

The **TEP** Exchange

TEP Exchange Group PLC

Interim Results

For the six months ended 30 June, 2007

Chairman's Statement

I am pleased to report the unaudited results for the six months ended 30 June 2007. Turnover for the period was £229,000 (2006: £136,000), an increase of 68 per cent. over that for the corresponding period last year. As a result of the increase in turnover and the continued control of costs, I am pleased to report that the Company achieved an operating profit of £31,000, compared to an operating loss of £24,000 in the same period last year. The profit on ordinary activities before and after taxation was £18,000, compared to a loss after tax of £41,000 in the first six months of last year.

Since the end of 2005, the Company has reduced its net borrowings from £192,000 to £14,000. The debt reduction of £178,000 has been achieved by a combination of improved trading performance and from the receipt of the proceeds of the issue on new Ordinary Shares in March this year.

Trading activity on the Company's platform has increased considerably in comparison to the same period last year. The volume of Traded Endowment Policies ("TEPs") offered for sale has risen by 63 per cent.; offers accepted were up by 117 per cent. and completions have grown by 158 per cent.. The demand for UK TEPs remains strong, especially in continental Europe, and the Directors expect it to continue throughout the remainder of 2007.

In order to meet demand for TEPs in Europe, the Company has developed its first European retail websites, TEP Exchange Deutschland, which will enable the sale of UK TEPs through a network of German financial advisers. This website is now fully operational.

As set out in the circular to shareholders dated 16 February 2007, TEP has received VAT assessments, which are being challenged by the Company. As it is difficult to predict the outcome of the challenge and the Company has received advice that it has a strong case, no provision has been made in the balance sheet contained within these interim results for any irrecoverable VAT in the event that the challenge is unsuccessful or only partly successful.

Pinvex Limited, a company responsible for developing property related offerings suitable for IFAs using the exchange platform, is progressing initial discussions with a number of parties regarding the introduction of various additional products on TEP's trading platform and it is expected that the first product will be ready for launch on the exchange in early 2008.

Chairman's Statement cont.

These interim results are the first to be reported in accordance with International Financial Reporting Standards ("IFRS"). The comparative financial information for the six months ended 30 June 2006 and the year ended 31 December 2006 has not had been materially impacted by the change in accounting standards. Accordingly, no note showing the impact of adopting IFRS is required to be given within the notes to the financial information.

Your Directors are not proposing an interim dividend.

George Kynoch
Chairman

26 September, 2007

Consolidated Income Statement

For the six months ended 30 June, 2007

	Six months ended 30 June 2007 (Unaudited) £'000	Six months ended 30 June 2006 (Unaudited) £'000	Year ended 31 December 2006 (Unaudited) £'000
Revenue	229	136	384
Other income	–	89	104
Operating expenses	<u>(198)</u>	<u>(249)</u>	<u>(509)</u>
Operating profit/(loss)	31	(24)	(21)
Finance income and costs			
Finance income	1	–	–
Finance costs	<u>(14)</u>	<u>(17)</u>	<u>(38)</u>
Profit/(loss) before income tax	18	(41)	(59)
Income tax expenses	<u>–</u>	<u>–</u>	<u>–</u>
Profit/(loss) attributable to equity holders of the Company	<u>18</u>	<u>(41)</u>	<u>(59)</u>
Earnings/(loss) per share			
Basic and diluted earnings per share	<u>0.01p</u>	<u>(0.02p)</u>	<u>(0.03p)</u>

Consolidated Balance Sheet

As at 30 June, 2007

	As at 30 June 2007 (Unaudited) £'000	As at 30 June 2006 (Unaudited) £'000	As at 31 December 2006 (Unaudited) £'000
Assets			
Current assets			
Inventories	3	3	3
Trade and other receivables	223	122	230
Cash and cash equivalents	109	6	25
Total current assets	<u>335</u>	<u>131</u>	<u>258</u>
Total assets	<u>335</u>	<u>131</u>	<u>258</u>
Liabilities			
Non-current liabilities			
Long term borrowings	(31)	(32)	(57)
Trade and other payables	(213)	–	(213)
Total non-current liabilities	<u>(244)</u>	<u>(32)</u>	<u>(270)</u>
Current liabilities			
Trade and other payables	(228)	(487)	(444)
Short term borrowings	(92)	(142)	(92)
Total current liabilities	<u>(320)</u>	<u>(629)</u>	<u>(536)</u>
Total liabilities	<u>(564)</u>	<u>(661)</u>	<u>(806)</u>
Total assets less total liabilities	<u>(229)</u>	<u>(530)</u>	<u>(548)</u>
Equity			
Capital and reserves attributable to the Company's equity holders			
Equity share capital	2,263	2,245	2,245
Share premium account	3,951	3,668	3,668
Retained losses	(6,443)	(6,443)	(6,461)
Total equity	<u>(229)</u>	<u>(530)</u>	<u>(548)</u>

Consolidated Statement of Changes in Shareholders' Equity

For the six months ended 30 June, 2007

Attributable to equity holders of the Company

	Share capital (Unaudited) £'000	Share premium (Unaudited) £'000	Retained losses (Unaudited) £'000	Total equity (Unaudited) £'000
At 1 January 2007	2,245	3,668	(6,461)	(548)
Profit for the period	–	–	18	18
Issue of share capital	18	333	–	351
Expenses relating to the issue of shares	–	(50)	–	(50)
At 30 June 2007	<u>2,263</u>	<u>3,951</u>	<u>(6,443)</u>	<u>(229)</u>

Consolidated Cash Flow Statement

For the six months ended 30 June, 2007

	Six months ended 30 June 2007 (Unaudited) £'000	Six months ended 30 June 2006 (Unaudited) £'000	Year ended 31 December 2006 (Unaudited) £'000
Operating activities			
Net profit/(loss) from ordinary activities	18	(41)	(59)
Finance income	(1)	–	–
Finance costs	14	17	38
Operating profit/(loss) before changes in working capital	31	(24)	(21)
Decrease/(increase) in operating receivables	7	53	(22)
(Decrease)/increase in operating payables	(205)	2	149
Cash (used in) / generated from operations	(167)	31	106
Cash flows from financing activities			
Proceeds from issue of shares	351	–	–
Expenses relating to the issue of shares	(51)	–	–
Interest paid	(24)	(6)	(38)
Interest received	1	–	–
Repayment of borrowings	(26)	(27)	(51)
Net cash generated from/ (used in) financing activities	251	(33)	(89)
Net increase/(decrease) in cash and cash equivalents	84	(2)	17
Cash and cash equivalents at beginning of year	25	8	8
Cash and cash equivalents at the end of year	109	6	25

Notes to the Interim Results

1. Basis of preparation

With effect from 1 January 2007 it became mandatory for the Group to comply with International Financial Reporting Standards (IFRS).

The financial results of the Group for the six months ended 30 June 2007 have been prepared on a basis which is consistent with International Financial Reporting Standards (IFRS) as adopted by the European Union which the Group expects to apply in the first annual accounts presented as at 31 December 2007. The adoption of IFRS has not had a material impact on the results or net assets for the comparative periods and accordingly these have not been restated.

The financial information shown in this publication is unaudited and does not constitute statutory accounts as defined in Section 240 of the Companies Act 1985. The comparative figures for the financial year ended 31 December 2006 have been abridged from the Group's statutory accounts for that financial year, translated from United Kingdom Generally Accepted Accounting Principles (UK GAAP) to IFRS. The UK GAAP version of those accounts have been reported on by the Group's auditors and delivered to the Registrar of Companies. The auditors' report on those UK GAAP accounts was unqualified and did not contain any statement under section 237(2) or (3) of the Companies Act 1985.

2. Dividends

No dividend is proposed for the six months ended 30 June 2007.

3. Earnings per share

The earnings per share has been calculated by dividing the profit after taxation for the period of £18,000 (six month period ended 30 June 2006: loss of £41,000 and year ended 31 December 2006: loss of £59,000) by the weighted average number of Ordinary Shares of 329,235,746 (six month period ended 30 June 2006: 224,543,426 and year ended 31 December 2006: 224,543,426) in issue during the period.

The options and warrants in issue at 30 June 2006, 31 December 2006 and 30 June 2007, which are detailed in Note 4 to this publication, are antidilutive and have therefore been excluded from the calculation of diluted earnings per share. However, such options may be dilutive in future periods.

Notes to the Interim Results cont.

4. Share Capital

			Authorised			
	30 June 2007 £'000	30 June 2006 £'000	31 December 2006 £'000	30 June 2007 £'000	30 June 2006 £'000	31 December 2006 £'000
Ordinary shares	1,000,000,000	4,000,000	4,000,000	100	4,000	4,000
Deferred shares	400,000,000	–	–	3,960	–	–
				<u>4,060</u>	<u>4,000</u>	<u>4,000</u>

			Allotted, called up and fully paid			
	30 June 2007 £'000	30 June 2006 £'000	31 December 2006 £'000	30 June 2007 £'000	30 June 2006 £'000	31 December 2006 £'000
Ordinary shares	399,999,999	224,543,426	224,543,426	40	2,245	2,245
Deferred shares	224,543,426	–	–	2,223	–	–
				<u>2,263</u>	<u>2,245</u>	<u>2,245</u>

On 14 March 2007, each of the 224,543,426 issued Ordinary Shares of 1p each in the Company was subdivided into one ordinary share of 0.01p each and one deferred share of 0.99p each credited as fully paid.

On 15 March 2007, the Company issued 175,456,573 Ordinary Shares of 0.01p each at a premium of 0.19p per share.

The main rights and restrictions attaching to the Deferred Shares are as follows:

- no entitlement to receive dividends or other distributions;
- no entitlement to receive notice of or attend of vote at any general meeting of the Company;
- on a return of capital on a winding in the holders of Deferred Shares shall only be entitled to receive the amount paid up on such shares after the holders of the Ordinary Shares have received the sum of £1,000,000 for each ordinary share held by them and shall have no other right to participate in the assets of the Company.

Notes to the Interim Results cont.

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

	Number of shares under option	Exercise price	Grant date	Exercise Period	
				From	To
Enterprise Management Incentive Scheme	1,027,879	3p	16.02.01	16.2.04	16.02.11
	600,000	8p	06.09.01	06.09.04	06.09.11
	582,818	10p	16.02.01	16.02.04	16.02.11
	<u>1,500,000</u>	12p	06.09.01	06.09.04	06.09.11
	3,710,697				
Unapproved Share Option Plan	<u>200,000</u>	8p	24.08.01	24.08.04	24.08.11
	<u>3,910,697</u>				

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

On 14 March 2007, the Company issued warrants to subscribe for up to 35,000,000 Ordinary Shares in cash at 0.2p per share. Each warrant confers on the warrant holder the right to subscribe in cash for Ordinary Shares to be issued to the warrant holder or such person as the warrant holder may direct. The warrants are not intended to be listed or dealt on any recognised investment exchange. Ordinary Shares issued on exercise of warrants will qualify for all dividends and distribution declared, made or paid after their date of issue.

The warrants may only be exercised upon certain performance being met criteria in each of any two consecutive financial years over the five years commencing 1 January 2007 and ending 31 December 2011.

The warrants may be exercised in whole or in part or in parts. The exercise price of the warrants must be paid at the time the rights are exercised.

Any rights not exercised prior to 30 June 2012 will lapse on that date.

5. Copies of the interim results are available at the Company's registered office 12 Grosvenor Court, Foregate Street, Chester CH1 1HG and on the Company's website www.tepexchange.com

