

**THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION. If you are in any doubt about the contents of this document, or the action that you should take, you should consult your stockbroker, bank manager, solicitor, accountant or other independent financial adviser authorised under the Financial Services and Markets Act 2000 who specialises in advising on the acquisition of shares and other securities.**

This document, together with the Circular and the Initial Accounts, comprise a listing document (“**Listing Document**”) for the purposes of the application for admission of 38,550,000 Convertible Preference Shares to the Official List of the Channel Islands Stock Exchange, LBG (“**CISX**”) and includes particulars given in compliance with the CISX Listing Rules for the purpose of giving information with regard to the Company in relation to such application for admission and listing. The CISX has been recognised by the UK HM Revenue & Customs under section 1137 of the Corporation Tax Act 2010 and approved by the FCA as a Designated Investment Exchange within the meaning of FSMA. Neither the admission of the Convertible Preference Shares to the Official List nor the approval of this Listing Document pursuant to the listing requirements of the CISX shall constitute a warranty or representation by the CISX as to the competence of the service providers to, or any party connected with, the Company, the adequacy and accuracy of the information contained in this Listing Document or the suitability of the Company for investment or for any other purpose.

**This Listing Document includes particulars given in compliance with the CISX Listing Rules for the purpose of giving information with regard to the Company. The Directors, whose names appear on page 7 of this document, accept full responsibility for the information contained in this Listing Document and confirm, having made all reasonable enquiries that, to the best of their knowledge and belief, there are no other facts the omission of which would make any statement herein misleading.**

Application will be made for 38,550,000 Convertible Preference Shares to be admitted to the Official List of the CISX and to trading on the SETSxq platform of the London Stock Exchange. It is expected that Admission will become effective and dealings in the Convertible Preference Shares will commence on the CISX at 8.00 a.m. (London time) on 24 May 2013.

**Prospective investors should read the entire document and, in particular, your attention is drawn to the risk factors in Part 8 (Risk Factors) of this document, when considering an investment in the Company.**

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# **Ground Rents Income Fund PLC**

*(incorporated in England and Wales with company no. 8041022)*

## **PLACING OF 38,550,000 CONVERTIBLE PREFERENCE SHARES AT A PLACING PRICE OF 100 PENCE EACH, APPLICATION FOR ADMISSION OF 38,550,000 CONVERTIBLE PREFERENCE SHARES TO THE OFFICIAL LIST OF THE CISX AND TO TRADING ON THE SETSxq PLATFORM OF THE LONDON STOCK EXCHANGE**

*Investment Adviser*

**Brooks Macdonald Funds Limited**

*Sponsor*

**Appleby Securities (Channel Islands) Ltd**

*Financial Adviser and Placing Agent*

**Nplus1 Singer Advisory LLP**

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Appleby Securities (Channel Islands) Ltd, which is a member of the CISX, is the sponsor to the listing on the CISX and is acting exclusively for the Company in relation to the Admission and no one else and will not be responsible to anyone other than the Company for providing the protections afforded to clients of Appleby Securities (Channel Islands) Ltd, nor for providing advice in relation to the contents of this document or any transaction or arrangements referred to herein.

N+1 Singer, which is regulated in the UK by the Financial Services Authority, is acting as financial adviser and placing agent to the Company in connection with the matters described herein. N+1 Singer is acting for the Company in relation to the Placing and Admission and no one else and will not be responsible to anyone other than the Company for providing the protections afforded to its clients, nor for providing advice in relation to the Placing and Admission, the contents of this document or any transaction or arrangement referred to herein. Apart from the responsibilities and liabilities, if any, which may be imposed on N+1 Singer by the FSMA or the regulatory regime established thereunder, N+1 Singer does not accept any responsibility whatsoever for the contents of this document or for any other statement made or purported to be made by it, or on its behalf, in connection with the Company, the Ordinary Shares, the Convertible Preference Shares, the Placing or Admission. N+1 Singer accordingly disclaims all and any liability whether arising in tort, contract or otherwise (save as referred to above), which it might otherwise have in respect of such document or any such statement.

Prospective investors should rely only on the information in this document. No person has been authorised to give any information or make any representations other than those contained in this document and, if given or made, such information or representations must not be relied on as having been authorised by the Company, the Investment Adviser, the Sponsor or N+1 Singer. Without prejudice to the Company’s obligations under the CISX Listing Rules, neither the delivery of this document nor any subscription or purchase of Convertible Preference Shares made pursuant to this document shall, under any circumstances, create any implication that there has been no change in the affairs of the Group since, or that the information contained herein is correct at any time subsequent to, the date of this document.

The contents of this document are not to be construed as legal, financial, business, investment or tax advice. Each prospective investor should consult his, her or its own legal adviser, financial adviser or tax adviser for legal, financial or tax advice. Prospective investors must inform themselves as to: (a) the legal requirements within their own countries for the purchase, holding, transfer or disposal of Shares; (b) any foreign exchange restrictions applicable to the purchase, holding, transfer or other disposal of Shares which they might encounter; and (c) the income and other tax consequences which may apply in their own countries as a result of the purchase, holding, transfer or other disposal of Shares. Prospective investors must rely on their own representatives, including their own legal advisers and accountants, as to legal, tax, investment, or any other related matters concerning the Company and an investment therein.

### **Restrictions on sales**

This document does not constitute, and may not be used for the purposes of, an offer or any invitation to subscribe for any Shares by any person in any jurisdiction: (a) in which such offer or invitation is not authorised; or (b) in which the person making such offer or invitation is not qualified to do so; or (c) to any person to whom it is unlawful to make such offer or invitation. The distribution of this document and the availability of the Placing in certain jurisdictions may be restricted. Accordingly, persons outside the UK into whose possession this document comes are required by the Company to inform themselves about and to observe any restrictions as to the Placing and the distribution of this document under the laws and regulations of any territory in connection with any application for Shares, including obtaining any requisite governmental or other consent and observing any other formality prescribed in such territory. No action has been taken or will be taken in any jurisdiction by the Company that would permit a public offering of the Shares in any jurisdiction where action for that purpose is required, nor has any such action been taken with respect to the possession or distribution of this document other than in any jurisdiction where actions for that purpose are required. The Placing and the distribution of this document are subject to the restrictions set out in Part 4 (The Placing).

### **Notice to prospective investors in the United Kingdom**

This document is only being distributed to and is only directed at: (a) investment professionals falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the “**Order**”); (b) high net worth companies, unincorporated associations and other bodies falling within Article 49(2)(a) to (d) of the Order and (c) other persons to whom it may lawfully be communicated (all such persons together being referred to as “**relevant persons**”). The Convertible Preference Shares are only available to, and any invitation, offer or agreement to subscribe, purchase or otherwise acquire such Convertible Preference Shares will be engaged in only with, relevant persons. Any person who is not a relevant person should not act or rely on this document or any of its contents.

### **Notice in connection with the United States, Australia, Canada and Japan**

This document does not constitute an offer to sell, or the solicitation of an offer to subscribe for or buy, Shares in any jurisdiction in which such offer or solicitation is unlawful and is not for distribution in or into the United States, Australia, Canada or Japan.

The Convertible Preference Shares have not been and will not be registered under the Securities Act, and may not be offered or sold within the United States or to, or for the account or benefit of US Persons except in certain transactions exempt from the registration requirements of the Securities Act. No public offer of the Shares is being made in the United States. The Shares are only being offered and sold outside the United States to non-US Persons in offshore transactions in reliance on Regulation S under the Securities Act. In addition, the Company will not be registering under the US Investment Company Act of 1940 and investors will not be entitled to the benefits of such act.

No US federal or state securities commission or regulatory authority has approved or disapproved of the Shares or passed upon the adequacy or accuracy of this document. Any representation to the contrary is a criminal offence in the United States.

The Convertible Preference Shares offered by this document have not been and will not be registered under the applicable securities laws of Australia, Canada or Japan and, subject to certain exceptions, may not be offered or sold directly, or indirectly, in or into Australia, Canada or Japan, or to or for the account or benefit of any person resident in Australia, Canada or Japan.

### **Notice in connection with Member States of the European Economic Area**

In any European Economic Area (“**EEA**”) Member State that has implemented Directive 2003/71/EC (together with any applicable implementing measures in any Member State) (the “**Prospectus Directive**”), this communication is only addressed to and is only directed at: (a) qualified investors in that Member State within the meaning of the Prospectus Directive; and (b) other persons who are permitted to purchase the Convertible Preference Shares pursuant to an exemption from the Prospectus Directive and other applicable regulations. This document has been prepared on the basis that all offers of Convertible Preference Shares will be made pursuant to an exemption under the Prospectus Directive, as implemented in member states of the EEA, from the requirement to produce a prospectus for offers of Shares.

Accordingly, any person making or intending to make any offer within the EEA of the Convertible Preference Shares which are the subject of the Placing contemplated in this document should only do so in circumstances in which no obligation arises for the Company to produce a prospectus for such offer. The Company has not authorised, nor does it authorise, the making of any offer of any Shares through any financial intermediary.

### **Notice to prospective investors in South Africa**

The Company is not registered in South Africa as an external company and is also not registered with or regulated by the Financial Services Board in South Africa. None of the Company, the Investment Adviser or any other person has, in relation to the Company, obtained approval from the Registrar of Companies or the Registrar of Collective Investment Schemes to make any “offer to the public” or to solicit investments from “members of the public”, as respectively contemplated in the South African Companies Act 1973 (“**SA Companies Act**”) and the South African Collective Investment Schemes Control Act 2002. This Listing Document is not a prospectus as contemplated in the SA Companies Act and does not constitute an offer to the public and may not be used to solicit investments from members of the public. The Company will only consider investment requests from specific, pre-selected persons in South Africa and will be entitled to refuse any such request in its sole discretion.

### **References to Defined Terms**

Certain capitalised terms used in this document are defined in Part 11 (Definitions) and Part 12 (Glossary).

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## FORWARD-LOOKING STATEMENTS

This document includes statements that are, or may be deemed to be, “forward-looking statements”. These forward-looking statements can be identified by the use of forward-looking terminology, including the terms “believes”, “estimates”, “anticipates”, “expects”, “intends”, “may”, “will” or “should” or, in each case, their negative or other variations or comparable terminology. These forward-looking statements relate to matters that are not historical facts. They appear in a number of places throughout this document and include statements regarding the intentions, beliefs or current expectations of the Company, the Directors and the Investment Adviser concerning, amongst other things, the investment strategy, financing strategies, investment performance, results of operations, financial condition, liquidity, prospects and dividend policy of the Company and the markets in which it will operate. By their nature, forward-looking statements involve risks and uncertainties because they relate to events and depend on circumstances that may or may not occur in the future. Forward-looking statements are not guarantees of future performance. The Company’s actual investment performance, results of operations, financial condition, liquidity, dividend policy and the development of its financing strategies may differ materially from the impression created by the forward-looking statements contained in this document. In addition, even if the investment performance, results of operations, financial condition, liquidity and dividend policy of the Company, and the development of its financing strategies, are consistent with the forward-looking statements contained in this document, those results or developments may not be indicative of results or developments in subsequent periods. Important factors that may cause these differences include, but are not limited to, changes in general market conditions and in the UK real estate market specifically, legislative or regulatory changes, changes in taxation regimes, the Company’s ability to invest its cash and the proceeds of the Placing in suitable investments on a timely basis, the availability and cost of capital for future investments, the availability of suitable non-recourse financing, the continued provision of services by the Investment Adviser and the Investment Adviser’s ability to retain key personnel.

Potential investors are advised to read this document in its entirety, and, in particular, Part 8 entitled “Risk Factors” for a further discussion of the factors that could affect the Company’s future performance. In light of these risks, uncertainties and assumptions, the events described in the forward-looking statements in this document may not occur.

These forward-looking statements speak only as at the date of this document. Subject to its legal and regulatory obligations (including under the CISX Listing Rules), the Company, the Directors, the Investment Adviser, the Sponsor and N+1 Singer expressly disclaim any obligations to update or revise any forward-looking statement contained herein to reflect any change in expectations with regard thereto or any change in events, conditions or circumstances on which any statement is based.

## EXPECTED TIMETABLE OF PRINCIPAL EVENTS

Each of the times and dates set out below are subject to change without further notice. All times are London times unless otherwise stated.

	<i>2013</i>
Publication of this document, the Circular and the Placing Announcement	3 May
Latest time and date for receipt of individual forms of proxy for the Company's general meeting	10.30 a.m. on 21 May
General Meeting	10.30 a.m. on 23 May
Admission and commencement of dealings in Convertible Preference Shares on CISX and SETSqx	8.00 a.m. on 24 May
CREST accounts expected to be credited with Convertible Preference Shares to be held in uncertificated form	24 May
Despatch of definitive share certificates (if applicable) in respect of Convertible Preference Shares to be held in certificated form*	The week commencing 10 June
Long stop date for calculation of Convertible Preference Share Conversion Ratio	24 May 2014

*\* Or as soon as practicable thereafter. No temporary documents of the title will be issued.*

## PLACING STATISTICS

Placing Price per Convertible Preference Share	100p
Initial Net Asset Value per Convertible Preference Share	98p
Number of new Convertible Preference Shares being placed	38,550,000
Number of existing Ordinary Shares in issue	48,242,300
Convertible Preference Share ISIN	GB00B8DWRG34
Convertible Preference Share SEDOL	CISX: B8Y5RC7
	SETSqx: B8DWRG3
Ticker	GRIP

## **DIRECTORS, COMPANY SECRETARY, REGISTERED OFFICE AND ADVISERS**

<b>Directors</b>	Robert Malcolm Naish ( <i>known as Malcolm Naish</i> ) ( <i>Chairman</i> ) Paul Anthony Craig Simon Paul Wombwell  <i>all of the registered office</i>
<b>Registered Office</b>	111 Park Street London W1K 7JL
<b>Company Secretary</b>	William Martin Robinson
<b>Investment Adviser</b>	Brooks Macdonald Funds Limited 111 Park Street London W1K 7JL
<b>Property Manager</b>	Braemar Estates (Residential) Limited Richmond House Heath Road Hale Cheshire WA14 2XP
<b>CISX Listing Sponsor</b>	Appleby Securities (Channel Islands) Limited PO Box 297 13-14 Esplanade St. Helier Jersey JE1 1BD
<b>Financial Adviser and Placing Agent</b>	N+1 Singer One Bartholomew Lane London EC2N 2AX
<b>Advisers on UK law</b>	Addleshaw Goddard LLP Milton Gate 60 Chiswell Street London EC1Y 4AG
<b>Advisers on Guernsey law</b>	Appleby 1st Floor Lefebvre Place Lefebvre Street St. Peter Port GY1 2JP Guernsey
<b>Legal Advisers to the Financial Adviser</b>	Stephenson Harwood LLP 1 Finsbury Circus London EC2M 7SH

<b>Tax Advisers</b>	KPMG LLP St. James' Square Manchester M2 6DS
<b>Auditors</b>	PricewaterhouseCoopers LLP 101 Barbirolli Square Lower Mosley Street Manchester M2 3PW
<b>Registrar</b>	Capita Registrars Limited The Registry 34 Beckenham Road Beckenham Kent BR3 4TV
<b>Valuers</b>	Savills (UK) Limited 20 Grosvenor Hill Berkeley Square London W1K 3HQ
<b>Principal Bankers</b>	The Royal Bank of Scotland 40 Islington Street London N1 8JX



## KEY INFORMATION

**This summary section should be read as an introduction to this document which comprises the whole of this document. Any decision to acquire Convertible Preference Shares should be based on a consideration of this document as a whole.**

**THE PARTICULAR ATTENTION OF POTENTIAL INVESTORS IS DRAWN TO THE RISK FACTORS SET OUT IN PART 8 OF THIS DOCUMENT.**

### **Introduction**

Ground Rents Income Fund plc is a closed-ended real estate investment trust (REIT) incorporated in England and Wales on 23 April 2012, and tax resident in the United Kingdom. The Company was admitted to the Official List of the CISX and to trading on the SETSxq platform of the London Stock Exchange in August 2012 and raised approximately £48.2 million at that time through a placing and offer for subscription of Ordinary Shares with Warrants attached on a one for five basis.

Since First Admission the Company has invested 74 per cent. of the proceeds from the First Placing into a diversified portfolio of ground rents assets and has identified a strong pipeline of opportunities for completion in 2013.

The Board believes that there is further existing and new investor demand for investment in the Company and, accordingly, the Directors believe it is in the best interests of Shareholders and the Company to raise further monies by way of the Placing. Further details of the Placing are set out in Part 4 of this document.

As at 31 March 2013 (the latest practicable date prior to the publication of this document), the unaudited total net assets of the Company were approximately £45.5 million.

### **Investment Opportunity**

The Company has been established to provide secure long-term performance through investment in Long Dated UK Ground Rents, which have historically had little correlation to traditional property asset classes and have seen their value remain consistent regardless of the underlying state of the economy.

The Company gives investors the opportunity to invest, through the Company, in a portfolio of Ground Rents. The Company has purchased, as at the date of this document, a portfolio of Ground Rents valued at approximately £34.2 million. The Company seeks to acquire additional assets with the potential for income generation from the collection of Ground Rents. These investments also have the potential for capital growth, linked to contractual increases in Ground Rents over the long-term.

The Company seeks to generate consistent income returns for Shareholders by investing in a diversified portfolio of Ground Rents including freeholds and head leaseholds of well located residential, retail and commercial properties located in the United Kingdom.

### ***Investment Adviser***

The Company has appointed the Investment Adviser to advise on the acquisition of Ground Rents and the management of the Portfolio. The Investment Adviser is authorised and regulated by the FCA as a manager and operator of collective investment schemes. The Investment Adviser has delegated the collection of Ground Rent income to the Property Manager.

The Investment Adviser and Property Manager together have:

- a long-term track record in asset management;
- expertise in investing in the real estate sector including Ground Rents;
- a deep understanding of the Ground Rent market; and
- experience of acquiring and managing Ground Rent investments.

## **Placing**

Pursuant to the terms of the Placing Agreement, N+1 Singer has, as agent for the Company conditionally placed with institutional and other professional investors, 38,550,000 Convertible Preference Shares at a price of 100 pence per share. The Company will invest the majority of the Placing proceeds, net of any costs and expenses, in freeholds and Long Dated head leases in the United Kingdom, in accordance with its investment strategy.

The Convertible Preference Shares will, on issue, be entitled to a fixed cumulative preferential dividend at an annual rate of 2 (two) per cent. of the amount paid up on the Convertible Preference Shares. Such dividend shall be payable quarterly. The Convertible Preference Shares will be treated as a liability of the Company for accounting purposes and the dividend will be treated as an interest charge, but the Convertible Preference Shares will not form part of the Company's borrowings for the purpose of calculating gearing. The Convertible Preference Shares are freely transferable, confer no right of redemption, and are non-voting, save where the dividend referred to above is unpaid.

The Convertible Preference Shares shall be converted into Ordinary Shares at a ratio based on the Net Asset Value per Convertible Preference Share and the Net Asset Value per Ordinary Share at the Convertible Preference Share Conversion Time. To the extent that income earned on the Convertible Preference Shares between Admission and the date of conversion differs from the 2 per cent. coupon paid to the holders of Convertible Preference Share, this will be reflected in the calculation of Net Asset Value per Convertible Preference Share for the purpose of the Convertible Preference Share Conversion Ratio. The Directors confirm that, save where they otherwise consider it to be in the best interests of the Company to do so, they do not intend to convert the Convertible Preference Shares into Ordinary Shares until the earlier of (a) 12 months after Admission and (b) such time as the Property Manager has given notice to the Directors that 90 per cent. of the subscription monies attributable to the Placing have been invested or committed to be invested.

Further details on the terms of the Placing and the Convertible Preference Shares are set out in Parts 4 and 5 of this document.

Application will be made for 38,550,000 Convertible Preference Shares to be admitted to listing on the Official List of the CISX and to trading on the SETSqx platform of the London Stock Exchange. It is expected that Admission will become effective and dealings in the Convertible Preference Shares will commence on the CISX and SETSqx at 8.00 a.m. (London time) on 24 May 2013. No application has been made for listing or trading on any other stock exchange.

The listing of the Convertible Preference Shares is sponsored by the Sponsor. The Sponsor is acting exclusively for the Company and no-one else in connection with the Admission and will not be responsible to the prospective Investors or anyone other than the Company for giving advice in relation to Admission.

## **Valuation**

Savills have carried out a valuation of the Portfolio and such valuation is set out at Part 6 of this document. Savills acts for a wide range of investors from fund managers and property developers through to private investors and the major property lenders. With a national and international network of property experts, Savills are market leaders in property management with over 2,100 UK commercial properties under management. The Portfolio is held in a number of SPVs.

Following the commitment of capital proposed to be raised pursuant to the Placing, the Company may seek to raise further equity capital following Admission in order to accelerate its business plan and acquire assets in accordance with the Company's investment policy. Such further fundraising cannot, however, be guaranteed.

## **Investment Strategy**

The Company intends to purchase Ground Rents where the leasehold interests are Long Dated although shorter opportunities will be considered if the Directors believe it is in the best interest of the Company to do so.

The Group does not intend to make use of structural or long-term debt facilities for investment purposes. There may be limited circumstances in which borrowing would be considered as a short-term funding strategy to generate future fundraising. This would be in a scenario where an attractive portfolio of assets was available to be acquired in a corporate structure which had some existing borrowings within its corporate vehicles. The Company will have the ability to gear to 25 per cent. of the gross assets of the Company in order to invest in Ground Rents once all subscription monies have been invested, before raising further equity. The Directors regard the Convertible Preference Shares as equity. However, the Convertible Preference Shares will be treated as a liability of the Company for accounting purposes and the dividend will be treated as an interest charge, but the Convertible Preference Shares will not form part of the Company's borrowings for the purpose of calculating gearing.

The Company may reinvest both realised invested capital and any profits that have not been distributed, subject to the Company's dividend policy and the REIT regime's requirement that a REIT distributes to Shareholders at least 90 per cent. of the income profits arising from the Group's Qualifying Property Rental Business.

## **Dividend Policy**

Subject to compliance with the Companies Act, it is the intention of the Company to distribute at least 90 per cent. of its income profits by way of dividend at least quarterly to Shareholders. The Company's ability to declare dividends (including scrip dividends) is set out in Part 10 sections 4.4 and 4.5 of this document. In determining the amount to be distributed by way of dividend to Shareholders, the Board shall have regard to the requirement for the Company (as a REIT) to distribute to Shareholders at least 90 per cent. of the income profits arising from the Group's Qualifying Property Rental Business. The amount of the dividend per Ordinary Shares paid in respect of the current financial year ending 30 September 2013 (as at the date of this document) was 0.35 pence per Ordinary Share for the period to 31 December 2012 paid as a Non-PID Dividend, and 0.6 pence per Ordinary Share for the period to 31 March 2013, paid as a PID Dividend. The Directors have set a target dividend yield for the period ending 30 September 2013 of either (i) no less than 2.6 per cent., on the assumption that no further assets are acquired between the date of this document and 30 September 2013, or (ii) no less than 3.0 per cent., on the assumption that the Company continues to acquire assets in the pipeline at an even rate between the date of this document and 30 September 2013. The Directors have also set an annualised target dividend yield of 4.4 per cent. per annum, calculated on the Placing Price and on the assumption that all of the net proceeds from the Placing have been invested in accordance with the Company's investment strategy and that the Convertible Preference Shares issued under the Placing have been converted into Ordinary Shares.

Subject to compliance with the Companies Act, the Company will also pay the fixed cumulative preferential dividend to holders of Convertible Preference Shares, as described in the section above headed "Placing".

## **Life of the Company**

The Company will not have a fixed life. The Articles require the Directors to convene a general meeting after the tenth anniversary of First Admission but on or before the eleventh anniversary of First Admission at which a Wind-up Resolution will be proposed.

If the Wind-up Resolution referred to above is not passed, the Directors will be required to convene a general meeting on the fifteenth anniversary of First Admission at which a Wind-up Resolution will be proposed (and the same process will apply in each 5 year period thereafter).

## **Financial Information**

The Company has a financial year end of 30 September.

## **Management Fee**

For each one year period of the Investment Adviser Agreement, the Investment Adviser will be entitled to an initial annual fee of £210,000 per annum on Admission, increasing to £270,000 per annum once 50 per cent. of the subscription monies attributable to the Placing have been invested, to reflect the additional work required to manage a larger Portfolio, payable monthly in arrears (the **Management Fee**). The Investment Adviser is also entitled to retain 50 per cent. of all insurance commission relating to the Portfolio. In each accounting period where the then current Management Fee plus the amount of insurance commission the Investment Adviser retains is in excess of 0.55 per cent. of the average market capitalisation of the Company for that accounting period, the Investment Adviser will pay an amount equal to the excess to the Company by way of refund from the Management Fee. In addition, upon completing the purchase of a property which has been introduced by the Investment Adviser and where no other agency fees are payable, the Investment Adviser shall be entitled to an agency fee of 2 per cent. of the purchase price of such property. Where the third party fee is less than 2 per cent. of the purchase price for the Property, the Investment Adviser will be entitled to an additional agency fee equal to 50 per cent. of the difference between 2 per cent. of the purchase price and the third party agency fee. The Property Manager's fees will not be an additional charge on the Company, as the Investment Adviser will pay the Property Manager for its services out of the Management Fee.

## **The Board**

The Board comprises of three non-executive Directors, Malcolm Naish (Chairman), Simon Wombwell and Paul Craig. Malcolm Naish and Paul Craig are independent of the Investment Adviser and the Property Manager. Simon Wombwell is a director of the Investment Adviser and of Brooks Macdonald, the ultimate holding company of the Investment Adviser and the Property Manager.

The Directors have been selected to give Shareholders the benefit of their real estate, fund management, financial services and business experience. The Directors have overall responsibility for the Company's activities, including the review of its investment activities and performance.

# PART 1

## THE COMPANY

### Introduction

Ground Rents Income Fund plc is a closed-ended real estate investment trust (REIT) incorporated in England and Wales on 23 April 2012, and tax resident in the United Kingdom. The Company was admitted to the Official List of the CISX and to trading on the SETSxq platform of the London Stock Exchange in August 2012 and raised approximately £48.2 million at that time through a placing and offer for subscription of Ordinary Shares with Warrants attached on a one for five basis.

Since First Admission the Company has invested 74 per cent. of the net proceeds from the First Placing into the Portfolio of and has identified a strong pipeline of opportunities for completion in 2013.

The Board believes that there is further existing and new investor demand for investment in the Company and, accordingly, the Directors believe it is in the best interests of Shareholders and the Company to raise further monies by way of the Placing. Further details of the Placing are set out in Part 4 of this document.

As at 31 March 2013 (the latest practicable date prior to the publication of this document), the unaudited total net assets of the Company were approximately £45.5 million.

### Investment Opportunity

The Company has been established to provide secure long-term performance through investment in Long Dated UK Ground Rents, which have historically had little correlation to traditional property asset classes and have seen their value remain consistent regardless of the underlying state of the economy.

The Company gives investors the opportunity to invest, through the Company, in the Portfolio. The Company has purchased, as at the date of this document, the Portfolio valued at £34.2 million. The Company seeks to acquire additional assets with the potential for income generation from the collection of Ground Rents. These investments also have the potential for capital growth, linked to contractual increases in Ground Rents over the long-term.

The Company seeks to generate consistent income returns for Shareholders by investing in a diversified portfolio of Ground Rents including freeholds and head leaseholds of well located residential, retail and commercial properties located in the United Kingdom.

The Company has appointed the Investment Adviser to advise on the acquisition of Ground Rents and the management of the Portfolio. The Investment Adviser is authorised and regulated by the FCA as a manager and operator of collective investment schemes. The Investment Adviser has delegated the collection of Ground Rent income to the Property Manager.

The Investment Adviser and the Property Manager together have:

- a long-term track record in asset management;
- expertise in investing in the real estate sector including Ground Rents;
- a deep understanding of the Ground Rent market; and
- experience of acquiring and managing Ground Rent investments.

Further details on the Investment Adviser, the Property Manager and their experience and track record are set out in Part 3 of this document. The Investment Adviser will source and appraise investment opportunities, in line with the Company's investment strategy, and make investment recommendations to the Directors for their approval.

Application will be made for 38,550,000 Convertible Preference Shares to be admitted to listing on the Official List of the CISX and to trading on the SETSqx platform of the London Stock Exchange. It is expected that Admission will become effective and dealings in the Convertible Preference Shares will commence on the CISX and SETSqx at 8.00 a.m. (London time) on 24 May 2013.

On Admission, the Company aims to raise gross proceeds of £38.6 million by way of the Placing (approximately £37.8 million net of expenses) from institutional and other investors.

In accordance with the Red Book, Savills has carried out a valuation of the Portfolio as at 31 March 2013 and such valuation is set out at Part 6 of this document.

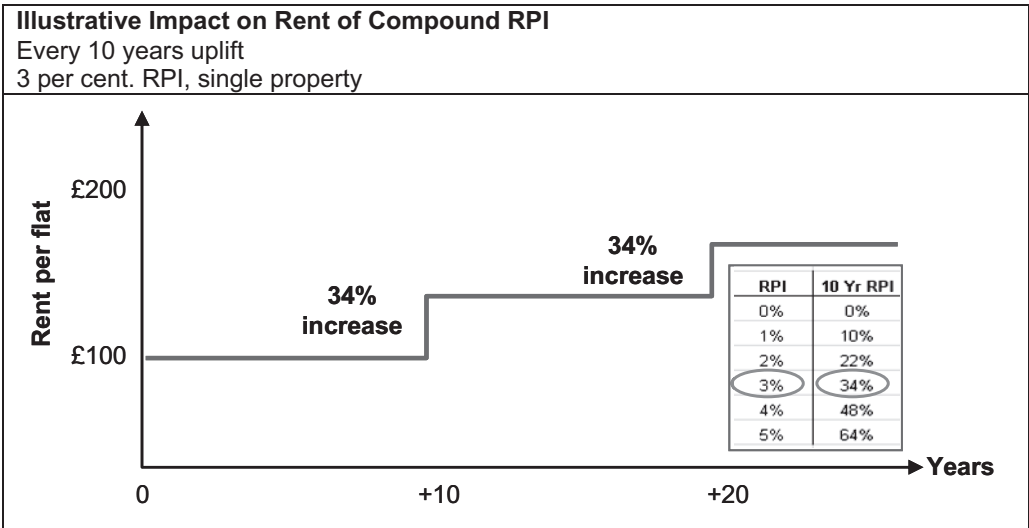
**Overview of Ground Rents**

A ground rent is the rent paid by the lessee of a property to the freeholder or head leaseholder of the property. It represents the underlying freehold or head leasehold interest in a property, which is subject to a lease for a period of time usually between 99 and 999 years. Individual amounts payable as Ground Rents are usually nominal annual sums of, for example, between £50 and £250 for an apartment. Ground Rents produce a secure, stable, low risk and long term income. Although the market is relatively small in size it provides an attractive investment opportunity relative to the level of risk involved. Despite there being little published data, Savills’ research data from 2012 estimates that the English house building industry was generating new ground rents worth approximately £180 million a year and they expect this to grow to £230 million by 2016 but the size of the total market will be larger than this, as assets will be traded on a secondary market and some developers may not yet have sold their Ground Rent portfolios. Savills estimates that the value of Ground Rent created from new house building in the period 2000 to 2010 was in the order of £2.75 billion.

**Ground Rent Inflation**

Ground Rents are typically fixed for a period of time, with pre-determined periodic increases linked to inflation for the period since the previous review or a pre-determined multiplier, such as doubling every 10 years (the equivalent of an annual increase of 7.2 per cent. compounded). The majority of the Portfolio is subject to inflation linked review or doubling at intervals of between 10 and 25 years.

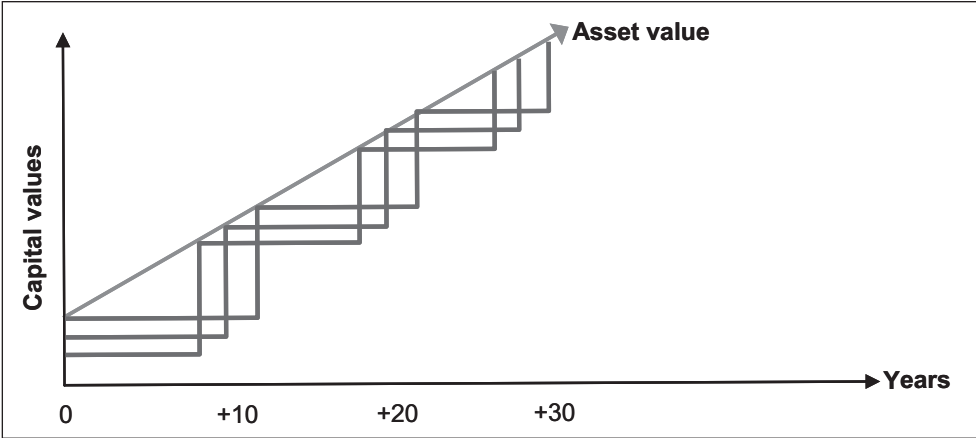
These periodic increases in Ground Rents lead to a stepped increase in their values linked to the timing of the implementation of the periodic increases, as illustrated in the diagram below:



Source: the Investment Adviser

As the size of the Portfolio grows, and on the assumption that the periodic increases in Ground Rents are evenly distributed throughout the Portfolio, the impact of periodic increases in Ground Rents is smoothed, as illustrated below:

**Illustrative Layering Effect of Multiple Properties**



*Source: the Investment Adviser*

The Company intends to acquire Ground Rents which have pre-determined, long-term income streams, inflation linked to RPI or with set rental increases.

**Insurance Premium Commission**

Insurance premium commission is an additional source of income for the Company. Given the recent market trend for large scale apartment developments, the insurance premium on these developments can be significant where the lease provides that the freeholder has the obligation to arrange this insurance. The Company will outsource the responsibility for arranging and managing this insurance to the Investment Adviser who will place this insurance, as long as it is competitive, with a provider of its choice. Under the terms of the Investment Adviser Agreement it has been agreed that 50 per cent. of all insurance commissions will be rebated to the Company.

**Collection and Security of Ground Rents**

Ground Rents are payable by leaseholders annually in advance. Leaseholders are generally given six weeks to pay; if they fail to pay in this period, a solicitor’s letter is sent offering payment terms and the opportunity to submit the claim for dispute resolution. If the Ground Rent remains unpaid, a further solicitor’s letter is sent reminding the leaseholder of the action which may be taken under Section 146 of the Law of Property Act 1925 for the freeholder to forfeit the lease, at which point the leaseholder or a lender to the leaseholder will often make the payment to avoid further costs and to prevent a forfeiture of the lease.

The leasehold title will generally contain a restriction on transfer by the leaseholder or mortgagee without the freeholder’s consent. A freeholder normally requires all debt to be satisfied before they will provide this consent. Furthermore, as the purchaser will take over liability for all Ground Rents and service charges, the purchaser will likewise require all arrears to be paid before he completes.

**Summary of legislation relating to Ground Rents**

The Landlord and Tenant Act 1987 created the opportunity for lessees of flats to acquire the freehold whenever the ownership of the freehold changes. This act specifies that all lessees in a qualifying block of flats must be notified when the sale of a freehold is about to take place and that they are given the opportunity to purchase the freehold at the offer price. This right was reinforced by the Housing Act in 1996, which made it a criminal offence to fail to follow the rules laid out in the 1987 Act. The Directors intend to delay completion of each acquisition until leaseholders have declined the opportunity to purchase each freehold.

However, many freeholds are owned by SPVs and the shares in these vehicles can be transferred to effect an acquisition outside the provisions of these acts.

The Leasehold Reform, Housing and Urban Development Act 1993 created the opportunity for a majority of lessees to join together to force the freeholder to sell the freehold to them, which could be against the wishes of the freeholder. The process is speculative, with no guarantee of success, and can be time consuming and expensive for the lessees. In the event that the lessees are successful the freeholder would be compensated in relation to the loss of the freehold.

The Commonhold and Leasehold Reform Act 2002 gives tenants, including long leasehold lessees, the opportunity to take over the management of their blocks. While the freeholder retains the right to receive the Ground Rent, they will lose control over who manages the property, and will also lose the right to place the insurance and receive a share of the commission.

No equivalent legislation exists to protect long leaseholders of commercial property.

**Investment Strategy**

The Company has acquired and intends to continue to acquire portfolios of Ground Rents comprising the freeholds and Long Dated head leases of residential, retail and commercial properties in the United Kingdom. These interests have and will have a pre-determined long-term income stream from the lease and, ultimately, when the lease comes to an end, a reversionary value. The Company may also exploit other investment opportunities which provide the Company with Ground Rent income but may not have the right to a reversionary value. Reversionary value is the increasing capital value as the result of the approaching date after which the leaseholder loses the right to occupy the property. Collection of Ground Rents, as well as income from additional sources such as insurance policies, is expected to provide predictable income streams.

The freehold interest in a Ground Rent is usually valued on a multiple of the Ground Rent paid; the lower the multiple the higher the yield. The multiples paid vary according to a number of factors, including any contractual future increases in the Ground Rent, whether or not the owner has the right to insure and manage the property and the unexpired period of any leases. Savills estimate that current Ground Rent values are based on multiples of between 14 and 25, which equate to gross yields of between 7.0 per cent. and 4.0 per cent. The value is based on the quality of the income and the rent review profile. Ground rents that are fixed and therefore have no reviews are the least desirable and produce the highest yields. At the other end of the scale are ground rents that are subject to frequent rent reviews that provide regular uplifts in the income stream. The most attractive of those investments are currently those linked to RPI or those that have imminent rent reviews.

The Company intends to purchase Ground Rents where the leasehold interests are Long Dated although shorter dated opportunities will be considered if the Directors believe it to be in the best interest of the Company to do so. The table below summarises the different characteristics of Long Dated and short-dated Ground Rents:

Primary Characteristic	Long	Short
Income meaningful	✓	X
Reversionary value	X	✓
Income inflator	✓	X
Link to housing values	X	✓
Notice fees	✓	X
Insurance (generally)	✓	X
Debt availability	✓	X



Long Dated Ground Rents generally benefit from a higher absolute rental income from each leasehold interest than short-dated Ground Rents. Long Dated Ground Rents, generally, also benefit from additional income from the obligation to arrange the insurance of the building and the ability to charge for permissions under the lease. Short-dated Ground Rents benefit from the increasing reversionary value as a lease comes to an end and the valuation of short-dated Ground Rents tends to more closely follow traditional property asset classes than Long Dated Ground Rents.

The Company will invest in Ground Rents either directly or via one or more SPVs. Pending investment, the unallocated monies shall be held on behalf of the Company in interest-bearing bank accounts.

### **Portfolio**

The Portfolio, which has been acquired since August 2012, comprises the assets as set out in the valuation report in Part 6 of this document and includes Beetham Tower in Manchester, Gatehaus in Bradford, phases 1 and 2 of the Masshouse in Birmingham, Clapham One in London, One Park West in Liverpool and The Gateway in Leeds.

The Beetham Tower was designed by Ian Simpson and stands at over 168m high, which makes it the highest building in Manchester and one of the tallest residential blocks in Europe. The Beetham Tower is home to the Hilton Manchester Deansgate Hotel, which takes up the first 23 floors of the building, as well as 216 apartments, which are housed on the remainder of the 47 floors.

The Gatehaus development in Bradford has won a number of awards including ‘building of the year’ at the Bradford District Design awards. It includes 142 apartments, a car park and commercial space.

The two phases of the Masshouse development in Birmingham are in the heart of an area known as “Eastside”, Birmingham’s learning, heritage and technology quarter and in aggregate comprises 340 apartments and 2 commercial units.

Clapham One is a Public Private Partnership scheme in the London Borough of Lambeth, comprising 199 apartments, in two blocks, the larger of which, The Library Building, is a Gaudi inspired twelve storey development of 136 units.

One Park West, in central Liverpool is a 356 apartment, mixed use development, incorporating offices, restaurants, cafes and parking, designed by architect Cesar Pelli, the designer of the Petronas Towers in Kuala Lumpur and was developed by the Duke of Westminster’s Grosvenor Group,

The Gateway is a major mixed-use development located in Leeds city centre. The development, situated at the end of The Calls, comprises 552 residential apartments, the Etap hotel and retail units.

The Company has also purchased a portfolio of ground rents consisting of 541 units, largely made up of houses throughout the North West and Midlands from Morris Homes Limited.

### **Pipeline**

The Investment Adviser is in active dialogue with a number of operators/vendors of Ground Rents and it is expected that the Investment Adviser will source investment opportunities through its network of relationships with property investors and developers. It is anticipated that the Company’s investments will be sourced through (i) off market transactions through a combination of approaches to or from existing investors looking to dispose of their interests, (ii) open market purchases and (iii) the creation of Ground Rents through the insertion of head leaseholds into existing lease structures.

In addition to the Portfolio, the Investment Adviser has identified a strong pipeline of over £30 million Ground Rents assets for the Company to potentially acquire including some large, UK national Ground Rent portfolios.

	<i>Location</i>	<i>Units</i>	<i>GR Income</i> <i>(£)</i>	<i>Anticipated</i> <i>transaction</i> <i>value</i> <i>(£)</i>	
In Legals:	North West	205	35,170		
	North West	198	34,650		
	London	26	10,000		
	North East	80	11,775		
	South West	117	26,150		
	London	313	217,600		
	North West	262	65,600		
	North East	67	35,270		
			<u>1,268</u>	<u>436,115</u>	<u>10,585,000</u>
Commercial Terms Agreed:	North West	650	36,500		
	National	1,758	484,055		
	South East	49	52,038		
	South East	198	43,950		
			<u>2,665</u>	<u>616,543</u>	<u>13,990,000</u>
Initial discussions with vendor regarding Heads of Terms:	South East	1,702	129,565		
	North West	103	25,750		
	South East	153	15,300		
	North East	1,085	175,290		
	North East	190	38,000		
	South East	150	66,454		
	North West	961	101,091		
	National	2,258	464,420		
	National	2,118	583,433		
	North East	200	80,800		
	London	396	220,375		
	North East	1	68,740		
			<u>9,317</u>	<u>1,969,218</u>	<u>40,598,000</u>
			<u>13,240</u>	<u>3,021,876</u>	<u>65,173,000</u>

### **Investment Restrictions**

The Directors intend that no single Ground Rent property should represent more than 25 per cent. of the gross asset value of the Company at the time of investment.

The Directors do not currently intend to expose the Company to any hedging transactions, although, at the sole discretion of the Directors, the Company may utilise hedging, financial and money market instruments in the management of its assets and risk.

The Company may reinvest both realised invested capital and any profits that have not been distributed, subject to distributing 90 per cent. of distributable income profits arising from the Group's Qualifying Property Rental business in each accounting year in order to comply with the Company's REIT obligations.

In accordance with the CISX Listing Rules from First Admission, the Company will not materially change the principal investment objectives and policies set out in this Listing Document for a minimum period of three years from the date of First Admission, without the prior consent of a majority of Ordinary Shareholders.

### **Investment Process**

The Company seeks to own and manage a diverse Portfolio consisting of freehold and Long Dated head leases.

It is the Investment Adviser's role to source investment opportunities. Once a potential opportunity has been identified, the Investment Adviser will carry out initial high level due diligence (i) to assess whether or not the target asset(s) complies with the Company's investment policy, and (ii) to scope the likely financial, legal and valuation parameters of any transaction. The Investment Adviser will have the authority to make a non-binding offer on an investment opportunity subject to Board approval.

At this point an initial investment proposal will be presented to the Directors who will make an assessment of the proposal to determine whether the opportunity complies with the investment policy of the Company. The Directors will then approve the making of a non-binding offer to a vendor that would be subject, amongst other things, to satisfactory due diligence and valuation.

In all cases after the due diligence phase, the Investment Adviser will make detailed recommendations to the Board and the relevant subsidiary for their consideration and approval. The Board will then make a decision to approve or not approve the investment.

### **Ongoing management**

The Company will monitor its completed investments on a regular basis. On a quarterly basis, the Investment Adviser will present a review of the Portfolio, summarise its performance and provide comparison to the agreed target investment criteria and highlight any management issues of the Portfolio. The Portfolio will be independently valued annually, with a directors' valuation on a semi annual basis. In addition, the Portfolio will be independently valued at the Convertible Preference Share Conversion Time for the purpose of calculating the Convertible Preference Share Conversion Ratio.

### **Borrowing**

The Group does not intend to make use of structural or long-term debt facilities for investment purposes. There may be limited circumstances in which borrowing would be considered as a short-term funding strategy to generate future fundraising. This would be in a scenario where an attractive portfolio of assets was available to be acquired in a corporate structure which had some existing borrowings within its corporate vehicles. In addition, once the Company is fully invested it may be beneficial to secure a low level of gearing to enable further assets to be acquired by the Company ahead of any proposed further equity fund-raising. This would offer investors the benefit of visibility on asset purchases before committing to further investment in the Company. In all cases the gearing anticipated would be limited in scale, to no more than 25 per cent. of the gross assets of the Company, for short-term uses only and would be repaid from the proceeds of any future fundraising.

The Directors regard the Convertible Preference Shares as equity. However, the Convertible Preference Shares will be treated as a liability of the Company for accounting purposes and the dividend will be treated as an interest charge but the Convertible Preference Shares will not form part of the Company's borrowings for the purpose of calculating gearing.

REITS are not subject to any express borrowing restrictions. However, there will be a tax charge if the income profits of the Company's Qualifying Property Rental Business do not cover its related financing costs at least 1.25 times.

### **Dividend Policy**

Subject to compliance with the Companies Act, it is the intention of the Company to distribute at least 90 per cent. of its income profits by way of dividend at least quarterly to Shareholders. The Company's ability to declare dividends (including scrip dividends) is set out in Part 10 sections 4.4 and 4.5 of this document. It is intended that the first payment of the Convertible Preference Share Dividend and the next distribution to the holders of Ordinary Shares will be in June 2013. In determining the amount to be distributed by way of dividend to Shareholders, the Board shall have regard to the requirement for the Company (as a REIT) to distribute to Shareholders at least 90 per cent. of the income profits arising from the Group's Qualifying Property Rental Business. The amount of the dividend per Ordinary Share paid in respect of the current financial year ending 30 September 2013 (as at the date of this document) was 0.35 pence per Ordinary Share for the period to 31 December 2012 paid as a Non-PID Dividend, and 0.6 pence per Ordinary Share for the period to 31 March 2013, paid as a PID Dividend. The Directors have set a target dividend yield for the period ending 30 September 2013 of either (i) no less than 2.6 per cent., on the assumption that no further assets are acquired between the date of this document and 30 September 2013, or (ii) no less than 3.0 per cent., on the assumption that the Company continues to acquire assets in the pipeline at an even rate between the date of this document and 30 September 2013. The Directors have also set an annualised target dividend yield of 4.4 per cent. per annum, calculated on the Placing Price and on the assumption that all of the net proceeds from the Placing have been invested in accordance with the Company's investment strategy and that the Convertible Preference Shares issued under the Placing have been converted into Ordinary Shares.

Subject to compliance with the Companies Act, the Company will also pay the fixed cumulative preferential dividend to holders of Convertible Preference Shares, as described in the section above headed "Placing".

### **Share Buybacks**

The Company may seek to address any significant imbalance between the supply of and demand for Ordinary Shares in the secondary market and to manage the discount to the NAV at which its Ordinary Shares may be trading by purchasing its own Ordinary Shares in the market on an *ad hoc* basis.

The Company may purchase Ordinary Shares in the market at prices which represent a discount to the prevailing NAV per Ordinary Share so as to enhance the NAV per Ordinary Share for the remaining holders of Ordinary Shares. So as to allow for this, the Company cancelled its share premium account, thereby creating a reserve which may be treated as capital profits and could be used for purchasing Ordinary Shares. A special resolution became effective on First Admission, granting the Company authority to make market purchases of up to 14.99 per cent. of its own issued Ordinary Shares (such market purchase authority to be triggered only in the event that the share price discount to NAV exceeds 5 per cent. and subject to the Company having sufficient distributable reserves). The maximum price (exclusive of expenses) which may be paid for an Ordinary Share must not be more than 5 per cent. above the average of the mid-market values of the Ordinary Shares for the five Business Days before the purchase is made. Although Ordinary Shares will be repurchased only at prices below the NAV per Ordinary Share, which should have the effect of increasing the NAV per Ordinary Share for remaining Shareholders.

A renewal of the authority to make market purchases will be sought from Ordinary Shareholders at each annual general meeting of the Company. Purchases of Ordinary Shares will be made within guidelines established from time to time by the Board. Any purchase of Ordinary Shares would be made only out of the available cash resources of the Company. Ordinary Shares purchased by the Company may be held in treasury or cancelled.

Purchases of Ordinary Shares may be made only in accordance with the Companies Act and the CISX Listing Rules.

## **Convertible Preference Shares**

The Convertible Preference Shares will, on issue, be entitled to a fixed cumulative preferential dividend at an annual rate of 2 (two) per cent. of the amount paid up on the Convertible Preference Shares. Such dividend shall be payable quarterly. The Convertible Preference Shares will be treated as a liability of the Company for accounting purposes and the dividend will be treated as an interest charge, but the Convertible Preference Shares will not form part of the Company's borrowings for the purpose of calculating gearing. The Convertible Preference Shares are freely transferable, confer no right of redemption, and are non-voting, save where the dividend referred to above is unpaid.

The Convertible Preference Shares shall be converted into Ordinary Shares at a ratio based on the net asset value per Convertible Preference Share and the net asset value per Ordinary Share at the Convertible Preference Share Conversion Time. The Directors confirm that, save where they otherwise consider it to be in the best interests of the Company to do so, they do not intend to convert the Convertible Preference Shares into Ordinary Shares until the earlier of (a) 12 months after Admission and (b) such time as the Property Manager has given notice to the Directors that 90 per cent. of the subscription monies attributable to the Placing have been invested or committed to be invested.

Further details on the terms of the Placing and the Convertible Preference Shares are set out in Parts 4 and 5 of this document.

## **Warrants**

Under the First Placing, the Company issued 9,648,460 Warrants. Each Warrant entitles its holder to subscribe for one Ordinary Share at a subscription price of £1.00 (subject to adjustment) on the anniversary of First Admission for the following ten years. Following First Admission the Warrants have been traded on CISX and SETSqx separately from the Ordinary Shares and are capable of transfer independently of the Ordinary Shares. Further details of the terms and conditions of the Warrants are set out in Part 7 of this document. The Warrants are in registered form and are eligible for settlement in CREST.

## **Life of the Company**

The Company will not have a fixed life. The Articles require the Directors to convene a general meeting after the tenth anniversary of First Admission but on or before the eleventh anniversary of First Admission at which a Wind-up Resolution will be proposed.

If the Wind-up Resolution referred to above is not passed, the Directors will be required to convene a general meeting on the fifteenth anniversary of First Admission at which a Wind-up Resolution will be proposed (and the same process will apply in each 5 year period thereafter).

## **Treasury policy, custody of assets and cash flow management**

Pending investment, the Company intends to hold any cash on interest bearing bank accounts.

The Directors intend to ensure that surplus cash will be managed with regard to: (i) ensuring that the Group will have sufficient resources to finance running costs and potential acquisitions on the basis of conservative assumptions; (ii) delivering appropriate returns on cash balances having regard to the Group's policy not to expose cash balances to significant risk; and (iii) limiting exposures through counterparty diversification.

The Portfolio is and will continue to be held by SPVs incorporated specifically for the purpose of the acquisition. Documents of title relating to such properties will be held by the Company's lawyers. The Directors do not expect the Company to have assets requiring formal custody arrangements.

## **Costs and Expenses**

The Directors intend to fund the costs of the Placing (including Placing commissions) and Admission from the proceeds of the Placing. The costs of the Placing attributable to the Placing Agent's fees and commissions will depend on the level of the gross proceeds of the Placing. The expenses attributable to the Company will be 2 per cent. of the aggregate gross proceeds of the Placing. The Company will use the net proceeds of the

Placing to meet the costs associated with investigating and transacting property investments that will include acquisition costs such as due diligence costs, agency fees, legal and tax advice, taxes and purchase price.

The Company will bear the fees and out-of-pocket expenses properly incurred in the performance of the duties of the Investment Adviser and will in addition meet all its own costs and expenses, including the costs and expenses of the Directors, advisers, consultants, surveyors and other agents engaged on its behalf, commissions, banking fees, legal expenses, insurance costs, regulatory fees, acquisition and disposal fees, auditors, listing costs and the costs of distribution of reports and accounts and similar documentation to Shareholders. Acquisition costs for the purchase of Ground Rents will be borne by the Company, which will include SDLT, legal fees, agency fees for entities that introduce transactions and any associated property due diligence costs. SDLT is due at rates of up to 4 per cent. on residential ground rents (assuming a collection (six or more) of individual residential leases are acquired as part of one Ground Rent acquisition; higher rates of SDLT can apply in certain other circumstances such as where fewer than six residential leases are acquired). This can, in certain circumstances, be reduced to stamp duty at 0.5 per cent. through acquiring the shares in the SPVs which own the assets that are being acquired. Legal fees and property due diligence costs will be based on the scope of work completed on each acquisition. Typically in the Ground Rent sector, agency fees of up to 2 per cent. plus VAT will be due to the introducing party.

### **Valuation Policy**

It is the Board's intention that the Portfolio will be independently valued on an annual basis, with a Directors' valuation on a semi annual basis. In addition, the Portfolio will be independently valued at the Convertible Preference Share Conversion Time for the purpose of calculating the Convertible Preference Share Ratio. The annual independent valuations will be undertaken in accordance with the appropriate sections of the Red Book. This is an internationally accepted basis of valuation. The valuation will be reviewed by the Board or a committee of the Board. An abridged annual valuation will be set out in the Company's annual report and accounts.

### **Financial Information**

The Company has a financial year end of 30 September. The Company's annual report and consolidated accounts will be prepared up to this date each year and copies of the report and accounts will be sent to Shareholders and Warranholders within the following 6 months. Shareholders and Warranholders will also receive an unaudited interim report covering the six month period to 31 March in each year, which will be dispatched to Shareholders and Warranholders within the following two months. The Interim Statement for the six months ended 31 March 2013 is expected to be sent to Shareholders on or around 9 May 2013. Shareholders and Warranholders will be sent updates on the Group's activities as and when appropriate.

The audited accounts of the Group are prepared under International Financial Reporting Standards ("IFRS"). Under IFRS, the Group will prepare an income statement which, unlike a statement of total return, does not differentiate between revenue and capital and also includes net realised and unrealised investment gains such as revaluation gains or losses. The Company's basic management and administration fees, and all other expenses will be charged through the income statement. The audited accounts will be sent to Shareholders and Warranholders in electronic form.

The unaudited interim report and audited accounts will be available for inspection during normal business hours on any weekday (Saturdays, Sundays and public holidays excepted) at the Company's registered office and Appleby Securities (Channel Islands) Ltd.

### **Net Asset Value**

The unaudited Net Asset Value per Ordinary Share at 31 March 2013 is 94.35 pence. The Net Asset Value per Ordinary Share and Net Asset Value per Convertible Preference Share will be calculated by the Investment Adviser and will be published on a semi-annual basis, based on the most recent valuation of the Portfolio and calculated under IFRS. The Net Asset Value per Ordinary Share and Net Asset Value per Convertible Preference Share will be published through a regulatory information service provider as soon as practicable after the end of the relevant period. A summary of the valuation and the Net Asset Value per

Ordinary Share and Net Asset Value per Convertible Preference Share will also be provided to the CISX as soon as practicable following calculation.

It is expected that the next Net Asset Value per Ordinary Share and first Net Asset Value per Convertible Preference Share following Admission will be calculated as at 30 September 2013.

The diluted Net Asset Value per Ordinary Share will be calculated by dividing the Net Asset Value which the Directors attribute to Ordinary Shares on the relevant date by the total number of Ordinary Shares in issue on that date (other than Ordinary Shares held in treasury) adjusted to take account of the dilution (if any) which would arise from the exercise of all the Warrants then in issue.

### **Further Issues and pre-emption rights**

The Company may seek to raise further equity capital following Admission in order to accelerate its business plan and acquire assets in accordance with the Company's investment policy. Such further fundraising cannot, however, be guaranteed.

Under the terms of the Articles, the issue of further Ordinary Shares or Convertible Preference Shares is subject to pre-emption rights in favour of existing Shareholders as provided for in the Companies Act. It is intended that at each AGM of the Company, a special resolution will be proposed by the Company to disapply any pre-emption rights of the Shareholders for an issue of up to 10 per cent., in any 12 month rolling period, of the Company's Ordinary Shares. Unless Ordinary Shareholders approve otherwise in a general meeting, issues in excess of this amount for cash will be offered on a pre-emptive basis in accordance with the Companies Act. A current authority for such non-pre-emptive issues of Ordinary Shares is in place and will expire on the earlier of 23 October 2013 or, if earlier, the next AGM of the Company.

As a closed-ended company listed on the CISX, other than through the exercise of Warrants granted subject to the CISX Listing Rules, Shares of the same class may not be issued at a price which is less than the Net Asset Value per Share of that class, at the time of such issue unless authorised by a majority of Shareholders of that class voting at a general meeting of the Company or offered first on a *pro rata* basis to those Shareholders.

### **The City Code**

The City Code applies to the Company. See paragraph 8 of Part 10 of this document for further information in respect of the application of the City Code to the Company.

The City Code governs, *inter alia*, transactions which may result in a change of control of a public company to which the City Code applies. Under Rule 9 of the City Code ("**Rule 9**"), any person who acquires an interest (as defined in the City Code) in shares which, taken together with shares in which he is already interested and in which persons acting in concert with him are interested, carry 30 per cent. or more of the voting rights of a company which is subject to the City Code, is normally required to make a general offer to all the remaining shareholders to acquire their shares.

Similarly, when any person, together with persons acting in concert with him, is interested in shares which in the aggregate carry not less than 30 per cent. of the voting rights of such a company but does not hold shares carrying more than 50 per cent. of such voting rights, a general offer will normally be required if any further interests in shares are acquired by any such person.

An offer under Rule 9 must be made in cash and at the highest price paid by the person required to make the offer, or any person acting in concert with him, for any interest in shares of the company during the 12 months prior to the announcement of the offer.

Persons acting in concert comprise persons who, pursuant to an agreement or understanding (whether formal or informal), co-operate to obtain or consolidate control of a company or to frustrate the successful outcome of an offer for a company.

### **Structure as a Real Estate Investment Trust**

Since the Company has joined the REIT regime, it has a tax efficient corporate structure for certain classes of investor with the consequences for UK Shareholders described in Part 9 of this document.

As a REIT:

- the Group does not pay UK corporation tax on profits and gains from its UK Qualifying Property Rental Business; and
- the Company is required to distribute to Shareholders at least 90 per cent. of the income profits arising from the Group's Qualifying Property Rental Business.

Under the REIT regime set out in Part 12 of the Corporation Tax Act, a tax charge may currently be levied on the Company if certain conditions are breached and in particular if it were to make a distribution to a Substantial Shareholder. The Articles contain provisions relating to Substantial Shareholders as set out in paragraph 4.22 of Part 10 of this document.

Information regarding United Kingdom taxation for Shareholders is set out in Part 9 of this document.



## PART 2

### MANAGEMENT AND ADMINISTRATION

#### **The Investment Adviser**

The Investment Adviser is authorised by the FCA as a fund manager, as an operator of collective investment schemes. It is a wholly owned subsidiary of Brooks Macdonald and was incorporated in England and Wales with limited liability on 6 March 2006 with its registered office at 111 Park Street, Mayfair, London W1K 7JL.

Brooks Macdonald is an AIM quoted, integrated private client discretionary asset management and financial advisory business. At 31 March 2013 Brooks Macdonald had £4.97 billion in funds under management, which represents an increase of 42 per cent. compared with the funds under management at 31 March 2012.

#### **The Property Manager**

The Property Manager, is a wholly owned subsidiary of Brooks Macdonald and was incorporated in England and Wales with limited liability on 13 March 2001, with its registered office at Richmond House, Heath Road, Hale, Cheshire WA14 2XP.

The Property Manager manages a diverse property portfolio worth over £1 billion in the UK on behalf of freeholders and leaseholders. It has provided property advisory and management services to both funds operated by Brooks Macdonald and external clients for over 10 years. The business has grown significantly over the past three years increasing its assets under management from under £250 million to over £1 billion as at 31 March 2013. This growth has been as a result of the Investment Adviser's and the Property Manager's relationships within the finance, banking and fund management industries, undertaking large scale asset management instructions for some of the world's leading financial institutions and corporate investors.

The Property Manager has established itself as a leading player in national property management as evidenced by its recent nomination for 'Asset Manager of the Year 2012' by Property Week. The business has developed a specialization for managing large scale residential and mixed use developments from its network of offices in London, Manchester and Leeds.

As part of Brooks Macdonald, the Investment Adviser and Property Manager share a number of common staff and, together, have:

- a long-term track record in asset management;
- expertise in investing in the real estate sector including Ground Rents;
- a deep understanding of the Ground Rent market; and
- experience of acquiring and managing Ground Rent investments.

#### **The Management Team**

##### **Simon Wombwell** (*Non-executive Director*) (*aged 51*)

Simon is Chief Executive Officer of the Investment Adviser and a director of Brooks Macdonald Group plc. He joined Brooks Macdonald as an executive director in a full time capacity in February 2011 having been a non executive director since 2002. Simon has spent his entire career in the financial services industry and previous roles include, Head of Sales and Marketing at Scottish Widows Investment Partnership, Managing Director of Newton Fund Managers Limited and Managing Director of Royal Bank of Scotland Unit Trust Managers. Simon is an Associate of the Society of Investment Professionals.

**Martin Robinson** (*aged 54*)

Martin is the Chairman of the Investment Adviser and of the Property Manager. He has been engaged in the financial services industry for 25 years. He was previously Chief Executive of Henry Cooke Group plc, a stock broking and investment management business that included Henry Cooke Lumsden plc and the Solus range of unit trusts, and was a director of Brown, Shipley and Company Limited, a private bank. He is and has acted as the Company Secretary of a number of public and private companies. He is a Chartered Accountant.

**James Agar** (*aged 33*)

James is Investment Director of the Investment Adviser, concentrating on fund management, property acquisition and financial relationship management. He also sits on the board of the Property Manager, and is a member of the Institute of Residential Property Managers (IRPM). James is the Alternate Director of each of the Braemar PCC's offshore property funds with lead responsibility for the Student Accommodation Cell. James' background is primarily investment banking, with the likes of Barclays and Singer & Friedlander, having focussed on specialist real estate funding since 2004. James has a BA (Hons) in Business and Marketing, and attended Harvard Business School in 2010.

**Chris March** (*aged 48*)

Chris has recently joined the Property Manager in the newly created post of Chief Executive. Chris has over 30 years of property management experience. Prior to joining the Property Manager, he was the Property Director of Allsop Residential Investment Management (ARIM), where he was responsible for its property and block service delivery throughout the UK. Prior to this, Chris was a Director of Countrywide Managing Agents and Countrywide Residential Lettings, where he held a number of senior roles which included heading their national leasehold business. He is an Associate of the Royal Institution of Chartered Surveyors and a member of the Institute of Residential Property Management.

**Neil Roberts** (*aged 51*)

Neil is Managing Director of the Property Manager and is responsible for its property management operations. Previously, Neil worked on secondment from Lambert Smith Hampton to Manchester Airport handling asset management assignments for Manchester Airport Group and Manchester City Council. In 1987, Neil joined Knight Frank's Hong Kong office and handled the office leasing agency on the newly completed 70 storey Bank of China Tower. Neil subsequently joined the First Pacific Group and played a key role in their business expansion into Thailand. Neil qualified as a Chartered Surveyor in 1986.

**Emma-Jayne Enright** (*aged 35*)

Emma-Jayne is Head of Fund Accounting for the Investment Adviser. She is a Chartered Accountant with 11 years post-qualification experience. Emma-Jayne is responsible for a small team who manage the accounting, reporting and tax compliance for each of the property funds advised by the Investment Adviser. Emma-Jayne qualified in practice then worked for two global listed companies before joining the Investment Adviser in 2010.

**Debbie Yarrow** (*aged 45*)

Debbie is the Head of Finance at the Property Manager and is responsible for a team of nine accounting professionals who provide the accounting and reporting functions for the Property Manager. Debbie was previously financial controller for Braemar Group and has worked for the Property Manager for over six years. Debbie is ARLA and IRPM qualified.

**Terms of appointment of the Investment Adviser**

Pursuant to the Investment Adviser Agreement, the Investment Adviser will be appointed for an initial term of three years from Admission. The appointment may be terminated by either party by providing not less than nine months' written notice on the other provided that such notice shall not expire before the third

anniversary of the appointment. The appointment can be terminated without notice in certain limited circumstances such as default and insolvency, or upon the change of control of the Investment Adviser (other than on a takeover of Brooks Macdonald).

The Investment Adviser will be responsible for locating properties and preparing acquisition appraisals and budgets, for consideration by the Directors prior to acquisition, and will act as agent of the Company (as freeholder in collecting the Ground Rents and placing the insurance). The Investment Adviser has delegated the role of collecting the Ground Rents to the Property Manager. During the agreement period, the Investment Adviser is obliged to offer all properties within the investment objective and policy to the Company before offering them to any other party.

Where the Property Manager is appointed as the managing agent of an apartment block it will be responsible for collecting the service charges, ensuring that the common parts are properly maintained and dealing with any enquiries from leaseholders. As is customary, the fees for acting as management agent are taken from the service charge and will not be an expense of the Company.

The Investment Adviser's fees (other than fees for acting as managing agent of an apartment block) are detailed on page 28 of this document and will be payable by the Company or by a wholly owned subsidiary of the Company.

The Investment Adviser will be responsible for the management of the assets and the day-to-day operations of the Company, including, but not limited to, the responsibilities defined below:

#### ***Administration, Reporting and Treasury Services***

- nominating suitable persons to act as company secretary in Guernsey and the UK, and nominating representatives to attend board meetings and prepare full minutes (however the expense of such company secretarial services are to be borne by the Company);
- carrying on the book keeping of the Company;
- engaging such advisers and consultants as are necessary;
- commencing or defending litigation that pertains to the Company or any subsidiary of the Company;
- ensuring that all general administrative functions are carried out;
- maintaining accounting records and a record of all information on the Portfolio;
- supplying monthly management accounts and quarterly reports to the Company;
- maintaining and operating a client money bank account;

#### ***Transaction Management***

- locating suitable properties for acquisition and providing the Company with a proposal for each property;
- progressing the acquisition of the proposed property through to completion;
- identifying and investigating sale opportunities for any of the properties and providing the Company with notice of such sale opportunity;
- managing the sales programme through to completion;

#### ***Property Management Services***

- collecting all ground rent and other payments due and pursuing any legal proceedings to recover arrears;
- arranging for insurance cover for the properties where relevant;

- informing the Company of all events relating to the properties or its services which in its reasonable opinion are likely to have an effect upon any of the properties and advising the Company on a recommended course of action including the sale of any of the properties if relevant;
- advising the Company of any works which in its reasonable opinion could be done economically to enhance the present or future income or capital value of the properties; and
- attending meetings of Board of Directors as and when requested.

### ***Personnel***

The Investment Adviser is required to devote such time as may be required to enable it to fulfil its obligations under the Investment Adviser Agreement. In particular, it shall ensure that personnel of the requisite level of skill and experience are actively and directly involved on an ongoing basis in the provision of the services to the Company.

### ***Management Fee***

The Directors have sought to structure appropriate fees and incentive payments payable to the Investment Adviser that provide a balance between incentivisation and alignment with Shareholder interests. The Investment Adviser is entitled to an initial fee of £210,000 per annum on Admission, increasing to £270,000 per annum once 50 per cent. of the subscription monies attributable to the Placing have been invested, payable monthly in arrears. The Investment Adviser is also entitled to retain 50 per cent. of all insurance commission relating to the properties. It has been agreed that in each accounting period where the then current Management Fee plus the amount of insurance commission the Investment Adviser retains is in excess of 0.55 per cent. of the average market capitalisation of the Company for that accounting period, the Investment Adviser will pay an amount equal to the excess to the Company by way of refund from the Management Fee.

### ***Agency Fee***

Upon completing the purchase of a property which has been introduced by the Investment Adviser and where no other agency fees are payable, the Investment Adviser shall be entitled to an agency fee of 2 per cent. of the purchase price of such property. Where the third party fee is less than 2 per cent. of the purchase price for the Property, the Investment Adviser will be entitled to an additional agency fee equal to 50 per cent. of the difference between 2 per cent. of the purchase price and the third party agency fee.

### ***Professional Indemnity Insurance***

Throughout the term of the agreement, the Investment Adviser is obliged to maintain professional indemnity insurance for a minimum amount of £1 million per claim and that cover is to remain in place for three years following termination of the agreement.

### ***Right of first refusal***

Under the Investment Adviser Agreement, the Investment Adviser undertakes that it (and any other fund managed by the Investment Adviser or an associate of the Investment Adviser) will not acquire or take options over any property falling within the Company's investment objectives unless it is first offered to the Company. If the Company does not take up such offer, the Investment Adviser can introduce the property to an associate of the Investment Adviser or another third party provided that the purchase price shall not be less than that offered to the Company and other commercial terms shall not be better than those offered to the Company.

### ***CISX Listing Sponsor***

The Sponsor acts as the sponsor to the listing of the Ordinary Shares and the Warrants on the Official List of the CISX and will also act as sponsor for its application for admission of the Convertible Preference Shares to the Official List of the CISX. For the provision of these services, the Sponsor is entitled to an annual fee of £4,000, payable in advance in April each year (and is entitled to a *pro-rata* fee in relation to the period from the First Admission to April 2013). In addition to the annual fee, the Sponsor is entitled to

receive additional fees on a time incurred basis where the time spent by the Sponsor in advising the Company exceeds four hours in any given year. Further details of the Sponsorship Agreement are set out in paragraph 11.6 of Part 10 of this document.

### **Registrar**

The Company has engaged the Registrar to provide it with registration services, which will entail, among other things, the Registrar having responsibility for the maintenance of the share and warrant registers, maintenance of dividend payment instructions and arranging the issue, allotment, transfer and/or purchase of shares in accordance with the Articles. For these services, the Registrar is entitled to receive a basic fee based on the number of Shareholder accounts, subject to an annual minimum charge of £7,500 (payable quarterly in arrears) in the first year and £5,000 in subsequent years. In addition to the basic fee, the Registrar is entitled to receive additional fees for specific actions.

## PART 3

### DIRECTORS AND CORPORATE GOVERNANCE

#### The Board

The Board comprises three non-executive Directors. Two of the directors, including the Chairman, are independent of the Investment Adviser. Each of the Directors has signed a letter of appointment to formalise in writing the terms of his appointment.

The Directors have been selected to give Shareholders the benefit of their real estate, fund management, financial services and business experience. The Directors have overall responsibility for the Company's activities, including the review of its investment activities and performance. They have primary responsibility for determining the Company's overall investment objectives and strategy and for implementing them. The Board is also responsible for supervising and reviewing the activities of the Investment Adviser. The Board will meet at least four times a year to review the Company's investment policy and will meet on an *ad hoc* basis to approve acquisitions.

The directors of the Company are:

**Malcolm Naish** (*Non-executive Chairman*) aged 60 of 111 Park Street, London W1K 7JL

Malcolm was a director of Real Estate at Scottish Widows Investment Partnership (SWIP) until June 2012 and was responsible for overseeing its portfolio of commercial property assets across the UK, Europe and North America.

Malcolm has over 40 years' experience of working in the real estate industry. Prior to joining SWIP, he was director and head of DTZ Investment Management, where he was responsible for business development in the UK and in international markets. He was also a founding partner of Jones Lang Wootton Fund Management, and UK managing director of LaSalle Investment Management. In 2002, he co-founded Fountain Capital Partners, a pan-European real estate investment manager and adviser.

Malcolm qualified as a chartered surveyor in 1976. He was Chairman of the Scottish Property Federation (SPF) 2010 to 2011.

**Simon Wombwell** (*Non-executive Director*) aged 51 of 111 Park Street, London W1K 7JL

Simon is Chief Executive Officer of the Investment Adviser and a director of Brooks Macdonald. He joined Brooks Macdonald as an executive director in a full time capacity in February 2011 having been a non executive director since 2002. Simon has spent his entire career in the financial services industry and previous roles include, Head of Sales and Marketing at Scottish Widows Investment Partnership, Managing Director of Newton Fund Managers Limited and Managing Director of Royal Bank of Scotland Unit Trust Managers. Simon is an Associate of the Society of Investment Professionals.

**Paul Craig** (*Non-executive Director*) aged 43 of 111 Park Street, London W1K 7JL

Paul is a Director of Multi-Manager at Henderson Global Investors. He has over 20 years of investment experience, including 10 years at Exeter Investment Group and 6 years at New Star Asset Management, where Paul was a director of the asset management subsidiary. During the past 18 years, his focus has been multi-manager products with an emphasis on closed-end funds. Paul is an Associate of the UK Society of Investment Professionals.

The company secretary of the Company is **Martin Robinson**. A summary of Martin's experience can be found at Part 2 of this document.

## **Corporate Governance**

As a listed company, the Company is not required to comply with the UK Code on Corporate Governance. However, the Directors place a great deal of importance on ensuring that high standards of corporate governance are maintained and will seek to take appropriate measures to ensure that the Company complies with the UK Code on Corporate Governance to the extent appropriate and taking into account the size of the Company and the nature of its business.

### ***Independent non-executive Directors***

The UK Corporate Governance Code recommends that, in the case of smaller companies below the FTSE 350, at least two non-executive members of the board of directors (excluding the Chairman) of a public limited company should be independent in character and judgment and free from relationships or circumstances which are likely to affect, or could appear to affect, their judgment.

On Admission, the Board will continue to be composed of three Directors. The Board has carefully considered the Directors' independence and has determined that the Directors will discharge their duties in an independent manner. Malcolm Naish and Paul Craig are deemed to be independent and will continue to be independent at Admission.

Simon Wombwell is also a director of Brooks Macdonald, the Investment Adviser and Braemar Group and is therefore considered to have an interest in any agreement between the Company and the Investment Adviser and/or the Property Manager (as both the Investment Adviser and the Property Manager are subsidiaries of Braemar Group which is a subsidiary of Brooks Macdonald). It has been agreed between the Company, Simon Wombwell, the Investment Adviser and the Property Manager that, in the event of a dispute between the Company and the Investment Adviser and/or the Property Manager, Simon Wombwell will represent the Company and the other directors of the Property Manager and/or the Investment Adviser will represent that company. It is also agreed between the Company, Simon Wombwell and Investment Adviser that, in the event of a dispute between the Company and Brooks Macdonald, Simon Wombwell will represent the Company and the other directors of the Investment Adviser will represent that company.

Accordingly, on Admission, the Company will continue to comply with the provisions of the UK Corporate Governance Code applicable to smaller companies that at least two members of the Board should be independent non-executive directors.

### ***Board Committees***

The Board has established the Audit Committee and the Management Engagement Committee.

The Audit Committee comprises Simon Wombwell who chairs the committee and Malcolm Naish. The Audit Committee will meet at least once a year and will, *inter alia*, review the financial reporting process and system of internal control and management of financial risks (including understanding the current areas of greatest financial risk and how these are managed, reviewing annual financial statements, assessing the fairness of preliminary and interim statements and disclosures and reviewing the external audit process). The Audit Committee will be responsible for overseeing the Company's relationship with the external auditors, including making recommendations to the Board on the appointment of the external auditors and their remuneration. The Audit Committee will consider the nature, scope and results of the auditors' work and reviews, and develop and implement policy on the supply of any non-audit services that are to be provided by the external auditors. It will receive and review reports from the Company's external auditors relating to the Company's annual report and accounts. The Audit Committee will focus primarily on compliance with legal requirements, accounting standards and the CISX Listing Rules and ensuring that an effective system of internal financial and non-financial controls is maintained. The ultimate responsibility for reviewing and approving the annual report and accounts will remain with the Board.

The Management Engagement Committee comprises Malcolm Naish, who chairs the committee, and Paul Craig. The committee will meet not less than once a year. The function of the committee is to ensure that the Investment Adviser complies with the terms of the Investment Adviser Agreement and that the provisions of the Investment Adviser Agreement follow industry practice and remain competitive and in the best interests

of Shareholders. The Management Engagement Committee will also consider the appointment, remuneration and performance of suppliers of services to the Company.

The Directors do not intend to establish remuneration or nomination committees as the Directors do not believe that such committees would be appropriate given the nature of the Company's operations. The Board will review annually the remuneration of the Directors and agree the level of non-executive fees. Consideration will be given by the Board to future succession plans for Board members as well as consideration as to whether the Board has the skills required to manage the Company effectively. The assessment of the performance of the Chairman will be determined by the other Directors. The Board will take all reasonable steps to ensure compliance by the Directors and any employees with the provisions of the CISX Listing Rules and the CISX Model Code for Securities Transactions for Directors which enumerates the general principles for conduct of directors of CISX listed companies.



## PART 4

### THE PLACING

#### General

The Company will issue 38,550,000 Convertible Preference Shares under the Placing at a Placing Price of 100 pence each. Allocations of Convertible Preference Shares will be determined at the discretion of the Company and N+1 Singer. There is no minimum or maximum number of Convertible Preference Shares which can be applied for under the Placing. The Convertible Preference Shares issued under the Placing will rank *pari passu* with each other in all respects, including the right to receive all dividends and other distributions declared, made or paid after the date of Admission.

The rights attaching to the Convertible Preference Shares are set out at Part 5.

The Placing is expected to raise £38.6 million before expenses, from institutional and other investors. Application will be made for 38,550,000 Convertible Preference Shares to be admitted to trading on the Official List of the CISX and to trading on the SETSqx platform of the London Stock Exchange. It is expected that Admission will become effective and dealings in the Convertible Preference Shares will commence on the CISX and SETSqx at 8.00 a.m. on 24 May 2013.

#### The Placing

Under the Placing, the Convertible Preference Shares are being offered by the Company at the Placing Price to institutional and other investors. No Convertible Preference Shares have been sold or are available in whole or in part to the public in the UK or elsewhere in connection with the Placing.

The Placing and investors' participation in it will be conditional on, amongst other things, the approval of Shareholders and Admission occurring not later than 8.00 a.m. on 24 May 2013 or such later date as the Company may decide, not being later than close of business on 30 June 2013. Certain conditions are not capable of waiver.

If the Placing does not become unconditional or is terminated in accordance with its terms prior to Admission, the Placing will not proceed and each investor's rights and obligations will cease and no claims will be capable of being made by any Investor in respect of the Placing and any payments made by the Investor will be returned as soon as possible thereafter without interest.

#### Use of Proceeds

The Directors intend to use the net proceeds of the Placing, to fund future Ground Rent investments as well as to fund the Company's operational expenses. Such expenses include (i) acquisition costs and expenses (such as due diligence costs, legal, tax advice and taxes); (ii) Directors' fees; (iii) fees payable to the Investment Adviser; and (iv) other operational costs and expenses. Suitable acquisition opportunities may not be immediately available. It is likely, therefore, that for a period following Admission and at certain other times (for example, following the disposal of an acquired property), the Company will have surplus cash.

The management fee to be paid to the Investment Adviser will be £210,000 per annum on Admission, increasing to £270,000 per annum once 50 per cent. of the subscription monies attributable to the Placing have been invested, and all other overheads (including Director's fees and audit fees) are expected to be approximately £384,000 per annum. For more information on the management fee, see Part 2 of this document.

#### Admission, Settlement and Dealings

It is expected that Admission of the Convertible Preference Shares will become effective and dealings in the Convertible Preference Shares will commence on the CISX at 8.00 a.m. on 24 May 2013 or shortly thereafter.

The above date and time may be changed.

It is expected that Convertible Preference Shares to be held in uncertificated form will be delivered to the relevant CREST accounts on the day of Admission on a delivery versus payment basis and that share certificates for the Convertible Preference Shares to be held in certificated form will be dispatched within 10 Business Days of Admission. No temporary documents of title will be issued. The Convertible Preference Shares will be in registered form.

The ISIN number for the Convertible Preference Shares is GB00B8DWRG34. The SEDOL for the Convertible Preference Shares is B8Y5RC7 for CISX and B8DWRG3 for SETSqx respectively.

### **CREST**

CREST is a paperless settlement procedure enabling securities to be evidenced otherwise than by a certificate and transferred otherwise than by written instrument. The Articles permit the holding of Ordinary Shares and Convertible Preference Shares under the CREST system. The Company will apply for the Convertible Preference Shares to be admitted to CREST on the date of Admission.

### **Overseas Investors**

This document does not constitute or form part of any offer or invitation to sell or issue, or any solicitation of any offer to purchase or subscribe for, any Shares (i) in any jurisdiction in which such offer, invitation or solicitation is not authorised; (ii) in any jurisdiction in which the person making such offer, invitation or solicitation is not qualified to do so; or (iii) to any person to whom it is unlawful to make such offer, invitation or solicitation. The distribution of this document and any accompanying documents, and the offer and sale of the Shares may be restricted by law. Persons into whose possession this document and any accompanying documents come must therefore inform themselves about and observe any such restrictions. Any failure to comply with these restrictions may constitute a violation of the securities laws of any such jurisdiction. In particular, no document may be distributed, forwarded to or transmitted in, into or from the United States, Australia, Canada, Japan, South Africa or the Republic of Ireland or to any US Person. Any person within the United States and any US Person who obtains a copy of this document must disregard it.

No public offering of the Shares is being made in any jurisdiction. No action has been or will be taken by the Company, the Investment Adviser, N+1 Singer or the Sponsor or their affiliates that would permit the offer or sale of the Shares or possession or distribution of this document or any accompanying documents in any jurisdiction where action for that purpose is required.

The offer and sale of the Shares have not been, nor will they be, registered under the Securities Act, or with any securities regulatory authority of any state or other jurisdiction of the United States. In addition, the Company has not been, and will not be, registered under the Investment Company Act 1940, and investors will not be entitled to the benefits of that Act. The Shares may not be offered, sold, pledged or otherwise transferred or delivered within the United States or to, or for the account or benefit of, any US Person. In connection with the Placing, the Convertible Preference Shares are being offered and sold only outside the United States to, and for the account or benefit of, non-US Persons in “offshore transactions” within the meaning of, and in reliance on the exemption from registration provided by, Regulation S under the Securities Act.

## PART 5

### THE CONVERTIBLE PREFERENCE SHARES

The Convertible Preference Shares are being made available for subscription pursuant to the Placing. The rights attaching to the Convertible Preference Shares are as follows:

#### 1. Definitions

The following definitions apply (for the purposes of this Part 5 only) in addition to or (where applicable) in substitution for, the definitions applicable elsewhere in this document

- (a) **Accountants Report** has the meaning given in paragraph 4(a) below
- (b) **Class** means any class of shares from time to time created by the Company
- (c) **Convertible Preference Share Conversion** means the conversion of that Class of Convertible Preference Shares into Ordinary Shares
- (d) **Convertible Preference Share Conversion Ratio** means the ratio set out in paragraph 4(c) below
- (e) **Payment Date** has the meaning given in paragraph 2(d) below
- (f) **Pool** means a separate pool of assets and liabilities as described in paragraph 3(a) below created for a Class of shares

#### 2. Convertible Preference Shares

- (a) If there are in issue at the same time Convertible Preference Shares carrying different rights, each shall be deemed to be a separate Class. The Directors may if they so decide, designate each Class of Convertible Preference Shares in such a manner as they see fit in order that each Class of Convertible Preference Shares can be identified.
- (b) At a Convertible Preference Share Conversion Time, the relevant Class of Convertible Preference Shares shall be converted into Ordinary Shares in accordance with the provisions of paragraph 4 below.
- (c) Any Class of Convertible Preference Shares shall rank *pari passu* with each other Class of Convertible Preference Shares in issue from time to time.
- (d) The Company shall, without resolution of the Board or of the Company in general meeting and before application of any profits to reserve or for any other purpose first, but subject always to the Articles pay in respect of each Convertible Preference Share, the Convertible Preference Share Dividend in four equal instalments on 31 March, 30 June, 30 September and 31 December (each a **Payment Date**) in each year to the person registered as the holder of such Convertible Preference Share at the relevant Payment Date and which shall accrue daily and be calculated in respect of the period to and including such Payment Date assuming a 365 day year. The first payment in respect of a Class of Convertible Preference Share shall be made for the period from and excluding the date of issue of the relevant Class of Convertible Preference Share until and including the next Payment Date.
- (e) Convertible Preference Shareholders shall have the right to attend, speak and vote at:
  - (i) meetings or general meetings of the relevant Class of Convertible Preference Shareholders in accordance with the provisions of the Articles; and
  - (ii) general meetings of the Company in accordance with the provisions of the Articles only where the Convertible Preference Shares Dividend has been outstanding and unpaid for a period of 2 months and remains so at the date of the relevant general meeting.

- (f) The Convertible Preference Shares shall be transferable in accordance with the Articles as summarised on page 71 of this document.
- (g) The Convertible Preference Shares shall confer no right of redemption.
- (h) On a winding up or other return of capital (other than on a purchase by the Company of Convertible Preference Shares), the holders of the Convertible Preference Shares shall be entitled to receive an amount per Convertible Preference Share equal to:
  - (i) the nominal amount of a Convertible Preference Share together with such premium (if any) as may be determined by the Directors (or by such procedure, mechanism or formula determined by the Directors) prior to the allotment thereof (provided that the Directors shall have regard to the amount which is reasonably comparable to a return on capital generally expected for a share entitled to a fixed dividend which is listed on a recognised stock exchange, and any such premium shall not exceed such specified amount as may be determined by the Directors prior to the allotment thereof); and
  - (ii) all arrears and accruals (if any) of the Convertible Preference Share Dividend payable thereon, whether or not such Convertible Preference Share Dividend has been earned or has become due and payable, to be calculated up to and including the day of such return of capital.
- (i) Convertible Preference Shares shall rank on a winding up in priority to all other shares of the Company from time to time in issue.

### **3. Net Asset Value of Shares**

- (a) If at any time a Class of Convertible Preference Shares is in issue, the Directors shall establish a separate pool of assets and liabilities attributable to each such Class of Convertible Preference Shares, and a single separate pool of assets and liabilities attributable to the Ordinary Shares (each, a **Pool**). For the avoidance of doubt, if a number of Classes of Convertible Preference Shares are in issue, a separate Pool shall be established for each such Class. The Directors shall maintain all the assets, income, earnings, liabilities, expenses and costs of each Pool separate and separately identifiable from all other assets, income, earnings, liabilities, expenses and costs of the Company and other Pools and the following provisions shall apply thereto:
  - (i) any consideration received on, or proceeds from, the allotment and issue of shares of a particular Class shall be applied to the Pool which relates to such Class of shares, and the assets, liabilities, income and expenditure attributable thereto shall be applied only to that Pool subject to the following sub-paragraphs of this Article. On a repurchase of any shares of a particular Class, the assets of the Pool which relates to such Class of shares shall be reduced by an amount equal to the repurchase monies;
  - (ii) for each Pool, the Company shall keep separate books and records in which all transactions relating to that Pool shall be recorded;
  - (iii) any asset derived from any other asset or assets (whether cash or otherwise) comprised in any Pool shall be applied in the books and records of the Company to the same Pool as the asset or assets from which it was derived any increase or diminution in the value of an asset comprised in a Pool shall be applied to that Pool;
  - (iv) in the event that there is any asset of the Company which the Directors do not consider readily attributable to a particular Pool, the Directors shall allocate such asset in such manner and on such basis as they in their discretion deem fair and equitable and the Directors shall have the power to, and may at any time and from time to time, vary such basis in respect of any asset not previously allocated;
  - (v) the Directors shall have discretion to determine the basis upon which any liability shall be allocated between the Pools (including conditions as to subsequent allocations thereof if

circumstances so permit or require) and shall have power at any time and from time to time to vary such basis;

- (vi) subject as otherwise provided in these Articles, the assets held for each Pool shall be applied solely in respect of the Class of shares of the Pool for which the relevant Pool was established and these Articles shall be construed accordingly; and
  - (vii) notwithstanding the foregoing, if a Pool has insufficient funds or assets to meet the debts and liabilities attributable to such Pool, any such shortfall shall be paid out of the assets attributable to the other Pools in proportion to the respective net assets of the Pools.
- (b) To the extent that net income earned on the assets of a Pool attributable to a Class of Convertible Preference Shares between the date of issue of such Class of Convertible Preference Shares and the date of the relevant Convertible Preference Share Conversion differs from the amount of Convertible Preference Share Dividend paid to the holders of the relevant Class of Convertible Preference Shares during such period, this will be reflected in the calculation of Net Asset Value per Convertible Preference Share for the purpose of the conversion ratio set out in paragraph 4(c), so that if such net income is:
- (i) greater than the amount of the relevant Convertible Preference Share Dividend, the calculation of Net Asset Value will be increased by such excess; and
  - (ii) less than the amount of the relevant Convertible Preference Share Dividend, the calculation of Net Asset Value will be decreased by such shortfall.
- (c) The Company shall give appropriate instructions to the Adviser to manage the Company's assets so that such undertakings can be complied with by the Company.

#### **4. Convertible Preference Share Conversion**

- (a) At a Convertible Preference Share Calculation Time, the Directors shall instruct a firm of chartered accountants or such other person as the Directors shall reasonably see fit to deliver a report (the **Accountants Report**) within 20 Business Days after the Convertible Preference Share Calculation Time stating:
- (i) that the provisions of the Articles have been complied with in respect of the relevant Convertible Preference Share Conversion; and
  - (ii) the number of Ordinary Shares which shall be issued at the Convertible Preference Share Conversion Time in respect of the relevant Class of Convertible Preference Shares,

whereupon the Convertible Preference Share Conversion shall become final and binding on the Company and all holders of Ordinary Shares and the relevant Class of Convertible Preference Shareholders at the Convertible Preference Share Conversion Time.

- (b) As soon as possible following receipt of the Accountants Report, the Company shall make an announcement advising shareholders of the relevant Convertible Preference Share Conversion Time, the relevant conversion ratio for the relevant Class of Convertible Preference Shares, and the aggregate number of Ordinary Shares to which holders of the relevant Class of Convertible Preference Shares are entitled to on the Convertible Preference Share Conversion.

- (c) The following provisions shall apply to a Convertible Preference Share Conversion:
- (i) the number of new Ordinary Shares to be issued on a Convertible Preference Share Conversion shall be determined by the Directors in accordance with the following formula:

$$NS = \frac{(A \times B)}{C}$$

Where:

- NS is the number of new Ordinary Shares which will be issued at the relevant Convertible Preference Share Conversion Time.
- A is the number of Convertible Preference Shares to be converted.
- B is the relevant Net Asset Value per Convertible Preference Share at the relevant Convertible Preference Share Calculation Time.
- C is the Net Asset Value per Ordinary Share at the relevant Convertible Preference Share Calculation Time.
- (d) Upon completion of a Convertible Preference Share Conversion, the assets, liabilities, income, expenditure and liabilities attributable to the relevant Class of Convertible Preference Shares in accordance with paragraph 3 shall be allocated to the Ordinary Shares.
- (e) The Convertible Preference Share Conversion shall be effected by way of redesignation of the relevant Class of Convertible Preference Shares into Ordinary Shares or in such other manner as the Directors may determine in accordance with the applicable law. Fractions of Ordinary Shares arising on such Convertible Preference Share Conversion will be rounded down to the nearest whole share. Any remaining Convertible Preference Shares of the relevant Class will be redeemed by the Company for nominal consideration.

**PART 6**

**INDEPENDENT VALUATION REPORT ON THE PORTFOLIO**

The Directors of  
Ground Rents Income Fund plc  
111 Park St  
London W1K 7JL

24 April 2013

Dear Sirs,

**GROUND RENT PORTFOLIO VALUATION – GROUND RENTS INCOME FUND PLC (THE “COMPANY”)**

## **1. Introduction**

In accordance with your instructions which were confirmed in our letter dated 28 March 2013, we can now confirm the valuation of the properties (the “Properties”) referred to in the attached schedule (the “Schedule”), in order to advise you of our opinion of the Fair Value of the freehold and leasehold interests in each of the Properties as at 31 March 2013.

The Properties comprise 40 freehold and leasehold, primarily residential ground investments located throughout the United Kingdom.

## **2. Inspections**

None of the Properties have been inspected for the purpose of this valuation. Some external inspections have been undertaken of the blocks in the past when previous valuations have been undertaken. These would have external inspections only as the value of the Properties lies in the income streams from the ground rents.

## **3. Compliance with RICS Valuation – Professional Standards 2012**

This report has been prepared in accordance with Royal Institution of Chartered Surveyors’ (“RICS”) Valuation – Professional Standards Incorporating the International Valuation Standards (the “RICS Red Book”) published in March 2012 and effective from 30 March 2012.

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London W1K 3HQ  
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savills.com



## 4. Status of the valuer and conflicts of interest

We confirm that we have sufficient current knowledge of the relevant markets and the skills and understanding to undertake these valuations competently. We confirm that John Churchouse FRICS has overall responsibility for the valuation and that he is an RICS Registered Valuer. The report has been countersigned by Piers de Winton MRICS also of Savills (UK) Limited in accordance with our peer review procedures.

Most of the Properties have previously been valued by Savills for the Company when they were acquired. Whilst we are retained by the Company to undertake future valuations of other acquisitions, this does not prevent us from providing independent valuation advice and we have accepted the instructions on this basis. In this valuation we act as External Valuers, as defined in the Red Book.

We refer to section 6.2 of this report relating to Savills' involvement with the Company.

## 5. Purpose of the valuation

We understand this valuation report and Schedule are to be included in a Listing Document to be published by the Company in respect of its admission to listing on the Official List of the Channel Islands Stock Exchange.

This valuation report and Schedule have been produced for the Company to assist them in determining a value of the properties for the purposes of making an offer (the "purposes of the valuation report").

The valuation report has been prepared on the basis of Fair Value as required under International Financial Reporting Standards ("IFRS") as you have informed us that these are the standards under which the Company's accounts are prepared.

The purpose of the valuation means that the valuation is a Regulated Purpose Valuation. Therefore, in accordance with VS1.9 and UKVS 4.3, we have made certain disclosures in connection with this valuation instruction and our relationship with the Company. These are included in item 6 below.

The date of valuation is 31 March 2013. We are not aware of any material changes in circumstances between the date of the valuation and the date of this valuation report that would affect the valuation.

## 6. Disclosures required under the provisions of VS 1.9 and UKVS 43

### 6.1 Name of signatory

Savills (UK) Limited has previously carried out valuations for the Company.

The Savills logo consists of the word "savills" in a lowercase, sans-serif font, positioned to the right of a grey rectangular box.

## 6.2 Savills' relationship with the Company

There is no other fee earning relationship between the Company and Savills for this valuation, but Savills are retained to value future acquisitions.

## 6.3 Fee income from the Company

Savills (UK) Limited is a wholly owned subsidiary of Savills Plc. Savills provides advice to the Company but the income from this does not exceed 5 per cent. of our company's turnover.

## 6.4 Savills' involvement in any of the properties in the previous 12 months

Savills has provided valuation and building consultancy advice on most of the Properties that have been acquired in the last 12 months.

# 7. Basis of valuation

## 7.1 Fair Value

The value of each of the Properties has been assessed in accordance with the relevant parts of the Red Book. Valuation Standard VS 3.5 of the Red Book provides two definitions of Fair Value (FV). The one appropriate for the IFRS basis of accounting is as follows:

*"The price that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants at the measurement date"*

The commentary under V.S 3.5 of the Red Book states that, for most practical purposes, Fair Value is consistent with the concept of Market Value.

Our opinion of the Fair Value of each of the properties has been primarily derived using comparable recent market transactions on an arm's length basis.

## 7.2 Taxation and costs

We have not made any adjustments to reflect any liability to taxation that may arise on disposals, nor for any costs associated with disposals incurred by the owner. No allowance has been made to reflect any liability to repay any government or other grants, taxation allowance or lottery funding that may arise on disposals.

We have not made deductions to reflect purchasers' acquisition costs.

# 8. VAT

The capital valuations included in this Valuation Report are net of value added tax at the prevailing rate. We have made no allowance for any Capital Gains Tax or other taxation liability that might arise upon a sale of a Property, nor have we allowed for any adjustment

to any of the Properties' income streams to take into account any tax liabilities that may arise.

## **9. Title**

We have not had access to the title deeds of any of the Properties, save as disclosed in the various reports on title prepared in the past by Messrs Land Law LLP and Messrs Darby's Solicitors, upon which you inform us that the Company is relying. We have made the assumption that the Company is possessed of good and marketable freehold and leasehold titles in each case and that the Properties are free from rights of way or easements, restrictive covenants, disputes or onerous or unusual outgoings. We have also assumed that the Properties are free from mortgage, charges or other encumbrances.

## **10. Landlord and Tenant Act 1987**

The Landlord and Tenant Act 1987 (the "87 Act") gives certain rights to defined residential tenants to acquire the freehold/head leasehold interest in a building where more than 50 per cent. of the floor space is in residential use. Where this is applicable, we have made an assumption that necessary notices have been given to the residential tenants under the provisions of the 87 Act, and that such tenants have elected not to acquire the freehold/head leasehold interest, and therefore disposal into the open market is unrestricted.

In the event of an actual sale, the provisions of the 87 Act are such that the sale of the interest in the property would achieve Fair Value but the time periods for the service of notices and agreement of terms could extend to several months.

## **11. Leasehold Reform Housing and Urban Development Act 1993**

The Leasehold Reform Housing and Urban Development Act 1993 (the "93 Act") conveys rights to tenants to acquire 90 year lease extensions, but also collectively enfranchise (buy the freehold) blocks of flats where there is 50 per cent. participation. In each case the tenants are required to compensate the freeholder by an amount which is at least equivalent to Fair Value and whilst the asset may be lost through this action the amount of compensation is more than sufficient to cover the loss. The tenants are also responsible for the reasonable valuation and legal costs of the freeholder.

## **12. Standard Conditions and General Assumptions**

These are attached at **Appendix 1**.

## **13. Valuations**

We are of the opinion that the aggregate of the Fair Values, as at 31 March 2013, of the freehold and long leasehold interests in the Properties listed in the Schedule, subject to the conditions, assumptions and comments made in this valuation report was as follows:



Freehold	£22,948,452	(Twenty two million, nine hundred and forty eight thousand, four hundred and fifty two pounds)
Long Leasehold	£11,265,000	(Eleven million, two hundred and sixty five thousand pounds)
<b>TOTAL</b>	<b>£34,213,452</b>	<b>(Thirty four million, two hundred and thirteen thousand, four hundred and fifty two pounds)</b>

Valuation is not a science and it is not possible to value these assets to the nearest pound (£). The values stated have not been rounded and the inclusion of unrounded valuations are as a result of including previous values which endorse a recent and unrounded purchase price. Some asset prices have been agreed at acquisition as a multiple (YP) of the rent and this can result in an unrounded amount being paid.

A long leasehold interest is defined as an interest with an unexpired term of more than 50 years.

The Schedule of Properties and values is attached at **Appendix 2**.

The current ground income is **£1,834,761** per annum and this equates to 5.36 per cent. of the aggregate of the Fair Values. None of the Properties are held for development.

There are five Properties that have Fair Values that exceed 5 per cent. of the total. They are as follows:

Metropolitan Ground Rents Ltd (Louis Group) – 10.3 per cent.  
One Park West, Liverpool – 7.89 per cent.  
Trinity Portfolio – 6.9 per cent.  
Gateway, Leeds – 6.9 per cent.  
Morris Homes – 7.16 per cent.

## 14. Confidentiality

The contents of this Report and Valuation may be used only for the specific purpose to which they refer.

Neither the whole nor any part of this Report or any reference to it may be included now, or at any time in the future, in any other published document, circular or statement, nor published, referred to or used in any way without our written approval of the form and context in which it may appear.

For the purpose of Prospectus Rule 5.5.3R(2)(f), we accept responsibility for the information within this Report and Valuation and declare that we have taken all reasonable care to ensure that the information contained in this valuation is, to the best of our knowledge, in accordance with the facts and contains no omission likely to affect the valuation.

Yours faithfully

**JOHN CHURCHHOUSE FRICS ACI Arb**  
**Director**  
For and on behalf of Savills (UK) Limited

**PIERS DE WINTON MRICS**  
**Associate Director**

## APPENDIX 1

### FORMAT OF STANDARD GENERAL ASSUMPTIONS AND CONDITIONS

#### GENERAL ASSUMPTIONS AND CONDITIONS

##### General Assumptions

Our valuation has been carried out on the basis of the following General Assumptions. If any of them are subsequently found not to be valid, we may wish to review our valuations, as there may be an impact on them.

1. That the Properties are not subject to any unusual or especially onerous restrictions, encumbrances or outgoings contained in the Leasehold or Freehold Titles. Should there be any mortgages or charges, we have assumed that the property would be sold free of them. We have not inspected the Title Deeds or Land Registry Certificate.
2. That we have been supplied with all information likely to have an effect on the value of the properties, and that the information supplied to us and summarised in this report is both complete and correct.
3. That the buildings have been constructed and are used in accordance with all statutory and bye-law requirements, and that there are no breaches of planning control. Likewise, that any future construction or use will be lawful (other than those points referred to above).
4. That the properties are not adversely affected, nor are likely to become adversely affected, by any highway, town planning or other schemes or proposals, and that there are no matters adversely affecting value that might be revealed by a local search, replies to usual enquiries, or by any statutory notice (other than those points referred to above).
5. That the buildings are structurally sound, and that there are no structural, latent or other material defects, including rot and inherently dangerous or unsuitable materials or techniques, whether in parts of the buildings we have inspected or not, that would cause us to make allowance by way of capital repair (other than those points referred to above). The valuation report does not constitute a building survey.
6. That the properties are connected, or capable of being connected without undue expense, to the public services of gas, electricity, water, telephones and sewerage.
7. That in the construction or alteration of the building(s) no use was made of any deleterious or hazardous materials or techniques, such as high alumina cement, calcium chloride additives, woodwool slabs used as permanent shuttering and the like (other than those points referred to above). We have not carried out any investigations into these matters.
8. That the properties have not suffered any land contamination in the past, nor is it likely to become so contaminated in the foreseeable future. We have not carried out any soil tests or made any other investigations in this respect, and we cannot assess the likelihood of any such contamination.
9. That the tenants are capable of meeting their obligations, and that there are no arrears of rent or undisclosed breaches of covenant.

10. That where the proposed security is part of a building comprising flats or maisonettes, unless instructed or otherwise aware to the contrary, the costs of repairs and maintenance or the building and grounds are shared equitably between the flats or maisonettes for the block, that there are suitable mutually enforceable covenants between all leaseholders (who are assumed to be jointly responsible) and the freeholder/any feuholder, that there are no onerous liabilities outstanding and that there are no substantial defects or other matters requiring expenditure (in excess of the current amount of assumed amount of service charge payable on an annual basis), expected to result in charges to the leaseholder, or feuholder, of the subject property, during the next five years, equivalent to 10 per cent. or more of the reported Market Value.
11. Where the dwelling is leasehold and because further and better information is not available to us:
- (a) the unexpired term of the lease is 100 years, and no action has been taken by any eligible party with a view to acquiring the freehold or to extending the lease term;
  - (b) that there are no exceptionally onerous covenants upon the leaseholder;
  - (c) the lease cannot be determined except on the grounds of a serious breach of covenants in the existing lease agreement;
  - (d) if there are separate freeholders, head and/or other sub-head leaseholders, the terms and conditions of all the leases are in the same form and contain the same terms and conditions;
  - (e) the lease terms are mutually enforceable against all parties concerned;
  - (f) that there are no breaches of covenants or disputes between the various interests concerned;
  - (g) the leases of all the properties in the building/development are materially the same;
  - (h) the ground rent stated or assumed is not subject to review and is payable throughout the expired lease term;
  - (i) the freeholder manages the property directly or it is managed by a professional, probably bonded managing agents;
  - (j) where the subject property forms part of a mixed residential or commercially used block or development, there will be no significant changes in the existing use pattern therein;
  - (k) where the property forms part of a development containing separate blocks of dwellings, the lease terms of the subject property apply only to the subject block, and there will be no requirement to contribute towards costs relating to the other parts of the development, other than in respect of common roads, paths, communal grounds and services;
  - (l) where the property forms part of a larger development, the ownership of which has since been divided, all necessary rights and reservations have been reserved;
  - (m) there are no unusual restrictions on assignment or sub-letting of the subject property for residential purposes;

- (n) there are no outstanding claims or litigation concerning the lease of the subject property or any others within the same development;
- (o) where the subject property benefits from additional facilities within a development, the lease makes adequate provision for the lessee to continue to enjoy them with exception or restriction and for the facilities to be maintained adequately, and that there are no charges over and above the service charge for such use and maintenance;
- (p) in respect of insurance:
  - (i) the properties will be insured under all risks cover, which include subsidence, landslip and heave, for the current reinstatement cost;
  - (ii) the cover assumed is available on normal terms;
  - (iii) there are no outstanding claims or disputes.
  - (iv) where individuals in a block make separate insurance arrangements, the leases make provision for mutual enforceability of insurance and repairing obligations; and
  - (v) any landlord obliged to insure is required to rebuild the property with such alterations as may be necessary to comply with then current building regulations and planning requirements.

### **General Conditions**

Our valuations have been carried out on the basis of the following general conditions:

1. We have made no allowance for any Capital Gains Tax or other taxation liability that might arise upon a sale of the properties.
2. Our valuations are exclusive of VAT (if applicable).
3. No allowance has been made for any expenses of realisation.
4. Excluded from our valuations is any additional value attributable to goodwill, or to fixtures and fittings which are only of value in situ to the present occupier.
5. Energy Performance Certificates (EPCs) are required for the sale, letting, construction or alteration of all residential buildings, and from 1 October 2008 on non-domestic residential buildings over 538 sq ft (50 sq m) in England and Wales. EPCs will be required on all buildings in Scotland from 4 January 2009. The effect of EPCs on value appears to be limited. We have not considered the properties' EPC ratings in forming our opinion of value. However, should EPCs become a significant consideration in the future then we reserve the right to reconsider our opinion of value.
6. Each property has been valued individually and no allowance has been made, either positive or negative, should it form part of a larger disposal. The total stated is the aggregate of the individual Fair Values.



7. No allowance has been made for rights, obligations or liabilities arising under the Defective Premises Act 1972, and it has been assumed that all fixed plant and machinery and the installation thereof complies with the relevant UK and EEC legislation.
8. Our valuations are based on market evidence which has come into our possession from numerous sources. That from other agents and valuers is given in good faith but without liability. It is often provided in verbal form. Some comes from databases such as the Land Registry or computer databases to which Savills subscribes. In all cases, other than where we have had a direct involvement with the transactions, we are unable to warrant that the information on which we have relied is correct although we believe it to be so.



## Valuation – 31st March 2013

## SCHEDULE OF PROPERTIES

Asset Address	Address 2	Post Code	Description	Freehold/L leasehold	Number of units	Reviews	Current Income	Fair Value 31 March 2013	Yield	YP
Postbox Alpha FIT 2	The Post Box, Upper Marshall Street, Birmingham, West Midlands B1 1LA	B1 1LA	258 residential and 2 commercial units	LH	260	25 yr review pattern linked to Public Sector Average Earning Index (PSAEI)	£69,024	£1,380,000	5.00%	20
Masshouse Block M	Masshouse Block M, Masshouse Lane, Birmingham	B5 5JE and others	167 residential units, 2 commercial units and 44 car parking spaces	LH	169	10 yr RPI	£58,012	£1,450,000	4.00%	25
The Gatehaus	Gate Haus, Leeds Road/Green Street, Bradford, BD1	BD1 5EE	142 residential units, 2 commercial units and 99 car parking spaces	FH	243	5 yr RPI but need to cap value on car spaces, leaves £33,512 uncapped	£104,902	£1,190,000	8.82%	11
Beetham Tower Manchester	Beetham Tower, 301 Deansgate, Manchester, M3	M3 4LT	219 residential units and a hotel	LH	219	21 yr RPI	£56,431	£1,160,000	4.86%	21
Masshouse Residential Block HI	Masshouse Block HI, Site Three, Masshouse Lane, Birmingham	B5 5JE and others	173 residential units and 1 commercial unit	LH	174	10 yr RPI	£42,135	£1,025,000	4.11%	24
XQ7	Taylor Street South, Salford Quays	M5 3FN	271 residential units	LH	271	Doubles every 25 yrs	£33,875	£645,000	5.25%	19
North West Houses Ground Rents Limited	Alpha FIT portfolio 1	M11 1JQ	459 residential units (houses)	FH	459	Fixed	£34,290	£565,000	6.07%	16
East Anglia Ground Rents Limited	Hopkins Homes	CB7 4FN and others	358 residential units and garages	FH	358	25 yr RPI	£29,800	£550,000	5.42%	18
Castlegate	Castlegate, 2 Chester Road, Castlefield, Manchester, M15 4QG	M15 4QG	84 residential units	LH x 2	84	Doubles every 25 yrs	£25,200	£480,000	5.25%	19
Halcyon Wharf - Alpha FIT 3	5 Wapping High St, London E1W 1LH	E1W 1LH	41 residential units	FH	41	25yr Doubling	£16,450	£329,000	5.00%	20
Nikal Humber Quay (Freedom Quay)	Freedom Quay, Huli, HU1 2BE	HU1 2BE	51 residential units and 1 commercial unit	FH	52	10 yr RPI	£15,300	£310,000	4.94%	20
Hotwells House, Bristol (TMG003)	Hotwells House, 200 Hotwell Road, Bristol	BS8 4UR	40 residential units and car parking area	FH	40	Doubles every 10 yrs	£10,250	£240,000	4.27%	23
Hush House	Weaver Street, Chester	CH1 2BQ	24 residential units	LH	24	Doubling 25 years	£3,600	£65,000	5.54%	18
Ebony House - Alpha FIT 3	Buckfast Street, London E2 6GL	E2 6GL	27 residential units	FH	28	25yr Doubling	£8,750	£161,000	5.43%	18
Banbury	8-10 Middleton Road, Banbury, OX16 4QJ	OX16 4QJ	24 residential units and 2 commercial units	FH	24	Increases of £100 every 25 years	£5,400	£90,000	6.00%	17
Hemmingford Lodge	London Road, St Ives, Cornwall, PE27 5EU	PE27 5EU	12 residential units	FH	12	25 yr Doubling	£3,000	£45,000	6.67%	15
Enclave Court - Alpha FIT 3	2 Dallington St, London EC1V 0BH	EC1V 0BH	32 residential units	FH	32	25yr Doubling	£6,350	£121,000	5.25%	19
Azure House Alpha FIT 3	Buckfast Street, London E2 6GL	E2 6GL	16 residential units	FH	16	25yr Doubling	£5,200	£95,000	5.47%	18
Metropolitan Ground Rents Ltd (Louis)	Midlands, Surrey, Berks	B17 0HT and others	811 residential units and 18 commercial units	FH	829	reviewed in line with RPI every 5,10,21 and 25 years. The majority of the others double every 25,35 and 50 years.	£185,500	£3,524,500	5.00%	20
One Park West	One Park West, Liverpool One, Liverpool, L1	L1 3DF and others	326 new flats, 252 car parking spaces and 10 commercial units	LH	588	25 and 15 yr RPI	£147,181	£2,700,000	5.00%	20
Trinity	Various properties mainly in the North East	CM7 5GJ and others	730 residential units	FH	730	Mix of 5,10,21,25 yr RPI	£136,916	£2,360,000	5.00%	20
Banner Homes	Various in South East	HP9 1AB and others	217 residential units	FH	217	10 yr Nationwide House Price Index	£61,650	£1,280,000	5.00%	20

## Valuation – 31st March 2013

## SCHEDULE OF PROPERTIES

Asset Address	Address 2	Post Code	Description	Freehold/L leasehold	Number of units	Reviews	Current Income	Fair Value 31 March 2013	Yield	YP
Admiral House	Admiral House, 30, 40, 52 Newport Road, Cardiff, CF24 0DH	CF24 0DH	167 residential units	FH	167	All 20 yr RPI with 13 years to go	£50,100	£1,100,000	5.00%	20
Clapham One	Clapham One, Clapham High Street, London, SW4	SW4 7EA and others	155 residential units	FH	155	25-yr doublers and 5yr RPI	£51,750	£950,000	5.00%	20
St Williams Court	St. William's Court, Gifford Street, London, N1 0GJ	N1 0GJ	121 residential units, 1 transformer chamber and head lease on 33 affordable units	FH	123	One rent nearly doubles in 5yrs, others fixed uplift	£45,750	£950,000	5.00%	20
Bishop's Stortford (Barratt North London)	Riverside Wharf, Riverside and Jackson Wharf, Adderley Road, Bishop's Stortford, Hertfordshire, CM23	CM23 3GN/3AX	137 residential units	FH	137	25 yr RPI and capital value increases	£44,435	£900,000	5.00%	20
The Reach	The Reach, Leeds Street, Liverpool, L3 2DB	L3 2DB	273 residential units and 1 commercial	FH	274	Fixed uplifts from £150 to £250 to £500 to £750 to £1000	£41,100	£680,000	5.00%	20
Granary Wharf/Waterman Place part one	Waterman's Place, Granary Wharf, Dark Neville Street, Leeds	LS1 4BR	282 residential units	FH	122	All 20 yr RPI with 14 years to go	£27,150	£600,000	5.00%	20
Greenhouse	Shaftsbury House, Beeston Road, Leeds, LS11 6AD	LS11 6AD	166 residential units and 16 commercial	FH	182	All 20 yr RPI with 17 years to go	£27,025	£575,000	5.00%	20
Miller Homes 1	Various in Yorkshire	LS19 7DS and others	228 residential units	FH	228	Fixed, RPI and 25 yr doublers	£25,750	£450,000	5.00%	20
Gateway Preston	Woodrow House and Kayley House, The Gateway, New Hall Lane, Preston	PR1 4DP	93 residential units	FH	93	25 Yr PSAEI	£13,950	£250,000	5.00%	20
Redrow South West	Gloucester and Bristol	BS16 1GR and others	51 residential units	FH	51	Mainly 25 RPI with most 4-20 yrs away	£11,850	£235,040	5.00%	20
Gateway Leeds	The Gateway, Crown Point Road and East Street, Leeds	LS9 8BX and others	552 residential units	LH	552	Doubles every 25 yrs	£138,000	£2,360,000	5.00%	20
Downing (Eden & Symphony)	Eden Square, Hatton Gardens, Liverpool, LS2 2AD & Symphony House, Myrtle Street, Liverpool, L7 7DL	LS2 2AD and L7 7DL	264 residential units	FH	264	Mainly fixed, but one shows £25 every 25 years	£43,950	£680,000	5.00%	20
Morris Homes	Various in the North West of England	CH1 4EZ and others	521 residential units	FH	521	Mainly 25 RPI with most 16-22 yrs away	£128,750	£2,450,112	5.00%	20
David Glass 1	62 units Cheshire, 53 units Liverpool Rd Mcr city centre, 15 units Blackley Gr Man, 8 units Plymouth Plymouth	M9 6DP and others	138 residential units	FH	138	Various, RPI, doublers, fixed	£16,785	£350,000	5.00%	20
Bardsley	Various in the North West of England	SK16 5GH and others	192 residential units	FH	192	Mainly fixed but two are 10 yr RPI	£54,000	£845,700	5.00%	20
Salem Street	Student Accommodation Block, Salem Street, Bradford, BD1 4QD	BD1 4QD	48 student units	FH	48	Increases by £250 every 10 yrs	£12,000	£200,000	5.00%	20
Invest Developments	Wolverhampton, Smeeth and Birmingham	B15 2GA and others	50 residential units	FH	50	10 yr RPI	£10,950	£227,100	5.00%	20
David Glass 2 – (Tipton Lock and Liverpool 5)	Various in Liverpool L4 1RA (and other postcodes) and Tipton Lock Hill Apartments, Chesterfield S41 7NJ	L4 1RA and S41 7NJ	99 residential units	FH	99	Doubles every 25 yrs	£32,250	£645,000	5.00%	20
<b>TOTAL</b>					<b>8266</b>		<b>£1,834,761</b>	<b>£34,213,452</b>	<b>5.36%</b>	<b>18.65</b>

## PART 7

### TERMS AND CONDITIONS OF THE WARRANTS

On First Admission the Company issued 9,648,460 Warrants.

The Warrants are constituted by, and have been issued subject to and with the benefit of the Warrant Instrument. Warrantheolders are bound by all the terms and conditions set out in the Warrant Instrument.

A Warrantheolder has the right (**Subscription Rights**) to subscribe in cash (£1.00) (**Exercise Amount**) for the number of Ordinary Shares to which he is entitled on the anniversary of First Admission for a period of ten years (**Subscription Period**).

The number of Ordinary Shares to which each Warrant relates is (prior to any adjustment in accordance with the Warrant Instrument) one Ordinary Share.

In order to exercise Subscription Rights (in whole or part) a Warrantheolder must deliver to the Company a notice in substantially in the form contained in the Warrant Instrument and a certificate evidencing the Warrantheolders' entitlement to Warrants (Notice of Subscription) duly completed 3 (three) months prior to the Subscription Period together with:

- (i) the certificate for the Warrants in respect of which Subscription Rights are being exercised; and
- (ii) a payment by banker's draft, drawn on a London clearing bank (or such other mode of payment as the Company and the Warrantheolder shall agree) for the aggregate Subscription Price in respect of the Subscription Rights which are being exercised.

In order to exercise Subscription Rights (in whole or in part) where a Warrant is held in uncertificated form, a Warrantheolder must provide an uncertificated subscription notice (an authenticated dematerialised instruction) together with a payment through CREST for the Exercise Amount.

Compliance must also be made with any statutory and regulatory requirements for the time being applicable.

The Ordinary Shares allotted pursuant to exercise of the Subscription Rights shall (a) be allotted and issued fully paid; (b) rank *pari passu* with the fully paid Ordinary Shares then in issue and have the rights set out in the Articles relating to the Ordinary Shares; and subject to the Articles, be entitled to receive any dividend or other distribution which has previously been announced or declared provided that the date by which the holder of Ordinary Shares must be registered to participate in such dividend or other distribution is after the date of exercise of the Subscription Rights.

The Company will keep available for issue out of its authorised but unissued share capital free from pre-emptive rights such number of Ordinary Shares as would enable the relevant Ordinary Shares to be issued to the Warrantheolders in full on exercise of the same.

The Warrants are freely transferable, in whole or in part by any Warrantheolder, in accordance with the Warrant Instrument. In the case of the Warrants held in uncertificated form, by a properly authenticated dematerialised instruction and/or other instruction or notification. In the case of Warrants held in certificated form, by an instrument of transfer in any usual or common form.

If, on a date while any Warrants remain outstanding, an order is made for the winding up or dissolution of the Company there would be a surplus available for distribution amongst the holders of Ordinary Shares which would exceed £1 per Ordinary Share each Warrantheolder shall be treated as if his Warrants had been exercised in full at £1 per Share and accordingly be entitled to receive out of the assets of liquidation *pari passu* with the holders of Ordinary Shares (after deducting a sum per Ordinary Share equal to £1).

While any Warrants remain exercisable upon any subdivision or consolidation of Ordinary Shares the numbers and/or nominal value of Ordinary Shares to be subscribed on a subsequent exercise shall be increased (or as the case may be) reduced proportionately.

If any Warrants are outstanding and:

- (a) the Company makes an offer or invitation to the Shareholders to subscribe for further Ordinary Shares or to purchase Ordinary Shares from the Ordinary Shareholders; or
- (b) an offer or invitation is made to all the Ordinary Shareholders otherwise than by the Company.

The Company must procure (in the case of third party offers or invitation, so far as it is able) that the same offer or invitation is made to the Warrantholders. Where such offer or invitation is made by the Company, the Directors are entitled to resolve that the Company shall not make the same offer or invitation to the Warrantholders but instead that the exercise price of, or subscription rights attaching to, each outstanding Warrant will be adjusted by such amount as the auditors certify to be fair and reasonable to take account of such offer or invitation.

If an order is made or resolution passed for the winding-up or dissolution of the Company and any Warrant remains outstanding, the Warrantholders may be entitled to share in amounts available for distribution to Ordinary Shareholders. Such right shall arise where (on the assumption that all Warrants have been exercised and all monies due to the Company on exercise have been received) there is a surplus available for distribution amongst the Ordinary Shareholders which exceeds, in respect of each Ordinary Share, a sum equal to the exercise price of each Warrant. In such situation each Warrantholder is to be treated as if, immediately before the date of such order or resolution, its Warrants had been exercised in full. Each Warrantholder would therefore be entitled to receive, *pari passu* with the other Ordinary Shareholders, an amount equal to the sum which he would have received had he been a Shareholder after deduction of a sum per Ordinary Share equal to the exercise price of each Warrant.

All Subscription Rights not exercised shall lapse on or before 31 August 2022.

No stamp duty or SDRT will be payable on the issue of Warrants.

## **PART 8**

### **RISK FACTORS**

An investment in the Company is only suitable for investors who understand the potential risk of capital loss, that there may be limited liquidity in the underlying investments of the Company, for whom an investment in the Shares constitutes part of a diversified investment portfolio, who fully understand and are willing to assume the risks involved in investing in the Company and who have sufficient resources to be able to bear any losses (which may be equal to the whole amount invested) which may result from such an investment.

The Directors have identified the risks described below as the material risks involved in an investment in the Shares but additional risks and uncertainties not presently known to the Directors or that the Directors consider immaterial may also adversely affect the Company, its business, results of operations and/or financial condition, certain of such risks being inherent in any investment in equity securities. If any or a combination of the following risks materialise, the Company's business, financial condition and operational performance could be materially adversely affected. In that case, the trading price of the Shares could decline and potential investors may lose some or all of their investment.

Investment in the Company should not be regarded as short-term in nature. There can be no guarantee that any appreciation in the value of the Company's investments will occur or that the investment objectives of the Company will be achieved. Investors may not get back the full amount initially invested.

Prospective investors should carefully consider all the information in this document, including the risks described below. If in any doubt, prospective investors should immediately seek their own personal financial advice from their independent financial adviser authorised under FSMA who specialises in advising on the acquisition of shares and other securities or other advisers such as legal advisers and accountants.

Investment in the Company involves a degree of risk and investors must rely on independent advice in respect of the legal, taxation, financial and other consequences of acquiring and holding Shares in the Company, including the merits of subscribing and the risks involved. Investors should consider this section carefully and are recommended to seek independent professional advice on the suitability of this investment. Although not exhaustive, the following principal risk factors may, in addition to others not set out herein, be relevant.

#### **RISKS RELATING TO THE COMPANY**

##### **The Company is a relatively new company with little operating history**

The Company is recently incorporated and has only a short period operating history upon which to evaluate its likely performance. Although the Company is negotiating with vendors regarding certain potential Ground Rent acquisitions, the negotiations may not result in the execution of binding acquisition agreements, or result in any further investments being made. As a consequence, prior to Admission, prospective investors in the Company will have no opportunity to evaluate the terms of any future potential investment opportunities or significant investments, and only limited financial data to assist them in evaluating the prospects of the Company and the related merits of an investment in the Shares. Following Admission, Ordinary Shareholders will only have a role in approving any investments the Company makes to the extent required under the CISX Listing Rules. There can be no guarantee that the Company will achieve its investment objective.

##### **Market value of Shares**

Following Admission, it is possible that the Company's share price will fluctuate and may not always accurately reflect the underlying value of the assets held by the Company. The value of Shares may go down as well as up and investors may lose some or all of the original sum invested. The price that investors may realise for their holdings of Shares, when they are able to do so, may be influenced by a large number of factors, some of which are specific to the Company and others of which are extraneous. Such factors may include the possibility that the market for the Shares will be less liquid than for other equity securities and

that the price of the Shares will be relatively volatile. In addition, further issues of shares may cause the market price of the Shares to decline.

## **CISX**

Application will be made for 38,550,000 Convertible Preference Shares to be admitted to the Official List of the CISX. The Ordinary Shares and the Warrants are listed on the Official List of the CISX. Investment in shares on the CISX may be less liquid than an investment in shares listed on the Official List of the UK Listing Authority. The CISX has been in existence since October 1998 but its future success and liquidity in the market for the Company's securities cannot be guaranteed. A prospective investor should be aware of the risks of investing in a company listed on the CISX and should make the decision to invest only after careful consideration and, if appropriate, consultation with an independent financial adviser.

## **CISX Listing and SETSqx Trading**

The Ordinary Shares and the Warrants are, and the Convertible Preference Shares will be, admitted to listing on the Official List of the CISX and to trading on the SETSqx platform of the London Stock Exchange. SETSqx is an electronic trading platform, so that securities admitted to trading on SETSqx can either be traded through market makers or traded electronically. Shareholders should therefore be aware that not all London Stock Exchange member firms operate on SETSqx so that there may be no market makers in the Company's Ordinary Shares or Convertible Preference Shares if they are admitted to trading on SETSqx – and if there are no market makers, the Shares will have to trade electronically, such that a London Stock Exchange member firm will have to make an order on behalf of a Shareholder and wait for it to match electronically. The Company and the Investment Adviser will seek to ensure that there are market makers making price quotations in the Company's Shares.

## **No assurance that an active trading market will develop**

Although an application will be made for 38,550,000 Convertible Preference Shares to be admitted to, and the Ordinary Shares are admitted to the Official List of the CISX and to trading on the SETSqx platform of the London Stock Exchange, as there has been no public trading market for the Convertible Preference Shares and only a limited public trading market for the Ordinary Shares, there can be no assurance that an active trading market will develop or, if one does develop, that it will be maintained. Shareholders who need to dispose of their Shares may be forced to do so at prices that do not fully reflect the Net Asset Value per relevant Share.

## **No right of redemption**

The Company has been established as a closed-ended REIT and, accordingly, Shareholders will have no right to have their Shares redeemed or repurchased by the Company at any time. While the Company intends that the Directors will be authorised from time to time to effect repurchases of Ordinary Shares (but not Convertible Preference Shares), they are under no obligation to use such powers at any time and investors should not place any reliance on the willingness of the Directors so to act. Shareholders wishing to realise their investment in the Company will, therefore, be required to dispose of their Shares on the market. Accordingly, Shareholders' ability to realise their investment at the relevant Net Asset Value or at all is dependent on the existence of a liquid market in the Shares, of which there is no guarantee.

## **Value**

The value of the Ordinary Shares and the Convertible Preference Shares and the income derived from the Ordinary Shares may go down as well as up and an Investor's entire investment may be lost. No guarantees as to investment performance, from either an income or capital perspective, are given, either expressly or by implication.

### **The Company may be forced to dispose of its investments at a time when it will not be able to obtain the best value for its investments**

Unless Shareholders vote to amend the relevant provisions of the Articles, following the fifth anniversary of Admission, the Company's investment objective and policy shall be modified with a view to the Company realising its assets in an orderly manner over the course of two to three years. In addition, the Company may, from time to time, be required to dispose of assets in order to create working capital to satisfy obligations to which the Company is subject.

There can be no assurance that, at the time the Company seeks to dispose of its assets, conditions in the relevant market will be favourable or that the Company will be able to maximise the returns on such disposed assets. As property assets are relatively illiquid, such illiquidity may affect the Company's ability to dispose of or liquidate its Portfolio in a timely fashion and at satisfactory prices. To the extent that market conditions are not favourable, the Company may not be able to dispose of property assets at a gain. If the Company were required to dispose of or liquidate an investment on unsatisfactory terms, it may realise less than the value at which the investment was previously recorded, which could result in a decrease in Net Asset Value. As a result of the foregoing, there can be no assurances that the Portfolio can generate attractive returns for its Shareholders.

### **Dividends**

The Company's investment objective is to generate consistent and significant income returns for Shareholders. There is no guarantee that any dividends will be paid in respect of any financial year or period, including the first accounting period following Admission. The ability to pay dividends is dependent on a number of factors including the net revenue profits available for that purpose. Income returns from the Portfolio will be dependent, among other things, upon the Company successfully pursuing its investment policy. The success of the Company will depend on the Investment Adviser's ability to identify, acquire and realise investments in accordance with the Company's investment policy. There can be no assurance that the Investment Adviser will be able to do so. The Company may pay dividends only to the extent that it has distributable revenue profits available for that purpose and if that is the case in any accounting year, 90 per cent. of distributable income profits arising from the Group's Qualifying Property Rental business must be distributed in order for the Company to retain its status as a REIT. In addition, if there are dividends, these may fluctuate.

### **General economic and market conditions**

The success of the Group's activities and the value of the Shares may be affected by general economic and market conditions, by conditions within the UK property market generally or by the particular financial condition of other parties doing business with the Company. In addition, the success of the Group's activities and the value of the Shares may be affected by conditions such as interest rate fluctuations, availability of credit, inflation rates, economic uncertainty, changes in laws and national and international political circumstances. These factors may affect the level and volatility of securities prices (including the market price of the Shares), the value of property and the liquidity of the Group's investments. Illiquidity could impair the value and profitability of the Group's investments and have a material adverse effect on the business, financial condition and results of operations of the Company.

The financial operations of the Company may be adversely affected if the services of the Investment Adviser, the Property Manager and/or the Management Team (including key personnel employed by the Investment Adviser and/or the Property Manager) cease to be available to the Group by general economic conditions, by conditions within the UK property market or by the particular financial condition of the property vendors and other parties doing business with the Company.

### **Economic recession**

A global economic recession could materially detrimentally affect prices of freeholds and Long Dated leases.

### **Availability of and terms of bank finance**

The Company intends to finance its acquisition of Ground Rents and its working capital needs from its own resources. It is possible that the Company will, in future years, decide to employ a short-term funding strategy for acquisitions with borrowings at a level of not more than 25 per cent. of the gross assets of the Company, pending the refinancing of those borrowings with an issue of equity. It is not certain that such facilities will be able to be secured at levels or on terms acceptable to the Directors. Any amounts that are secured under a bank facility are likely to rank ahead of Shareholders' entitlements and, accordingly, should the Company's assets not grow at a sufficient rate to cover the costs of establishing and operating the Company's debt, Shareholders may not recover their initial investment. In the event that the Company has any borrowings, a rise in interest rates is likely to adversely affect the Company's profitability.

Lending banks may choose not to renew existing facilities when they mature and/or may choose to withdraw from lending to the Company due to changes in their own banking policy or an inability to agree lending terms. Were this to happen, it may not be possible to replace the bank loans on such favourable terms, or at all, in which case the development and profitability of the Company might be adversely affected.

In the event that the Company, enters into a bank facility agreement(s) or arrangement(s), such agreement(s) or arrangement(s) may contain financial covenants. In particular, the agreement may require that the value of a specific property exceeds a fixed percentage of the value of any loan drawn down. If the value of the specific property falls such that any financial covenant is breached, or if any other covenant is breached, the Company may be required, on behalf of the Company, to sell, in a limited time, part or all of its assets, potentially in circumstances where there has been a downturn in land or property values generally, such that the realisation proceeds do not reflect the valuation of the land or property. Amounts arising under any bank facilities will rank ahead of Shareholders' entitlement and Shareholders' returns may, therefore, be adversely affected by an early repayment.

### **Exercise by holders of Convertible Preference Shares of their limited voting rights may take the Company outside the REIT regime**

Under the conditions of the REIT regime the Company may only issue one class of ordinary voting shares. Any Convertible Preference Shares in issue must be non-voting for the Company to continue to comply with the conditions of the REIT regime. In the event that the Convertible Preference Share Dividend is in arrears, the rights attaching to the Convertible Preference Shares permit the Convertible Preference Shareholders to vote. This is likely to be considered to be a breach of the REIT regime conditions resulting in the Group losing REIT status – please see the Risk Factor headed “REIT Status” below.

## **RISKS RELATING TO THE COMPANY'S INVESTMENT POLICY**

### **Lower returns could be experienced until the Company's capital is fully invested**

Suitable investment opportunities may not be available to the Group at the time of completion of the Placing or in the future for a number of reasons (including negative market conditions). The Company cannot definitively predict how long it will take to deploy its capital raised pursuant to the Placing fully. In addition, the Company may not be able to re-invest the proceeds of any investments that are subsequently realised in other suitable property assets.

Until such time as all of the net proceeds of the Placing are applied by the Company to fund investments, the unapplied portion of the net proceeds will be held by the Company on interest bearing deposit in anticipation of future investment and to meet the running costs of the Group (although interest earned will not be sufficient to fund running costs and future investments). Such deposits are likely to yield lower returns than the expected returns from investment and substantially below the target investment returns and may themselves involve investment risk. The Company can give no assurance as to how long it will take it to invest any or all of the net proceeds of the Placing, if at all, and the longer the period the greater the likely impact on the Group's results of operations and financial condition.



### **No forecasts**

Historical facts, information and trends gained from historic experiences, present facts, circumstances and information, and assumptions from all or any of these, do not guide the future. Aims, targets, plans, intentions and projections referred to are no more than that and so do not imply a forecast. Actual results may vary materially from any projections in this document. Past performance is not necessarily a guide to future performance and nothing in this document should be taken as an express or implied performance forecast.

### **Property values**

The Company's business plan depends to a significant extent on Ground Rent values in the UK. An overall downturn in the UK property market could have a materially adverse effect upon the value of the property owned by the Company and ultimately upon the value of its Shares. The values ascribed to Ground Rents in the Company are the opinion of the valuation agent and may not be realisable.

### **Legislation**

The information in this document is based on the Directors' understanding of current law and practice. Changes may adversely affect Ground Rent values, income levels, growth prospects and tax liabilities. Neither the Company, the Directors, the Sponsor, the Investment Adviser, N+1 Singer nor any of their advisers can accept responsibility if there is any change in the law, in HMRC practice or in the tax treatment of the Company or of any investors in the Company.

### **Alternative Investment Fund Managers Directive (AIFMD)**

The Company may become subject to the AIFMD if the Company manages more than EUR 100 million. The German financial regulator BaFin has proposed that German REITS are regulated by the AIFMD. If this proposal is adopted across Europe and implemented in the UK for UK REITS, the Company will become subject to the AIFMD. All alternative investment fund managers (AIFM) will be subject to authorisation and registration requirements which includes the risk management function being functionally and hierarchically separated from operating units, including Portfolio management. If the Company fails to comply with the requirements of AIFMD as and when it falls within its remit the Company will not be able to attract new capital from investors within the European Union.

### **Hedging**

The Directors have absolute discretion to utilise hedging techniques in relation to the Company (although currently the Directors do not intend to expose the Company to any hedging transactions). There is no guarantee that hedging, if used, will achieve its aims.

### **Availability of bank finance**

One or more SPVs may be required to enter into a bank facility agreement(s) or arrangement(s) that contain financial covenants. In particular, the agreement may provide for cross default of other SPVs in the Portfolio. Should such clauses be unavoidable, Investors should be aware that, in such circumstances, if one SPV defaults it could lead to the bank enforcing its security on other SPVs.

### **Non-recourse debt**

The Directors will seek to secure non-recourse financing on satisfactory terms. The Directors will seek to limit any lender's recourse only to the assets of the acquiring entity to which the borrowings are made available. The Directors intend to ring-fence the risks associated with those assets from the Group's other assets.

To the extent that the Directors are able to procure commercially acceptable non-recourse financing if the Group is (i) unable to service this debt (both interest and principal) or comply with the covenants of the loans and/or (ii) should any fall in the underlying asset value or revenues result in the Company or another member of the Group breaching financial covenants given to any lender, the Company or that member of the Group

may be required to repay such borrowings in whole or in part together with any related costs. If the Company or that member of the Group is required to repay all or part of its borrowings, it may be required to sell assets at less than their market value or below the acquisition value.

Whilst the Company intends to fund its acquisitions using non-recourse debt, if this cannot be achieved the assets of the Group as a whole may be at risk and (whilst the Board does not presently intend to have cross-default provisions between ring-fenced portfolios) any cross-default provisions in the Group's other loan facilities could magnify the effect of a default under a particular loan facility if such a provision were exercised.

**The Company's incurrence of floating rate debt will expose it to risks associated with movements in interest rates**

The Company anticipates incurring debt with interest payable based on LIBOR or other fluctuating base rates. Whilst the Company intends to hedge its interest rate exposure on such borrowings such measures may not be sufficient to protect the Company from risks associated with movements in prevailing interest rates, to the extent that the interest rate risk on such borrowings is unhedged or such hedges are inadequate to fully protect against interest rate fluctuations. In addition, hedging arrangements expose the Company to credit risk in respect of the hedging counterparty. Increased exposure to interest rate movements may have a material adverse effect on the Company's results of operations.

REITs are not subject to any express borrowing restrictions. However, there will be a tax charge if the income profits of the Company's Qualifying Property Rental Business do not cover its related financing costs at least 1.25 times.

**The Group's financial strategy to hedge its interest rate exposures will expose the Group to mark-to-market movements and credit risk of its counterparties**

The Group's financial strategy will be to look to hedge the majority of any interest rate exposure on its borrowings. Derivative instruments may be used for hedging purposes, including forward contracts, options, swaps or other forms of derivative instruments which are exposed to general mark-to-market movements which may be positive or negative.

If the Group terminates a derivative instrument early because, for example, it disposes of the underlying investment, then the mark-to-market movement will crystallise either a gain or a loss for the Group. The crystallisation of a loss on a termination of a derivative instrument may have a material adverse effect on the Group's operating results and financial position.

Furthermore, the entry into such derivative instruments by the Group will expose the Group to the credit risk of its counterparties and their ability to satisfy the terms of such instruments. Should a counterparty fail, the Group may be subject to interest rate risk and changes in interest rates could have a material adverse effect on the Group's operating results, financial position and business prospects.

**Dependence on the Investment Adviser, key individuals and relationships**

The Company's ability to provide returns to Shareholders and achieve its investment objective is substantively dependent upon the performance of the Investment Adviser and the Management Team in the identification of suitable acquisitions and disposals and the management of such investments. The Company will depend to a significant extent on the experience, diligence, skill and network of business contacts of the Investment Adviser and its key personnel and the information and opportunities presented to the Directors by them during the normal course of their activities. Failure by the Investment Adviser and the Management Team to identify, secure and manage investments effectively could have a material adverse effect on the Company's business, financial condition and results of operations.

The success of the Company depends largely upon the expertise of the Directors, all of whom will be engaged in a non-executive capacity, who will seek the advice of the Investment Adviser before acquiring any property. The Directors will monitor the performance of the Investment Adviser but its performance cannot be guaranteed. The Company's success depends on the ability of the Directors to manage this

relationship and the ability and willingness of the Investment Adviser to continue to provide the services under the terms of its contract with the Company. If the Investment Adviser is unable or unwilling to continue to provide services, the Company's business would be disrupted and it might not be able to find a replacement on a timely basis or with the same level of skill and experience. Finding and hiring such a replacement could be costly and might require the Company to amend the terms of its existing contract with the Investment Adviser, which could adversely impact on the Company's financial results.

In addition, the Company has no employees (other than the Directors) and, as such, is reliant on the Adviser and/or the Investment Adviser and the Management Team. If the Investment Adviser or the Company terminated the Investment Adviser Agreement or members of the Management Team were to depart from the Investment Adviser, there is a risk that suitable and effective replacements may not be found. Therefore, the Company's business, results of operations and financial condition may be adversely affected.

#### **Insurance cover**

It may not be possible to make a successful claim against the insurance cover, in which case the Company may not receive the full amount of any insurance anticipated under the terms of the Company's insurance policies.

#### **Competitive industry**

The Company will be operating in a competitive industry where the commercial risks are high. The Company may not be able to acquire as many Ground Rents as it would like, which would adversely affect the profitability and growth of the Company. Accordingly, the investment described in this document is speculative and investors may not recover all or any of the amount of their original investment.

#### **Lower than anticipated net income**

The net income from the Portfolio may be lower than anticipated, due to unforeseen costs. This will result in lower income to the Company.

#### **Availability of equity**

The Company may require additional capital in the future for expansion and/or business development which may significantly dilute the interests of existing Shareholders. If the Company fails to generate sufficient cash through the returns from investments, then the Company may need to raise additional capital from equity or debt sources to fund any such expansion or development. If the Company is unable to obtain financing on terms acceptable to it then it may be forced to curtail its planned acquisitions. If additional funds are raised through the issue of new equity or equity-linked securities of the Company other than on a *pro rata* basis to existing Shareholders, the percentage ownership of each Shareholder may be reduced, Shareholders may experience subsequent dilution and/or such securities may have preferred rights, options and pre-emption rights senior to the Shares. There can be no guarantee that any further capital raisings will be successful.

#### **No investors' compensation scheme**

The Financial Services Compensation Scheme set up under FSMA is not available for claims relating to investment in the Company.

#### **No assurance**

There can be no assurance that the Company's management or exit strategies will be available or practical.

#### **There may be circumstances where Directors have a conflict of interest**

There may be circumstances in which a Director has (for example Simon Wombwell, is also a director of Brooks Macdonald, the Investment Adviser and Braemar Group and is therefore considered to have an interest in any agreement between the Company and the Investment Adviser), directly or indirectly, a

material interest in a transaction being considered by the Company. Any of the Directors and/or any person connected with them may from time to time act as director, investor or be otherwise involved in other investment vehicles (including vehicles that may have investment strategies similar to the Company's), subject at all times to the provisions governing such conflicts of interest both in law and in the Articles. Although procedures have been put in place to manage conflicts of interest, it is possible that any of the Non-executive Directors and/or their connected persons may have potential conflicts of interest with the Company.

#### **There may be circumstances where the Investment Adviser has a conflict of interest**

There may be circumstances in which a Director has (for example Simon Wombwell, is also a director of Brooks Macdonald, the Investment Adviser and Braemar Group and is therefore considered to have an interest in any agreement between the Company and the Investment Adviser), directly or indirectly, a material interest in a transaction being considered by the Company. Any of the Directors and/or any person connected with them may from time to time act as director, investor or be otherwise involved in other investment vehicles (including vehicles that may have investment strategies similar to the Company's), subject at all times to the provisions governing such conflicts of interest both in law and in the Articles. Although procedures have been put in place to manage conflicts of interest, it is possible that any of the Non-executive Directors and/or their connected persons may have potential conflicts of interest with the Company.

#### **Any costs associated with potential investments which do not proceed to completion will affect the Company's performance**

The Company expects to incur certain third party costs associated with the sourcing and acquisition of suitable assets. The Company can give no assurance as to the level of such costs, and given that there can be no guarantee that the Company will be successful in its negotiations to acquire any given property, the greater the number of deals that do not reach completion, the greater the likely impact of such costs on the Group's results of operations and financial condition.

#### **Due diligence to be undertaken by the Investment Adviser on potential investments and the making of recommendations to the Company**

Before the Company makes a property or property-related investment, the Investment Adviser will arrange due diligence to be conducted for the Company that the Directors deem reasonable and appropriate based on the facts and circumstances applicable to each investment. When considering the due diligence, the Investment Adviser will be expected to evaluate a number of important business, financial, tax, accounting, environmental and legal issues in determining whether or not to recommend that the Company proceeds with an investment. External consultants, legal advisers, accountants, surveyors and property valuers and environmental agents and other professional advisers are expected to be involved with the due diligence process in varying degrees. Throughout the due diligence process, the Investment Adviser, and ultimately the Company, as advised by the Investment Adviser, will be required to rely on resources available to it, including information provided by the owners of the target investment and, in some cases, third party investigations.

Accordingly, there can be no assurance that the due diligence process carried out with respect to any investment opportunity will reveal or highlight all relevant facts that may be necessary or helpful in evaluating the investment opportunity. There can also be no assurance that such an investigation will result in an investment being successful. In many cases, the Company's due diligence into a potential investment may be the only comfort it receives before committing to a transaction and there can be no assurance that following the consummation of a transaction or the making of an investment, liabilities or other unforeseen matters of an adverse nature, such as an undiscovered latent environmental contamination liability, may come to light which had not been revealed by the due diligence carried out in respect of such transaction or investment. Were this to happen in relation to any of the investments made by the Company, it could have a material adverse effect on the investment in question, the Company's Net Asset Value, its financial condition and/or results of operations.

## **Risks Relating to Property**

### ***Legislation***

The information in this document is based on the Directors' understanding of current law and practice. Changes may adversely affect Ground Rent values, income levels, growth prospects and tax liabilities. Neither the Company, the Directors, the Sponsor, the Investment Adviser or N+1 Singer nor any of their advisers can accept responsibility if there is any change in the law, in HMRC practice or in the tax treatment of Group or of any investors in Company.

### ***Liquidity***

Investments in property are relatively illiquid and more difficult to realise than investments in either equities or bonds. Such illiquidity may affect the Group's ability to vary its Portfolio or dispose of or liquidate part of its Portfolio in a timely fashion and at satisfactory prices in response to changes in economic, real estate market or other conditions. This could have an adverse effect on the Group's financial condition and results of operations.

### ***Environmental issues***

Under various environmental laws, a current or previous owner or operator of real property may be liable for the cost of removing or remediating hazardous or toxic substances on such property. Such laws often impose liability whether or not the owner or operator knew of, or was responsible for, the presence of such hazardous or toxic substances. Environmental laws also may impose restrictions on the manner in which property may be used or businesses may be operated. A property owner who violates environmental laws may be subject to sanctions which may be enforced by governmental agencies or, in certain circumstances, by private parties. In connection with the acquisition and ownership of properties, the Company may be exposed to such costs. The cost of defending against environmental claims, compliance with environmental regulatory requirements or remediating any contaminated property could materially adversely affect the Company's business, assets or results of operations and, consequently, amounts available for dividends to Shareholders.

### **The Group could suffer civil or criminal penalties if it fails to comply with the laws and regulations that are applicable to its business**

The Group's operations are subject to laws and regulations. If the Group fails to comply with the laws and regulations that are applicable to its business, it could suffer civil and/or criminal penalties or it could be required to cease operations. There can be no assurance that its operations will not be subject to increased or changing regulations or laws which could have an adverse effect on the Group's business (including, without limitation, increasing its administrative or regulatory compliance costs or by restricting the Group's operations). There can be no assurance that the Group will be able to comply with any new regulations or laws to which it might become subject.

### **“Right to manage” claim**

The Commonhold and Leasehold Reform Act 2002 gives tenants, including long leasehold lessees the opportunity to take over management of their properties. In the event that the tenants successfully take over management of new properties, the freeholder retains the right to receive the Ground Rent, but loses control over who manages the property and also loses the right to place the insurance and receive a share of the commission. The Group will also incur costs in contesting any such claim, which even if the Group successfully contests such a claim may not be wholly recoverable.

### **Default by leaseholders in paying service charge and/or insurance premiums**

Leaseholders of properties in the Portfolio may defer or default on payment of service charge and/or insurance premiums due under the terms of the relevant lease. If this happens, the Group will be required to fund such shortfall in order to ensure that the services continue to be supplied, and that the relevant property remains insured, until such time as the leaseholder make the outstanding payments. The Group may be required to commence legal proceedings against a leaseholder to recover such unpaid service charge and/or insurance premium, thereby incurring costs which may not be wholly recoverable.

## **RISK FACTORS RELATING TO TAX**

### **REIT status**

The Group cannot guarantee continued compliance with all of the REIT conditions and there is a risk that the REIT regime may cease to apply in some circumstances. HMRC may require the Group to exit the REIT regime if:

- it regards a breach of the conditions or failure to satisfy the conditions relating to the Qualifying Property Rental Business, or an attempt to obtain a tax advantage, as sufficiently serious;
- if the Group has committed a certain number of breaches in a specified period; or
- if HMRC has given the Group at least two notices in relation to the obtaining of a tax advantage within a ten year period.

In addition, if the conditions for REIT status relating to the share capital of the Company or the prohibition on entering into loans with abnormal returns are breached, or the Company ceases to be UK resident, becomes dual resident or an open ended investment company, the Group will automatically lose REIT status. The Group could also lose its status as a REIT as a result of actions by third parties, for example, in the event of a successful takeover by a company that is not a REIT or due to a breach of the close company condition if it is unable to remedy the breach within a specified timeframe.

If the Group fails to remain qualified as a REIT, its rental income/capital gains will be subject to UK taxation.

If within 10 years of joining the REIT regime, the Group were to be required by HMRC to leave the REIT regime, or if it automatically loses its REIT status, HMRC has wide powers to direct how it is to be taxed, including in relation to the date on which the Group is treated as exiting the REIT regime. This could substantially reduce the Group's reserves available to make distributions to Shareholders and the yield on the Shares. In addition, incurring a tax liability might require the Group to borrow funds, liquidate some of its assets or take other steps that could negatively affect its operating results.

### **Changes in taxation and laws**

The sections of this document which relate to UK tax have been prepared on the basis of the Company's understanding of taxation rules and laws in the UK and the current practice of HMRC. UK tax law and its interpretation and HMRC's practice are subject to change, possibly with retrospective effect. A change in UK tax laws or their interpretation, a change in HMRC practice or a change in the taxation treatment of the Company or any of its assets may alter the net return to Investors.

### **Taxation relating to certain classes of Investor**

The comments in this document relating to taxation are only intended to be a brief description of some of the tax consequences of acquiring Shares in the Company and not an exhaustive or definitive discussion. The comments are based on the Company's current understanding of UK law and HMRC practice as at the date of this document. They do not apply to certain classes of UK Investors such as financial traders who hold property as trading stock or to Investors who are not resident in the UK for UK tax purposes. Prospective Investors who are in any doubt as to their position should consult an appropriate professional adviser. Investors should seek their own advice on the taxation consequences of investment in the Company as the Company's legal and taxation advisers, or any other adviser, take no responsibility in this regard.

### **Adverse changes in the tax position of the Company and its subsidiaries**

Investors should consider the information given in Part 9 Taxation of this document and should take professional advice about the consequences of them investing in the Company. References in this document to taxes and the rates of tax reflect the position at the date of this document. Any change in the Company's or any other member of the Group's tax position or status or in tax legislation or proposed legislation, or in the interpretation of tax legislation or proposed legislation by tax authorities or courts, or tax rates could

adversely affect the Company's ability to pay dividends, dividend growth and/or the market value of the Shares.

References in this document to the tax positions of Shareholders assume that such persons are resident in the UK for tax purposes. Different treatment may apply in the case of non-UK-resident taxpayers, who should take their own advice concerning their tax positions (or, indeed, whether an investment into the Company is suitable for their personal circumstances).

#### **Levels of and reliefs from taxation may change**

The levels of, and reliefs from, taxation may change.

There can be no guarantee that the rates of taxation envisaged by the Directors will be the ongoing rates of taxation paid by the Company and other members of the Group.

#### **Distribution requirements may limit the Company's flexibility in executing its acquisition plans**

The Company's business model contemplates growth through acquisitions. However, the REIT distribution requirements limit the Company's ability to fund acquisitions and capital expenditures through retained income earnings. To obtain full exemption under the REIT regime from UK tax on the Qualifying Property Rental Business, the Company is generally required, amongst other things, to distribute annually (either in cash or by way of stock dividend) to Shareholders an amount equal to at least 90 per cent. of the Group's UK property rental business by way of Property Income Distribution, or PID. The Company would be required to pay corporation tax at the prevailing rate on any shortfall to the 90 per cent. PID Dividend in any year that this requirement is not met. Therefore, the Company's ability to grow through acquisitions would be limited if the Company were unable to obtain debt or equity financing.

In addition, differences in timing between the receipt of cash and the recognition of income for the purposes of the REIT rules and the effect of any potential debt amortisation payments could require the Company to borrow funds to meet the distribution requirements that are necessary to achieve the full tax benefits associated with qualifying as a REIT, even if the then-prevailing market conditions are not favourable for these borrowings.

As a result of these factors, the constraints of maintaining REIT status could limit the Company's flexibility to make investments.

Furthermore, the balance of business requirements set out in the REIT rules in Part 12 of the Corporation Tax Act may limit the Company's ability to generate other sources of income.

The Group is required to limit the business that it undertakes such that 75 per cent. or more of its profits and assets relate to that of a Qualifying Property Rental Business in order to maintain its status as a REIT. This may restrict its acquisition plans and limit its ability to generate other sources of income.

#### **The Company's status as a REIT may restrict business consolidation opportunities and distribution opportunities to Shareholders**

If the Company is acquired by an entity that is not a REIT, the Company is likely in most cases to fail to meet the requirements for being a REIT. If so, the Company will be treated as leaving the REIT regime at the end of the accounting period preceding the takeover and ceasing from the end of that accounting period to benefit from the regime's tax exemptions. In addition, a REIT may become subject to an additional tax charge if it pays a dividend to, or in respect of, a Substantial Shareholder. This additional tax charge will not be incurred if the REIT has taken reasonable steps to avoid paying dividends to a Substantial Shareholder. Therefore, the Articles contain provisions designed to avoid the situation where dividends may become payable to a Substantial Shareholder and these provisions are summarised at paragraph 4.22 of Part 10 of this document. These provisions provide the Directors with powers to identify Substantial Shareholders and to prohibit the payment of dividends on Shares that form part of a Substantial Shareholding, unless certain conditions are met.

The Articles also allow the Board to require the disposal of Shares forming part of a Substantial Shareholding in certain circumstances where the Substantial Shareholder has failed to comply with the above provisions.

Accordingly, while there is no prohibition on the Company being acquired by another entity, there might be potentially negative tax consequences of such an acquisition if made by an entity which itself is not a REIT. Such consequences may make such an acquisition less likely than would be the case for other types of companies.

### **Dividends**

The Company's investment objective is to generate consistent and significant income returns for Shareholders. There is no guarantee that any dividends will be paid in respect of any financial year or period, including the first accounting period following Admission. The ability to pay dividends is dependent on a number of factors including the net revenue profits available for that purpose. Income returns from the Portfolio will be dependent, among other things, upon the Company successfully pursuing its investment policy. The success of the Company will depend on the Investment Adviser's ability to identify, acquire and realise investments in accordance with the Company's investment policy. There can be no assurance that the Investment Adviser will be able to do so. The Company may pay dividends only to the extent that it has distributable revenue profits available for that purpose and if that is the case in any accounting year, the Convertible Preference Share Dividend and 90 per cent. of distributable income profits arising from the Group's Qualifying Property Rental business must be distributed in order for the Company to retain its status as a REIT. In addition, if there are dividends, these may fluctuate.



## PART 9

### TAXATION

#### Introduction

**The following paragraphs are intended as a general guide only and are based on the Company's understanding of current UK tax law and HMRC practice, each of which is subject to change, possibly with retrospective effect. They are not advice, and are not intended to be exhaustive.**

Under the REIT regime, corporate entities with a UK Qualifying Property Rental Business no longer pay UK Corporation tax on income and capital gains from their Qualifying Property Rental Businesses in the UK and elsewhere (the Qualifying Property Rental Business) provided that certain conditions are satisfied. Instead, distributions relating to the Qualifying Property Rental Business (as determined by the legislation), and in particular distributions required to meet the minimum distributions requirement under the REIT rules, are treated for UK tax purposes as UK property income in the hands of Shareholders. However, corporation tax is still payable in the normal way in respect of income and gains from the Group's business (generally including any property trading business) not included in the Qualifying Property Rental Business. Dividends relating to this business (as determined by the legislation) are treated for UK tax purposes as normal dividends. A dividend paid (to either Ordinary Shareholders or Convertible Preference Shareholders) by the Company relating to profits or gains of the Qualifying Property Rental Business of the members of the Group is referred to in this section as a Property Income Distribution ("**PID**"). Any normal dividend paid by the Company is referred to as a Non-PID Dividend. Following enactment of the Finance (No 3) Act 2010, both PID Dividends and Non-PID Dividends may be satisfied by stock dividends.

The following paragraphs relate only to certain limited aspects of the United Kingdom taxation treatment of PID Dividends and Non-PID Dividends paid by the Company, and to disposals of Shares in the Company, in each case at a time when the Company is treated as a REIT. They apply only to Shareholders who are the absolute beneficial owners of both the Shares in and dividends from the Company and who hold their Shares as investments and, except where otherwise indicated, they apply only to Shareholders who are resident for tax purposes solely in the United Kingdom. They do not apply to Substantial Shareholders. Nor do they apply to certain categories of Shareholders, such as dealers in securities or distributions, persons who have or are deemed to have acquired their Shares by reason of their or another's employment, persons who hold their Shares by virtue of an interest in any partnership, collective investment schemes, insurance companies, life assurance companies, mutual companies, or Lloyd's members. They apply to charities, trustees, pension scheme administrators or persons who hold their Shares in connection with a UK branch, agency or permanent establishment only where indicated below.

**Prospective investors who are in any doubt about their tax position, or who are subject to tax in a jurisdiction other than the United Kingdom, should consult their own appropriate independent professional adviser without delay, particularly concerning their tax liabilities on PID Dividends, whether they are entitled to claim any repayment of tax, and, if so, the procedure for doing so.**

#### UK Taxation of PID Dividends

##### *UK taxation of Shareholders who are individuals*

Subject to certain exceptions, a PID Dividend will generally be treated in the hands of Shareholders who are individuals as the profit of a single UK property business (as defined in Part 3 of the Income Tax (Trading and Other Income) Act 2005). A PID Dividend is, together with any property income distribution from any other company to which Part 12 of the Corporation Tax Act 2010 applies, treated as the profit of a separate UK property business. Income from any other UK property business (a "**different UK property business**") carried on by the relevant Shareholder is taxed separately. This means that any surplus expenses from a Shareholder's different UK property business cannot be offset against a PID Dividend as part of a single calculation of the profits of a single composite UK property business. No dividend tax credit will be available

in respect of PID Dividends. However, a tax credit will be available in respect of any basic rate tax withheld by the Company (where required) on the payment of the PID Dividend.

Please see also paragraph “*Withholding tax*” below for further detail.

#### ***UK taxation of corporate Shareholders***

Subject to certain exceptions, a PID Dividend will generally be treated in the hands of Shareholders who are within the charge to corporation tax as profit of a UK property business (as defined in Part 4 of Corporation Tax Act 2009 (“**Part 4 property business**”). A PID Dividend is, together with any property income distribution from any other company to which Part 12 of the Corporation Tax Act applies, treated as the profits of a separate Part 4 property business. Income from any other Part 4 property business (a “**different Part 4 property business**”) carried on by the relevant Shareholder is taxed separately. This means that any surplus expenses from a Shareholder’s different Part 4 property business cannot be offset against a PID Dividend as part of a single calculation of profits of a single composite UK property business.

Please see also paragraph “*Withholding tax*” below.

#### ***UK taxation of Shareholders who are not resident for tax purposes in the UK***

Where a Shareholder who is resident for tax purposes outside the UK receives a PID Dividend, the PID Dividend will generally be chargeable to UK income tax as profit of a UK property business and this tax will generally be collected by way of a withholding.

Please see also paragraph “*Withholding tax*” below.

#### ***Withholding tax***

##### ***(i) General***

Subject to certain exceptions summarised at paragraph (iv) below, the Company is required to withhold income tax at source at the basic rate (currently 20 per cent.) from its payments of PID Dividends (whether paid in cash or in the form of a stock dividend). The Company will provide Shareholders with a certificate setting out the gross amount of the PID Dividend, the amount of tax withheld, and the net amount of the PID Dividend.

##### ***(ii) Shareholders solely resident in the UK***

Where tax has been withheld at source, Shareholders who are individuals may, depending on their particular circumstances, be liable to further tax on their PID Dividend at their applicable marginal rate, incur no further liability on their PID Dividend, or be entitled to claim repayment of some or all of the tax withheld on their PID Dividend. Shareholders who are corporates will generally be liable to pay corporation tax on their PID Dividend (see “*UK taxation of corporate Shareholders*” above) and if (exceptionally) income tax is withheld at source, the tax withheld can be set against their liability to corporation tax or income tax.

##### ***(iii) Shareholders who are not resident for tax purposes in the UK***

It is not possible for a Shareholder to make a claim under a double taxation convention for a PID Dividend to be paid by the Company gross or at a reduced rate of withholding. The right of a Shareholder to claim repayment of any part of the tax withheld from a PID Dividend will depend on the existence and terms of any double taxation convention between the UK and the country in which the Shareholder is resident.

##### ***(iv) Exceptions to requirement to withhold income tax***

Prospective investors should note that in certain circumstances the Company is not required to withhold income tax at source from a PID Dividend. These include where the Company reasonably believes that the person beneficially entitled to the PID Dividend is a company resident for tax purposes in the UK, or a charity or a company resident for tax purposes outside the UK with a permanent establishment in the UK which is required to bring the PID Dividend into account in

computing its chargeable profits. They also include where the Company reasonably believes that the PID Dividend is paid to the scheme administrator of a registered pension scheme, the sub-scheme administrator of certain pension sub-schemes, the account manager of an Individual Savings Account (ISA), the plan manager of a Personal Equity Plan (PEP), or the account provider for a Child Trust Fund, in each case, provided the Company reasonably believes that the PID Dividend will be applied for the purposes of the relevant fund, scheme, account or plan.

In order to pay a PID Dividend without withholding tax, the Company will need to be satisfied that the Shareholder concerned is entitled to that treatment. For that purpose the Company will require such Shareholders to submit a valid claim form (copies of which may be obtained on request from the Company's registrars, Capita Registrars). Shareholders should note that the Company may seek recovery from Shareholders if the statements made in their claim form are incorrect and the Company suffers tax as a result. The Company will, in some circumstances, suffer tax if its reasonable belief as to the status of the Shareholder turns out to have been mistaken.

### **UK taxation of Non-PID Dividends**

Non-PID Dividends paid by the Company will be taxed in the same way as dividends paid by a Company which does not have REIT status, whether in the hands of individual or corporate Shareholders and regardless of whether the Shareholder is resident for tax purposes in the UK. This will also be the case for any dividends paid out of income arising prior to the Company entering the REIT regime, regardless of its source.

The Company will not be required to withhold tax at source when paying a Non-PID Dividend (whether in cash or in the form of a stock dividend).

#### ***Non-PID Dividends – UK resident Shareholders***

An individual Shareholder who is resident in the UK for UK tax purposes and who receives a Non-PID Dividend from the Company will generally be entitled to a tax credit which such Shareholder may set off against his total income tax liability on the dividend. The tax credit will be equal to ten per cent. of the aggregate of the Non-PID Dividend and the tax credit (the "**gross dividend**"), which is also equal to one-ninth of the cash dividend received. A UK resident individual Shareholder who is liable to income tax at the basic rate will be subject to tax on the dividend at the rate of ten per cent. of the gross dividend, so that the tax credit will satisfy in full such Shareholder's liability to income tax on the Non-PID Dividend.

A UK resident individual Shareholder who is liable to income tax at the higher rate will be liable to tax on the gross dividend at the rate of 32.5 per cent. A UK resident individual Shareholder who is liable to tax at the additional rate will be liable to tax on the gross dividend at the rate of 37.5 per cent. In each of these cases, the gross dividend will be regarded as the top slice of the Shareholder's income. After taking into account the 10 per cent. tax credit, a higher rate tax payer will have to account for additional tax equal to 22.5 per cent. of the gross dividend (which is also equal to 25 per cent. of the net cash dividend received). An individual paying additional rate income tax will have to account, after taking into account the 10 per cent. tax credit, for tax equal to 27.5 per cent. of the gross dividend (which is also equal to approximately 31 per cent. of the net cash dividend received).

It will not be possible for UK resident Shareholders to claim repayment of the tax credit in respect of Non-PID Dividends.

Non-PID Dividends paid by the Company to a UK corporate shareholder should normally be exempt from Corporation Tax. Such Shareholders will not be able to claim repayment of tax credits attaching to Non-PID Dividends.

#### ***Non-PID Dividends – non-UK resident Shareholders***

Non-UK resident Shareholders holding their shares directly, and not through a UK branch, agency or permanent establishment will not be liable to UK income tax or Corporation tax on Non-PID Dividends received from the Company.

The right of a Shareholder, who is not resident for tax purposes in the UK, to a tax credit in respect of a Non-PID Dividend received from the Company and to claim payment of any part of that tax credit will depend on the existing terms of any double taxation convention between the UK and the country in which the holder is resident. Shareholders who are not solely resident in the UK should consult their own tax adviser concerning their tax liabilities on dividends received, whether they are entitled to claim any part of that tax credit and, if so, the procedure for doing so.

## **UK taxation of chargeable gains, stamp duty and stamp duty reserve tax in respect of Shares in the Company**

### ***UK taxation of chargeable gains***

For the purpose of UK tax on chargeable gains, the amount paid by a Shareholder for Shares will constitute the base cost of his holding. If a Shareholder disposes of all or some of his Shares, a liability to tax on chargeable gains may arise. The amount of any such chargeable gain or allowable loss will depend on the base cost which can be allocated against the proceeds, the Shareholder's individual circumstances and any reliefs to which they are entitled. In the case of corporate Shareholders, indexation allowance will apply to the amount paid for the shares.

The current rate of tax on capital gains is up to 28 per cent. for individuals, trustees and personal representatives and up to 23 per cent. (anticipated to be reducing to 21 per cent. from 1 April 2014 and to 20 per cent. from 1 April 2015) for corporate Shareholders.

Shareholders who are not resident in the UK for tax purposes may not, depending on their personal circumstances, be liable to UK taxation on chargeable gains arising from the sale or other disposal of their Shares (unless they carry on a trade, professional or vocation in the UK through a branch, agency or permanent establishment with which their Shares are connected).

Individual Shareholders who are temporarily UK resident may be liable to UK capital gains tax on chargeable gains realised on their return to the UK.

Shareholders who are resident for tax purposes outside the UK may be subject to foreign taxation on capital gains depending on their circumstances.

The conversion of Convertible Preference Shares into Ordinary Shares is treated as not involving any disposal or any acquisition of the new holding of Ordinary Shares for capital gains tax purposes. Instead, the Convertible Preference Shares and the Ordinary Shares are regarded as being the same asset for tax purposes.

### ***UK stamp duty and UK stamp duty reserve tax ("SDRT")***

Paperless transfers of Shares within CREST will generally be liable to SDRT, rather than stamp duty, at the rate of 0.5 per cent. of the consideration paid. Euroclear UK & Ireland Limited is obliged to collect SDRT on relevant transactions within CREST.

No stamp duty or SDRT should be payable on the issue of Convertible Preference Shares.

## PART 10

### ADDITIONAL INFORMATION

#### 1. Responsibility

The Directors, whose names appear on page 7 of this document, accept full responsibility for the information contained in this document and confirm that, having made all reasonable enquiries, to the best of their knowledge and belief there are no other facts the omission of which would make any statement herein misleading.

#### 2. The Company

- 2.1 The Company was incorporated in England and Wales on 23 April 2012 with registered number 8041022 as a public company under the Companies Act.
- 2.2 The Company operates under the Companies Act. The Company is not authorised or regulated as a collective investment scheme by the FCA.
- 2.3 The principal place of business and the registered office of the Company is 111 Park Street, London W1K 7JL.
- 2.4 As a company whose shares are admitted to the official list of the CISX, the Company is subject to the CISX Listing Rules and as a company whose shares are admitted to trading on SETSqx, the Company is subject to 'Admission and Disclosure Standards' published by the London Stock Exchange.
- 2.5 The Company has received a certificate under section 761 of the Companies Act entitling it to commence business and to exercise its borrowing powers.
- 2.6 Since the date of incorporation, no statutory financial statements have been prepared prior to or as at the date of this document.

#### 3. Share Capital

- 3.1 On incorporation, one ordinary share of £1 was issued for the purposes of incorporation to Inhoco Formations Limited as subscriber to the Company's Memorandum of Association.
- 3.2 To enable the Company to obtain a certificate of entitlement to conduct business and to borrow under Section 761 of the Companies Act, pursuant to a board resolution on 21 May 2012, 50,000 redeemable preference shares were allotted to the Investment Adviser against its irrevocable undertaking to pay £0.25 in cash for each such redeemable preference share on or before the date of First Admission. Such redeemable preference shares were paid up in full on First Admission and redeemed in full out of the proceeds of the First Placing.
- 3.3 Pursuant to the Companies Act, there is no requirement for the Company to have an authorised share capital. Accordingly, the Company has no restriction on the number of shares that can be issued.
- 3.4 Pursuant to a board resolution on 28 June 2012, the Company subdivided the one ordinary share of £1 in issue into two Ordinary Shares of 50p each.
- 3.5 Pursuant to resolutions passed at a general meeting of the Company held on 24 July 2012:
  - 3.5.1 the Directors were authorised to allot Shares pursuant to section 551 of the Companies Act up to an aggregate nominal amount of £65 million (such authority expiring on 24 July 2017);
  - 3.5.2 the Directors were empowered (pursuant to sections 570 and 573 of the Companies Act) to allot Ordinary Shares pursuant to section 551 of the Companies Act as if section 561(1) of the

Companies Act did not apply to any such allotment. Such power expires on 23 October 2013 or, if earlier at the conclusion of the first annual general meeting of the Company; and

- 3.5.3 the Company was authorised generally to purchase up to such number of Ordinary Shares which represents 14.99 per cent. of the issued Ordinary Share capital of the Company immediately following First Admission, such purchases to be made in accordance with the CISX Listing Rules and the Companies Act. This authority expires on 23 October 2013 or, if earlier at the conclusion of the first annual general meeting of the Company.
- 3.6 On 13 August 2012, the Company issued 23,290,900 Ordinary Shares and 4,658,180 Warrants pursuant to the First Placing which were admitted to trading on the Official List of the CISX and on SETSqx. A summary of the rights attaching to the Warrants is set out in Part 7 of this document.
- 3.7 On 23 August 2012, the Company issued a further 24,951,400 Ordinary Shares and 4,990,280 Warrants, which were admitted to trading on the Official List of the CISX and on SETSqx.
- 3.8 On 20 December 2012, a capital reduction of the Company's share premium took effect which gave rise to a reserve of £4,500,000 which was credited to the profit and loss account of the Company enabling the Company to pay dividends to Ordinary Shareholders.
- 3.9 On 20 December 2012, the Company announced a maiden interim ordinary dividend of 0.35 pence per Ordinary Share. On 14 February 2013, the Company announced an interim PID Dividend of 0.6 pence per Ordinary Share.
- 3.10
- |                         |   |
|-------------------------|---|
| Number of Shares issued | 48,242,300 Ordinary Shares  |
| Amount paid up          | £24,121,150   |
| Ordinary Share rights   | The Ordinary Shares have attached to them full voting, dividend and capital distribution (including on winding up) rights; they do not confer any rights of redemption. |
- 3.11 Assuming the Placing is fully subscribed as to 38,550,000 Convertible Preference Shares, following Admission the issued share capital of the Company will consist of 48,242,300 Ordinary Shares and 38,550,000 Convertible Preference Shares and 9,648,460 Warrants will be in issue.
- 3.12 The provisions of section 561(1) of the Companies Act (which, to the extent not disapplied pursuant to sections 570 and 573 of the Companies Act, confer on Shareholders rights of pre-emption in respect of the allotment of equity securities which are, or are to be, paid up in cash) apply to issues by the Company of equity securities.
- 3.13 In accordance with the power which will be granted to the Directors by the resolutions to be proposed at the General Meeting, it is expected that the Convertible Preference Shares will be allotted (conditional upon Admission) pursuant to a resolution of the Board to be passed shortly before Admission.
- 3.14 The Convertible Preference Shares will be in registered form and will be eligible for settlement in CREST.
- 3.15 Temporary documents of title will not be issued.
- 3.16 Save as disclosed in this document:
- 3.16.1 no share or loan capital of any member of the Group has been issued or is proposed to be issued;
- 3.16.2 no person has any preferential subscription rights for any share capital of any member of the Group;
- 3.16.3 no share or loan capital of any member of the Group is currently under option or agreed conditionally or unconditionally to be put under option; and

3.16.4 no commissions, discounts, brokerages or other special terms have been granted by any member of the Group since its incorporation in connection with the issue or sale of any share or loan capital of any member of the Group.

3.17 As a closed-ended company listed on the CISX other than through the exercise of options and/or warrants granted subject to the CISX Listing Rules, Shares of the same class may not be issued at a price which is less than the Net Asset Value per Share of that class, at the time of such issue unless authorised by a majority of the Shareholders of that class or offered first on a *pro rata* basis to those Shareholders.

#### **4. Articles of Association**

The Articles of Association (which are available for inspection at the registered office of the Company) were adopted prior to First Admission, pursuant to a special resolution passed at a general meeting of the Company held on 11 July 2012 and were amended pursuant to a special resolution passed at a general meeting of the Company held on 16 November 2012 and contain provisions, *inter alia*, as set out below. At the General Meeting, a special resolution will be proposed to amend the Articles so that they include the rights attaching to the Convertible Preference Shares set out in Part 5 of this document. The proposed New Articles are available for inspection at the registered office of the Company.

##### **4.1 Life**

The Articles require the Directors to convene a general meeting after the tenth anniversary of Admission but on or before the eleventh anniversary of Admission at which a Wind-up Resolution will be proposed.

If the Wind-Up resolution referred to above is not passed, the Directors will be required to convene a general meeting on the fifteenth anniversary at which a Wind-Up Resolution will be proposed (and the same process will apply at the end of each subsequent 5 year period).

##### **4.2 Issue of shares**

Subject to the provisions of the Companies Act and without prejudice to any rights attaching to any existing shares, any share may be issued with such rights or restrictions as the Company may by ordinary resolution determine (or if the Company has not so determined, as the Directors may determine).

##### **4.3 Redemption of shares**

Any share may be issued which is or is to be liable to be redeemed at the option of the Company or the holder, and the Directors may determine the terms, conditions and manner of redemption of any such share.

##### **4.4 Dividends**

Subject to the provisions of the Companies Act, the Company may by ordinary resolution declare dividends in accordance with the respective rights of the shareholders but no dividends shall exceed the amount recommended by the Directors. Subject to the provisions of the Companies Act, the Directors may pay interim dividends, or dividends payable at a fixed rate, if it appears to them that they are justified by the profits of the Company available for distribution. If the Directors act in good faith they shall not incur any liability to the holders of shares conferring preferred rights for any loss they may suffer by the lawful payment of an interim dividend on any shares ranking after those with preferential rights.

Details of the proposed Convertible Preference Share Dividend are set out in Part 5 of this document.

Subject to the rights of persons (if any) entitled to shares with special rights as to dividend, all dividends shall be declared and paid according to the amounts paid up on the shares on which the dividend is paid. If any share is issued on terms that it ranks for dividend as from a particular date, it shall rank for dividend accordingly. In any other case, dividends shall be apportioned and paid

proportionately to the amount paid up on the shares during any portion(s) of the period in respect of which the dividend is paid.

All dividends unclaimed for one year after having been declared may be invested or otherwise made use of by the Board for the benefit of the Company until claimed and so that the Company shall not thereby be constituted a trustee in respect thereof. If any dividend shall have remained unclaimed for at least twelve years after the same became payable the Board may forfeit the same, and after such forfeiture no member or other person shall have any right to or claim in respect of such dividend.

#### 4.5 *Scrip Dividends*

The Board may, if authorised by an ordinary resolution of the Company, offer any holders of Ordinary Shares the right to elect to receive further Ordinary Shares, credited as fully paid, instead of cash in respect of all or part of any dividend specified by the ordinary resolution (a “**Scrip Dividend**”) in accordance with the following provisions:

- (a) The ordinary resolution may specify a particular dividend (whether or not already declared) or may specify all or any dividends declared within a specified period, but such period may not end later than the conclusion of the fifth annual general meeting of the Company to be held following the date of the meeting at which the ordinary resolution is passed.
- (b) The basis of allotment shall be decided by the Board so that, as nearly as may be considered convenient, the value of the further shares, including any fractional entitlement, is equal to the amount of the cash dividend which would otherwise have been paid.
- (c) The entitlement of each holder of Ordinary Shares to new Ordinary Shares shall be such that the relevant value of the entitlement shall be the cash amount, disregarding any tax credit, (or as near to such cash amount as the Board considers appropriate) that such holder would have received by dividend. For this purpose the relevant value shall be calculated by reference to the average of the middle market quotations for an Ordinary Share, as shown on the CISX, for the day on which such shares are first quoted “ex” the relevant dividend and the four subsequent dealing days or in such other manner as determined by or in accordance with an ordinary resolution.
- (d) The Board shall give notice to the eligible shareholders of their rights of election in respect of the Scrip Dividend and shall specify the procedure to be followed in order to make an election.
- (e) The dividend or that part of it in respect of which an election for the Scrip Dividend is made shall not be paid and instead further shares shall be allotted in accordance with elections duly made and the Board shall capitalise a sum to the aggregate nominal amount of the Ordinary Shares to be allotted out of such sums available for the purpose as the Directors may consider appropriate.
- (f) The further shares so allotted shall rank *pari passu* in all respects with the fully paid shares of the same class then in issue except as regards participation in the relevant dividend.
- (g) The Board may decide that the right to elect for any Scrip Dividend shall not be made available to shareholders resident in any territory where, in the opinion of the Board, compliance with local laws or regulations would be impossible or unduly onerous.
- (h) The Board shall disregard the rounding up or down or carrying forward of fractional entitlements, in whole or in part, or the accrual of the benefit of fractional entitlements to the Company (rather than the holders concerned).
- (i) The Board may from time to time establish or vary a procedure for election mandates, under which a shareholder may, in respect of any future dividends for which a right of election pursuant to this paragraph is offered, elect to receive shares in lieu of such dividend on the terms of such mandate which shall be binding on any successor in title to the holder of such Shares.



- (j) The Board shall not make a Scrip Dividend available unless the Issuer has sufficient unissued shares and undistributed profits or reserves to give effect to elections which could be made to receive that Scrip Dividend.

#### 4.6 *Voting rights*

Subject to any rights or restrictions attached to any shares and to any modification of voting rights pursuant to the Articles, on a show of hands every holder of Ordinary Shares present in person has one vote and every proxy present who has been duly appointed by an Ordinary Shareholder entitled to vote has one vote, and on a poll every Ordinary Shareholder (whether present in person or by proxy) has one vote for every share of which he is the holder. A shareholder entitled to more than one vote need not, if he votes, use all his votes or cast all the votes he uses the same way. In the case of joint holders, the vote of the senior who tenders a vote shall be accepted to the exclusion of the vote of the other joint holders, and seniority shall be determined by the order in which the names of the holders stand in the Register.

Save as otherwise set out in the Articles in respect of the Convertible Preference Shares no shareholder shall have any right to vote at any general meeting or at any separate meeting of the holders of any class of shares, either in person or by proxy, in respect of any share held by him unless all amounts presently payable by him in respect of that share have been paid.

#### 4.7 *Transfer of shares*

A share in certificated form may be transferred by an instrument of transfer, which may be in any usual form or in any other form approved by the Directors, executed by or on behalf of the transferor and, where the share is not fully paid, by or on behalf of the transferee. A share in uncertificated form may be transferred by means of the relevant electronic system concerned and the Uncertificated Securities Regulations 2001.

Subject to the Articles and the Companies Act, the Directors may refuse to register the transfer of a share in certificated form which is not fully paid. The Directors may also refuse to register a transfer of a share in certificated form unless the instrument of transfer:

- is lodged, duly stamped, at the registered office of the Company or such other place as the Directors may appoint and is accompanied by the certificate for the share to which it relates and such other evidence as the Directors may reasonably require to show the right of the transferor to make the transfer;
- is in respect of only one class of share; and
- is not in favour of more than four transferees.

The Directors may refuse to register a transfer of a share in uncertificated form in any case where the Company is entitled to refuse to register the transfer under the Uncertificated Securities Regulations 2001 provided that such refusal does not prevent dealings in the shares from taking place on an open and proper basis.

If the Directors refuse to register a transfer of a share, they shall within two months after the date on which the transfer was lodged with the Company or, in the case of an uncertificated share, the date on which the appropriate instruction was received by or on behalf of the Company in accordance with the Uncertificated Securities Regulations 2001 send to the transferee notice of refusal.

No fee shall be charged for the registration of any instrument of transfer or other document or instruction relating to or affecting the title to any share.

#### 4.8 *Variation of rights*

Subject to the provisions of the Companies Act, the rights attached to any class of shares for the time being forming part of the capital of the Company may be varied or abrogated, either while the

Company is a going concern or during or in contemplation of a winding-up, with the consent in writing of the holders of three-fourths of the issued shares of the class, or with the sanction of a special resolution passed at a separate meeting of holders of the shares of the class. To every such separate meeting all the provisions of the Articles relating to general meetings of the Company or the proceedings thereat shall *mutatis mutandis* apply, but so that the necessary quorum (other than at an adjourned meeting) shall be two persons holding or representing by proxy at least one-third in nominal value of the issued shares of the class, and at an adjourned meeting shall be one person holding shares of the class or his proxy, and that every holder of shares of the class present in person or by proxy shall, on a poll, have one vote in respect of every share of the class held by him and shall be entitled to demand a poll.

#### 4.9 ***Alteration of capital***

The Company may: (a) alter its share capital in any way subject to the Companies Act; and (b) confer any preference or other advantage on one or more of the shares resulting from any division or subdivision of its share capital as compared with the others and make any such share subject to any restriction as compared with the others.

#### 4.10 ***Distribution of assets on a winding-up***

If the Company is wound up, subject to the Companies Act or any other applicable law, the liquidator may divide among the shareholders *in specie* the whole or any part of the assets of the Company and for that purpose may value any assets and determine how the division shall be carried out as between the shareholders or different classes of shareholders. With the like sanction, the liquidator may vest the whole or any part of the assets in trustees upon such trusts for the benefit of the shareholders as he may with the like sanction determine, but no shareholder shall be compelled to accept any shares or other securities upon which there is a liability.

#### 4.11 ***Restrictions on rights: failure to respond to a section 793 notice***

If a shareholder, or any other person appearing to be interested in shares held by that shareholder, fails to provide the information requested in a notice given to him under section 793 of the Companies Act by the Company in relation his interest in shares (the “default shares”) within 14 days of the notice, sanctions may apply. The sanctions available are the suspension of the right to attend or vote at any general meeting or on a poll, or to exercise any other rights conferred by membership in relation to the meeting or poll and where the default shares represent at least 0.25 per cent. of their class, the withholding of any dividend payable or other distribution amount payable in respect of those shares satisfied not entitled to elect to receive shares instead of a dividend and the restriction of the transfer of any shares (subject to certain exceptions).

#### 4.12 ***Untraced shareholders***

Subject to various notice requirements, the Company may sell any of a shareholder’s shares if, during a period of 12 years dividends (either interim or final) on such shares have become payable and no cheque for amounts payable in respect of such shares has been satisfied and no warrant or other method of payment has been effected and no communication has been received by the Company from the shareholder or person concerned.

#### 4.13 ***Appointment and removal of Directors***

Unless the Company determines otherwise by ordinary resolution, the number of Directors (other than alternate Directors) shall not be subject to any maximum but shall not be less than two.

Subject to the Articles, the Company may by ordinary resolution appoint a person who is willing to act as, and is permitted by law to do so, to be a Director either to fill a vacancy or as an additional Director. The Directors may appoint a person who is willing to act, and is permitted by law to do so, to be a Director, either to fill a vacancy or as an additional Director. A person appointed as a Director

by the other Directors is required to retire at the Company's next annual general meeting and shall then be eligible for reappointment.

The office of a Director shall be vacated in the event of, amongst other things: (a) if he resigns his office by notice in writing delivered to the registered office or submitted to a meeting of the Board or his resignation in writing is accepted by the Board; (b) he only held office for a fixed term and such term expires; (c) either (i) he is admitted to hospital in pursuance of an application for admission for treatment under any legislation relating to mental health; or (ii) by reason of that person's mental health, a court makes an order which wholly or partly prevents that person from personally exercising any powers or rights which that person would otherwise have; (d) if, without leave, he is absent from meetings of the Board (whether or not any alternate Director appointed by him attends) for six consecutive months, and the Board resolves that his office is vacated; (e) if he is removed from office pursuant to the Articles or by virtue of any provision of the Companies Act or prohibited by law from being a Director; (f) if all the other Directors resolve that he be removed as a Director; (g) he becomes bankrupt, has an interim receiving order made against him, makes any arrangement or compounds his creditors generally or applies to the court for an interim order in connection with a voluntary arrangement under any legislation relating to insolvency; (h) in the case of a Director who holds executive office his appointment is terminated or expires and the Board resolves his office be vacated; and (i) in the case of a director who is an employee of the Group ceases to be employed (other than where the Board resolves the director continues in a non-executive capacity). A Director is not required to retire from office at any specified age.

In the event a Director is removed from office prior to the expiry of the agreed term, a Director may have the right to claim damages under any service contract he has with the Company.

#### 4.14 ***Powers of Directors***

The business of the Company shall be managed by the Directors who, subject to the provisions of the Articles and to any directions given by special resolution to take, or refrain from taking, specified action, may exercise all the powers of the Company.

Any Director may appoint any other Director, or any other person approved by resolution of the Directors and willing to act and permitted by law to do so, to be an alternate Director.

#### 4.15 ***Directors' remuneration***

Until otherwise determined by the Company by ordinary resolution, there shall be paid to the Directors (other than alternate directors) such fees for their services in the office of director as the Directors may determine, not exceeding £100,000 per annum or such larger amount as the Company may by ordinary resolution decide, divided between the Directors as they may determine. Such remuneration shall be deemed to accrue from day to day. If any Director, being willing and having been called upon to do so, shall render or perform extra or special services of any kind, including services on any committee of the Board, or shall travel or reside abroad for any business or purposes of the Company, he shall be entitled to receive such sum as the Board may think fit for expenses, and also such remuneration as the Board may think fit, as the Board shall determine.

#### 4.16 ***Borrowing powers***

The Directors may exercise all the powers of the Company to borrow money and to mortgage or charge its undertaking, property, uncalled capital and assets (present or future) and, subject to any relevant statutes, to issue debentures and other securities whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party. The Board shall restrict the borrowings of the Company (and its subsidiary undertakings) so as to ensure that the aggregate principal amount outstanding in respect of monies borrowed does not at any time, without the previous sanction of an ordinary resolution, exceed a sum equal to ten times the adjusted capital and reserves.

#### 4.17 *Voting at board meetings*

No business shall be transacted in any meeting of the Directors unless a quorum is present and the quorum may be fixed by the Directors; unless so fixed at any other number the quorum shall be two. A Director shall not be counted in the quorum present in relation to a matter or resolution on which he is not entitled to vote but shall be counted in the quorum present in relation to all other matters or resolutions considered or voted on at the meeting. An alternate Director who is not himself a Director shall, if his appointor is not present, be counted in the quorum. Questions arising at a meeting of the Directors shall be decided by a majority of votes. In the case of an equality of votes, the chairman of the meeting shall have a second or casting vote.

#### 4.18 *Restrictions on voting*

Subject to any other provision of the Articles, a Director shall not vote at a meeting of the Directors on any resolution concerning a matter in which he has, directly or indirectly, a material interest (other than an interest in shares, debentures or other securities of, or otherwise in or through, the Company) unless his interest arises only because the case falls within certain limited categories specified in the Articles.

#### 4.19 *Directors' interests*

Subject to the provisions of the Companies Act and provided that the Director has disclosed to the other Directors the nature and extent of any material interest of his, a Director, notwithstanding his office, may be a party to, or otherwise interested in, any transaction or arrangement with the Company or in which the Company is otherwise interested and may be a Director or other officer of, or employed by, or a party to any transaction or arrangement with, or otherwise interested in, any body corporate in which the Company is interested.

#### 4.20 *Indemnity*

Subject to the Companies Act, the Company may: (a) indemnify any Director against any liability incurred by the director to a person other than the Company, or on any other basis as is then lawful as the Board may decide; and (b) purchase and maintain for any Director insurance against any liability.

#### 4.21 *General meetings*

In the case of the annual general meeting, twenty one clear days' notice at the least shall be given to all the members and to the auditors. All other general meetings shall be convened by not less than fourteen clear days' notice to all those members and to the auditors unless the Company offers members an electronic voting facility and a special resolution reducing the period of notice to not less than fourteen clear days has been passed (such a resolution has not been passed) in which case a general meeting may be convened by not less than fourteen clear days' notice in writing.

No business shall be transacted at any meeting unless a quorum is present. Two persons entitled to vote upon the business to be transacted, each being a shareholder or a proxy for a shareholder or a duly authorised representative of a corporation which is a shareholder shall be a quorum.

A shareholder is entitled to appoint another person as his proxy to exercise all or any of his rights to attend and to speak and vote at a meeting of the Company. A shareholder may appoint more than one proxy in relation to a meeting, provided that each proxy is appointed to exercise the rights attached to a different share or shares held by him. Subject to the provisions of the Companies Act, any corporation (other than the Company itself) which is a shareholder may, by resolution of its directors or other governing body, authorise such person(s) to act as its representative(s) at any meeting of the Company, or at any separate meeting of the holders of any class of shares. Delivery of an appointment of proxy shall not preclude a shareholder from attending and voting at the meeting or at any adjournment of it. Directors may attend and speak at general meetings and at any separate meeting of the holders of any class of shares, whether or not they are shareholders.

A poll on a resolution may be demanded at a general meeting either before a vote on a show of hands on that resolution or immediately after the result of a show of hands on that resolution is declared.

#### 4.22 *Real Estate Investment Trust*

The Articles contain provisions designed to enable the Company to demonstrate to HMRC that it has taken reasonable steps to avoid paying a dividend (or making any other distribution) to any Substantial Shareholder.

If a distribution is paid to a Substantial Shareholder and the Company has not taken reasonable steps to avoid doing so, the Company would become subject to a tax charge.

The Articles therefore:

- (a) provide the Directors with powers to identify Substantial Shareholders (if any);
- (b) prohibit the payment of dividends on Shares that form part of a Substantial Shareholding, unless certain conditions are met;
- (c) allow dividends to be paid on Shares that form part of a Substantial Shareholding where the Shareholder has disposed of its rights to dividends on its Shares; and
- (d) seek to ensure that if a dividend is paid on Shares that form part of a Substantial Shareholding and arrangements of the kind referred to in the preceding paragraph are not met, the Substantial Shareholder concerned does not become beneficially entitled to that dividend;

as further explained below.

##### (i) *Identification of Substantial Shareholders*

The Articles require a Substantial Shareholder and any registered Shareholder holding Shares on behalf of a Substantial Shareholder to notify the Company if his Shares form part of a Substantial Shareholding. Such a notice must be given within two business days. The Articles give the Directors the right to require any person to provide information in relation to any Shares in order to determine whether the Shares form part of a Substantial Shareholding. If the required information is not provided within the time specified (which is seven days after a request is made or such other period as the Directors may decide), the Directors may impose sanctions, including withholding dividends (as described in paragraph (ii) below) and/or requiring the transfer of the Shares to another person who is not, and does not thereby become, a Substantial Shareholder (as described in paragraph (v) below).

##### (ii) *Preventing payment of a dividend to a Substantial Shareholder*

The Articles provide that a dividend will not be paid on any Shares that the Directors believe may form part of a Substantial Shareholding unless the Directors are satisfied that the Substantial Shareholder is not beneficially entitled to the dividend.

If in these circumstances payment of a dividend is withheld, the dividend will be paid subsequently if the Directors are satisfied that:

- (a) the shareholding is not part of a Substantial Shareholding or the Substantial Shareholder concerned is not beneficially entitled to the dividend (in which case the dividend will be paid in respect of the whole shareholding concerned);
- (b) all or some of the Shares and the right to the dividend have been transferred to a person who is not, and does not thereby become, a Substantial Shareholder (in which case the dividend will be paid in respect of those transferred shares); or
- (c) sufficient Shares have been transferred (together with the right to the dividends) such that the Shares retained are no longer part of a Substantial Shareholding (in which case the dividend will be paid in respect of those retained shares).

For this purpose references to the “transfer” of a share include the disposal (by any means) of beneficial ownership of, control of voting rights in respect of and beneficial entitlement to dividends in respect of that Share.

(iii) *Payment of a dividend where rights to it have been transferred*

The Articles provide that dividends may be paid on Shares that form part of a Substantial Shareholding if the Directors are satisfied that the right to the dividend has been transferred to a person who is not, and does not thereby become, a Substantial Shareholder. The Board may be so satisfied if it receives a certificate containing appropriate confirmations and assurances from the Substantial Shareholder. Such a certificate should be in such form as the Directors may specify and the Directors may in their discretion require further information, certifications or declarations to be given. The Directors may require that any such certificate is copied or provided to such persons as they may determine, including HMRC.

If the Directors believe that a certificate given in these circumstances is or has become inaccurate then they may withhold payment of future dividends (as described in paragraph (ii) above). In addition, the Directors may require a Substantial Shareholder to pay to the Company the amount of any tax payable (and other costs incurred) as a result of a dividend having been paid to a Substantial Shareholder in reliance on the inaccurate certificate. The Directors may require a sale of the relevant shares and may retain the amount claimed from the proceeds. Any such amount may also be recovered out of dividends to which the Substantial Shareholder concerned may become entitled in the future.

Certificates provided in the circumstances described above will be of considerable importance to the Company in determining whether dividends can be paid. If the Company suffers loss as a result of any misrepresentation or breach of undertaking given in such a certificate, it may seek to recover damages directly from the person who has provided it.

The effect of these provisions is that there is no restriction on a person becoming or remaining a Substantial Shareholder provided that the person who does so makes appropriate arrangements to divest itself of the entitlement to dividends.

(iv) *Trust arrangements where rights to dividends have not been disposed of by Substantial Shareholder*

The Articles provide that if a dividend is in fact paid on Shares forming part of a Substantial Shareholding (which might occur, for example, if a Substantial Shareholding is split among a number of nominees and is not notified to the Company prior to a dividend payment date) the dividends so paid are to be held on trust by the recipient for any two or more persons (who are not Substantial Shareholders) nominated by the Substantial Shareholder concerned. The persons nominated as the beneficiaries could include the purchaser of the Shares if the Substantial Shareholder is in the process of selling down their holding so as not to cause the Company to breach the Substantial Shareholder rule. If the Substantial Shareholder does not nominate anyone within 12 years, the dividend concerned will be held on trust for the Company or such charity as the Board may nominate.

If the recipient of the dividend passes it on to another without being aware that the Shares in respect of which the dividend was paid were part of a Substantial Shareholding, the recipient will have no liability as a result. However, the Substantial Shareholder who receives the dividend should do so subject to the terms of the trust and as a result may not claim to be beneficially entitled to those dividends.

(v) *Mandatory sale of Substantial Shareholdings*

The Articles also allow the Directors to require the disposal of Shares forming part of a Substantial Shareholding if:

- (a) a Substantial Shareholder has been identified and a dividend has been announced or declared and the Directors have not been satisfied that the Substantial Shareholder has transferred the right to the dividend (or otherwise is not beneficially entitled to it);
- (b) there has been a failure to provide information requested by the Directors pursuant to the provisions described in this paragraph 4.22; or
- (c) any information provided by any person pursuant to the provisions described in this paragraph 4.22 proves materially inaccurate or misleading.

If a disposal of Shares required by the Directors is not completed within the timeframe specified by them or of the Company incurs a change to tax as a result of a dividend having been paid on a Substantial Shareholding, the Directors may arrange for the sale of the relevant Shares.

(vi) *Takeovers*

The Articles do not prevent a person from acquiring control of the Company through a takeover or otherwise, although as explained in Risk Factors in Part 8 of this document such an event may cause the Group to cease to qualify as a REIT.

(vii) *Other*

The Articles also give the Company power to require any Shareholder who applies to be paid dividends without any tax withheld to provide such certificates or declarations as the Board may require to establish the Shareholder's entitlement to that treatment.

The Articles may be amended by special resolution passed by the Shareholders in the future, including to give powers to the Directors to ensure that the Company can comply with the conditions required to comply with the REIT regime which powers may include the ability to arrange for the sale of Shares on behalf of Shareholders. Further details of these requirements are set out in the Risk Factors in Part 8 and Taxation in Part 9 of this document.

#### 4.23 *Proposed Amendments to the Articles*

At the General Meeting, a special resolution will be proposed to amend the Articles so that the Articles include the rights attaching to the Convertible Preference Shares set out in Part 5 of this document.

This special resolution, amends the Articles, so that the Company is able to issue the Convertible Preference Shares on the terms set out in Part 2 of this document.

### **5. Directors' and Other Interests**

- 5.1 No Directors nor any of their associates, directly or indirectly, currently holds voting rights in the share capital of the Company, or will hold any voting rights in the capital of the Company immediately following Admission.
- 5.2 So far as the Company is aware, the following persons (other than the Directors) will hold voting rights, directly or indirectly, in respect of 10 per cent. or more of any class of the Company's issued share capital immediately following Admission:

	<i>Number of Ordinary Shares</i>	<i>Percentage of issued Ordinary Shares</i>	<i>Number of Convertible Preference Shares</i>	<i>Percentage of issued Convertible Preference Shares</i>
Brooks Macdonald Asset Management	9,777,961	20.3	4,000,000	10.4
Architas	9,500,000	19.7	7,550,000	19.6
Henderson Global Investors Limited	5,000,000	10.4	–	–

Save as set out in this paragraph 5.2, the Company is not aware of any person who holds or will immediately following Admission hold voting rights, directly or indirectly, in 10 per cent. or more of any class of the issued share capital of the Company.

- 5.3 None of the Shareholders referred to in paragraph 5.2 above has different voting rights from any other holder of Shares in respect of any Shares held by them.
- 5.4 The Company is not aware of any person who immediately following Admission, directly or indirectly, jointly or severally, will own or could exercise control over the Company.
- 5.5 Save for the interest of Simon Wombwell in the Investment Adviser, Brooks Macdonald and Braemar Group disclosed in Part 3, there is no contract or arrangement subsisting at the date of this document in which a Director is materially interested and which is significant to the business of the Company.
- 5.6 There are no outstanding loans by the Company to the Directors and no guarantees provided by the Company for their benefit.
- 5.7 Paul Craig is an employee of Henderson Global Investors Limited (“HGI”). HGI has invested in the Ordinary Shares and will invest in the Convertible Preference Shares on behalf of clients to which HGI acts as discretionary investment manager.

## **6. Terms of Directors’ Appointment**

- 6.1 Each Director has entered into a letter of appointment with the Company, which were effective on First Admission. The letter of appointment for each Director is subject to the provisions of the Articles. The fees payable to the Directors with effect from Admission will be set by the Board and will initially be as follows:

<i>Director</i>	<i>Annual fee (£)</i>
Malcolm Naish	30,000
Paul Craig	25,000
Simon Wombwell	20,000

In addition to the fees and benefits mentioned above, the Company will reimburse all expenses reasonably incurred by the Directors in the proper performance of their duties and has obtained directors’ and officers’ liability insurance cover.

The appointment of each Director is terminable in accordance with the Articles and does not give rise to any entitlement of the relevant Director to compensation for loss of office.

- 6.2 Save as set out in paragraph 6.1 of this Part 10, there are no existing or proposed service agreements or letters of appointment between any Director and the Company or any Group Company providing for benefits upon termination of employment.
- 6.3 The aggregate of the remuneration payable to, and benefits in kind receivable by, the Directors under the arrangements in force at the date of this document is £75,000 per annum.



## 7. Other Directorships

7.1 In addition to their directorships of the Company and its subsidiaries, the Directors hold or have held the following directorships and are or were members of the following partnerships, within the five years prior to the date of this document.

<i>Director</i>	<i>Current</i>	<i>Previous</i>
<b>Paul Craig</b>	Aberdeen Emerging Markets Smaller Companies Trust plc DIT Income Services Limited Diverse Income Trust plc Golden Prospect Precious Metals Limited The Healthcare REIT plc	F&C Barrow Hanley US Trust plc New Star Asset Management Limited
<b>Simon Wombwell</b>	Braemar Group Limited Brooks Macdonald Funds Limited Brooks Macdonald Investment Funds plc (formerly SPL Investment Funds plc) Brooks Macdonald Group plc Future Screen Partners 2006 No. 2 LLP Scion Film Premier (Third) Limited Partnership	
<b>Malcolm Naish</b>	Aurora Europe General Partner Limited GCP Student Living Fund plc Mapledurham Glade Management Company Limited Target Healthcare REIT Limited	SWAMF (GP) Limited SWAMF Nominee (1) Limited SWAMF Nominee (2) Limited SWIP & CWI Luxembourg (No. 1) Management Company S.A.R.L. SWIP & CWI Luxembourg (No.1) Holding Company S.A.R.L. SWIP Holdings (Luxembourg) S.A.R.L. SWIP (Luxembourg) S.A.R.L. SWIP Islamic SICAV

7.2 In the five years before the date of this document, none of the Directors have:

- 7.2.1 any unspent convictions in relation to indictable offences;
- 7.2.2 at any time been adjudged bankrupt or been the subject of any form of individual voluntary arrangement;
- 7.2.3 been a director of a company at the time of, or within the 12 months preceding the date of, its receivership, compulsory liquidation, creditors' voluntary liquidation, administration, company voluntary arrangement or any composition or arrangement with its creditors generally or any class of creditors;
- 7.2.4 been a partner in a partnership at the time of, or within the 12 months preceding the date of, its compulsory liquidation, administration or partnership voluntary arrangement;
- 7.2.5 owned any asset which has been placed in receivership or been a partner of any partnership at the time at which, or within the 12 months preceding the date on which, any asset of that partnership has been placed in receivership;
- 7.2.6 been subject to any public criticism by any statutory or regulatory authority (including a recognised professional body); or

7.2.7 been disqualified by a court from acting as a director of a company or from acting in the management or conduct of the affairs of any company.

## **8. City Code on Takeovers and Mergers**

### **8.1 *Mandatory bid***

The City Code applies to the Company. Under Rule 9 of the City Code, if:

- (i) a person acquires an interest in Shares which, when taken together with Shares already held by him or persons acting in concert with him, carry 30 per cent. or more of the voting rights in the Company; or
- (ii) a person who, together with persons acting in concert with him, is interested in not less than 30 per cent. and not more than 50 per cent. of the voting rights in the Company acquires additional interests in Shares which increase the percentage of Shares carrying voting rights in which that person is interested,

the acquirer and, depending on the circumstances, its concert parties, would be required (except with the consent of the Panel on Takeovers and Mergers) to make a cash offer for the outstanding Shares at a price not less than the highest price paid for any interests in the Shares by the acquirer or its concert parties during the previous 12 months.

### **8.2 *Compulsory Acquisition***

Under sections 974 to 991 of the Companies Act, if an offeror acquires or contracts to acquire (pursuant to a takeover offer) not less than 90 per cent. of the shares (in value and by voting rights) to which such offer relates it may then compulsorily acquire the outstanding shares not assented to the offer. It would do so by sending a notice to outstanding holders of shares telling them that it will compulsorily acquire their shares and then, six weeks later, it would execute a transfer of the outstanding shares in its favour and pay the consideration to the Company, which would hold the consideration on trust for the outstanding holders of shares. The consideration offered to the holders whose shares are compulsorily acquired under the Companies Act must, in general, be the same as the consideration that was available under the takeover offer.

In addition, pursuant to section 983 of the Companies Act, if an offeror acquires or agrees to acquire not less than 90 per cent. of the shares (in value and by voting rights) to which the offer relates, any holder of shares to which the offer relates who has not accepted the offer may require the offeror to acquire his shares on the same terms as the takeover offer.

The offeror would be required to give any holder of shares notice of his right to be bought out within one month of that right arising. Such sell-out rights cannot be exercised after the end of the period of three months from the last date on which the offer can be accepted or, if later, three months from the date on which the notice is served on the holder of shares notifying them of their sell-out rights. If a holder of shares exercises their rights, the offeror is bound to acquire those shares on the terms of the offer or on such other terms as may be agreed.

## **9. Working Capital**

The Directors, having made due and careful enquiry, are of the opinion that, taking into account the resources available to the Company (including the estimated net proceeds of the Placing), the Company will have sufficient working capital for its present requirements, that is, for at least the 12 months following the date of Admission.

## **10. Legal and Arbitration Proceedings**

The Company is not and has not been involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Company is aware) since

incorporation which may have, or have had, a significant effect on the financial position or profitability of the Group.

## **11. Material Contracts**

The following contracts (not being contracts entered into in the ordinary course of business) have been entered into by the Company within the two years immediately preceding the date of this document and are, or may be, material:

### **11.1 Investment Adviser Agreement**

The Investment Adviser Agreement to be dated on Admission between the Company and the Investment Adviser pursuant to which the Investment Adviser will agree to provide certain management services to the Company as more particularly described in Part 2 of this document. In addition, the Investment Adviser will agree to provide certain administrative and company secretarial services to the Company.

The Company will agree to pay the Investment Adviser a management fee and agency fee in certain circumstances as described in Part 2 of this document. The Investment Adviser is also entitled to retain 50 per cent. of all insurance commission in respect of the properties further details of which are also set out in Part 2 of this document.

The Investment Adviser Agreement may be terminated immediately in the following circumstances:

- (i) an event of insolvency in relation to the Investment Adviser;
- (ii) the failure by the Investment Adviser to remedy in all material respects a material breach by the Investment Adviser of an obligation under the Investment Adviser Agreement after notice from the Company allowing it reasonable time to do so;
- (iii) a breach or breaches of an obligation or obligations under the Investment Adviser Agreement by the Investment Adviser which are individually or cumulatively of such seriousness as to permit the Company to treat the Investment Adviser Agreement as repudiated by breach;
- (iv) a change of control of the Investment Adviser (other than as a result of a takeover of Brooks MacDonald); and
- (v) the winding up of the Company.

The Investment Adviser Agreement may be terminated by either party serving not less than nine months' prior written notice on the other provided that such notice shall not expire before the third anniversary of the Investment Adviser Agreement.

On termination of the Investment Adviser Agreement, the Investment Adviser will be entitled to receive all payments to be made to it which have accrued up to the date of such termination but will not be entitled to any other payment or to compensation in respect of such termination.

The Investment Adviser will undertake to the Company that:

- (i) it has full corporate power and has taken all necessary corporate action to enable it to enter into and perform its obligations under the Investment Adviser Agreement;
- (ii) the Investment Adviser Agreement will create obligations which are valid and binding on the Investment Adviser and enforceable in accordance with their terms; and
- (iii) it does not require the consent, approval or authority of any other person to enter into or perform its obligations under the Investment Adviser Agreement and its entry into the Investment Adviser Agreement will not constitute any breach of or default under any contractual, governmental or public obligation binding upon it.

The Investment Adviser will not be liable for the acts or omissions of any agent or sub-contractor properly appointed by the Investment Adviser provided that prior to appointing such agent or sub-contractor the Investment Adviser shall procure that the agent or sub-contractor shall enter into a duty of care in favour of the Company and an undertaking that such agent or sub-contractor has appropriate insurance cover to an amount at least equal to the insurance cover the Investment Adviser is required to maintain.

The Company will agree to indemnify the Investment Adviser out of the assets of the Company against all claims, liability, damages and costs which the Investment Adviser has properly and reasonably suffered or incurred other than due to the Investment Adviser's negligence, fraudulent act or omission or wilful misconduct or bad faith.

The Investment Adviser Agreement is governed by the laws of England and Wales.

#### 11.2 *Property Adviser Agreement*

On 13 August 2012, the Company entered into an agreement with the Property Manager, on substantially the same terms as the Investment Adviser Agreement described in paragraph 12.1 above. That agreement will be terminated, by mutual consent, on Admission and replaced by the Investment Adviser Agreement.

#### 11.3 *Initial Portfolio Acquisition Agreement*

The Company entered into the Acquisition Agreement on 16 July 2012. The Initial Portfolio was held in a number of SPVs, each of which was acquired pursuant to the terms of the Acquisition Agreement.

The purchase price payable by the Company to Braemar PCC under the Acquisition Agreement was £1,279,793 ("**Purchase Price**"). There was also a certain amount of inter-company debt owed to the SPVs to Braemar PCC and the Company agreed to procure that this was discharged upon completion of the Acquisition Agreement. The Purchase Price was adjusted according to a completion accounts mechanism to reflect any difference between the estimated net asset values of the SPVs at completion on their actual net asset values at completion. An initial amount of £942,793 was paid to Braemar PCC on the fifth business day following completion as part payment of the Purchase Price.

In addition to the SPVs in which the Initial Portfolio is held, the Company also acquired from Braemar PCC a number of other SPVs that, prior to the date of the acquisition, had been negotiating the purchase of a number of the pipeline properties. To the extent that Braemar PCC incurred costs in connection with the purchase of any pipeline properties, it was agreed as part of the Acquisition Agreement that the Company would reimburse Braemar PCC for these costs and, in consideration thereof, takeover from Braemar PCC and seek to purchase those pipeline properties directly. Where a pipeline property exchanged or completed before completion of the Acquisition Agreement, the Company agreed it would pay to Braemar PCC such amounts that have been incurred by Braemar PCC in relation to that acquisition on the fifth business day following completion.

#### 11.4 *Placing Agreement*

The Placing Agreement dated 2 May 2013 between the Company, the Investment Adviser, and N+1 Singer, pursuant to which, subject to certain conditions, N+1 Singer has agreed to use reasonable endeavours to procure subscribers for Convertible Preference Shares at the Placing Price. The Placing Agreement may be terminated by N+1 Singer in certain customary circumstances prior to Admission.

The obligation of the Company to issue the Convertible Preference Shares and the obligation of N+1 Singer to use its reasonable endeavours to procure subscribers for Convertible Preference Shares is subject to certain conditions that are typical for an agreement of this nature. These conditions include, among others: (i) Admission occurring and becoming effective by 8.00 a.m. London time on or prior to 24 May 2013 (or such later time and/or date, not being later than 30 June 2013, as the Company and N+1 Singer may agree); (ii) the Placing Agreement not having been terminated in accordance with its terms.

The Company and the Investment Adviser have given warranties to N+1 Singer concerning, *inter alia*, the accuracy of the information contained in this document. The Company and the Investment Adviser have also given indemnities to N+1 Singer. The warranties and indemnities given by the Company and the Investment Adviser are standard for an agreement of this nature.

Under the terms of the Placing Agreement the Company is required to pay the expenses of the Placing and Admission, (such amounts being **Expenses**). In addition to the Expenses the Company is required to pay to N+1 Singer an amount equal to the amount by which the Expenses are less than 2 per cent. of the aggregate amount raised pursuant to the Placing. N+1 Singer have agreed to pay an agreed percentage of this amount to the Investment Adviser, calculated on the extent of the participation in the Placing of certain investors identified in the Placing Agreement.

The Placing Agreement is governed by the laws of England and Wales.

#### 11.5 **First Placing Agreement**

The First Placing Agreement dated 24 July 2012 between the Company, the Property Manager, the Investment Adviser and Singer Capital Markets, pursuant to which, subject to certain conditions, Singer Capital Markets agreed to use reasonable endeavours to procure subscribers for Shares at the 100 pence per Share.

In consideration for its services in relation to the First Placing and conditional upon completion of the First Placing, Singer Capital Markets was paid a commission equal to the greater of (i) the amount by which 2 per cent. of the Gross Issue Proceeds (as defined below) exceeded the expenses of the First Placing (ii) £350,000 and (iii) 1 per cent. of the Gross Issue Proceeds (as defined below), (together with applicable VAT). "Gross Issue Proceeds" means an amount in Sterling equal to the aggregate, before any deductions or payments of fees or commissions, of the total gross proceeds raised under the First Placing.

The Company and the Property Manager gave warranties to Singer Capital Markets concerning, *inter alia*, the accuracy of the information contained in the listing document dated 24 July 2012. The Company and the Property Manager also gave indemnities to Singer Capital Markets in a form standard for an agreement of this nature.

The First Placing Agreement is governed by the laws of England and Wales.

#### 11.6 **Sponsorship Agreement**

The sponsorship agreement dated 10 July 2012 between the Company and the Sponsor pursuant to which the Sponsor has agreed to act as sponsor on a continuing basis. For the provision of these services, the Sponsor is entitled to an annual fee of £4,000, in advance in April each year (in addition to a *pro-rata* fee in relation to the period from the First Admission to April 2013. In addition to the annual fee, the Sponsor is entitled to receive additional fees on a time incurred basis where the time spent by the Sponsor in advising the Company exceeds four hours in any given year.

The agreement may be terminated on written notice by either party. The Company has given an indemnity to the Sponsor that is standard for an agreement of this nature.

The agreement is governed by the laws of the Island of Guernsey.

#### 11.7 **Broker Agreement**

The financial advisor and broker agreement dated 13 August 2012 between the Company and N+1 Singer pursuant to which the Company has engaged N+1 Singer to act as its financial adviser and corporate broker on an ongoing basis. The Company shall pay to N+1 Singer a retainer of £30,000 per annum payable quarterly in advance (exclusive of VAT). If, during the course of the engagement: (i) a takeover offer is made to the Company or the Company proposes to undertake an acquisition or disposal of any of the Group's assets or business, N+1 Singer has the right, but not the obligation, to act as sole financial adviser and corporate broker to the Company in relation to such transaction; or

(ii) the Company determines to conduct an offering, N+1 Singer shall have the right, but not the obligation, to act as lead manager, underwriter and co-ordinator for any such offering, the fees for such work to be agreed in good faith at normal market rates. The Company has given N+1 Singer indemnities which are customary in an agreement of this nature. The engagement may be terminated on 30 days' written notice by either party or immediately on written notice of any material breach of the agreement by the other party. The agreement is governed by English law.

## **12. Consent**

Each of N+1 Singer, Appleby Securities (Channel Islands) Ltd, Savills and the Investment Adviser have given and have not withdrawn their written consent to the inclusion of their name in this document in the form and the context in which they are included.

## **13. General**

- 13.1 PricewaterhouseCoopers LLP, which has its registered office at 101 Barbirolli Square, Lower Mosley Street, Manchester M2 3PW, Chartered Accountants regulated by the Institute of Chartered Accountants in England and Wales was appointed as the Group's auditors on 24 July 2012.
- 13.2 The total costs, charges and expenses payable by the Company in connection with the Placing and Admission are estimated to be £0.77 million.
- 13.3 The register of members of the Company and the other statutory registers of the Company are kept at the registered office of the Registrars, as set out in the section entitled "*Directors, Company Secretary, Registered Office and Advisers*".
- 13.4 The Directors confirm that the diagrams in Part 1 of this document have been accurately reproduced and, so far as the Directors are aware and have been able to ascertain from that published information, no facts have been omitted which would render the reproduced information inaccurate or misleading.

## **14. Documents for Inspection**

Copies of the following documents will be available for inspection during normal business hours on any weekday (Saturdays, Sundays and public holidays excepted) at the Company's registered office and Appleby Securities (Channel Islands) Ltd for not less than 14 days from the date of Admission:

- (a) the Articles and the proposed New Articles of the Company;
- (b) the material contracts referred to in paragraph 11 of this Part 10;
- (c) the written consents referred to in paragraph 12 of this Part 10;
- (d) the valuation referred to in Part 6;
- (e) the Warrant Instrument referred to in Part 7; and
- (f) the Circular.

Dated: 3 May 2013

## PART 11

### DEFINITIONS

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

<b>“Acquisition Agreement”</b>	the conditional sale and purchase agreement dated 16 July 2012 entered into between the Company and the Braemar PCC in relation to the proposed purchase by the Company of the Initial Portfolio, a summary of which is set out in paragraph 11.3 of Part 10 of this document;
<b>“Admission”</b>	admission of Convertible Preference Shares to the Official List of the CISX;
<b>“Admission and Disclosure Standards”</b>	rules published by the London Stock Exchange;
<b>“AGM”</b>	annual general meeting;
<b>“Articles”</b>	the articles of association of the Company in force as at the date of this document, a summary of which is set out in paragraph 4 of Part 10 of this document;
<b>“Board” or “Directors”</b>	the directors of the Company from time to time, the names of the directors at the date of this document being set out on page 7 of this document;
<b>“Braemar Group”</b>	Braemar Group Limited, a company incorporated in England and Wales with registered number 5084921, and its subsidiaries;
<b>“Braemar PCC”</b>	Braemar Group PCC Limited, a company incorporated in Guernsey registered with number 48236;
<b>“Brooks Macdonald”</b>	Brooks Macdonald Group plc, a company incorporated in England and Wales with registered number 4402058;
<b>“business day”</b>	any day where banks in London and the Channel Islands are open for business (excluding Saturdays and Sundays and public holidays);
<b>“Capita Registrars”</b>	a trading name of Capita Registrars Limited;
<b>“certificated” or “in certificated form”</b>	in relation to a share or other security, a share or other security, title to which is recorded in the relevant register of the share or other security concerned as being held in certificated form (that is, not in CREST);
<b>“Circular”</b>	means the circular sent to Shareholders on or about the date of this document in relation to, <i>inter alia</i> , the Placing;
<b>“CISX”</b>	the Channel Islands Stock Exchange, LBG;
<b>“CISX Listing Rules”</b>	the listing rules produced by the CISX for companies whose securities are listed on the Official List of the CISX, as amended from time to time;
<b>“City Code”</b>	the City Code on Takeovers and Mergers;

<b>“Companies Act”</b>	United Kingdom Companies Act 2006;
<b>“Company”</b>	Ground Rents Income Fund plc, a company incorporated in England and Wales with registered number 8041022;
<b>“Convertible Preference Shares”</b>	the convertible preference shares of 50 pence nominal value;
<b>“Convertible Preference Share Calculation Time”</b>	the earlier of: <ul style="list-style-type: none"> <li>(a) 5.00 p.m. on the date falling 12 months after the Admission; and</li> <li>(b) 5.00 p.m. on such Business day as the Directors may otherwise determine in their sole discretion;</li> </ul>
<b>“Convertible Preference Share Conversion Ratio”</b>	has the meaning given in Part 5 of this document;
<b>“Convertible Preference Share Conversion Time”</b>	the last Business Day in a calendar month falling after the Convertible Preference Share Calculation Time;
<b>“Convertible Preference Shareholders”</b>	holders of Convertible Preference Shares from time to time;
<b>“Convertible Preference Share Dividend”</b>	a fixed cumulative preferential dividend at the annual rate of 2 (two) per cent. per annum of the amount paid up on the Convertible Preference Shares;
<b>“Corporation Tax Act”</b>	the Corporation Tax Act 2010, as amended from time to time;
<b>“CREST”</b>	the relevant system (as defined in the Uncertificated Securities Regulations 2001) to facilitate the transfer of title to shares in uncertificated form in respect of which Euroclear UK & Ireland Limited is the operator (as defined in the Uncertificated Securities Regulations 2001);
<b>“Euroclear UK &amp; Ireland Limited”</b>	the operator of the CREST system;
<b>“FCA”</b>	the UK Financial Conduct Authority, or any successor organisation;
<b>“Finance Act”</b>	the Finance Act 2006, as amended from time to time;
<b>“First Admission”</b>	the admission on 13 August 2012 of the Ordinary Shares and Warrants (issued and to be issued) to listing on the Official List of the CISX;
<b>“First Placing”</b>	the conditional placing on or about 13 August 2012 by Singer Capital Markets as agent for the Company of 48,242,300 Ordinary Shares and 9,648,460 warrants as described in this document;
<b>“FSMA”</b>	the Financial Services and Markets Act 2000, as amended;
<b>“General Meeting”</b>	the general meeting of the Company, to be held at 10.30 a.m. at the offices of the Company, 111 Park Street, London W1K 7JL on 23 May 2013, notice of which has been sent to Shareholders on the same date as this document;
<b>“Ground Rent”</b>	the right to receive an annual, pre-determined payment made by a lessee of a property to the freeholder or head leaseholder of that property;



<b>“Group”</b>	the Company and its subsidiaries from time to time; for the purposes of taxation a Group is as defined in Section 152 of the Corporation Tax Act;
<b>“HMRC”</b>	Her Majesty’s Revenue & Customs;
<b>“IFRS”</b>	International Financial Reporting Standards;
<b>“Initial Accounts”</b>	the initial accounts of the Company for the period 23 April 2012 to 18 December 2012;
<b>“Initial Portfolio”</b>	the ground rent assets purchased under the Acquisition Agreement;
<b>“Investment Adviser”</b>	the investment adviser Brooks Macdonald Funds Limited, a company incorporated in England and Wales with registered number 5730097;
<b>“Investment Adviser Agreement”</b>	the Investment Adviser Agreement to be dated the date of Admission between the Company and the Investment Adviser, a summary of which is set out in paragraph 11.1 of Part 10 of this document;
<b>“Investor”</b>	any person, vehicle or company which invests in the Company, and the term <b>“Investors”</b> shall be construed accordingly;
<b>“Listing Document”</b>	this document, together with the Circular and the Initial Accounts;
<b>“London Stock Exchange”</b>	London Stock Exchange plc;
<b>“Long Dated”</b>	a Ground Rent which has an unexpired term in excess of 80 years;
<b>“Management Fee”</b>	the fee payable by the Company to the Investment Adviser under the Investment Adviser Agreement;
<b>“Management Team”</b>	the management team of the Investment Adviser as described in Part 2 of this document;
<b>“Market Value”</b>	the price at which an asset would trade in an open market as determined by RICS accredited Red Book principles;
<b>“N+1 Singer”</b>	Nplus1 Singer Advisory LLP, financial adviser and placing agent to the Company, with registered number OC364131, trading as N+1 Singer;
<b>“Net Asset Value” or “NAV”</b>	the value of the assets of the Group attributed to a class or classes of its Shares less its liabilities, calculated in accordance with the accounting principles adopted by the Group from time to time;
<b>“Net Asset Value per Convertible Preference Share”</b>	the Net Asset Value of the assets the Directors attribute to the Convertible Preference Shares divided by the number of Convertible Preference Shares in issue or deemed to be in issue at the time of such valuation;
<b>“Net Asset Value per Ordinary Share”</b>	the Net Asset Value of the assets the Directors attribute to the Ordinary Shares divided by the number of Ordinary Shares in issue or deemed to be in issue at the time of such valuation;
<b>“New Articles”</b>	the articles of association of the Company in force with effect from Admission;
<b>“Non-PID Dividends”</b>	a dividend paid by the Company which is not a PID Dividend;

<b>“Ordinary Shares”</b>	the ordinary shares in the Company of 50 pence nominal value;
<b>“Ordinary Shareholders”</b>	the holders of Ordinary Shares;
<b>“Panel”</b>	the Panel on Takeovers and Mergers;
<b>“PID Dividend”</b>	a dividend or distribution paid by the Company in respect of profits or gains of the Qualifying Property Rental Business of the Company arising at a time when the Company is a REIT insofar as they derive from its Qualifying Property Rental Business;
<b>“Placing”</b>	the conditional placing by N+1 Singer, as agent for the Company, of the Convertible Preference Shares at the Placing Price as described in this document at Admission;
<b>“Placing Agreement”</b>	the conditional placing agreement dated 2 May 2013 between the Company, the Investment Adviser and N+1 Singer further details of which are set out at paragraph 11.4 of Part 10 of this document;
<b>“Placing Price”</b>	100p per Convertible Preference Share;
<b>“Portfolio”</b>	the portfolio of Ground Rents owned by the Company or the SPVs owned by the Company that own the Ground Rents described in this document;
<b>“Property Adviser Agreement”</b>	the Property Adviser Agreement dated 13 August 2012 between the Company and the Property Manager, a summary of which is set out in paragraph 11.2 of Part 10 of this document;
<b>“Property Manager”</b>	the property manager Braemar Estates (Residential) Limited, a company incorporated in England and Wales with registered number 4178736;
<b>“Qualifying Property Rental Business”</b>	a property rental business fulfilling the conditions in section 529 of the Corporation Tax Act;
<b>“Red Book”</b>	the current Practice Statements and United Kingdom Practice Statements contained within the RICS Appraisal and Valuation Standards in force from time to time;
<b>“Redeemable Preference Shares”</b>	the redeemable preference shares in the Company of £1 nominal value;
<b>“Registrar”</b>	Capita Registrars;
<b>“Registrar Agreement”</b>	the registrar agreement dated 24 July 2012 between the Company and Capita Registrars, a summary of which is set out in paragraph 11.7 of Part 10 of this document;
<b>“REIT”</b>	a real estate investment trust, namely a company or group to which Part 12 of the Corporation Tax Act applies;
<b>“Savills”</b>	Savills (UK) Limited, a company incorporated in England and Wales with registered number 2605138;
<b>“SDLT”</b>	stamp duty land tax;
<b>“SDRT”</b>	UK stamp duty reserve tax;
<b>“Securities Act”</b>	the US Securities Act of 1933, as amended;

<b>“SETSqx”</b>	the London Stock Exchange Electronic Trading service (quotes and crosses) trading platform;
<b>“Shareholders”</b>	the holders of Shares from time to time;
<b>“Shares”</b>	the Ordinary Shares and/or the Convertible Preference Shares, as the context requires;
<b>“Singer Capital Markets”</b>	Singer Capital Markets Limited incorporated in England and Wales with registered number 5792780;
<b>“Sponsor”</b>	Appleby Securities (Channel Islands) Limited;
<b>“Sponsorship Agreement”</b>	the sponsorship agreement dated 10 July 2012 between the Company and the Sponsor, a summary of which is set out in paragraph 11.6 of Part 10 of this document;
<b>“SPV”</b>	special purpose vehicle;
<b>“subsidiary”</b>	as construed in accordance with section 1261 Companies Act;
<b>“Substantial Shareholder”</b>	a company or body corporate that is beneficially entitled, directly or indirectly, to 10 per cent. or more of the distributions paid by the Company or share capital of the Company, or which controls, directly or indirectly, 10 per cent. or more of the voting rights of the Company;
<b>“Substantial Shareholding”</b>	the holding of Shares by a Substantial Shareholder;
<b>“UK” or “United Kingdom”</b>	the United Kingdom of Great Britain and Northern Ireland;
<b>“uncertificated” or “in uncertificated form”</b>	in relation to a share or other security, a share or other security, title to which is recorded in the relevant register of the share or other security concerned as being held in uncertificated form (that is, in CREST) and title to which may be transferred by using CREST;
<b>“United States” or “US”</b>	the United States of America, its territories and possessions, any state of the United States and the District of Columbia;
<b>“US Person”</b>	a US person as defined in Regulation S of the US Securities Act of 1933, as amended;
<b>“VAT”</b>	value added tax;
<b>“Warrants”</b>	warrants to subscribe for Ordinary Shares issued by the Company, terms and conditions set out in the Warrant Instrument;
<b>“Warrantholders”</b>	holders of Warrants;
<b>“Warrant Instrument”</b>	the deed dated 24 July 2012 signed by the Company and which constitutes the Warrants, details of which are set out in Part 7 of this document; and
<b>“Wind-up Resolution”</b>	the special resolution that the Company be wound-up voluntarily to be proposed at a general meeting to be convened after the tenth anniversary of First Admission but before the eleventh anniversary of First Admission pursuant to the Articles.

## **PART 12**

### **GLOSSARY**

**“yield”**

a measure of return on an asset and is the income arising on an asset expressed as a percentage of the total cost of the asset, including costs.



