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**TEP Exchange Group PLC**

**Report and Financial Statements**

**Year Ended**

**31 December 2002**



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## TEP EXCHANGE GROUP PLC

### Report and financial statements for the year ended 31 December 2002

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#### Directors

G Kynoch	Chairman (Non-Executive)
A Weitz	Marketing 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  
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

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I am pleased to report the results for the year ended 31 December 2002. Turnover increased to £909,406 from £209,859 in 2001. The loss after tax was reduced to £516,421 (loss - £1,494,008 in 2001). The loss per share was 0.45p compared to a loss per share last year of 1.83p.

In 2002, the TEP Exchange operated successfully and proved itself as a trading platform for the Independent Financial Adviser ("IFA") community. However, whilst the first six months of the year reflected steady growth in turnover and IFA registrations, trading suffered in the second half of the year due to uncertainty in the traded endowment policy market arising from general economic conditions, depressed equity markets, declarations by insurance companies of reductions in annual and terminal bonuses, as well as the introduction by them of market value adjusters.


The significantly changed trading position caused by the above factors prompted your Directors to review your Company's options with a view to maintaining its viability and enhancing the possibility of being able to benefit from a return to normal trading conditions in the future. This review resulted in raising additional funds through a placing and forming a strategic alliance with Surrenda-link Limited which included outsourcing the operational management of the Exchange to Surrenda-link Limited together with its participation in the placing. The placing was approved at an Extraordinary General Meeting held on the 13th January 2003.

The immediate effect of the new arrangements was to reduce significantly the Company's cost structure and to stabilise its financial position. Looking forward, we are now in a strong position to benefit from an upturn in the traded endowment policy market, which will itself depend on a return of investor confidence in the equity markets. Apart from currently being engaged in a limited amount of trading of endowment policies, your Company has identified, and will continue to seek alternative revenue generating financial services products, which can be marketed utilising the Exchange. The first of these new products (a fund investing in property and TEPs) has already been launched on the Exchange and more will be introduced over the coming months.

Your Board continues to focus on achieving financial viability in the short term and in creating shareholder value. Costs will be closely controlled and product development encouraged in order to be in a strong position to take advantage of any market upturn whenever it occurs.

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

I should like to take this opportunity to thank all my co-Directors, staff and advisers for their help and commitment during a difficult period of transition for your Company. I should also particularly like to thank Stephen Kay, the former chief executive, for his unstinting support and drive in achieving the changed working arrangements, despite rendering his own position redundant.

  
G Kynoch  
Chairman

18 June 2003

## TEP EXCHANGE GROUP PLC

### Corporate governance statement

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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, together with other current draft corporate governance, and expects to be fully compliant in 2004.

#### The Board

The Board of TEP Exchange Group PLC consists 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 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 2002 through regular Board meetings. A more formal review of internal controls is scheduled before the end of 2003.

#### 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, D Roxburgh and P Sands.

#### 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 7.

## TEP EXCHANGE GROUP PLC

### Report of the Directors for the year ended 31 December 2002

The Directors present their report together with the audited financial statements for the year ended 31 December 2002.

#### 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.

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 10 and shows the result for the year. The Directors have not recommended a dividend.

#### 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 2002		31 December 2001	
	Number	%	Number	%
M Kraus	22,034,698*	19.06	22,034,698*	19.06
A Weitz	-	-	-	-
P Sands	-	-	-	-
G Kynoch	-	-	-	-
S Kay (resigned 13 January 2003)	1,900,000	1.64	1,900,000	1.64
M Abrahams (resigned 27 May 2002)	40,000	0.03	40,000	0.03

D Roxburgh was appointed Non-Executive Director on 13 January 2003.

\* 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.

M Kraus and A Weitz retire by rotation in accordance with the Articles of Association and being eligible offer themselves for re-election. The terms of the Directors' service contracts or terms of engagement are set out below. In addition, D Roxburgh who was appointed by the Board since the last annual general meeting, offers himself for re-appointment.

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

## TEP EXCHANGE GROUP PLC

### Report of the Directors for the year ended 31 December 2002 (Continued)

#### Directors and their interests (Continued)

##### Share options

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

Interest held at:	31 December 2002	31 December 2001 or date of appointment if later
M Kraus	287,273	287,273
A Weitz	295,545	295,545
P Sands	200,000	200,000
G Kynoch	-	-
S Kay (resigned 13 January 2003)	2,100,000	2,100,000
M Abrahams (resigned 27 May 2002)	276,364	276,364

Share options were granted to M Kraus, A Weitz, and M Abrahams 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 their respective share options were in respect of M Kraus and A Weitz 10 pence per share and in respect of M Abrahams 3 pence per share. Share options were granted to S Kay on 6 September 2001 pursuant to the EMI Rules. The subscription price payable under the terms of the share options were in respect of 600,000 shares, 8 pence per share and in respect of 1,500,000 shares, 12 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. S Kay entered into a service agreement dated 29 August 2001 for his services as an Chief Executive Officer of the Company for an initial term of 12 months and thereafter to continue until terminated by either party giving not less than three months' written notice. S Kay resigned on 13 January 2003.

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

A Weitz has 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 2002 (*Continued*)

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#### Directors' profile

**George Kynoch (Non-Executive Chairman)**, aged 56, has over 20 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.

**A Weitz (Marketing Director)**, aged 38, 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 45, 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 39, 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 Arcon International Resources Plc (a publicly quoted zinc mining company), Hart Marketing Services Limited (a financial services company) and Waterford Crystal Limited (the world renowned luxury branded company).

**P Sands (Non-Executive Director)**, aged 60, 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 2002 (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 31 December 2002. No other shareholder had declared an interest of 3% or more in the Company's issued ordinary share capital by 16 June 2003.

Name	Ordinary Shares	Percentage of Ordinary Shares
Pershing Keen Nominees Limited	27,474,190	23.8%
Transcontex AG	18,602,858	16.1%
Surrenda-Link (IOM) Limited	6,000,000	5.2%
Logic Express Limited	5,750,000	5.0%
Wrengate Limited	5,625,000	4.9%
N Musry & A Musry	4,500,000	3.9%

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 2.75p; the highest and lowest share prices during the year were 7.75p and 2.00p respectively.

#### Post balance sheet events

Since the year end, the Company signed an outsourcing agreement with Surrenda-link Limited. As a result of this, all operational management of the Company has moved to Chester. In addition, a placing of 27.5 million new ordinary shares 1p shares in TEP Exchange Group PLC raised £275,000 before expenses.

The Company is now well placed to develop additional products with Surrenda-link and to market to registered IFA's via the TEP Exchange's web-based service.

#### Going concern

During the year ended 31 December 2002 the Group incurred a loss of £516,421 (2001 - £1,494,008) and at 31 December 2002 had net liabilities of £373,540 (2001 - net assets of £142,881). Since the year end additional equity funding of £275,000 before expenses has been received as set out in note 16 together with the signing of an outsourcing agreement with Surrenda-link Limited.

The Group meets its day to day working capital requirements through an overdraft facility which is repayable on demand, and is currently due for renewal by the bank in December 2003. The Directors have prepared projected cash flow information for the next year and on the basis of these consider that the Group will continue to operate within the facilities currently agreed and those likely to be agreed in the future.

The Group also relies on support from one of its major shareholders, Surrenda-link Limited, in order to meet its obligations as they fall due. The Directors have received assurances from Surrenda-link Limited that it will provide continuing financial support of up to £50,000 for not less than 12 months from the date of approval of these financial statements.



## **TEP EXCHANGE GROUP PLC**

### **Report of the Directors for the year ended 31 December 2002 (*Continued*)**

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On the basis of the above, and all other available information, the Directors consider it 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.

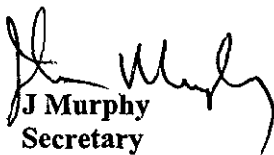
#### **Group Policy on Payment of Creditors**

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 2002 was 122 days (2001 - 122 days).

#### **Auditors**

A resolution to re-appoint BDO Stoy Hayward as auditors for the ensuing year will be proposed at the annual general meeting in accordance with section 385 of the Companies Act 1985.

#### **By order of the Board**

  
**J Murphy**  
**Secretary**

18 June 2003

# 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 2002 on pages 10 to 23. These financial statements have been prepared under the accounting policies set out on pages 15 and 16.

#### *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.

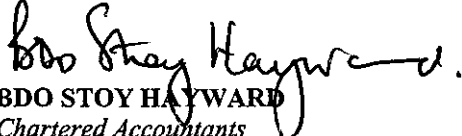
#### *Basis of audit opinion*

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 2002 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**  
Chartered Accountants  
and Registered Auditors  
London  
18 June 2003

# TEP EXCHANGE GROUP PLC

## Consolidated profit and loss account for the year ended 31 December 2002

	Note	Year ended 31 December 2002 £	Year ended 31 December 2001 £
Turnover	2	909,406	209,859
Cost of sales		(649,690)	(171,504)
<b>Gross profit</b>		<b>259,716</b>	<b>38,355</b>
Administrative expenses		(1,048,334)	(1,646,136)
Other operating income	4	119,596	87,302
<b>Operating loss</b>	5	<b>(669,022)</b>	<b>(1,520,479)</b>
Interest receivable		3,553	26,502
Interest payable	6	(33,747)	(31)
<b>Loss on ordinary activities before taxation</b>		<b>(699,216)</b>	<b>(1,494,008)</b>
Tax on loss on ordinary activities	8	182,795	-
<b>Loss on ordinary activities after taxation</b>		<b>(516,421)</b>	<b>(1,494,008)</b>
Retained loss brought forward		(4,680,741)	(3,186,733)
<b>Retained loss carried forward</b>		<b>(5,197,162)</b>	<b>(4,680,741)</b>
<b>Loss per share</b>			
Basic and diluted loss per share	10	(0.45)p	(1.83)p

All amounts relate to continuing activities.

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

The notes on pages 15 to 23 form part of these financial statements.

**TEP EXCHANGE GROUP PLC****Reconciliation of movements in shareholders' funds for the year ended 31 December 2002**

	<b>Year ended 31 December 2002 £</b>	<b>Year ended 31 December 2001 £</b>
Loss for the year	(516,421)	(1,494,008)
New share capital subscribed and issued	-	436,250
Share premium account	-	2,705,372
	<u>(516,421)</u>	<u>1,647,614</u>
Opening shareholders' funds	142,881	(1,504,733)
<b>Closing shareholders' funds</b>	<u><u>(373,540)</u></u>	<u><u>142,881</u></u>

The notes on pages 15 to 23 form part of these financial statements.

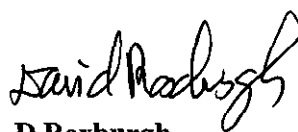
# TEP EXCHANGE GROUP PLC

## Consolidated balance sheet at 31 December 2002

	Note	2002 £	2002 £	2001 £	2001 £
<b>Fixed assets</b>					
Tangible assets	11		59,996		133,897
<b>Current assets</b>					
Stock	13	12,540		245,544	
Debtors	14	164,023		209,347	
Cash at bank and in hand		19,050		476,344	
		195,613		931,235	
<b>Creditors: amounts falling due within one year</b>	15	629,149		922,251	
<b>Net current (liabilities)/assets</b>			(433,536)		8,984
<b>Net (liabilities)/assets</b>			(373,540)		142,881
<b>Capital and reserves</b>					
Called up share capital	16		1,156,250		1,156,250
Share premium account	17		3,667,372		3,667,372
Profit and loss account	17		(5,197,162)		(4,680,741)
<b>Shareholders' funds - equity</b>			(373,540)		142,881

The financial statements were approved by the Board on 18 June 2003

  
G Kynoch  
Chairman

  
D Roxburgh  
Director

The notes on pages 15 to 23 form part of these financial statements.


# TEP EXCHANGE GROUP PLC

## Company balance sheet at 31 December 2002

	Note	2002 £	2002 £	2001 £	2001 £
<b>Fixed assets</b>					
Tangible assets	11		59,996		133,897
Investments	12		100,006		100,006
			<u>160,002</u>		<u>233,903</u>
<b>Current assets</b>					
Debtors - due within one year	14	334,969		441,800	
Debtors - due after more than one year	14	-		150,000	
		<u>334,969</u>		<u>591,800</u>	
Cash at bank and in hand		1,994		435,498	
		<u>336,963</u>		<u>1,027,298</u>	
<b>Creditors: amounts falling due within one year</b>	15	(897,036)		(1,028,024)	
		<u></u>		<u></u>	
<b>Net current liabilities</b>			(560,073)		(726)
			<u></u>		<u></u>
<b>Net (liabilities)/assets</b>			(400,071)		233,177
			<u></u>		<u></u>
<b>Capital and reserves</b>					
Called up share capital	16		1,156,250		1,156,250
Share premium account	17		3,667,372		3,667,372
Profit and loss account	17		(5,223,693)		(4,590,445)
			<u></u>		<u></u>
<b>Shareholders' funds - equity</b>			(400,071)		233,177
			<u></u>		<u></u>

The financial statements were approved by the Board on 18 June 2003

  
**G Kynoch**  
Chairman

  
**D Roxburgh**  
Director

The notes on pages 15 to 23 form part of these financial statements.

# TEP EXCHANGE GROUP PLC

## Consolidated cash flow statement for the year ended 31 December 2002

	Note	2002 £	2002 £	2001 £	2001 £
<b>Net cash outflow from operating activities</b>	21		(691,620)		(2,052,763)
<b>Returns on investments and servicing of finance</b>					
Interest received		3,553		26,502	
Interest paid		(13,826)		(31)	
<b>New cash (outflow)/ inflow from returns on investment and servicing of finance</b>			(10,273)		26,471
<b>Taxation</b>					
Corporation tax received			182,795		-
<b>Capital expenditure and financial investment</b>					
Purchase of tangible fixed assets		(5,143)		(21,883)	
Proceeds on sale of tangible fixed assets		6,331		-	
<b>Net cash inflow/(outflow) from capital expenditure and financial investment</b>			1,188		(21,883)
<b>Financing</b>					
Issue of loan stock and debentures		-		80,000	
Issue of ordinary share capital		-		1,156,622	
<b>Cash inflow from financing</b>			-		1,236,622
<b>Decrease in cash and net debt</b>	22		(517,910)		(811,553)

The notes on pages 15 to 23 form part of these financial statements.

# TEP EXCHANGE GROUP PLC

## Notes forming part of the financial statements for the year ended 31 December 2002

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### 1 Accounting policies

The financial statements have been prepared under the historical cost convention and are in accordance with applicable accounting standards. The following principal accounting policies have been applied:

#### *Going concern*

During the year ended 31 December 2002 the Group incurred a loss of £516,421 (2001 - £1,494,008) and at 31 December 2002 had net liabilities of £373,540 (2001 – net assets of £142,881). Since the year end additional equity funding of £275,000 before expenses has been received as set out in note 16 together with the signing of an outsourcing agreement with Surrenda-link Limited.

The Group meets its day to day working capital requirements through an overdraft facility which is repayable on demand, and is currently due for renewal by the bank in December 2003. The Directors have prepared projected cash flow information for the next year and on the basis of these consider that the Group will continue to operate within the facilities currently agreed and those likely to be agreed in the future.

The Group also relies on support from one of its major shareholders, Surrenda-link Limited, in order to meet its obligations as they fall due. The Directors have received assurances from Surrenda-link Limited that it will provide continuing financial support of up to £50,000 for not less than 12 months from the date of approval of these financial statements.

On the basis of the above, and all other available information, the Directors consider it 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 2002. 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 sales to outside customers at invoiced amounts less value added tax.

#### *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

#### *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.



## TEP EXCHANGE GROUP PLC

Notes forming part of the financial statements for the year ended 31 December 2002 (*Continued*)

### 1 Accounting policies

#### *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.

#### *Taxation including deferred tax*

Following the adoption of FRS 19, "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 Company anticipates making sufficient taxable profits in the future to absorb the reversal of the underlying timing differences. The adoption of FRS 19 has had no effect on either the results or the net assets of the period or the prior period.

### 2 Turnover

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

### 3 Employees

	2002 £	2001 £
Staff costs consist of:		
Wages and salaries	612,691	702,497
Social security costs	56,867	87,865
	<u>669,558</u>	<u>790,362</u>

The average number of employees during the year was as follows:

	Number	Number
Full time	14	18

### 4 Other operating income

	2002	2001
Rent receivable	119,596	87,302

# TEP EXCHANGE GROUP PLC

Notes forming part of the financial statements for the year ended 31 December 2002 (Continued)

## 5 Operating loss

	2002 £	2001 £
Operating loss is stated after charging/(crediting):		
Research and development costs	-	96,395
Depreciation	73,612	74,515
Profit on disposal of tangible fixed assets	(899)	-
Auditors' remuneration - audit services	17,000	32,000
- non-audit services	5,000	-
Operating lease rentals - equipment	2,643	3,362
- land and buildings	140,900	140,900
	<u>140,900</u>	<u>140,900</u>

The audit fees of the Company are £10,000 (2001 - £15,000).

## 6 Interest payable

	2002 £	2001 £
Bank interest	14,526	31
Interest on overdue taxation	19,221	-
	<u>33,747</u>	<u>31</u>

## 7 Directors

	2002 £	2001 £
Directors' emoluments consist of:		
Fees and remuneration for management services	248,054	241,888
Compensation for loss of office	43,500	-
	<u>291,554</u>	<u>241,888</u>

No pension contributions were made in respect of the Directors.

Emoluments of the highest paid Director:		
Fees and remuneration for management services	133,831	67,000
Compensation for loss of office	43,500	-
	<u>177,331</u>	<u>67,000</u>

# TEP EXCHANGE GROUP PLC

Notes forming part of the financial statements for the year ended 31 December 2002 (Continued)

## 8 Taxation on loss ordinary activities

	2002 £	2001 £
Tax on the results for the year	-	-
Tax credit in respect of prior periods	182,795	-
	<u>182,795</u>	<u>-</u>

The tax assessed for the year is different than the standard rate of corporation tax in the UK. The differences are explained below:

	2002 £	2001 £
Loss on ordinary activities before taxation	(699,216)	(1,494,008)
Loss on ordinary activities before taxation multiplied by the standard rate of UK corporation tax of 30%	(209,765)	(448,202)
Expenses not deductible for tax purposes	4,500	4,500
Timing differences relating to capital allowances and depreciation	(637)	422
Tax losses not recognised as a deferred tax asset	205,902	443,280
Research and development tax credit	(182,795)	-
Current year tax credit	<u>(182,795)</u>	<u>-</u>

In preparing these financial statements the Group has adopted FRS 19 'Deferred Taxation' for the first time. The adoption of FRS 19 has not affected the profit or net assets for the current year or the preceding accounting period.

At 31 December 2002 the Group had a deferred tax asset of £1,262,320 (2001 - £1,035,999) in respect of losses which have not been recognised in these financial statements.

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

	2002 £	2001 £
Dealt with in financial statements of parent company	633,248	1,480,159

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 £516,421 (2001 - £1,494,008) and on 115,625,000 (2001 - 81,681,164) ordinary shares, being the weighted average number of ordinary shares in issue. The options in issue at the year end are antidilutive.

# TEP EXCHANGE GROUP PLC

Notes forming part of the financial statements for the year ended 31 December 2002 (Continued)

## 11 Tangible assets

Group and Company	Computer equipment £	Fixtures, fittings and equipment £	Total £
<i>Cost</i>			
At 31 December 2001	185,085	68,904	253,989
Additions	-	5,143	5,143
Disposals	(11,401)	(7,323)	(18,724)
At 31 December 2002	173,684	66,724	240,408
<i>Depreciation</i>			
At 31 December 2001	98,666	21,426	120,092
Charge for the year	57,895	15,717	73,612
On disposals	(8,868)	(4,424)	(13,292)
At 31 December 2002	147,693	32,719	180,412
<i>Net book value</i>			
At 31 December 2002	25,991	34,005	59,996
At 31 December 2001	86,419	47,478	133,897

## 12 Investments

	Company 2002 £	Company 2001 £
Subsidiary undertaking		
- 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

# TEP EXCHANGE GROUP PLC

Notes forming part of the financial statements for the year ended 31 December 2002 (Continued)

## 13 Stocks

	2002 Group £	2001 Group £	2002 Company £	2001 Company £
Stocks of endowment policies held for resale	12,540	245,544	-	-

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

## 14 Debtors

	2002 Group £	2001 Group £	2002 Company £	2001 Company £
Amount due from subsidiary undertaking	-	-	178,762	389,572
Trade debtors	6,676	34,029	1,025	30,073
Prepayments	62,854	35,534	62,854	35,534
Other debtors	94,493	139,784	92,328	136,621
	164,023	209,347	334,969	591,800

Included in amounts due from subsidiary undertakings is an amount of £150,000 due within one year (2001 - £150,000 due after more than one year). This represents 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 2002. All other amounts fall due for payment within one year.

## 15 Creditors: amounts falling due within one year

	2002 Group £	2001 Group £	2002 Company £	2001 Company £
Bank overdraft	72,565	11,949	72,565	-
Trade creditors	322,030	285,979	307,036	285,931
Other creditors	5,214	11,120	4,982	11,120
Creditors for taxation and social security	105,733	375,505	105,733	384,255
Accruals	123,607	237,698	114,111	232,238
Amount due to subsidiary undertaking	-	-	292,609	114,480
	629,149	922,251	897,036	1,028,024

The bank overdraft is secured by a fixed and floating charge over the assets of the Company.

# TEP EXCHANGE GROUP PLC

Notes forming part of the financial statements for the year ended 31 December 2002 (Continued)

## 16 Share capital

	2002 £	2001 £
<i>Authorised</i>		
120,000,000 ordinary shares of 1p each	1,200,000	1,200,000
<i>Allotted, called up and fully paid</i>		
115,625,000 ordinary shares of 1p each	1,156,250	1,156,250

Since the year end, the Company has increased the authorised share capital through the creation of 200,000,000 ordinary shares of 1p each. In addition, the Company has issued 27,500,000 ordinary shares of 1p each at par for cash since the year end.

Details of post balance sheet events are given on page 7.

Details of the share option schemes are shown below:

	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
	<u>3,710,697</u>			
Unapproved Share Option Plan	200,000	8p	24.8.01	24.8.04
	<u>3,910,697</u>			

## 17 Reserves

Group	Profit and loss account £	Share premium account £
Balance at 1 January 2002	(4,680,741)	3,667,372
Loss for the year	(516,421)	-
	<u>(5,197,162)</u>	<u>3,667,372</u>
At 31 December 2002	(5,197,162)	3,667,372

## TEP EXCHANGE GROUP PLC

Notes forming part of the financial statements for the year ended 31 December 2002 (Continued)

### 17 Reserves (continued)

Company	Profit and loss account £	Share premium account £
Balance at 1 January 2002	(4,590,445)	3,667,372
Loss for the year	(633,248)	-
	<hr/>	<hr/>
At 31 December 2002	(5,223,693)	-
	<hr/>	<hr/>

### 18 Commitments under operating leases

As at 31 December 2002, the Group had annual commitments under non-cancellable operating leases as set out below:

	Land and buildings 2002 £	2001 £
Operating leases which expire:		
After five years	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.

### 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 2002 the Group had unutilised bank facilities of £127,435 (2001 - £1m), 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 £19,050 (2001 - £476,344) comprise sterling cash deposits the majority of which earn interest at the bank base rate minus 3%. Floating rate financial liabilities of £72,565 (2001 - £11,949) represents a sterling bank overdraft repayable on demand, which attracts interest at the bank base rate plus 3%. At 31 December 2002, the Bank of Scotland Base rate was 4%.

# TEP EXCHANGE GROUP PLC

Notes forming part of the financial statements for the year ended 31 December 2002 *(Continued)*

## 21 Reconciliation of operating profit to net cash inflow from operating activities

	2002 £	2001 £
Operating loss	(669,022)	(1,520,479)
Depreciation	73,612	74,515
Profit on disposal of tangible fixed assets	(899)	-
Decrease/(increase) in stock	233,004	(245,544)
Decrease in debtors	45,324	3,615
Decrease in creditors	(373,639)	(364,870)
	<hr/>	<hr/>
Net cash outflow from operating activities	(691,620)	(2,052,763)
	<hr/>	<hr/>

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

	2002 £	2001 £
Decrease in cash in the year	(517,910)	(811,553)
Increase in loan notes	-	(80,000)
Capitalisation of debt	-	1,985,000
	<hr/>	<hr/>
Movement in net debt in the year	(517,910)	1,093,447
Opening cash and net debt	464,395	(629,052)
	<hr/>	<hr/>
Closing cash and net debt	(53,515)	464,395
	<hr/>	<hr/>

## 23 Analysis of net debt

	At 31 December 2001 £	Cash flow £	Non cash movement £	At 31 December 2002 £
Cash in hand and at bank	476,344	(457,294)	-	19,050
Overdrafts	(11,949)	(60,616)	-	(72,565)
	<hr/>	<hr/>	<hr/>	<hr/>
	464,395	(517,910)	-	(53,515)
	<hr/>	<hr/>	<hr/>	<hr/>