

30/08/01

THIS DOCUMENT IS IMPORTANT. If you are in any doubt about the contents of this document you should consult your stockbroker, bank manager, accountant, solicitor or other independent professional adviser authorised under the Financial Services Act 1986 who specialises in advising on the acquisition of shares and other securities.

The Company and the Directors, whose names appear on page 3, accept responsibility for the information contained in this document. To the best of the knowledge and belief of the Directors the information contained in this document is in accordance with the facts and there is no omission likely to affect the import of such information. This document has been drawn up in accordance with the POS Regulations. A copy of this document has been delivered to the Registrar of Companies in England and Wales for registration in accordance with Regulation 4(2) of the POS Regulations. ✓

Application will be made for the whole of the issued and to be issued ordinary share capital of the Company to be admitted to trading on the Alternative Investment Market of the London Stock Exchange ("AIM"). AIM is a market designed primarily for emerging or smaller companies to which a higher investment risk tends to be attached than to larger or more established companies. A prospective investor should be aware of the potential risks in investing in such companies and should make the decision to invest only after careful consideration and consultation with his or her own independent financial adviser. The London Stock Exchange has not itself examined or approved the contents of this document. It is anticipated that trading in the Ordinary Shares will commence on AIM on 10th September, 2001.

TEP Exchange Group plc

(Incorporated in England and Wales with registered number 3877125)

PLACING

of 18,812,500 Ordinary Shares of 1p each at 8p per share

and

Admission to the Alternative Investment Market

NOMINATED ADVISER

John East & Partners Limited

BROKER

Insinger Townsley



SHARE CAPITAL

The following table shows the authorised and issued share capital of the Company immediately following the Placing.

Authorised			Issued and fully paid	
£	Number		£	Number
2,000,000	200,000,000	Ordinary Shares of 1p each	1,156,250	115,625,000

The Placing Shares will rank *pari passu* in all respects with the existing Ordinary Shares including the right to receive all dividends and other distributions declared, made or paid on the Ordinary Shares after the date of this document.

John East & Partners, which is regulated by The Securities and Futures Authority Limited, is acting as nominated adviser to TEP Exchange Group plc. Insinger Townsley, which is regulated by The Securities and Futures Authority Limited, is acting as nominated broker to TEP Exchange Group plc. John East & Partners and Insinger Townsley are not acting for anyone else and will not be responsible to anyone other than TEP Exchange Group plc for providing the protections afforded to customers of John East & Partners and Insinger Townsley or for providing advice in relation to the contents of this document or the Placing and the admission of the Ordinary Shares to trading on AIM. In particular, John East & Partners, as nominated adviser to the Company, owes certain responsibilities to the London Stock Exchange which are not owed to the Company, the Directors or to any other person in respect of his decision to acquire Ordinary Shares in reliance on any part of this document. No liability is accepted by John East & Partners for the accuracy of any information or opinions contained in or for the omission of any material information from this document, for which the Company and its Directors are solely responsible.

The whole of the text of this document should be read. Investment in TEP Exchange Group plc is speculative and involves a degree of risk. Your attention is drawn to the risk factors set out on page 15 of this document.

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Directors, secretary and advisers

Directors

George Kynoch (*Non-executive Chairman*)
Stephen David Kay (formerly Kaizer) (*Chief Executive*)
Moses Kraus (or Krausz) (*Chief Operating Officer*) (*Swiss*)
Abraham Michael Weitz (*Marketing Director*) (*US*)
Michael Bernard Abrahams (*Finance Director*)
Paul Cuthbert Sands (*Non-executive Director*)
all of
77 Muswell Hill, London N10 3PJ

Secretary and Registered Office

Marcus Brace
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Nominated Adviser

John East & Partners Limited
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London EC2A 2AH

Broker

Insinger Townsley
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London EC2A 2JT

Auditors and Reporting Accountants

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8 Baker Street
London W1U 3LL

Solicitors to the Company

Fladgate Fielder
25 North Row
London W1K 6DJ

Solicitors to the Nominated Adviser

Lewis Silkin
12 Gough Square
London EC4A 3DW

Registrars

Capita IRG plc
Bourne House,
34 Beckenham Road
Beckenham
Kent BR3 4TH

Definitions

The following definitions apply throughout this document unless the context requires otherwise:

"Act"	the Companies Act 1985, as amended
"Admission"	the effective admission of the issued and to be issued Ordinary Shares to trading on AIM in accordance with the AIM Rules
"AIM"	the Alternative Investment Market of the London Stock Exchange
"AIM Rules"	The AIM Rules for Companies as published by the London Stock Exchange
"Approved Option Scheme"	the TEP Exchange Group plc Approved Share Option Plan 2001
"Board" or "Directors"	the directors of the Company whose names are set out on page 3 of this document
"the Company"	TEP Exchange Group plc
"CREST"	the system for paperless settlement of trades and the holding of uncertificated shares administered by CRESTCo. Limited
"EGM"	an extraordinary general meeting of the shareholders of the Company held on 22nd August, 2001
"EMI Scheme"	the TEP Exchange Group plc Enterprise Management Incentive Scheme
"FSA"	Financial Services Authority Limited
"Group"	the Company and its subsidiary undertakings from time to time
"IFA"	Independent Financial Adviser
"Insinger Townsley"	a division of Insinger de Beaufort (which is a subsidiary of Bank Insinger de Beaufort N.V.) which is regulated by The Securities and Futures Authority Limited
"Interactive Intelligence"	Interactive Intelligence Limited, a wholly owned subsidiary of the Company
"Interim Portfolio"	TEP Exchange Interim Portfolio Limited, a wholly owned subsidiary of the Company
"John East & Partners"	John East & Partners Limited
"Loan Notes"	the £1,985,000 convertible redeemable loan notes issued by the Company under the terms of the instrument referred to in paragraph 2.7 of Part IV of this document
"London Stock Exchange"	London Stock Exchange PLC
"Official List"	the Official List of the UK Listing Authority
"Ordinary Shares"	ordinary shares of 1p each in the capital of the Company
"PIA"	Personal Investment Authority Limited

Definitions (continued)

"Placing"	the conditional placing of the Placing Shares at the Placing Price pursuant to the Placing Agreement
"Placing Agreement"	the conditional agreement dated 30th August, 2001 between the Company, the Directors, John East & Partners and Insinger Townsley as described in paragraph 7.4 of Part IV of this document
"Placing Price"	8p per Placing Share
"Placing Shares"	the 18,812,500 new Ordinary Shares to be issued for cash pursuant to the Placing
"POS Regulations"	the Public Offers of Securities Regulations 1995, as amended
"Share Options"	options to subscribe for Ordinary Shares pursuant to the Share Option Schemes
"Share Option Schemes"	the Approved Option Scheme, the Unapproved Option Scheme and the EMI Scheme
"TEP-Exchange Limited"	operates the TEP Exchange and is a wholly owned subsidiary of the Company
"the TEP Exchange"	a web-based set of platforms operated by TEP-Exchange Limited to automate the process of matching a TEP for sale to a Market Maker
"UK"	the United Kingdom of Great Britain and Northern Ireland
"Unapproved Option Scheme"	the TEP Exchange Group plc Unapproved Share Option Scheme 2001

Technical Glossary

"Accepted Bid"	a bid for a with profits policy made by a Market Maker which has been accepted by an IFA on behalf of its client but which remains subject to contract
"Automatic Match Engine"	a series of computer programs which are utilised by The TEP Exchange to match endowment policies against Market Makers' criteria, to value such policies and produce bids from Market Makers, as more fully described in the paragraph headed "The Instant Bid" in Part I of this document
"Market Maker"	an organisation, usually regulated under the Financial Services Act 1986, whose business is or includes the purchasing of TEPs for its own account or for third parties
"TEP"	traded endowment policy – a with profits endowment policy which is purchased part way through its term by a third party
"Trawler"	an organisation which undertakes the administrative process of obtaining quotes from Market Makers on behalf of individuals or IFAs

Placing statistics

Placing Price	8p
Number of Placing Shares	18,812,500
Ordinary Shares in issue at Admission	115,625,000
Percentage of enlarged issued ordinary share capital being placed	16.27 per cent.
Amount being raised under the Placing	£1.505 million
Amount, after expenses, being raised under the Placing	£1.155 million
Market capitalisation at the Placing Price following the Placing	£9.25 million

Dealing restrictions

On Admission, the Directors and persons connected with them and certain shareholders will be interested in 24,474,698 Ordinary Shares, representing 21.17 per cent. of the enlarged issued ordinary share capital of the Company. Details of these shareholdings are set out in paragraph 4.1 of Part IV of this document.

The Directors on behalf of themselves, their families and other persons deemed to be connected with them and certain shareholders (who are interested in 69,412,698 Ordinary Shares representing 60.03 per cent. of the enlarged issued ordinary share capital of the Company) have undertaken to John East & Partners, Insinger Townsley and the Company, not to dispose of such interests (subject to certain limited exceptions) until 12 months after Admission and not to dispose of such interests for a further period of 12 months thereafter without the prior written consent of John East & Partners and Insinger Townsley, such consent not to be unreasonably withheld or delayed.

In addition, certain shareholders whose interests have arisen from conversion of the Loan Notes and who will be interested in 18,562,500 Ordinary Shares at Admission, representing 16.05 per cent. of the enlarged issued ordinary share capital of the Company, have undertaken to John East & Partners, Insinger Townsley and the Company, not to dispose of such interests (subject to certain limited exceptions) until 6 months after Admission and not to dispose of such interests for a further period of 12 months thereafter without the prior written consent of John East & Partners and Insinger Townsley, such consent not to be unreasonably withheld or delayed.

Further details of these arrangements are set out in paragraphs 7.1, 7.4, 7.5 and 7.6 of Part IV of this document.

Expected timetable of principal events

Publication date of document	30th August, 2001
Payment to be received from placees in cleared funds by	5th September, 2001
Admission effective and dealings expected to commence	10th September, 2001
Share certificates in respect of Placing Shares expected to be despatched by	17th September, 2001

PART I

Information on the Company

Introduction

With profits endowment policies are a long established investment product. The policyholder pays regular premiums, normally monthly, into a fund over a fixed term of years. The policy will carry a guaranteed sum (on the basis that premiums are paid until maturity) to which may be added annual reversionary bonuses and a terminal bonus on maturity. With profits endowment policies have frequently been used as a medium for repaying the capital on an interest only housing mortgage at the end of the mortgage term. For a number of reasons the majority of with profit endowment policies as a whole are not held until maturity. The traditional way of releasing capital from such a policy was to surrender it to the life company which had issued it. Because surrender values offered by the life office do not always represent the intrinsic value of a policy by reference to the guaranteed sum assured, reversionary bonuses paid to date and a projected maturity value, investors are often willing to pay more to buy a traded policy than the life office would offer for a surrender.

According to the Association of British Insurers, endowment policies with a value of approximately £9 billion are surrendered annually to life offices in the UK. The Directors estimate that a substantial portion of these policies would fetch a higher price than surrender value if sold to an investor, on the TEP market, but only some of these are traded in this way. Growth in the TEP market by turnover has risen from £5 million in 1988 to approximately £450 million in 1999 and there are in excess of 15 Market Makers who are the buyers of TEPs. The Company was formed because of the fragmented nature of the TEP market and to provide a single electronic trading platform capable of capturing an increasing number of TEP trades.

History

The Company was established in November 1999 by Moses Kraus and Abraham Weitz to create an electronic trading platform for TEPs, with the flexibility to trade other commodities and financial products. They approached two of the leading Market Makers in the TEP market, Surrenda-Link Limited and Absolute Assigned Policies Limited. The Company initially raised capital of £600,000 and in January 2000, issued £1,200,000 unsecured convertible loan notes, which were converted into 12 million Ordinary Shares in December 2000 and January 2001. The Company applied for authorisation to the PIA and approval was received in September 2000. The Company subsequently raised a further £1,985,000 by the issue of the Loan Notes, which will be converted into 24,812,500 Ordinary Shares on Admission.

Development work was completed and trading on the platform began in three stages.

In November 2000 the first stage commenced with the introduction of the Auction System. In February 2001 the Automatic Match Engine was started with two Market Makers inputting their criteria to facilitate the trading of many types of policies. In June 2001 a third Market Maker commenced trading on the TEP Exchange and in August 2001 a fourth Market Maker commenced trading. To date, over 4,800 IFAs have registered with the TEP Exchange and in excess of 400 Accepted Bids, with a value of over £5 million, have been made through the TEP Exchange.

The TEP Market

The TEP Market is conducted through the Market Makers, which traditionally purchase from the public, either directly or through IFAs. Policyholders do not receive independent financial advice when selling direct to Market Makers, since generally Market Makers act as principals or as agents for institutional clients on a strictly execution only basis.

IFAs need to provide best advice when selling a client's endowment policy, which in practice is taken to mean that at least three Market Makers should be asked to quote their best bid for a policy. In the absence of an electronic trading platform, this can be a time consuming exercise and, therefore, not

particularly productive for the IFA.

In its regulatory update number 85, the PIA asks provider firms (the life offices) to take steps to ensure that policyholders considering surrender of a life policy are informed that they may be able to trade that policy instead. IFAs are already subject to a duty to advise that when being asked to arrange a surrender of a with profits policy, they should, where appropriate, advise that it may be possible to obtain a higher cash value through selling it in the secondary market.

The need to achieve greater efficiency on behalf of the IFAs for sourcing quotes became apparent and Trawlers evolved, which are individuals or companies who are instructed by the IFA or policyholder to "trawl" the Market Makers to obtain the best price for an endowment policy offered for sale.

Trawlers typically either charge the Market Makers a flat fee, or take a share of the IFA's commission, which is typically three per cent., for placing the policy details in front of various TEP buyers and returning to the IFA or policyholder with the best bid. It can take many days, or longer, before a Trawler obtains the relevant information and, even with this delay, there can be no guarantee that any bid will be received, or that any bid received is the best bid available.

The TEP Exchange system provides an electronic trading platform for the sale and purchase of existing endowment policies. The provision of quotes in seconds and the use of e-mailed document packs containing all the information input by the IFA and available for printing in the IFA's office, means that the IFA is able to conduct a trade within one session with his client.

The Business of the Company

The Company has two principal trading subsidiaries: TEP-Exchange Limited and Interim Portfolio.

TEP Exchange

The TEP Exchange System

The TEP Exchange is a user-friendly, web-based set of platforms which fully automates the process of matching the policy for sale to a Market Maker, by utilising a procedure for finding the highest available bid from the member Market Makers on the Exchange. It is in effect a spot market for TEPs. The TEP Exchange trading platform operates a 'three stage process' to maximise the chances of achieving higher bids for policyholders. The first and most important is the on-line matching automated instant bid process; the second is the on-line auction process; the third is the periodic e-mail distribution of a list of available policies to all Market Makers.

The TEP Exchange charges a commission of one per cent. of the traded value of a policy to the Market Maker completing a successful trade. Market Makers will also pay an annual "seat fee" of £34,800 once agreed trading levels have been achieved for the first time. The service is free to IFAs.

Additionally, IFAs can customise their purchasing of TEPs through the TEP Exchange by accessing extensive up-to-date lists of policies available from Market Makers.

The Instant Bid

To use the instant bid process, the IFA submits all the relevant details of the endowment policy on line, and those details are automatically processed against the purchasing requirements of the Market Makers contained in the multi-dimensional matrices utilised by the system.

After submitting the endowment policy details to the TEP Exchange, the Automatic Match Engine searches through every cell in the matrix database extracting the information from cells that match the details of the endowment policy for sale. The Automatic Match Engine then calculates the bids from the Market Makers buying criteria and displays the instant bid or bids to the IFA, together with the premium to surrender value. This process takes seconds. The IFA must indicate his client's willingness to proceed within 20 minutes of the bid being displayed to him by clicking a button on his screen, ideally whilst his client is either on the telephone or sitting in his office, otherwise the bid or bids will be withdrawn.

If the bid is accepted, the TEP Exchange automatically issues an electronic confirmation of the transaction with a deal tracking number. The TEP Exchange also e-mails a transaction package (comprising the contract, absolute assignment, and ancillary documentation) to the IFA within minutes of the deal being accepted, for the IFA to print for his client. Finally, the TEP Exchange also provides access to a "workflow" for each deal which sets out the procedure for completing and settling the transaction and tracks its progress.

Market Makers may bid for the purchase of an endowment policy, but they are not obliged to do so. If more than one bid is received on the TEP Exchange, all bids are displayed to the IFA, clearly indicating the best bid. If a policy does not attract any bids, its details are automatically submitted to the Auction section of the TEP Exchange.

The Auction

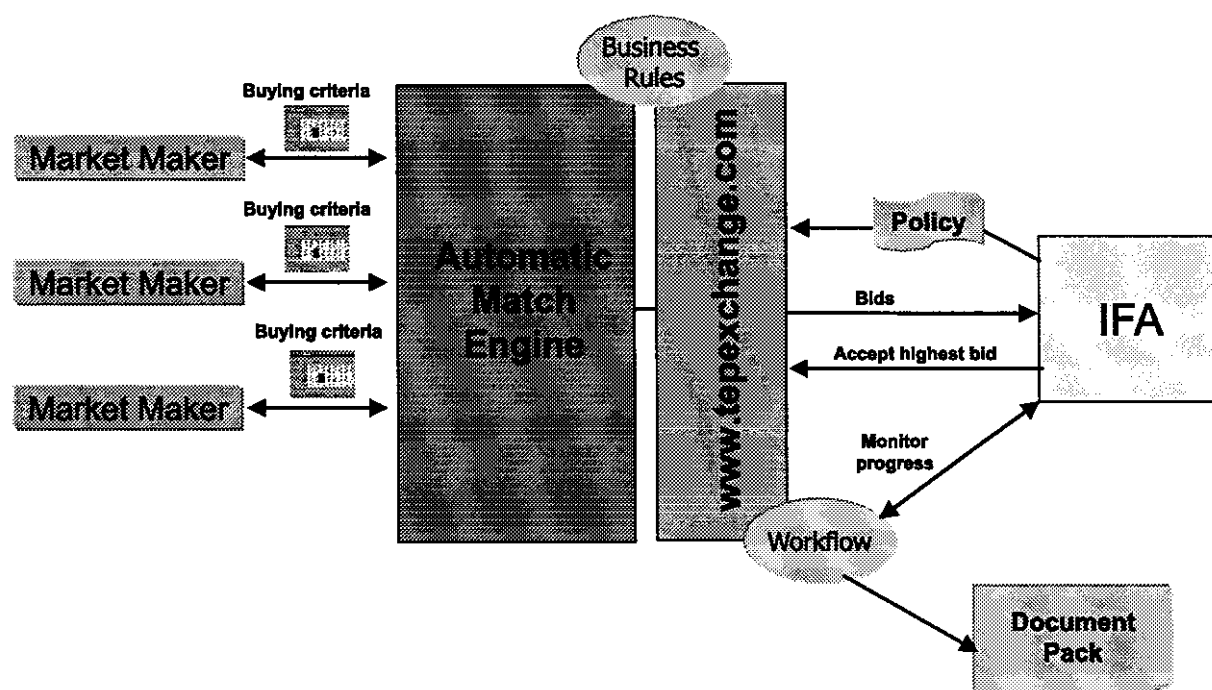
In the Auction section, Market Makers submit live bids. The duration of the auction depends on Market Maker interest, as each bid made by a Market Maker will extend the auction by a further 24 hours. The IFA will be able to monitor the current status of the bids at auction before deciding to accept the highest bid, or alternatively allow the auction to close without accepting the bid in order to re-submit the policy details at a later date.

If a period of 24 hours expires without a bid or further bid being received by the TEP Exchange, the auction will be closed and the TEP Exchange forwards details of any final bid received to the IFA and to the Market Makers.

E-mail circulation

Details of most policies, which have not received acceptable bids from either the instant bid system or the auction process, are sent by e-mail to potential TEP buyers who are free to contact the IFA directly to arrange a deal. This service is free to Market Makers and IFAs and requires no further involvement of the TEP Exchange.

The diagram below depicts the operation of the TEP Exchange



Completion and Settlement of Trades

Once the IFA has accepted a bid, a heads of terms summary will be e-mailed within minutes to the IFA and the Market Maker by the TEP Exchange.

The IFA downloads the transaction package which contains policy and other information submitted by it to the TEP Exchange together with the contract and absolute assignment for execution by the holder of the TEP.

The contract, once executed by the seller of an endowment policy, constitutes a binding contract for the sale and purchase of that TEP between the seller and the Market Maker whose bid was accepted, provided that the IFA delivers or procures the delivery of all relevant documents to the Market Maker's legal adviser within 15 working days of accepting the bid. Failure to do so will entitle the TEP Exchange to set aside the trade upon instruction of the Market Maker.

Throughout the currency of the transaction all parties to the transaction including the IFA are advised to access the workflow facility and promptly update it to show at any time to the Market Maker, the TEP Exchange and the relevant legal adviser the steps taken towards the completion of the sale and purchase of the relevant TEP.

Market Makers are given management tools to accommodate their use of the TEP Exchange, including a history of past transactions, status of current transactions, and a live tracker of policies currently being traded by them via the TEP Exchange. Similarly, IFAs have full management tools and the option to personalise opening pages on their accounts.

Advantages of the TEP Exchange

The TEP Exchange is designed to reduce transaction and processing costs and transform an inefficient industry into a fast, high volume and more transparent market. The Directors believe that its advantages over conventional methods of trading endowment policies are:

- a reduction in the costs involved in valuing and purchasing TEPs;
- a reduction in the cost of transferring ownership of TEPs;
- an increase in the liquidity in the TEP market place, due to increased volumes of policies being traded, especially as lower value policies should be tradeable for the first time, due to the lower costs involved;
- greatly increased speed in valuing and executing the sale and purchase of TEPs;
- a secure trading environment;
- increased dealing capability;
- automated dealing, resulting in lower transaction costs, increased accuracy and faster error identification;
- immediate trading online;
- real time workflow information;
- the intention to provide centralised market data; and
- scalability, as trading volume increases.

Interim Portfolio

This subsidiary was established to provide a service to the TEP market. It creates a safety net for the TEP market by purchasing a selection of those policies offered for sale through the TEP Exchange which do not receive an offer above the surrender value. The policies are acquired for two purposes; nursing and trading.

Nursing

These policies are initially of insufficient value to be of interest to Market Makers. They are purchased at a price above the surrender value and "nursed" by Interim Portfolio. The holding period can typically range from two weeks to three years and during this time Interim Portfolio pays the premiums. As soon as the endowments acquire sufficient value they are sold to the TEP market via the TEP Exchange.

Interim Portfolio capitalises on the differential values of policies. These have little or no value in the early years and then follow an accelerated upward trend in value once bonuses are applied.

Trading

These policies generally have sufficient value to be purchased in the market but do not match the immediate buying criteria of the Market Makers. The policies are purchased on a short term basis only and are submitted back to the Market Makers through the TEP Exchange.

To date, Interim Portfolio has acquired and sold a number of TEPs.

Regulation

Dealing in endowment policies is deemed to be an investment business under the Financial Services Act 1986 and is primarily undertaken by Market Makers which are authorised to conduct investment business in the United Kingdom.

Arranging deals in endowment policies is also deemed to be investment business and the TEP Exchange is authorised to conduct this activity by the FIA.

Directors and Senior Management

Directors

George Kynoch (Non-executive Chairman), aged 54, 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 non-executive chairman of JETCAM International Holdings Limited, which is listed on AIM, London Marine Group Limited, Benson Group Limited, Mountwest 146 Limited and a non-executive director of PremiSys Technologies plc, which is also listed on AIM.

Stephen Kay (Chief Executive), aged 59, is a Chartered Accountant and was a partner in Goodman Myers & Co an accounting practice specialising in the music industry. Subsequently he was a director of a number of companies, including Ansamatic Holdings Limited and its subsidiaries, which rented, sold and maintained telecommunications equipment. Prior to joining the Company, he was for six years the Executive Chairman of Pictor Holdings Limited, which owned a photographic image library. In this capacity he re-financed the business, converted it from an analogue to a web enabled digital business and recruited a new management team.

Moses Kraus (Chief Operating Officer), aged 43, 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 at a religious school in Zurich between 1981 and 1985. In 1983 he trained as a life insurance salesman, in his spare time, with Winthertur 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 the residential status of "Person of Independent Means" which prevented him from working as an employee or engaging in business in the UK until he obtained indefinite residence in March 1999. He founded the Company in November 1999.

Abraham Weitz (Marketing Director), aged 36, 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 the merging of new e-commerce ideas with more traditional business and is joint founder of the Company.

Michael Abrahams (Finance Director), aged 51, is a Chartered Accountant. In 1998 he became one of the founding shareholders and a director of City Endowments Limited, a business trading in life policies. Prior to this, he was Director of Corporate Administration and Development of Frank Usher Holdings plc from 1993 to 1998 and was with Gabicci plc from 1983 to 1992, initially as Finance Director and latterly as Group Managing Director.

Paul Sands (Non-Executive Director), aged 58, is chief executive of Surrenda-Link Limited, which is recognised to be the leading Market Maker in TEPs and purchaser on behalf of major institutional investors. He is Chairman of the Association of Policy Market Makers.

Senior Management

Raphael Wosner (Head of TEP-Exchange Interim Portfolio Limited), aged 27, has experience of the TEP market. He has been involved in building and implementing valuation programs and criteria models for participants of the TEP market and has guided the integration of the valuation matching engines into the Company.

Lionel Roodyn (Head of Information Technology and Manager of Interactive Intelligence), aged 39, is involved in the development and implementation of bespoke software solutions for business at the cutting edge of technology. Mr. Roodyn has worked on projects involving large-scale operations and very wide user bases for well-known and respected organizations such as Abbey National, Elf and Railtrack.

Zevi Glejser (Head of IT Support and Web Master), aged 28, is a web designer and IT developer. He has been involved in IT since 1996, commencing with Grangeview Estates and was instrumental in setting up an IT department for Forextra Limited, an international trading organisation.

Information Technology and Intellectual Property

The Company owns all the intellectual property rights relating to the TEP Exchange. The TEP Exchange trading platform is hosted by Northgate Information Solutions UK Limited at their secure premises in Hemel Hempstead.

Competition and Barriers to Entry

The Company has no direct competition in its core business of providing an electronic marketplace for TEPs. The Directors consider that the Company has 'first mover' advantages in terms of its technology in the TEP market.

The principal non-automated competition primarily is the Trawlers, who have to conduct a time consuming process to obtain a number of bids.

Current Trading and Future Prospects

The Directors are satisfied with progress to date. The number of policies submitted for sale to the TEP Exchange has increased sharply since trading began and an increasing trend in the number of these is being traded. The Directors believe that the Company should continue to attract an increasing number of IFAs and Market Makers and that the TEP Exchange's proportion of the TEP market will grow. They also believe that the proportion of endowment policies traded, rather than surrendered, will also grow as awareness of the TEP market increases due, in part, to regulatory pressure on the life offices to disclose to policyholders the existence of the secondary market. The Directors also believe that the secondary market could expand as subsequent trades in the same endowment policy increase. In the medium term and longer, the Directors believe that scope exists to modify the trading

platform to extend its reach to cover other financial products and to provide a similar trading platform in other countries.

For all these reasons, the Directors feel justified in looking to the future with confidence.

The Placing

Pursuant to the Placing Agreement, Insinger Townsley has agreed, as agent for the Company, to use all reasonable endeavours to procure placees for the Placing Shares at the Placing Price to raise approximately £1.155 million net of expenses payable in cash for the benefit of the Company. The Placing is conditional, *inter alia*, upon (i) Admission, and (ii) the Placing Agreement becoming unconditional and not being terminated in accordance with its terms.

Each of the Directors has undertaken that he will not, except in the event of an intervening court order, a takeover becoming or being declared unconditional or the death of such person, dispose of any interest in the Company's shares for 12 months after Admission and will not dispose of such interests for a further 12 months thereafter without the prior written consent of John East & Partners and Insinger Townsley, such consent not to be unreasonably withheld or delayed.

Certain other shareholders (who are interested in 44,938,000 Ordinary Shares, representing 38.87 per cent. of the enlarged issued ordinary share capital of the Company) have given undertakings to the Company and to John East & Partners and Insinger Townsley that they will not, except in the event of an intervening court order, a takeover becoming or being declared unconditional or (in the case of an individual) the death of such person, dispose of any interest in the Company's shares for 12 months after Admission and will not dispose of such interests for a further 12 months thereafter without the prior written consent of John East & Partners and Insinger Townsley, such consent not to be unreasonably withheld or delayed. The holders of certain of the Ordinary Shares arising on conversion of the Loan Notes have given similar undertakings in respect of the period of six months following Admission and a further 12 months thereafter.

Further details of the Placing Agreement are contained in paragraph 7.4 of Part IV of this document.

Details of certain taxation implications which may be relevant to holding or dealing in Ordinary Shares are set out in paragraph 11 of Part IV of this document.

Reasons for Admission and use of the Proceeds of the Placing

The net proceeds of the Placing, amounting to £1.155 million, will be utilised in providing working capital for the Company.

The Directors believe that the Company will benefit from the perceived status of being publicly traded, that its standing with IFAs and Market Makers will be enhanced, and that the acquisition and retention of key staff will be facilitated through the use of the Share Option Scheme.

Dividend policy

The Directors intend to commence the payment of dividends as soon as practicable, bearing in mind the financial resources required for the development of the Group, and to pursue a prudent dividend policy thereafter.

CREST

CREST is a paperless settlement system enabling securities to be evidenced otherwise than by certificate and transferred otherwise than by written instrument. The articles of association of the Company permit the holding of Ordinary Shares under the CREST system. The Directors have arranged with CRESTCo. Limited for the issued and to be issued Ordinary Shares to be admitted to CREST with effect from Admission. Accordingly, settlement of transactions in the Ordinary Shares following Admission may take place within the CREST system if the relevant holders so wish.

CREST is a voluntary system and holders of Ordinary Shares who wish to receive and retain certificates will be able to do so. Persons acquiring Ordinary Shares under the Placing may, however, elect to

receive Ordinary Shares in uncertificated form if, but only if, that person is a "system member" (as defined in the Uncertificated Securities Regulations 1995) in relation to CREST.

Application will be made for the whole of the issued and to be issued Ordinary Share capital of the Company to be admitted to AIM and it is anticipated that Admission will become effective and that dealings will commence on 10th September, 2001. It is expected that CREST accounts will be credited on 10th September, 2001 and that certificates in respect of the Placing Shares will be despatched on 17th September, 2001.

Copies of this document will be available, for collection only, free of charge, from John East & Partners, Crystal Gate, 28-30 Worship Street, London EC2A 2AH during normal office hours on any weekday (Saturday and public holidays excepted) for a period of one month from the date of Admission.

Share Option Schemes

In order to attract, motivate and retain key executives, the Company has adopted the Share Option Schemes. At the date of this document options have been granted by the Company over 1,810,697 Ordinary Shares as summarised in paragraph 10 of Part IV of this document. Subject to Inland Revenue approval, it is proposed to grant options over a total of 2.1 million Ordinary Shares to Stephen Kay.

The main provisions of the Share Option Schemes are set out in paragraph 10 of Part IV of this document and details of subsisting and proposed options are set out in paragraphs 2.5 and 4.1 respectively of Part IV of this document. The number of Ordinary Shares over which options may be granted under the Share Option Schemes, when taken together with the total number of shares issued or issuable pursuant to grants made within the preceding ten years under these and all other share schemes of the Company, is limited to 10 per cent. of the issued ordinary share capital of the Company on any date of grant.

Corporate Governance

The Directors acknowledge the importance of the guidelines set out in the principles of Good Governance and Code of Best Practice published by the Committee on Corporate Governance in June 1998 and intend to apply them as appropriate to a company of the size and nature of the Company.

The Company has appointed Mr Kynoch as its Non-executive Chairman, and Mr Sands as a Non-executive Director and has established audit and remuneration committees, both with formally delegated duties and responsibilities, comprising the two non-executive directors.

The Audit Committee, which will be chaired by George Kynoch, will receive and review reports from management and the Company's auditors relating to the annual and interim accounts and the accounting and internal control systems of the Company. The Audit Committee will have unrestricted access to the Company's auditors.

The Remuneration Committee, which will be chaired by George Kynoch, will review the scale and structure of the executive Directors' remuneration and the terms of their service contracts. The remuneration and terms and conditions of appointment of the non-executive Directors will be set by the Board. The Remuneration Committee will also administer the Share Option Schemes.

The Company has adopted a code for share dealing based on the Model Code for listed companies.

The Directors are authorised to allot shares up to the amount of the authorised but unissued capital. Notwithstanding, the Directors have resolved to limit the proportion of shares which may be issued for cash other than on a pro rata basis to shareholders to 10 per cent. of the issued share capital of the Company at Admission without prior approval of the shareholders in general meeting.

Risk Factors

In addition to the other relevant information set out in this document, the following specific factors should be considered carefully in evaluating whether to make an investment in the Company. The investment offered in this document may not be suitable for all of its recipients. **If you are in any doubt about the action you should take, you should consult a person authorised under the Financial Services Act 1986 who specialises in advising on the acquisition of shares and other securities.**

There are various risk and other factors associated with an investment of the type described in this document. In particular:

- Although the Company has security devices and procedures in place, it is possible that an unauthorised individual could gain access to the system and disrupt the trading exchange.
- The Company has a limited operating history, which could inhibit its ability to forecast user demand accurately and respond to competitive developments.
- Whilst the Company has put in place back-up systems and procedures, there is always a risk of damage or interruption of service caused by floods, fires, power losses, telecommunications failures, sabotage, vandalism, computer viruses and similar events which are outside the Company's control.
- The TEP market has grown significantly in recent years, but there can be no guarantee that this will be the case in the future.
- The Group is reliant on its Internet service provider and that party's servers to ensure the functionality of the TEP Exchange.
- The Company is currently regulated by the PIA. It is not possible to predict future legislative or regulatory developments, but the introduction of additional legislation or regulation involving TEPs may result in a disruption to the business of the Company or create additional compliance costs.
- The Company is dependent on retaining the services of its key executives.
- Although the Company has first mover advantage with no significant competitors, the position may change in future.
- AIM is not the Official List. Consequently, it may be more difficult for an investor to sell his or her Ordinary Shares and he or she may receive less than the amount paid.
- The market for shares in smaller public companies is less liquid than for larger public companies. Consequently the Company's share price may be subject to greater fluctuation and the shares may be difficult to buy and sell.

PART II

Accountants' Report on the Company



BDO Stoy Hayward
Chartered Accountants

8 Baker Street
London W1U 3LL

30th August 2001 ✓

The Directors
TEP Exchange Group plc
77 Muswell Hill
London N10 3PJ

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

Dear Sirs

TEP Exchange Group plc

("the Company") together with its subsidiaries (together "the Group")

Introduction

We report on the financial information set out below. This financial information has been prepared for inclusion in the prospectus of TEP Exchange Group plc dated 30th August 2001 in connection with the proposed placing of 18,812,500 shares in the Company.

The Company was incorporated in England and Wales as TEP Exchange Group plc (company number 3877125) on 15th November 1999.

Basis of preparation

The financial information set out below is based on the audited financial statements for the 13½ month period ended 31st December 2000 to which no adjustments were considered necessary.

BDO Stoy Hayward, Chartered Accountants, of 8 Baker Street, London, W1U 3LL were the registered auditors to the Company for the period ended 31st December 2000. The audit report for this period was unqualified.

Responsibility

Such financial statements are the responsibility of the directors of the Company who approved their issue. The directors of the Company are responsible for the contents of the prospectus dated 30th August 2001 in which this report is included.

It is our responsibility to form an opinion on the financial information and to report our opinion to you.

Basis of opinion

We conducted our work in accordance with the Statements of Investment Circular Reporting Standards issued by the Auditing Practices Board. Our work included an assessment of evidence relevant to the amounts and disclosures in the financial information. The evidence included that previously obtained by us relating to the audit of the financial statements underlying the financial information. It also included an assessment of significant estimates and judgements made by those responsible for the preparation of the financial statements underlying the financial information and whether the accounting policies are appropriate to the entity's circumstances, consistently applied and adequately disclosed.

We planned and performed our work 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 information is free from material misstatement whether caused by fraud or other irregularity or error.

Opinion

In our opinion, the financial information set out below gives, for the purposes of the prospectus dated 30th August 2001, a true and fair view of the state of affairs of the Group as at 31 December 2000 and of its results and cash flows for the period then ended.

Consent

We consent to the inclusion in the prospectus dated 30th August 2001 of this report and accept responsibility for this report for the purposes of paragraph 45(1)(b) of Schedule 1 to the Public Offers of Securities Regulations 1995.

Financial Information

Accounting policies

The financial information has been prepared under the historical cost accounting convention and in accordance with applicable accounting standards.

Basis of consolidation

The consolidated financial information incorporates the financial information of the Group made up to 31st December 2000. 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's financial statements.

Turnover

Turnover represents sales to outside customers at invoiced amounts less value added tax where appropriate.

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

Development costs

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

Pension costs

Contributions to the Group's defined contribution pension scheme are charged to the profit and loss account in the period in which they become payable.

Deferred tax

Provision is made for timing differences between the treatment of certain items for taxation and accounting purposes to the extent that it is probable that a liability or asset will crystallise.

Operating leases

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

Profit and loss account

		Period ended 31st December 2000 £000
	Notes	
Development expenses		(1,564)
Other administrative expenses		(1,587)
Administrative expenses and operating loss		(3,151)
Interest receivable		25
Interest payable	3	(61)
Loss on ordinary activities before taxation and retained for the period	4	(3,187)
Loss per share	7	10.30p

All amounts relate to continuing activities.

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

Reconciliation of movements in shareholders' funds

	Period ended 31st December 2000 £000
Loss for the period	(3,187)
New share capital subscribed and issued	720
Share premium account	962
Shareholders' funds at 31st December 2000	(1,505)

Balance sheet

	Notes	31st December 2000 £000	As at 31st December 2000 £000
Fixed assets			
Tangible assets	8		186
Current assets			
Debtors	9	213	
Cash at bank and in hand		1,276	
		1,489	
Creditors: amounts falling due within one year	10	(1,275)	
Net current assets			214
Total assets less current liabilities			400
Creditors: amounts falling due after more than one year			
Convertible redeemable loan notes	11		(1,905)
Net liabilities			(1,505)
Capital and reserves			
Called up share capital	12		720
Share premium account	13		962
Profit and loss account	13		(3,187)
Shareholders' funds			(1,505)

All shareholders' funds are equity.

Cash flow statement

	Notes	Period ended 31st December 2000 £000	£000
Net cash outflow from operating activities	16		(2,043)
Returns on investments and servicing of finance			
Interest received		25	
Interest paid		(61)	
Net cash outflow from returns on investment and servicing of finance			(36)
Capital expenditure and financial investment			
Purchase of tangible fixed assets		(232)	
Net cash outflow from capital expenditure and financial investment			(232)
Financing			
Issue of loan stock and debentures		1,905	
Issue of ordinary share capital		1,682	
Cash inflow from financing			3,587
Increase in cash in the period	17		1,276

Notes to the financial information

1. Turnover

The Group has not earned any income that would be treated as turnover in the period.

2. Employees

Period ended
31st December
2000
£000

Staff costs consist of:

Wages and salaries	590
Social security costs	38
Other pension costs	25
	<hr/>
	653

The average number of employees including executive directors during the period was as follows:

Number

Marketing and sales (including administration)	5
Development	2
Legal and finance	2
Information Technology	8
Technical	3
	<hr/>
	20

3. Interest payable

Period ended
31st December
2000
£000

Convertible redeemable loan notes	60
Bank interest	1
	<hr/>
	61

4. Loss on ordinary activities

Period ended
31st December
2000
£000

This is arrived at after charging:

Development costs	1,564
Depreciation	46
Auditors' remuneration – audit services	12
– non-audit services	50
Leasing costs – equipment	37
	<hr/>

5. Directors

Period ended
31st December
2000
£000

Directors' emoluments consist of:

Fees and remuneration for management services	243
Payments to defined contribution pension scheme	17

260

Fees and remuneration for management services:

K Southwood	138
M Kraus	70
A Weitz	23
P Sands	6
R Flude	6

243

Kevin Southwood was the sole director in the Company's defined contribution pension scheme during the period.

The Directors beneficial interests in the ordinary share capital of the Company were as follows:

Period ended
31st December
2000
Number of
1 pence shares

M Kraus	16,243,869
K Southwood	1,052,631

17,296,500

During and at the end of the period M Kraus was interested in £500,000 convertible redeemable unsecured 15 per cent. loan notes in the Company.

6. Taxation on ordinary activities

No UK corporation tax has been charged for the period in view of the loss incurred.

7. Loss per share

The loss per share, calculated in accordance with FRS 14, is based upon the loss on ordinary shares after taxation of £3,186,733 and the weighted average number of shares in issue. The weighted average number of shares in issue during the period ended 31st December 2000 as adjusted for sub-divisions in the nominal value was 30,949,004.

8. Tangible assets

	Computer equipment £000	Fixtures, fittings and equipment £000	Total £000
Cost			
Additions and at 31st December 2000	172	60	232
Depreciation			
Provided for the period and at 31st December 2000	38	8	46
Net book value			
At 31st December 2000	134	52	186

9. Debtors	As at 31st December 2000 £000
Prepayments	47
Other debtors	166
	<hr/> 213 <hr/>

Included in other debtors is an amount of £70,500 which is due after more than one year.

All other amounts shown under debtors fall due for payment within one year.

10. Creditors: amounts falling due within one year	As at 31st December 2000 £000
Trade creditors	644
Other creditors	65
Creditors for taxation and social security	121
Accruals	445
	<hr/> 1,275 <hr/>

11. Creditors: amounts falling due after more than one year	As at 31st December 2000 £000
Convertible redeemable unsecured 15 per cent. loan notes	1,905

The convertible redeemable, unsecured loan notes can be redeemed at par on 31st May 2002 at the earliest. The loan notes may be converted, *inter alia*, on Admission into ordinary share capital the number of ordinary shares of 1 pence each being arrived at by multiplying the principal sum of such loan notes by 2.5 and dividing the result by the Placing Price, subject to a minimum attributable Placing Price of 10 pence. This is subject to adjustment if there is any proposal to issue shares at a lower price. By variation deeds entered into between all of the holders of these loan notes, the loan notes will be converted on Admission into the number of ordinary shares of 1p each arrived at by dividing the principal sum of such loan notes by the Placing Price.

Interest is payable at 15 per cent. per annum with effect from the first anniversary of the date of the loan note.

12. Share capital	As at 31st December 2000 £000
<i>Authorised</i>	
120,000,000 ordinary shares of 1 pence each	1,200
<i>Allotted, called up and fully paid</i>	
72,000,000 ordinary shares of 1 pence each	720

On formation the Company had an authorised share capital of 100,000 ordinary shares of £1 each. On 13th January 2000 the shares were subdivided into 1 pence shares, and the authorised share capital was increased by a further 50,000,000 shares. On 7th June 2000 the authorised share capital was increased by a further 60,000,000 shares.

During the period 72,000,000 shares were issued for cash of which 12,000,000 shares were issued at a premium of 9 pence per share.

On 12th June 2000, as varied on 22nd August 2001 the Company granted T.I.S. Group PLC the option to call for 3,000,000 ordinary shares of 1 pence each at the subscription price of 4 pence per share. The option can be exercised at any time before 31st January 2004.

On 16th February 2001 the Company granted 1,027,879 share options at 3 pence per share and 582,818 share options at 10 pence per share under an Enterprise Management Incentive Scheme. These options are exercisable between 16th February 2004 and 16th February 2011.

13. Reserves	Period ended 31st December 2000	
	Profit and loss account £000	Share premium account £000
Share premium arising on shares issued during the period	—	1,080
Share issue expenses written off	—	(118)
Loss for the period	(3,187)	—
At 31st December 2000	(3,187)	962

14. Commitments under operating leases

As at 31st December 2000, the Group had annual commitments under non-cancellable operating leases as set out below:

	As at 31st December 2000 Land and buildings £000
Operating leases which expire:	
Within one year	—
In two to five years	—
After five years	194
	194

15. Related party transactions

During the period the Group entered into the following transactions with Caruso AG, a company in which one of the directors has a limited interest:

	Period ended 31st December 2000 £000
Acquisition of development costs incurred by Caruso AG	344
Provision of administrative services	48

At 31st December 2000, no amount remained unpaid in respect of the above.

16. Reconciliation of operating profit to net cash inflow for operating activities

	Period ended 31st December 2000 £000
Operating loss	(3,151)
Depreciation	46
(Increase) in debtors	(213)
Increase in creditors	1,275
Net cash outflow from operating activities	(2,043)

17. Reconciliation of net cash inflow to movement in net debt

	Period ended 31st December 2000 £000
Increase in cash in the period	1,276
Cash inflow from increase in debt	(1,905)
Movement in net debt and net debt at end of period	(629)

18. Analysis of net debt

	Cash flow £000	As at 31st December 2000 £000
Cash in hand and at bank	1,276	1,276
Debt due after one year	(1,905)	(1,905)
Total	(629)	(629)

19. Financial instruments

The Company's financial instruments comprise: long term debtors, cash and loan notes. It has not entered into any derivative or other hedging transactions.

As permitted by FRS 13, Derivatives and Other Financial Instruments, amounts dealt with in the numerical disclosures in this note, with the exception of the currency analysis, exclude short-term debtors and creditors.

Interest rate risk

The unsecured loan notes bear interest at 15 per cent. accruing from the first anniversary of their date of issue. They were issued in December 2000.

Cash at bank and in hand relates to amounts in current accounts which accrue floating rate bank interest. Amounts held in sterling at 31st December 2000 were £1,276,000.

During the period to 31st December 2000 the Group incurred minimal interest charges and there were no borrowings at that date. The Directors are of the opinion that further disclosures regarding the interest rate profile under FRS 13 would not be meaningful.

Liquidity risk

The Company's share policy is to finance its operations and expansion through the issue of equity share capital.

Currency risk

The Company has no overseas subsidiaries and therefore has no transaction currency exposure abroad. All trading is conducted in sterling and accordingly no foreign currency gains or losses arise.

Treasury policy

Group treasury matters are governed by policies and procedures approved by the Board. The primary objectives of the treasury function is to provide competitively priced funding for the activities of the Group.

Fair values of financial assets and financial liabilities

The Group does not believe that it is practicable to estimate with sufficient reliability the fair value of the convertible redeemable loan notes given the uncertainty over the date of redemption or conversion.

The principal characteristics of these loan notes are described in note 11.

There is no material difference between the book value and the fair value of the Group's other financial assets and financial liabilities.

20. Subsidiary undertakings

The following were subsidiary undertakings of the Company at the end of the period:

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%	Dormant
TEP Transfer Limited	England	100%	Dormant
Interactive Intelligence Limited	England	100%	Dormant

TEP-Exchange Limited, TEP-Exchange Interim Portfolio Limited and TEP Transfer Limited were incorporated on 11th January 2000. Interactive Intelligence Limited was incorporated on 18th January 2000.

Yours faithfully

BDO Stoy Hayward
Chartered Accountants

PART III

Pro Forma Statement of Net Assets

Set out below is an unaudited pro forma statement of net assets of the Group illustrating the effect of the Placing. The pro forma statement of net assets has been prepared, on the basis of the notes set out below, to illustrate how the Placing might have affected the net assets of the Group had it occurred at 31st December, 2000. It has been prepared for illustrative purposes only and, because of its nature, may not give a true picture of the financial position of the Group.

	As at 31st December 2000 (note 1) £000	Placing (note 2) £000	Loan note conversion (note 3) £000	Pro forma net assets of the Group £000
Fixed assets				
Tangible assets	186	–	–	186
Current assets				
Debtors	213	–	–	213
Cash at bank and in hand	1,276	1,155	–	2,431
	1,489	1,155	–	2,644
Creditors: amounts falling due within one year	(1,275)	–	–	(1,275)
Net current assets	214	1,155	–	1,369
Total assets less current liabilities	400	1,155	–	1,555
Creditors: amounts falling due after more than one year	(1,905)	–	1,905	–
Net (liabilities)/assets	(1,505)	1,155	1,905	1,555

Notes:

The pro forma statement of net assets has been prepared on the following basis:

1. The net assets of the Group as at 31st December, 2000 have been extracted without material adjustment from the Accountants' Report set out in Part II of this document.
2. The net cash proceeds from the Placing are based upon gross proceeds of £1.505 million, less estimated costs of the Placing of £350,000.
3. It has been assumed that all loan notes, amounting to £1,905,000 (shown as creditors due after more than one year), are converted upon Admission.
4. No adjustments have been made to reflect the trading results of the Group since 31st December, 2000.

PART IV

Additional information

1. The Company and its share capital

- 1.1 The Company was incorporated in England and Wales as a public limited company on 15th November, 1999 under the Act and with registered number 3877125.
- 1.2 On 18th December, 2000, the Registrar of Companies in England and Wales issued the Company with a certificate entitling it to commence business under Section 117 of the Act. The Company commenced its trade and to borrow prior to the issue of this certificate.
- 1.3 The liability of the members of the Company is limited.

2. Share capital

- 2.1 The authorised and issued share capital of the Company at the date of this document and following completion of the Placing and Conversion of the Loan Notes is as follows:

	Authorised		Issued fully paid	
	Number of Ordinary shares	£	Number of Ordinary shares	£
Current	200,000,000	2,000,000	72,000,000	720,000
Proposed	200,000,000	2,000,000	115,625,000	1,156,250

- 2.2 The following changes have occurred in the share capital of the Company since its incorporation:

- (i) The Company was incorporated with share capital of £100,000 divided into 100,000 ordinary shares of £1 each. The two subscribers to the Memorandum of Association each subscribed for one ordinary share of £1.
- (ii) On 13th January, 2000 the authorised issued, and unissued share capital of the Company was subdivided into 10,000,000 ordinary shares of 1p each.
- (iii) On 13th January, 2000 the authorised share capital of the Company was increased to £600,000 divided into 60,000,000 ordinary shares of 1p each.
- (iv) On 7th June, 2000 the authorised share capital of the Company was increased to £1,200,000 divided into 120,000,000 ordinary shares of 1p each.
- (v) On 7th June, 2000, 59,999,800 ordinary shares of 1p each were issued for cash at 1p each.
- (vi) Between 14th December, 2000 and 7th January, 2001, 12,000,000 ordinary shares of 1p each were issued for cash at 10p each.
- (vii) On 14th May, 2001 the authorised share capital of the Company was increased to £2,000,000 divided into 200,000,000 ordinary shares of 1p each.

- 2.3 The Directors are generally and unconditionally authorised for the purposes of section 80 of the Act to allot relevant securities as defined in section 80(2) of the Act, up to an aggregate nominal amount of £2,000,000 such authority, unless previously revoked or varied by the Company in general meeting, to expire 31st December, 2003 or, if earlier, the date of the Company's the next annual general meeting, except that the Directors may allot relevant securities pursuant to an offer or agreement made before the expiry of the authority.

The Directors, under section 95(1) of the Act, are authorised to allot equity securities, as defined in section 94(2) of the Act, under the authority referred to in the preceding paragraph, during the period expiring on 31st December, 2003 or, if earlier, the date of the Company's next annual general meeting, as if section 89(1) of the Act did not apply to such allotment.

- 2.4 At the EGM, resolutions were passed, *inter alia*, to appoint directors and to ratify resolutions passed previously, including those resolutions to increase the authorised share capital as referred to in paragraph 2.2 of this Part IV and the granting of the authorities referred to in paragraph 2.3 of this Part IV.
- 2.5 The number of share options outstanding at the date of this document is as follows:

Type of Scheme	Date Granted	Date Exercisable	Option Price	Number outstanding
(a) Enterprise Management Incentive Scheme	16th February 2001	16th February 2004	3p	1,027,879
	16th February 2001	16th February 2004	10p	582,818
(b) Approved Share Option Plan	N/A	N/A	N/A	N/A
(c) Unapproved Share Option Plan	24th August 2001	24th August 2004	8p	200,000

It is proposed that, following Admission, options are granted to Mr Kay under the EMI Scheme over 600,000 Ordinary Shares at an exercise price of 8p per share and over a further 1,500,000 Ordinary Shares at an exercise price of 12p per share.

- 2.6 On 12th June, 2000, the Company granted an option in favour of T.I.S. Group PLC entitling it to subscribe in cash for up to 2,400,000 Ordinary Shares at a subscription price of 4p per share. The number of Ordinary Shares which are the subject of the Call Option Agreement (as defined in paragraph 7.1 of this Part IV) are not capable of being diluted to any greater extent than any dilution of the shareholding of any person who held Ordinary Shares on 12th June, 2000 (save where such dilution results from T.I.S. Group PLC declining to participate in any rights issue). If a dilution does occur the number of Ordinary Shares subject to the Call Option Agreement and the subscription price would be adjusted to ensure that such dilution does not occur.

By a further agreement dated 29th August, 2001 the exercise period was extended to 31st January, 2004 and the number of Ordinary Shares which T.I.S. Group PLC is entitled to subscribe for was increased by 600,000 to 3,000,000. In consideration of the Company extending the Call Option Agreement, T.I.S. Group PLC entered into the undertaking referred to at paragraph 7.6 of this Part IV. The Company paid a contribution of £15,000 (plus value added tax) towards the costs incurred by T.I.S. Group PLC in connection with the agreement to vary the Call Option Agreement and the undertaking referred to at paragraph 7.6 of this Part IV.

- 2.7 In December 2000 the Company issued unsecured convertible loan notes in the total principal sum of £1,905,000. In March 2001 the Company issued an unsecured convertible loan note for the principal sum of £30,000. In May 2001 the Company issued an unsecured convertible loan note for the principal sum of £50,000. The Loan Notes were convertible into the number of Ordinary Shares arrived at by multiplying the principal sum of such Loan Notes by 2.5 and dividing the result by the Placing Price subject to a minimum attributable Placing Price of 10p, conversion being automatic if, *inter alia*, the Company's shares are admitted to trading on AIM within one year of issue. Interest was payable on the principal of the Loan Notes at 15 per cent. per annum with effect from the first anniversary of each loan note. The maximum number of Ordinary Shares into which the Loan Notes could be converted would increase if after the issue of the loan note and before the Company's shares were admitted to trading on AIM, the Company proposed to issue Ordinary Shares or securities convertible into Ordinary Shares on terms which as to price were more advantageous than the conversion rate in the Loan Notes. In such circumstances the Loan Notes provided that the conversion rate would be adjusted to reflect such terms.

By further agreements dated 30th August, 2001 between the Company and the Loan Note holders, the Loan Note holders agreed to convert the Loan Notes into Ordinary Shares at a conversion rate equal to the Placing Price per Ordinary Share on Admission.

- 2.8 The business of the Company and its principal activity is that of a holding company.
- 2.9 The Company has the following wholly-owned subsidiaries:

TEP-Exchange Limited
TEP-Exchange Interim Portfolio Limited
TEP Transfer Limited
Interactive Intelligence Limited

3. Substantial shareholders

- 3.1 In addition to the interests of the Directors, which are set out in paragraph 4, the Directors are aware of the following holdings of ordinary shares representing three per cent. or more of the nominal value of the Company's share capital.

	At present		At Admission	
	Number of Ordinary Shares	Percentage of issued share capital	Number of Ordinary Shares	Percentage of issued share capital
Transcontex AG	18,602,858	25.84	18,602,858	16.09
Surrenda-Link (IOM) Limited	6,000,000	8.33	7,500,000	6.49
Logic Express Limited	5,750,000	7.99	5,750,000	4.97
Rachel Sterling Family Foundation	2,880,000	4.00	2,880,000	2.49
Wrengate Limited	2,500,000	3.47	6,325,000	5.47
B Kuflik	2,250,000	3.12	3,437,500	2.97
N & A Musry	2,000,000	2.78	4,985,000	4.31

Transcontex AG, whose principal shareholder is Zwi Holles, has its registered office at Altenbach 8, FL-9490, Vaduz, Liechtenstein.

Logic Express Limited is an investment company whose registered office at Atlantic House, Circular Road, Douglas, Isle of Man. Its directors are Christopher Peter Eaton and Christopher Paul Meinke.

Surrenda-Link (IOM) Limited, is a company in which Paul Sands has an indirect interest. Its registered office is 1 Castle Street, Castletown, Isle of Man, IM9 1LF. Its directors are Paul Sands and Michael Semple.

4. Directors' interests, service agreements and other costs

- 4.1 The interests of the Directors, their immediate families and of persons connected with them, within the meaning of section 346 of the Act in the share capital of the Company as at the date of this document, all of which are beneficial, before the Placing and at Admission are as follows:

	At present		At Admission		Number of
	Number of Ordinary Shares	Percentage of issued share capital	Number of Ordinary Shares	Percentage of issued share capital	options under the Share Option Schemes
George Kynoch	—	—	—	—	—
Moses Kraus	15,784,698*	21.92*	22,034,698*	19.06*	287,273**
Stephen Kay	2,400,000	3.33	2,400,000	2.08	2,100,000****
Abraham Weitz	—	—	—	—	295,545**
Michael Abrahams	40,000	0.06	40,000	0.03	276,364**
Paul Sands	—	—	—	—	200,000****

* Of these shares, Moses Kraus will hold at Admission 3,125,000 Ordinary Shares. In addition, Moses Kraus and members of his family are potential beneficiaries of the M Kraus Family Foundation, which holds 15,784,698 Ordinary Shares at present and will hold 18,909,698 Ordinary Shares at Admission. The registered office of the foundation is Kranz Treuhand-und, Verwaltungs-Unternehmen 9490, Vaduz, Liechtenstein.

** Granted under the EMI Scheme.

*** Granted under the Unapproved Option Scheme.

**** Proposed to be granted under the EMI Scheme.

- 4.2 Except as disclosed in paragraph 4.1, none of the Directors, nor any member of their respective immediate families, nor any person connected with them within section 346 of the Act, is interested in any share capital of the Company.

- 4.3 The Company has entered into agreements with the Directors as follows:

- (i) Mr Kraus has entered into a service agreement dated 29th August, 2001 providing an annual salary of £72,000 per annum which the Company and Mr Kraus have agreed to reduce to £50,000 per annum until such time as the Remuneration Committee of the Company decides that it is appropriate to revert to £72,000 per annum. The service agreement will commence from 29th August, 2001 and will be for an initial fixed term of 12 months, and, thereafter, to continue until terminated by either party giving not less than 12 months' written notice. The agreement provides that Mr Kraus will work four days per week being for such number of hours as agreed between him and the Company. For a period of 9 months after termination Mr Kraus 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 Kraus is prohibited from soliciting or enticing directors or senior employees, clients or customers of the Company.
- (ii) Mr Kay has entered into a service agreement dated 29th August, 2001 providing an annual salary of £100,000. Mr Kay is also entitled to a bonus at the discretion of the Remuneration Committee. The service agreement will commence from 29th August, 2001 and will be for an initial term of 12 months, and, thereafter, to continue until terminated by either party giving not less than three months' written notice. The agreement provides that Mr Kay 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 Kay 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 Kay is prohibited from soliciting or enticing directors or senior employees, clients or customers of the Company.
- (iii) Mr Weitz has entered into a service agreement dated 29th August, 2001 providing an annual salary of £72,000 per annum which the Company and Mr Weitz have agreed to reduce to £60,000 per annum until such time as the Remuneration Committee of the Company decides that it is appropriate to revert to £72,000 per annum. The service agreement will commence from 29th August, 2001 and will be for an initial term of 12 months, and, thereafter, to continue 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.

- (iv) Mr Abrahams has entered into a service agreement dated 29th August, 2001 providing an annual salary of £100,000 per annum which the Company and Mr Abrahams have agreed to reduce to £72,000 per annum until such time as the Remuneration Committee of the Company decides that it is appropriate to revert to £100,000 per annum. The service agreement will commence from 29th August, 2001 and will be for an initial term of twelve months, and, thereafter, to continue until terminated by either party giving not less than 6 months' written notice. The agreement provides that Mr Abrahams 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 Abrahams 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 Abrahams is prohibited from soliciting or enticing directors or senior employees, clients or customers of the Company.
 - (v) Pursuant to a letter agreement dated 29th August, 2001 with Drumduan Associates ("Drumduan"), a business controlled by Mr Kynoch, the Company has secured the services of Mr Kynoch for a fee of £25,000 per annum. In the event that Mr Kynoch is required to devote more than 24 hours per month to the affairs of the Company, Drumduan will be entitled to an additional daily fee of £750. The fees will be paid to Drumduan gross and Drumduan will indemnify the Company for any tax or national insurance it has to pay in respect of this appointment.
 - (vi) Mr Sands has entered into a letter of engagement with the Company for his services as a non-executive director of the Company for a fee of £12,000 per annum, of which £6,000 is payable, with the balance accruing on a monthly basis until the audited accounts of the Company show a profit on ordinary activities before taxation. The agreement is deemed to have commenced on 7th June, 2000 and is terminable on six months' notice given at any time by either side or, in limited circumstances, on summary notice.
- 4.4 The aggregate remuneration paid and benefits in kind granted to the Directors in the 13½ month period to 31st December, 2000 were £260,000 and are estimated for the period ending 31st December, 2001, under the arrangements in force at the date of this document, to amount to £207,000.
- 4.5 The Directors have held the following directorships and participated in the following partnerships within the five years prior to the publication of this document:

	Current	Past
<i>George Kynoch</i>	Benson Group Limited JETCAM International Holdings Limited London Marine Group Limited Mountwest 146 Limited PremiSys Technologies plc	Midmar Energy Limited PSL Holdings Limited Silvertch Industrial Automation Limited Silvertch International plc Silvertch Limited
<i>Moses Kraus</i>	E-X Group Limited Electronic Market Places Limited Ices (UK) Limited Icon Internet Consulting Group Limited Interactive Intelligence Limited Marriages Support Administration Limited Property Exchange Systems Limited Shep Limited TEP-Exchange Limited TEP-Exchange Interim Portfolio Limited TEP Transfer Limited UPH United Policy Holders Limited	Hillway Limited ICES (England) Limited Internet Consulting Group Limited Property Exchange Systems Limited Telco Investments Limited
<i>Stephen Kay</i>	Pictor Holdings Limited	Ansamatic Holdings Limited Ansamatic Properties Limited Ansafax Limited Code-a-phone Limited Pictor International Limited Pictor International Inc. (USA) Pictor International GmbH (Austria) Pictor International GmbH (Germany) Pictor International Sarl (France)

	Current	Past
Abraham Weitz	E-X Group Limited Electronic Market Places Limited Icon Internet Consulting Group Limited Interactive Intelligence Limited Property Exchange Systems Limited TEP-Exchange Limited TEP-Exchange Interim Portfolio Limited TEP Transfer Limited	ICES (England) Limited
Paul Sands	Association of Policy Market Makers Hart Promotions Limited LPVC Limited Portfolio Design Group International Limited Secured Profits Funds Limited Secured Profit Funds II Limited Surrenda-Link Endowment Fund Limited Surrenda-Link (IOM) Limited Surrenda-Link Investment Fund Limited Surrenda-Link Limited Surrenda-link Property and Teps Fund Limited Surrenda-Link Investment Limited	PHC3 Limited
Michael Abrahams	TEP-Exchange Limited Zetastar Limited	Avingtrans PLC (formerly Frank Usher Holdings Plc) City Endowments Limited Frank Usher Limited Packham Anderson Limited

- 4.6 Stephen Kay was a director of Ansamatic Holdings Limited to which administrative receivers were appointed on 6th July, 1995. All charges having been satisfied in full, the receivers ceased to act on 23rd January, 1996. He was also a director of the following companies which ceased to trade in May 1992 and went into liquidation in February 1993: Sherborne Trust Limited and its subsidiaries, Sherborne Limited, Sherborne Leasing Limited and, Batchlodge Limited. The total deficiency amounted to approximately £1.1 million, a significant part of which related to loans advanced by Stephen Kay and connected interests. Furthermore, Mr Kay made a personal contribution to the sums owed to secured and certain preferred creditors arising in part from personal guarantees. He was a non-executive director of General Constructional & Engineering Company Limited, to which administrative receivers were appointed in 1982 with a deficiency of approximately £500,000. Pictor International Inc. of which Mr Kay resigned as an officer on 28th November, 2000 filed for protection under chapter 11 of the United States Code in June 2001 and continues to trade.

In May 1995, Michael Abrahams was appointed a director of Packham Anderson Limited, following its acquisition by Frank Usher Holdings plc, of which Michael Abrahams was an executive director. Following trading problems, Frank Usher Holdings plc appointed administrative receivers in February 1996. The administrative receivers ceased to act in January 1998 and the company was dissolved in September 1998.

- 4.7 Save as disclosed in paragraph 4.6 above, none of the Directors have been directors of any company at the time of or within 12 months preceding the date of its receivership, compulsory liquidation, creditors voluntary liquidation, administration, company voluntary arrangement or any composition or arrangement with its creditors generally or any class of its creditors and none of the Directors have been a partner of any partnership at the time of or within 12 months preceding the date of its compulsory liquidation, administration or partnership voluntary arrangement or the receivership of any assets of such partnership nor have any of their assets been subject to receivership at the time of or within 12 months following the cessation of such directorship or partnership.
- 4.8 None of the Directors has been criticised by any statutory or regulatory authority (including recognised professional bodies) or ever been disqualified by a Court from acting as a director of a company or from acting in the management or conduct of the affairs of any company.
- 4.9 Save as disclosed in paragraph 4.10, no Director has been interested in any transaction with the Company which was unusual in its nature or conditions or significant to the business of the Company since its incorporation.
- 4.10 Mr Kraus is a shareholder in Caruso AG, a company that has assigned to the Company intellectual property rights in software and systems that are significant to the business of the Company by an agreement entered into on 2nd January, 2000. The transfer by way of assignment was made to the Company on 10th July, 2000.

- 4.11 Except as set out in paragraph 4 of this Part IV there are no existing or proposed service agreements between any of the Directors or any existing or proposed consultancy agreements pursuant to which any of the services of any Director are to be provided and which are not terminable by the Company without the payment of compensation (other than statutory compensation) within one year.

5. Memorandum of Association

The principal objects of the Company are set out in clause 4(a) of its memorandum of association which is available for inspection, as described in paragraph 13 below, and are to carry on business as a general commercial company.

6. Articles of Association

The rights attaching to the Ordinary Shares, as set out in the articles of association of the Company adopted at the EGM, contain, amongst others, the following provisions:

Votes of members

- (a) Subject to any special terms as to voting or to which any shares may have been issued, no shares having been issued subject to any special terms, on a show of hands every member who being an individual is present in person or, being a corporation is present by a duly authorised representative, has one vote, and on a poll every member has one vote for every share of which he is the holder.
- (b) Unless the directors determine otherwise, a member of the Company is not entitled in respect of any shares held by him to vote at any general meeting of the Company if any amounts payable by him in respect of those shares have not been paid or if the member has a holding of at least 0.25 per cent. of any class of shares of the Company and has failed to comply with a section 212 notice.

Variation of rights

Subject to the provisions of the Act, if at any time the capital of the Company is divided into different classes of shares, the rights attached to any class may be varied or abrogated with the consent in writing of the holders of at least three-fourths in nominal value of that class or with the sanction of an extraordinary resolution passed at a separate meeting of the holders of that class but not otherwise. The quorum at any such meeting is two or more persons holding, or representing by proxy, at least one-third in nominal value of the issued shares in question.

Transfers of shares

- (a) Subject to the provisions of the articles relating to CREST, all transfers of shares will be effected in the manner authorised by the Stock Transfer Act 1963 and must be signed by or on behalf of the transferor and, in the case of a partly paid share, by or on behalf of the transferee. The transferor is deemed to remain the holder of the share until the name of the transferee is entered in the register of members in respect of it.
- (b) The directors may, in their absolute discretion and without assigning any reason, refuse to register the transfer of a share in certificated form if it is not fully paid or if the Company has a lien on it, or if it is not duly stamped, or if it is by a member who has a holding of at least 0.25 per cent. of any class of shares of the Company and has failed to comply with a section 212 notice. In exceptional circumstances approved by the London Stock Exchange, the directors may refuse to register any such transfer, provided that their refusal does not disturb the market.
- (c) The articles of association contain no restrictions on the free transferability of fully paid ordinary shares provided that the transfers are in favour of not more than four transferees, the transfers are in respect of only one class of share and the provisions in the articles of association, if any, relating to registration of transfers have been complied with.

Payment of dividends

Subject to the provisions of the Act and to any special rights attaching to any shares, the shareholders are to distribute amongst themselves the profits of the Company according to the amounts paid up on the shares held by them, provided that no dividend will be declared in excess of the amount recommended by the directors. A member will not be entitled to receive any dividend if he has a holding of at least 0.25 per cent. of any class of shares of the Company and has failed to comply with a section 212 notice. Interim dividends may be paid if profits are available for distribution and if the directors so resolve.

Unclaimed dividends

Any dividend unclaimed after a period of 12 years from the date of its declaration will be forfeited and will revert to the Company.

Untraceable shareholders

The Company may sell any share if, during a period of 12 years at least three dividends in respect of such shares have been paid, no cheque or warrant in respect of any such dividend has been cashed and no communication has been received by the Company from the relevant member. The Company must advertise its intention to sell any such share in both a national daily newspaper and in a newspaper circulating in the area of the last known address to which cheques or warrants were sent. Notice of the intention to sell must also be given to the London Stock Exchange.

Return of capital

On a winding-up of the Company, the balance of the assets available for distribution will, subject to any sanction required by the Act, be divided amongst the members.

Borrowing powers

- (a) Subject to the provisions of the Act, the directors may exercise all the powers of the Company to borrow money and to mortgage or charge its undertaking, property and assets, including its uncalled or unpaid capital, and to issue debentures and other securities and to give guarantees.
- (b) The directors must restrict the borrowing of the Company and exercise all voting and other rights and powers of control exercisable by the Company in relation to subsidiary companies, if any, so as to secure, as regards subsidiary companies so far as by such exercise they can secure, that the aggregate amount for the time being remaining outstanding of all money borrowed by the Company and its subsidiaries, if any, (Group) and for the time being owing to persons outside the Group does not at any time, without the previous sanction of an ordinary resolution of the Company, exceed an amount equal to the greater of £6,000,000 and four times the aggregate of the nominal amount of the share capital of the Company for the time being issued and paid up or credited as paid up and the amounts for the time being standing to the credit of the consolidated reserves, including share premium account, capital redemption reserve and profit and loss account, of the Group all as shown in its then latest audited balance sheet and after adjustment as specified in article 22.3.

Directors

- (a) No shareholding qualification is required by a director.
- (b) The directors are entitled to fees at the rate decided by them, subject to an aggregate limit of £100,000 (one hundred thousand pounds sterling) per annum or such additional sums as the Company may by ordinary resolution determine. The Company may by ordinary resolution also vote extra fees to the directors which, unless otherwise directed by the resolution by which it is voted, will be divided amongst the directors as they agree, or failing agreement, equally. The directors are also entitled to be repaid all travelling, hotel and other expenses incurred by them in connection with the business of the Company.
- (c) At every annual general meeting, one third of the directors who are subject to retirement by rotation, or as near to it as may be, will retire from office. A retiring director is eligible for re-appointment.
- (d) The directors may from time to time appoint one or more of their body to be the holder of an executive office on such terms as they think fit.
- (e) Except as provided in paragraphs (f) and (g) below, a director may not vote or be counted in the quorum present on any motion in regard to any contract, transaction, arrangement or any other proposal in which he has any material interest, which includes the interest of any person connected with him, otherwise than by virtue of his interests in shares or debentures or other securities of or otherwise in or through the Company. Subject to the Act, the Company may by ordinary resolution suspend or relax this provision to any extent or ratify any transaction not duly authorised by reason of a contravention of it.
- (f) In the absence of some other material interest than is indicated below, a director is entitled to vote and be counted in the quorum in respect of any resolution concerning any of the following matters:
 - (i) the giving of any security, guarantee or indemnity to him in respect of money lent or obligations incurred by him or by any other person at the request of or for the benefit of the Company or any of its subsidiaries;
 - (ii) the giving of any security, guarantee or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which he himself has assumed responsibility in whole or in part under a guarantee or indemnity or by the giving of security;
 - (iii) any proposal concerning an offer of shares or debentures or other securities of or by the Company or any of its subsidiaries for subscription or purchase in which offer he is or is to be interested as a participant in its underwriting or sub-underwriting;
 - (iv) any contract, arrangement, transaction or other proposal concerning any other company in which he is interested, as defined in Part VI of the Act, provided that he is not the holder of or beneficially

interested in one per cent. or more of any class of the equity share capital of such Company, or of a third company through which his interest is derived, or of the voting rights available to members of the relevant company, any such interest being deemed for the purpose of article 29.8 to be a material interest in all circumstances;

- (v) any contract, arrangement, transaction or other proposal concerning the adoption, modification or operation of the superannuation fund or retirement, death or disability benefit scheme under which he has a benefit and which has been approved by or is subject to and conditional upon approval by the board or the Inland Revenue.
- (vi) any contract, arrangement, transaction or other proposal concerning the adoption, modification or operation of an employee share scheme which includes full time executive directors of the Company and/or any subsidiary or any arrangement for the benefit of employees of the Company or any of its subsidiaries and which does not award to any director any privilege or advantage not generally accorded to the employees to whom such a scheme relates; and
- (vii) any contract, arrangement, transaction or proposal concerning insurance which the Company proposed to maintain or purchase for the benefit of directors or for the benefit or persons including the directors.
- (g) If any question arises at any meeting as to the materiality of a director's interest or as to the entitlement of any director to vote and such question is not resolved by his voluntarily agreeing to abstain from voting, such question must be referred to the chairman of the meeting and his ruling in relation to any other director will be final and conclusive except in a case where the nature or extent of the interest of such director has not been fully disclosed.
- (h) The directors may provide or pay pensions, annuities gratuities and superannuation or other allowances or benefits to any director, ex-director, employee or ex-employee of the Company or any of its subsidiaries or any wife, widow, children and other relatives and dependants of any such director, ex-director, employee or ex-employee.
- (i) CREST
The directors may implement such arrangements as they think fit in order for any class of shares to be held in uncertificated form and for title to those shares to be transferred by means of a system such as CREST in accordance with the Uncertificated Securities Regulations 1995 and the Company will not be required to issue a certificate to any person holding such shares in uncertificated form.

7. Material contracts

The following contracts, not being contracts in the ordinary course of business, have been entered into by the Company since its incorporation and are, or may be, material:

- 7.1 An agreement (the "Call Option Agreement") dated 12th June, 2000 between the Company (1) and T.I.S. Group PLC (2) as summarised in paragraph 2.4 of this Part IV and the variation of the Call Option Agreement between the Company (1) and T.I.S. Group PLC (2) as summarised in paragraph 2.4 of this Part IV. Pursuant to the terms of that variation, T.I.S. Group PLC can be called upon to enter into an undertaking in favour of the Company, John East & Partners and Insinger Townsley from T.I.S. Group PLC pursuant to which T.I.S. Group PLC will undertake that, during the 12 months following Admission, it will not, save in the event of an intervening court order or a takeover becoming or being declared unconditional dispose of any Ordinary Shares held at Admission or subsequently pursuant to the Call Option Agreement or pursuant to any right attaching to the Ordinary Shares and not to dispose of such interests for a further period of 12 months thereafter without the prior written consent of John East & Partners and Insinger Townsley, such consent not to be unreasonably withheld or delayed.
- 7.2 On 2nd January, 2000 the Company entered into an agreement with Caruso A.G. for the assignment of all intellectual property rights in the object and source code of valuation software, matrix software, trading system policy, valuation software and auction systems and related documents including all design documentation, instructions, descriptions and marketing materials relating to the software. The consideration for this transfer was £344,000. The transfer by way of assignment was made to the Company on 10th July, 2000 with full title guarantee and free from all encumbrances and by way of present assignment of vested, contingent and future intellectual property rights in such software. On 2nd January, 2000 and 10th July, 2000, Mr Kraus was interested in approximately 19 per cent. of the equity share capital of Caruso AG. He is currently interested in less than 10 per cent.
- 7.3 The Loan Note instrument and Loan Note variation agreements as summarised in paragraph 2.7 of this Part IV.

- 7.4 A conditional agreement (the "Placing Agreement") dated 30th August, 2001 between the Company (1), the Directors (2) John East & Partners (3) and Insinger Townsley (4) pursuant to which upon, *inter alia*, Admission taking place on or before 8.00 a.m. on 10th September, 2001 (or such later time and/or date as John East & Partners and the Company may agree, being not later than 30th September, 2001):

John East & Partners has agreed to act as nominated adviser to the Company; and Insinger Townsley have agreed to use reasonable endeavours to procure subscribers for 18,812,500 new Ordinary Shares proposed to be issued by the Company at the Placing Price.

The Placing Agreement contains indemnities and warranties from the Company and the Directors in favour of John East & Partners and Insinger Townsley.

The Placing Agreement is conditional, *inter alia*, on Admission. John East & Partners may terminate the Placing Agreement in certain circumstances prior to Admission, including in circumstances where any warranties are found not to be true or accurate in any material respect.

If Admission takes place, John East & Partners will receive a corporate finance fee of £75,000 and Insinger Townsley will receive a fee of £25,000 and a commission of three per cent. on funds subscribed by placees it had procured, to be satisfied in cash.

Each of the Directors has undertaken that, during the 12 months following Admission, he will not, save in the event of an intervening court order, a takeover becoming or being declared unconditional or, as regards an individual, in the event of the death of that individual, dispose of any Ordinary Shares and not to dispose of such interests for a further period of 12 months thereafter without the prior written consent of John East & Partners and Insinger Townsley, such consent not to be unreasonably withheld or delayed.

If Admission does not take place on or before 10th September, 2001 (or such later date as the Company, John East & Partners and Insinger Townsley may agree, not being later than 30th September, 2001), the obligations of John East & Partners and Insinger Townsley will terminate, the corporate finance fee payable to John East & Partners will be reduced to £40,000 and there will be no fee payable to Insinger Townsley. The Company will meet all fees and expenses associated with the Placing.

- 7.5 Undertakings dated 30th August, 2001 in favour of the Company, John East & Partners and Insinger Townsley from each of M Kraus Family Foundation, Transcontex AG, Logic Express Limited, Rachel Sterling Family Foundation, Surrenda-Link (IOM) Limited, ISPC (International) Limited, Wrengate Limited and others pursuant to which each of the persons signing the undertaking agreed that, during the 12 months following Admission, it will not, save in the event of an intervening court order or a takeover becoming or being declared unconditional dispose of any Ordinary Shares and not to dispose of such interests for a further period of 12 months thereafter without the prior written consent of John East & Partners and Insinger Townsley, such consent not to be unreasonably withheld or delayed.
- 7.6 Undertakings dated 30th August, 2001 in favour of the Company, John East & Partners and Insinger Townsley from holders of convertible loan notes that following exercise of the conversion rights on Admission none of such persons will, during the six months following Admission, save in the event of an intervening court order, a takeover becoming or being declared unconditional or, as regards an individual, in the event of the death of that individual, dispose of any Ordinary Shares and not to dispose of such interests for a further period of 12 months thereafter without the prior written consent of John East & Partners and Insinger Townsley, such consent not to be unreasonably withheld or delayed.

8. Working capital

In the opinion of the Company, having made due and careful enquiry and taking into account the net proceeds of the Placing receivable by the Company together with its existing bank facilities, the working capital available to the Company will, from Admission be sufficient for its present requirements, that is, for at least the next 12 months following the date of this document.

9. Litigation

The Company is in dispute with William Bridge Limited in connection with the payment by the Company of commission to William Bridge Limited claiming approximately £31,000 in respect of the recruitment of the Company's previous marketing director. The Company has been advised that there is no merit in this claim for payment and it is resisting it.

Save as disclosed above, there are no legal or arbitration proceedings, active, pending or threatened against or being brought by the Company or any member of the Group since its incorporation which are or may have a significant effect on the Company's financial position.

10. Share Option Schemes

10.1 *Terms of the Approved Share Option Plan*

10.1.1 *Administration and operation*

The Approved Share Option Plan provides for eligible directors and employees to be granted options to acquire shares in the Company.

The Approved Share Plan rules were approved by Inland Revenue on 16th January, 2001.

The Approved Share Option Plan is to be administered and regulated by the remuneration committee of the Board.

10.1.2 *Eligibility*

Any Director who is required to work at least 25 hours a week or any employee of the Company or other participating company in the group may be invited to participate. No option may be granted to a director or employee who is within two years of normal retirement age.

10.1.3 *Grant of options*

Options may be granted within 42 days following the approval of the Approved Share Option Plan by Inland Revenue. Options may also be granted during the 42 days following the announcement of the Company's results for any period, to new employees within 14 days of their joining the firm, and at other times in exceptional circumstances.

No option may be granted more than ten years following the approval of the Approved Share Option Plan by Inland Revenue.

Options granted under the Approved Share Option Plan are personal to the participant and, except to his personal representatives on the death of a participant, may not be transferred.

No payment is required for the grant of an option.

10.1.4 *Maximum grant*

Participation is limited so that the total market value at grant of shares over which any participant has been granted options under the Approved Share Option Plan and any other Inland Revenue approved discretionary option scheme (other than a savings-related scheme) operated by the Company or an associated company, as defined in Income and Corporation Taxes Act 1988 ("ICTA") ("Associated Company") excluding options which have been exercised or lapsed will not exceed £30,000.

Participation is also limited so that the total market value at grant of shares over which any participant has been granted options in the preceding ten years under the Approved Share Option Plan and any other discretionary share option scheme operated by the Company or an Associated Company will not exceed, unless the remuneration committee otherwise agrees, four times his total annual remuneration, excluding benefits in kind, at the date of grant.

10.1.5 *Exercise price*

The price per share payable on the exercise of an option will be determined by the Board and will not be less than the greater of (a) the nominal value and (b) the market value of such a share at the date of grant. For this purpose the market value will be agreed before the date of grant with Inland Revenue Shares Valuation Division. In the event of the shares being listed on the London Stock Exchange, the market value of a share will be the middle market quotation as derived from the London Stock Exchange Daily Official List on the dealing day immediately preceding the date of grant.

10.1.6 *Exercise of options*

Options granted under the Approved Share Option Plan will normally be exercisable by the participant at any time between the third and tenth anniversaries of grant. However, early exercise is permitted on death, cessation of employment through ill health, injury, disability, redundancy, retirement at normal contractual retirement age, early retirement with the agreement of the Board or cessation in other circumstances at the discretion of the remuneration committee, the sale of the relevant subsidiary company or transfer of the business in which the participant is employed and a take-over, reconstruction or winding-up of the Company. There are time limits within each early exercise of options in such circumstances must be made, failing which the options lapse.

Except in these circumstances, options will normally lapse if the participant ceases to be employed by the Group. The performance criteria referred to in paragraph (10.1.7) below will normally have to be satisfied before exercise but in the case of take-overs, etc., they do not need to be satisfied. Persons with material interests (as defined in paragraph 8, Schedule 9 of ICTA) may not exercise options.

A participant in the Approved Share Option Plan may be entitled to agree with a company which obtains control of the Company ("Acquiring Company") to release his rights in exchange for obtaining equivalent rights over shares in, broadly, the Acquiring Company or a company having control of the Acquiring Company.

10.1.7 *Performance conditions*

An option granted under the Approved Share Option Plan may be subject to objective performance criteria set by the Board or to the condition that options may only be exercised on or after the flotation of the company on a recognised stock exchange.

10.1.8 *Rights attaching to shares*

Shares allotted and issued under the Approved Share Option Plan will rank equally in all respects with the issued ordinary shares of the Company, except as regards dividends payable by reference to a record date prior to the date of exercise.

10.1.9 *Scheme limits*

The number of shares which may be issued by the Company under the Approved Share Option Plan and any other share option scheme established by the Company may not exceed ten per cent. of the issued share capital of the Company in any ten year period.

Subject to the prior approval of Inland Revenue and approval of the auditors, the number and nominal amount of shares subject to any option may be subject to the appropriate adjustment in the event of any capitalisation or rights issue by the Company or any consolidation, sub-division or reduction of the Company's share capital.

10.1.10 *Amendments to the Rules*

Amendments to the Approved Share Option Plan may be made by Board resolution with the approval of the Company in general meeting, except for amendments of a minor administrative nature or amendments made to obtain or maintain favourable tax or regulatory treatment. Any amendments to the Approved Share Option Plan require the prior approval of Inland Revenue.

10.2 *Terms of Unapproved Option Scheme*

The terms of the Unapproved Option Scheme are similar to those of the Approved Share Option Plan, except that:

- (i) options may be granted to any director or employee of the Company, whether or not they have a material interest in the Company;
- (ii) the market value of the shares and other matters do not require agreement with Inland Revenue;
- (iii) the roll-over provisions relating to Acquiring Companies do not apply;
- (iv) the Company is permitted to enter into suitable arrangements with regard to payment of PAYE and national insurance (including employer's) contributions;
- (v) the permitted maximum value of options granted to an individual may exceed £30,000; and
- (vi) options can be granted below market value.

10.3 *Terms on Enterprise Management Incentive Scheme (EMI Scheme)*

10.3.1 *Purpose of EMI Scheme*

The scheme has been established to enable the Company to grant options to key employees which are intended to be qualifying options for the purposes of the Enterprise Management Incentive legislation contained in Schedule 14 Finance Act 2000 (Sch 14).

10.3.2 *Eligibility*

Any key employee who does not have a material interest in the Company or any group company as defined in Sch 14 and who is eligible under Sch 14 may be granted options under the EMI Scheme.

10.3.3 *Grant of options*

Options may be granted on any day on which the Board in consultation with the remuneration committee resolves that circumstances exist which justify the grant of options.

Options may be granted at any time from the date of adoption of the EMI Scheme to its tenth anniversary at the discretion of the remuneration committee.

Options may not be granted within two years of the date of retirement, are personal to the participant and, except to his personal representatives on the death of a participant, may not be transferred.

No payment is required for the grant of an option.

10.3.4 *Maximum grant*

The market value of outstanding options granted to a participant, taken in conjunction with any options granted under any Inland Revenue approved scheme shall not exceed £100,000 in value.

A four times relevant earnings limitation, similar to that in the Approved Share Option Plan applies.

The total market value at the date of grant of shares under EMI Scheme options must not exceed £3m.

10.3.5 *Other provisions*

The EMI scheme contains provisions similar to those in the Approved Share Option Plan with regard to the exercise price, circumstances of exercise of options, adjustment of options and performance conditions. The scheme also contains similar overall limits to those in the Approved Share Option Plan.

The EMI scheme contains provisions similar to those both in the Unapproved Option Scheme with regard to arrangements for payment of PAYE and National Insurance Contributions.

11. **Taxation**

(a) *UK Taxation of Dividends*

The following information is based upon the laws and practice currently in force in the UK and may not apply to persons who do not hold their Ordinary Shares as investments.

Under current UK tax legislation, no tax is now withheld from dividends paid by the Company, Advance Corporation Tax ("ACT") was abolished from 6th April, 1999.

UK resident individual shareholder are treated as having received income of an amount equal to the sum of the dividend and its associated tax credit, the rate of tax credit for dividends paid from 6th April, 1999 being 10 per cent. of the sum of the dividend and the tax credit (ie the tax credit will be one ninth of the dividend). The tax credit will effectively satisfy a UK resident individual shareholder's lower and basic rate (but not higher rate) income tax liability in respect of the dividend. UK resident individual shareholders who are subject to tax at the higher rate will have to account for additional tax. The special rate of tax set for higher rate taxpayers who receive dividends is 32.5 per cent. After taking account of the 10 per cent. tax credit, such a taxpayer would have to account for additional tax of 22.5 per cent. In determining what tax rates apply to a UK resident individual shareholder, dividend income is treated as his top slice of income.

Prior to 6th April, 1999, in appropriate cases, individuals and charities were able to reclaim all or part of the tax credit attaching to a dividend in cash from the Inland Revenue. From 6th April, 1999 they are no longer able to do so. Over a transitional period to 2003/04, charities (but not individuals) will be able to claim a compensatory payment calculated as a percentage payment of their dividend income.

A UK resident (for tax purposes) corporate shareholder will generally not be liable to UK corporation tax on any dividend received from another UK resident corporate and will be entitled for tax purposes to treat any such dividend and the related tax credit as franked investment income.

A UK pension fund, as defined in Section 231A Income and Corporation Taxes 1998, is restricted from claiming a repayment of the tax credit.

Shareholders not resident in the UK are generally not taxed in the UK on dividends received by them (unless exceptionally, the investment is managed by a UK investment manager acting, broadly, on arm's length terms). By virtue of double taxation agreements between the UK and other countries, some overseas shareholders are able to claim repayment of all or part of the tax credits carried by the dividends they receive from UK companies. Persons who are not resident in the UK should consult their own tax advisers on the possible applicability of such provisions, the procedure for claiming repayment and what relief or credit may be claimed in respect of such tax credit in the jurisdiction in which they are resident.

(b) *Stamp duty and stamp duty reserve tax*

No charge to stamp duty or stamp duty reserve tax ("SDRT") will arise on the registration of applications for Ordinary Shares under the Placing. Transfers on sale of Ordinary Shares will be subject to ad valorem stamp duty (payable by the purchaser at the rate of 0.5 per cent. of the stampable consideration given but subject to minimum duty of £5). An unconditional agreement to sell Ordinary Shares, if not completed by a duly stamped stock transfer form within two months of the day on which such agreement is made or becomes unconditional, will be subject to SDRT (payable by the purchaser at the rate of 0.5 per cent.). However, if within six years of the date of the agreement, an instrument of transfer is executed pursuant to the agreement and stamp duty is paid on the instrument, any liability to SDRT will be cancelled or repaid. Paperless transfers of Ordinary Shares within CREST will be charged to SDRT rather than stamp duty. CREST is obliged to collect SDRT on relevant transactions settled within the system.

The above is a summary of certain aspects of current law and practice in the UK. A Shareholder who is in any doubt as to his tax position, or who is subject to tax in a jurisdiction other than the UK, should consult his or her professional adviser.

12. Other information

- 12.1 The expenses of the Placing and other transactions described in this document are estimated at £350,000 and are payable by the Company.
- 12.2 The accounting reference date of the Company is 31st December.
- 12.3 Except as stated in this document, there are no patents or other intellectual property rights, licences or particular contracts which are of fundamental importance to the Company's business.
- 12.4 Except as stated in this document, there are no significant investments in progress by the Company.
- 12.5 Except as stated in this document, no exceptional factors have influenced the Company's activities.
- 12.6 TEP-Exchange Limited is regulated by the PIA and is authorised to run the business of the TEP Exchange under the Financial Services Act 1986.
- 12.7 The minimum amount which, in the opinion of the Directors, must be raised under the Placing to provide the sums required in respect of the matters specified in paragraph 21 of Schedule 1 to the POS Regulations is £1.505 million, which will be applied as follows:
- | | |
|--|----------------|
| (i) the purchase of property | £nil |
| (ii) preliminary expenses and expenses of the Placing | £350,000 |
| (iii) repayment of money borrowed in respect of (i) and (ii) above | £nil |
| (iv) working capital | £1.155 million |
- 12.8 For the purposes of paragraph 25 of Part IV of Schedule 1 to the POS Regulations, the subscription lists for the Placing will open at 10.00 a.m. on 30th August, 2001 and may be closed at any time thereafter but not later than 30th September, 2001.
- 12.9 BDO Stoy Hayward have given and not withdrawn their written consent to the inclusion of their report on the Company from its incorporation until 31st December, 2000 in the form set out in Part II of this document and the references to such report in the form and context in which it appears and accept responsibility for such report in accordance with paragraph 45(1)(b) of Schedule 1 to the POS Regulations.
- 12.10 John East & Partners and Insinger Townsley have given and not withdrawn their written consent to the inclusion in this document of references to their name in the form and context in which they appear.
- 12.11 Except as disclosed in this document, there has been no significant change in the financial or trading position of the Company since 15th November, 1999 the date of the Company's incorporation.
- 12.12 Save as disclosed in this document (excluding advisers named on page 3 of this document), no person has received, directly or indirectly, from the Company within the 12 months preceding the Company's application for admission to trading on AIM or has entered into any contractual arrangements to receive, directly or indirectly, from the Company on or after admission, fees totalling £10,000 or more or securities in the Company with a value of £10,000 or more calculated by reference to the Placing Price.
- 12.13 It is expected that certificates in respect of the Placing Shares will be despatched on 17th September, 2001 and CREST accounts credited on 10th September, 2001.
- 12.14 The Placing Price of 8p per Ordinary Share represents a premium of 7p over the nominal value of 1p of each Ordinary Share.

12.15 Each of the Directors is, or may be deemed to be, a promoter of the Company.

12.16 The financial information for the relevant accounting period set out in the Accountant's Report in Part II of this document concerning the Company does not constitute statutory accounts within the meaning of Section 240 of the Act.

13. Documents

Copies of the following documents are available to the public, free of charge, at the offices of Fladgate Fielder, 25 North Row, London W1K 6DJ, during normal business hours on any weekday (Saturdays and public holidays excepted) from the date of this document until one month from the date on which the Ordinary Shares are admitted to trading on AIM:

- (a) the Memorandum and Articles of Association of the Company;
- (b) the report of the reporting accountants set out in Part II of this document;
- (c) the audited accounts of the Company for the period ended 31st December, 2000;
- (d) the service agreements referred to in paragraph 4.3 of this Part IV;
- (e) the rules of the Share Option Schemes referred to in paragraph 10 of this Part IV;
- (f) the material contracts referred to in paragraph 7 of this Part IV; and
- (g) the consent letters referred to in paragraphs 12.9 and 12.10 of this Part IV.

Copies of this document are available to the public, free of charge, at the offices of John East & Partners Limited, Crystal Gate, 28-30 Worship Street, London EC2A 2AH, during normal business hours on any weekday (Saturdays and public holidays excepted) from the date of this document until one month from the date on which the Ordinary Shares are admitted to trading on AIM.

30th August, 2001

