The TEP Exchange

TEP Exchange Group PLC

Report and Financial Statements

for the year ended 31 December 2009

Contents and company details

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 LLP
55 Baker Street
London W1U 7EU

Registrars

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

Nominated adviser and broker

Merchant Securities Limited
51-55 Gresham Street
London EC2V 7HQ

Bankers

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

Chairman's statement

I am duly reporting the results for the year ended 31 December 2009. Revenue for the year totalled £10,334 (2008 – £438,858) resulting in a loss from operations of £205,840 (2008 – £198,310). The loss before and after taxation was £215,009 compared to the loss before and after taxation of £217,606 in 2008. The basic loss per share was 0.05 pence which was the same basic loss per share as incurred in 2008.

Revenue decreased significantly in 2009 compared with 2008 due to the extremely challenging market conditions in the traded endowment policy market. The turmoil in the financial markets which commenced in the second half of 2008 resulted in a dramatic drop in demand for traded endowment policies from market makers during 2009. Since the end of 2009 there has been a modest increase in demand for traded endowment policies from market makers.

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 are currently in the final stages of negotiations for the Company to receive quarterly fees from licensing the electronic platform and all the technology to SL Investment Management Limited (a 48.26 per cent. shareholder in the Company). It is intended that TEP Exchange Limited will continue to be able to utilise the electronic platform in order that market makers can continue to source traded endowment policies.

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

On behalf of the Board I want to express my sincere appreciation to Paul Sands for his professionalism, guidance and work ethic over the past 9 years as a director of the Company. Paul has decided to retire from the Board and not to offer himself for re-election at the forthcoming Annual General Meeting of the Company. I am happy to report the Board is intending for David Roxburgh to assume the position of Managing Director of the Company on the retirement of Paul.

G Kynoch
Chairman

3 September 2010

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 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 2009 through regular Board meetings. A formal review of internal controls is scheduled for 2010.

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 2009

The Directors present their report together with the audited financial statements for the year ended 31 December 2009.

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 2007 the Company undertook a share restructuring programme, details of which are given in note 15.

Details of the principal risks and financial instruments are disclosed in note 17. Details of the going concern basis of preparation are given below.

Results and dividends

The consolidated statement of comprehensive income is on page 13 and shows the result for the year. The Directors do not recommend the payment of a dividend (2008 – 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 held at:

	31 December 2009		31 December 2008	
	Number	%	Number	%
M Kraus	22,034,698*	5.51	22,034,698*	5.51
A Weitz	10,000,000**	2.50	10,000,000**	2.50
P Sands	–	–	–	–
G Kynoch	468,241	0.12	468,241	0.12
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% shareholding in PINVEX Limited which holds 10,000,000 ordinary shares in the Company.

Deferred shares of 0.99p each held at:

	31 December 2009		31 December 2008	
	Number	%	Number	%
M Kraus	22,034,698	9.81	22,034,698	9.81
A Weitz	–	–	–	–
P Sands	–	–	–	–
G Kynoch	324,167	0.14	324,167	0.14
D Roxburgh	–	–	–	–

P Sands retires by rotation in accordance with the Articles of Association and has decided not to offer himself for re election. The terms of the Directors' service contracts or terms of engagement are set out below. M Kraus, G Kynoch and A Weitz 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 2009	31 December 2008
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% 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).

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 63, 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 ToLuna Plc and a Non-Executive Director of Talent Group Plc, both of which are admitted to trading on AIM.

Abraham Weitz (Non-Executive Director), aged 45, 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 52, 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 25 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 46, 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% shareholding in Portfolio Design Group International Limited (the parent company of SL Investment Management Limited, formerly 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.

Paul Sands (Managing Director), aged 67, 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 SL Investment Management 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 SL Investment Management 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% or more in the Company's issued ordinary share capital at 31 December 2009:

Name	Ordinary shares	Percentage of ordinary shares
SL Investment Management Limited (formerly Surrenda-link Limited)	193,032,798	48.26%
Strategic German Investments Limited	40,000,000	10.00%
Close Horizons Limited	36,833,333	9.21%
Mr Urs Kranz	18,909,698	4.73%
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% 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 0.20p; the highest and lowest share prices during the year were 0.37p and 0.15p 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 2009 was 84 days (2008 – 59 days).

Going concern

During the year ended 31 December 2009 the Group incurred a loss of £215,009 (2008 – £217,606) and at 31 December 2009 had net liabilities of £641,988 (2008 – £426,979).

The Group relies on support from SL Investment Management Limited (48.26% shareholder in the Company). The Directors have recently agreed with SL Investment Management Limited that the repayment of the loan in the amount of £363,000 will not be repaid before 31 March 2011 unless otherwise agreed by both parties.

In 2010 the Directors are anticipating increased demand for traded endowment policies from market markers particularly from SL Investment Management Limited. In addition, the Directors are currently in the final stages of negotiations for the Company to receive quarterly fees from licensing the electronic platform and all the technology to SL Investment Management Limited. Accordingly, the Directors are anticipating improved trading results for the period up to 30 June 2011 and have projected cash flow information which show creditors can be paid out of cash flow. The projected cash flow information assumes that the total amount due at 31 December 2009 to HM Revenue & Customs of £165,026 will be paid over a period of 9 months from February 2010, in accordance with the written agreement with HM Revenue & Customs. Should the new licensing fee agreement not be completed as anticipated, the company will need to raise funds from other sources.

On the basis of the above, and all other available information, the Directors consider that the Group will be able to operate within the cash flow forecasts and therefore it is appropriate to prepare the financial statements on the going concern basis.

These conditions indicate the existence of a material uncertainty which may cast significant doubt about the Company's ability to continue as a going concern. The financial statements do not include any adjustments that would result from the going concern basis of preparation being inappropriate.

Directors' responsibilities

The directors are responsible for preparing the director's report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the Group and Company financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Company and of the profit or loss of the Group and Company for that period. The directors are also required to prepare financial statements in accordance with the rules of the London Stock Exchange for companies trading securities on the Alternative Investment Market.

Report of the Directors

continued

Directors' responsibilities continued

In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRSs as adopted by the European Union, subject to any material departures disclosed and explained in the financial statements; 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 adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the requirements of the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Website publication

The directors are responsible for ensuring the annual report and the financial statements are made available on a website. Financial statements are published on the Company'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 Company'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 LLP has 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 September 2010

Independent auditors' report

to the members of TEP Exchange Group PLC

We have audited the financial statements of TEP Exchange Group PLC for the year ended 31 December 2009 which comprise the consolidated statement of comprehensive income, the consolidated and Company statements of changes in equity, the consolidated and Company statement of financial positions, the consolidated and Company statement of cash flow and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. 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 auditor's 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

As explained more fully in the statement of directors' responsibilities, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's and the Parent Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements.

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and the Parent Company's affairs as at 31 December 2009 and of the Group's loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the Parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Independent auditors' report

to the members of TEP Exchange Group PLC continued

Emphasis of matter – going concern

In forming our opinion on the financial statements, which is not qualified, we have considered the adequacy of the disclosures made in note 1 to the financial statements concerning the Company's ability to continue as a going concern. The directors have agreed a package of financial support with a major shareholder of the company, however, in their view; going concern is also dependent on improved trading results and the agreement to receive quarterly fees for licensing the electronic platform and technology. These conditions indicate the existence of a material uncertainty which may cast significant doubt about the Company's ability to continue as a going concern. The financial statements do not include any adjustments that would be necessary if the company was unable to continue as a going concern.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Parent Company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Neil Fung-On (senior statutory auditor)
For and on behalf of BDO LLP, statutory auditor
London
United Kingdom

3 September 2010

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

Consolidated statement of comprehensive income

for the year ended 31 December 2009

	Note	2009 £	2008 £
Revenue	2	10,334	438,858
Administrative expenses		(216,174)	(637,168)
Loss from operations	4	(205,840)	(198,310)
Finance income	5	–	1,606
Finance costs	5	(9,169)	(20,902)
Loss before tax		(215,009)	(217,606)
Tax expense	7	–	–
Loss attributable to the equity holders of the parent and total comprehensive income for the year		(215,009)	(217,606)
Loss per share			
Basic and diluted loss per share	9	(0.05)p	(0.05)p

The notes on pages 19 to 31 form part of these financial statements.

Statements of changes in equity

for the year ended 31 December 2009

Consolidated	Share capital £	Share premium £	Accumulated losses £	Total £
At 1 January 2008	2,262,980	3,951,948	(6,424,301)	(209,373)
Total comprehensive income for the year	–	–	(217,606)	(217,606)
At 1 January 2009	2,262,980	3,951,948	(6,641,907)	(426,979)
Total comprehensive income for the year	–	–	(215,009)	(215,009)
At 31 December 2009	2,262,980	3,951,948	(6,856,916)	(641,988)

Company	Share capital £	Share premium £	Accumulated losses £	Total £
At 1 January 2008	2,262,980	3,951,948	(7,791,656)	(1,576,728)
Total comprehensive income for the year	–	–	(625,689)	(625,689)
At 1 January 2009	2,262,980	3,951,948	(8,417,345)	(2,202,417)
Total comprehensive income for the year	–	–	(222,244)	(222,244)
At 31 December 2009	2,262,980	3,951,948	(8,639,589)	(2,424,661)

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 31 form part of these financial statements.

Consolidated statement of financial position

at 31 December 2009

	Note	2009 £	2009 £	2008 £	2008 £
Assets					
Non-current assets					
Property, plant and equipment	10		–		–
Total non-current assets			–		–
Current assets					
Inventories	12	3,285		3,165	
Trade and other receivables	13	22,750		67,972	
Cash and cash equivalents		2,345		29,048	
Total current assets			28,380		100,185
Total assets			28,380		100,185
Liabilities					
Current liabilities					
Other borrowings	16	(363,000)		–	
Trade and other payables	14	(307,368)		(255,540)	
Total current liabilities		(670,368)		(255,540)	
Non-current liabilities					
Trade payables	16	–		(271,624)	
Total liabilities			(670,368)		(527,164)
Net liabilities			(641,988)		(426,979)
Equity attributable to equity holders of the parent					
Share capital	15		2,262,980		2,262,980
Share premium reserve			3,951,948		3,951,948
Accumulated losses			(6,856,916)		(6,641,907)
Total equity deficit			(641,988)		(426,979)

The financial statements were approved by the Board of Directors and authorised for issue on 3 September 2010.

G Kynoch
Chairman

D Roxburgh
Director

Company number 3877125

The notes on pages 19 to 31 form part of these financial statements.

Company statement of financial position

at 31 December 2009

	Note	2009 £	2009 £	2008 £	2008 £
Assets					
Non-current assets					
Property, plant and equipment	10		–		–
Investments in subsidiary undertakings	11		100,006		100,006
			100,006		100,006
Current assets					
Trade and other receivables	13		194,356		235,284
Cash and cash equivalents			2,175		–
Total assets			296,537		335,290
Liabilities					
Current liabilities					
Other borrowings	16	(363,000)		–	
Trade and other payables	14	(2,358,198)		(2,266,083)	
Total current liabilities		(2,721,198)		(2,266,083)	
Non-current liabilities					
Trade payables	16	–		(271,624)	
Total liabilities			(2,721,198)		(2,537,707)
Net liabilities			(2,424,661)		(2,202,417)
Equity attributable to equity holders of the parent					
Share capital	15		2,262,980		2,262,980
Share premium reserve			3,951,948		3,951,948
Accumulated losses			(8,639,589)		(8,417,345)
Total equity deficit			(2,424,661)		(2,202,417)

The financial statements were approved by the Board of Directors and authorised for issue on 3 September 2010.

G Kynoch
Chairman

D Roxburgh
Director

Company number 3877125

The notes on pages 19 to 31 form part of these financial statements.

Consolidated statement of cash flow

for the year ended 31 December 2009

	2009 £	2009 £	2008 £	2008 £
Operating activities				
Loss before taxation		(215,009)		(217,606)
Finance income		–		(1,606)
Finance costs		9,169		20,902
Loss from operations before changes in working capital		(205,840)		(198,310)
Increase in inventories		(120)		(115)
Decrease in trade and other receivables		45,222		191,472
(Decrease)/increase in trade and other payables		(219,796)		93,274
Cash (used)/generated by operating activities		(380,534)		86,321
Investing activities				
Interest received		–		1,606
Financing activities				
Increase in borrowings	363,000		–	
Repayment of borrowings	–		(73,143)	
Interest paid	(9,169)		(23,710)	
Net cash inflow/(outflow) from financing activities		353,831		(96,853)
Decrease in cash and cash equivalents		(26,703)		(8,926)
Cash and cash equivalents at beginning of year		29,048		37,974
Cash and cash equivalents at the end of year		2,345		29,048
Cash and cash equivalents comprise:				
Cash available on demand		2,345		29,048

The notes on pages 19 to 31 form part of these financial statements.

Company statement of cash flow

for the year ended 31 December 2009

	2009 £	2009 £	2008 £	2008 £
Operating activities				
Loss before taxation		(222,244)		(625,689)
Finance income		–		(1,606)
Finance costs		9,169		20,902
Loss from operations before changes in working capital		(213,075)		(606,093)
Decrease in trade and other receivables		40,928		26,601
(Decrease)/increase in trade and other payables		(179,509)		675,109
Cash (used)/generated by operating activities		(351,656)		95,317
Investing activities				
Interest received		–		1,606
Financing activities				
Increase in borrowings	363,000		–	
Repayment of borrowings	–		(73,143)	
Interest paid	(9,169)		(23,710)	
Net cash inflow/(outflow) from financing activities		353,831		(96,853)
Increase in cash and cash equivalents		2,175		70
Cash and cash equivalents at beginning of year		–		(70)
Cash and cash equivalents at the end of year		2,175		–
Cash and cash equivalents comprise:				
Cash available on demand		2,175		–

The notes on pages 19 to 31 form part of these financial statements.

Notes forming part of the financial statements

for the year ended 31 December 2009

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 2006 applicable to those companies preparing their accounts under IFRS.

During the year, the Directors have adopted IAS 1 Presentation of Financial Statements (2007), and IFRS 8, Operating Segments, neither of which had a significant impact on the results.

Standards, amendments and interpretations to published standards not yet effective

At the date of authorisation of these consolidated financial statements, the IASB and IFRIC have issued the following standards and interpretations which are effective for annual accounting periods beginning on or after the stated effective date. These standards and interpretations have been endorsed by the EU unless otherwise stated and interpretations are not effective for and have not been applied in the preparation of these consolidated financial statements:

- IAS 27: Consolidated and Separate Financial Statements (Amended) (effective as of 1 July 2009).
- IFRS 2: Share-Based Payments: Vesting conditions and Cancellations (Amended) (effective as of 1 January 2009).
- IFRS 3: Business Combinations (Revised) (effective as of 1 July 2009) includes an amendment to the treatment of minority interests (renamed non-controlling interests), amendments to the calculation of goodwill, a change to the method of accounting for acquisitions in stages, amendment to the accounting for contingent consideration and changes to the recognition and measurement of certain assets and liabilities.
- IFRS 9: Financial instruments (effective as of 1 January 2013 – not yet endorsed by the EU).
- IFRIC Interpretation 13: Customer Loyalty Programmes (effective as of 1 July 2009).
- IFRIC Interpretation 14: The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (effective as of 1 July 2009).
- Amendment to IFRIC 14: Prepayments of a Minimum Funding Requirement (effective as of 1 January 2011, not yet endorsed by the EU).
- IFRIC Interpretation 16: Hedges of a Net Investment in a Foreign Operation (effective as of 1 October 2009).
- IFRIC Interpretation 17: Distributions of non-cash assets to owners (effective 1 July 2009).
- IFRIC Interpretation 18: Transfers of assets from customers (effective 1 July 2009).
- IFRIC Interpretation 19: Extinguishing Financial Liabilities with Equity Instruments (effective as of 1 July 2010, not yet endorsed by the EU).
- Eligible Hedged Items (Amendment to IAS 39 Financial Instruments: Recognition and Measurement). Entities shall apply the amendment retrospectively for annual periods beginning on or after 1 July 2009.
- Amendments to IFRIC 9 and IAS 39: Embedded Derivatives (effective as of 30 June 2009).
- Improvements to IFRSs (effective date is various, earliest is as of 1 January 2010, not yet endorsed by the EU).
- Amendment to IFRS 2: Group Cash-settled Share-based Payment Transactions (effective as of 1 January 2010).
- Amendment to IAS 32: Classification of Rights Issues (effective as of 1 February 2010).
- Revised IAS 24: Related-Party Disclosures (effective as of 1 January 2011, not yet endorsed by the EU).

The directors anticipate that the adoption of these standards and interpretations will not have a material impact on the Group's financial statements in the period of initial adoption.

Notes forming part of the financial statements

continued

1 Accounting policies continued

Going concern

During the year ended 31 December 2009 the Group incurred a loss of £215,009 (2008 – £217,606) and at 31 December 2009 had net liabilities of £641,988 (2008 – £426,979).

The Group relies on support from SL Investment Management Limited (48.26% shareholder in the Company). The Directors have recently agreed with SL Investment Management Limited that the repayment of the loan in the amount of £363,000 will not be repaid before 31 March 2011 unless otherwise agreed by both parties.

In 2010 the Directors are anticipating increased demand for traded endowment policies from market markers particularly from SL Investment Management Limited. In addition, the Directors are currently in the final stages of negotiations for the Company to receive quarterly fees from licensing the electronic platform and all the technology to SL Investment Management Limited. Accordingly, the Directors are anticipating improved trading results for the period up to 30 June 2011 and have projected cash flow information which show creditors can be paid out of cash flow. The projected cash flow information assumes that the total amount due at 31 December 2009 to HM Revenue & Customs of £165,026 will be paid over a period of 9 months from February 2010, in accordance with the written agreement with HM Revenue & Customs. Should the new licensing fee agreement not be completed as anticipated, the company will need raise funds from other sources.

On the basis of the above, and all other available information, the Directors consider that the Group will be able to operate within the cash flow forecasts and therefore it is appropriate to prepare the financial statements on the going concern basis.

These conditions indicate the existence of a material uncertainty which may cast significant doubt about the Company's ability to continue as a going concern. The financial statements do not include any adjustments that would result from the going concern basis of preparation being inappropriate.

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.

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 statement of comprehensive income on a straight-line basis over the term of the rental agreement.

Notes forming part of the financial statements

continued

1 Accounting policies continued

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 statement of comprehensive income. 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 statement of financial position. 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 statement of financial position.

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 statement of financial position. 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.

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 Groups ordinary and deferred shares are classified as equity instruments.

Investments in subsidiary undertakings

Investments in subsidiary undertakings are held as non-current assets and are stated at cost less provision for impairment in value.

Notes forming part of the financial statements

continued

1 Accounting policies continued

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.

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 statement of financial position date.

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 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.

Provisions

Provisions are recognised for liabilities of uncertain timing or amount that have arisen as a result of past transactions and are discounted at a pre-tax rate reflecting current market assessments of the time value of money and the risks specific to the liability.

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:

Notes forming part of the financial statements

continued

1 Accounting policies continued

Significant accounting judgments, estimates and assumptions continued

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.

Going concern

Details of the assumptions made in adopting the going concern basis of preparation are disclosed on page 20.

2 Revenue

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

Transactions with major customers are disclosed in note 16.

The Company had no trading revenue for the year (2008 – £Nil).

3 Staff costs

Group

Staff costs, including directors, consist of:

	2009 £	2008 £
Fees and remuneration for management services	22,200	22,200

The Group had no employees other than the executive director.

4 Loss from operations

Group

Loss from operations is stated after charging:

	2009 £	2008 £
Audit fees – audit of the Group financial statements	12,360	12,000
Audit fees – audit of subsidiaries	4,275	4,150

Notes forming part of the financial statements

continued

5 Finance income and expenses

Group and Company

	2009 £	2008 £
Bank interest receivable	–	1,606
Interest payable on other borrowings and trade payables	9,169	20,902

6 Directors

Group and Company

Directors' emoluments consist of:

	2009 £	2008 £
Fees and remuneration for management services – total	22,200	22,200

No pension contributions were made in respect of the directors (2008 – Nil). The key management personnel of the Group are the board of directors and their compensation is disclosed above.

7 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:

	2009 £	2008 £
Loss on ordinary activities before income tax	(215,009)	(217,606)
Loss on ordinary activities before income tax multiplied by the standard rate of UK corporation tax of 28.0% (2008 – 28.5%)	(60,203)	(62,018)
Tax loss not recognised as a deferred tax asset	60,203	62,018
Current year income tax charge	–	–

At 31 December 2009 the Group had a deferred income tax asset of £1,752,680 (2008 – £1,692,477) in respect of losses which have not been recognised in these financial statements.

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

	2009 £	2008 £
Dealt with in financial statements of the Parent Company	(222,244)	(625,689)

The Company has taken advantage of the exemption allowed under section 408 of the Companies Act 2006 and has not presented its own statement of comprehensive income in these financial statements.

Notes forming part of the financial statements

continued

9 Loss per share

The calculation of the basic loss per share is based upon:

	2009	2008
Basic loss per share (pence)	(0.05)p	(0.05)p
Loss attributable to equity holders	£(215,009)	£(217,606)
	Number	**Number**
Weighted average number of shares	399,999,999	399,999,999

The options, warrants and deferred shares in issue at the 31 December 2008 and 31 December 2009, which are disclosed in note 15, are antidilutive and have therefore been excluded from the calculation of diluted earnings per share. However, such options may be dilutive in future periods.

10 Property, plant and equipment

Group and Company	Computer equipment £	Fixtures, fittings and equipment £	Total £
Cost			
At 1 January 2008, 31 December 2008, 1 January 2009 and 31 December 2009	173,446	65,474	238,920
Accumulated depreciation			
At 1 January 2008, 31 December 2008, 1 January 2009 and at 31 December 2009	173,446	65,474	238,920
Net book value			
At 31 December 2009	–	–	–
At 31 December 2008	–	–	–

11 Investments

Company

	2009 £	2008 £
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

12 Inventories

	2009 Group £	2008 Group £	2009 Company £	2008 Company £
Goods for resale	3,285	3,165	–	–

13 Trade and other receivables

	2009 Group £	2008 Group £	2009 Company £	2008 Company £
Trade receivables	523	4,817	–	–
Amount due from subsidiary undertaking	–	–	172,129	172,129
Other receivables	–	43,416	–	43,416
Prepayments and accrued income	22,227	19,739	22,227	19,739
	22,750	67,972	194,356	235,284

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 (2008 – £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% above the London Inter-Bank Offered Rate for deposits of pounds sterling. The earliest repayment date was 25 September 2003.

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

	2009 Group £	2008 Group £	2009 Company £	2008 Company £
Trade payables	58,616	58,414	58,538	57,345
Other payables	3,500	3,500	3,500	3,500
Amounts due to subsidiary undertakings	–	–	2,046,250	2,005,586
Creditors for taxation and social security	160,063	166,134	164,721	172,848
Accrued liabilities and deferred income	85,189	27,492	85,189	26,804
	307,368	255,540	2,358,198	2,266,083

Notes forming part of the financial statements

continued

15 Share capital

	2009 Number	2008 Number	2009 £	2008 £
Authorised				
Ordinary shares of 0.01p each	1,000,000,000	1,000,000,000	100,000	100,000
Deferred shares of 0.99p each	400,000,000	400,000,000	3,960,000	3,960,000
			4,060,000	4,060,000
Allotted, called up and fully paid				
Ordinary shares 0.01p each	399,999,999	399,999,999	40,000	40,000
Deferred shares of 0.99p each	224,543,426	224,543,426	2,222,980	2,222,980
			2,262,980	2,262,980

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.

Notes forming part of the financial statements

continued

15 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 no charge to the statement of comprehensive income 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. The fair value of the warrants at their date of grant was immaterial and no charge has therefore arisen under IFRS 2

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

Capital

The Group's capital comprises the Ordinary shares 0.01p of each and the Deferred shares of 0.99p each shown 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 statement of financial position) less cash and cash equivalents. Total equity (as shown in the statement of financial position) includes components of equity (i.e. share capital, share premium, minority interest, retained earnings, and revaluation reserve).

During 2009, the Groups strategy, which was unchanged from 2008, was to minimise the debt-to-equity ratio. The debt-to-equity ratios at 31 December 2009 and at 31 December 2008 were as follows:

	2009 £	2008 £
Total debt	363,000	–
Less: Cash and cash equivalents	(2,345)	(29,048)
Net debt/(cash)	360,655	(29,048)
Total equity	(641,988)	(426,979)
Debt to equity ratio	n/a	n/a

The increase in the debt during 2009 arose as a result of new borrowings from a related party (see note 16).

Notes forming part of the financial statements

continued

16 Related party transactions

During the year, the Group earned fees of £8,537 (2008 – £269,171) from SL Investment Management Limited, a major shareholder in the Group. At the year end SL Investment Management Limited owed £523 (2008 – £4,817) to the Group.

In the previous year SL Investment Management Limited provided services to the Group under the Outsourcing Agreement and charged the Group fees of £173,483. No such charges were made in the current year. At the year end SL Investment Management Limited were owed £nil (2008 – £271,624) by the Group. A loan of £363,000 (2008 – £nil) from SL Investment Management Limited was outstanding at the year end.

Transactions with Group companies are summarised below:

	2009 £	2008 £
TEP-Exchange Limited		
Balance owing by TEP Exchange Limited at 1 January	150,000	150,000
Balance owing to TEP Exchange Limited at 1 January	(2,005,586)	(1,463,398)
Intercompany recharges/changes in loans in the year	(40,664)	(542,188)
Balance owing by TEP Exchange Limited at 31 December	150,000	150,000
Balance owing to TEP Exchange Limited at 31 December	(2,046,250)	(2,005,586)
TEP-Exchange Interim Portfolio Limited		
Balance owing by TEP-Exchange Interim Portfolio Limited at 1 January	27,928	27,928
Intercompany recharges/changes in loans in the year	120	–
Balance owing by TEP-Exchange Interim Portfolio Limited at 31 December	28,048	27,928

17 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.

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	2009 Group £	2008 Group £	2009 Company £	2008 Company £
Trade receivables	523	4,817	–	–
Amount due from subsidiary undertaking	–	–	172,129	172,129
Other receivables	–	43,416	–	43,416
Cash and cash equivalents	2,345	29,048	2,175	–
Total financial assets classified as loans and receivables	2,868	77,281	174,304	215,545

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

At 31 December 2009 and 2008 the carrying amounts of financial assets approximate to their fair values.

Notes forming part of the financial statements

continued

17 Financial instruments continued

Financial liabilities

	2009 Group £	2008 Group £	2009 Company £	2008 Company £
Trade payables – current	58,616	58,414	58,538	57,345
Trade payables – non-current	–	271,624	–	271,624
Other payables	3,500	3,500	3,500	3,500
Amounts due to subsidiary undertakings	–	–	2,046,250	2,005,586
Other borrowings	363,000	–	363,000	–
Accrued liabilities	85,189	27,492	85,189	26,804
Total financial liabilities measured at amortised cost	510,305	361,030	2,556,477	2,364,859

To the extent trade and other payables are not carried at fair value in the consolidated statement of financial position, book value approximates to fair value at 31 December 2009 and 2008.

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

Liquidity risk

Liquidity risk arises from the Group's management of working capital and the finance charges and principal repayments on its debt instruments. It is the risk that the Group will encounter difficulty in meeting its financial obligations as they fall due.

Short term liquidity risk is managed by preparing forecasts together with obtaining and reviewing the adequacy of banking facilities. As at 31 December 2009, the Group had no unutilised bank overdraft facility (2008 – £10,000 unutilised bank overdraft facility secured against the inventories). The Group's bank term loan was repaid during 2008. At 31 December 2009, borrowings of £363,000 owed to SL Investment Management Limited are now due to be repaid by 31 March 2011. Prior to the recent agreement the borrowings were due to be repaid by 31 December 2010 and this has been reflected in these financial statements.

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.

Credit risk

Credit risk represents the loss that the Company would incur if 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 "AA" are accepted.

Notes forming part of the financial statements

continued

17 Financial instruments continued

Cash flow interest rate risk

Floating rate financial assets earn interest at the bank base rate minus 3%. Interest is payable on the bank overdraft at the bank base rate plus 3% and on the other loan at the bank base rate plus 2%. 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 loss before tax and equity (through the impact on floating rate investments and borrowings).

	2009 Change in rate	2009 Effect £	2008 Change in rate	2008 Effect £
Interest rate	+0.5%	(1,815)	+0.5%	(1,358)
	+1.0%	(3,630)	+1.0%	(2,716)
	+1.5%	(5,445)	+1.5%	(4,074)
Interest rate	–0.5%	1,815	–0.5%	1,358
	–1.0%	3,630	–1.0%	2,716
	–1.5%	5,445	–1.5%	4,074

Currency risk

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

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