

TEP Exchange Group PLC

Report and Financial Statements

Year Ended

31 December 2004

3877125



TEP Exchange Group PLC

Report and financial statements for the year ended 31 December 2004

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Directors

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

Secretary and registered office

J Murphy
1-2 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
Kent
BR3 4TU

Nominated adviser

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

Brokers

Insinger Townsley
44 Worship Street
London
EC2A 2AH

TEP Exchange Group PLC

Chairman's statement

I am pleased to report the results for the year ended 31 December 2004. Turnover for the year totalled £187,028 (2003 - £58,930) resulting in an operating loss of £496,616 compared to an operating loss of £606,549 in 2003. The loss on ordinary activities before and after taxation was £508,108 compared to a loss before and after taxation of £601,848 in 2003. As a result of our operational management arrangements with Surrenda-link Limited, there was a reduction in net debt during the year of £18,090.

Whilst trading results continue to be disappointing there was a noticeable increase in activity in the traded endowment policy (TEP) market in the second half of 2004. The turnover achieved in the second half of 2004 amounted to £112,000 compared to the turnover of £75,000 achieved in the first half of 2004.

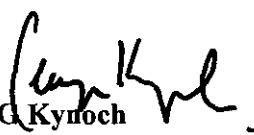
For the first five months of 2005, the company has seen policy submissions on the trading platform increase by 30% in volume terms, compared to the same period in 2004. One of the major reasons for the increase in activity in the TEP market has been the demand emerging from Germany for British TEPs and it is expected that this demand will continue to grow as the current year progresses.

In the second half of 2004, a new website, allowing direct interaction with the public, was launched successfully and this has increased the supply of policies for sale on the trading platform.

The Agreement on the outsourcing of operational management to Surrenda-link Limited, which has been operating successfully for the last two years, was renegotiated in December 2004 for a further three year period. Under the new arrangement, Surrenda-link Limited receive no fixed fees for the services but instead all the fees are payable in cash on a turnover related basis. This has further reduced the company's fixed cost structure and will assist in stabilising its ongoing cash flow position.

Your Board continues to focus their 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

28 June 2005

TEP Exchange Group PLC

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 I 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 2004 through regular Board meetings. A more formal review of internal controls is scheduled before the end of 2005.

Communication with shareholders

The Board recognises that 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 not less than 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 8.

TEP Exchange Group PLC

Report of the Directors for the year ended 31 December 2004

The Directors present their report together with the audited financial statements for the year ended 31 December 2004.

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 (2003 - 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 2004 (or date of resignation if earlier)		31 December 2003 (or date of appointment if earlier)	
	Number	%	Number	%
M Kraus	22,034,698*	11.50	22,034,698*	15.33
A Weitz	-	-	-	-
P Sands	-	-	-	-
G Kynoch	324,167	0.17	274,167	0.19
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.

P Sands 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.

TEP Exchange Group PLC

Report of the Directors for the year ended 31 December 2004 (Continued)

Directors and their interests (Continued)

Share options

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

Interest held at:	31 December 2004	31 December 2003
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. 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.

A Weitz originally entered into a service agreement dated 29 August 2001 providing an annual salary of £72,000 per annum. The service agreement is for an initial term of 12 months, and, thereafter, continues until terminated by either party giving not less than 12 months written notice. The agreement provides that Mr Weitz will work full time for the Company being such number of hours as agreed between him and the Company. 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.

TEP Exchange Group PLC

Report of the Directors for the year ended 31 December 2004 (*Continued*)

Directors' profile

George Kynoch (Non-Executive Chairman), aged 58, 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 a director of Talent Group Plc, RDF Group Plc and ToLuna Plc.

A Weitz (Director), aged 40, 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 47, 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 41, 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 comprises 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 Hart Marketing Services Limited (a financial services company) and Waterford Crystal Limited (the world renowned luxury branded company).

P Sands (Non-Executive Director), aged 61, has nearly 20 years experience in the UK Life Assurance and Financial Services market. He is Chief Executive 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 is also the non-executive Chairman of Hart Marketing Services Limited (a financial services company).

TEP Exchange Group PLC

Report of the Directors for the year ended 31 December 2004 (*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 21 June 2005.

Name	Ordinary Shares	Percentage of Ordinary Shares
Surrenda-link Limited	100,671,279	44.83%
Mr Zwi Holles, Transcontex AG	18,606,858	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.

Post balance sheet events

On 23 May 2005, the Company issued 32,978,700 Ordinary Shares of 1p each at par. These shares were issued and allotted in satisfaction of invoices totalling approximately £329,787 from Surrenda-link Limited in respect of management and commission fees for the 12 months ended 31 December 2004.

Following the issue of the above shares Surrenda-link Limited (together with Surrenda Link (IOM) Limited, which is deemed to be acting in concert with Surrenda-link Limited) holds 108,171,279 ordinary shares representing 48.17 per cent of the enlarged issued share capital of the Company.

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 2004 was 144 days (2003 - 113 days).

TEP Exchange Group PLC

Report of the Directors for the year ended 31 December 2004 (Continued)

Going concern

During the year ended 31 December 2004 the Group incurred a loss of £508,108 (2003 - £601,848) and at 31 December 2004 had net liabilities of £723,570 (2003 - £694,138).

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 also now meets its day to day working capital requirements through a bank loan, repayable by a one off amount of £95,000 in July 2006 and with the remainder over 44 months, together with a bank overdraft facility of £10,000. The directors anticipate improved trading results for the forthcoming year and have projected cash flow information which show creditors with the exception of Surrenda-link Limited can be repaid out of cash flow.

Since the year end, the Company has issued to Surrenda-link Limited 32,978,700 ordinary shares of 1p each by way of capitalisation of the £329,787 of the year end creditor.

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

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 and therefore that it is appropriate to prepare the financial statements on the going concern basis.

Directors' responsibilities

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.

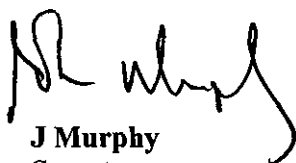
TEP Exchange Group PLC

Report of the Directors for the year ended 31 December 2004 (*Continued*)

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

A handwritten signature in black ink, appearing to read 'J Murphy', is written over the printed name and title.

J Murphy
Secretary

28 June 2005

TEP Exchange Group PLC

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 2004 on pages 11 to 25. These financial statements have been prepared under the accounting policies set out on pages 16 and 17.

Respective responsibilities of Directors and auditors

The Directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards 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 United Kingdom Auditing Standards.

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 Directors' Report 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 transactions with the Company and other members of the Group is not disclosed.

We read other information contained in the annual report and consider whether it is consistent with the audited financial statements. This 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 United Kingdom Auditing Standards 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 judgements 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 financial statements give a true and fair view of the state of the Group's and the Company's affairs as at 31 December 2004 and of the Group's loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.


BDO STOY HAYWARD LLP
*Chartered Accountants
and Registered Auditors*
London
W1U 3LL

28 June 2005

TEP Exchange Group PLC**Consolidated profit and loss account for the year ended 31 December 2004**

	Note	2004 £	2003 £
Turnover	2	187,028	58,930
Cost of sales		(43,297)	(15,614)
Gross profit		143,731	43,316
Administrative expenses		(906,622)	(963,667)
Other operating income	4	266,275	313,802
Operating loss	5	(496,616)	(606,549)
Interest receivable		253	258
Interest payable	6	(11,745)	4,443
Loss on ordinary activities before taxation		(508,108)	(601,848)
Tax on loss on ordinary activities	8	-	-
Loss on ordinary activities after taxation		(508,108)	(601,848)
Retained loss brought forward		(5,799,010)	(5,197,162)
Retained loss carried forward		(6,307,118)	(5,799,010)
Loss per share			
Basic and diluted loss per share	10	(0.28)p	(0.42)p

All amounts relate to continuing activities.

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

The notes on pages 16 to 26 form part of these financial statements.

TEP Exchange Group PLC**Reconciliation of movements in shareholders' funds for the year ended 31 December 2004**

	2004 £	2003 £
Loss for the year	(508,108)	(601,848)
New share capital subscribed and issued	478,676	281,250
	<u>(29,432)</u>	<u>(320,598)</u>
Opening shareholders' funds	(694,138)	(373,540)
	<u>(723,570)</u>	<u>(694,138)</u>
Closing shareholders' funds	<u>(723,570)</u>	<u>(694,138)</u>

The notes on pages 16 to 26 form part of these financial statements.

TEP Exchange Group PLC

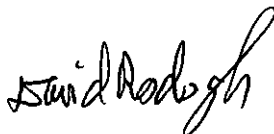
Consolidated balance sheet at 31 December 2004

	Note	2004 £	2004 £	2003 £	2003 £
Fixed assets					
Tangible assets	11		11,041		21,901
Current assets					
Stock	13	2,708		2,591	
Debtors	14	128,650		207,667	
Cash at bank and in hand		13,427		1,494	
		<u>144,785</u>		<u>211,752</u>	
Creditors: amounts falling due within one year	15	<u>(879,396)</u>		<u>(927,791)</u>	
Net current liabilities			<u>(734,611)</u>		<u>(716,039)</u>
Net liabilities			<u>(723,570)</u>		<u>(694,138)</u>
Capital and reserves					
Called up share capital	16		1,915,647		1,436,971
Share premium account	17		3,667,901		3,667,901
Profit and loss account	17		<u>(6,307,118)</u>		<u>(5,799,010)</u>
Shareholders' funds - equity			<u>(723,570)</u>		<u>(694,138)</u>

The financial statements were approved by the Board on 28 June 2005



G Kynoch
Chairman



D Roxburgh
Director

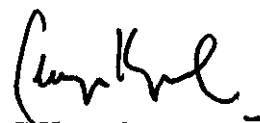
The notes on pages 16 to 26 form part of these financial statements.

TEP Exchange Group PLC

Company balance sheet at 31 December 2004

	Note	2004 £	2004 £	2003 £	2003 £
Fixed assets					
Tangible assets	11		11,041		21,901
Investments	12		100,006		100,006
			<u>111,047</u>		<u>121,907</u>
Current assets					
Debtors - due within one year	14	287,242		370,886	
Cash at bank and in hand		149		149	
		<u>287,391</u>		<u>371,035</u>	
Creditors: amounts falling due within one year	15	(1,316,577)		(1,240,210)	
		<u></u>		<u></u>	
Net current liabilities			(1,029,186)		(869,175)
			<u></u>		<u></u>
Net liabilities			(918,139)		(747,268)
			<u></u>		<u></u>
Capital and reserves					
Called up share capital	16		1,915,647		1,436,971
Share premium account	17		3,667,901		3,667,901
Profit and loss account	17		(6,501,687)		(5,852,140)
			<u></u>		<u></u>
Shareholders' funds - equity			(918,139)		(747,268)
			<u></u>		<u></u>

The financial statements were approved by the Board on 28 June 2005



G Kynoch
Chairman



D Roxburgh
Director

The notes on pages 16 to 26 form part of these financial statements.

TEP Exchange Group PLC

Consolidated cash flow statement for the year ended 31 December 2004

	Note	2004 £	2004 £	2003 £	2003 £
Net cash outflow from operating activities	21		(449,094)		(428,754)
Returns on investments and servicing of finance					
Interest received		253		258	
Interest paid		(11,745)		4,443	
Net cash (outflow)/inflow from returns on investment and servicing of finance			(11,492)		4,701
Capital expenditure and financial investment					
Proceeds on sale of tangible fixed assets			-		1,482
Financing					
Issue of ordinary share capital			478,676		281,250
Movement in net debt	22		18,090		(141,321)

The notes on pages 16 to 26 form part of these financial statements.

TEP Exchange Group PLC

Notes forming part of the financial statements for the year ended 31 December 2004

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 2004 the Group incurred a loss of £508,108 (2003 - £601,848) and at 31 December 2004 had net liabilities of £723,570 (2003 - £694,138).

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 also now meets its day to day working capital requirements through a bank loan, repayable by a one off amount of £95,000 in July 2006 and with the remainder over 44 months, together with a bank overdraft facility of £10,000. The directors anticipate improved trading results for the forthcoming year and have projected cash flow information which show creditors with the exception of Surrenda-link Limited can be repaid out of cash flow.

Since the year end, the Company has issued to Surrenda-link Limited 32,978,700 ordinary shares of 1p each by way of capitalisation of the £329,787 of the year end creditor.

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

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 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 2004. 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 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 due.

TEP Exchange Group PLC

Notes forming part of the financial statements for the year ended 31 December 2004 (*Continued*)

1 Accounting policies

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

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.

TEP Exchange Group PLC**Notes forming part of the financial statements for the year ended 31 December 2004 (Continued)****3 Employees**

	2004 £	2003 £
Staff costs, including Directors, consist of:		
Wages and salaries	84,000	109,216
Social security costs	8,657	12,129
	<u>92,657</u>	<u>121,345</u>

The company had no employees other than the executive director.

4 Other operating income

	2004 £	2003 £
Rent receivable	152,618	159,450
Expenses recharged	113,657	154,352
	<u>266,275</u>	<u>313,802</u>

5 Operating loss

	2004 £	2003 £
Operating loss is stated after charging:		
Depreciation	10,860	36,613
Auditors' remuneration - audit services	12,000	12,000
- non-audit services	2,500	2,500
Operating lease rentals - equipment	-	1,700
- land and buildings	140,900	140,900
	<u></u>	<u></u>

The audit fees of the Company are £10,000 (2003 - £10,000).

6 Interest payable

	2004 £	2003 £
Bank interest	11,745	8,796
Interest on overdue taxation	-	(13,239)
	<u>11,745</u>	<u>(4,443)</u>

TEP Exchange Group PLC

Notes forming part of the financial statements for the year ended 31 December 2004 (Continued)

7 Directors

	2004 £	2003 £
Directors' emoluments consist of:		
Fees and remuneration for management services	84,000	109,216

No pension contributions were made in respect of the Directors (2003 - Nil)

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:

	2004 £	2003 £
Loss on ordinary activities before taxation	(508,108)	(601,848)
Loss on ordinary activities before taxation multiplied by the standard rate of UK corporation tax of 30% (2003 - 30%)	(152,432)	(180,554)
Tax losses not recognised as a deferred tax asset	152,432	180,554
Current year tax credit	-	-

At 31 December 2004 the Group had a deferred tax asset of £1,595,306 (2003 - £1,442,874) in respect of losses which have not been recognised in these financial statements.

TEP Exchange Group PLC

Notes forming part of the financial statements for the year ended 31 December 2004 (Continued)

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

	2004 £	2003 £
Dealt with in financial statements of the Parent Company	649,547	628,447

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 £508,108 (2003 - £601,848) and on 181,073,202 (2003 - 142,544,945) ordinary shares, being the weighted average number of ordinary shares in issue. The options in issue at the 31 December 2003 and 31 December 2004 are antidilutive.

11 Tangible assets

Group and Company	Computer equipment £	Fixtures, fittings and equipment £	Total £
<i>Cost</i>			
At 1 January and 31 December 2004	173,446	65,480	238,926
<i>Depreciation</i>			
At 1 January 2004	173,446	43,579	217,025
Charge for the year	-	10,860	10,860
At 31 December 2004	173,446	54,439	227,885
<i>Net book value</i>			
At 31 December 2004	-	11,041	11,041
At 31 December 2003	-	21,901	21,901

TEP Exchange Group PLC

Notes forming part of the financial statements for the year ended 31 December 2004 (Continued)

12 Investments - Company

	2004 £	2003 £
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

	2004 Group £	2003 Group £	2004 Company £	2003 Company £
Stocks of endowment policies held for resale	2,708	2,591	-	-

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

TEP Exchange Group PLC**Notes forming part of the financial statements for the year ended 31 December 2004 (Continued)****14 Debtors**

	2004 Group £	2003 Group £	2004 Company £	2003 Company £
Trade debtors	58,150	52,969	44,613	44,614
Amount due from subsidiary undertaking	-	-	172,129	172,129
Other debtors and prepayments	70,500	154,698	70,500	154,143
	128,650	207,667	287,242	370,886

Included in amounts due from subsidiary undertakings is an amount of £150,000 (2003 - £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

	2004 Group £	2003 Group £	2004 Company £	2003 Company £
Bank overdraft	190,173	196,330	190,322	196,477
Trade creditors	384,859	529,180	376,403	526,211
Amount due to subsidiary undertaking	-	-	452,578	307,664
Creditors for taxation and social security	18,667	13,922	18,667	13,922
Other creditors	130,750	45,934	130,750	45,702
Accruals	154,947	142,425	147,857	150,234
	879,396	927,791	1,316,577	1,240,210

At the year end, the bank overdraft facility of £200,000 was secured by a fixed and floating charge over the assets of the Company. In April 2005, the bank overdraft was converted to a £190,000 term loan, repayable by a one off amount of £95,000 in July 2006 and with the remainder over 44 months, together with a bank overdraft facility of £10,000.

Included within the creditors of the Company and the Group at 31 December 2004 are amounts totalling £427,680 owing to Surrenda-link Limited of which £329,787 has been capitalised through the issue of 32,978,700 ordinary shares of 1p each.

Within other creditors is an amount of £85,500 in respect of certain employment costs and related social security costs as part of the Group's ongoing cost restructuring programme.

Notes forming part of the financial statements for the year ended 31 December 2004 (Continued)

	Authorised			
	2004	2003	2004	2003
	Number	Number	£	£
Ordinary shares of 1p each	400,000,000	400,000,000	4,000,000	4,000,000
	Allotted, called up and fully paid			
	2004	2003	2004	2003
	Number	Number	£	£
Ordinary shares of 1p each	191,564,726	143,697,147	1,915,647	1,436,971

	Number of shares under option	Exercise price	Exercise period	
			From	To
Enterprise Management Incentive Scheme	1,027,879	3p	16.2.04	16.2.11
	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
	<hr/>			
	3,710,697			
Unapproved Share Option Plan	200,000	8p	24.8.04	24.8.14
	<hr/>			
	3,910,697			

- 47,692,579 shares in relation to invoices totalling approximately £476,926 from Surrenda-link Limited in respect of management and commission fees for the 12 months ended 31 December 2003.
- 50,000 shares in relation to the consultancy fees of Mr G Kynoch for the amount of £500
- 125,000 shares in relation to an invoice totalling £1,250 rendered to the Company by a provider of services.

TEP Exchange Group PLC

Notes forming part of the financial statements for the year ended 31 December 2004 (Continued)

17 Reserves

	Profit and loss account £	Share premium account £
Group		
Balance at 1 January 2004	(5,799,010)	3,667,901
Loss for the year	(508,108)	-
	<hr/>	<hr/>
At 31 December 2004	(6,307,118)	3,667,901
	<hr/>	<hr/>
Company		
Balance at 1 January 2004	(5,852,140)	3,667,901
Loss for the year	(649,547)	-
	<hr/>	<hr/>
At 31 December 2004	(6,501,687)	3,667,901
	<hr/>	<hr/>

18 Commitments under operating leases

As at 31 December 2004, the Group had annual commitments under non-cancellable operating leases as set out below:

	Land and building 2004 £	Land and building 2003 £
Operating leases which expire:		
Between two and five year	140,900	140,900
	<hr/>	<hr/>

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 £113,657 (2003 - £154,352) to Surrenda-link Limited, a major shareholder in the Group. In addition, Surrenda-link Limited recharged expenditure of £501,458 (2003 - £405,894) to the Group. A loan of £40,000 (2003 - £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 £427,680 (2003 - £516,805). In addition, Surrenda-link Limited subscribed for new share capital during the year as set out in note 16.

TEP Exchange Group PLC

Notes forming part of the financial statements for the year ended 31 December 2004 (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.

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 2004 the Group had unutilised bank facilities of £9,827 (2003 - £3,670), 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 £13,427 (2003 - £1,494) comprise sterling cash deposits the majority of which earn interest at the bank base rate minus 3%. Floating rate financial liabilities of £190,173 (2003 - £196,330) represents a sterling bank overdraft repayable on demand, which attracts interest at the bank base rate plus 3%. At 31 December 2004, the Bank of Scotland Base rate was 4%.

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

	2004 £	2003 £
Operating loss	(496,616)	(606,549)
Depreciation	10,860	36,613
(Increase)/decrease in stock	(117)	9,949
Decrease/(increase) in debtors	79,017	(43,644)
(Decrease)/increase in creditors	(42,238)	174,877
	<hr/>	<hr/>
Net cash outflow from operating activities	(449,094)	(428,754)
	<hr/>	<hr/>

TEP Exchange Group PLC

Notes forming part of the financial statements for the year ended 31 December 2004 (Continued)

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

	2004 £	2003 £
Decrease in cash in the year and movement in net debt in the year	18,090	(141,321)
Opening cash and net debt	(194,836)	(53,515)
Closing cash and net debt	(176,746)	(194,836)

23 Analysis of net debt

	At 31 December 2003 £	Cash flow £	Non-cash movement £	At 31 December 2004 £
Cash in hand and at bank	1,494	11,933	-	13,427
Overdrafts	(196,330)	6,157	-	(190,173)
	(194,836)	18,090	-	(176,746)