

TEP Exchange Group PLC

Proposed Subscription and Capital Reorganisation

Introduction

TEP Exchange plc (the "Company") announces the terms of a proposed subscription for New Ordinary Shares and warrants by SL and certain of its connected companies. SL is the Company's largest existing shareholder. In connection with the new issue, the Company is proposing to effect a capital reorganisation, resulting in a reduction in the nominal value of its ordinary share capital.

The Subscription is conditional, *inter alia*, upon Shareholders approving Resolutions 7.1 and 8.1 at the Annual General Meeting of the Company to approve the Capital Reorganisation and to grant to the Directors authority to allot shares and power to disapply statutory pre-emption rights on allotment and also upon the Subscription Shares being admitted to trading on AIM. The Resolutions are contained in a notice of AGM to be dispatched to shareholders shortly.

Background to and reasons for the Proposals

The economic environment over the last few years has been exceptionally challenging. Not only has this affected the market in traded endowment policies, but adverse comment regarding the performance of endowment policies as an asset class, has exacerbated the position. As a consequence, the Company's revenue has reduced significantly in the three financial years ended 31 December 2009. As announced previously, the Board has taken drastic action, materially reducing the Company's overheads to try to preserve Shareholder value and, with the support of the Company's largest Shareholders in recent years, has secured the Company's future by entering into licensing agreements in November 2010.

As set out in the Company's results for the year ended 31 December 2010, the Company generated £164,776 of revenue last year but incurred administrative expenses totalling £221,573 and finance costs of £29,661, resulting in a loss of £86,458 after tax for the year. The licensing arrangements, set out below, were entered into on 12 November 2010 and, therefore, the Company only had the benefit of approximately six weeks of the licence revenue in the last financial year. The Directors are confident that revenues will increase in the current financial year, as licence income continues, although there is a deficiency on the Company's balance sheet and this will persist until future licence income is received. However, there is likely to be a timing lag before cash is received. Accordingly, the Company has arranged the Subscription to fund its current short term working capital requirements. The proceeds of the Subscription Shares amount to approximately £80,000, after expenses.

The Directors have considered other ways of raising capital and strengthening the Company's balance sheet, and have concluded that the Proposals are the only means available to the Company of achieving this. The cost of funds raised through the Subscription will be substantially less than those associated with an open offer or rights issue to Shareholders, and such an offer would have had an uncertain outcome, in the light of SL's dominant shareholding in the Company. The Directors consider that it is essential that these resolutions are passed, so that the Subscription can proceed.

The Proposals are subject to the passing of the Resolutions at an AGM to be held on 3 November 2011.

Current trading

On 29 June 2011 the Company announced its final results for the year ended 31 December 2010. The loss before and after taxation was £86,458 compared to the loss before and after taxation of £215,009 in 2009. Despite the turmoil in the financial markets and the current limited demand for traded endowment policies the Company's trading performance in the current financial year has improved compared with 2010 primarily as a result of the income derived from the licence agreements with SL. The results for the six month period ended 30 June 2011 were announced today. Total revenue for the period was £518,000 (six month period ended 30 June 2010: £15,000), of which licence fee income amounted to £500,000 (six month period ended 30 June 2010: £nil). The Company achieved a profit from operations of £370,000, compared to a loss from operations of £79,000 in the same period last

year. The profit before and after taxation was £357,000, compared to a loss before and after taxation of £92,000 in the first six months of last year.

Capital Reorganisation

The Subscription Warrant Price is below the present nominal value of the Existing Ordinary Shares. Company law prohibits a company from issuing shares at a discount to the nominal, or par, value of its shares. Therefore, in order to carry out the Subscription, it is necessary to reduce the nominal value of the Company's shares. Accordingly, the Directors, propose to effect a share reorganisation so that each of the issued Deferred Shares of 0.99p in the capital of the Company will be sub-divided into 990 New Deferred Shares and each of the Existing Ordinary Shares of 0.01p will be subdivided and redesignated into one New Ordinary Share and nine New Deferred Shares.

The rights attaching to the Ordinary Shares will, apart from the change in nominal value and the entitlement of Shareholders in respect of a return of capital arising from them, be identical in all respects to those of the Existing Ordinary Shares.

The New Deferred Shares will have no voting rights and will not carry any entitlement to attend general meetings of the Company; nor will they be admitted to AIM or any other market. They will carry only a priority right to participate in any return of capital to the extent of £1 in aggregate over the class. In addition, they will carry only a priority right to participate in any dividend or other distribution to the extent of £1 in aggregate over the class. In each case, a payment to any one holder of New Deferred Shares shall satisfy the payment required. The Company will be authorised at any time to effect a transfer of the New Deferred Shares without reference to the holders thereof and for no consideration.

Accordingly, the New Deferred Shares will, for all practical purposes, be valueless and it is the Board's intention, at an appropriate time, to have the New Deferred Shares cancelled, whether through an application to the Companies Court or otherwise. Existing share certificates will continue to be valid following the Capital Reorganisation and no certificates will be issued in respect of the New Deferred Shares.

A notice of AGM, being dispatched to Shareholders as soon as practicable, contains resolutions to give effect inter alia to the proposed Capital Reorganisation, the Subscription, which are conditional, amongst other matters, on the passing of the Resolutions.

The Subscription

The Subscribers have agreed to subscribe for the Subscription Shares at 0.02p per share to raise £90,000 (gross) (approximately £80,000 (net of expenses)) for the benefit of the Company. The Subscription Shares will represent 52.94 per cent of the thereby enlarged issued ordinary share capital of the Company. The Subscribers will receive 10 Subscription Warrants for each Subscription Share. The Subscription Warrants will be exercisable at 0.002p per New Ordinary Share, representing a discount of 90 per cent. to the Subscription Price. The issue of New Ordinary Shares to the holders of the Subscription Warrants following the exercise would generate an additional £90,000 for the benefit of the Company. Accordingly, the Subscription is expected to generate up to £180,000 (gross of expenses) for the Company.

The Warrants may only be exercised if the Company and its wholly owned subsidiaries achieves average annual consolidated revenue of over £600,000 per annum over the three financial years ending 31 December 2013 or, if earlier, the Company and its wholly owned subsidiaries achieves consolidated revenue of at least £900,000 in each of the financial years ending 31 December 2011 and 31 December 2012.

In either case, the Company will have to have declared, made and paid dividends of at least £250,000 to all shareholders overall in respect of the period, before the Subscription Warrants may be exercised. The Subscription Warrants may only be exercised together as a whole and not in part.

Following the issue of the Subscription Shares, the Concert Party would hold 79.98 per cent. of the then enlarged ordinary share capital, so the minority shareholders would receive 20.02 per cent of the dividends of £250,000 referred to above. Following the exercise of the Subscription Warrants, a further 4,500,000 New Ordinary Shares would be issued to the Concert Party, which would then hold

96.82 per cent of the then enlarged issued share capital. In the event that the Subscription Warrants are exercised the Company would offer to purchase the outstanding shares owned by the minority shareholders and would also consider, at that time whether it was appropriate for the Ordinary Shares to remain admitted to trading on AIM.

The Company will seek authority at the AGM to purchase its own shares and the Board intends to propose a renewal of that authority on an annual basis.

The Subscription is conditional, *inter alia*, upon the Capital Reorganisation being effected and Admission. It is expected that Admission will become effective and dealings in the Subscription Shares and the issued New Ordinary Shares will commence on 4 November 2011.

The Subscription Shares, when issued and fully paid, will rank equally in all respects with the issued New Ordinary Shares, including the right to receive all dividends and other distributions declared, made or paid after issue.

Shareholder participation in the Subscription

Certain substantial Shareholders in the Company have agreed to subscribe for the Subscription Shares. The respective subscriptions, together with the resultant holdings in the enlarged issued share capital are as follows:

	No. of Subscription Shares	Shareholding following Admission	Percentage holding of enlarged issued share capital
SL Investment Management Limited	215,000,000	408,032,798	48.00
Close Horizons Limited	85,000,000	186,833,333	21.98

Under the AIM Rules, the Subscription is classified as a related party transaction. The Independent Directors (being the directors of the Company other than David Roxburgh who is a director of SL) have consulted with Merchant Securities Limited in its capacity as the Company's nominated adviser and consider the terms of the Proposals to be fair and reasonable insofar as Shareholders are concerned. In advising the Independent Directors, Merchant Securities Limited has relied upon the commercial assessment of the Independent Directors.

Licensing arrangements

As stated previously, the Directors are of the view that the Company's electronic platform is still a cost effective method for market makers to source policies, particularly direct from the public and in addition, the technology can be utilised for trading in other assets particularly within the financial services sector. With this in mind the Directors have negotiated for the Company to receive quarterly fees from licensing the electronic platform and all the technology to SL. The Company will continue to be able to utilise the electronic platform in order that market makers can continue to source traded endowment policies.

On 12 November 2010 the Company entered into a non-exclusive licence agreement with SL to licence its electronic platform and all technology to SL. In consideration for this arrangement, the Company is receiving a quarterly fee of £20,000 plus VAT. In addition, SL was granted exclusive rights to develop and modify the electronic platform for a quarterly fee payable to the Company of £230,000 plus VAT ("the Licence Agreement") to enable SL to put additional financial products on to the platform. The Licence Agreement is for a period of 10 years; however, SL may terminate the agreement on 30 April 2012 and every subsequent 30 April during the life of the contract on giving 30 days' prior written notice to the Company, in the event that the income generated by SL from the licence in the preceding 12 months is less than £250,000.

In addition, TEP Exchange Limited (the trading subsidiary of the Company) has entered into a 12 month non-exclusive licence with SL (the Sub-Licence) to utilise the electronic platform for a quarterly fee of £25,000 plus VAT. The Sub-Licence can be renewed annually at the sole discretion of SL. The Sub-Licence provides TEP Exchange Limited with access to any developments or modifications made by SL to the electronic platform for traded endowment policies.

The net effect of these licensing arrangements, unless terminated as set out above, is to provide annual income to the Company of £900,000.

At the end of June 2011, the Company owed the sum of £379,000 to SL in respect of loan funding. The loan is repayable on demand and interest is charged at 6 per cent per annum. The loan is unsecured. It is the current intention of the Directors that part of the proceeds of the Subscription will be utilised in partially discharging the amount owed to SL.

Takeover Code Implications

Two of the Company's major shareholders, SL and CH and also PA, which is not currently a Shareholder, are deemed, for the purposes of the Code to be acting in concert (together the "Concert Party") SL and CH hold 193,032,798 and 36,833,333 Ordinary Shares respectively, equivalent to 48.26 per cent and 9.21 per cent respectively of the Company's share capital. Since SL's shareholding is more than 30 per cent and less than 50 per cent of the issued voting share capital of the Company, the acquisition of any more shares in the Company would normally result in the requirement for it to make a mandatory offer in accordance with Rule 9 of the Code ("Rule 9"). Accordingly, SL would usually seek to obtain shareholder approval for a waiver of the obligations under Rule 9.

In March 2007, Shareholders approved, on a poll, a waiver of the obligations of Rule 9 of the Code, permitting the Concert Party to participate in a placing and open offer carried out by the Company. Shareholders approved the waiver up to the potential maximum shareholdings of 211,261,557 Ordinary Shares and 20,833,333 Ordinary Shares for SL and CH respectively, equivalent to 52.82 per cent and 5.21 per cent of the then enlarged share capital of the Company, respectively. SL is a wholly owned subsidiary of Portfolio Design Group International Limited and the ultimate shareholders of Portfolio Design Group International Limited and CH are principally the same entities and persons.

Following completion of the placing and open offer referred to in the paragraph immediately above, SL and CH held 209,032,798 and 20,833,333 Ordinary Shares respectively, equivalent to 52.26 per cent and 5.21 per cent of the issued voting share capital of the Company and the Concert Party held, in aggregate, 229,866,131 Ordinary Shares, equivalent to 57.47 per cent of the issued voting share capital of the Company. Accordingly, both Portfolio Design Group International Limited and the Concert Party became interested in Ordinary Shares carrying more than 50 per cent. of the voting rights of the Company, with the result that, for as long as they continue to be treated as acting in concert, both Portfolio Design Group International Limited and the Concert Party would be able to acquire further Ordinary Shares, without incurring an obligation to make an offer to Shareholders under Rule 9, although CH would not be able to increase its percentage interests in Ordinary Shares through 30 per cent without incurring such an obligation.

In December 2007, SL sold 16,000,000 Ordinary shares to CH. The holding of the Concert Party remained unchanged, but SL's shareholding fell to less than 50 per cent of the issued voting share capital of the Company. In such circumstances, SL would normally be unable to acquire additional Ordinary Shares, without incurring an obligation to make a general offer under Rule 9. However, in view of the commonality of the ultimate shareholders of Portfolio Design Group International Limited, the parent company of SL, and CH, described in the second paragraph of this section, the ultimate controllers, being the shareholders of Portfolio Design Group International Limited, are deemed to have continued to exercise effective control over more than 50 per cent of the issued voting share capital of the Company since March 2007. Accordingly, SL is free to participate in the Subscription and exercise the Warrants, without incurring any obligation under Rule 9.

The Concert Party Shareholding at Admission and following exercise of the Subscription Warrants, assuming that no other Ordinary Shares have been issued by the Company, are as follows:

At Admission		Maximum holding following exercise of the Subscription Warrants	
Number of Ordinary	Percentage of enlarged issued	Number of Ordinary	Percentage of enlarged issued ordinary

	Shares	share capital	Shares	share capital
SL Investment Management Limited	408,032,798	48.00	2,558,032,798	47.81
Close Horizons Limited	186,833,333	21.98	1,536,833,333	28.73
Preferred Asset Management Limited	85,000,000	10.00	1,085,000,000	20.28
Totals	<u>679,866,131</u>	<u>79.98</u>	<u>5,179,866,131</u>	<u>96.82</u>

Annual General Meeting

A notice convening the AGM to be held at the offices of Merchant Securities Limited, 51-55 Gresham Street, London EC2V 7HQ at 11 a.m. on 3 November 2011 will be dispatched to shareholders as soon as practicable.

Further enquiries:

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DEFINITIONS

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

"2012 AGM"	the annual general meeting of the Company to take place in 2012
"Admission"	admission of the resulting New Ordinary Shares to trading on AIM
"Annual General Meeting" or "AGM"	the annual general meeting of the Company convened for 3 November 2011 pursuant to the Notice of AGM
"Articles"	the articles of association of the Company in force at the date of this document
"Board" or "Directors"	the directors of the Company as at the date of this announcement
"Capital Reorganisation"	the proposed subdivision of each Existing Ordinary Share into 1 New Ordinary Share and 9 New Deferred Shares
"CH"	Close Horizons Limited
"City Code"	The City Code on Takeovers and Mergers
"Company"	TEP Exchange Group PLC
"Concert Party"	SL Investment Management Limited, Close Horizons Limited and Preferred Asset Management Limited
"Existing Ordinary Shares"	the 399,999,999 issued ordinary shares of 0.01p each in the capital of the Company
"Form of Proxy"	the form of proxy accompanying this Shareholder circular for use in connection with the Annual General Meeting
"Independent Directors"	George Kynoch, Moses Kraus and Abraham Weitz
"New Deferred Shares"	deferred shares of 0.001p each in the capital of the Company following the Capital Reorganisation
"New Ordinary Shares"	ordinary shares of 0.001p each in the capital of the Company following the Capital Reorganisation
"Notice of AGM"	the notice of Annual General Meeting which will be set out in the circular to Shareholder
"PA"	Preferred Asset Management Limited
"Proposals"	the Capital Reorganisation and the Subscription
"Resolutions"	resolutions 5, 7.1 and 8.1 in the Notice of AGM
"Shareholders"	holders of Existing Ordinary Shares
"SL"	SL Investment Management Limited
"Subscribers"	SL Investment Management Limited, Close Horizons Limited and Preferred Asset Management Limited
"Subscription"	the Subscription by the Subscribers for the Subscription Shares
"Subscription Share Price"	0.02p per Share
"Subscription Shares"	the 450,000,000 New Ordinary Shares to be issued by the Company pursuant to the Subscription
"Subscription Warrants"	the warrants to subscribe for 4,500,000,000 New Ordinary Shares at 0.002p to be issued by the Company to the Subscribers pursuant to the Subscription
"Subscription Warrant Price"	0.002p per Share