TEP Exchange Group PLC

Report and Financial Statements

for the year ended 31 December 2007

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Directors

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

Secretary, registered office and principal place of business

J Murphy
12 Grosvenor Court
Foregate Street
Chester
Cheshire CH1 1HG

Company number and legal form

3877125 Public limited company
incorporated in England

Independent auditors

BDO Stoy Hayward LLP
55 Baker Street
London W1U 7EU

Registrars

Capita Registrars Ltd
Northern House
Woodsome Park
Fenay Bridge
Huddersfield HD8 0GA

Nominated adviser and broker

John East & Partners Limited
10 Finsbury Square
London EC2A 1AD

Bankers

Bank of Scotland plc
3rd Floor
150 Fountainbridge
Edinburgh EH3 9PE

Chairman's statement

I am pleased to report the results for the year ended 31 December 2007. Revenue for the year totalled £606,502 (2006 – £384,015) resulting in a profit from operations of £64,369 compared to a loss from operations of £21,011 in 2006. The profit before tax and after taxation was £37,535, compared to a loss before and after taxation of £58,635 in 2006. The basic earning per share was 0.01 pence, compared to a loss per share in 2006 of 0.03 pence.

Revenue increased significantly in 2007 compared with 2006 due to the continuing increased activity in the traded endowment policy market and the 50 per cent. increase in transaction charges implemented during the second half of 2006. In addition, re-negotiation of the variable fee percentage which is payable to Surrenda-link Limited for the 2007 accounting period for the outsourcing of the operational management of the business enabled the Company to achieve profitability in 2007 for the first time in the Company's history.

The supply of UK traded endowment policies (known as "TEPs") continues to be strong and the volume of TEPs being offered for sale on the Company's electronic platform has grown by 40 per cent. in the first quarter of 2008 compared to the same period in 2007.

The development of the Company's electronic platform for its current range of products primarily into the German market, has now been completed and formally launched in the first quarter of 2008. The launch of the platform into the German market is expected to contribute to the Company's performance in 2008.

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

G Kynoch
Chairman

3 July 2008

Corporate governance statement

TEP Exchange Group PLC is highly committed to high standards of corporate governance and the Company is supportive of the provisions set out in Section 1 of the Combined Code on Corporate Governance laid out in the Financial Services Authority Listing Rules.

Companies on the Alternative Investment Market of the London Stock Exchange are not required to comply with the Combined Code and, due to the size of the Company, TEP Exchange Group PLC is not in full compliance. The Company is, however, working towards full compliance with the Combined Code and expects to be fully compliant in the near future.

The Board

The Board of TEP Exchange Group PLC consisted of one Executive Director and four Non-Executive Directors. The composition of the Board ensures no one individual or group of persons dominates the decision making process.

The Board is responsible to the shareholders for setting the direction of the Company through the establishment of strategic objectives and key policies. The Board meets on a regular basis and considers the strategic direction, approves major capital expenditure, appoints and monitors senior management and any other matters having a material effect on the Company. Presentations are made to the Board by senior management on the activities and both the Executive and Non-Executive Directors undertake regular visits to operations.

All Directors have access to management, including the Company Secretary, and to such information as is needed to carry out their duties and responsibilities fully and effectively.

Furthermore, all Directors are entitled to seek independent professional advice concerning the affairs of the Company at its expense. All Directors are subject to election by shareholders at the first annual general meeting following their appointment. In addition, Directors will retire and stand for re-election at least once every three years in accordance with the Company's Articles of Association.

The interests of the Directors in the shares and share options of the Company serve to align their interests with the shareholders generally and the Company does not consider this to have an adverse effect on their independence.

Nominations Committee

The Directors do not consider that, given the size of the Board, it is appropriate to have a Nominations Committee. The appropriateness of such a committee will, however, be kept under regular review by the Company.

Internal controls

The Directors are responsible for the Group's systems of internal control and reviewing its effectiveness. Any such system is designed to manage rather than eliminate risk of failure to achieve business objectives and can only provide reasonable assurance against material misstatement or loss.

Internal controls and business risks were monitored in the course of 2007 through regular Board meetings. A formal review of internal controls is scheduled for 2008.

Corporate governance statement

continued

Communication with shareholders

The Board recognises it is accountable to shareholders for the performance and activities of the Group.

The forthcoming Annual General Meeting of the Company will provide an opportunity for the Chairman to present to the shareholders a report on current operations and developments and enable the shareholders to express their views about the Company's business.

Remuneration Committee

The Directors do not consider that, given the size of the Group, it is appropriate to have a Remuneration Committee. The appropriateness of such a committee will, however, be kept under regular review by the Board. At present, remuneration of Directors and senior management is determined at the Board meetings.

Audit Committee

The Audit Committee, comprising solely of independent Non-Executive Directors, meets at least twice a year and considers the Company's financial reporting (including accounting policies) and internal financial controls.

Meetings are normally attended, by invitation, by a representative of the auditors.

The audit committee presently comprises G Kynoch, M Kraus and D Roxburgh.

Going concern

The Board is required to assess whether the Group has adequate financial resources to continue in operation for the foreseeable future. The Directors' statement on the appropriateness of the going concern basis is set out on page 9.

Report of the Directors

for the year ended 31 December 2007

The Directors present their report together with the audited financial statements for the year ended 31 December 2007.

Principal activities and business review

The principal activity of the Company and its subsidiary undertakings during the year was advertising services for with profit endowment policies on-line utilising its proprietary electronic platform known as The TEP Exchange. The principal activity of the Group remained unchanged during the year.

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

During the year the Company undertook a share restructuring programme, details of which are given in note 16.

Details of the principal risks and financial instruments are disclosed in note 18. Details of the going concern basis of preparation are given below.

Details of post balance sheet events are given in note 20.

Results and dividends

The consolidated income statement is on page 12 and shows the result for the year. The Directors do not recommend the payment of a dividend (2006 – Nil).

Directors and their interests

The Directors who served in office during the year and their interests in the Company's shares are as follows:

Ordinary shares of 0.01p each (2006 – 1p each) held at:

	31 December 2007		31 December 2006	
	Number	%	Number	%
M Kraus	22,034,698*	5.51	22,034,698*	9.81
A Weitz	10,000,000‡	2.50	–	–
P Sands	–	–	–	–
G Kynoch	468,241	0.12	324,167	0.14
D Roxburgh	–	–	–	–

*Of these shares, M Kraus holds 3,125,000 ordinary shares. The remaining shares are held by the M Kraus Family Foundation pursuant to the terms of which M Kraus and members of his family are potential beneficiaries.

‡A Weitz has a 50 per cent. shareholding in PINVEX which holds 10,000,000 ordinary shares in the Company.

Deferred shares of 0.99p each held at:

	31 December 2007		31 December 2006	
	Number	%	Number	%
M Kraus	22,034,698	9.81	–	–
A Weitz	–	–	–	–
P Sands	–	–	–	–
G Kynoch	324,167	0.14	–	–
D Roxburgh	–	–	–	–

M Kraus retires by rotation in accordance with the Articles of Association and being eligible offers himself for re election. The terms of the Directors' service contracts or terms of engagement are set out below. M Kraus and G Kynoch consider themselves to be independent Non-Executive Directors. M Kraus has been nominated as Senior Non-Executive Director.

Report of the Directors

continued

Directors and their interests continued

Share options

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

Interest held at:	31 December 2007	31 December 2006
M Kraus	287,273	287,273
A Weitz	295,545	295,545
P Sands	200,000	200,000
G Kynoch	–	–
D Roxburgh	–	–

Share options were granted to M Kraus and A Weitz on 16 February 2001 pursuant to the rules of the Enterprise Management Incentive Scheme ("the EMI Rules"). The subscription price payable under the terms of the share options granted to M Kraus and A Weitz were 10 pence per share. The terms of the share options granted under the EMI Rules permit exercise after the expiry of three years from the date of grant and before ten years after date of grant. There are no other restrictions preventing exercise under the terms of the share options or EMI Rules. Share options were granted to P Sands on 24 August 2001 pursuant to the rules of the Unapproved Share Option Scheme 2000. The subscription price payable under the share option was 8 pence per share. The terms of the Unapproved Share Option Plan permit exercise after the expiry of three years from the date of grant and before ten years after date of grant. There are no other restrictions preventing exercise under the terms of the share option or pursuant to the rules of the Unapproved Share Option Plan.

On 14 March 2007, the Company issued warrants to PINVEX Limited, a company in which A Weitz has a 50 per cent. shareholding, to subscribe for up to 10,000,000 ordinary shares in cash at 0.2p per share. The warrant confers on the warrantholder, PINVEX Limited, the right to subscribe in cash for ordinary shares to be issued to the warrantholder or such person as the warrantholder may direct. ordinary shares issued on the exercise of warrants will qualify for all dividends and distribution declared, made or paid after their date of issue.

The warrants issued to PINVEX Limited can only be exercised in the event that the income of the Company arising from PINVEX Limited related transactions in each of any two consecutive financial periods of the Company, beginning on 1 January 2007 and ending on 31 December 2011 shall exceed £100,000. The warrants may be exercised in whole or in part or in parts. Any warrants not exercised prior to 30 June 2012 will lapse on that date.

Report of the Directors

continued

Directors' service contracts

On 29 August 2001, the Company entered into a letter of appointment with Drumduan Associates, to provide the services of George Kynoch to act as a non-executive director and chairman of the Company. The appointment is terminable by either party giving to the other not less than six months' written notice. In return for the provision of the services of the Company will pay Drumduan Associates an annual fee (exclusive of VAT) of £25,000. In the event that Mr Kynoch is required to provide his services in excess of 3 days per calendar month, the Company shall pay an additional fee of £800 per eight hours for such excess time. The letter of appointment contains a customary confidentiality clause. Upon termination, no benefits (other than those accruing during the notice period) are due to Drumduan Associates and Mr Kynoch shall resign as a director.

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

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

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

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

Directors profile

George Kynoch (Non-Executive Chairman), aged 61, has over 30 years' experience in industry and was Chief Executive of G & G Kynoch plc (the predecessor of Kynoch Group plc, now called Bioquell PLC, the Officially Listed designer and manufacturer of healthcare equipment for use in contamination control). He was Grampian Industrialist of the Year in 1988 and received the Highland Business Award. Mr Kynoch was the Scottish Office Industry and Local Government Minister from 1995 to 1997, while serving as a Member of Parliament for Kincardine and Deeside between 1992 and 1997. He is chairman of OCZ Technology Group Inc. and ToLuna Plc and a Non-Executive Director of Talent Group Plc, all of which are admitted to trading on AIM.

Abraham Weitz (Non-Executive Director), aged 43, has many years of experience in the property industry, having joined Highdorn Co. Limited, a property management company, in early 1992. Mr Weitz has for some time had an interest in merging the new e-commerce ideas with more traditional business and is joint founder of the Company.

Report of the Directors

continued

Directors profile continued

Moses Kraus (Non-Executive Director), aged 50, has been an active participant in the TEP market for several years. After finishing Rabbinical and Talmudic studies in 1980, Mr Kraus was a teacher in a religious school in Zurich between 1981 and 1985. In 1983 he trained as a life insurance salesman, in his spare time, with Winterthur Insurance in Zurich, where he was first exposed to the endowment policy market. In 1984 he became a significant shareholder in Caruso AG, which was formed in 1983 to sell life insurance and associated products. It currently holds endowment policies with a value of approximately CHF 200 million in its clients' portfolios. Mr Kraus' shareholding in Caruso AG has now reduced to less than 10 per cent and he has no executive role in that company. He moved from Switzerland to the United Kingdom in 1994 with residential status of "Person of Independent Means" which prevented him from working as an employee or engaging in business in the United Kingdom until he obtained indefinite residence in March 1999. He founded TEP Exchange Group PLC in November 1999.

David Roxburgh (Non-Executive Director), aged 44, a member of the Institute of Certified Public Accountants in Ireland and is Managing Director of the Fitzwilton Group of Companies. One of Fitzwilton's investments is a 36 per cent. shareholding in Portfolio Design Group International Limited (the parent company of Surrenda-link Limited). The business of Portfolio Design Group International Limited includes, inter alia, the purchase, sale and valuation of secondary life policies, the valuation and procurement of US traded senior life interest policies and investment adviser on specialist investment products. Outside of the Fitzwilton Group, Mr. Roxburgh is a Non-Executive Director of Waterford Crystal Limited (the world renowned luxury branded company).

Paul Sands (Managing Director), aged 64, has 20 years experience in the UK Life Assurance and Financial Services market. He is Chief Executive of Portfolio Design Group International Limited, (the parent company of Surrenda-link Limited), which he established in 1990 and under his direction the company has grown to a position of considerable prominence in the market for traded endowment policies (TEPs). Mr Sands is a Director of various TEP related funds, designed and created by Surrenda-link Limited, and is a former Chairman of the Association of Policy Market Makers (APMM).

Substantial shareholdings

Excluding Directors whose shareholdings are set out above, the following had declared an interest of 3 per cent. or more in the Company's issued ordinary share capital at 31 December 2007.

Name	Ordinary shares	Percentage of ordinary shares
Surrenda-link Limited	193,032,798	48.26%
Strategic German Investments Limited	40,000,000	10.00%
Close Horizons Limited	26,833,333	6.71%
Mr Zwi Holles, Transcontex AG	18,602,858	4.65%

None of the Directors are aware of any interest, apart from those listed above which represents 3 per cent. or more of the issued share capital of the Company or which directly or indirectly, jointly or severally, exercises or could exercise control of the Company.

The market price of the Company's shares at the end of the financial year was 0.325p; the highest and lowest share prices during the year were 0.500p and 0.300p respectively.

Report of the Directors

continued

Group policy on payment of creditors

It is the Group's policy to agree terms of payment prior to commencing business with suppliers. The average creditor payment period for the Company at 31 December 2007 was 97 days (2006 – 85 days).

International Financial Reporting Standards

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

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.

Going concern

During the year ended 31 December 2007 the Group achieved a profit of £37,535 (2006 – loss of £58,635) and at 31 December 2007 had net liabilities of £209,373 (2006 – £548,501).

The Group relies on support from one of its major shareholders, Surrenda-link Limited, in order to meet its obligations as they fall due. It is also financed through a bank loan, repayable over 44 months, together with a bank overdraft facility of £10,000. In addition, the directors have restructured the trading operation and in particular with Surrenda-link Limited, who now charge for their services on a variable cost basis. As a result of this and improved performance since the year end, the directors anticipate improved trading results for the forthcoming year and have projected cash flow information which show creditors can be repaid out of cash flow.

The directors have recently agreed with Surrenda-link Limited that the repayment of non-current outstanding charges in the amounts of £308,036 will be repaid over 31 months at a rate of £10,000 per month commencing in July 2008. Should the Company's appeal against the VAT assessments raised by HM Revenue & Customs (see note 19) be unsuccessful, Surrenda-link Limited will defer payment of the £308,036 (or such lesser sum as is outstanding at the time of the company's unsuccessful appeal against the VAT assessments) until such time as the company has repaid all amounts due to HM Revenue & Customs. It is assumed that unsuccessful in its appeals, the Company will be able to pay amounts owing to HM Revenue and Customs over a period of not less than 12 months from January 2009.

On the basis of the above, and all other available information, the Directors consider that the Group will become profitable and continue to operate within the facilities currently agreed with Surrenda-link Limited and its bankers and therefore that it is appropriate to prepare the financial statements on the going concern basis.

Report of the Directors

continued

Directors' responsibilities

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company, for safeguarding the assets of the Company, for taking reasonable steps for the prevention and detection of fraud and other irregularities and for the preparation of a Directors' Report which complies with the requirements of the Companies Act 1985.

The directors are responsible for preparing the annual report and the financial statements in accordance with the Companies Act 1985. The directors are also required to prepare financial statements for the Group in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs) and the rules of the London Stock Exchange for companies trading securities on the Alternative Investment Market. The directors have chosen to prepare financial statements for the Company in accordance with IFRSs.

International Accounting Standard 1 requires that financial statements present fairly for each financial year the Company's financial position, financial performance and cash flows. This requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the International Accounting Standards Board's 'Framework for the preparation and presentation of financial statements'. In virtually all circumstances, a fair presentation will be achieved by compliance with all applicable IFRSs. A fair presentation also requires the Directors to:

- consistently select and apply appropriate accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information; and
- provide additional disclosures when compliance with the specific requirements in IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance.

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

Auditors

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

BDO Stoy Hayward LLP have expressed their willingness to continue in office and a resolution to re-appoint them will be proposed at the annual general meeting.

By order of the Board

J Murphy
Secretary

3 July 2008

Report of the independent auditors

to the shareholders of TEP Exchange Group PLC

We have audited the Group and parent Company financial statements (the ''financial statements'') of TEP Exchange Group PLC for the year ended 31 December 2007 which comprise the consolidated income statement, the consolidated and Company balance sheets, the consolidated and Company cash flow statements, the consolidated and Company statements of changes in equity and the related notes. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report and financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union are set out in the statement of directors' responsibilities.

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

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

We read the directors' report, Chairman's statement and Corporate governance statement and consider the implications for our report if we become aware of any apparent misstatements within them.

Our report has been prepared pursuant to the requirements of the Companies Act 1985 and for no other purpose. No person is entitled to rely on this report unless such a person is a person entitled to rely upon this report by virtue of and for the purpose of the Companies Act 1985 or has been expressly authorised to do so by our prior written consent. Save as above, we do not accept responsibility for this report to any other person or for any other purpose and we hereby expressly disclaim any and all such liability.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's and Company's circumstances, consistently applied and adequately disclosed.

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

Report of the independent auditors

continued

Opinion

In our opinion:

- the Group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the Group's affairs as at 31 December 2007 and of its profit for the year then ended;
- the parent Company financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union as applied in accordance with the provisions of the Companies Act 1985, of the state of the parent Company's affairs as at 31 December 2007;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the directors' report is consistent with the financial statements.

Emphasis of matter – contingent liability

Without qualifying our opinion we draw attention to note 19 to the financial statements. The Company is appealing against assessments issued by HM Revenue & Customs in respect of VAT under declared from 2003 to 2007. It is anticipated that the case will be concluded by the end of 2008. The ultimate outcome of the matter cannot presently be determined, and no provision for any liability that may result has been made in the financial statements.

BDO Stoy Hayward LLP
Chartered Accountants
and Registered Auditors
London

3 July 2008

Consolidated income statement

for the year ended 31 December 2007

	Note	2007 £	2006 £
Revenue	2	606,502	384,015
Other income	4	–	104,152
Administrative expenses		(542,133)	(509,178)
Profit/(loss) from operations	5	64,369	(21,011)
Finance income	6	7,082	448
Finance costs	6	(33,916)	(38,072)
Profit/(loss) before tax		37,535	(58,635)
Tax expense	8	–	–
Profit/(loss) attributable to equity holders of the parent		37,535	(58,635)
Earnings/(loss) per share			
Basic and diluted earnings/(loss) per share	10	0.01p	(0.03)p

The notes on pages 19 to 34 form part of these financial statements.

Statement of changes in equity

for the year ended 31 December 2007

	Share capital £	Share premium £	Accumulated losses £	Total £
Consolidated				
At 1 January 2006	2,245,434	3,667,901	(6,403,201)	(489,866)
Loss and total recognised income and expense for the year	–	–	(58,635)	(58,635)
At 1 January 2007	2,245,434	3,667,901	(6,461,836)	(548,501)
Profit and total recognised income and expense for the year	–	–	37,535	37,535
Issue of share capital	17,546	333,367	–	350,913
Expenses relating to the issue of shares	–	(49,320)	–	(49,320)
At 31 December 2007	2,262,980	3,951,948	(6,424,301)	(209,373)

	Share capital £	Share premium £	Accumulated losses £	Total £
Company				
At 1 January 2006	2,245,434	3,667,901	(6,880,288)	(966,953)
Loss and total recognised income and expense for the year	–	–	(385,950)	(385,950)
At 1 January 2007	2,245,434	3,667,901	(7,266,238)	(1,352,903)
Profit and total recognised income and expense for the year	–	–	(525,418)	(525,418)
Issue of share capital	17,546	333,367	–	350,913
Expenses relating to the issue of shares	–	(49,320)	–	(49,320)
At 31 December 2007	2,262,980	3,951,948	(7,791,656)	(1,576,728)

Share Capital is the amount subscribed for ordinary shares and deferred shares at nominal value.

Share premium represents the excess of the amount subscribed for share capital over the nominal value of these shares net of share issue expenses.

Accumulated losses represent cumulative losses of the Group or the Company attributable to equity holders.

The notes on pages 19 to 34 form part of these financial statements.

Consolidated balance sheet

at 31 December 2007

	Note	2007 £	2007 £	2006 £	2006 £
Assets					
Non-current assets					
Property, plant and equipment	11		–		–
Total non-current assets			–		–
Current assets					
Inventories	13	3,050		2,938	
Trade and other receivables	14	259,444		229,999	
Cash and cash equivalents		38,044		25,798	
Total current assets			300,538		258,735
Total assets			300,538		258,735
Liabilities					
Current liabilities					
Bank overdraft		(70)		–	
Bank loan		(53,143)		(52,585)	
Other borrowings		(20,000)		(40,000)	
Trade and other payables	15	(188,662)		(443,753)	
Total current liabilities			(261,875)		(536,338)
Non-current liabilities					
Bank loan		–		(57,336)	
Trade payables		(248,036)		(213,562)	
Total non-current liabilities			(248,036)		(270,898)
Total liabilities			(509,911)		(807,236)
Total net liabilities			(209,373)		(548,501)
Equity attributable to equity holders of the parent					
Share capital	16		2,262,980		2,245,434
Share premium reserve			3,951,948		3,667,901
Accumulated losses			(6,424,301)		(6,461,836)
Total deficit			(209,373)		(548,501)

The financial statements were approved by the Board of Directors and authorised for issue on 3 July 2008

G Kynoch
Chairman

D Roxburgh
Director

The notes on pages 19 to 34 form part of these financial statements.

Company balance sheet

at 31 December 2007

	Note	2007 £	2007 £	2006 £	2006 £
Assets					
Non-current assets					
Property, plant and equipment	11		–		–
Investments in subsidiary undertakings	12		100,006		100,006
			100,006		100,006
Current assets					
Trade and other receivables	14	261,885		357,862	
Cash and cash equivalents		–		4,832	
Total current assets			261,885		362,694
Total assets			361,891		462,700
Liabilities					
Current liabilities					
Bank overdraft		(70)		–	
Bank loan		(53,143)		(52,585)	
Other borrowings		(20,000)		(40,000)	
Trade and other payables	15	(1,617,370)		(1,452,120)	
Total current liabilities			(1,690,583)		(1,544,705)
Non-current liabilities					
Bank loan		–		(57,336)	
Trade payables		(248,036)		(213,562)	
Total non-current liabilities			(248,036)		(270,898)
Total liabilities			(1,938,619)		(1,815,603)
Total net liabilities			(1,576,728)		(1,352,903)
Equity attributable to equity holders of the parent					
Share capital	16		2,262,980		2,245,434
Share premium reserve			3,951,948		3,667,901
Accumulated losses			(7,791,656)		(7,266,238)
Total deficit			(1,576,728)		(1,352,903)

The financial statements were approved by the Board of Directors and authorised for issue on 3 July 2008

G Kynoch
Chairman

D Roxburgh
Director

The notes on pages 19 to 34 form part of these financial statements.

Consolidated cash flow statement

for the year ended 31 December 2007

	2007 £	2007 £	2006 £	2006 £
Operating activities				
Profit/(loss) before taxation		37,535		(58,635)
Depreciation		–		175
Finance income		(7,082)		(448)
Finance costs		33,916		38,072
Profit/(loss) from operations before changes in working capital		64,369		(20,836)
Increase in inventories		(112)		(113)
Increase in trade and other receivables		(29,445)		(21,775)
(Decrease)/increase in trade and other payables		(220,617)		148,593
Cash (used)/generated by operating activities		(185,805)		105,869
Investing activities				
Interest received		7,082		448
Financing activities				
Issue of ordinary shares	350,913		–	
Expenses relating to the issue of deferred shares	(49,320)		–	
Repayment of borrowings	(76,778)		(50,704)	
Interest paid	(33,916)		(38,072)	
Net cash inflow/(outflow) from financing activities		190,899		(88,776)
Increase in cash and cash equivalents		12,176		17,541
Cash and cash equivalents at beginning of year		25,798		8,257
Cash and cash equivalents at the end of year		37,974		25,798
Cash and cash equivalents comprise:				
Cash available on demand		38,044		25,798
Bank overdraft		(70)		–
Cash and cash equivalents at end of the year		37,974		25,798

The notes on pages 19 to 34 form part of these financial statements.

Company cash flow statement

for the year ended 31 December 2007

	2007 £	2007 £	2006 £	2006 £
Operating activities				
Loss before taxation		(496,151)		(348,326)
Depreciation		–		175
Loss from operations before changes in working capital		(496,151)		(348,151)
Decrease in trade and other receivables		95,977		1,473
Increase in trade and other payables		199,724		445,025
Cash (used)/generated by operating activities		(200,450)		98,347
Investing activities				
Interest received		4,649		448
Financing activities				
Issue of ordinary shares	350,913		–	
Expenses relating to the issue of deferred shares	(49,320)		–	
Repayment of borrowings	(76,778)		(50,704)	
Interest paid	(33,916)		(38,072)	
Net cash inflow/(outflow) from financing activities		190,899		(88,776)
(Decrease)/increase in cash and cash equivalents		(4,902)		10,019
Cash and cash equivalents at beginning of year		4,832		(5,187)
Cash and cash equivalents at the end of year		(70)		4,832
Cash and cash equivalents comprise:				
Cash available on demand		–		4,832
Bank overdraft		(70)		–
Cash and cash equivalents at end of the year		(70)		4,832

The notes on pages 19 to 34 form part of these financial statements.

Notes forming part of the financial statements

for the year ended 31 December 2007

1 Accounting policies

The principal accounting policies adopted in the preparation of the financial statements are set out below. The policies have been consistently applied to the Company and the Group to all the years presented, unless otherwise stated. These financial statements have been prepared in accordance with International Financial Reporting Standards, International Accounting Standards and Interpretations (collectively IFRS) issued by the International Accounting Standards Board (IASB) as adopted by European Union ("adopted IFRSs"), are in accordance with IFRS as issued by the IASB and in accordance with those parts of the Companies Act 1985 applicable to those companies preparing their accounts under IFRS.

This is the first time the Company and Group have prepared financial information in accordance with IFRS, having previously prepared its financial statements in accordance with UK GAAP. Details of the effects of the transition are given below.

Standards, amendments and interpretations to published standards not yet effective

Certain new standards, amendments and interpretations to existing standards have been published that are mandatory for the Group's accounting periods beginning on or after 1 January 2008 or later periods and which the Group has decided not to adopt early. These are:

IFRS 8, Operating Segments (effective for accounting periods beginning on or after 1 January 2009).
This standard sets out requirements for the disclosure of information about an entity's operating segments and also about the entity's products and services, the geographical areas in which it operates, and its major customers. It replaces IAS 14, Segmental Reporting. The Group expects to apply this standard in the accounting period beginning on 1 April 2009. As this is a disclosure standard it will not have impact on the results or net assets of the Group.

IAS 23, Borrowing Costs (revised) (effective for accounting periods beginning on or after 1 January 2009).
The revised IAS 23 is still to be endorsed by the EU. The main change from the previous version is the removal of the option of immediately recognising as an expense borrowing costs that relate to qualifying assets, broadly being assets that take a substantial period of time to get ready for use or sale. There is not expected to be impact on the Group's accounts from its adoption.

IFRIC 11, IFRS 2 – Group and Treasury Share Transactions (effective for accounting periods beginning on or after 1 March 2007).
IFRIC 11 requires share-based payment transactions in which an entity receives services as consideration for its own equity instruments to be accounted for as equity settled. This applies regardless of whether the entity chooses or is required to buy those equity instruments from another party to satisfy its obligations to its employees under the share-based payment arrangement. It also applies regardless of whether: (a) the employee's rights to the entity's equity instruments were granted by the entity itself or by its shareholder(s); or (b) the share-based payment arrangement was settled by the entity itself or by its shareholder(s). There is not expected to be impact on the Group's accounts from its adoption.

IFRIC 12, Service Concession Arrangements (effective for accounting periods beginning on or after 1 January 2008).
IFRIC 12 is still to be endorsed by the EU. IFRIC 12 gives guidance on the accounting by operators for public-to-private service concession arrangements. IFRIC 12 is not relevant to the Group's operations due to the absence of such arrangements.

IFRIC 13, Customer Loyalty Programmes (effective for accounting periods beginning on or after 1 July 2008).
IFRIC 13 is still to be endorsed by the EU. IFRIC 13 addresses sales transactions in which the entities grant their customers award credits that, subject to meeting any further qualifying conditions, the customers can redeem in future for free or discounted goods or services. IFRIC 13 is not relevant to the Group's operations due to absence of such arrangements.

Notes forming part of the financial statements

continued

1 Accounting policies continued

IFRIC 14, IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (effective for accounting periods beginning on or after 1 January 2008)

IFRIC 14 is still to be endorsed by the EU. IFRIC 14 clarifies when refunds or reductions in future contributions should be regarded as available in accordance with paragraph 58 of IAS 19, how a minimum funding requirement might affect the availability of reductions in future contributions and when a minimum funding requirement might give rise to a liability. IFRIC 14 is not relevant to the Group's operations due to absence of such arrangements.

IAS 1 – Presentation of Financial Statements (effective for accounting periods beginning on or after 1 January 2009, yet to be endorsed by the EU) replaces IAS 1 Presentation of Financial Statements (revised in 2003) as amended in 2005.

IAS 1 amends some of the terminology used in regard to the primary statements. Furthermore it introduces a requirement to include a complete set of financial statements a statement of financial position as at the beginning of the earliest comparative period whenever the entity retrospectively applies an accounting policy or makes a retrospective restatement of items in its financial statements, or when it reclassifies items in its financial statements. In addition the requirements in regard to the presentation of changes in equity and income and expenses are altered.

Management is currently assessing the impact of the amendments on the accounts.

Amendments to IAS 32, "Financial Instruments: Presentation" and IAS 1, "Presentation of Financial Statements" – Puttable Financial Instruments and Obligations Arising on Liquidation (effective for accounting periods beginning on or after 1 January 2009, yet to be endorsed by the EU).

IAS 32 is amended by requiring some financial instruments that meet the definition of a financial liability to be classified as equity. The amendment addresses the classification of some puttable financial instruments, and instruments, or components of instruments, that impose on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation.

Management is currently assessing the impact of the amendments on the accounts.

IFRS 1 'First-time Adoption of International Financial Reporting Standards' and IAS 27 'Consolidated and Separate Financial Statements' (amendments effective for annual periods beginning on or after 1 January 2009, yet to be endorsed by EU)

The amendment addresses issues re the determination of the costs of investment in a subsidiary, jointly controlled entity or associate in the separate financial statements of an entity at the date of transition to IFRS. In regard to a new parent entity's separate financial statements, the amendments require changes where:

- a parent company or a single entity (an existing entity) decides to reorganise its operating structure by forming a new parent entity, such that the existing entity becomes a wholly-owned subsidiary of the new parent; and
- the new parent is formed in a manner that does not change:
- the relative ownership interests of the owners of the existing entity; or
- the equity, assets and liabilities of the Group.

Management is currently assessing the impact of the amendments on the accounts.

Revised IFRS 3, Business Combinations and complementary Amendments to IAS 27, 'Consolidated and separate financial statements (both effective for accounting periods beginning on or after 1 July 2009).

This revised standard and amendments are still to be endorsed by the EU. The revised IFRS 3 and amendments to IAS 27 arise from a joint project with the Financial Accounting Standards Board (FASB), the US standards setter, and result in IFRS being largely converged with the related, recently issued, US requirements. There are certain very significant changes to the requirements of IFRS, and options available, if accounting for business combinations. Management is currently assessing the impact of revised IFRS 3 and amendments to IAS 27 on the accounts.

Notes forming part of the financial statements

continued

1 Accounting policies continued

Amendment to IFRS 2, Share-based payments: vesting conditions and cancellations (effective for accounting periods beginning on or after 1 January 2009).

This amendment is still to be endorsed by the EU. The Amendment to IFRS 2 is of particular relevance to companies that operate employee shares save schemes. This is because it results in an immediate acceleration of the IFRS 2 expense that would otherwise have been recognised in future periods should an employee decide to stop contributing to the savings plan, as well as a potential revision to the fair value of the awards granted to factor in the probability of employees withdrawing from such a plan. This amendment is not relevant to the Group's operations due to absence of such arrangements.

Improvements to IFRS (effective for accounting periods beginning on or after 1 July 2009).

This improvements project is still to be endorsed by the EU. The amendments take various forms, including the clarification of the requirements of IFRS, the elimination of inconsistencies between Standards, and a restructuring of IFRS 1 First-time Adoption of IFRS. Management is currently assessing the impact of the Amendment on the accounts.

Going concern

During the year ended 31 December 2007 the Group achieved a profit of £37,535 (2006 – loss of £58,635) and at 31 December 2007 had net liabilities of £209,373 (2006 – £548,501).

The Group relies on support from one of its major shareholders, Surrenda-link Limited, in order to meet its obligations as they fall due. It is also financed through a bank loan, repayable over 44 months, together with a bank overdraft facility of £10,000. In addition, the directors have restructured the trading operation and in particular with Surrenda-link Limited, who now charge for their services on a variable cost basis. As a result of this and improved performance since the year end, the directors anticipate improved trading results for the forthcoming year and have projected cash flow information which show creditors can be repaid out of cash flow.

The directors have recently agreed with Surrenda-link Limited that the repayment of non-current outstanding charges in the amounts of £308,036 will be repaid over 31 months at a rate of £10,000 per month commencing in July 2008. Should the Company's appeal against the VAT assessments raised by HM Revenue & Customs (see note 19) be unsuccessful, Surrenda-link Limited will defer payment of the £308,036 (or such lesser sum as is outstanding at the time of the company's unsuccessful appeal against the VAT assessments) until such time as the company has repaid all amounts due to HM Revenue & Customs. It is assumed that unsuccessful in its appeals, the Company will be able to pay amounts owing to HM Revenue and Customs over a period of not less than 12 months from January 2009.

On the basis of the above, and all other available information, the directors consider that the Group will become profitable and continue to operate within the facilities currently agreed with Surrenda-link Limited and its bankers and therefore that it is appropriate to prepare the financial statements on the going concern basis.

Basis of consolidation

Where the Company has the power, either directly or indirectly, to govern the financial and operating policies of another entity or business so as to obtain benefits from its activities, it is classified as a subsidiary. The consolidated financial statements present the results of the Company and its subsidiaries ("the Group") as if they formed a single entity. Intercompany transactions and balances between Group companies are therefore eliminated in full.

Revenue

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

Notes forming part of the financial statements

continued

1 Accounting policies continued

Interest income

Revenue is recognised as interest accrues (using the effective interest rate that is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset).

Other income

Rent receivable is credited to the income statement on a straight-line basis over the term of the rental agreement.

Financial assets

The Group classifies its financial assets into one of the categories discussed below, depending on the purpose for which the asset was acquired.

Loans and receivables

These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise principally through the provision of goods and services to customers (e.g. trade receivables), but also incorporate other types of contractual monetary asset. They are initially recognised at fair value plus transaction costs that are directly attributable to their acquisition or issue, and are subsequently carried at amortised cost using the effective interest rate method, less provision for impairment.

Impairment provisions are recognised when there is objective evidence (such as significant financial difficulties on the part of the counterparty or default or significant delay in payment) that the Group will be unable to collect all of the amounts due under the terms receivable, the amount of such a provision being the difference between the net carrying amount and the present value of the future expected cash flows associated with the impaired receivable. For trade receivables, which are reported net, such provisions are recorded in a separate allowance account with the loss being recognised within administrative expenses in the income statement. On confirmation that the trade receivable will not be collectable, the gross carrying value of the asset is written off against the associated provision.

The Group's loans and receivables comprise trade and other receivables and cash and cash equivalents in the balance sheet. Those of the Company also include amounts due from subsidiary undertakings.

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within loans and borrowings in current liabilities on the balance sheet.

Financial liabilities

The Group classifies its financial liabilities into one of two categories, depending on the purpose for which the liability was acquired:

- Trade payables and other short-term monetary liabilities, which are initially recognised at fair value and subsequently carried at amortised cost using the effective interest method
- Bank and other borrowings are initially recognised at fair value net of any transaction costs directly attributable to the issue of the instrument. Such interest bearing liabilities are subsequently measured at amortised cost using the effective interest rate method, which ensures that any interest expense over the period to repayment is at a constant rate on the balance of the liability carried in the balance sheet. Interest expense in this context includes initial transaction costs and premia payable on redemption, as well as any interest or coupon payable while the liability is outstanding.

Notes forming part of the financial statements

continued

1 Accounting policies continued

Share capital

Financial instruments issued by the Group are treated as equity only to the extent that they do not meet the definition of a financial liability. The Group's perpetual preference shares include a contractual obligation on the Company to deliver cash in the form of the annual preference dividend and, in the absence of any other terms that would indicate an equity element, have been classified wholly as a financial liability. The Groups ordinary shares are classified as equity instruments.

Investments in subsidiary undertakings

Investments in subsidiary undertakings are held as fixed assets are stated at cost less provision for impairment in value.

Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation and accumulated impairment losses. Such cost includes the cost of replacing part of the plant and equipment when that cost is incurred, if the recognition criteria are met. All other repair and maintenance costs are recognised in profit or loss as incurred.

Depreciation is calculated on a straight line basis over the useful life of the asset as follows:

Fixtures, fittings and equipment	–	4 years
Computer equipment	–	3 years

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the year the asset is derecognised.

The assets' residual values, useful lives and methods of depreciation are reviewed, and adjusted if appropriate, at each financial year end.

Leased assets

Where substantially all of the risks and rewards incidental to ownership are retained by the lessor (an "operating lease"), the total rentals payable under the lease are charged to the income statement on a straight-line basis over the lease term.

Income tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the balance sheet date. Current income tax relating to items recognised directly in equity is recognised in equity and not in profit or loss.

Deferred income tax

Deferred income tax is provided using the liability method on temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred income tax liabilities are recognised for all taxable temporary differences, except:

- where the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Notes forming part of the financial statements

continued

1 Accounting policies continued

Significant accounting judgments, estimates and assumptions

The preparation of the Group's financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the asset or liability affected in the future.

In the process of applying the Group's accounting policies, management has made the following judgments, estimates and assumptions which have the most significant effect on the amounts recognised in the financial statements:

Contingent liabilities

In accordance with IFRS the Group recognises a provision where there is a present obligation from a past event, a transfer of economic benefits is probable and the amount of costs of the transfer can be estimated reliably. In instances where the criteria are not met, a contingent liability may be disclosed in the notes to the financial statements. Obligations arising in respect of contingent liabilities that have been disclosed, or those which are not currently recognised or disclosed in the financial statements, could have a material effect on the Group's financial position. Application of these accounting principles to contingent liabilities requires the Group's management to make determinations about various factual and legal matters beyond its control. The Group reviews outstanding cases following developments in the proceedings and at each balance sheet date, in order to assess the need for provisions and disclosures in its financial statements. Among the factors considered in making decisions on provisions are the nature of litigation, claim or assessment, the legal process and potential level of damages in the jurisdiction in which the litigation, claim or assessment has been brought, the progress of the case (including the progress after the date of the financial statements but before those statements are issued), the opinions or views of legal and other advisers, experience on similar cases and any decision of the Group's management as to how it will respond to the litigation, claim or assessment.

Transition to IFRS

The consolidated financial information for the year ended 31 December 2007 has been prepared in accordance with International Financial Reporting Standards (IFRS) for the first time.

The Group's transition date to IFRS is 1 January 2006. The rules for first-time adoption of IFRS are set out in IFRS 1 'First time adoption of International Financial Reporting Standards'. In preparing the IFRS financial information, these transition rules have been applied to the amounts reported previously under generally accepted accounting principles in the United Kingdom ('UK GAAP'). The date to which the last UK GAAP financial statements were produced was 31 December 2006. IFRS 1 generally requires full retrospective application of the Standards and Interpretations in force at the first reporting date. However, IFRS 1 allows certain exemptions in the application of particular Standards to prior periods in order to assist companies with the transition process. The Group has elected to make use of the exemptions available in IFRS 1 as follows:

IFRS 2 'Share-based Payments' has been applied to all grants of equity instruments after 7 November 2002 that were unvested at 1 January 2006.

IFRS 3 'Business Combinations' has not been applied retrospectively to business combinations that occurred before 1 January 2006.

The transition to IFRS has had no effect on the profit or the net assets for the current or prior accounting period.

Notes forming part of the financial statements

continued

2 Revenue

The Group's entire revenue is generated in the UK from the one business segment that of providing advertising services for with profit endowment policies on-line. The Group has no other geographical or business segments.

The Company had no trading revenue for the year (2006 – £nil).

3 Staff costs

Group and Company

	2007 £	2006 £
Staff costs, including directors, consist of:		
Fees and remuneration for management services	29,300	18,297
Social security costs	–	11
	29,300	18,308

The Company had no employees other than the executive director.

4 Other income

Group and Company

	2007 £	2006 £
Rent receivable	–	104,152

5 Profit/(loss) from operations

Group

Profit/(loss) from operations is stated after charging:	2007 £	2006 £
Depreciation	–	175
Audit fees	12,000	9,750
Audit fees – audit of subsidiaries	4,150	4,000
Fees paid to the Company's auditors for non-audit services – review of IFRS transition	3,000	–
Operating lease rentals – land and buildings	–	111,416

Company

Profit from operations is stated after charging:	2007 £	2006 £
Depreciation	–	175
Audit fees	12,000	9,750
Fees paid to the Company's auditors for non-audit services – review of IFRS transition	3,000	–
Operating lease rentals – land and buildings	–	111,416

Notes forming part of the financial statements

continued

6 Finance income and expenses

Group and Company

	2007 £	2006 £
Bank interest receivable	7,082	448
Bank interest payable	5,435	15,792
Interest payable on other borrowings and trade payables	28,481	22,280
	33,916	38,072

7 Directors

Group and Company

	2007 £	2006 £
Directors' emoluments consist of:		
Fees and remuneration for management services – total	29,300	18,297

No pension contributions were made in respect of the directors (2006 – Nil).

8 Tax expense

No liability to corporation tax arises on the results for the year due to the losses carried forward.

The tax assessed for the year varies from the standard rate of corporation tax in the UK. The differences are explained below:

	2007 £	2006 £
Profit/(loss) on ordinary activities before income tax	37,535	(58,635)
Profit/(loss) on ordinary activities before income tax multiplied by the standard rate of UK corporation tax of 30 per cent. (2006 – 30 per cent.)	11,260	(17,590)
Profit offset against income tax losses carried forward from prior years	(11,260)	–
Tax loss not recognised as a deferred tax asset	–	17,590
Current year income tax charge	–	–

At 31 December 2007 the Group had a deferred income tax asset of £1,630,459 (2006 – £1,641,719) in respect of losses which have not been recognised in these financial statements.

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

	2007 £	2006 £
Dealt with in financial statements of the Parent Company	(525,418)	(385,950)

The Company has taken advantage of the exemption allowed under section 230 of the Companies Act 1985 and has not presented its own income statement in these financial statements.

Notes forming part of the financial statements

continued

10 Earnings/(loss) per share

The calculation of the basic earnings/(loss) per share is based upon:

	2007	2006
Basic earnings/(loss) per share (pence)	0.01p	(0.03)p
Profit/(loss) attributable to equity holders	£37,535	£(58,635)
	Number	**Number**
Weighted average number of shares	364,908,684	224,543,426

The options, warrants and deferred shares in issue at the 31 December 2006 and 31 December 2007, which are disclosed in note 16, are antidilutive and have therefore been excluded from the calculation of diluted earnings per share. However, such options may be dilutive in future periods.

11 Property, plant and equipment

Group and Company	Computer equipment £	Fixtures, fittings and equipment £	Total £
Cost			
At 1 January 2006, 31 December 2006, 1 January 2007 and 31 December 2007	173,446	65,474	238,920
Depreciation			
At 1 January 2006	173,446	65,299	238,745
Charge for the year	–	175	175
At 31 December 2006, 1 January 2007 and at 31 December 2007	173,446	65,474	238,920
Net book value			
At 31 December 2007	–	–	–
At 31 December 2006	–	–	–

12 Investments

Company	2007 £	2006 £
Subsidiary undertakings – shares at cost and net book value	100,006	100,006

The following were subsidiary undertakings held directly by Company at the end of the year:

Name	Country of incorporation	Proportion of voting rights and ordinary share capital held	Nature of business
TEP-Exchange Limited	England	100%	Advertising services to the traded endowment policy market
TEP-Exchange Interim Portfolio Limited	England	100%	Trading of traded endowment policies
TEP Transfer Limited	England	100%	Dormant
Interactive Intelligence Limited	England	100%	Dormant

Notes forming part of the financial statements

continued

13 Inventories

	2007 Group £	2006 Group £	2007 Company £	2006 Company £
Goods for resale	3,050	2,938	–	–

14 Trade and other receivables

	2007 Group £	2006 Group £	2007 Company £	2006 Company £
Trade receivables	168,499	41,630	–	–
Amount due from subsidiary undertaking	–	–	172,129	172,129
Other receivables	69,812	146,599	68,623	143,963
Prepayments and accrued income	21,133	41,770	21,133	41,770
	259,444	229,999	261,885	357,862

At the year end, there were no receivables which are past due or impaired.

Included in amounts due from subsidiary undertakings is an amount of £150,000 (2006 – £150,000) in respect of an unsecured loan to TEP-Exchange Limited and is subject to a tripartite agreement with TEP Exchange Group PLC (the lender) and the Financial Services Authority. Interest can be demanded by TEP Exchange Group PLC and if so demanded will be calculated at the annual rate of 5 per cent. above the London Inter-Bank Offered Rate for deposits of pounds sterling. The earliest repayment date was 25 September 2003.

15 Trade and other payables: amounts falling due within one year

	2007 Group £	2006 Group £	2007 Company £	2006 Company £
Trade payables	51,891	286,854	51,079	286,854
Other payables	4,000	5,250	–	5,250
Amounts due to subsidiary undertakings	–	–	1,467,398	1,011,135
Creditors for taxation and social security	–	10,815	–	10,815
Accrued liabilities and deferred income	132,771	140,834	98,893	138,066
	188,662	443,753	1,617,370	1,452,120

Notes forming part of the financial statements

continued

16 Share capital

	2007 Number	2006 Number	2007 £	2006 £
Authorised				
Ordinary shares of 0.01p (2006 – 1p) each	1,000,000,000	400,000,000	100,000	4,000,000
Deferred shares of 0.99p each	400,000,000	–	3,960,000	–
			4,060,000	4,000,000
Allotted, called up and fully paid				
Ordinary shares 0.01p (2006 – 1p) each	399,999,999	224,543,426	40,000	2,245,434
Deferred shares of 0.99p each	224,543,426	–	2,222,980	–
			2,262,980	2,245,434

	Ordinary shares		Deferred shares	
	Number	£	Number	£
Share capital at 1 January 2007	224,543,426	2,245,434	–	–
Share restructuring	–	(2,222,980)	224,543,426	2,222,980
New share capital issued	175,456,573	17,546	–	–
Share capital at 31 December 2007	399,999,999	40,000	224,543,426	2,222,980

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

	Number of shares under option	Exercise price	Exercise period From	To
Enterprise Management	1,027,879	3p	16.02.2004	16.02.2011
Incentive Scheme	600,000	8p	06.09.2004	06.09.2011
	582,818	10p	16.02.2004	16.02.2011
	1,500,000	12p	06.09.2004	06.09.2011
	3,710,697			
Unapproved Share Option Plan	200,000	8p	24.08.2004	24.08.2011
	3,910,697			

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

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; and
- 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.

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

Notes forming part of the financial statements

continued

16 Share capital continued

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 warrantholder the right to subscribe in cash for Ordinary Shares to be issued to the warrant holder or such person as the warrantholder 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. No cash was received for the warrants and that no charge to the income statement arises under IFRS 2.

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.

Capital

Changes in the capital restructuring of the company during the year are disclosed above.

The Group's objectives when maintaining capital are:

- to safeguard the entity's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, and
- to provide an adequate return to shareholders by pricing products and services commensurately with the level of risk.

The Group sets the amount of capital it requires in proportion to risk. The Group manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares, or sell assets to reduce debt.

Consistent with others in the industry, the Group monitors capital on the basis of the debt to equity ratio. This ratio is calculated as net debt to equity. Net debt is calculated as total debt (as shown in the balance sheet) less cash and cash equivalents. Total equity (as shown in the balance sheet) includes components of equity (i.e. share capital, share premium, minority interest, retained earnings, and revaluation reserve).

During 2007, the Groups strategy, which was unchanged from 2006, was to minimise the debt-to-equity ratio. The debt-to-equity ratios at 31 December 2007 and at 31 December 2006 were as follows:

	2007 £	2006 £
Total debt	73,213	149,921
Less: Cash and cash equivalents	(38,044)	(25,798)
Net debt	35,169	124,123
Total equity	(209,373)	(548,501)
Debt to equity ratio	0.16:1	0.22:1

The decrease in the debt to equity ratio during 2007 resulted primarily from the ongoing repayment of the bank loan and the new share issue during the year.

Notes forming part of the financial statements

continued

17 Related party transactions

During the year, the Group earned fees of £360,073 (2006 – £122,657) from Surrenda-link Limited, a major shareholder in the Group. At the year end Surrenda-link Limited owed £164,950 (2006 – £29,180) to the Group.

During the year Surrenda-link Limited provided services to the Group under the Outsourcing Agreement and charged the Group fees of £234,117 (2006 – £195,802). At the year end Surrenda-link Limited were owed £323,344 (2006 – £413,562) by the Group. In addition, a loan of £20,000 (2006 – £40,000) from Surrenda link Limited was outstanding at the year end.

Transactions with Group companies are summarised below:

	2007 £
TEP-Exchange Limited	
Balance owing by TEP Exchange Limited at 1 January 2007	172,129
Balance owing to TEP Exchange Limited at 31 December 2007	(1,011,135)
Intercompany recharges for the year (2006 – £386,396)	(434,134)
Balance owing by TEP Exchange Limited at 31 December 2007	172,129
Balance owing to TEP Exchange Limited at 31 December 2007	(1,467,398)
TEP-Exchange Interim Portfolio Limited	
Balance owing by TEP-Exchange Interim Portfolio Limited at 1 January 2007	22,128
Intercompany recharges for the year (2006 – £nil)	(22,329)
Balance owing by TEP-Exchange Interim Portfolio Limited at 31 December 2007	5,799
Balance owing to TEP-Exchange Interim Portfolio Limited at 31 December 2007	(6,000)

18 Financial instruments

The Board agrees and reviews policies and financial instruments for risk management. The primary objectives of the treasury function are to provide competitively priced funding for the activities of the Group and to identify and manage financial risk. An entity shall disclose information that enables users of its financial statements to evaluate the significance of financial instruments for its financial position and performance.

Principal financial instruments

The principal financial instruments used by the Group and the Company from which financial instrument risk arises, are as follows:

Financial assets	2007 Group £	2006 Group £	2007 Company £	2006 Company £
Trade receivables	168,499	41,630	–	–
Amount due from subsidiary undertaking	–	–	172,129	172,129
Other receivables	69,812	146,599	68,623	143,963
Cash and cash equivalents	38,044	25,798	–	4,832
Total financial assets classified as loans and receivables	276,355	214,027	240,752	320,924

The maximum exposure to credit risk at the reporting date is the fair value of each class of receivable set out above.

Notes forming part of the financial statements

continued

18 Financial instruments continued

Financial liabilities

	2007 Group £	2006 Group £	2007 Company £	2006 Company £
Trade payables – current	51,891	286,854	51,079	286,854
Trade payables – non-current	248,036	213,562	248,036	213,562
Other payables	4,000	5,250	–	5,250
Amounts due to subsidiary undertakings	–	–	1,467,398	1,011,135
Creditors for taxation and social security	–	10,815	–	10,815
Bank loan – current	53,143	52,585	53,143	52,585
Bank loan – non current	–	57,336	–	57,336
Bank overdraft	70	–	70	–
Other borrowings	20,000	40,000	20,000	40,000
Accrued liabilities	132,771	140,834	98,893	138,066
Total financial liabilities measured at amortised cost	509,911	807,236	1,938,619	1,815,603

At 31 December 2007 and 2006 the carrying amounts of financial assets approximate to their fair values.

To the extent trade and other payables are not carried at fair value in the consolidated balance sheet, book value approximates to fair value at 31 December 2007 and 2006.

The Group and Company are exposed through its operations to one or more of the following financial risks:

Liquidity risk

Short term liquidity risk is managed by preparing forecasts together with obtaining and reviewing the adequacy of banking facilities. As at 31 December 2007, the Group had unutilised bank facilities of £10,000 (2006 – £10,000), secured against the inventories. The Group's bank term loan of £53,143 is repayable during 2008. The Group also has a bank overdraft facility of £10,000.

At 31 December 2006, the total balance owing to Surrenda-link Limited of £213,562 was deferred for not less than one year from 30 April 2007 until such time as the Company had sufficient liquid resources after repaying all other creditors to repay them. At 31 December 2007, the repayment of non-current outstanding charges of £308,036 will be paid over 31 months at a rate of £10,000 per month commencing in July 2008.

Market operational and pricing risks

The Group operated only in the United Kingdom. The Group's revenues are derived from fee and commission income chargeable to customers. The level of fees and commission is entirely dependent upon the level of activity in the traded endowment policy market.

Notes forming part of the financial statements

continued

18 Financial instruments continued

Credit risk

Credit risk represents the loss that the Company would incur if a counterparty failed to perform its contractual obligations. The Group is exposed to credit risk in respect of fees and commission income chargeable to companies with whom it had a contractual relationship and interest receivable from its investments. Credit risk is mitigated through regular credit review of counterparties. As these counterparties are regulated by the Financial Services Authority, the credit reviews allow for the fact that they are subject to the regulatory capital requirements.

Credit risk also arises from cash and cash equivalents and deposits with banks and financial institutions. For banks and financial institutions, only independently rated parties with minimum rating "A" are accepted.

Cash flow interest rate risk

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

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's and Company's profit before tax and equity (through the impact on floating rate investments and borrowings).

	Change in rate	Effect £
Interest rate	+ 0.5%	35,152
	+ 1.0%	32,769
	+ 1.5%	30,387
Interest rate	– 0.5%	39,918
	– 1.0%	42,301
	– 1.5%	44,683

Currency risk

The Group is not directly exposed to currency risk as its assets, liabilities, revenue and expenditure are denominated in Sterling.

19 Contingent liabilities

The Company is appealing against assessments issued by HM Revenue & Customs in respect of VAT under declared from 2003 to 2007. It is anticipated that the case will be concluded by the end of 2008. In the opinion of the directors, the VAT returns submitted were correct and their appeal against the assessments will be successful. However, if the appeal by the Company is not successful, the Company would be liable to pay undeclared VAT, interest and penalties which the directors estimate to be a maximum amount of £400,000. No provisions for these amounts have been made in these financial statements although the cost of defending the appeal has been provided for.

Notes forming part of the financial statements

continued

20 Post balance sheet event

In 2002 the Company entered into an outsourcing agreement with Surrenda-link Limited, which allowed it to outsource all of its operational activities. In February 2007 the terms of this agreement were revised and the initial period was amended to end on 31 December 2008 and to continue thereafter unless and until terminated on six months notice by either party.

Surrenda-link has indicated to the Company that in accordance with the terms of the outsourcing agreement it intends to give notice to terminate this agreement on 31 December 2008. Consequently, in order to ensure the continuity of its operational activities the Company has granted approval to Surrenda-link to transfer the majority of its outsourcing responsibilities (excludes accounting and compliance) to Foregate Support Services Limited ('Foregate') with immediate effect. Foregate is an IT support services business which was established recently by the former IT manager of Surrenda-link.

The proposed arrangements will allow the Company to monitor the performance of Foregate in the next six months to determine if they are capable of managing the activities on a longer term basis. Once the Company is satisfied as to Foregate's ability to manage the initial outsourcing responsibilities the Company intends to enter into an outsourcing agreement directly with Foregate. In the event that, in the opinion of the Company, Foregate fails to deliver the service levels required by the Company all outsourcing responsibilities will revert back to Surrenda-link and the Company will seek an alternative outsource partner for the period commencing 1 July 2009.

To facilitate the transfer of these operational activities Foregate and Surrenda-link have entered into a separate outsourcing agreement. The Company has entered into a tri-partite agreement in order to formalise the Company's consent to the transfer of the majority of the outsourcing responsibilities and to set out other necessary provisions to facilitate the handover from Surrenda-link to Foregate. The Company and Surrenda-link have entered into an agreement which sets out the services which are being retained by Surrenda-link and the agreed fee for those services is consistent with the terms of the existing outsourcing agreement between the parties.

The Directors believe that the total charges expected to be incurred under the new outsourcing arrangement in the year ended 31 December 2008 for the services being provided by Foregate and Surrenda-link will be less than the total amount which would have been charged by Surrenda-link under the terms of the February 2007 agreement between the Company and Surrenda-link.

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