



The Protected Asset TEP Fund Plc

Financial statements for the year ended 31 December 2005

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The Protected Asset TEP Fund Plc

Report and financial statements
for the year ended 31 December 2005

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The Protected Asset TEP Fund Plc

Report and financial statements
for the year ended 31 December 2005

Officers and professional advisers

Directors	Professor Robert Michael Abbey The Earl Cowley Alex Foley Lee Portnoi Christopher Talavera
Secretary	Michael John MacBain (resigned 15 July 2005) Andrew John Ashworth (appointed 15 July 2005)
Registered office	Sixty Circular Road Douglas, Isle of Man IM1 1SA
Administrator	Abacus Financial Services Limited Sixty Circular Road Douglas, Isle of Man IM1 1SA Telephone: 44 (0)1624 689600
Custodian	RBSI Custody Bank Limited St Andrew's House Le Bordage, St Peter Port Guernsey, Channel Islands
Bankers	The Royal Bank of Scotland International Limited 22 High Street, St Peter Port Guernsey, Channel Islands
Legal advisers	Cains Advocates Limited 15 – 19 Athol Street Douglas, Isle of Man IM1 1LB
Policy provider	T.I.S. Group Limited via Absolute Assigned Policies ("AAP") T.I.S. House, Spring Villa Park Edgware Middlesex HA8 7EG
Policy administrator	TEP Management Services Limited T.I.S. House, Spring Villa Park Edgware Middlesex HA8 7EG
Auditors	Deloitte & Touche Douglas Isle of Man
Promoter	Protected Distribution Limited Akara Building, 24 de Castro Street Wickhams Cay 1, Road Town, Tortola British Virgin Islands

The Protected Asset TEP Fund Plc

Chairman's statement

Dear Shareholder

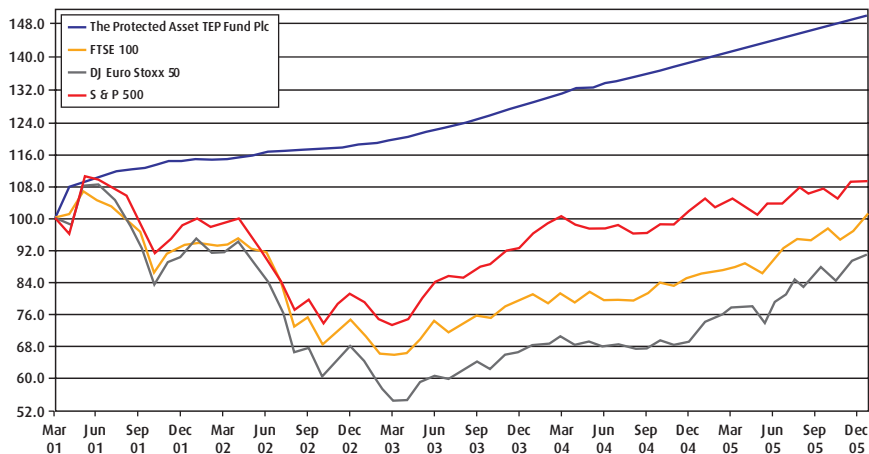
Once again I am pleased to report the Fund continued to build on the successes of previous years and delivered strong performance across all share classes during 2005.

Highlights for 2005

1. Gross Assets up 82% to £292.9m
2. Returns on Sterling Classes for year ending 31st December 2005
Original Fund : 7.6 %
No 2 Sub-Fund : 8.0 %
3. Total Policy Guarantees increased from £186.6m to £276.4m

Illustrated below are the performance charts for the fund to date and its comparison to major world indices. As the graphs indicate the Fund has consistently out-performed the FTSE 100, DJ Euro Stoxx 50 as well as the S & P 500 and displayed the lowest volatility.

Comparison of The Protected Asset TEP Fund Plc (Sterling Class) against Major World Indices

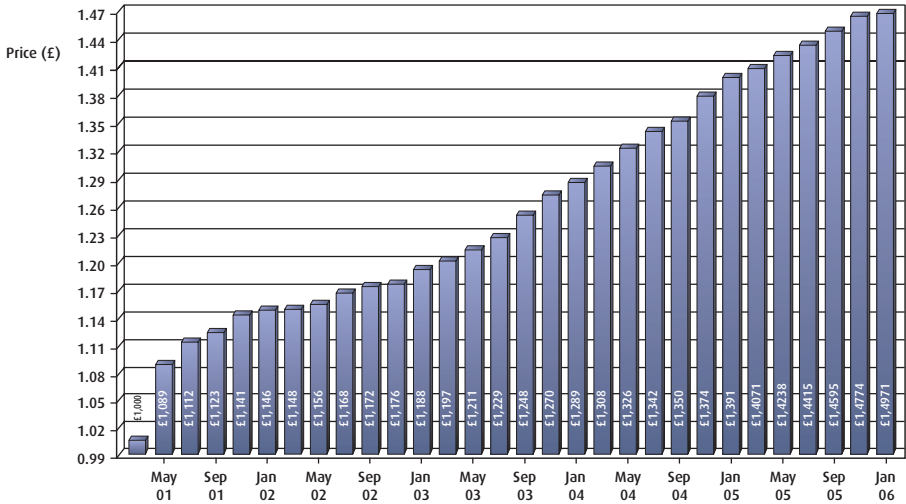


The Protected Asset TEP Fund Plc

Chairman's statement

Share Prices of The Protected Asset TEP Fund Plc (Sterling Class)

Share Prices of The Protected Asset TEP Fund Plc (Sterling Class)



Investment Background

2005 could be characterised as a year for natural catastrophes with hurricanes Katrina, Rita and Wilma hitting the southern states of America and the earthquake in Pakistan. However, despite these terrible events, interest rates and inflation remained low and stable. The Bank of England reduced their base rate for the first time in two years from 4.75% to 4.50% and equities ended the year on a four and a half year high buoyed by strong corporate earnings and rising oil prices.

TEP Market

Through Absolute Assigned Policies, the UK's largest buyer of TEPs, the Fund acquired policies with substantial guarantees and at discounts to market prices. The fund's cautious investment approach is underlined by recent comments from Nigel Masters, chairman of the Actuarial Profession's Life Board who said :

‘...with-profits policies often contain valuable guarantees that can be difficult or expensive to replace and, with the low inflationary outlook, the real returns available from the with-profits policies should remain competitive with those from other choices.’

The Protected Asset TEP Fund Plc

Chairman's statement



Source: Policies held in All Share Classes

Activity in the TEP market displayed a marked increase during the period under review due to, in part, European institutional investors entering the market place. Despite the increased demand for policies, large numbers of policies are being surrendered.

Life Offices

The main development in the life sector was the consolidation of closed funds with Resolution acquiring the with-profits funds of Century Life, Swiss Life and Britannic Assurance. Moreover, Pearl Group Limited acquired the life companies of HHG (Pearl Assurance, London Life and others).

We also observed life offices exercising prudence when setting their annual and final bonus rates and as a result we have seen greater stability in their bonus strategies as compared to previous years. This trend has continued into 2006 and led to the life offices reporting more than favourable returns on the underlying assets held in their with profits funds.

Life Company	Returns on With-Profits Fund
Prudential	20.0%
Legal & General	19.0%
CGNU	17.7%
Standard Life	16.1%
Norwich Union	16.0%
Scottish Widows	16.0%
Friends Provident	15.0%

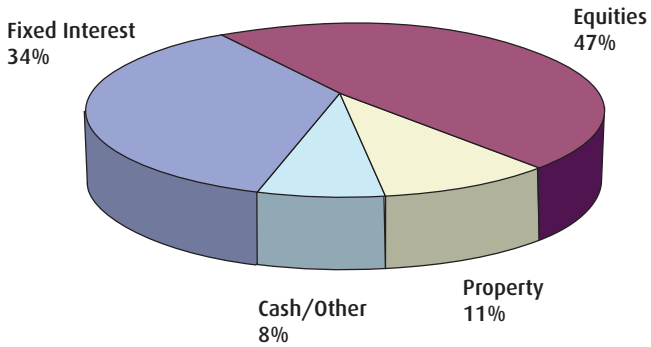
Source : Various Life Offices

The Protected Asset TEP Fund Plc

Chairman's statement

Life Office Asset Allocation 2005

Source: Money Management August 2005



In conclusion, the prospects for the UK economy are encouraging and I expect that the fund will continue to perform well in this positive environment and provide growth, security and excellent value.

Professor Robert Abbey
Chairman
2006



The Protected Asset TEP Fund Plc

Directors' Report for the year ended 31 December 2005

The directors present herewith their report and audited financial statements for the year ended 31 December 2005.

Principal activities

The principal activity of the company is that of an open ended investment company designed for experienced investors. The Protected Asset TEP Fund Plc (the "Company") is designed to provide investors with high capital growth and relatively low risk through investment in a diversified portfolio of traded endowment policies ("TEPs").

Results for the year

The results for the year and their appropriation are set out in the income statement on page 10.

The Protected Asset TEP Fund Plc was originally created with one sub-fund ("The Fund"), but a second sub-fund ("The SG Life TEP Fund") was launched following a second offer on 14 December 2001. On 1 December 2003 a third sub-fund ("The Protected Asset TEP Fund No.2") was launched. On the same date the original Fund and the third sub-fund were subdivided into three classes, sterling, US dollar and Euro.

All investors in the SG Life TEP Fund redeemed their holdings on 18 October 2004. No further subscriptions are being accepted for this sub-fund. Of the 6,269,676 units in issue in the SG Life TEP Fund at that date, 9,025 units were redeemed for cash and the remaining 6,260,651 were redeemed for shares in The Protected Asset TEP Fund No 2, following the transfer of the net assets of the SG Life sub fund at 18 October 2004 into the Protected Asset TEP Fund No.2.

Dividend

The directors do not recommend the payment of a dividend for the year (2004: £nil).

Directors

The directors as stated on page 1, served throughout the year and to date.

Secretary

The secretaries who served during the year and to date were as follows:

	Appointed	Resigned
Michael MacBain	-	15 July 2005
Andrew Ashworth	15 July 2005	-

Auditors

The auditors, Deloitte & Touche, have expressed their willingness to continue as auditors and will continue in office in accordance with section 12(2) of the Companies Act 1982.

By Order of the Board

C J Talavera

Director

27 March 2006

The Protected Asset TEP Fund Plc

Statement of Directors' responsibilities for the year ended 31 December 2005

Statement of Directors' responsibilities

Isle of Man Company law requires the directors to prepare financial statements for each financial period which give a true and fair view of the state of affairs of the company as at the end of the financial period and of the profit or loss of the company for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Acts 1931 to 2004. They are also responsible for the system of internal control, for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Protected Asset TEP Fund Plc

Report of the independent auditors to the members of The Protected Asset TEP Fund Plc

We have audited the individual company financial statements of The Protected Asset TEP Fund PLC for the year ended 31 December 2005 which comprise the income statement, statement of changes in net assets, the balance sheet, the cash flow statement, and the related notes 1 to 13. These individual company financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with section 15 of the Companies Act 1982. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

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

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

We report to you our opinion as to whether the individual company financial statements give a true and fair view in accordance with the relevant financial reporting framework and whether the individual company financial statements have been properly prepared in accordance with the Companies Act 1931 to 2004. We report to you if, in our opinion, the directors' report is not consistent with the individual company financial statements. We also report to you if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the Chairman's Statement, the directors' report and the other information contained in the annual report for the above year as described in the contents section and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the individual company financial statements.

Basis of audit opinion

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

The Protected Asset TEP Fund Plc

Report of the independent auditors to the members of The Protected Asset TEP Fund Plc

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 individual company financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view, in accordance with IFRS as adopted for use in the European Union, of the state of the company's affairs as at 31 December 2005 and of its profit for the year then ended. The financial statements have been properly prepared in accordance with the Companies Acts 1931 to 2004.

Emphasis of matter - Valuation of investments in Traded Endowment Policies

Without qualifying our opinion, we draw attention to the disclosures made in note 1 of the financial statements. The company invests in traded endowment policies ("TEPs") and these are valued using an actuarial method adopted by the directors on the basis that these investments are intended to be held for the long term. This valuation method requires the directors to make estimates of future bonuses from life companies. The directors also apply a discretionary reserve factor to the aggregate value of TEPs held in each sub-fund to determine the final valuation.

Deloitte & Touche
Chartered Accountants
Douglas
Isle of Man

4 April 2006

The Protected Asset TEP Fund Plc

Income statement for the year ended 31 December 2005

	Note	PATF 2005 £	PATF 2 2005 £	Consolidated 2005 £
Revenue				
Net realised (loss)/gain on investments	4	(120,598)	36,313	(84,285)
Net unrealised gain on investments	3	12,463,875	8,161,834	20,625,709
Bank Interest		-	265,575	265,575
Unrealised gain on forward contracts	12b)	522,218	-	522,218
Realised gain on forward contracts		20,849	754,608	775,457
Investment income		<u>12,886,344</u>	<u>9,218,330</u>	<u>22,104,674</u>
Expenses				
Administration Fees	6	279,147	142,578	421,725
Policy Administration Fees	5	1,045,002	520,967	1,565,969
Promoter Fees	7	-	712,886	712,886
Directors Fees		13,670	7,974	21,644
Bank Charges		98,557	20,782	119,339
Bank Interest		1,300,526	-	1,300,526
Audit Fees		31,000	23,500	54,500
General Expenses		69,725	72,342	142,067
Custodian Fees	5	98,591	50,341	148,932
Sales and Marketing	7	-	5,151,340	5,151,340
Unrealised loss on forward contracts	12b)	-	619,375	619,375
Total operating expenses		<u>2,936,218</u>	<u>7,322,085</u>	<u>10,258,303</u>
Profit before and after taxation		<u>9,950,126</u>	<u>1,896,245</u>	<u>11,846,371</u>
Net increase in net assets attributable to holders of redeemable participating shares from operations	10(ii)	<u>9,950,126</u>	<u>1,896,245</u>	<u>11,846,371</u>

The notes on pages 18 to 36 form part of these financial statements.

The Protected Asset TEP Fund Plc

Income statement for the year ended 31 December 2004

	Note	PATF 2004 £	SG Life 2004 £	PATF 2 2004 £	Consolidated 2004 £
Revenue					
Net realised gain on investments	4	28,335	-	1,408	29,743
Net unrealised gain on investments	3	6,972,049	629,812	1,895,684	9,497,545
Unrealised gain on forward contracts	12b)	18,208	-	-	18,208
Realised gain on forward contracts		-	-	10,125	10,125
Investment income		<u>7,018,592</u>	<u>629,812</u>	<u>1,907,217</u>	<u>9,555,621</u>
Expenses					
Administration Fees	6	117,375	12,821	26,444	156,640
Policy Administration Fees	5	448,228	90,393	100,985	639,606
Promoter Fees	7	-	-	132,222	132,222
Directors Fees		15,531	2,333	3,699	21,563
Bank Charges		86,303	5,400	19,834	111,537
Bank Interest		577,622	91,817	130,043	799,482
Audit Fees		7,500	-	7,500	15,000
General Expenses		95,344	409	21,633	117,386
Custodian Fees	5	48,190	5,550	10,569	64,309
Incorporation and set up expenses		7,500	-	19,000	26,500
Sales and Marketing	7	-	-	2,693,529	2,693,529
Unrealised loss on forward contracts	12b)	-	-	205,252	205,252
Realised loss on forward contracts		414,415	-	-	414,415
Total operating expenses		<u>1,818,008</u>	<u>208,723</u>	<u>3,370,710</u>	<u>5,397,441</u>
Profit/(loss) before and after taxation		<u>5,200,584</u>	<u>421,089</u>	<u>(1,463,493)</u>	<u>4,158,180</u>
Net increase/(decrease) in net assets attributable to holders of redeemable participating shares from operations	10(ii)	<u>5,200,584</u>	<u>421,089</u>	<u>(1,463,493)</u>	<u>4,158,180</u>

The notes on pages 18 to 36 form part of these financial statements.

The Protected Asset TEP Fund Plc

Statement of changes in net assets for the year ended 31 December 2005

	Note	PATF 2005 £	PATF 2 2005 £	Consolidated 2005 £
Net assets attributable to holders of redeemable participating preference shares at 1 January		101,238,864	38,600,050	139,838,914
Proceeds from redeemable participating preference shares issued		60,342,001	67,058,335	127,400,336
Redemption of redeemable participating preference shares		<u>(24,162,220)</u>	<u>(2,124,768)</u>	<u>(26,286,988)</u>
Net increase from share transactions		36,179,781	64,933,567	101,113,348
Increase in net assets attributable to holders of redeemable participating preference shares from operations		<u>9,950,126</u>	<u>1,896,245</u>	<u>11,846,371</u>
Net assets attributable to holders of redeemable participating preference shares at 31 December	10	<u><u>147,368,771</u></u>	<u><u>105,429,862</u></u>	<u><u>252,798,633</u></u>

The notes on pages 18 to 36 form part of the financial statements.

The Protected Asset TEP Fund Plc

Statement of changes in net assets for the year ended 31 December 2004

	Note	PATF 2004 £	SG Life 2004 £	PATF 2 2004 £	Consolidated 2004 £
Net assets attributable to holders of redeemable participating preference shares at 1 January		32,803,973	5,115,843	1,207,724	39,127,540
Proceeds from redeemable participating preference shares issued		74,183,887	2,629,114	39,317,331	116,130,332
Redemption of redeemable participating preference shares		<u>(10,949,580)</u>	<u>(8,166,046)</u>	<u>(461,512)</u>	<u>(19,577,138)</u>
Net increase/(decrease) from share transactions		63,234,307	(5,536,932)	38,855,819	96,553,194
Increase/(decrease) in net assets attributable to holders of redeemable participating preference shares from operations		<u>5,200,584</u>	<u>421,089</u>	<u>(1,463,493)</u>	<u>4,158,180</u>
Net assets attributable to holders of redeemable participating preference shares at 31 December	10	<u>101,238,864</u>	<u>-</u>	<u>38,600,050</u>	<u>139,838,914</u>

The notes on pages 18 to 36 form part of the financial statements.

The Protected Asset TEP Fund Plc

Balance sheet
as at 31 December 2005

	Note	PATF 2005 £	PATF 2 2005 £	Consolidated 2005 £
Assets				
Non-current assets				
Financial assets at fair value through profit or loss	3	185,833,529	82,482,373	268,315,902
Current assets				
Bank balances and cash		-	23,854,907	23,854,907
Trade and other receivables		603,343	127,929	731,272
Unpaid management shares issued		100	-	100
		<u>603,443</u>	<u>23,982,836</u>	<u>24,586,279</u>
Total assets		<u><u>186,436,972</u></u>	<u><u>106,465,209</u></u>	<u><u>292,902,181</u></u>
Current liabilities				
Trade and other payables		268,943	1,035,347	1,304,290
Bank overdraft – due within one year	9	25,299,158	-	25,299,158
		<u>25,568,101</u>	<u>1,035,347</u>	<u>26,603,448</u>
Non-current liabilities				
Bank loan – due after 5 years	9	13,500,000	-	13,500,000
Liabilities (excluding net assets attributable to holders of redeemable participating preference shares)		<u>39,068,101</u>	<u>1,035,347</u>	<u>40,103,448</u>
Non-current liabilities attributable to holders of management shares				
	8	100	-	100
Net assets attributable to holders of redeemable participating preference shares				
	10	<u>147,368,771</u>	<u>105,429,862</u>	<u>252,798,633</u>
Total liabilities		<u><u>186,436,972</u></u>	<u><u>106,465,209</u></u>	<u><u>292,902,181</u></u>

The notes on pages 18 to 36 form part of the financial statements.

The financial statements on pages 10 to 36 were approved by the Board of Directors and authorised for issue on 27 March 2006 and signed on its behalf by:

A Foley
Director

C J Talavera
Director

The Protected Asset TEP Fund Plc

Balance sheet
as at 31 December 2004

	Note	PATF 2004 £	PATF 2 2004 £	Consolidated 2004 £
Assets				
Non-current assets				
Financial assets at fair value through profit or loss	3	121,361,649	38,957,576	160,319,225
Current assets				
Bank balances and cash		-	607,817	607,817
Trade and other receivables		30,000	-	30,000
Unpaid management shares issued		100	-	100
		<u>30,100</u>	<u>607,817</u>	<u>637,917</u>
Total assets		<u><u>121,391,749</u></u>	<u><u>39,565,393</u></u>	<u><u>160,957,142</u></u>
Current liabilities				
Trade and other payables		65,995	366,563	432,558
Bank overdraft – due within one year	9	20,086,790	598,780	20,685,570
Liabilities (excluding net assets attributable to holders of redeemable participating preference shares)		<u>20,152,785</u>	<u>965,343</u>	<u>21,118,128</u>
Non-current liabilities attributable to holders of management shares	8	100	-	100
Net assets attributable to holders of redeemable participating preference shares	10	<u>101,238,864</u>	<u>38,600,050</u>	<u>139,838,914</u>
Total liabilities		<u><u>121,391,749</u></u>	<u><u>39,565,393</u></u>	<u><u>160,957,142</u></u>

The notes on pages 18 to 36 form part of these financial statements.

The Protected Asset TEP Fund Plc

Cash flow statement for the year ended 31 December 2005

	PATF 2005 £	PATF 2 2005 £	Consolidated 2005 £
Net cash used in operating activities	(2,763,546)	(5,761,047)	(8,524,593)
Investing activities			
Net purchase of investments	(52,128,603)	(35,326,650)	(87,455,253)
Financing activities			
Proceeds from net issues of participating redeemable preference shares	36,179,781	64,933,567	101,113,348
Proceeds from issue of new bank loan	13,500,000	-	13,500,000
Net (decrease)/increase in cash and cash equivalents	(5,212,368)	23,845,870	18,633,502
Cash and cash equivalents at beginning of year	(20,086,790)	9,037	(20,077,753)
Cash and cash equivalents at end of year	<u>(25,299,158)</u>	<u>23,854,907</u>	<u>(1,444,251)</u>
Reconciliation of profit before taxation to net cash used in operating activities			
Profit before taxation	9,950,126	1,896,245	11,846,371
Gains on investments	(12,343,277)	(8,198,147)	(20,541,424)
Increase in receivables	(573,343)	(127,929)	(701,272)
Increase in payables	202,948	668,784	871,732
Net cash used in operations	<u>(2,763,546)</u>	<u>(5,761,047)</u>	<u>(8,524,593)</u>

The Protected Asset TEP Fund Plc

Cash flow statement for the year ended 31 December 2004

	PATF 2004 £	SG Life 2004 £	PATF 2 2004 £	Consolidated 2004 £
Net cash used in operating activities	(1,860,058)	(238,275)	(2,994,022)	(5,092,355)
Investing activities				
Net purchase of endowment policies	(71,642,083)	(371,113)	(28,006,796)	(100,019,992)
Financing activities				
Proceeds from net issues of participating redeemable preference shares	63,234,307	2,089,793	31,229,094	96,553,194
Net (decrease)/increase in cash and cash equivalents	(10,267,834)	1,480,405	228,276	(8,559,153)
Cash and cash equivalents at beginning of year	(9,818,956)	(1,480,405)	(219,239)	(11,518,600)
Cash and cash equivalents at end of year	(20,086,790)	-	9,037	(20,077,753)
Reconciliation of profit/(loss) before taxation to net cash used in operating activities				
Profit/(loss) before taxation	5,200,584	421,089	(1,463,493)	4,158,180
Gains on investments	(7,000,384)	(629,812)	(1,897,092)	(9,527,288)
Increase in receivables	(30,000)	-	-	(30,000)
(Decrease)/increase in payables	(30,258)	(29,552)	366,563	306,753
Net cash used in operations	(1,860,058)	(238,275)	(2,994,022)	(5,092,355)

The Protected Asset TEP Fund Plc

Notes to the financial statements for the year ended 31 December 2005

1 Principal accounting policies

The financial statements have been prepared in accordance with International Financial Reporting Standards using the historical cost convention modified by the revaluation of non current assets, comprising investments. The financial statements are expressed in pounds sterling. The significant accounting policies adopted by the Company are as follows:

Accounting periods of sub-funds

The Protected Asset TEP Fund Plc (“The Company”) was originally created with one sub-fund (“The Fund”), but a second sub-fund (“The SG Life TEP Fund”) was launched following a second offer on 14 December 2001.

On 1 December 2003 a third sub-fund (“The Protected Asset TEP Fund No.2”) was launched comprising three classes, Sterling, US Dollar and Euro. On the same date the original sub-fund and the third sub-fund were divided into three classes, Sterling, US Dollar and Euro.

The amounts shown in the accounts for the SG Life TEP Fund in the prior year represent results for the period from 16 December 2003 to 18 October 2004. On 18 October 2004 all investors in the SG Life TEP Fund redeemed their holdings and no further subscriptions have been accepted for this sub-fund.

The results and position of The Protected Asset TEP Fund No 2 disclosed in the financial statements are those for the year ended 15 December 2005 (the sub fund’s valuation date), subject to adjustments for subscriptions and redemptions of shares in the period from 16 December 2005 to 31 December 2005. The directors are of the opinion that the result and financial position for the year ended, and as at 31 December 2005 is not materially different to those as at 15 December 2005.

Valuation of financial assets

Traded Endowment policies

For the year ended 31 December 2005 the fund has adopted IAS 39 (revised) and as a result has reclassified investments from “available for sale” to “fair value through the profit or loss”. The comparatives have also been reclassified.

Investments in funds

Investments in another fund are classified as fair value through the profit or loss assets. These are recognised on a trade-date basis, are initially measured at cost and are measured at subsequent reporting dates at their fair value. Unrealised gains and losses for the year are recorded in the income statement and are transferred to the capital reserve.

The investment in a fund is valued by the Fund Administrator using the methodology adopted in the market being an industry standard.

Enhancements to invest in the fund are not recognised in full in the year in which they arise. Instead the enhancement is recognised as an unrealised gain through the Income Statement over a period of 5 years (see note 3).

The Protected Asset TEP Fund Plc

Notes to the financial statements for the year ended 31 December 2005

1 Principal accounting policies (continued)

Investments in TEPs were classified as available for sale assets in 2004 but they have now been reclassified (see above). TEPs are recognised on a trade-date basis, are initially measured at cost and are measured at subsequent reporting dates at their fair value. Unrealised gains and losses for the year are recorded in the income statement.

The traded endowment policies are valued by the Policy Administrator using the methodology adopted in the traded endowment policy market being an industry standard. Standard practice dictates that the estimated maturity values are computed by reference to appropriate bonus rates for each life assurance company or where applicable maturity values provided by the life assurance companies. Such estimated maturity values are subdivided into their constituent parts incorporating the guaranteed sums and future bonuses then discounted at suitable discount rates based on conditions at that time to arrive at a present value including any notional fee and taking into account life office credit ratings. Once the present value has been calculated, at the Directors discretion, a further discount is applied to provide a smoothing of the gross asset value to reflect expected short term movements in interest and bonus rates.

The valuation assumes that the Company is a net purchaser of policies. If there were substantial redemptions, the market for buying and selling TEPs may be limited and in the unlikely event of surrendering the policies it may not be possible to realise the amount at which they are stated in the financial statements.

Realised gains and losses on investments

Realised gains and losses for the year are recorded in the income statement.

Fund set up expenses

Expenses incurred in the preparation and publication of the original and subsequent Offering Memorandums and all legal and printing costs have been paid by T.I.S. Group Limited. The fund is obliged to reimburse T.I.S. Group Limited for these fees.

For the purposes of preparing these financial statements set up costs are expensed when incurred.

Translation of foreign currencies

Assets and liabilities denominated in foreign currencies are translated into pounds sterling at exchange rates ruling at the balance sheet date. Income and expenses are translated at exchange rates in effect on the transaction date. Exchange gains and losses, if any, are included in the income statement. There are very few non-pound sterling expenses and these are not significant in monetary terms.

Derivative financial instruments

The Company uses derivative financial instruments (foreign currency forward contracts) to hedge its risks associated with foreign currency fluctuations relating to certain firm commitments and forecast transactions. Such derivatives are initially recorded at cost, and are remeasured to fair value at subsequent reporting dates. Changes in fair value of derivative financial instruments are recognised in the income statement.

The Protected Asset TEP Fund Plc

Notes to the financial statements for the year ended 31 December 2005

1 Principal accounting policies (continued)

Bank borrowing

Interest bearing overdrafts and loans are recorded at the proceeds received. Finance charges are accounted for on an accruals basis.

Trade receivables

Trade receivables do not carry any interest and are stated at their nominal value as reduced by their appropriate allowances for estimated irrecoverable amounts.

Trade payables

Trade payables are not interest bearing and are stated at their nominal value.

2 Taxation

The Company is registered as an exempt company under the provision of the Income Tax (Exempt Companies) Act 1984 and accordingly pays no tax in the Isle of Man.

3 Fair value through profit or loss investments

	PATF 2005 £	PATF 2 2005 £	Consolidated 2005 £	Consolidated 2004 £
Fair value at 1 January	121,361,649	38,957,576	160,319,225	50,771,945
Purchases in the year	53,229,049	35,573,054	88,802,103	100,096,092
Disposals in the year	(1,221,044)	(210,091)	(1,431,135)	(46,357)
Increase in fair value	12,463,875	8,161,834	20,625,709	9,497,545
Fair value at 31 December	<u>185,833,529</u>	<u>82,482,373</u>	<u>268,315,902</u>	<u>160,319,225</u>

The fair value through profit or loss investments comprise an investment in a related fund, the Protected Capital Growth Fund Plc ("PCGF"), and investments in traded endowment policies as follows:

	PATF 2005 £	PATF 2 2005 £	Consolidated 2005 £	Consolidated 2004 £
Fair value of TEPs	176,645,676	82,482,373	259,128,049	160,319,225
Fair value of PCGF	9,187,853	-	9,187,853	-
Fair value at 31 December	<u>185,833,529</u>	<u>82,482,373</u>	<u>268,315,902</u>	<u>160,319,225</u>

The Protected Asset TEP Fund Plc

Notes to the financial statements for the year ended 31 December 2005

3 Fair value through profit or loss investments (continued)

As more fully discussed in note 13 PCGF is a related party company.

The book cost and market value of the investment in PCGF is as follows:

	PATF 2005 £	PATF 2004 £
Book cost	9,140,000	-
Enhancement (see below)	639,800	-
	<u>9,779,800</u>	<u>-</u>
Market value (pre enhancement adjustment)	9,790,547	-
Adjustment for unamortised enhancement	(602,694)	-
Carrying value	<u>9,187,853</u>	<u>-</u>

On a monthly basis from June 2005 the Original Sub Fund has invested into Protected Capital Growth Fund Plc ("PCGF"). The total investment cost at the year end was £9,140,000. As an incentive to invest into PCGF the fund received a 7% enhancement fee in the form of extra units in PCGF. The total value of the enhancement at the year end was £639,800. This enhancement has not been recognised in full in the current year as the fund would incur redemption penalties of a similar level if it was to withdraw from the investment. Instead the enhancement is being recognised through the Income Statement over a period of 5 years, which is the period over which redemption penalties would be payable. £37,106 was recognised in the income statement for the year.

The total book cost of the traded endowment policies are shown below:

	PATF 2005 £	PATF 2 2005 £	Consolidated 2005 £	Consolidated 2004 £
Book cost on acquisition	146,693,302	70,102,318	216,795,620	145,178,421
Servicing costs since acquisition	8,415,848	2,322,536	10,738,384	4,482,438
Total book cost at 31 December	<u>155,109,150</u>	<u>72,424,854</u>	<u>227,534,004</u>	<u>149,660,859</u>

The total book cost includes purchase cost and incidental cost of acquisition. Servicing costs since acquisition comprise TEP premiums paid since acquisition. Incidental costs of acquisition comprise policy custody transaction charges to RBSI Custody Bank Limited of £25 per transaction.

The Protected Asset TEP Fund Plc

Notes to the financial statements
for the year ended 31 December 2005

3 Fair value through profit or loss investments (continued)

The Protected Asset TEP Fund Plc Original Sub Fund

	2005 Number of policies held £	2005 Book cost on aquisition £	2005 Current gross market value less smoothing £	2005 % current gross market price less smoothing %
Life Office				
Standard Life	3,834	58,315,792	58,033,008	32.85
Norwich Union	2,048	30,353,850	36,197,538	20.49
General Accident	793	8,430,629	17,939,832	10.16
Prudential	905	12,648,961	16,453,954	9.32
Clerical Medical	757	9,584,950	11,125,516	6.30
Royal London	370	5,105,064	8,738,906	4.95
Co-operative	652	6,494,878	9,793,392	5.54
Sun Life of Canada	503	5,735,488	6,219,821	3.52
Others	730	10,023,690	12,143,709	6.87
	<u>10,592</u>	<u>146,693,302</u>	<u>176,645,676</u>	<u>100.00</u>

The investments have fixed maturities as shown below.

Maturity Profile

	2005 Number of policies held	2005 Fair Value £
Less than 1 year	156	3,127,493
Between 2 and 5 years	2,445	42,912,000
Greater than 5 years	7,991	130,606,183
	<u>10,592</u>	<u>176,645,676</u>

The Protected Asset TEP Fund Plc

Notes to the financial statements
for the year ended 31 December 2005

3 Fair value through profit or loss investments (continued)

The Protected Asset TEP Fund Plc Original Sub Fund

	2004	2004	2004	2004
	Number of	Book cost	Current	% current
	policies	on acquisition	gross market	gross market
	held		value less	price less
			smoothing	smoothing
Life Office	£	£	£	%
Standard Life	3,053	46,669,379	46,813,030	38.57
Norwich Union	1,260	18,143,349	19,662,829	16.20
General Accident	552	5,795,094	9,924,434	8.18
Prudential	644	8,804,863	9,599,960	7.91
Clerical Medical	547	7,146,487	7,662,508	6.31
Royal London	329	4,427,206	7,242,086	5.97
Co-operative	509	4,719,176	6,547,840	5.40
Sun Life of Canada	421	4,889,744	6,039,017	4.98
Others	606	8,000,825	7,869,945	6.48
	<u>7,921</u>	<u>108,596,123</u>	<u>121,361,649</u>	<u>100.00</u>

The investments have fixed maturities as shown below.

Maturity Profile

	2004	2004
	Number of	Fair Value
	policies held	£
Less than 1 year	48	812,043
Between 2 and 5 years	1,473	26,334,193
Greater than 5 years	6,400	94,215,413
	<u>7,921</u>	<u>121,361,649</u>

The Protected Asset TEP Fund Plc

Notes to the financial statements
for the year ended 31 December 2005

3 Fair value through profit or loss investments (continued)

The Protected Asset TEP Fund plc No.2 Sub-Fund

	2005 Number of policies held £	2005 Book cost on aquisition £	2005 Current gross market value less smoothing £	2005 Current gross market price less smoothing %
Life Office				
Standard Life	1,468	22,080,241	22,124,390	26.82
Norwich Union	1,080	17,057,000	19,386,005	23.50
General Accident	404	4,893,876	9,285,715	11.26
Prudential	493	7,258,691	9,069,851	11.00
Clerical Medical	367	4,835,059	5,347,707	6.48
Royal London	115	1,925,210	2,701,832	3.28
Sun Life of Canada	220	2,683,753	2,720,715	3.30
Co-operative	269	2,509,091	4,042,377	4.90
Other	417	6,859,397	7,803,781	9.46
	<u>4,833</u>	<u>70,102,318</u>	<u>82,482,373</u>	<u>100.00</u>

The investments have fixed maturities as shown below.

Maturity Profile

	2005 Number of policies held	2005 Fair Value £
Less than 1 year	124	2,906,819
Between 2 and 5 years	1,166	21,638,587
Greater than 5 years	3,543	57,936,967
	<u>4,833</u>	<u>82,482,373</u>

The Protected Asset TEP Fund Plc

Notes to the financial statements
for the year ended 31 December 2005

3 Fair value through profit or loss investments (continued)

The Protected Asset TEP Fund plc No.2 Sub-Fund

	2004 Number of policies held £	2004 Book cost on acquisition £	2004 Current gross market value less smoothing £	2004 Current gross market price less smoothing %
Life Office				
Standard Life	880	12,871,165	12,789,146	32.83
Norwich Union	430	5,783,122	5,920,552	15.20
General Accident	212	2,797,029	3,931,589	10.09
Prudential	262	3,681,064	3,768,581	9.67
Clerical Medical	204	2,471,989	2,554,350	6.56
Sun Life of Canada	176	2,069,460	2,376,711	6.10
Co-operative	151	1,478,234	1,960,267	5.03
Other	330	5,430,235	5,656,380	14.52
	<u>2,645</u>	<u>36,582,298</u>	<u>38,957,576</u>	<u>100.00</u>

The investments have fixed maturities as shown below.

Maturity Profile

	2004 Number of policies held	2004 Fair Value £
Less than 1 year	9	172,602
Between 2 and 5 years	542	9,557,260
Greater than 5 years	2,094	29,227,714
	<u>2,645</u>	<u>38,957,576</u>

The Protected Asset TEP Fund Plc

Notes to the financial statements
for the year ended 31 December 2005

4 Net realised (loss)/gain on investments

	PATF 2005 £	PATF 2 2005 £	Consolidated 2005 £	Consolidated 2004 £
On matured policies	(29,495)	36,313	6,818	29,743
On sale of policies	(91,103)	-	(91,103)	-
	<u>(120,598)</u>	<u>36,313</u>	<u>(84,285)</u>	<u>29,743</u>

5 Policy administration and custodian fees

	2005 £	2004 £
Policy administration fees	1,565,969	639,606
Custodian fees	<u>148,932</u>	<u>64,309</u>

The Fund's Policy Administrator is TEP Management Services Limited. The Policy Administrator is paid a periodic fee equal to 0.65% per annum of the Net Asset Value of the Fund in respect of the Original PATF and PATF No.2 Sub-funds and equal to 1.20% per annum in respect of the SG Life TEP Fund Sub-Fund.

The Fund's custodian is RBSI Custody Bank Limited. The custodian's remuneration is 0.125% per annum of the value of the property of the Fund up to £25 million and 0.0625% per annum in respect of such amounts which exceed £25 million.

6 Administration fees

	2005 £	2004 £
Administration fees	<u>421,725</u>	<u>156,640</u>

The Fund's administrator, Abacus Financial Services Limited is paid a periodic fee equal to 0.2% per annum of the Net Asset Value of the Fund.

The Protected Asset TEP Fund Plc

Notes to the financial statements
for the year ended 31 December 2005

7 Promoter fees, sales and marketing expenses

	2005	2004
	£	£
Promoter fees	712,886	132,222
Sales and marketing	5,151,340	2,693,529
	<u>5,864,226</u>	<u>2,825,751</u>

The Fund pays to the Promoter a periodic fee equal to 1 per cent per annum of the net asset value of PATF No.2 Fund (and not Original PATF).

Introductory fees are paid on The Protected Asset TEP Fund No.2 and have been paid to introducers via the Promoter (Protected Distribution Limited). Redemption penalties payable by the investors will be paid to the Sub-fund and are netted off against the introductory fees. The fee net of redemption penalties for the year was £5,151,340 (2004: £2,693,529).

8 Share capital

The authorised management share capital of the Fund comprises 400,000,000 (2004: 200,000,000) unclassified shares at a par value of £0.001 per share and 100 (2004: 100) management shares of £1.00 each, giving a total of £400,100 (2004: £200,100).

Transactions in the share capital of the fund in the year were as follows:

	2005	2005	2004	2004
	Number	£	Number	£
Management shares of £1.00 in issue	100	100	100	100
	<u>100</u>	<u>100</u>	<u>100</u>	<u>100</u>
	2005	2005	2004	2004
	Number	£	Number	£
Participating redeemable preference shares of £0.001 in PATF sub-fund				
In issue at beginning of year	92,904,552	92,905	27,288,698	27,289
Issued during year	62,578,825	62,578	74,945,834	74,946
Redeemed during year	(23,560,100)	(23,560)	(9,329,980)	(9,330)
	<u>131,923,277</u>	<u>131,923</u>	<u>92,904,552</u>	<u>92,905</u>

The Protected Asset TEP Fund Plc

Notes to the financial statements
for the year ended 31 December 2005

8 Share capital (continued)

	2005 Number	2005 £	2004 Number	2004 £
Participating redeemable preference shares of £0.001 in SG Life sub-fund				
In issue at beginning of year	-	-	4,440,393	4,440
Issued during year	-	-	2,269,928	2,270
Redeemed during year	-	-	(6,710,321)	(6,710)
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
In issue at end of year	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

All remaining investors in the SG Life TEP Fund redeemed their holdings at 18 October 2004. No further subscriptions are being accepted for this sub-fund. Details of the final redemptions on 18 October 2004 are shown below.

	Number	Price £	Value £
Redeemed for cash	9,025	1.2182	10,994
Redeemed for shares in PATF 2	6,260,651	1.2182	7,626,725
	<u>6,269,676</u>		<u>7,637,719</u>

The shares subscribed for in PATF 2 as part of this transaction were issued following the redemption of the remaining shares in the SG Life sub fund and the transfer of the corresponding net assets into the Protected Asset TEP Fund No. 2 sub fund at their fair value as at the date of transfer.

The Protected Asset TEP Fund Plc

Notes to the financial statements
for the year ended 31 December 2005

8 Share capital (continued)

	2005 Number	2005 £	2004 Number	2004 £
Participating redeemable preference shares of £0.001 in PATF 2 sub-fund				
In issue at beginning of year	44,186,732	44,187	1,312,721	1,313
Issued during year	74,059,353	74,059	43,295,675	43,296
Redeemed during year	(2,244,007)	(2,244)	(421,664)	(422)
	116,002,078	116,002	44,186,732	44,187
	116,002,078	116,002	44,186,732	44,187

	2005 Number	2005 £	2004 Number	2004 £
Nominal shares				
In issue at beginning of year	-	-	-	-
Issued during year	-	-	-	-
Redeemed during year	-	-	-	-
	-	-	-	-
	-	-	-	-

Management Shares

The Management shares hold all voting rights and are not entitled to participate in the assets of the Fund.

Unclassified Shares

Unclassified shares may be issued either as nominal shares or participating redeemable preference shares.

Participating Redeemable Preference Shares

Shares are issued and redeemed at the Dealing Price which is calculated in accordance with the Articles of Association and based on the value of the underlying net assets of the fund at the time of issue or redemption. Upon the issue of shares the difference between the Dealing Price and the nominal value is credited to the share premium account. Upon the redemption of Participating Redeemable Preference Shares, the manager is obliged to subscribe for Nominal Shares for cash at par. The premium payment is debited to the share premium account or, where this is exhausted, to realised capital reserves.

The shares confer the right to a proportionate share in the property of the fund and to its dividend income, if any.

The Protected Asset TEP Fund Plc

Notes to the financial statements
for the year ended 31 December 2005

8 Share capital (continued)

Nominal Shares

Nominal shares may only be issued at par and only for the purpose of providing funds for the redemption of Redeemable Participating Preference Shares. They may only be issued to the Manager. The Nominal Shares may subsequently be converted and re-issued as Participating Redeemable Preference Shares upon payment of the appropriate subscription proceeds of the relevant class.

Winding up

The Protected Asset TEP Fund Plc may be wound up if a special resolution of the shareholders so determines.

On a winding up, the assets available for distribution amongst the shareholders shall be applied by the liquidator in the following priority:

- (a) firstly, in the repayment *pari passu* to the holders of Participating Redeemable Preference Shares ("Shares") of sums up to the nominal amount paid up thereon;
- (b) secondly, in the repayment *pari passu* to the holders of the Nominal Shares of sums up to the nominal amount paid thereon;
- (c) thirdly, in the repayment *pari passu* to the holders of the Management Shares of sums up to the nominal amount paid up thereon;
- (d) fourthly, in the payment of holders of Shares of any surplus of assets then remaining attributable to the Shares, such payment being made in proportion to the nominal amounts paid up on such Shares;
- (e) fifthly, in the payment to the holders of the Nominal Shares of any balance then remaining and not attributable to the Shares, in proportion to the nominal amounts paid up on such Nominal Shares.

The Protected Asset TEP Fund Plc

Notes to the financial statements for the year ended 31 December 2005

9 Bank overdraft and loan

The bank overdraft of the Original Protected Asset TEP Fund Plc sub-fund is drawn down from a facility of £36,500,000 and is renewable on 30 November 2006.

The Protected Asset TEP Fund No.2 sub-fund has an overdraft facility of £20,000,000 which is renewable on 30 November 2006.

The advances carry a variable rate of interest at 0.80% above the Royal Bank of Scotland International Limited base rate where the debit balance exceeds £3,000,000, 1.00% above the Royal Bank of Scotland International Limited base rate where the debit balance is greater than £1,000,000 but does not exceed £3,000,000, and 1.25% when the debit balance is less than £1,000,000.

Both agreements carry the option to turn outstanding overdrafts into loans. During the year this option was exercised on the Original Protected Asset TEP Fund Plc sub-fund with £13,500,000 becoming a loan which bears interest at 5.03% per annum. The loan is repayable on 30 September 2010.

The loan and overdrafts are secured by assignments over the policies purchased by the respective sub-funds together with all money that may become payable under the policies and all premiums.

10 Net assets attributable to holders of redeemable participating preference shares

	Original PATF 2005 £	PATF 2 2005 £	Consolidated 2005 £	Consolidated 2004 £
Share capital (note 8)	131,923	116,002	247,925	137,092
Share premium account (note 10(i))	129,972,652	104,986,128	234,958,780	133,956,265
Accumulated losses (note 10 (ii))	(5,157,575)	(9,767,507)	(14,925,082)	(6,230,029)
Capital reserve (note 10 (iii))	22,421,771	10,095,239	32,517,010	11,975,586
Net assets attributable to holders of redeemable participating preference shares	<u>147,368,771</u>	<u>105,429,862</u>	<u>252,798,633</u>	<u>139,838,914</u>

The Protected Asset TEP Fund Plc

Notes to the financial statements
for the year ended 31 December 2005

10 Net assets attributable to holders of redeemable participating preference shares (continued)

	Original PATF 2005 £	PATF 2 2005 £	Consolidated 2005 £	Consolidated 2004 £
(i) Share premium account				
Balance at 1 January	93,831,889	40,124,376	133,956,265	36,852,761
Arising on issue of participating redeemable preference shares	60,279,423	66,984,276	127,263,699	116,009,820
Used in redemption of participating redeemable preference shares	(24,138,660)	(2,122,524)	(26,261,184)	(19,560,676)
Transfer from accumulated profits on closure of sub fund	-	-	-	654,360
Balance at 31 December	<u>129,972,652</u>	<u>104,986,128</u>	<u>234,958,780</u>	<u>133,956,265</u>
(ii) Accumulated losses				
Balance at 1 January	(2,764,424)	(3,465,605)	(6,230,029)	(1,201,882)
Net increase in net assets attributable to holders of re-deemable participating preference shares	9,950,126	1,896,245	11,846,371	4,158,180
Realised and unrealised gains on investments transferred to capital reserve	(12,343,277)	(8,198,147)	(20,541,424)	(9,527,288)
Transfer to share premium account on closure of sub fund	-	-	-	(654,360)
Transfer from capital reserve on closure of sub fund	-	-	-	995,321
Balance at 31 December	<u>(5,157,575)</u>	<u>(9,767,507)</u>	<u>(14,925,082)</u>	<u>(6,230,029)</u>

The Protected Asset TEP Fund Plc

Notes to the financial statements for the year ended 31 December 2005

10 Net assets attributable to holders of redeemable participating preference shares (continued)

	Original PATF 2005 £	PATF 2 2005 £	Consolidated 2005 £	Consolidated 2004 £
(iii) Capital reserve				
Balance at 1 January	10,078,494	1,897,092	11,975,586	3,443,619
Total gains on investments transferred from accumulated losses	12,343,277	8,198,147	20,541,424	9,527,288
Transfer to accumulated losses on closure of sub fund	-	-	-	(995,321)
Balance at 31 December	<u>22,421,771</u>	<u>10,095,239</u>	<u>32,517,010</u>	<u>11,975,586</u>

11 Premium commitments

Total premiums due on policies held by the Fund at 31 December 2005, falling due within 12 months were £8,001,838 (2004: £5,368,239).

12 Risk exposure

a) Foreign currency exposure

Currency risk arises where financial instruments are denominated in a currency different from the base currency of the fund. All assets of the fund are held in Sterling, therefore the fund's exposure to currency risk is:

	2005 £	% of net assets	2004 £	% of net assets
Euro	35,247,466	13.94	12,677,844	9.07
Dollar	45,063,004	17.83	19,598,038	14.01

At 31 December 2005 and 31 December 2004, forward currency contracts were in place for each non-sterling class of shareholder.

b) Forward contracts

The fund enters into forward Euro and US Dollar currency contracts to protect the Euro and Dollar interests in the fund.

The Protected Asset TEP Fund Plc

Notes to the financial statements for the year ended 31 December 2005

12 Risk exposure (continued)

At 31 December 2005 (15 December 2005 for PATF 2), the fund held outstanding forward contracts as set out below.

Purchase Currency	Contractual amount	Sale Currency	Contractual amount	Maturity Date	Unrealised gain/(loss)
EUR	21,398,066	£	14,664,496	29/12/05	(247,257)
EUR	27,869,644	£	18,830,777	11/01/06	289,451
US\$	32,575,908	£	18,953,807	29/12/05	(577,371)
US\$	44,189,375	£	25,286,111	11/01/06	250,976
					<u>(284,201)</u>

At 31 December 2004, the Fund held outstanding forward contracts as set out below.

Purchase Currency	Contractual amount	Sale Currency	Contractual amount	Maturity Date	Unrealised gain/(loss)
EUR	5,023,041	£	4,326,256	22/12/04	(63,194)
EUR	11,979,790	£	8,346,017	12/01/05	135,250
US\$	9,468,875	£	5,051,009	22/12/04	(142,058)
US\$	26,825,198	£	14,040,637	12/01/05	(117,042)
					<u>(187,044)</u>

c) Interest rates

Bank borrowings are linked to Bank of England base rates therefore the cost of borrowing is dependent upon movements in that rate.

d) Market risk

Price risk arises from the Fund's investments in TEPs. The values assigned to the policies (as described in note 1) are dependent on future bonuses paid by life companies, which depends on market conditions prevalent as the policies mature.

In addition market risk arises over a life company's ability to pay guaranteed sums and future bonuses.

13 Controlling party and related party transactions

The controlling shareholder is T.I.S. Group Limited ("TIS"). TIS control all of the management shares which have no interest in the assets of the Fund. Only holders of management shares are entitled to vote at general meetings, save where a special resolution is passed to wind up the Fund or to alter the rights attaching to shares. At 31 December 2005 TIS owned 100,000 (2004: 100,000) of the participating redeemable preference shares. The shares were acquired during the initial offer period and were subscribed for at the offer price.

The Protected Asset TEP Fund Plc

Notes to the financial statements for the year ended 31 December 2005

13 Controlling party and related party transactions (continued)

TIS have been appointed as the policy provider to the Company under the terms of an agreement dated 14 December 2000. During the year TIS supplied policies to the Company to a value of £79,662,103 (2004: £100,096,092). TIS does not charge the Company a fee for supplying TEPs. The agreement may be terminated by the Company by giving 12 months notice or by TIS giving not less than 6 months notice.

The Company has also entered into a Policy Administration Agreement with TEP Management Services Limited ("TMS") dated 14 December 2000. TMS is a wholly owned subsidiary of TIS. During the year TMS has received fees totalling £1,565,969 (2004: £639,606) in respect of administrative services. The agreement may be terminated by the Company giving 12 months notice or by TMS giving not less than 6 months notice. In addition to being a director of the fund, Lee Portnoi is a director and shareholder of TIS Group Limited and TEP Management Services Limited. Professor Robert Michael Abbey is a director of both TIS Group Limited and TEP Management Services Limited.

The Company entered into a Promoter Agreement with Protected Distribution Limited on 20 January 2004. In addition to being a director of the Company, Lee Portnoi also has an indirect interest in the Promoter. The fees payable to the Promoter for the current and prior years are set out in note 7.

In addition to being secretary or director of the Company during the year, Andrew Ashworth and Christopher Talavera are directors of the administrator, Abacus Financial Services Limited ("AFSL"). Christopher Talavera is also a shareholder of the administrator's holding company, Abacus Holdings Limited. During the year AFSL received administration fees totalling £421,725 (2004: £156,640) under the terms of an agreement dated 14 December 2000. The agreement may be terminated by either the Company or the administrator by giving not less than 3 months notice.

During the year the Original Sub Fund has invested £9,140,000 into Protected Capital Growth Fund Plc ("PCGF"). As an incentive to invest into PCGF the fund received a 7% enhancement fee in the form of extra units in PCGF. The total value of the enhancement at the year end was £639,800. The enhancement has not been recognised in full in the current year as the fund would incur redemption penalties of a similar level if it was to withdraw from the investment. The enhancement is being recognised as an unrealised gain through the Income Statement over a period of 5 years, which is the period over which redemption penalties would be payable (as explained in note 3).

In addition to being directors of the Company during the year Professor Abbey, Earl Cowley, Alex Foley and Lee Portnoi are directors of PCGF.

The Protected Asset TEP Fund Plc

Notes to the financial statements
for the year ended 31 December 2005

13 Controlling party and related party transactions (continued)

The administrator of the Company, AFSL, also acts as administrator for PCGF. A fee is paid from PCGC and from the Original fund to meet the cost of administration in each fund. TIS Group Limited, TEP Management Services Limited and Protected Distribution Limited act as policy provider, policy administrator and promoter respectively for the Company and for PCGF. Fees are not paid to the policy provider for the provision of policies. The fee to the policy administrator is adjusted so that fees are not paid twice with regard to the same investment. Fees are not paid to the promoter for the Original Sub Fund.

The Protected Asset TEP Fund Plc

Independent auditor's report to the directors of The Protected Asset TEP Fund Plc on the Statement of Net Asset Value calculated in accordance with the Scheme Particulars dated 15 June 2005 and 1 July 2005 ("the Statement")

We have examined the Statement set out on pages 38 to 39.

Respective responsibilities of directors and auditors

As described on page 7 the directors are responsible for the preparation of the financial statements. The directors are also responsible for the preparation of the Statement in accordance with the Scheme Particulars dated 15 June 2005 and 1 July 2005. Our responsibility is to examine the Statement and to report our opinion in accordance with our letter of engagement dated 2 March 2006.

Basis of opinion

Our opinion is based solely on our examination of the Statement set out on pages 38 and 39 and of the adjustments required to calculate the respective Net Asset Values of the Protected Asset TEP Fund Plc Sub-Fund and the Protected Asset TEP Fund No.2 Sub-Fund as set out in the Scheme Particulars dated 1 June 2005 and 1 July 2005 respectively.

Opinion

In our opinion the figures given in the Statement have been correctly extracted, where appropriate, from the Company's accounting records or financial statements on which our opinion is included on page 8 and 9 of the financial statements. The adjustments have been made in accordance with the Scheme Particulars and the calculations shown on the Statement have been correctly performed.

Deloitte & Touche
Chartered Accountants
Douglas
Isle of Man

4 April 2006

The Protected Asset TEP Fund Plc

Statement of Net Asset Value (NAV) as at 31 December 2005

	PATF 2005 £	PATF 2 2005 £
Net assets attributable to holders of redeemable participating preference shares – Audited balance sheet (page 14)	147,368,771	105,429,862
Adjustments in accordance with the Scheme Particulars (see notes):		
Unamortised preliminary expenses	7,586	9,796
Unamortised sales and marketing expenses	-	6,670,098
Share dealing 16 December 2005	-	(6,453,225)
Unrecognised enhancement for PCGF investment	602,694	-
	<u>147,979,051</u>	<u>105,656,531</u>
Number of shares in issue	<u>131,923,277</u>	<u>109,374,757</u>
NAV per share	<u>1.1217</u>	<u>0.9660</u>

Net assets attributable to

Original PATF	Total net assets £	Total net assets designated currency	Number of shares in issue	Nav per share
Sterling sub-fund	102,861,780	102,861,780	68,706,748	£1.4971
Euro sub-fund	19,322,279	28,164,154	24,424,322	€1.1531
Dollar sub-fund	25,794,992	44,635,655	38,792,207	\$1.1506
	<u>147,979,051</u>		<u>131,923,277</u>	

PATF 2	Total net assets £	Total net assets designated currency	Number of shares in issue	Nav per share
Sterling sub-fund	70,405,865	70,405,865	57,778,538	£1.2185
Euro sub-fund	15,465,967	22,954,588	20,408,789	€1.1247
Dollar sub-fund	19,784,699	35,072,335	31,187,430	\$1.1246
	<u>105,656,531</u>		<u>109,374,757</u>	

The total net assets, number of shares in issue and NAV per share for the PATF 2 Sub Fund are those as at 15 December 2005, as disclosed in the relevant Sub Fund's Statement of Net Asset Value. The financial statements were adjusted for share capital transactions (as disclosed in note 1).

The Protected Asset TEP Fund Plc

Statement of Net Asset Value (NAV) as at 31 December 2005

Notes

In accordance with the provisions of the Scheme Particulars:

Set up expenses

Fund set up expenses of the Fund on incorporation which amounted to £59,822 for Original PATF and £19,000 for PATF 2 are being amortised over the first five years on a straight line basis.

	Original PATF 2005 £	Original PATF 2004 £
Brought forward at 1 January	20,427	24,084
Additions	-	7,500
Amortisation for the year	(12,841)	(11,157)
	<u>7,586</u>	<u>20,427</u>
Unamortised net book value at 31 December	<u>7,586</u>	<u>20,427</u>

	PATF 2 2005 £	PATF 2 2004 £
Brought forward at 1 January	12,789	-
Additions	-	19,000
Amortisation for the year	(2,993)	(6,211)
	<u>9,796</u>	<u>12,789</u>
Unamortised net book value at 31 December	<u>9,796</u>	<u>12,789</u>

Sales and marketing expenses

Sales and marketing expenses paid are being amortised over five years on a straight line basis.

	PATF 2 2005 £	PATF 2 2004 £
Brought forward	2,543,358	105,020
Additions	5,406,531	2,729,514
Amortisation for the year	(1,279,791)	(291,176)
	<u>6,670,098</u>	<u>2,543,358</u>
Unamortised net book value at 31 December	<u>6,670,098</u>	<u>2,543,358</u>

