid out of cash flow.

The Directors have received written confirmation from Surrenda-link Limited that the repayment of existing 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. At 31 December 2006, of the total balance owing to Surrenda-link Limited, £213,562 is included within creditors falling due after more than one year.

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 Limited to discharge the specific corporate costs. The Company has undertaken to use its reasonable endeavours to minimise specific corporate costs. This funding is repayable out of the Company's share of the income generated from the electronic platform.

Since the year end, the Company has raised approximately £270,000, after professional fees, from the share issue in March 2007. £200,000 of the proceeds from this has been used to reduce the amounts payable to Surrenda-link Limited with the remainder being used to help launch the Company's German TEP platform.

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.

Report of the Directors

continued

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.

Financial statements are published on the Group's website in accordance with legislation in the United Kingdom governing the preparation and dissemination of financial statements, which may vary from legislation in other jurisdictions. The maintenance and integrity of the group's website is the responsibility of the Directors. The Directors' responsibility also extends to the ongoing integrity of the financial statements contained therein

Auditors

All of the current directors have taken all the steps that they ought to have taken to make themselves aware of any information needed by the company's auditors for the purposes of their audit and to establish that the auditors are aware of that information. The directors are not aware of any relevant audit information of which the auditors are unaware.

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

30 April 2007

Report of the independent auditors

to the shareholders of TEP Exchange Group PLC

We have audited the group and parent company financial statements (the "financial statements") of TEP Exchange Group PLC for the year ended 31 December 2006 which comprise such as the Group Profit and Loss Account, the Group and Company Reconciliation of Movements in Shareholders' Funds, the Group and Company Balance Sheets, the Group 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

The directors' responsibilities for preparing the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities

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

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

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

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 and company's circumstances, consistently applied and adequately disclosed.

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

Opinion

In our opinion:

- the 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 2006 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 2006;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements.

BDO Stoy Hayward LLP
Chartered Accountants
and Registered Auditors
London W1U 3LL

30 April 2007

Consolidated profit and loss account

for the year ended 31 December 2006

	Note	2006 £	2005 £
Turnover	2	384,015	404,118
Cost of sales		(56,250)	(120,834)
Gross profit		327,765	283,284
Administrative expenses		(452,928)	(525,363)
Other operating income	4	104,152	173,047
Operating loss	5	(21,011)	(69,032)
Interest receivable and similar income		448	1,352
Interest payable and similar charges	6	(38,072)	(28,397)
Loss on ordinary activities before taxation		(58,635)	(96,077)
Tax on loss on ordinary activities	8	–	–
Loss on ordinary activities after taxation	18	(58,635)	(96,077)
Loss per share			
Basic and diluted loss per share	10	(0.03)p	(0.04)p

All amounts relate to continuing activities.

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

The notes on pages 17 to 24 form part of these financial statements.

Reconcilation of movements in shareholders funds

for the year ended 31 December 2006

	2006 £	2005 £
Group		
Loss for the year	(58,635)	(96,077)
New share capital subscribed and issued	–	329,781
	(58,635)	233,704
Opening shareholders' funds	(489,866)	(723,570)
Closing shareholders' funds	(548,501)	(489,866)
Company		
Loss for the year	(385,950)	(378,595)
New share capital subscribed and issued	–	329,781
	(385,950)	(48,814)
Opening shareholders' funds	(966,953)	(918,139)
Closing shareholders' funds	(1,352,903)	(966,953)

The notes on pages 17 to 24 form part of these financial statements.

Consolidated balance sheet

at 31 December 2006

	Note	2006 £	2006 £	2005 £	2005 £
Fixed assets					
Tangible assets	11		–		175
Current assets					
Stock	13	2,938		2,825	
Debtors	14	229,999		208,224	
Cash at bank and in hand		25,798		13,446	
		258,735		224,495	
Creditors: amounts falling due within one year	15	(536,338)		(680,991)	
Net current liabilities			(277,603)		(456,496)
Creditors: amounts falling due after more than one year	16		(270,898)		(33,545)
Net liabilities			(548,501)		(489,866)
Capital and reserves					
Called up share capital	17		2,245,434		2,245,434
Share premium account	18		3,667,901		3,667,901
Profit and loss account	18		(6,461,836)		(6,403,201)
Shareholders' funds			(548,501)		(489,866)

The financial statements were approved by the Board of Directors and authorised for issue on 30 April 2007

G Kynoch
Chairman

D Roxburgh
Director

The notes on pages 17 to 24 form part of these financial statements.

Company balance sheet

at 31 December 2006

	Note	2006 £	2006 £	2005 £	2005 £
Fixed assets					
Tangible assets	11		–		175
Investments	12		100,006		100,006
			100,006		100,181
Current assets					
Debtors – due within one year	14	357,862		359,335	
Cash at bank and in hand		4,832		2	
		362,694		359,337	
Creditors: amounts falling due within one year	15	(1,544,705)		(1,392,926)	
Net current liabilities			(1,182,011)		(1,033,589)
Creditors: amounts falling due after more than one year	16		(270,898)		(33,545)
Net liabilities			(1,352,903)		(966,953)
Capital and reserves					
Called up share capital	17		2,245,434		2,245,434
Share premium account	18		3,667,901		3,667,901
Profit and loss account	18		(7,266,238)		(6,880,288)
Shareholders' funds			(1,352,903)		(966,953)

The financial statements were approved by the Board of Directors and authorised for issue on 30 April 2007

G Kynoch
Chairman

D Roxburgh
Director

The notes on pages 17 to 24 form part of these financial statements.

Consolidated cash flow statement

for the year ended 31 December 2006

	Note	2006 £	2006 £	2005 £	2005 £
Net cash inflow/(outflow) from operating activities	21		105,869		(278,364)
Returns on investments and servicing of finance					
Interest received		448		1,352	
Interest paid		(38,072)		(28,397)	
New cash outflow from returns on investments and servicing of finance			(37,624)		(27,045)
Financing					
New bank loan		–		190,000	
Bank loan repaid		(50,704)		(29,375)	
Issue of ordinary share capital		–		329,787	
Net cash (outflow)/inflow from financing			(50,704)		490,412
Increase in cash	22		17,541		185,003

The notes on pages 17 to 24 form part of these financial statements.

Notes forming part of the financial statements

for the year ended 31 December 2006

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.

In preparing these financial statements the Company and the Group has adopted for the first time FRS 20 'Share Based Payments'. However, as the Company's share options were granted prior to 7 November 2002, the Company has elected not to apply the requirements of this standard to these share based payment arrangements.

Going concern

During the year ended 31 December 2006 the Group incurred a loss of £58,635 (2005 – £96,077) and at 31 December 2006 had net liabilities of £548,501 (2005 – £489,866).

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 together with a bank overdraft facility of £10,000. In addition, the directors have restructured the trading operation and in particular with Surrenda-link Limited, who charge for their services on a commission 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 show creditors can be repaid out of cash flow.

The Directors have received written confirmation from Surrenda-link Limited that the repayment of existing 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. At 31 December 2006, of the total balance owing to Surrenda-link Limited, £213,562 is included within creditors falling due after more than one year.

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 Limited to discharge the specific corporate costs. The Company has undertaken to use its reasonable endeavours to minimise specific corporate costs. This funding is repayable out of the Company's share of the income generated from the electronic platform.

Since the year end, the Company has raised approximately £270,000, after professional fees, from the share issue in March 2007. £200,000 of the proceeds from this has been used to reduce the amounts payable to Surrenda-link Limited with the remainder being used to help launch the Company's German TEP platform.

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 2006. 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 (exclusive of value added tax) from the purchase of with profit endowment policies by market makers registered on the electronic trading platform. Fee and commission income is recognised when the Group's contractual obligations are substantially complete.

Notes forming part of the financial statements

continued

1 Accounting policies continued

Other operating income

Rent receivable is credited to the profit and loss account on a straight-line basis over the term of the rental agreement.

Research and development costs

All research and development costs are charged to the profit and loss account in the year in which the expenditure is incurred.

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.

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

Financial instruments are recognised initially and subsequently at cost. The Group does not use derivative financial instruments for trading purposes or to manage risk.

Taxation

The charge for taxation is based on the profit for the year and takes into account taxation deferred. Current tax is measured at amounts expected to be paid using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

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

2 Turnover

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

3 Employees

	2006 £	2005 £
Staff costs, including Directors, consist of:		
Wages and salaries	3,975	3,975
Social security costs	11	442
	3,986	4,417

The company had no employees other than the executive director.

Notes forming part of the financial statements

continued

4 Other operating income

	2006 £	2005 £
Rent receivable	104,152	173,047

5 Operating loss

Operating loss is stated after charging:

	2006 £	2005 £
Depreciation	175	10,860
Auditors' remuneration – audit services	13,750	13,250
Operating lease rentals – land and buildings	111,416	140,900

The audit fees of the Company are £12,000 (2005 – £12,000).

6 Interest payable

	2006 £	2005 £
Bank interest	38,072	28,397

7 Directors

Directors' emoluments consist of:

	2006 £	2005 £
Fees and remuneration for management services	3,975	3,975

No pension contributions were made in respect of the Directors (2005 – Nil).

8 Taxation on loss on 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:

	2006 £	2005 £
Loss on ordinary activities before taxation	(58,635)	(96,077)
Loss on ordinary activities before taxation multiplied by the standard rate of UK corporation tax of 30% (2005 – 30%)	(17,590)	(28,823)
Tax losses not recognised as a deferred tax asset	17,590	28,823
Current year tax credit	–	–

At 31 December 2006 the Group had a deferred tax asset of £1,641,719 (2005 – £1,624,129) in respect of losses which have not been recognised in these financial statements in accordance with the Group's accounting policy on page 18.

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

	2006 £	2005 £
Dealt with in financial statements of the Parent Company	385,950	378,594

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.

Notes forming part of the financial statements

continued

10 Loss per share

The calculation of the basic loss per share is based on the loss after tax of £58,635 (2005 – £96,077) and on 224,543,426 (2005 – 211,678,109) ordinary shares, being the weighted average number of ordinary shares in issue. The options in issue at the 31 December 2005 and 31 December 2006 are antidilutive and have therefore been excluded from the calculation of diluted earnings per share. However, such options may be dilutive in future periods.

Details of shares issued since the balance sheet date are given in note 24.

11 Tangible assets

Group and Company	Computer equipment £	Fixtures, fittings and equipment £	Total £
Cost			
At 1 January and 31 December 2006	173,446	65,474	238,920
Depreciation			
At 1 January 2006	173,446	65,299	238,745
Charge for the year	–	175	175
At 31 December 2006	173,446	65,474	238,920
Net book value			
At 31 December 2006	–	–	–
At 31 December 2005	–	175	175

12 Investments

	Company 2006 £	Company 2005 £
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%	Advertising services 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

Notes forming part of the financial statements

continued

13 Stocks

	2006 Group £	2005 Group £	2006 Company £	2005 Company £
Stocks of endowment policies held for resale	2,938	2,825	–	–

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

14 Debtors

	2006 Group £	2005 Group £	2006 Company £	2005 Company £
Trade debtors	41,630	21,732	–	14,541
Amount due from subsidiary undertaking	–	–	172,129	172,129
Other debtors	146,599	109,931	143,963	96,104
Prepayments and accrued income	41,770	76,561	41,770	76,561
	229,999	208,224	357,862	359,335

Included in amounts due from subsidiary undertakings is an amount of £150,000 (2005 – £150,000) in respect of an unsecured loan to TEP-Exchange Limited and 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

	2006 Group £	2005 Group £	2006 Company £	2005 Company £
Bank overdraft	–	5,189	–	5,189
Bank loan	52,585	129,080	52,585	129,080
Trade creditors	286,854	307,779	286,854	306,750
Amount due to subsidiary undertaking	–	–	1,011,135	724,739
Creditors for taxation and social security	10,815	19,187	10,815	19,187
Other creditors	45,250	48,155	45,250	48,155
Accruals and deferred income	140,834	171,601	138,066	159,826
	536,338	680,991	1,544,705	1,392,926

Of the Company's bank term loan of £109,921, £52,585 is repayable during 2007, and £57,336 over a further year to December 2008. The company also has a bank overdraft facility of £10,000.

16 Creditors: amounts falling due in over one year

	2006 Group £	2005 Group £	2006 Company £	2005 Company £
Bank loan	57,336	31,545	57,336	31,545
Trade creditors	213,562	–	213,562	–
Other creditors	–	2,000	–	2,000
	270,898	33,545	270,898	33,545

Notes forming part of the financial statements

continued

17 Share capital

	2006 Number	2005 Number	2006 £	2005 £
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	224,543,426	2,245,434	2,245,434

Details of the two equity settled share option schemes are shown below:

	Number of shares under option	Exercise price	Grant date	Exercise period From	To
Enterprise Management	1,027,879	3p	16.2.01	16.2.04	16.2.11
Incentive Scheme	600,000	8p	6.9.01	6.9.04	6.9.11
	582,818	10p	16.2.01	16.2.04	16.2.11
	1,500,000	12p	6.9.01	6.9.04	6.9.11
	3,710,697				
Unapproved Share Option Plan	200,000	8p	24.8.01	24.8.04	24.8.11
	3,910,697				

There were no changes to the number of options in issue in either the current or prior period.

18 Reserves

	Profit and loss account £	Share premium account £
Group		
Balance at 1 January 2006	(6,403,201)	3,667,901
Loss for the year	(58,635)	–
At 31 December 2006	(6,461,836)	3,667,901
Company		
Balance at 1 January 2006	(6,880,288)	3,667,901
Loss for the year	(385,950)	–
At 31 December 2006	(7,266,238)	3,667,901

19 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 £122,657 (2005 – £55,097) to Surrenda-link Limited, a major shareholder in the Group. In addition, Surrenda-link Limited recharged expenditure of £195,802 (2005 – £169,727) to the Group. A loan of £40,000 (2005 – £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 £413,562 (2005 – £228,436).

Notes forming part of the financial statements

continued

20 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. Credit risk represents the loss that the company would incur if a counterparty failed to perform its contractual obligations and this risk is mitigated through regular credit reviews of counterparties.

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 2006 the Group had unutilised bank facilities expiring with one year of £10,000 (2004 – £4,811), 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.

Set out below is a comparison by category of book values of the Group's financial assets and liabilities:

	2006 £	2005 £
Floating rate financial assets		
Cash at bank and in hand	25,798	13,446
Floating rate financial liabilities		
Bank overdraft	–	5,189
Bank loan	109,721	160,625
Other loans	40,000	40,000
	149,721	205,814

Floating rate financial assets earn interest at the bank base rate minus 3%. Interest is payable on the bank overdraft and bank loan at the bank base rate plus 3% and on the other loan at the bank base rate plus 2%. There are no differences between the book values and fair values of these financial assets and liabilities.

21 Reconciliation of operating loss to net cash inflow/(outflow) from operating activities

	2006 £	2005 £
Operating loss	(21,011)	(69,032)
Depreciation	175	10,860
Increase in stock	(113)	(117)
Increase in debtors	(21,775)	(79,574)
Increase/(decrease) in creditors	148,593	(140,501)
Net cash inflow/(outflow) from operating activities	105,869	(278,364)

Notes forming part of the financial statements

continued

22 Reconciliation of net cash inflow to movement in cash and net debt

	2006 £	2005 £
Increase in cash in the year	17,541	185,003
Movement in net debt in the year	50,704	(160,625)
Changes in net debt resulting from cash flows	68,245	24,378
Opening net debt	(192,368)	(216,746)
Closing net debt	(124,123)	(192,368)

23 Analysis of net debt

	At 31 December 2005 £	Cash flow £	Non-cash movement £	At 31 December 2006 £
Cash in hand and at bank	13,446	12,352	–	25,798
Overdrafts	(5,189)	5,189	–	–
	8,257	17,541	–	25,798
Debt due within one year				
Bank loan	(129,080)	76,495	–	(52,585)
Other loans	(40,000)	–	–	(40,000)
Debt due after one year				
Bank loan	(31,545)	(25,791)	–	(57,336)
Net debt	(192,368)	68,245	–	(124,123)

24 Post balance sheet events

On 14 March 2007, the Company issued a total of 175,456,573 new ordinary shares at 0.2p per share. Following allotment of the new ordinary shares, the Company has a total of 399,999,999 ordinary shares of 0.01p each in issue.

Notice of annual general meeting

Notice is given that the annual general meeting of the Company will be held at the offices of John East & Partners Limited, Crystal Gate, 28-30 Worship Street, London EC2A 2AH on 26 June 2007 at 12 noon 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 2006.
2. To re elect David Roxburgh, 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 their remuneration.

Special Business

To consider and, if thought fit, pass the following resolutions of which resolution 4 is proposed as an ordinary resolution and resolution 5 as a special resolution:

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 £13,333.33 provided that this authority shall expire at the end of the next annual general meeting of the Company or, if earlier, fifteen months from 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 £10,000,

and shall expire at the end of the next annual general meeting of the Company or, if earlier, fifteen months from 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 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
Secretary

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

31 May 2007

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.

Form of Proxy

For use at the Annual General Meeting

I/We ____
(Name in full in block capitals please)

of ____

being [a] member[s] of TEP Exchange Group PLC appoint the chairman of the meeting (See note 5 below)

____

to act as my/our proxy to vote for me/us on my/our behalf at the Annual General Meeting of the Company to be held on 26 June 2007 at 12 noon and at any adjournment thereof and direct him/her to vote on the resolutions set out in the Notice of Annual General Meeting as indicated below:

Business		**For**	**Against**	**Vote Withheld**	**Discretionary**
Resolution 1.	To receive, consider and adopt the report of the directors and the audited financial statements for the year ended 31 December 2006.	☐	☐	☐	☐
Resolution 2.	To re elect David Roxburgh as a director.	☐	☐	☐	☐
Resolution 3.	To re appoint BDO Stoy Hayward LLP as auditors and to authorise the directors to fix their remuneration	☐	☐	☐	☐
Resolution 4.	To authorise the directors to allot shares pursuant to section 80 Companies Act 1985.	☐	☐	☐	☐
Resolution 5.	To disapply section 89(1) Companies Act 1985.	☐	☐	☐	☐

Signature ______________________________ Dated ____________________ 2007

Notes:

1. To be valid this Form of Proxy must be deposited at the Company's registrars Capita IRG plc, the Proxy Processing Centre, Telford Road, Bicester OX26 4LD (or alternatively at the Registered Office of the Company for the attention of the Secretary) not less than 48 hours before the time fixed for the Meeting, or adjourned meeting, at which it is to be used and in default will not be treated as valid.
2. The form must be signed. If someone else signed the form on your behalf, you or that person must send the power of attorney or other written authority under which it is signed.
3. A corporation must execute this form either under its common seal or under the hand of two directors or one director and the secretary or under the hand of an officer or attorney duly authorised in writing.
4. This form enables you to instruct your proxy how to vote in the event of a poll on the resolutions to be proposed at the meeting. If you want your proxy to vote in a certain way on the resolutions specified please place an 'X' in the relevant boxes. <u>If you select 'discretionary' or fail to select any of the given options your proxy can vote as he or she chooses or can decide not to vote at all.</u> The proxy can also do this on any other resolution that is put to the meeting. The 'Vote Withheld' option is provided to enable you to abstain on any particular resolution however it should be noted that <u>a 'vote withheld' is not a vote in law and will not be counted in the calculation of the proportion of the votes 'For' and 'Against' a resolution</u>.
5. The appointment of the chairman as proxy has been included for convenience. If you wish to appoint any other person as proxy delete the words "the chairman of the meeting" and add the name and address of the proxy appointed. A proxy need not be a member of the company. If you do not delete such words and you appoint a proxy, the chairman shall not be entitled to vote as proxy. Any alteration must be initialled.
6. In the case of joint holders, the signature of any one holder will be sufficient but the names of all the joint holders should be stated and the vote of the senior who tenders a vote, whether in person or by proxy, will be accepted to the exclusion of the votes of the other joint holders. For this purpose, seniority will be determined by the order in which the names stand in the register of members in respect of the shares.
7. Returning the form of proxy will not prevent you from attending the meeting and voting in person.
8. To be entitled to attend and vote at the above meeting (and for the purposes of determining the number votes member may cast), members must be entered on the Company's registrars of member at 12 noon on 24 June 2006 or, if the meeting is adjourned, members must be entered on the Company's register of members at 6p.m. on the day two days before the time fixed for the adjourned meeting, these being times specified pursuant to Regulation 41 of the Uncertified Securities Regulations 2001.

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