





In September 2006, Pentrich Investments Limited ("Pentrich") acquired Wohncenter – a shopping centre in Emmen, Switzerland. Wohncenter's gross acquisition cost was CHF 231m. The centre was purchased at a net initial yield of 4.9% on gross acquisition cost. The Wohncenter was revalued in August 2008 by Engel and Volkers at a 5% yield equating to a value of CHF 236m. It has not been formally revalued since this date.

The value of the investment in Wohncenter has increased partly as a result of the strengthening of the Swiss Franc against Sterling. This investment was made at an exchange rate of around 2.36. Compared to the current market of circa 1.65, this represents a windfall gain of around 30%. In June 2009 we wrote to shareholders offering them the opportunity to hedge part of this currency gain. Sterling has continued to fall against the Swiss Franc and if you did not chose to hedge the currency in June you may want to consider doing so now at more favourable rates.

The NAV per share as at October 2009 is £1,010. (The unitised value of £1.01 has been reflected in the property reports.) Although we have not had a formal valuation of the property, we have recalculated the value per share at the exchange rate of CHF1.6465:£1 as at 27 October 2009. The decrease of circa 18% since the NAV in August 2009 is because we have also offset an adverse interest rate swap valuation of CHF11m which is detailed below. This would only be relevant if the Wohncenter was sold prior to the expiry of the Swap.

Distribution

The Directors of Pentrich have declared a dividend of £410,000 (2.7%). This is the sixth dividend declared and relates to income earned for the 6-month period to 30 September 2009. The next dividend distribution will be for the six month period to 31 March 2010 and will be distributed in May 2010.

Cumulative distributions to date equate to 6.3% per annum. From October 2009 amortisation of CHF488,250 per quarter commenced on the bank loan and therefore future distributions will be reduced accordingly. Future dividends will also be lower than initially anticipated due to higher tax, additional costs re insurance, marketing, irrecoverable service charges and additional capital expenditure incurred in planning the catering outlet to be built in the car park.



Credo Property Group Limited has deferred part of its management fees going forward in order to offset the impact of these costs on shareholders' dividend cashflow. The net result will be a distribution of circa 4.7% per annum for 2009 and circa 2% in 2010 compared to original projections of 4.13% and 4.69% respectively.

The loan was amortised by CHF488,250 in October 2009 and the return on capital is circa 7.96% for 2009 and forecast as 10.2% for 2010 as the loan is amortised by CHF1.953m in 2010.

Funding

£15m of shareholders' equity and CHF loan of 195.3m was raised to complete the transaction. 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 were interest only with amortisation commencing in October 2009. The interest is fixed by an interest rate swap at 3.7225% pa.

In Switzerland, interest rates decisions are taken by the Swiss National Bank. The official interest rate is the three-month Swiss franc Libor. This interest rate has fallen from 1.5% in September 2006 to 0.25% in September 2009. Deutsche Bank valued the interest rate swap at a loss of £11m. This would be the cost the company would incur if it repaid the Deutsche Bank Loan early and broke the swap. If however the debt remains in place until expiry in 2013 than the swap value is nil.

The credit markets have changed dramatically since this transaction was completed. In the event that the property 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 CHF187.5m circa 80% of the current market valuation. It is impossible to forecast the state of the debt market in four years time.

Hedge

Certain shareholders elected to enter into a foreign currency contract to hedge two thirds of their equity investment. In order to enter into the contract a 10% deposit was required by the



bank. This serves as the bank's security should the rate move against the hedge i.e. if the spot rate at the end of the period is lower than the forward rate in the contract. The bank is also entitled to call for a top up of the margin if the rate goes against the hedge (the Swiss Franc strengthens) so that at all times the bank maintains a margin deposit of 10% of the contract value. In September 2009, due to the continued depreciation of Sterling the bank called for a formal top-up of the margin requiring restoration of the 10% deposit plus mark to market loss cover. This margin call has been deducted from the dividend due to those shareholders and any further amount owing will be deducted from future dividends.

Tenants

The scheme is anchored by Mobile Pfister, Conforama, Interio, Co-op, Top Tip, Migros and Fust AG, who are household names within Switzerland and continental Europe.

Co-op currently operates two stores in the Wohncenter: Coop "Bau & Hobby" (Coop's hardware division) and Coop Top Tip (Coop's furniture division). Bau and Hobby is trading poorly and Top Tip is doing well and needs more space. The Bau & Hobby lease still has nearly 11 years remaining with rental income of CHF17m at the current rental level. Coop has requested to sublet this space to two tenants: - Top Tip and Fly. Fly belongs to the Manor/Maus Frère group, a Swiss holding company founded in 1902 that owns department stores and other businesses, mostly in Switzerland, but with some major international interests. Fly operates 20 stores in Switzerland, with a turnover of CHF 138.4million in 2008. Fly is currently represented in the nearby Emmen Centre but intends to relocate to the Wohncenter. Fly would further strengthen the focus of the Wohncenter on furniture.

The terms of this deal are still under negotiation and subject to bank approval, however it is believed that the new tenants will improve the centre and will bring their clientele with them to the Wohncenter. The terms of the deal are such that there will be no loss of income as a result of the new leases.



In July 2009 Helvetia Möbelhandel GmbH informed the property managers that they intended to file for bankruptcy. Helvetia was one of the smaller tenants who occupied 532sq m and accounts for only 0.9% of the rent.

Rent

The annual rental income has increased from CHF11.44m to CHF11.9m. The average lease term remaining is 11.3 years.

Status

Wohncenter Emmen first opened its doors to customers on 2 March 2005. On 2 March 2010 it will be five years since the opening of Switzerland's largest home furnishings centre. The cumulative sales figures to date show sales holding steady at the prior year's level.

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