



Credo Property Group Limited
Arkwright Investment Holdings Limited
September 2009



Summary

Location: *Throughout the UK*

Tenant: *Volkswagen UK*

On 30 December 2004, Arkwright Investment Holdings Limited ('Arkwright') acquired 8% of Elderfield Limited, which is a special purpose vehicle set up to acquire a portfolio of 85 Volkswagen car showrooms. The total gross acquisition cost was £286m, with total shareholders' equity of £44.5m. The portfolio was purchased at a net initial yield of 6.56% on gross acquisition cost.

On 10 March 2006, Arkwright acquired an additional 1% of Elderfield Limited. The acquisition was made at an uplift of 30% on the initial equity invested in December 2004. As a result of this investment, the portfolio was revalued at an increase of 30% in 2006.

As Arkwright is a minority shareholder, we have not instructed external valuers. The investment has been valued internally at 6.5% and the resulting net asset value per share is £1,300 based on the October 2009 rent.

Distribution

A total of £679,500 (14.67% of the initial investment) has been distributed since acquisition to September 2009.

Due to the terms of the funding structure, the distributions are lower in the period 2007 to 2010, and are forecast to increase to 5% pa in 2011 and 6% pa in 2012.

Funding

Royal Bank of Scotland (RBS) provided £241.5m of 15-year funding, expiring in December 2019, with a blend of senior, stretch senior and mezzanine debt. The current amount of debt outstanding is £242.6m.

RBS is entitled to 25% of capital profits on a sale or refinancing.

Tenant

The car showrooms are predominantly situated in central locations throughout England and Scotland. Almost all the properties are free standing structures built on large plots, most of which have an area exceeding 10,000 sq m, providing for ample parking space and service areas.

There are 73 freehold properties and 12 long leases. The lease expiry date is October 2028.



All properties are let to Volkswagen UK, a wholly-owned subsidiary of Volkswagen AG.

The Volkswagen Group with its headquarters in Wolfsburg is one of the world's leading automobile manufacturers and the largest carmaker in Europe. According to the Volkswagen Group's published results – "in the first half of 2009, the Volkswagen Group extended its global competitive position and strengthened its financial base. In the first six months of the year, VW delivered 3.1 million (H1 2008: 3.3 million) vehicles worldwide. Although the overall market contracted by around 18 percent, Group deliveries decreased by only 4.4 percent. Consequently, its share of the global passenger car market rose to 12.0 percent (9.9 percent). Sales revenue declined by 9.4 percent to €51.2 billion (€56.5 billion) in the first six months due to volume-related factors. Operating profit amounted to €1.2 billion (€3.4 billion). The Group generated profit after tax of €494 million (€2.6 billion). The Automotive Division's net cash flow in the first six months rose substantially to €4.3 billion (€2.3 billion). Volkswagen also increased net liquidity in the Automotive Division by €4.3 billion compared with the end of 2008 to €12.3 billion as of June 30, 2009."

Rent

The initial annual rental income for the total portfolio was £18.77m in the first year, with fixed uplifts of 2.6% p.a. in October each year. The rent increases to £21.5m pa in October 2009.

Status

The properties are all situated in good locations throughout the United Kingdom on long leases with guaranteed rental uplifts. We anticipate holding this investment for the next reporting period.

Important Notice

The investment is suitable for those investors who understand the risks involved and who are able and willing to withstand loss of investment. Investors are referred to the summary of risks listed in the Private Placement Memorandum before making an investment.

Investors should be aware that the shares are not listed and are regarded as non-readily realisable investments. Any investment should be intended to be long term. It may be difficult to sell the shares at a reasonable price and, in some circumstances, it may be difficult to sell the shares at any price. Although the Company has the power to purchase or redeem its shares in certain circumstances it is not obliged to do so and investors should not expect that it will do so.

Market movements may cause the value of the investment and the income thereon to up or down and you may not get back the amount invested. Past performance is not a guide to future performance.

Investors should not invest in the shares unless they have carefully considered whether or not such investment is suitable depending upon their circumstances and they should take advice before investing.

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