





Executive Summary

- Additional distribution of 150 pence per share declared for quarter to 31 March 2009 based on the interim accounts submitted to the Channel Islands Stock Exchange
- Dividends to date equate to 4.7% pa.
- NAV per share is £102.41 ex dividend on 15 July 2009.
- In January 2009 Fund III invested £1.7m to acquire a share of a warehouse let to Sainsbury's Supermarkets Limited
- In June 2009, Fund III committed to invest at least £2m (10% of the fund) in 20-24 Carlton House Terrace which is occupied by Anglo American Plc as their global headquarters. Following the completion of the acquisition of 20-24 Carlton House the fund will be approximately 55% invested.
- 19% of the fund is invested in the Swiss shopping centre ("Wohncenter") which has benefited from a strong Swiss currency. The cashflow from this investment has been below budget due to a change in the value of the property for tax purposes which has increased the local tax payable.
- The investment in Netlatch has been written down by 17% partly as a result of the banking crisis and the subsequent correction in the commercial property investment market.
- The investment in Poland has been written down mainly as a result of the fall in the PLN (29% against Sterling and 40% against the Euro) as at the end of June 2009.
- Fund III has realised approximately £600,000 in foreign currency gains by converting part of the initial equity to Euro at the beginning of 2008 and translating it back to sterling at the end of 2008. Fund III no longer holds Euro cash.
- Fund III has performed well compared to the market which has fallen dramatically since the peak in 2007 and is well placed to take advantage of the downturn in the property market. We have already completed one very exciting acquisition and are due to complete a second at the end of July 2009 as detailed below. We have been evaluating a number of opportunities and expect to be fully invested by the end of the year.



General

Fund III has made investments in the UK, Switzerland and Poland.

UK

The UK IPD index is the standard benchmark for investors to analyse the performance of property in the UK market. The All Property IPD Index in the UK is currently showing a fall of over 40% from its highest point in 2007 to December 2008.

The correction in the commercial property investment market is not over and the effects of the global "credit crunch" have not been fully worked through. The market for second grade commercial property, with short leases or weak tenant covenants outside the prime areas, remains very weak with no sign of recovery thus far. On the supply side there still appear to be some forced sellers but overall the level of transactions remains low.

Our outlook remains cautious in these challenging times. The banks who lent aggressively over the past few years are still holding substantial assets/loans which are clearly 'under water'. It is uncertain whether they will continue to hold these assets or write them off. This decision could have a major impact on the property market.

We are however, now seeing more attractive investment opportunities in the UK than we have seen for a long time. We believe there are opportunities to buy long term secure income assets as well as core, prime location assets. The Fund is well poised to take advantage of the current opportunities in the UK. We are more positive than six months ago and we plan to make further acquisitions during the year when we expect to see on the market more properties offering good value and interesting long term opportunities.

Switzerland

Almost every European commercial property market has suffered a fall in annual capital growth in 2008 compared to the preceding year, as measured by the IPD Pan-European Property Index. Switzerland, was the sole exception and produced a positive capital growth. This is relatively good news for Fund III where 19% of the fund is currently invested in Switzerland (Wohncenter). This investment has also benefited from the strengthening of the Swiss Franc against Sterling.

Poland

5% of the fund is invested in Katowice, Poland. Research published by Cushman & Wakefield on the Polish Real Estate Market in Spring 2009 stated that "investors recognise the potential of Katowice" for the office space market and that "the relatively low supply results in the very low vacancy rate of circa 1%. Headline rental rates remain at a stable level of approximately €16 sq.m/month." There has, however, been a sharp decline in the volume of property transactions in Katowice over the past few months, and so it is difficult to gauge current market values. Concerns about Poland's banking sector and the postponement of joining the Euro have seen the Zloty fall about by 35 per cent from its high against Sterling in Summer 2008 and it is at a five year low against the Euro.



Net Asset Value per share: £102.41

Properties	% of fund	Initial Equity	NAV	%	Pro rata
Current			Jun-09	change	per share (£)
Wohncenter	19.01%	3,801,568	4,842,731	27%	0.24214
Netlatch development	12.32%	2,464,693	2,037,042	-17%	0.10185
Poland portfolio	5.00%	1,000,000	645,939	-35%	0.03230
Sainsbury	8.58%	1,715,500	1,715,494	0%	0.08577
Equity invested	44.91%	8,981,761	9,241,207	3%	0.46206
Carlton House	10.00%	2,000,000	2,000,000	0%	0.10000
Equity committed	54.91%	10,981,761	11,241,207	2%	0.56206
Uninvested	45.09%	9,018,239	9,241,054	2%	0.46205
Total	100.00%	20,000,000	20,482,261	2%	1.02411

Valuation

The value of the fund has increased by 2% since inception as set out above. This is considerably better than the market which has seen dramatic falls over the same period.

The **Wohncenter** was revalued in August 2008 by Engel and Volkers at a 5% yield equating to a sale price of Chf 236m. It has not been formally revalued since this date. The value of the investment in Wohncenter has benefited from the strengthening of the Swiss Franc. Fund III has entered into a forward contract to lock in the exchange rate gain. The value of the forward contract is reflected in the "Uninvested" line above. As at June 2009 the unrealised gain on the forward contract is £55,424.

This investment in **Netlatch** is unusual in that it is a mezzanine finance agreement and Fund III has the benefit of a deep discount bond with a fixed exit value. The valuation previously included was based on the value of this bond at the next possible exit date. At September 2009, the auditors of Credo Properties III Limited believed the value of the investment in Netlatch Limited only to be worth £2,161,883 necessitating an exceptional write off of £411,779. In addition to this, interest receivable from Netlatch has been written off.

The investment in **Poland** has been written down by about 35% as at June 2009. The Polish Zloty has fallen by about 40% against the Euro since 31st July 2008, and this has had a material adverse impact on the current valuation of Credo Polish Properties 1 Limited ('CPP1L'). The directors wrote down the value of CPP1L's assets by 10% in February 2009 and this write down as well as the currency movement is reflected above.

The investment in **Sainsbury's** completed in December 2008 and is stated at cost. The investment in **Carlton House** is due to complete at the end of July and is stated at the committed equity value.

The **uninvested** cash has increased in value due to favourable foreign exchange movements. £8m was converted into Euro in January 2008 as it was envisioned that acquisitions would be made in Europe. There has been an exchange gain on this conversion as Sterling has weakened against the Euro. All the Euro has now been converted back into Sterling and thus a gain of circa £613,000 has been realised.



New acquisitions:

Tenant: Anglo American plc

Location: London

On 16 June 2009 Credo exchanged contracts on the acquisition of the long leasehold of 20-24 Carlton House Terrace, from Hermes Real Estate for £66.5 million, at a net initial yield of 6.18%. The freehold is held by The Crown Estate Commissioners.

20-24 Carlton House Terrace provides 90,720 sq ft of Grade A offices let by Anglo American until 2020. The property also includes a 302 space car park let to the City of Westminster until 2073 and 14 residential apartments. Constructed in the 1970s, the offices were redeveloped by P&O Estates in 1998 and are now occupied by Anglo American plc as their global headquarters. 20-24 Carlton House Terrace is a landmark building in a prime location, which offers core capital preservation with capital growth potential, since the rent is historically low for this location.

The purchase price of £66.5m reflects a net initial yield of 6.18%. This is the second largest transaction in the West End this year, (following the sale of 2-3 Triton Square in March for £115m.)

Credo have already secured as an anchor investor a major European based property fund who will invest £16m thereby taking 50% of the investment. Armstrong Management Holdings Ltd ("Armstrong") is to acquire the remaining 50%. Fund III has committed to invest approximately £2m in Armstrong for an approximately 13% share of Armstrong. The transaction is due to close by the end of July 2009.

Tenant: Sainsbury's Supermarkets Limited

Location: UK

Background

In December 2008, Fund III acquired 33.147% in Yoda Capital Management Limited ("Yoda"). Yoda is the ultimate holding company of Marilla Investment Holdings Limited which was set up to acquire the Sainsbury's distribution warehouse in Coventry UK. The warehouse is let to Sainsbury's Supermarkets Limited "Sainsbury's" on a lease expiring in 2023. The property was acquired for £13.5m (Gross Acquisition cost was £14.614m) at an initial yield of 8.31%. In an economy in recession Sainsbury's announced first-quarter like-for-like sales growth of 7.8% in June 2009, ahead of Tesco's 4.3%. Justin King, Sainsbury's chief executive, said they would open 50 new supermarkets and extend another 50 over the next two years.

Funding

Funding of £9.54m (70% debt on purchase price) is in place from Norwich Union. The loan is fixed for 15 years until December 2023; 2 years interest only and then amortised to £5.875m (50% of Vacant Possession value).



Valuation

A valuation report was instructed on the Sainsbury's property for Norwich Union's sole benefit. The valuation supported the debt. The property was built in 1990 and refurbished in 2001. It is on a 15.8 acre site area with site coverage of 36.8%. There are 400 plus car spaces. The site is adjacent to the M62, very close to Junction 2 (M62) and has good site access. The Tenant has spent over £4.5m on the unit including a new mezzanine floor for the office accommodation.

Cashflow

Yoda raised £5,175,500 from its investors. In May 2009, Fund III received £99,435 by way of part repayment of Yoda's interest free loan from investors. The forecast cash return is 9.9% (average per annum over 15 years, based on the minimum rental uplift guaranteed under the lease).

Tenant: Wohncenter

Location: Switzerland

Background

Fund III owns 25% of Pentrich Investments Limited ("Pentrich") the ultimate holding company of the Wohncenter, a shopping centre in Emmen, Switzerland. Wohncenter's gross acquisition cost was CHF 231m. The centre opened in March 2005 and was purchased at a net initial yield of 4.9% on the gross acquisition cost in September 2006.

Funding

Deutsche Bank provided funding of 90% of the purchase price. The funding is in place until October 2013. The first three years of the loan are interest only with amortisation commencing in October 2009. The interest is fixed by an interest rate swap at 3.7225% pa. The credit markets have changed dramatically since this transaction was completed. In the event that the asset has not been sold, we will need to refinance in late 2013. By that time CHF7.8m of the debt will have been amortised and the debt will amount to CHF187.5 circa 80% of the current valuation.

Valuation

The Wohncenter was revalued in August 2008 by Engel and Volkers at a 5% yield equating to a sale price of CHF 236m. It has not been revalued since that date.

The value of the investment in Wohncenter has appreciated partly as a result of the strengthening of the Swiss Franc and we considered that part of this foreign currency appreciation should be secured. This investment was made when Sterling was relatively strong against the Swiss Franc at an exchange rate of around CHF2.36:£1. Sterling has since weakened and at the current spot rate of circa CHF1.79:£1, there is a current currency gain of around 24%. In order to lock in part of this currency gain on 10 June 2009 Fund III paid a deposit of £250,000 to Deutsche Bank to enter into a forward contract to hedge £2.5million which is approximately two thirds of the equity invested. The forward contract requires the Company to sell CHF 4,385,000 (equal to a rate of £1:CHF1.754) on 14 June 2010.

A forward contract is normally entered into to hedge one's investment against exchange risk i.e. the uncertainty regarding the future movements of the exchange rate. As each contract is taken out on an annual basis, the hedge will be rolled over at each expiry date until the Wohncenter is sold. This will result in a realised cash profit or loss at each expiry of the contract which would be offset by the unrealised decrease or increase in the value of your equity due to the actual currency movement. As at the end of June the value of the hedge was £2,444,573 (£1::CHF 1.7937) representing a gain of £ 55,425 or 2%.



Cashflow

Cumulative distributions to date from this investment equate to 7% per annum. From October 2009 amortisation on the loan of CHF488,250 per quarter will commence and therefore future distributions will be reduced in accordance with the initial projections. The dividend received this quarter is lower than initially anticipated due to the following:

1. Tax

The tax authority in Lucerne imposes an annual minimum tax of 0.2% of the cadastral value of the property. We have been advised by our tax agent in Switzerland, that the cadastral value was reset post acquisition resulting in estimated tax for Pentrich of CHF 200,176 for the period from acquisition to March 2007 and CHF395,952 pa thereafter. Even though the cadastral value was reset post acquisition the new value is used to calculate the tax retrospectively.

2. Insurance

The insurance cost is higher than originally budgeted. Under Swiss law the owners are required to take out property insurance through the local Canton. Post acquisition the lending bank argued that this insurance was too low and did not cover all risk as well as terrorism insurance. Therefore additional insurance policies are now in place to satisfy the bank's requirements, and under the terms of the leases these are not recoverable from tenants, (unlike UK FRI leases).

3. Marketing

A tenants' marketing committee has been set up and the directors have agreed to contribute CHF70,000 p.a. towards marketing of the centre as an incentive for tenants to get involved in promoting the Wohncenter.

4. Service Charges

In the last six months substantial owner's costs have been claimed relating to irrecoverable service charges upon balancing of the service charge accounts for the years ending 30 June 2007 and 2008. Part of this amount is in dispute with the tenants but the company has provided for it.

5. Capital Expenditure

Costs of approximately CHF 70,000 have been incurred in planning the catering outlet to be built in the car park. The computer systems used to manage the shopping centre facilities has been updated at an estimated cost of CHF100,000. This work will be completed during the first half of 2009.

Credo Property Group Limited will defer part of its management fees going forward in order to offset part of the impact of these costs on shareholders' dividend cashflow.



Tenant: Residential/Development

Location: Scotland

Background

Fund III owns 90.7% of Troon Investments Holdings Limited ("Troon"). Troon has provided £2.5m Mezzanine Finance for two years (with a 12.5% coupon and 25% share of equity) to a Scottish company called Netlatch Limited. Netlatch owns three properties in Scotland (Perth, Rosyth, Dundee), all currently residential, with significant value add potential.

This investment is a joint venture with Capital and Provincial ("C&P").

Perth

6.5% of the Troon portfolio properties are located within Perth City Centre, close to the principal retailing areas. C&P have completed a minor refurbishment of the flats and the common parts and either moved tenants onto higher rents or marketed the flats at higher rent.

Rosyth

17% of the Troon Portfolio properties are situated to the north of Rosyth town centre, in an area of predominantly Local Authority style housing. The 2.7 acre site contains 7 buildings, each 3 stories high with a total of 42 apartments, of which 41 are now owned by Netlatch. The final unit is held under an option until June 2010. C&P are unable to start the refurbishment of Rosyth because of the problems with Dunfermline Building Society ("DBS") detailed below under "Funding".

Dundee

76.5% of the Troon portfolio properties are located on a number of streets within the city's Ninewells Hospital grounds. The 5.4 acre site contains 74 properties which are a mixture of three storey flats, terraces of two storey villas and three bedroom bungalows.

At Dundee the refurbishment is almost complete. Netlatch have 5 direct employees carrying out the work as occupational levels are too high to offer a main contractor continuity. As units become vacant the team move in and refurbish the properties. C&P are currently running at 85% occupancy with the major intake period (July and August) likely to take the development to capacity. Rents are on target with no incentives being offered. We are now securing lettings and deposits on our new web based system. Planning for the new Nursery and Crèche is due this week. We have agreed a new Full Insuring and Repairing lease on the extension which increases the rent from £9,000 to £32,000. We are proposing the first round of new development comprising a 7,000 sq.ft health and fitness centre plus 40 apartments above on the vacant garage block. Both the NHS and planners are supporting the scheme. Plans are being developed for further phases which will comprise a further 100 units.

Funding

The £2.5m investment is in the form of a mezzanine loan with a coupon of 12.5% and a 25% share of profit. The loan expires on 22 January 2010. It will not be easy for Netlatch to refinance this loan in seven months time.

In addition, Netlatch has a bank loan of £7.9m from Dunfermline Building Society ("DBS") which is now in Administration. C&P are negotiating a new finance package with Lloyds TSB as well as continuing a dialogue with the DBS administrators to see if there might be a discounted early exit available.



Valuation

This investment structure is unusual in that it is a mezzanine finance agreement and Troon owns a deep discount bond with a fixed exit value. The valuation previously included was based on the value of this bond at the next possible exit date. At September 2009 the auditors of Credo Properties III Limited believed the value of the investment in Netlatch Limited to be worth £2,161,883 necessitating an exceptional write off of £411,779. In addition to this interest receivable from Netlatch has been written off.

Cashflow

This is a development and there is no cashflow forecast as the interest on the loan is rolled up and paid on loan expiry.

Tenant: Residential/Development

Location: Poland

Background

In April 2008, Fund III invested £1m (€1.248) in Credo Polish Properties 1 Limited ('CPP1') which has invested in an initial portfolio of period properties in Poland in the city centre of Katowice, all with significant value add potential.

The Initial Portfolio consisted of four properties in the city centre of Katowice, all with significant value add potential:

- Kosciuszki 65
- Damrota 4 & 2
- Mariacka 21

Kosciuszki 65

Kosciuszki 65 was sold as a back-to-back transaction immediately on acquisition, realising a profit after tax of approximately PLN 400k.

The profit from this transaction has been reinvested into the portfolio since the initial capital raised by CPP1L was not sufficient to complete the purchase of the Initial Portfolio.

Damrota (number 2 and 4)

Damrota Street is located in central Katowice. The project involves refurbishing both properties to create a single entity with commercial office space. Planning consent has been obtained and local banks have indicated that they will provide finance for this project. Huntingdon, (the local managers) have been trying to pre-let the space and have already had some success.

Mariacka 21

This street is also centrally located and is within the area covered by the City Centre renewal project; the street has recently been pedestrianised. The strategy is to create a high standard retail, office and residential space.

The directors have decided to postpone the commencement of the refurbishment programme on the properties at Damrota and Mariacka until the credit markets have improved. Until then, the strategy is to hold the properties and for Huntingdon to continue to manage them.

Funding

CPP1L has no bank debt so there is no pressure from bank lenders to prevent the company from implementing its long term strategy. Funding will be sought at a suitable time.



Valuation

The Polish Zloty has fallen by about 40% against the Euro since 31st July 2008, and this has had a material adverse impact on the current valuation of CPP1L. There has been a sharp decline in the volume of property transactions in Katowice over the past few months, and so it is difficult to gauge current market values. Based on this lack of market activity the directors wrote-down the value of CPP1L's assets by 10% in February 2009.

The unaudited unit price of CPP1L as at Feb 2009 is €0.53, compared to a unit price of €1.00 as at 31.7.08. This is based on the currency fall as well as a 10% write-down. The value included above is lower as it is based only on the properties and does not take into account acquisition costs or other debtors.

Cashflow

As this is a development there is no cashflow from this investment until the developments are completed.

Conclusion

With the benefit of hindsight, the timing of the formation of Fund III was fortuitous. Prior to the banking crisis that sent shockwaves through the property market of last summer, the fund had invested in three core assets. Although there has been a fall in value of two of these assets, the increase in the value of Wohncentre has helped the fund to perform well relative to the market. The cashflow from these investments is, however, less than initially forecast for the reasons set out above. Despite this the Fund has continued to pay good dividends mainly as a result of treasury management of the unspent equity.

Although we continue to explore ways to maximise these investments we are aware that it may take longer than initially forecast to realise the development potential in both Scotland and Poland. We do not, however, believe that now is the time to exit these investments and will continue to work with the developers to extract value wherever possible.

We believe that the two new acquisitions are exceptional opportunities that have arisen out of the collapse in the market. We have seen fierce competition to secure good long term assets in recent months and we will continue to look for opportunities to invest the balance of the fund by the end of the year.

Important notice

The fund invests in property which can be difficult to sell and you may not be able to encash your investment when you want to. Investment should be intended for the long term. The value of property is generally a matter of valuer's opinion rather than fact.

Past performance is not a guide to future performance. The value of your investments may go up or down, returns are not guaranteed and the original amount invested may not be returned. The value of your investments may rise or fall due to changes in tax rates and/or rates of exchange in which the investments are determined from the investor's own currency and such changes may have adverse effect on the price or income of investments.

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