# Alpha Real Trust

## Annual report and financial statements

For the year ended 31 March 2014

2014

# Alpha Real Trust

## Contents



www.alpharealtrustlimited.com

Alpha Real Trust Limited targets investment opportunities across the asset-backed spectrum, including real estate operating companies, securities, services and other related businesses that offer high risk-adjusted total returns.

## Highlights

- NAV per ordinary share 107.0 pence (107.6 pence: 31 March 2013)
- Adjusted earnings per share of 5.3 pence for the year ended 31 March 2014
- Dividend of 0.525 pence per share declared for the quarter ended 31 March 2014, expected to be paid on 1 August 2014, giving a total of 2.1 pence per share paid and declared for the year to 31 March 2014
- AUMP equity: ART´s equity investment in AUMP has more than doubled in value since it was acquired in 2012 to £1.2 million, as at 31 March 2014, following the long term refinancing of the debt in AUMP
- AUMP loan: refinancing of existing £6.8 million ART loan and injection of £4.7 million additional capital with a new £11.5 million, five-year unsecured facility earning a coupon of 15% per annum; loan was part of AUMP's long term refinancing of its debt
- Norway: repayment of tranche-B of the Europip bank debt facility through strategic asset sales; £6.2 million was borrowed in November 2012
- Leasing success: 8 new leases signed with fashion, restaurant and specialist retailers in 2014 at H2O in Spain
- Capital recycling: continued strategic sales of non-core investments with a view to reinvesting in opportunities across the asset-backed spectrum that offer high risk-adjusted total returns
- 94% of the Company's investment portfolio is in income producing investments in the UK and Europe

**107.0p**

NAV per share of 107.0 pence

**5.3p**

Adjusted earnings per share of 5.3 pence for the year ended 31 March 2014

**94%**

94% of the Company's investment portfolio is in income producing investments in the UK and Europe

# Trust summary and objective

## Strategy

Alpha Real Trust Limited ("the Company" or "ART") targets investment opportunities across the asset-backed spectrum, including real estate operating companies, securities, services and other related businesses that offer high risk-adjusted total returns.

ART currently focuses on high-yielding property debt and equity investments in Western Europe that benefit from underlying strong cash flows. The current portfolio mix, excluding sundry assets / liabilities, is as follows:

| | |
|---|---|
| High yielding equity: | 26.1% |
| High yielding mezzanine debt: | 39.2% |
| Cash and freehold ground rents: | 22.0% |
| Other: | 12.7% |

## Dividends

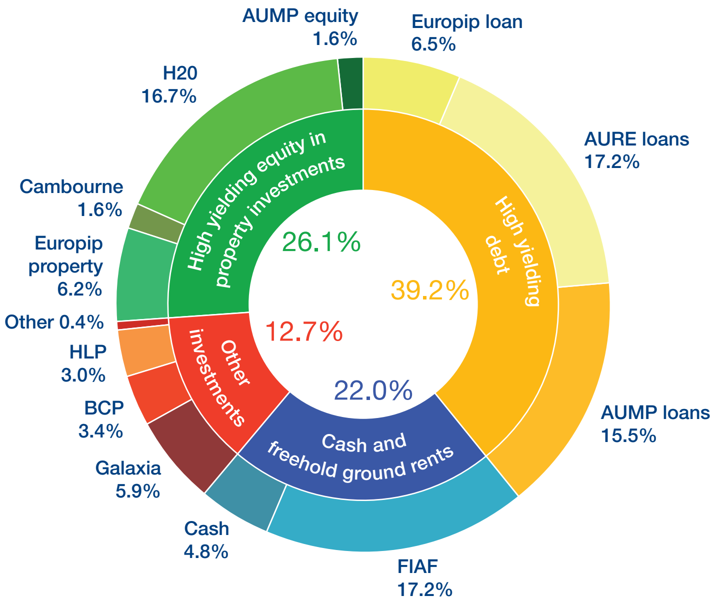
The current intention of the Company is to pay a dividend quarterly.

## Management

The Company's Investment Manager is Alpha Real Capital LLP ("ARC") whose team of investment and asset management professionals focus on the potential to enhance earnings and add value to the underlying assets, and also on the risk profile of each investment within the capital structure to best deliver high risk adjusted returns.

Control of the Company rests with the non-executive Guernsey based Board of Directors.

**Company's assets allocation by sector and investment (by percentage of Company's NAV)**




## Listing

The Company's shares are traded on the Specialist Fund Market ("SFM") of the London Stock Exchange ("LSE"), ticker ARTL:LSE.

# Financial highlights

| | Year ended 31 March 2014 | 6 months ended 30 September 2013 | Year ended 31 March 2013 |
|---|---|---|---|
| Net asset value (£'000) | 75,693 | 75,509 | 78,260 |
| Net asset value per ordinary share | 107.0p | 106.4p | 107.6p |
| Earnings per share (basic and diluted) (adjusted)* | 5.3p | 2.2p | 5.0p |
| Earnings per share (basic and diluted) | 2.2p | 0.0p | 0.4p |
| Dividend per share (paid during the period) | 2.6p | 1.1p | - |

* The adjusted earnings per share include adjustments for the effect of the fair value revaluation of investment properties and indirect property investments, the fair value movements on financial assets and deferred tax provisions: full analysis is provided in note 9 to the accounts.

# Chairman's statement

**David Jeffreys**
Chairman

I am pleased to present the Company's annual report for the year ended 31 March 2014.

It has been an exciting year for ART with the payment of an inaugural dividend and the announcement of a quarterly dividend policy. During the year a full spectrum of value adding initiatives to the Company's investment portfolio has been implemented. These include undertaking new investments by expanding the Company's high yield debt portfolio, continuing the programme of recycling of capital from non-core investments and securing the benefits of active management in directly and indirectly held assets.

The economic backdrop in many of the Company's investment markets has improved during the year, which has buoyed investor sentiment and the outlook is more positive than it has been for the past few years. Accordingly there are signs that investment markets are normalising and broader asset classes and geographical markets are witnessing increased liquidity. This bodes well for the Company's current investment portfolio and for the sourcing of further investment opportunities. Looking forward, we envisage that the Company's portfolio will continue to undergo a steady process of enhancement focused around the twin strategy of investing in debt investments where its capital can benefit from a preferred risk position and asset investments and co-investments with substantial cash flows and the benefit of ARC's management of the underlying assets.

The Company's earnings continue to increase as a consequence of a continued allocation of capital to yield driven investments. Following the payment of a dividend on 21 March 2014, the Company declares a dividend of 0.525 pence per share which is expected to be paid on 1 August 2014.

ART's ability to alternate between asset backed investment classes and investment in high yield debt markets allows it to continue to optimise returns. In terms of new investment, ART augmented its position in the Alpha UK Real Estate Fund plc ("AURE") office and industrial portfolio investment by granting a £6.0 million mezzanine loan to the Jersey subsidiaries of AURE. The loan maturity is in November 2014, co-terminus with ART's current convertible loan provided to AURE in 2011. ART's new investment was made contemporaneously with the refinancing of the existing AURE senior bank debt with a new five year debt facility.

In a similar investment approach, as part of the broader refinancing of Alpha UK Multi Property Trust plc ("AUMP") in December 2013, ART provided a new subordinated debt facility of £11.5 million, with a five-year term expiring in December 2018

# Chairman's statement (continued)

and a coupon of 15% per annum. The proceeds of the new senior, mezzanine and subordinated facilities were applied to recapitalise AUMP, repay the previous debt and to provide for AUMP's ongoing working capital requirements. These new investments are a demonstration of the benefits that ART gains from the strength and size of the Investment Manager's real estate management business which has provided a number of investment opportunities to the Company.

Recycling of capital from non-core investments to investments that offer scope for higher risk adjusted returns has continued. To this end, there have been further strategic asset sales in the Company's Europip investment in Norway where non-core assets have been sold which allowed the amortisation of ART's high yielding loan to Europip in addition to amortising the Norwegian bank loan facility by almost 30% since drawdown in late 2012; from £34.0 million (NOK 340 million) to £24.1 million (NOK 240.9 million). Notably, the higher cost tranche-B of the bank loan facility has now been fully repaid, which improves the secured position of ART's subordinated debt to Europip.

The Company's investments continue to benefit from an active management approach with successes evident across investment markets in both the Company's directly and indirectly held investments. Aided by earlier asset management successes in signing new anchor tenants, new leasing activity has increased at the H2O shopping centre asset in Spain with 8 new lease contracts signed in 2013 and 8 signed to date in 2014. Footfall and sales are also increasing at a greater rate than our peers. Similar leasing and asset management successes have continued in the AURE and AUMP investments in the UK as outlined later in the investment review section.

During the period, further arbitration hearings have been held as part of the process that the Company initiated to protect its Galaxia investment in India. Closing arguments were submitted during the first quarter of 2014 and a verdict is anticipated during August 2014.

> The Company continues to see encouraging performance in its underlying investments and remains well positioned to capitalise on new opportunities across asset backed investment and debt markets in the UK and Europe.

ART is committed to its disciplined strategy and investment principles which focus on opportunities that can deliver high risk adjusted total returns, while seeking to manage risk through a combination of operational controls, diversification and preferred capital positions. For the Company's investments that sit outside the core portfolio of equity investments and loan facilities, a managed exit will occur over a phased period in order to recycle capital into new investment opportunities.

The Company is actively seeking to increase the yield of its portfolio by enhanced performance from existing investments and by additional investment, funded from its cash and liquid holdings and capital recycling. The Company continues to see encouraging performance in its underlying investments and remains well positioned to capitalise on new opportunities across asset backed investment and debt markets in the UK and Europe.

A detailed summary of the Company's investments are contained within the investment review section.



European Property Investment Portfolio

# Chairman's statement (continued)

## Results and dividends

### Dividends

Adjusted earnings for the year show a profit after interest and tax of £3.7 million and adjusted earnings per share of 5.3 pence (see note 9 of the financial statements). This compares with adjusted earnings per share of 5.0 pence for the same period in 2013. The increase is a result of the incremental income received from the Company's investments in Freehold Income Authorised Fund ("FIAF"), AURE and AUMP.

In line with its aim to pay dividends quarterly, the Board announces a dividend of 0.525 pence per share which is expected to be paid on 1 August 2014 (Ex dividend date 2 July 2014 and record date 4 July 2014).

The dividends paid and declared for the year to 31 March 2014 total 2.1 pence per share, representing a dividend yield of 3.7% on average share price over the period and 2.0% on current NAV.

The net asset value per share at 31 March 2014 is 107.0 pence (31 March 2013: 107.6 pence) (see note 10 of the financial statements).

### Financing

Some of ART's underlying investments are part funded through non-recourse loan facilities with external debt providers.

At H2O, bank facilities now stand at €72.3 million (£59.8 million), which, following repayments, represents a reduction of €2.7 million from the initial €75.0 million borrowed. The bank borrowings do not have any loan to value covenants and there continues to be a substantial surplus of rental income in excess of finance charges.

The Europip portfolio of Norwegian commercial real estate has a senior bank debt facility balance as at 31 March 2014 of £24.1 million (NOK 240.9 million); which, following repayments, represents a reduction of NOK 99.1 million, almost 30%, from the initial NOK 340 million borrowed in November 2012.

Further details of individual asset financing can be found under the individual investment review sections later in this report.

### Foreign currency

The Company monitors foreign exchange exposures and considers hedging where appropriate. All foreign currency balances have been translated at the year-end rates of £1:€1.210, £1:NOK9.988 and £1:INR99.418.

### Share buyback

At the Extraordinary General Meeting on 7 March 2013, consistent with the Company's commitment to shareholder value, the Company's shareholders approved a general authority allowing the Company to acquire up to 24.99% of the Voting Share Capital during the period expiring on the earlier of (i) the conclusion of the Annual General Meeting of the Company in 2014 and (ii) 6 September 2014. Subject to Takeover Panel consent, the Company intends to ask shareholders to renew the authority at its upcoming Annual General Meeting.

Details of the share buybacks executed under this authority are given in note 19 of these financial statements.

### Summary

ART has had an active year growing the size of its investment portfolio with active asset management, debt refinancing, strategic asset sales and capital recycling all playing a part in further consolidating ART's existing investments. Improvement in the broader economic environment and improved investor sentiment are welcome changes, which are expected to enhance the portfolio's performance.

The Company is actively seeking to increase the yield of its portfolio by enhanced performance from existing investments and by additional investment, funded from its cash and liquid holdings and capital recycling.

The Company continues to see encouraging performance in its underlying investments and remains well positioned to capitalise on new opportunities across asset backed investment and debt markets in the UK and Europe.

**David Jeffreys**
**Chairman**
19 June 2014

# Investment review

## Portfolio summary

| Investment | Investment value | Income return p.a. | Investment location | Property type / underlying security | Investment notes | % of portfolio [1] |
|---|---|---|---|---|---|---|
| **High yielding debt (39.2%)** | | | | | | |
| **Alpha UK Real Estate Fund plc** | | | | | | |
| Convertible loan | £8.8m | 10.7% [2] | UK | High-yield diversified portfolio | Preferred capital structure | 11.5% |
| Mezzanine loan | £4.3m | 9.0% [3] | UK | High-yield diversified portfolio | Preferred capital structure | 5.7% |
| **Alpha UK Multi Property Trust plc** | | | | | | |
| Subordinated debt | £11.8m | 15.0% [4] | UK | High-yield diversified portfolio | Unsecured subordinated debt | 15.5% |
| **Europip plc** | | | | | | |
| Mezzanine loan | £5.0m | 9.0% [4] | Norway | Office and logistics | Secured mezzanine loan | 6.5% |
| **High yielding equity in property investments (26.1%)** | | | | | | |
| **H2O shopping centre** | | | | | | |
| Direct property | £12.8m (€15.5m) | 9.1% [5] | Spain | High-yield, dominant Madrid shopping centre | Debt facility with no LTV covenant and a 1.1x ICR covenant | 16.7% |
| **Europip plc** | | | | | | |
| Indirect property | £4.7m (€5.7m) | 7.3% [6] | Norway | A geared property investment vehicle invested in offices and logistics properties | Recently refinanced senior and mezzanine loan position | 6.2% |
| **Cambourne Business Park** | | | | | | |
| Indirect property | £1.2m | 12.9% [5] | UK | High-yield business park located in Cambridge | Bank facility at 50% LTV (current interest cover of 2.4 times covenant level) | 1.6% |
| **Alpha UK Multi Property Trust plc** | | | | | | |
| Equity | £1.2m | n/a | UK | High-yield diversified portfolio | 19% of ordinary shares in fund with medium term debt | 1.6% |
| **Cash and freehold ground rents (22.0%)** | | | | | | |
| **Freehold Income Authorised Fund** | | | | | | |
| Ground rent fund | £13.1m | 4.6% [7] | UK | Highly defensive income; freehold ground rents | No gearing; monthly liquidity | 17.2% |
| **Cash** (Company only) | £3.7m | 0.1-1% | UK | Cash deposits/current accounts | Held between banks with a range of deposit maturities | 4.8% |
| **Other investments (12.7%)** | | | | | | |
| **Galaxia** | | | | | | |
| Direct property | £4.5m (INR 450m) | n/a | India | Special Economic Zone development site located in NOIDA, Delhi, NCR | Arbitration process underway to protect investment | 5.9% |
| **Business Centre Properties Limited** | | | | | | |
| Indirect property | £2.6m | n/a | UK | Business centre fund | Predominantly ungeared fund | 3.4% |
| **Healthcare & Leisure Property Limited** | | | | | | |
| Indirect property | £2.3m | 5.9% [8] | UK | Leisure property fund | No external gearing | 3.0% |
| **Other** | £0.3m | n/a | Varied | Varied | Varied | 0.4% |

[1] Percentage share shown based on NAV excluding parent company's sundry assets/liabilities
[2] Annual coupon plus redemption premium annualised
[3] Annual coupon; additionally, 2% arrangement fees were received by ART in the current financial year
[4] Annual coupon; additionally, 1% arrangement fees were received by ART in the current financial year
[5] Over 12 months to 31 March 2014
[6] Annualised quarterly earnings yield on the Norwegian property portfolio
[7] Annualised monthly return; post tax
[8] Return over the average investment during the ownership period

# Investment review (continued)

**Brad Bauman**
Joint fund manager

**Gordon Smith**
Joint fund manager

## High yielding debt

### Market overview

Real estate debt markets are becoming more liquid with new lenders entering the market and traditional lenders gradually increasing their exposure and availability of finance (which should act to benefit the value of the Company's equity investment portfolio). Whilst there is increased competition within the lending market, it is expected to remain weak for some time for smaller transactions in non-prime sectors where a strong knowledge of the underlying assets is required. ART remains well positioned to take advantage of further debt investment opportunities as they are identified.

Whilst lenders continue to remain risk-adverse with a focus on prime assets, there are increasing signs that the availability of finance is starting to broaden, spurred by improved economic indicators and business sentiment. This broadening of liquidity and finance options is visible across ART's investment markets, however it varies significantly between countries.

The acquisition and refinancing needs of many real estate investment vehicles throughout Europe remain high and opportunities for lenders with real estate debt expertise continue to remain attractive.

The Investment Manager's team includes professionals with real estate asset management, debt structuring and origination skills. The refinancing of the AUMP and AURE portfolios during the year demonstrated in both cases that ART is able to adapt to changing market dynamics and to participate in financing consortia in order to maximise its risk adjusted returns.

The refinance of the AUMP and AURE portfolios during the year demonstrated in both cases that ART is able to adapt to changing market dynamics and to participate in financing consortia in order to maximise its risk adjusted returns.

## Alpha UK Real Estate Fund plc
AURE

| | |
|---|---|
| Sector | Irish Stock Exchange listed |
| Underlying assets | UK offices, industrial and retail property |
| Description | AURE is an Irish Stock Exchange listed UK property fund with gross property assets of £40.7 million (as at 31 March 2014).<br>AURE has a regionally diversified portfolio of UK office, industrial and retail properties. |

# Investment review (continued)

## Alpha UK Real Estate Fund plc ("AURE")

| Investment | Investment type | Investment value | Income return | Property type / underlying security | Investment notes |
|---|---|---|---|---|---|
| Alpha UK Real Estate Fund plc | Convertible loan | £8.8m | 10.7% p.a. * | High-yield diversified UK portfolio | Preferred capital structure |
| | Mezzanine loan | £4.3m | 9% p.a. ** | High-yield diversified UK portfolio | Preferred capital structure |

* Annual coupon plus redemption premium annualised.
** Annual coupon; additionally, 2% arrangement fees were received by ART in the current financial year.

The Company has invested a total of £13.1 million in AURE by way of two loan agreements. AURE is an Irish resident Open Ended Investment Company listed on the Irish Stock Exchange, which is invested in a diversified portfolio of UK commercial property (16 properties comprising industrial, office and retail properties valued at £40.7 million as at 31 March 2014).

ART has provided two loans to AURE, both of which mature in November 2014:

- a £7.5 million three-year convertible loan (granted in 2011) which earns a coupon of 6% per annum and a 14% redemption premium if not converted, providing a minimum return of 10.7% per annum. The balance, including rolled up redemption premium, at 31 March 2014 is £8.8 million.
- a £6 million mezzanine loan paying a coupon of 9% per annum; the loan was granted in September 2013, contemporaneous with a refinancing of the existing AURE senior debt for a new five year senior debt facility. Following repayments after asset sales the balance at 31 March 2014 is £4.3 million.

As at 31 March 2014, the value of the AURE portfolio was £40.7 million, and the balance of the bank debt was £18 million, reflecting a loan to value ratio of 44.2%. ART's loan positions sit between 44.2% and 73.7% loan to value.

> The acceptance of a stabilisation of asset values in broader markets has led to investors seeking higher yielding assets with the confidence that total returns in these markets are likely to outstrip returns from low yielding prime assets, particularly on a risk-adjusted basis.

The following highlights were included in the recent AURE factsheet for the quarter ended 31 March 2014 (published in May 2014):

- Key sales achieved: during the quarter one target asset was realised at a sales price in line with recent valuation, with gross proceeds totalling £530,000.
- New lettings achieved: notably a contract has been exchanged for the lease of a formerly vacant 102,000 square foot warehouse; as a result of the letting the property valuation has increased by 20%.
- Valuation uplift: as a result of various value-add initiatives and leasing activity, the portfolio valuation has increased as at 30 April 2014 by 3.5% from 31 March 2014 to £42.13 million.

ARC is the investment manager of AURE. ARC is pursuing value enhancement opportunities in the AURE portfolio assets to increase net income and improve the profile of this income through lease extensions, renewals and reducing unrecoverable void costs.




## Alpha UK Multi Property Trust plc
AUMP

| | |
|---|---|
| Sector | LSE listed |
| Underlying assets | UK offices and industrial property |
| Description | AUMP is a London Stock Exchange listed UK property fund with gross property assets of £77.6 million (as at 31 March 2014).<br>AUMP has a regionally diversified portfolio of UK light industrial and office property. |

# Investment review (continued)

## Alpha UK Multi Property Trust plc ("AUMP")

| Investment | Investment type | Investment value | Income return | Property type / underlying security | Investment notes |
|---|---|---|---|---|---|
| Alpha UK Multi Property Trust plc | Convertible loan | £11.8m | 15% p.a.* | High-yield diversified UK portfolio | Unsecured subordinated debt |

* Annual coupon; additionally, 1% arrangement fees were received by ART in the current financial year.

Further to its equity investment (described on page 16) ART has provided a loan to AUMP.

As part of the refinancing of AUMP in December 2013, ART provided a new subordinated debt facility of £11.5 million. The loan has a five-year term, expiring in December 2018, and earns a coupon of 15% per annum.

The proceeds of the new senior, mezzanine and subordinated facilities were applied to recapitalise AUMP, repay the previous debt and to provide for AUMP's ongoing working capital requirements.

As at 31 March 2014, the value of the AUMP portfolio was £77.6 million and the balance of the bank and mezzanine finance was £53.1 million, reflecting a loan to value ratio of 68.4%. ART's subordinated loan sits between 68.4% and 83.2% loan to value.

## European Property Investment Portfolio plc ("Europip")

| Investment | Investment type | Investment value | Income return | Property type / underlying security | Investment notes |
|---|---|---|---|---|---|
| Europip loan | Mezzanine loan | £5.0m | 9.0% p.a.* | Office and logistics | Secured mezzanine loan |

* Annual coupon; additionally, 1% arrangement fees were received by ART in the current financial year.

Further to the equity investment (described on page 19) ART has provided mezzanine finance to Europip. ART has a charge over Europip´s portfolio of commercial assets ranking after the senior lender's charge over the Norway portfolio and Mosaic investments. In addition, ART has the right to take a charge over a single unencumbered property within the Norway portfolio, which is outside the senior lender's security pool of assets.

ART's loan to Europip matures on 27 November 2014 and continues to attract a coupon of 9% per annum.

As at 31 March 2014, the value of the seven asset portfolio was £39.9 million (NOK 398.4 million) based on the 31 December 2013 valuation, and the balance of the bank debt was £24.1 million (NOK 240.9 million); reflecting a LTV ratio of 60.4%. ART's loan position sits between 60.4% and 72.9% loan to value.





## Cambourne Business Park
Cambridge

| | |
|---|---|
| Sector | Business parks |
| Underlying assets | Office |
| Tenants | Regus, Citrix Systems, Netcracker Technology |
| Area | 9,767 square metres |
| Description | The asset consists of three Grade A specification modern office buildings located in the town of Cambourne.<br>Phase 1000 is situated at the front of the business park. It is an institutional quality asset with Open B1 Business user planning. |

## Investment review (continued)

# High yielding equity in property investments

### Commercial property market overview

Across the Company's investment markets, there are indications that investor sentiment has turned the corner with evidence of increased optimism. This more positive investor outlook is supported by broader signs of improved outlook amongst consumers, businesses and financial markets, which is helping pave the way for a return of stronger real estate market activity.

Over the past few years, it has been the "weight of money" that has been driving investor demand and against a backdrop of economic uncertainly much of this demand did not apply beyond investment in prime assets, regions and sectors. As economic uncertainty retreats and economic indicators improve, property fundamentals, particularly the strength of the occupier market, look set to return as key drivers of investment decisions. There are early signs that a narrow investor focus on prime assets is giving way to an objective analysis of strengths and weakness of broader commercial property and asset backed investments. This bodes well for ART's portfolio.

Notwithstanding the general rise in optimism, marked variations between asset sectors and markets remain and the advance towards the normalisation of investment markets is still focused on good secondary assets and markets. By way of example, improved macro indicators have not yet translated into significant rental growth in markets other than selected prime cities. There is however an increasing sense that not only will values remain stable, but that substantial value lost since 2007 will be recaptured as yield compression returns to sectors that were previously overlooked by investors.

The acceptance of a stabilisation of asset values in broader markets has led to investors seeking higher yielding assets with the confidence that total returns in these markets are likely to outstrip returns from low yielding prime assets, particularly on a risk-adjusted basis.

The change in investor sentiment towards the Spanish market is worthy of particular note. The Spanish real estate market continues to remain polarised. Investment activity in the super-prime asset category has increased and pricing has rebounded as such assets are being more closely benchmarked against prime assets in other markets where a recovery is more advanced. Activity in the distressed asset segment of the market has also increased as investors seek to purchase at deep discounts, often wholly equity funded. This increase in investor liquidity is now expected to spread to core assets in the centre ground, which is expected to benefit the Company's H2O investment.

ART continues to remain focused on investments that offer potential to deliver high risk adjusted returns via value enhancement through active asset management, improvement of net rental income, selective deployment of capital expenditure and the ability to undertake strategic sales when the achievable price is accretive to returns.

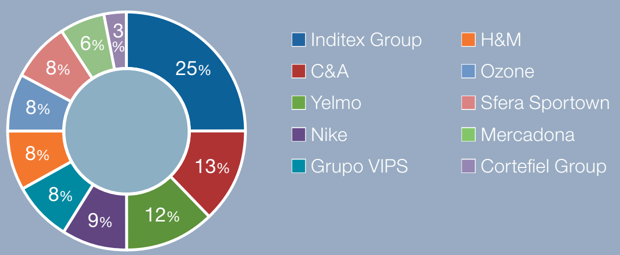
ART benefits from the depth of experience, strength and size of the Investment Manager's real estate business which has a broad network of offices and funds under management throughout Europe. This enables the Company to access a number of attractive opportunities.

ART continues to remain focused on investments that offer potential to deliver high risk adjusted returns via value enhancement through active asset management, improvement of net rental income, selective deployment of capital expenditure and the ability to undertake strategic sales when the achievable price is accretive to returns.


## H20
### Madrid - Spain

| | |
|---|---|
| Sector | Retail |
| Asset | Shopping centre |
| Tenants include | Nike, Zara, Mango, Cortefiel, H&M, C&A and Massimo Dutti |
| Area | 51,825 square metres |
| Description | The property is located in the Rivas-Vaciamadrid district of Madrid.<br>H2O has a primary catchment area of 166,000 people but the location, due to the concentration of complementary retail, has a total catchment of 2.2 million people.<br>The weighted average lease length as at 31 March 2014 is 10.5 years to expiry and 2.6 years to next break.<br>Centre occupancy 86.5% as at 31 March 2014. |

**Top ten tenants (31 March 2014)**



# Investment review (continued)

## H2O Shopping Centre, Madrid

| Investment | Investment type | Investment value | Income return | Property type / underlying security | Investment notes |
|---|---|---|---|---|---|
| H2O | Direct property | £12.8m (€15.5m) * | 9.1% p.a. ** | High-yield, dominant shopping centre | Debt facility with no LTV covenant and a 1.1x ICR covenant |

* Post year end, a commitment has been made by ART to invest a further £206,000 (€250,000) towards asset enhancement.
** Over 12 months to 31 March 2014.

H2O was opened in June 2007 and built to a high standard providing shopping, restaurants and leisure around a central theme of landscaped gardens and an artificial lake. H2O has a gross lettable area of 51,825 square metres comprising 118 retail units. In addition to a multiplex cinema, supermarket (let to leading Spanish supermarket operator Mercadona) and restaurants it has a large fashion retailer base, including some of the strongest international fashion brands, such as Nike, Zara, Mango, Cortefiel, H&M, C&A and Massimo Dutti.

The H2O shopping centre was acquired in April 2010 and to date ART has committed €5 million in capital improvements and, post year end, a further commitment has been made to invest a further £206,000 (€250,000) which will be used to part fund shop fit-out works for new lease contracts and to improve pedestrian access to the adjacent retail park.

> The year to date 2014 visitor numbers at H2O continue to outperform the market with footfall continuing to be assisted by the presence of the new Nike destination factory store opened in 2013, the improved foodcourt area and innovative marketing events.

Asset management highlights are as follows:

- Centre occupancy: 86.5% by rental value (as at 31 March 2014).
- Lease length: weighted average lease length to next break of 2.6 years and 10.5 years to expiry (as at 31 March 2014).
- Footfall: the year to date 2014 visitor numbers at H2O continue to outperform its peers with footfall continuing to be assisted by the presence of the new Nike destination factory store opened in 2013, the improved foodcourt area and innovative marketing events.
- 2013 leasing review: 8 new leases signed, representing over 3,180 square metres of space to new fashion / sports, restaurant, services and retail accessories tenants.
- 2014 year to date leasing update: 8 new leases signed, representing over 1,200 square metres of space to restaurant and retail tenants.
- Lake terrace: the new lakeside “fun boulevard” terrace kiosks are fully let to café/bar operators and recent lettings of the lake restaurant area to two leading restaurant brands reinforce the shopping centre’s destination status.
- Marketing: innovative events continue to be carried out to attract new visitors, build customer loyalty and increase dwell time; a national video game final and exhibitions have been held during recent months and the exclusive Lego themed play area continues to perform strongly.
- Cost control: an active cost management exercise continues to be implemented to reduce the centre’s operating costs and improve the quality and efficiency of services.

# Investment review (continued)

## Alpha UK Multi Property Trust plc ("AUMP")

| Investment | Investment type | Investment value | Income return | Property type / underlying security | Investment notes |
|---|---|---|---|---|---|
| Alpha UK Multi Property Trust plc | Equity | £1.2m | n/a | High-yield diversified UK portfolio | 19% of ordinary capital |

ART has 19% of AUMP's ordinary share capital, representing £1.2 million in equity value based on AUMP's share price, as at 31 March 2014.

AUMP is a LSE listed UK property fund with a regionally diversified portfolio of over 50 multi-let light industrial and office properties valued at £77.6 million (at 31 March 2014).


The Company continues to implement its active management policy and this has seen encouraging results in both directly and indirectly held investments.

The following highlights were included in the AUMP annual results for the year ended 31 December 2013 (published 7 March 2014):

- Loans refinanced: on 5 December 2013 the Group refinanced its borrowings, including the ART facility, entering into new five year term loan facilities.
- Five property sales completed above valuation: five properties were sold during 2013 at a total price of £3.82 million before sales costs; 17% above their most recent valuation.
- New lettings achieved: 81 new lettings and 25 lease renewals achieved during 2013 (representing 13.7% of the estimated rental value ("ERV") of the total portfolio, based on the final achievable annual rent including stepped rent).
- Additional contracted rent attained: £0.3 million per annum of additional passing rent is contracted to start during 2014, directly benefiting cash flow.
- Occupancy improved: the occupancy level measured by ERV stood at 84.6% as at 31 December 2013 compared with 80.8% as at 31 December 2012.

ARC is the investment manager of AUMP. ARC is pursuing value enhancement opportunities in AUMP portfolio assets to increase net income and improve the profile of this income through lease extensions, renewals and reducing unrecoverable void costs.

# Investment review (continued)

## Cambourne Business Park, Phase 1000, Cambridge

| Investment | Investment type | Investment value | Income return | Property type / underlying security | Investment notes |
|---|---|---|---|---|---|
| Cambourne Business Park | Indirect property | £1.2m | 12.9% p.a. * | High-yield business park | Bank facility at 50% LTV (current interest cover of 2.4 times covenant level) |

* Over 12 months to 31 March 2014.

The Company has invested £1.2 million in a joint venture that owns Phase 1000 of Cambourne Business Park. The property consists of three Grade A specification modern office buildings constructed in 1999 and located in the town of Cambourne, approximately 8 miles west of Cambridge city centre. The property comprises 9,767 square metres of lettable area, is self-contained and has 475 car parking spaces. Phase 1000 is situated at the front of the business park with good access and visibility.


> Phase 1000 is a high quality asset, fully let to Netcracker Technology EMEA Ltd, Citrix Systems and Regus. The property has open B1 Business user planning permission and has potential value-add opportunities.

Phase 1000 is a high quality asset, fully let to Netcracker Technology EMEA Ltd, Citrix Systems and Regus. The property has open B1 Business user planning permission and has potential value-add opportunities.

Phase 1000 was purchased in a joint venture partnership with a major overseas investor for £23.0 million including acquisition costs. Bank finance of £10.8 million was obtained. ART's equity contribution of £1.2 million, which represents 10% of the total equity commitment, was invested into a newly formed joint venture entity, a subsidiary of which holds the property. The property was acquired for an 8.5% net initial yield and is currently delivering an annualised income return of 12.9% as at 31 March 2014.

ARC is the investment manager to the joint venture owning the Cambourne property and continues to pursue opportunities to add value to the investment.

## European Property Investment Portfolio PLC

### Europip

| | |
|---|---|
| Sector | A 47% stake in an Isle of Man domiciled open ended investment company which invests in a geared property investment vehicle invested in Norway and a minority stake in a Central European commercial property fund called Mosaic Property CEE Limited. |
| Underlying assets | The investment predominately comprises industrial and office properties in Norway, with a minority stake in a fund invested in commercial property in Central Europe. |
| Description | The Norwegian portfolio is concentrated around Oslo.<br>Mosaic indirectly invests in a portfolio of commercial assets in Poland. |

# Investment review (continued)

## European Property Investment Portfolio plc ("Europip")

| Investment | Investment type | Investment value | Income return | Property type / underlying security | Investment notes |
|---|---|---|---|---|---|
| Europip Norway | Indirect property | £4.7m (€5.7m) | 7.3% p.a.* | A geared property investment vehicle invested in offices and logistics properties in Norway | Recently refinanced senior and mezzanine loan position |
| Europip Mosaic | Indirect property | £0.3m (€0.4m) | n/a | Minority investment in a Central European commercial property fund | Property held via investment vehicles, varying debt levels |

* Annualised quarterly earnings yield on the Norwegian property portfolio

As part of the PIP transaction, ART acquired a 47% stake in Europip (shares are non-voting), an Isle of Man domiciled open ended investment company. Europip invests in a directly owned commercial property portfolio in Norway and holds a minority interest in Mosaic Property CEE Limited ("Mosaic"), a Central European focused commercial property fund. A summary of Europip investments is as follows:

The Norwegian portfolio of directly owned commercial properties is concentrated around Oslo. The value of the seven asset portfolio is NOK 398.4 million (£39.9 million) with a passing annual rental level of NOK 34.6 million (£3.5 million) as at 31 December 2013 valuation.

The Norwegian portfolio's occupancy rate was 95% by rental value as at 31 March 2014.

The Norwegian portfolio weighted average lease length was 5 years as at 31 March 2014.

A subsidiary of ARC, Alpha Real Property Investment Advisers LLP ("ARPIA") is the investment manager for the Norway portfolio and Malling & Co. is responsible for the day to day property management.

In November 2012, Europip refinanced the portfolio of Norwegian real estate with a senior debt facility of £34.2 million (NOK 340 million) arranged in two tranches:

- Facility A: a five year facility with an initial funded amount of £28.0 million (NOK 280 million), at a 2.4% margin over NIBOR. This facility is to be amortised at circa £1.0 million (NOK 10.2 million) per annum from cashflows, although the amount of required amortisation will be reduced pro-rata in the event of property sales. £21.0 million (NOK 210 million) of this facility has been fixed for five years at a NIBOR rate of 2.49% p.a.
- Facility B: a two year term facility for £6.2 million (NOK 60 million), at a 3.1% margin over NIBOR with repayment coming from the sale of two assets. During the past quarter, this facility has been fully repaid.

In March 2014, the Industriveien asset was sold and the net proceeds were used to repay the outstanding balance of the above mentioned Facility B.


## Freehold Income Authorised Fund
FIAF

| | |
|---|---|
| Sector | Freehold ground rents (UK) |
| Underlying assets | Freehold residential ground rents |
| Description | FIAF is an open-ended investment company that provides secure and stable investment returns from acquiring freehold residential ground rents, which offer an attractive income stream, capital growth prospects and attractive risk-adjusted returns.<br>FIAF owns over 64,000 freeholds in the UK with a gross annual rent income of over £7.8 million. |

## Investment review (continued)

# Cash and freehold ground rents

## Cash

| Investment | Investment type | Investment value | Income return | Property type / underlying security | Investment notes |
|---|---|---|---|---|---|
| Cash balance | Cash | £3.7m | 0.1%-1% p.a. | Cash deposits / current accounts | Held between banks with a range of deposit maturities |

As at 31 March 2014, the Company had cash balances of £3.7 million.

## Freehold Income Authorised Fund (“FIAF”)

| Investment | Investment type | Investment value | Income return | Property type / underlying security | Investment notes |
|---|---|---|---|---|---|
| Freehold Income Authorised Fund | Equity in ground rent fund | £13.1m | 4.6% p.a. * | Highly defensive income; freehold ground rents | No gearing; monthly liquidity |

* Annualised monthly return; post tax.

The Company has invested a total of £13.1 million as at 31 March 2014 in FIAF, an open-ended fund that invests in UK freehold ground rents with a net asset value of £192.6 million as at 31 March 2014.

The investment is expected to continue to provide a better return than currently earned on the Company’s cash balances. FIAF operates a monthly dealing facility to provide liquidity.

The following highlights were reported in the FIAF fact sheet as at 31 March 2014 (published in May 2014):

- FIAF continues its unbroken 21 year track record of positive inflation beating returns, generating a total return for the year to 31 March 2014 of 6.94% (based on the bid price of accumulation shares)
- 80% of FIAF’s freeholds have a form of inflation protection through periodic uplifts linked to Retail Price Index, property values or fixed uplifts
- No debt had been drawn as at 31 March 2014.

# Investment review (continued)

## Other investments

### Healthcare & Leisure Property Limited ("HLP")

| Investment | Investment type | Investment value | Income return | Property type / underlying security | Investment notes |
|---|---|---|---|---|---|
| Healthcare & Leisure Property Limited | Indirect property | £2.3m | 5.9% p.a.* | Leisure property fund | No external gearing |

* Return over the average investment during the ownership period.

Healthcare & Leisure Property Limited has invested in companies operating in the hotel, care home, house building and leisure sectors throughout the UK. HLP's investments are predominantly un-geared.

HLP is managed by Albion Ventures LLP, a specialised UK venture capital manager. No new investments are being made by HLP.

ART currently has £2.3 million invested in HLP as at 31 March 2014 (shares are non-voting). HLP subsequently holds minority stakes in the underlying investments.

ART continues to receive income from its investment while HLP's underlying assets are sold. HLP has delivered a return of 5.9% over the average investment during the ownership period, and ART will continue to benefit from its share of net proceeds from the sales of the underlying assets as they are progressed.

### Business Centre Properties Limited ("BCP")

| Investment | Investment type | Investment value | Income return | Property type / underlying security | Investment notes |
|---|---|---|---|---|---|
| Business Centre Properties Limited | Indirect property | £2.6m | n/a | Business centre fund | Predominantly ungeared fund |

BCP is a business centre fund that owns 2 serviced office properties, as at 31 March 2014, each operated by Citibase plc. BCP is an Isle of Man registered Open-Ended Investment Company providing investors with exposure to the serviced office sector both in London and provincial locations. BCP is currently in the process of realising assets and returning capital to its investors.

ART equity interest is 95% of BCP share capital (shares are non-voting). BCP's net asset value is concentrated in the Stratford business centre property (which is ungeared) and the company's liquid cash reserves.

The following asset management highlights were reported by BCP for the six months ended 31 March 2014:

- BCP's value is concentrated in Stratford, an un-geared serviced office property which is being sold on a staged payment basis. The purchaser is complying with a restated purchase agreement dated March 2014
- Bank of Scotland has a loan of £6.5 million granted to a wholly owned subsidiary of BCP. The facility matured on 28 February 2013. Bank of Scotland has advised that the loan has now reverted to an overdraft facility whilst the consensual sale of the remaining property (Reading) in the borrowing entity is pursued. The Reading property is currently being marketed for sale.

# Investment review (continued)

## Galaxia, National Capital Region, NOIDA

| Investment | Investment type | Investment value | Income return | Property type / underlying security | Investment notes |
|---|---|---|---|---|---|
| Galaxia | Direct property | £4.5m (INR 450m) | n/a | Special Economic Zone development site | Asset held for sale |

ART invested INR 450 million (£4.5 million) in the Galaxia project, a development site extending to 11.2 acres which enjoys SEZ status with the potential to develop 1.2 million square feet. Galaxia is located in NOIDA, an established, well planned suburb of Delhi that continues to benefit from new infrastructure projects and is one of the principal office micro-markets in India. The Company has a 50% shareholding in the SPV which controls the Galaxia site. There are no bank borrowings on the asset.

On 2 February 2011, ART recommenced arbitration proceedings against its development partner Logix Group in order to protect its Galaxia investment.

Both sides presented their closing submissions during the first quarter of 2014 and the arbitration panel is expected to announce a verdict during August 2014.

Notwithstanding the above, the Company is continuing to explore avenues for a sale of the development.

# Summary

Over the past year there has been a significant improvement in the economic and investor outlook in the UK and European investment markets.

ART remains active in both its target investment sectors of high yield debt and equity in assets with high risk adjusted returns typically when there is scope to add value through active asset management and/or the restructuring or recapitalisation of property investment vehicles. As exemplified by the loan investments in AUMP and AURE during the year, the Company continues to source new investment opportunities with strong cash-flows and/or managed risk profiles that are accretive to ART's earnings position.

The Company continues to implement its active management policy and this has seen encouraging results in both directly and indirectly held investments.

ART remains well placed to find value for its investors and to capitalise on new investment opportunities across asset backed investment and debt markets in the UK and Europe.

**Brad Bauman and Gordon Smith**
**For and on behalf of the Investment Manager**
19 June 2014

The Company continues to source new investment opportunities with strong cash-flows and/or managed risk profiles that are accretive to ART's earnings position.

# Directors

## David Jeffreys

Chairman

Aged 54

David Jeffreys qualified as a Chartered Accountant with Deloitte Haskins and Sells in 1985. He works as an independent non-executive director to a number of Guernsey based investment fund companies and managers and is a Guernsey resident.

From 2007 until 2009 David was the Managing Director of EQT Funds Management Limited, the Guernsey management office of the EQT group of private equity funds. He was previously the Managing Director of Abacus Fund Managers (Guernsey) Limited between 1993 and 2004, a third party administration service provider to primarily corporate and fund clients.

In addition to the Company, David is a director of the following listed companies: Alpha Pyrenees Trust Limited, Ingenious Media Active Capital Limited, PFB Data Centre Fund Limited and Tetragon Financial Group Limited.

## Phillip Rose

Director

Aged 54

Phillip Rose is a Fellow of the Securities Institute and holds a Master of Law degree. He has over 30 years' experience in the real estate, funds management and banking industries in Europe, the USA and Australasia. He has been the Head of Real Estate for ABN AMRO Bank, Chief Operating Officer of European shopping centre investor and developer TrizecHahn Europe, Managing Director of retail and commercial property developer and investor Lend Lease Global Investment and Executive Manager of listed fund General Property Trust.

Phillip is currently CEO of Alpha Real Capital LLP and is a member of the Management Committee for Hermes Property Unit Trust and its Audit Committee.

## Serena Tremlett

Director

Aged 49

Serena has over 25 years' experience in financial services, specialising in closed-ended property and private equity funds and fund administration over the last 17 years.

She is a non-executive director on the listed company boards of Alpha Pyrenees Trust Limited, Ingenious Media Active Capital and those of Stenham Property, in addition to various unlisted property and private funds and general partners. Serena was previously company secretary (and a director) of Assura Group, at that time a FTSE 250 company listed on the London Stock Exchange, investing in primary healthcare property and ran Assura's Guernsey head office.

Prior to working for Assura, Serena was head of Guernsey property funds at Mourant International Finance Administration (now State Street) for two years and worked for Guernsey International Fund Managers (now Northern Trust) for seven years where she sat on a number of listed and unlisted fund boards. Since 2008, Serena has been co-founder and managing director of Morgan Sharpe Administration, a specialist closed-ended fund administrator.

## Jeff Chowdhry

Director

Aged 54

Jeff Chowdhry is currently Head of Emerging Market Equities at F&C Asset Management plc, with overall responsibility for investments in global emerging markets. Previously, he was a director of Sun F&C Asset Management (India) Limited and also managed the Indian Investment Company SICAV, an open ended investment fund registered in Luxembourg. Prior to this, Jeff managed the India Fund Inc, a closed ended investment fund listed in New York that seeks long-term capital appreciation through investing primarily in Indian equities.

## Roddy Sage

Director

Aged 61

Roddy Sage is currently Chief Executive Officer of the AFP group of companies, providing corporate and taxation advisory services in Asia. Prior to that, he spent 20 years with KPMG Hong Kong, 10 years of which were as Senior Tax Partner for Hong Kong and China. He has held Chairmanships within KPMG and outside as Chairman of the Hong Kong General Chamber of Commerce's Taxation Committee and is a non-executive director of Tai Ping Carpets International and Guoco Group Limited.

# Directors' and corporate governance report

The Directors present their report and financial statements of the Alpha Real Trust Limited group ("the Group") for the year ended 31 March 2014.

## Principal activities and status

During the year the Company, an authorised closed-ended Guernsey registered investment company, carried on business as a property investment and development company, investing in commercial property.

The Company's shares are traded on the Specialist Fund Market of the London Stock Exchange.

## Business review, results and dividend

A review of the business during the year is contained in the Chairman's Statement on page 3 to 5.

The results for the year to 31 March 2014 are set out in the financial statements.

On 13 February 2014, the Company declared a dividend of 0.525p per share, which was paid to shareholders on 21 March 2014. The current intention of the Company is to pay a dividend quarterly. Further details on dividends are given in note 8 of the financial statements.

## Corporate governance

As a Guernsey registered company traded on SFM, the Company is not required to comply with The UK Corporate Governance Code. However, as a company authorised by the Guernsey Financial Services Commission ("GFSC"), it is required to follow the principles and guidance set out in the Finance Sector Code of Corporate Governance issued by the GFSC and effective from 1 January 2012 ("Guernsey Code"). Compliance with the Guernsey Code and general principles of good corporate governance are reviewed by the Board at least annually.

## The Board

Biographies of the Directors are set out on page 24. All of the Directors were appointed on 15 May 2006.

The Directors' interests in the shares of the Company as at 31 March 2014 are set out below and there have been no changes in such interests up to the current date:

| | Number of ordinary shares 31 March 2014 | Number of ordinary shares 31 March 2013 |
|---|---|---|
| David Jeffreys | 10,000 | 10,000 |
| Phillip Rose | 139,695 | 139,695 |
| Serena Tremlett | 15,000 | 15,000 |
| Jeff Chowdhry | 40,000 | 40,000 |
| Roddy Sage | - | - |

The UK Code recommends that non-executive directors are appointed for specified terms. The Company has chosen not to comply with this recommendation but confirms that appointments of its members can be terminated at any time without penalty and the Company's Articles of Association ("Articles") require each Director to retire and submit himself to re-election by the shareholders at every third year. In addition, the Board believes that continuity and experience adds to its strength.

The Annual General Meeting of the Company will take place on 12 August 2014. At this meeting, Jeff Chowdry and Roddy Sage will retire and submit themselves for re-election. The remainder of the Board recommend their re-appointment and confirm their independence.

Individual Directors may seek independent legal advice in relation to their duties on behalf of the Company.

# Directors’ and corporate governance report (continued)

## Operations of the Board

The Board has determined that its role is to consider and determine the following principal matters which it considers are of strategic importance to the Company:

1) Review the overall objectives for the Company and set the Company’s strategy for fulfilling those objectives within an appropriate risk framework
2) Consider any shifts in strategy that it considers may be appropriate in light of market conditions
3) Review the capital structure of the Company including consideration of any appropriate use of gearing both for the Company and in any joint ventures in which the Company may invest from time to time
4) Appoint the Investment Manager, Administrator and other appropriately skilled service providers and monitor their effectiveness through regular reports and meetings
5) Review key elements of the Company’s performance including Net Asset Value and payment of dividends.

At Board meetings, the Board ensures that all the strategic matters are considered and resolved by the Board. Certain issues associated with implementing the Company’s strategy are delegated either to the Investment Manager or the Administrator. Such delegation is over minor incidental matters and the Board continually monitors the services provided by these independent agents. The Board considers there are implementation matters that are significant enough to be of strategic importance and should be reserved solely for the Board (e.g. all acquisitions, all disposals, significant capital expenditure, leasing and decisions affecting the Company’s financial gearing).

The Board meets at least quarterly and as required from time to time to consider specific issues reserved for decision by the Board including all potential acquisitions and investments.

At the Board’s quarterly meetings it considers papers circulated in advance including reports provided by the Investment Manager and the Administrator. The Investment Manager’s report comments on:

- The property markets of India, UK and Europe including recommendations for any changes in strategy that the Investment Manager considers may be appropriate
- Performance of the Group’s portfolio and key asset management initiatives
- Transactional activity undertaken over the previous quarter and being contemplated for the future
- The Group’s financial position including relationships with bankers and lenders.

These reports enable the Board to assess the success with which the Group’s property strategy and other associated matters are being implemented and also consider any relevant risks and to consider how they should be properly managed.

The Board also considers reports provided from time to time by its various service providers reviewing their internal controls.

In between its regular quarterly meetings, the Board has also met on a number of occasions during the year to approve all transactions and for other matters.

## Board and Director’s appraisals

The Board carries out an annual review of its composition and performance (including the performance of individual Directors) and that of its standing committees. Such appraisal includes reviewing the performance and composition of the Board (and whether it has an appropriate mix of knowledge, skills and experience), the relationships between the Board and the Investment Manager and Administrator, the processes in place and the information provided to the Board and communication between Board members.

## Board Meeting attendance

The table below shows the attendance at Board meetings during the year to 31 March 2014:

| Director | No of meetings attended |
|---|---|
| David Jeffreys | 14 |
| Phillip Rose | 4 |
| Serena Tremlett | 15 |
| Jeff Chowdhry | 8 |
| Roddy Sage | 9 |
| **No. of meetings during the year** | **15** |

## Directors’ and officers’ insurance

An appropriate level of Directors’ and officers’ insurance is maintained whereby Directors are indemnified against liabilities to third parties to the extent permitted by Guernsey Company Law.

## Board Committees

The Board has established three standing committees, all of which operate under detailed terms of reference, copies of which are available on request from the Company Secretary.

# Directors' and corporate governance report (continued)

## Audit Committee

The Audit Committee consists of David Jeffreys (Chairman), Roddy Sage and Serena Tremlett. The Board is satisfied that David Jeffreys continues to have the requisite recent and relevant financial experience to fulfil his role as Chairman of the Audit Committee.

### Role of the Committee

The role of the Audit Committee, which meets at least twice a year, includes:

- The engagement, review of the work carried out by and the performance of the Company's external auditors
- To monitor and review the independence, objectivity and effectiveness of the external auditors
- To develop and apply a policy for the engagement of the external audit firm to provide non-audit services
- To assist the Board in discharging its duty to ensure that financial statements comply with all legal requirements
- To review the Company's financial reporting and internal control policies and to ensure that the procedures for the identification, assessment and reporting of risks are adequate
- To review regularly the need for an internal audit function
- To monitor the integrity of the Group's financial statements, including its annual and half-year reports and announcements relating to its financial performance, reviewing the significant financial reporting issues and judgements which they contain
- To review the consistency of accounting policies and practices
- To review and challenge where necessary the financial results of the Group before submission to the Board.

The Audit Committee makes recommendations to the Board which are within its terms of reference and considers any other matters as the Board may from time to time refer to it.

Members of the Audit Committee may also, from time to time, meet with the Company's valuer to discuss the scope and conclusions of their work.

### Committee meeting attendance

| Director | No of meetings attended |
|---|---|
| David Jeffreys | 4 |
| Roddy Sage | 3 |
| Serena Tremlett | 4 |
| **No. of meetings during the year** | **4** |

### Policy for non audit services

The Committee has adopted a policy for the provision of non-audit services by its external auditors, BDO Limited, and reviews and approves all material non-audit related services in accordance with the need to ensure the independence and objectivity of the external auditors. No services, other than audit-related ones, were carried out by BDO Limited during the year.

### Internal audit

The Board relies upon the systems and procedures employed by the Investment Manager and the Administrator which are regularly reviewed and are considered to be sufficient to provide it with the required degree of comfort. Therefore, the Board continues to believe that there is no need for an internal audit function, although the Audit Committee considers this annually, reporting its findings to the Board.

## Nomination Committee and attendance

The Nomination Committee consists of Roddy Sage (Chairman), Phillip Rose and Serena Tremlett.

The Committee's principal task is to review the structure, size and composition of the Board in relation to its size and position in the market and to make recommendations to fill Board vacancies as they arise and it meets at least annually. It met once during the year and all Committee members were present.

## Remuneration Committee and attendance

The Remuneration Committee consists of Serena Tremlett (Chairman), Jeff Chowdhry and David Jeffreys.

The Board has approved formal terms of reference for the Committee and a copy of these is available on request from the Company Secretary.

As the Company comprises only non-executive directors, the Committee's main role is to determine their remuneration within the cap set out in the Company's Articles. It met once during the year and all Committee members were present.

# Directors' and corporate governance report (continued)

## Remuneration report

The aggregate fees payable to the Directors are limited to £200,000 per annum under the Company's Articles and the annual fees payable to each Director have not materially changed since the Company's shares were listed in 2006. The fees payable to the Directors are expected to reflect their expertise, responsibilities and time spent on the business of the Company, taking into account market equivalents, the activities, the size of the Company and market conditions. Under their respective appointment letters, each director is entitled to an annual fee together with a provision for reimbursement for any reasonable out of pocket expenses.

During the year the Directors received the following emoluments in the form of fees from Group companies:

| | Year ended 31 March 2014 £ | Year ended 31 March 2013 £ |
|---|---|---|
| David Jeffreys | 31,500 | 30,000 |
| Phillip Rose | 22,000 | 20,000 |
| Serena Tremlett | 32,583 | 36,000 |
| Jeff Chowdhry | 22,000 | 20,000 |
| Roddy Sage | 22,000 | 20,000 |
| **Total** | **130,083** | **126,000** |

## Internal control and risk management

The Board understands its responsibility for ensuring that there are sufficient, appropriate and effective systems, procedures, policies and processes for internal control of financial, operational, compliance and risk management matters in place in order to manage the risks which are an inherent part of business. Such risks are managed rather than eliminated in order to permit the Company to meet its financial and other objectives.

The Board reviews the internal procedures of both its Investment Manager and its Administrator upon which it is reliant. The Investment Manager has a schedule of matters which have been delegated to it by the Board and upon which it reports to the Board on a quarterly basis. These matters include quarterly management accounts and reporting both against key financial performance indicators and its peer group. Further, a compliance report is produced by the Administrator for the Board on a quarterly basis.

The Company maintains a risk management framework which considers the non-financial as well as financial risks and this is reviewed by the Audit Committee prior to submission to the Board.

## Investment management agreement

The Company has an agreement with the Investment Manager. This sets out the Investment Manager's key responsibilities, which include proposing a property investment strategy to the Board, identifying property investments to recommend for acquisition and arranging appropriate lending facilities. The Investment Manager is also responsible to the Board for all issues relating to property asset management.

## Substantial shareholding

Shareholders with holdings of more than 3% of the issued ordinary shares of the Company as at 30 May 2014 were as follows:

| Name of investor | No. of ordinary shares | % held |
|---|---|---|
| Alpha Real Capital LLP and subsidiaries | 22,550,000 | 31.93 |
| Billien Limited | 14,154,593 | 20.05 |
| Capita Trustees | 5,183,984 | 7.34 |
| IPGL Limited | 3,010,100 | 4.26 |
| Amiya Capital | 2,600,000 | 3.68 |
| Integrated Financial Arrangements | 2,416,454 | 3.42 |

## Shareholder relations

The Board places high importance on its relationship with its shareholders, with members of the Investment Manager's Investment Committee making themselves available for meetings with key shareholders and sector analysts. Reporting of these meetings and market commentary is received by the Board on a quarterly basis to ensure that shareholder communication fulfils the needs of being useful, timely and effective. One or more members of the Board and the Investment Manager will be available at the Annual General Meeting to answer any questions that shareholders attending may wish to raise.

## Directors' Responsibility Statement

Company law requires the Directors to prepare financial statements for each financial year, which give a true and fair view of the state of affairs of the Company and of the Group at the end of the year and of the profit or loss of the Company and the Group for that year.

In preparing those financial statements, the Directors are required to:

(1) select suitable accounting policies and then apply them consistently;

(2) make judgements and estimates that are reasonable and prudent;

(3) state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and

# Directors' and corporate governance report (continued)

(4) prepare the financial statements on the going concern basis unless it is appropriate to assume that the Company and Group will not continue in business.

So far as each of the Directors is aware, there is no relevant information of which the Company's auditor is unaware, and they have taken all the steps they ought to have taken as Directors to make themselves aware of any relevant information and to establish that the Company's auditor is aware of that information.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and of the Group and to enable them to ensure that the financial statements comply with the Companies (Guernsey) Law, 2008. They are also responsible for safeguarding the assets of the Company and Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors confirm that they have complied with the above requirements in preparing the financial statements.

## Going concern

After making enquiries, and bearing in mind the nature of the Group's business and assets, the Directors consider that the Company and Group have adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

## Annual General Meeting

The AGM of the Company will be held in Guernsey at 11.30 am on 12 August 2014 at Old Bank Chambers, La Grande Rue, St Martin's, Guernsey. The meeting will be held to receive the Annual Report and Financial Statements, re-elect Directors and propose the reappointment of the auditor and that the Directors be authorised to determine the auditor's remuneration.

## Auditors

BDO Limited has expressed its willingness to continue in office as auditor.

By order of the Board,

**David Jeffreys**
Director

**Serena Tremlett**
Director

19 June 2014

## Directors' statement pursuant to the Disclosure and Transparency Rules

Each of the Directors, whose names and functions are listed in the Directors' and corporate governance report confirm that, to the best of each person's knowledge and belief:

- The financial statements, prepared in accordance with IFRSs as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit of the Group, and
- The Chairman's statement and the investment review include a fair review of the development and performance of the business and the position of the Group and note 24 to the financial statements provides a description of the principal risks and uncertainties that the Group faces.

By order of the Board,

**David Jeffreys**
Director

**Serena Tremlett**
Director

19 June 2014

# Independent auditors' report

## To the Members of Alpha Real Trust Limited

We have audited the consolidated financial statements of Alpha Real Trust Limited for the year ended 31 March 2014 which comprise the Consolidated Statement of Comprehensive Income, the Consolidated Balance Sheet, the Consolidated Cash Flow Statement, the Consolidated Statement of Changes in Equity and the related notes 1 to 26. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

This report is made solely to the Company's members, as a body, in accordance with Section 262 of the Companies (Guernsey) Law, 2008. Our audit work is undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

## Respective responsibilities of the directors and auditor

As explained more fully in the Directors' Responsibilities Statement within the Directors' Report, the directors are responsible for the preparation of the consolidated financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the consolidated financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Financial Reporting Council's (FRC's) Ethical Standards for Auditors.

## Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non financial information in the Directors' Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent misstatements or inconsistencies we consider the implications for our report.

## Opinion on the financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Group's affairs as at 31 March 2014 and of the Group's profit for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been properly prepared in accordance with the requirements of the Companies (Guernsey) Law, 2008.

## Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies (Guernsey) Law, 2008 requires us to report to you if, in our opinion:

- proper accounting records have not been kept by the Company; or
- the financial statements are not in agreement with the accounting records; or
- we have failed to obtain all the information and explanations, which, to the best of our knowledge and belief, are necessary for the purposes of our audit.

Richard Michael Searle

**Richard Michael Searle FCA**
**For and on behalf of BDO Limited**
Chartered Accountants and Recognised Auditor
Place du Pré, Rue du Pré, St Peter Port, Guernsey
19 June 2014

# Consolidated statement of comprehensive income

| | | For the year ended 31 March 2014 | | | For the year ended 31 March 2013 | | |
|---|---|---|---|---|---|---|---|
| | | Revenue | Capital | Total | Revenue | Capital | Total |
| | Notes | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| **Income** | | | | | | | |
| Revenue | 3 | 8,243 | - | 8,243 | 8,440 | - | 8,440 |
| Net change in the revaluation of investment property | 13 | - | (658) | (658) | - | (2,333) | (2,333) |
| **Total income** | | **8,243** | **(658)** | **7,585** | **8,440** | **(2,333)** | **6,107** |
| **Expenses** | | | | | | | |
| Property operating expenses | | (3,940) | - | (3,940) | (3,920) | - | (3,920) |
| Investment Manager's fee | | (1,707) | - | (1,707) | (1,464) | - | (1,464) |
| Other administration costs | 4 | (1,244) | - | (1,244) | (1,119) | - | (1,119) |
| **Total operating expenses** | | **(6,891)** | **-** | **(6,891)** | **(6,503)** | **-** | **(6,503)** |
| **Operating profit/(loss)** | | **1,352** | **(658)** | **694** | **1,937** | **(2,333)** | **(396)** |
| Share of profit/(loss) of joint venture | | 135 | 15 | 150 | 144 | (14) | 130 |
| Finance income | 5 | 4,369 | 163 | 4,532 | 3,174 | 220 | 3,394 |
| Finance costs | 6 | (2,098) | (1,698) | (3,796) | (2,194) | (514) | (2,708) |
| **Profit/(loss) before taxation** | | **3,758** | **(2,178)** | **1,580** | **3,061** | **(2,641)** | **420** |
| Taxation | 7 | (10) | - | (10) | (166) | - | (166) |
| **Profit/(loss) for the year** | | **3,748** | **(2,178)** | **1,570** | **2,895** | **(2,641)** | **254** |
| **Other comprehensive income/(expense) for the year** | | | | | | | |
| Exchange differences arising on translation of foreign operations | | - | (1,176) | (1,176) | - | 99 | 99 |
| **Other comprehensive income/(expense) for the year** | | **-** | **(1,176)** | **(1,176)** | **-** | **99** | **99** |
| **Total comprehensive income/(expense) for the year** | | **3,748** | **(3,354)** | **394** | **2,895** | **(2,542)** | **353** |
| **Earnings per share (basic & diluted)** | 9 | | | **2.2p** | | | **0.4p** |
| **Adjusted earnings per share (basic & diluted)** | 9 | | | **5.3p** | | | **5.0p** |

* Restated for early adoption of IFRS 11 (joint arrangements); affecting only the accounting for the joint venture investment in the Cambourne property (see note 2)

The total column of this statement represents the Group's statement of comprehensive income, prepared in accordance with IFRS. The revenue and capital columns are supplied as supplementary information permitted under IFRS. All items in the above statement derive from continuing operations.

The accompanying notes on pages 35 to 58 form an integral part of this statement.

# Consolidated balance sheet

| | Notes | 31 March 2014 £'000 | 31 March 2013 £'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Investment property | 13 | 69,942 | 71,433 |
| Indirect property investment held at fair value | 14 | 4,525 | 5,451 |
| Investments held at fair value | 15 | 11,275 | 12,869 |
| Investment in joint venture | | 1,214 | 1,203 |
| Derivatives held at fair value through profit or loss | 24 | 63 | 158 |
| Trade and other receivables | 16 | 11,500 | 7,481 |
| | | **98,519** | **98,595** |
| **Current assets** | | | |
| Investments held at fair value | 15 | 13,145 | 15,252 |
| Derivatives held at fair value through profit or loss | 24 | 159 | 252 |
| Trade and other receivables | 16 | 19,135 | 16,641 |
| Cash and cash equivalents | | 5,444 | 12,602 |
| | | **37,883** | **44,747** |
| **Total assets** | | **136,402** | **143,342** |
| **Current liabilities** | | | |
| Trade and other payables | 17 | (1,374) | (3,740) |
| Bank borrowings | 18 | (595) | (606) |
| | | **(1,969)** | **(4,346)** |
| **Total assets less current liabilities** | | **134,433** | **138,996** |
| **Non-current liabilities** | | | |
| Bank borrowings | 18 | (58,740) | (60,736) |
| **Total liabilities** | | **(60,709)** | **(65,082)** |
| **Net assets** | | **75,693** | **78,260** |
| **Equity** | | | |
| Share capital | 19 | - | - |
| Special reserve | 20 | 80,296 | 81,381 |
| Translation reserve | 20 | (2,085) | (909) |
| Capital reserve | 20 | (10,358) | (8,180) |
| Revenue reserve | 20 | 7,840 | 5,968 |
| **Total equity** | | **75,693** | **78,260** |
| **Net asset value per ordinary share** | 10 | **107.0p** | **107.6p** |

**David Jeffreys**
Director

**Serena Tremlett**
Director

* Restated for early adoption of IFRS 11 (joint arrangements); affecting only the accounting for the joint venture investment in the Cambourne property (see note 2)

The financial statements were approved by the Board of Directors and authorised for issue on 19 June 2014.
They were signed on its behalf by David Jeffreys and Serena Tremlett.

The accompanying notes on pages 35 to 58 form an integral part of this statement.

# Consolidated cash flow statement

| | For the year ended 31 March 2014 £'000 | For the year ended 31 March 2013 £'000 |
|---|---|---|
| **Operating activities** | | |
| Profit for the year after taxation | 1,570 | 254 |
| **Adjustments for:** | | |
| Net change in revaluation of investment property | 658 | 2,333 |
| Taxation | 10 | 166 |
| Share of profit of joint venture | (150) | (130) |
| Finance income | (4,532) | (3,394) |
| Finance cost | 3,796 | 2,708 |
| **Operating cash flows before movements in working capital** | **1,352** | **1,937** |
| **Movements in working capital:** | | |
| (Increase)/decrease in trade and other receivables | 286 | (219) |
| Decrease/(increase) in trade and other payables | (1,650) | 1,030 |
| **Cash (used in)/from operations** | **(12)** | **2,748** |
| Interest received | 91 | 109 |
| Interest paid | (1,938) | (2,068) |
| Taxation paid | (118) | (106) |
| **Cash flows (used in)/from operating activities** | **(1,977)** | **683** |
| **Investing activities** | | |
| Acquisition of investments | - | (5,689) |
| Redemption of investments | 2,500 | - |
| Cash recognised on PIP transaction | - | 383 |
| Redemption on preference shares' investment | 100 | 1,100 |
| Capital expenditure on investment property | (417) | (1,218) |
| Loan granted to related parties | (8,880) | (1,725) |
| Loan repayments from related parties | 4,347 | - |
| Loan interest received | 736 | - |
| CULS interest received | 240 | 380 |
| Dividend income from joint venture | 139 | 138 |
| Dividend income from other investments | 779 | 567 |
| **Cash flows used in investing activities** | **(456)** | **(6,064)** |
| **Financing activities** | | |
| Bank loan repayments | (916) | - |
| Share buyback | (1,659) | - |
| Share buyback costs | (4) | - |
| Share issue costs | (29) | (188) |
| Gain on currency option | 142 | - |
| Foreign exchange forward collateral paid | (362) | - |
| Dividends paid | (1,876) | - |
| **Cash flows used in financing activities** | **(4,704)** | **(188)** |
| **Net decrease in cash and cash equivalents** | **(7,137)** | **(5,569)** |
| **Cash and cash equivalents at beginning of year** | **12,602** | **18,153** |
| Exchange translation movement | (21) | 18 |
| **Cash and cash equivalents at end of year** | **5,444** | **12,602** |

* Restated for early adoption of IFRS 11 (joint arrangements); affecting only the accounting for the joint venture investment in the Cambourne property (see note 2)

The accompanying notes on pages 35 to 58 form an integral part of this statement.

# Consolidated statement of changes in equity

| For the year ended 31 March 2013 | Special reserve £'000 | Translation reserve £'000 | Capital reserve £'000 | Revenue reserve £'000 | Total equity £'000 |
|---|---|---|---|---|---|
| **At 1 April 2012** | **56,859** | **(1,008)** | **(5,539)** | **3,073** | **53,385** |
| Profit/(loss) for the year | - | - | (2,641) | 2,895 | 254 |
| Other comprehensive income for the year | - | 99 | - | - | 99 |
| Share issue | 25,316 | - | - | - | 25,316 |
| Share issue costs | (188) | - | - | - | (188) |
| Share buyback | (605) | - | - | - | (605) |
| Share buyback costs | (1) | - | - | - | (1) |
| **At 31 March 2013** | **81,381** | **(909)** | **(8,180)** | **5,968** | **78,260** |
| Notes 19, 20 | | | | | |

| For the year ended 31 March 2014 | Special reserve £'000 | Translation reserve £'000 | Capital reserve £'000 | Revenue reserve £'000 | Total equity £'000 |
|---|---|---|---|---|---|
| **At 1 April 2013** | **81,381** | **(909)** | **(8,180)** | **5,968** | **78,260** |
| Profit/(loss) for the year | - | - | (2,178) | 3,748 | 1,570 |
| Other comprehensive expense for the year | - | (1,176) | - | - | (1,176) |
| Dividends | - | - | - | (1,876) | (1,876) |
| Share issue costs | (29) | - | - | - | (29) |
| Share buyback | (1,053) | - | - | - | (1,053) |
| Share buyback costs | (3) | - | - | - | (3) |
| **At 31 March 2014** | **80,296** | **(2,085)** | **(10,358)** | **7,840** | **75,693** |
| Notes 19, 20 | | | | | |

The accompanying notes on pages 35 to 58 form an integral part of this statement.

# Notes to the financial statements

For the year ended 31 March 2014

## 1. General information

The Company is a limited liability, closed-ended investment company incorporated in Guernsey. The address of the registered office is given on page 59. The nature of the Group's operations and its principal activities are set out in the Chairman's Statement on pages 3 to 5. The financial statements were approved and authorised for issue on 19 June 2014 and signed by David Jeffreys and Serena Tremlett on behalf of the Board.

## 2(a). Significant accounting policies

A summary of the principal accounting policies is set out below. The policies have been consistently applied for all periods presented unless otherwise stated.

The preparation of financial statements in conformity with IFRS, as adopted by the EU, requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the accounting policies. The areas involving a high degree of judgement or complexity, or areas where the assumptions and estimates are significant to the financial statements are disclosed in this note.

### Basis of preparation

These financial statements have been prepared in accordance with IFRS, which comprise standards and interpretations approved by the International Accounting Standards Board ("IASB"), and International Accounting Standards and Standards Interpretations Committee's interpretations approved by the International Accounting Standards Committee ("IASC") that remain in effect, and to the extent that they have been adopted by the European Union.

### a) Adoption of new and revised Standards

A number of new and revised standards and interpretations issued by the IASB and the International Financial Reporting Interpretations Committee became effective for the current year. These were:

#### Revised and amended Standards

IFRS 7: Financial Instruments: Disclosures - Amendments enhancing disclosures about offsetting of financial assets and financial liabilities - for accounting periods commencing on or after 1 January 2013 and interim periods within those periods

In May 2012, the IASB issued improvements to IFRS, which became effective for accounting periods commencing on or after 1 January 2013. These covered amendments to five standards.

#### Standards adopted early

IFRS 11: Joint Arrangements - for accounting periods commencing on or after 1 January 2014

IFRS 11 provides for a more realistic reflection of joint arrangements by focusing on the rights and obligations of the arrangement, rather than its legal form. The standard addresses inconsistencies in the reporting of joint arrangements by requiring a single method to account for interests in jointly controlled entities. The Group is party to a joint venture investment in the Scholar Property Holdings Limited group (Cambourne) and, up to the year ended 31 March 2013, accounted for its investment by proportionate consolidation. Proportionate consolidation is no longer an available option under IFRS 11, which requires the use of the equity method under IAS 28 (Investments in Associates). The Group has therefore adopted the equity method of accounting for its joint venture commencing with the half year report for the six months ended 30 September 2013.

In compliance with IFRS 11 (Appendix C) the Group has restated its consolidated balance sheet as at 31 March 2013 to remove the Group's share of the joint venture's individual assets and liabilities and to include as one line the Group's share of the joint venture net assets as at 31 March 2013.

As a result of the adoption of IFRS 11, the Company applied the following standards at the same time:

IFRS 10: Consolidated Financial Statements - Amendments for investment entities - for accounting periods commencing on or after 1 January 2014

IFRS 10 builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard provides additional guidance to assist in the determination of control where this is difficult to assess.

IFRS 12: Disclosure of Interests in Other Entities - for accounting periods commencing on or after 1 January 2014

IFRS 12: Disclosure of Interests in Other Entities - Amendments for investment entities - for accounting periods commencing on or after 1 January 2014

IFRS 12 includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, structured entities and other off balance sheet vehicles.

IAS 27: Consolidated and Separate Financial Statements - Reissued as IAS 27 Separate Financial Statements (as amended in 2011) - for accounting periods commencing on or after 1 January 2014

IAS 27: Consolidated and Separate Financial Statements - Amendments for investment entities - for accounting periods commencing on or after 1 January 2014

IAS 28: Investments in Associates - Reissued as IAS 28 Investments in Associates and Joint Ventures (as amended in 2011) - for accounting periods commencing on or after 1 January 2014

# Notes to the financial statements (continued)

For the year ended 31 March 2014

## 2(a). Significant accounting policies (continued)

### Interpretations

No interpretations, relevant for the Group, were issued or revised during the year.

The adoption of these standards and interpretations, with the exception of IFRS 11, has not led to any changes in the Group's accounting policies.

### b) Standards and Interpretations in issue and not yet effective

At the date of authorisation of these financial statements, the following standards and interpretations, which have not been applied in these financial statements, were in issue but not yet effective:

IFRS 9: Financial Instruments - no stated effective date*

### Revised and amended Standards

IAS 32: Financial Instruments: Presentation - Amendments to application guidance on the offsetting of financial assets and financial liabilities - for accounting periods commencing on or after 1 January 2014

IAS 36: Impairment of Assets - Amendments for Recoverable Amount Disclosures for Non-Financial Assets - for accounting periods commencing on or after 1 January 2014

IAS 39: Financial Instruments: Recognition and Measurement - Amendments for Novation of Derivatives and Continuation and Hedge Accounting - effective when IFRS 9 is applied*.

### Interpretations

No interpretations, relevant for the Group, are currently in issue.

In December 2013, the IASB issued further improvements to IFRS, which will become effective for accounting periods commencing on or after 1 July 2014. These cover amendments to nine standards.

*Still to be endorsed by the EU

The Directors anticipate that, with the exception of IFRS 9, the adoption of these standards and interpretations in future periods will not have a material impact on the financial statements of the Group.

IFRS 9 aims to replace those parts of IAS 39 which relate to the classification and measurement of financial instruments. The main requirement of IFRS 9 is the classification of financial assets into two separate categories: 1) financial assets measured at fair value and 2) financial assets measured at amortised cost. The assessment to establish the most appropriate category is performed at initial recognition. Main parameters that management should consider for this assessment are the Company and Group's business model for managing financial instruments and the related cash flows' characteristics. With regards to financial liabilities IFRS 9 stays broadly in line with IAS 39. IFRS 9 requires one impairment method which would replace the various different methods indicated by IAS 39 that arise from the different categories' classification. At the time of adoption of the new standard the Company's intercompany loans, the Company and Group's receivables and the investments at fair value will be classified under the two categories explained above and there is no expectation of changes in measurement for those financial instruments.

IFRS 9 contains no stated effective date.

The principal accounting policies adopted are set out below.

### Basis of consolidation

#### a) Subsidiaries

The consolidated financial statements incorporate the financial statements of the Company and the subsidiary undertakings controlled by the Company, made up to 31 March each year. Control is achieved where the Company has the power to govern the financial and operating policies of an investee entity so as to obtain benefit from its activities.

The results of subsidiary undertakings acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the effective date of acquisitions or up to the effective date of disposal as appropriate.

When necessary, adjustments are made to the financial statements of subsidiary undertakings to bring the accounting policies used into line with those used by the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

#### b) Joint ventures

A joint venture is a contractual arrangement whereby the Group and other parties undertake an economic activity that is subject to joint control (i.e. when the strategic financial and operating policy decisions relating to the activities of the joint venture require the unanimous consent of the parties sharing control).

Following the early adoption of IFRS 11 (see note 2 (a)), the Group accounts for its joint venture investments using the equity accounting method. The Group's investment is initially recognised at cost and adjusted thereafter for the post-acquisition change of the investee's net assets. The Group's profit or loss includes its share of the investee's profit or loss and the Group's other comprehensive income includes its share of the investee's other comprehensive income. The impact of the application of IFRS 11 is discussed further in note 12.

# Notes to the financial statements (continued)

For the year ended 31 March 2014

## 2(a). Significant accounting policies (continued)

Joint venture arrangements that involve the establishment of a separate entity in which each venturer has an interest are referred to as jointly controlled entities. The Group reports its interests in jointly controlled entities using the equity accounting method. Gains from the sale of the Group's share of jointly controlled entities are recognised when it is probable that the economic benefits associated with the transaction will flow to the Group and its amount can be measured reliably.

### Presentation of statement of comprehensive income

In order to better reflect the activities of an investment company and in accordance with guidance issued by the Association of Investment Companies ("AIC"), supplementary information, which analyses the statement of comprehensive income between items of a revenue and capital nature, has been presented alongside the statement of comprehensive income.

### Revenue recognition

Rental income and service charge income from investment property leased out under an operating lease are recognised in the statement of comprehensive income on a straight line basis over the term of the lease. Lease incentives granted are recognised as an integral part of the net consideration for the use of the property and are therefore also recognised on the same straight line basis. Rental revenues are accounted for on an accruals basis. Therefore, deferred revenue generally represents advance payments from tenants. Revenue is recognised when it is probable that the economic benefits associated with the transaction will flow to the Group and the amount of revenue can be measured reliably. Upon early termination of a lease by the lessee, the receipt of a surrender premium, net of dilapidations and non-recoverable outgoings relating to the lease concerned, is immediately recognised as revenue.

Interest income is accrued on a time basis, by reference to the principal outstanding and the effective interest rate applicable.

Other income is recognised when received.

### Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

### Foreign currencies

#### a) Functional and presentational currency

Items included in the financial statements of each of the Group entities are measured in the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in Sterling, which is the Company's functional and presentational currency.

#### b) Transactions and balances

Transactions in currencies other than functional currency are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary assets and liabilities that are carried at fair value and denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Gains and losses arising on retranslation are included in net profit or loss for the year, except for exchange differences arising on non-monetary assets and liabilities where the changes in fair value are recognised directly in other comprehensive income/(expense).

#### c) Group companies

The results and financial position of all the Group entities that have a functional currency which differs from the presentational currency are translated into the presentational currency as follows:

(i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of the balance sheet

(ii) income and expenses for each statement of comprehensive income are translated at the average exchange rate prevailing in the period, and

(iii) all resulting exchange differences are recognised as a separate component of equity.

On consolidation, the exchange differences arising from the translation of the net investment in foreign entities are taken to equity. When a foreign operation is sold, such exchange differences are recognised in the statement of comprehensive income as part of the gain or loss on sale.

For Euro based balances the year end exchange rate used is £1:€1.210 (2013: £1:€1.185) and the average rate for the year used is £1:€1.186 (2013: £1:€1.228). The year-end exchange rate used for Indian rupee (INR) balances is £1:INR 99.418 (2013: £1:INR 82.561) and the average rate for the year used is £1:INR 95.890 (2013: £1:INR 85.833).

### Operating profit and loss

The Group's operating profit and loss includes net gains or losses on revaluation of investment property, as reduced by administrative expenses and property operating costs and excludes finance costs and income.

# Notes to the financial statements (continued)

For the year ended 31 March 2014

## 2(a). Significant accounting policies (continued)

### Expenses

All expenses are accounted for on an accruals basis and include fees and other expenses paid to the Administrators, the Investment Manager and the Directors. In respect of the analysis between revenue and capital items, presented within the statement of comprehensive income, all expenses have been presented as revenue items except expenses which are incidental to the acquisition of an investment property which are included within the cost of that investment property.

### Borrowing costs

Borrowing costs directly attributable to the acquisition or construction of property are added to the costs of those assets until such time as the assets are substantially ready for their intended use. The capitalisation rate is arrived at by reference to the actual rate payable on borrowing acquired for a targeted property, or with regard to an acquisition financed out of general borrowings to the average rate. All other borrowing costs are recognised in the statement of comprehensive income in the period in which they are incurred.

### Taxation

The Company is exempt from Guernsey taxation on income derived outside of Guernsey and bank interest earned in Guernsey. A fixed annual fee of £600 is payable to the States of Guernsey in respect of this exemption. No charge to Guernsey taxation arises on capital gains. The Group is liable to foreign tax arising on activities in the overseas subsidiaries. The Group has subsidiary operations in Cyprus and India. The Group also holds investments in Spain, owned through investment entities in Luxembourg and the Netherlands, and in the United Kingdom, owned through an investment entity incorporated in Jersey. The Group has also invested in Convertible Loan Stock Units in the United Kingdom. The Group is therefore liable to taxation in these overseas jurisdictions.

The tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the statement of comprehensive income because it excludes items of income and expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted at the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible timing differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. Deferred tax is calculated at the tax rates that are expected to apply in the year when the liability is settled or the asset realised. Deferred tax is charged or credited in the statement of comprehensive income, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt within equity.

### Dividends

Dividends are recognised as a liability in the Group's financial statements in the period in which they become obligations of the Group.

### Fair value measurement

The Group measures certain financial instruments such as derivatives, and non-financial assets such as investment property, at fair value at the end of each reporting period, using recognised valuation techniques and following the principles of IFRS 13. In addition, fair values of financial instruments measured at amortised cost are disclosed in the financial statements.

Fair value is 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 fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- in the principal market for the asset or liability

or

- in the absence of a principal market, in the most advantageous market for the asset or liability.

The Group must be able to access the principal or the most advantageous market at the measurement date. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs significant to the fair value measurement as a whole:

- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities.
- Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.

# Notes to the financial statements (continued)

For the year ended 31 March 2014

## 2(a). Significant accounting policies (continued)

- Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

### Investment property

Investment property, which is property held to earn rentals and/or for capital appreciation, is initially recognised at cost being the fair value of consideration given including related transaction costs. After initial recognition at cost, investment property is carried at their fair values based on half yearly professional valuations made by independent valuers. The valuations are in accordance with standards complying with the Royal Institution of Chartered Surveyors Appraisal and Valuation manual and the International Valuation Standards Committee.

Gains or losses arising from changes in fair value of investment property are included in the statement of comprehensive income in the period in which they arise. Properties are treated as acquired when the Group assumes the significant risks and returns of ownership and as disposed of when these are transferred to the buyer.

All costs directly associated with the purchase and construction of a property and all subsequent expenditures qualifying as acquisition costs are capitalised.

### Segmental reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, which is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board of Directors of the Company.

The investing policy means the Group may invest in real estate opportunities unconstrained by geography, but with a particular focus on the UK, Europe and Asia. At present, for management purposes, the Group is organised into one main operating segment being Europe.

All of the Group's revenue is from entities that are incorporated in Europe.

With the exception of the Galaxia investment (note 14), all of the Group's non-current assets are located in Europe.

### Financial instruments

Financial assets and financial liabilities are recognised on the Group's balance sheet when the Group becomes a party to the contractual provisions of the instrument. The Group shall offset financial assets and financial liabilities if the Group has a legally enforceable right to set off the recognised amounts and interests and intends to settle on a net basis.

#### a) Financial assets

The Group's financial assets fall into the categories discussed below, with the allocation depending to an extent on the purpose for which the asset was acquired. Although the Group uses derivative financial instruments in economic hedges of currency and interest rate risk, it does not hedge account for these transactions. The Group has not classified any of its financial assets as held to maturity or as available for sale.

Unless otherwise indicated, the carrying amounts of the Group's financial assets are a reasonable approximation of their fair values.

#### (a) (i) Investments held at fair value through profit or loss

Investments are classified as "fair value through profit or loss" and are initially recognised at cost, being the fair value of the consideration given.

Financial assets designated at fair value through profit or loss at inception are those that are managed and their performance evaluated on a fair value basis in accordance with the Group's investment strategy. The Group's policy is for the Investment Manager and the Board of Directors to evaluate the information about these financial assets on a fair value basis together with other related financial information.

##### Recognition

Purchases and sales of investments are recognised on the transaction date, the date on which the Group commits to purchase or sell the investment.

##### Measurement

Financial assets at fair value through profit or loss are initially recognised at fair value with transaction costs being expensed in the statement of comprehensive income. Subsequent to initial recognition, all financial assets at fair value through profit or loss are measured at fair value. Gains and losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in the statement of comprehensive income in the period in which they arise.

#### (a) (ii) Loans and receivables

These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They mainly relate to interest bearing loans granted to third parties but also arise through rental leases with tenants (e.g. trade receivables and cash and cash equivalents) and incorporate other types of contractual monetary assets. They are initially recognised at fair value plus transaction costs that are directly attributable to the acquisition or issue and subsequently carried at amortised cost using the effective interest rate method, less provision for impairment.

The effect of discounting on these financial instruments is not considered to be material.

# Notes to the financial statements (continued)

For the year ended 31 March 2014

## 2(a). Significant accounting policies (continued)

Impairment provisions are recognised when there is objective evidence (such as significant financial difficulties on the part of the counterparty or default or significant delay in payment) that the Group will be unable to collect all of the amounts due under the terms of the receivable, the amount of such a provision being the difference between the net carrying amount and the present value of the future expected cash flows associated with the impaired receivable. For trade receivables, such impairments directly reduce the carrying amount of the impaired asset and are recognised against the relevant income category in the statement of comprehensive income.

Cash and cash equivalents are carried at cost and consist of cash in hand and short term deposits in banks with an original maturity of three months or less.

### (a) (iii) Derivatives at fair value through profit or loss

This category comprises only 'in the money' financial derivatives. They are carried in the balance sheet at fair value with changes in fair value recognised in the statement of comprehensive income.

The fair value of the Group's derivatives is based on valuations as described in note 25.

### (a) (iv) Derecognition of financial assets

A financial asset (in whole or in part) is derecognised either:

- when the Group has transferred substantially all the risks and rewards of ownership, or
- when it has neither transferred nor retained substantially all the risks and rewards and when it no longer has control over the asset or a portion of the asset, or
- when the contractual right to receive cash flow has expired.

### (b) Financial liabilities

The Group classifies its financial liabilities into one of two categories, depending on the purpose for which the liability was issued and its characteristics. Although the Group uses derivative financial instruments in economic hedges of currency and interest rate risk, it does not hedge account for these transactions.

Unless otherwise indicated, the carrying amounts of the Group's financial liabilities are a reasonable approximation of their fair values.

### (b) (i) Derivatives at fair value through profit or loss

This category comprises only 'out-of-the-money' financial derivatives. They are carried in the balance sheet at fair value with changes in fair value recognised in the statement of comprehensive income. Other than derivative financial instruments, the Group does not have any liabilities held for trading nor has it designated any other financial liabilities as being at fair value through profit or loss.

The fair value of the Group's derivatives is based on the valuations as described in note 25.

### (b) (ii) Financial liabilities measured at amortised cost

Other financial liabilities include the following items:

- Trade payables and other short-term monetary liabilities, which are initially recognised at fair value and subsequently carried at amortised cost using the effective interest method
- Bank borrowings are initially recognised at fair value net of attributable transaction costs incurred. Such interest bearing liabilities are subsequently measured at amortised cost using the effective interest rate method.

### (b) (iii) Derecognition of financial liabilities

A financial liability (in whole or in part) is derecognised when the Company or Group has extinguished its contractual obligations, it expires or is cancelled. Any gain or loss on derecognition is taken to the statement of comprehensive income.

### (c) Share capital

Financial instruments issued by the Group are treated as equity only to the extent that they do not meet the definition of a financial liability. The Company's ordinary shares and class A shares are classified as equity instruments. For the purposes of the disclosures given in note 24 the Group considers all its share capital, share premium and all other reserves as equity. The Company is not subject to any externally imposed capital requirements.

### (d) Effective interest rate method

The effective interest rate method is a method of calculating the amortised cost of a financial asset or liability and of allocating interest income or expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset or liability, or, where appropriate, a shorter period.

# Notes to the financial statements (continued)

For the year ended 31 March 2014

## 2(b). Significant accounting estimates and judgements

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

### (a) Investment property

The Group uses the valuation carried out by its independent valuers as the fair value of its investment property. The valuation is based upon assumptions including future rental income, anticipated maintenance costs, future development costs and the appropriate discount rate. The valuers also make reference to market evidence of transaction prices for similar properties. Refer to note 13 for further details.

### (b) Estimate of fair value of indirect property investment - Galaxia

The property interest in Galaxia is classified as an indirect property investment held at fair value through profit or loss and has been included within the financial statements based on the expected realisable value to the Group. The Group's estimation of fair value is based upon legal advice following a recommencement of arbitration proceedings following breaches by Logix Group. The arbitration seeks an award of INR 450 million plus the agreed minimum investment return and lost profit from the Logix Group promoters. The Directors consider it prudent to continue to value the indirect investment at INR 450 million.

### (c) Fair value of derivative contracts

#### (c) (i) Interest rate cap

The Group estimates fair value of the interest rate cap based on valuation techniques employed by the contractual counter parties. These techniques are significantly affected by the assumptions used, including discount rates and future cash flows. Further details are given in note 24.

#### (c) (ii) Fair value of the conversion option (Convertible Loan)

The fair value of the conversion option and other share options received is estimated by using the binomial option pricing model, revalued at each reporting date based on certain assumptions. Those assumptions include among others, the expected volatility and expected life of the options. Further details are given in note 24.

#### (c) (iii) Fair value of foreign exchange forward contract

The Group estimates fair value of the foreign exchange forward contract by reference to the difference between the contracted rate as per the contract with the contractual counter party and the relevant forward exchange rate at the balance sheet date. Further details are given in note 24.

### (d) Income and deferred taxation

The Group is subject to income and capital gains taxes in numerous jurisdictions. Significant judgement is required in determining the total provision for income and deferred taxes. There are many transactions and calculations for which the ultimate tax determination and timing of payment is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded such differences will impact the income and deferred tax provisions in the period in which the determination is made.

# Notes to the financial statements (continued)

For the year ended 31 March 2014

## 3. Revenue

| | Year ended 31 March 2014 £'000 | Year ended 31 March 2013 (restated) £'000 |
|---|---|---|
| Rental income | 6,084 | 6,296 |
| Service charge income | 2,138 | 2,144 |
| Other income | 21 | - |
| **Total** | **8,243** | **8,440** |

At 31 March 2014, the Group recognised non recoverable property operating expenditure as follows:

| | 31 March 2014 £'000 | 31 March 2013 (restated) £'000 |
|---|---|---|
| Service charge income | 2,138 | 2,144 |
| Property operating expenditure | (3,940) | (3,920) |
| **Non recoverable property operating expenditure** | **(1,802)** | **(1,776)** |

Following the adoption of IFRS 11 (note 2), the Company now uses the equity accounting method for its investment in Cambourne (see note 12) and, accordingly, the comparative has been restated.

The Group recognises revenue from its investment in one property: the H2O Shopping Centre in Madrid, Spain.

The H2O Shopping Centre, acquired on 31 March 2010 via a joint venture, is leased on standard institutional Spanish retail operating leases with a minimum guaranteed monthly rent and the possibility for the landlord to earn additional income if the tenants' turnover exceeds certain pre-set levels on most leases. The leases are typically for a minimum guaranteed term of 5 years from the opening of the centre in mid-2007 with 5 year renewal options thereafter, e.g. 5+5+5, and generally a 10 to 15 year term.

At 31 March 2014, the Group had contracted with tenants at the H2O Shopping Centre for the following future minimum lease payments:

| | 31 March 2014 £'000 | 31 March 2013 (restated) £'000 |
|---|---|---|
| Within one year | 5,158 | 5,563 |
| In the second to fifth years inclusive | 9,050 | 11,462 |
| After five years | 2,797 | 5,220 |
| **Total** | **17,005** | **22,245** |

## 4. Other administration costs

| | Year ended 31 March 2014 £'000 | Year ended 31 March 2013 (restated) £'000 |
|---|---|---|
| Auditors' remuneration for audit services | 98 | 79 |
| Accounting and administrative fees | 333 | 372 |
| Non-executive directors' fees | 130 | 126 |
| Other professional fees | 683 | 542 |
| **Total** | **1,244** | **1,119** |

The Group has no employees.

# Notes to the financial statements (continued)

For the year ended 31 March 2014

## 5. Finance income

| | Year ended 31 March 2014 £'000 | Year ended 31 March 2013 £'000 |
|---|---|---|
| Bank interest receivable | 91 | 109 |
| Interest receivable on convertible loan stock | 1,011 | 1,477 |
| Interest receivable on loans to related parties | 2,014 | 692 |
| Foreign exchange gain | 4 | 27 |
| Net gains on financial assets and liabilities held at fair value through profit or loss (note 24) | 1,412 | 1,089 |
| **Total** | **4,532** | **3,394** |

## 6. Finance costs

| | Year ended 31 March 2014 £'000 | Year ended 31 March 2013 (restated) £'000 |
|---|---|---|
| Interest on bank borrowings | 2,098 | 2,194 |
| Net losses on financial assets and liabilities held at fair value through profit or loss (note 24) | 1,698 | 514 |
| **Total** | **3,796** | **2,708** |

The above finance costs arise on financial liabilities measured at amortised cost using the effective interest rate method. No other losses have been recognised in respect of financial liabilities at amortised cost other than those disclosed above.

## 7. Taxation

### (a) Parent Company

The Parent Company is exempt from Guernsey taxation on income derived outside of Guernsey and bank interest earned in Guernsey. A fixed annual fee of £600 is payable to the States of Guernsey in respect of this exemption. No charge to Guernsey taxation arises on capital gains. The Group is liable to foreign tax arising on activities in its overseas subsidiaries. The Company has investments, subsidiaries and joint venture operations in Luxembourg, United Kingdom, the Netherlands, Spain, Cyprus, Jersey and India.

In December 2013, the Company's subsidiary in Spain, Alpha Tiger Spain 1, SLU ('ATS1'), which owns the H2O property, entered into a new Spanish tax regime: Sociedades Anónimas Cotizadas de Inversión en el Mercado Inmobiliario ("SOCIMI"). Under this regime, there is no Corporate Income Tax although ATS1 is subject to distribution rules on income and gains.

### (b) Group

The Group's tax expense for the year comprises:

| | Year ended 31 March 2014 £'000 | Year ended 31 March 2013 (restated) £'000 |
|---|---|---|
| Deferred tax | - | - |
| Current tax | 10 | 166 |
| **Tax Expense** | **10** | **166** |

The charge for the year can be reconciled to the profit/(loss) per the consolidated statement of comprehensive income as follows:

| | Year ended 31 March 2014 £'000 | Year ended 31 March 2013 (restated) £'000 |
|---|---|---|
| **Tax expense reconciliation** | | |
| Profit/(loss) for the year | 1,580 | 420 |
| Less: income not taxable | (7,156) | (4,417) |
| Add: expenditure not deductible | 4,782 | 2,500 |
| Un-provided deferred tax asset | 837 | 2,313 |
| **Total** | **43** | **816** |

# Notes to the financial statements (continued)

For the year ended 31 March 2014

## 7. Taxation (continued)

| | Year ended 31 March 2014 £'000 | Year ended 31 March 2013 (restated) £'000 |
|---|---|---|
| **Analysed as arising from** | | |
| India entity | - | - |
| Cyprus entities | 43 | 48 |
| Luxembourg entities | - | - |
| UK investment | - | 768 |
| **Total** | **43** | **816** |

Tax at domestic rates applicable to profits in the countries concerned is as follows:

| | Year ended 31 March 2014 £'000 | Year ended 31 March 2013 (restated) £'000 |
|---|---|---|
| India taxation at 22.66% | - | - |
| Cypriot taxation at 12.50% * | 5 | 7 |
| Luxembourg entities at an average rate of 29.22% ** | 5 | 5 |
| UK taxation at 20% | - | 154 |
| **Total** | **10** | **166** |

* The taxation incurred in Cyprus relates to an under-provision of prior year.

** The taxation incurred in Luxembourg mainly relates to the minimum corporate tax charge of €3,210 per entity.

### (c) Deferred taxation

The following is the deferred tax liability recognised by the Group and movements thereon:

| | Revaluation of Investment Property £'000 | Accelerated tax depreciation £'000 | Tax Losses £'000 | Other temporary differences £'000 | Total £'000 |
|---|---|---|---|---|---|
| **At 31 March 2012** | **(12)** | **205** | **(342)** | **149** | **-** |
| Release to income | (700) | 373 | (69) | 396 | - |
| **At 31 March 2013** | **(712)** | **578** | **(411)** | **545** | **-** |
| Release to income | 712 | (578) | 376 | (510) | - |
| **At 31 March 2014** | **-** | **-** | **(35)** | **35** | **-** |

Certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances (after offset) for financial reporting purposes available for offset against future profits.

| | 2014 £'000 | 2013 £'000 |
|---|---|---|
| Deferred tax liabilities | 35 | 1,123 |
| Deferred tax assets | (35) | (1,123) |
| **Total** | **-** | **-** |

At the balance sheet date the Company has unused tax losses of £1.5 million (2013 (restated): £1.5 million). Due to the unpredictability of future taxable profits, the Directors believe it is not prudent to recognise a deferred tax asset for the unused tax losses.

Unused tax losses in Luxembourg and The United Kingdom can be carried forward indefinitely. Unused tax losses in The Netherlands can be carried forward for 9 years. Unused tax losses in Spain can be carried forward for 18 years. Unused tax losses in Cyprus can be carried forward for 5 years.

# Notes to the financial statements (continued)

For the year ended 31 March 2014

## 8. Dividends

| Dividend reference period | Shares '000 | Dividend per share | Paid £ | Date |
|---|---|---|---|---|
| Year ended 31 March 2013 | 72,730 | 1.050p | 763,663 | 3 May 2013 |
| Half year ended 30 September 2013 | 70,614 | 1.050p | 741,445 | 20 December 2013 |
| Quarter ended 31 December 2013 | 70,614 | 0.525p | 370,723 | 21 March 2014 |
| Total | | | 1,875,831 | |

The Company will pay a dividend for the quarter ended 31 March 2014 on 1 August 2014. In accordance with IAS 10, this dividend has not been included in these financial statements. The current intention of the Company is to pay a dividend quarterly.

## 9. Earnings per share

The calculation of the basic and diluted earnings per share is based on the following data:

| | 1 April 2013 to 31 March 2014 | 1 April 2013 to 30 September 2013 | 1 April 2012 to 31 March 2013 (restated) |
|---|---|---|---|
| Earnings per statement of comprehensive income (£'000) | 1,570 | (5) | 254 |
| **Basic and diluted earnings pence per share** | **2.2p** | **0.0p** | **0.4p** |
| | | | |
| Earnings per income statement (£'000) | 1,570 | (5) | 254 |
| Net change in the revaluation of investment property loss | 658 | 265 | 2,333 |
| Movement in fair value of investment in ordinary shares | (944) | (173) | 216 |
| Movement in fair value of investments in redeemable preference shares | 2,438 | 1,549 | (409) |
| Movement in fair value of interest rate cap (mark to market) | 94 | (66) | 367 |
| Movement in fair value of currency swaps (mark to market) | 110 | 110 | 127 |
| Movement in fair value of the foreign exchange forward (mark to market) | (159) | (98) | - |
| Movement in fair value of the joint venture's interest rate swap (mark to market) | (15) | (10) | 14 |
| Movement in fair value of conversion options (mark to market) | - | - | 20 |
| Foreign exchange gain | (4) | (3) | (27) |
| **Adjusted earnings** | **3,748** | **1,569** | **2,895** |
| **Adjusted earnings per share** | **5.3p** | **2.2p** | **5.0p** |
| | | | |
| **Weighted average number of ordinary shares (000's)** | **71,110** | **71,695** | **57,764** |

The adjusted earnings are presented to provide what the Company believes is a more appropriate assessment of the operational income accruing to the Group's activities. Hence, the Company adjusts basic earnings for income and costs which are not of a recurrent nature or which may be more of a capital nature.

## 10. Net asset value per share

| | 31 March 2014 | 30 September 2013 | 31 March 2013 |
|---|---|---|---|
| Net asset value (£'000) | 75,693 | 75,509 | 78,260 |
| **Net asset value per ordinary share** | **107.0p*** | **106.4p** | **107.6p** |
| | | | |
| **Total number of shares (000's)** | **70,614** | **70,964** | **72,730** |

* The net asset value per ordinary shares for the year ended 31 March 2014 has been calculated by deducting from the net asset value the proceeds realised from the ACE's portfolio disposal (£0.1 million), which are due to ART's A shareholders, who were formerly shareholders in PIP. The net asset value per A shares as at 31 March 2014 was 107.9 pence

# Notes to the financial statements (continued)

For the year ended 31 March 2014

## 11. Investment in subsidiary undertakings

A list of the significant investments in subsidiaries as at 31 March 2014, including the name, country of incorporation and the proportion of ownership interest is given below.

| Name of subsidiary undertaking | Class of share | % of class held with voting rights | Country of incorporation | Principal activity |
|---|---|---|---|---|
| Alpha Tiger Cyprus Holdings Limited | Ordinary | 100 | Cyprus | Holding Company |
| Alpha Tiger Cyprus Investments No. 1 Limited | Ordinary | 100 | Cyprus | Holding Company |
| Alpha Tiger Cyprus Investments No. 2 Limited | Ordinary | 100 | Cyprus | Holding Company |
| Alpha Tiger Cyprus Investments No. 3 Limited | Ordinary | 100 | Cyprus | Holding Company |
| Luxco 114 SARL | Ordinary | 100 | Luxembourg | Finance company |
| Luxco 111 SARL | Ordinary | 100 | Luxembourg | Holding Company |
| KMS Holding BV | Ordinary | 100 | Netherlands | Holding Company |
| Alpha Tiger Spain 1, SLU | Ordinary | 100 | Spain | Property Company |
| Alpha Tiger Spain 2, SLU | Ordinary | 100 | Spain | Property Company |

## 12. Investment in joint venture

Following the adoption of IFRS 11 (note 2), the joint venture in the Scholar Property Holdings Limited group (Cambourne) has been accounted for by equity accounting. There is no impact on the net asset value previously reported although comparatives, where appropriate, have been restated.

The movement in the Group's share of net assets of the joint venture can be summarised as follows:

| | 31 March 2014<br>£'000 | 31 March 2013<br>(restated) £'000 |
|---|---|---|
| **As at 1 April** | **1,203** | **1,211** |
| Group's share of profits of joint venture recognised during the year | 135 | 144 |
| Fair value adjustment for interest rate swap | 15 | (14) |
| Dividends paid by joint venture to the Group | (139) | (138) |
| **As at 31 March** | **1,214** | **1,203** |

The table below detail the effect of the initial application of IFRS 11:

| Impact on the statement of comprehensive income | For the year ended 31 March 2013 |
|---|---|
| Revenue (decrease) | (205) |
| Net change in the revaluation of investment property | - |
| **Total income (decrease)** | **(205)** |
| Property operating expenses (decrease) | 8 |
| Investment Manager's fee (decrease) | 14 |
| Other administration costs (decrease) | 3 |
| **Total operating expenses (decrease)** | **25** |
| | |
| **Operating profit/(loss) (decrease)** | **(180)** |
| | |
| Finance income | - |
| Finance costs (decrease) | 59 |
| | |
| **Profit/(loss) before taxation (decrease)** | **(121)** |
| Taxation (increase) | (9) |
| **Profit/(loss) after taxation (decrease)** | **(130)** |

# Notes to the financial statements (continued)

For the year ended 31 March 2014

## 12. Investment in joint venture (continued)

| Impact on the balance sheet | 31 March 2013 £'00 |
|---|---|
| Investment in joint venture (increase) | 1,203 |
| | |
| Investment property (decrease) | (2,295) |
| Trade and other receivables (decrease) | (69) |
| Cash and cash equivalents (decrease) | (16) |
| Trade and other payables (decrease) | 75 |
| Bank borrowings (decrease) | 1,072 |
| Derivatives held at fair value through profit or loss (decrease) | 30 |

## 13. Investment property

| | 31 March 2014 £'000 | 31 March 2013 (restated) £'000 |
|---|---|---|
| **Fair value of investment property at 1 April** | **71,433** | **71,476** |
| Subsequent capital expenditure after acquisition | 417 | 1,218 |
| Rent incentive movement | 226 | 258 |
| Fair value adjustment in the year | (658) | (2,333) |
| Foreign exchange movement | (1,476) | 814 |
| **Fair value of investment property at 31 March** | **69,942** | **71,433** |

The fair value of the H2O property has been arrived at on the basis of an independent valuation carried out at the balance sheet date by Aguirre Newman Valoraciones y Tasaciones S.A. ("Aguirre"). Aguirre are independent valuers and are not connected to the Group.

The valuation basis used is fair value as defined by the Royal Institution of Chartered Surveyors Appraisal and Valuations Standards ("RICS").The approved RICS definition of fair value is the "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."

Following the adoption of IFRS 11 (note 2), the Company now uses the equity accounting method for its investment in Cambourne (see note 12) and, accordingly, the comparative has been restated.

The H2O property has been pledged as security for the borrowings in the Spanish SPV in which the property is held (note 18).

Foreign exchange movement is recognised in other comprehensive income/(expense).

## 14. Indirect property investment held at fair value

| | 31 March 2014 £'000 | 31 March 2013 £'000 |
|---|---|---|
| **As at 1 April** | **5,451** | **5,428** |
| Foreign exchange movement | (926) | 23 |
| **As at 31 March** | **4,525** | **5,451** |

The Galaxia investment is carried at a fair value of INR 450 million (£4.5 million). The Group's estimation of fair value is based upon legal advice following a recommencement of arbitration proceedings following breaches by Logix Group. The arbitration seeks an award of INR 450 million plus the agreed minimum investment return and lost profit from the Logix Group promoters. The Directors consider it prudent to continue to value the indirect investment at INR 450 million.

Foreign exchange movement is recognised in other comprehensive income/(expense).

# Notes to the financial statements (continued)

For the year ended 31 March 2014

## 15. Investments held at fair value

| | 31 March 2014<br>£'000 | 31 March 2013<br>£'000 |
|---|---|---|
| **Non-current** | | |
| **As at 1 April** | **12,869** | **-** |
| Additions during the year | - | 13,776 |
| Redemptions during the year | (100) | (1,100) |
| Movement in fair value of investments | (1,494) | 193 |
| **As at 31 March** | **11,275** | **12,869** |

On 3 December 2012, the Group completed the acquisition of the majority of the investment portfolio of PIP.

The acquired investments, which are disclosed as non-current investments held at fair value, can be detailed as follows:

- £0.5 million in ordinary shares of AUMP; the ordinary shares are traded on the LSE and are therefore valued quarterly by market price; the market price of the investment as at 31 March 2014 was £1.2 million (2013: £0.3 million);
- £3.2 million in participating redeemable preference shares of BCP; the fund provides quarterly valuations of the net asset value of its shares; the net asset value of the investment as at 31 March 2014 was £2.6 million (2013: £2.8 million);
- £6.4 million in participating redeemable preference shares of Europip; the fund provides quarterly valuations of the net asset value of its shares; the net asset value of the investment as at 31 March 2014 was £5.0 million (2013: £7.2 million);
- £3.7 million in participating redeemable preference shares of HLP; the fund provides half yearly valuations of the net asset value of its shares; during the year ended 31 March 2014, HLP redeemed a total of £0.1 million of shares (2013: £1.1 million); the net asset value of the investment has been calculated by using the unaudited value provided by the directors of HLP on 28 February 2014, this being the closest point to the Group's balance sheet date; the resulting value of the investment was £2.3 million (2013: £2.6 million).

ART has also acquired from PIP, at an ascribed zero value, the investments in ACE and Romulus. Any realised value from these investments is passed exclusively to ART A shareholders. During the year ended 31 March 2014, ACE disposed of its property portfolio, which, following the liquidation of ACE, is estimated to generate £0.1 million for ART A shareholders; the resulting value of ART's investment in ACE, as at 31 March 2014, was therefore £0.1 million (2013: nil). As at 31 March 2014, the net asset value of ART's investment in Romulus was nil (2013: nil).

The Group considers that the above investments, with the exception of ACE, will be held for the long term and has therefore disclosed them as non-current assets.

| Investments held at fair value | 31 March 2014<br>£'000 | 31 March 2013<br>£'000 |
|---|---|---|
| **Current** | | |
| **As at 1 April** | **15,252** | **6,390** |
| Additions during the year | - | 8,598 |
| Redemptions during the year | (2,500) | - |
| Distributed investment income in year | (454) | (190) |
| Undistributed investment income in year | 847 | 454 |
| **As at 31 March** | **13,145** | **15,252** |

The Group has invested in income units of FIAF. FIAF allows monthly redemptions and hence the investment is reported as a current asset. On 20 June 2012, the Group invested a further £4 million in FIAF. On 3 December 2012, following the completion of the PIP acquisition, the Group acquired an additional £4.6 million of FIAF units. During the year ended 31 March 2014, ART made net redemptions of FIAF units amounting to £2.5 million. FIAF provides monthly valuations of the net asset value of its units. The investment has been valued at the net asset value of FIAF as at 31 March 2014.

# Notes to the financial statements (continued)

For the year ended 31 March 2014

## 16. Trade and other receivables

| | 31 March 2014 £'000 | 31 March 2013 (restated) £'000 |
|---|---|---|
| **Non-current** | | |
| Convertible Loan | - | 7,481 |
| Loan granted to related party | 11,500 | - |
| **Total** | **11,500** | **7,481** |
| | | |
| **Current** | | |
| Convertible Loan | 7,823 | - |
| CULS | - | 5,104 |
| Trade debtors | 73 | 454 |
| VAT | 81 | 60 |
| Accrued bank interest | - | 52 |
| Loans granted to related parties | 9,080 | 8,828 |
| Other debtors | 650 | 306 |
| Interest receivable from loans granted to related parties | 482 | - |
| Interest receivable from CULS and Convertible Loan | 946 | 1,837 |
| **Total** | **19,135** | **16,641** |

On 9 August 2010, the Company subscribed for £4.75 million of CULS in AUMP. The CULS carried an annual coupon of 4.75% and could have been converted at any time up to and including 30 June 2013 into Ordinary Shares at a Conversion Price of 31 pence. The settlement of the CULS annual coupon was made as a Payment In Kind ("PIK") by the issuance of further CULS at each relevant date. The CULS attracted an 18% redemption premium if not converted. Additionally, AUMP had issued 4 million share options to the Company at an exercise price of 50 pence per share.

On 1 July 2013, ART announced the redemption of all outstanding AUMP CULS in full at par plus the payment of the premium of 18%. The Preference Shares stapled to the CULS have automatically been redeemed and the associated options have expired without being exercised. The redemption amount was £6.4 million, which ART agreed to provide to AUMP as unsecured loan, earning a coupon of 15% per annum compounded quarterly. On 6 December 2013, ART agreed to provide AUMP with a net additional investment of £4.6 million, which was incorporated with the existing £6.4 million loan plus £0.5 million of accrued interest into a new unsecured loan amounting to £11.5 million. The new unsecured loan is for five years expiring in December 2018 and carries a coupon of 15% per annum. The AUMP loan balance as at 31 March 2014 is £11.8 million, which reflects the principal agreed for the new unsecured loan of £11.5 million plus accrued interest of £0.3 million.

On 18 October 2011, the Company completed the investment of £7.5 million by way of a three year Convertible Loan in AURE. The loan can be converted at any time up to expiry (20 November 2014) into ordinary shares at an effective price of 41.4 pence per Fund share. The Convertible Loan has an annual coupon of 6% payable quarterly in cash. Should the Company elect not to convert, the Convertible Loan is redeemable at a premium of 14% to its face value. The fair value of the conversion option within the Convertible Loan has been valued by reference to an external valuation by J.C. Rathbone (using a binomial model) at nil as at 31 March 2013; the Directors consider that the nil value is unchanged at the 31 March 2014 year end. The AURE Convertible Loan balance as at 31 March 2014 is £8.8 million, which comprises the principal of £7.8 million plus accrued coupon and redemption interest of £1.0 million.

On 27 September 2013, the Company granted a £6.0 million one year loan to AURE. The loan has an annual coupon of 9% and is unsecured. The loan was partly repaid in November 2013 by £1.8 million. The AURE loan balance as at 31 March 2014 is £4.3 million, which comprises the principal of £4.2 million plus accrued interest of £0.1 million. Post year end, AURE has made a £0.5 million loan repayment: the outstanding principal balance on the loan at the time of signing these financial statements is £3.7 million.

On 3 December 2012, following the completion of the PIP acquisition, the Group acquired a one year loan receivable granted to Europip amounting to £6.8 million. On 27 November 2012 the Company had also advanced an additional £2 million loan to Europip, which has been fully repaid by April 2013. The remaining loan has an annual coupon of 9%, which is capitalised quarterly, and has share pledges, as security, over two of the un-geared Europip Norwegian assets and additional rights over proceeds released from the Europip's Mosaic investment. On 26 November 2013, the loan was extended by a further 12 months. During the year, Europip made part repayments towards the existing loan of £2.6 million. As at 31 March 2014, the balance of the loan granted to Europip, including capitalised and accrued interest of £0.8 million, is £5.0 million (2013: £5.7 million).

The Directors consider that the carrying amount of trade and other receivables approximates to their fair value.

# Notes to the financial statements (continued)

For the year ended 31 March 2014

## 17. Trade and other payables

| | 31 March 2014 £'000 | 31 March 2013 (restated) £'000 |
|---|---|---|
| Trade creditors | 607 | 1,975 |
| Investment Manager's fee payable | 432 | 494 |
| Accruals | 333 | 1,157 |
| Other creditors | - | 5 |
| Corporation tax | 2 | 109 |
| **Total** | **1,374** | **3,740** |

Trade creditors and accruals primarily comprise amounts outstanding for trade purchases and ongoing costs. The Group has financial management policies in place to ensure that all payables are paid within the credit time frame.

The Directors consider that the carrying amount of trade and other payables approximates to their fair value.

## 18. Bank borrowings

| | 31 March 2014 £'000 | 31 March 2013 (restated) £'000 |
|---|---|---|
| Current liabilities: interest payable | 146 | 148 |
| Current liabilities: repayments | 449 | 458 |
| **Total current liabilities** | **595** | **606** |
| Non-current liabilities: bank borrowings | 58,740 | 60,736 |
| **Total liabilities** | **59,335** | **61,342** |
| | | |
| **The borrowings are repayable as follows:** | | |
| Interest payable | 146 | 148 |
| On demand or within one year | 449 | 458 |
| In the second to fifth years inclusive | 58,740 | 60,736 |
| After five years | - | - |
| **Total** | **59,335** | **61,342** |

Movements in the Group's non-current bank borrowings are analysed as follows:

| | 31 March 2014 £'000 | 31 March 2013 (restated) £'000 |
|---|---|---|
| **As at 1 April** | **60,736** | **59,868** |
| Repayment of borrowings | (916) | - |
| Reclassification to current liabilities | 9 | (5) |
| Amortisation of deferred finance costs | 160 | 155 |
| Foreign exchange movement | (1,249) | 718 |
| **As at 31 March** | **58,740** | **60,736** |

The bank borrowings represent the syndicated loan finance provided to the Spanish SPV, owner of the H2O property in Madrid, Spain.

Following the adoption of IFRS 11 (note 2), the Company now uses the equity accounting method for its investment in Cambourne (see note 12) and, accordingly, the comparative has been restated.

The Spanish SPV loan is provided by a syndicate of three banks (Eurohypo AG (renamed Hypothekenbank Frankfurt), Deutsche Hypothekenbank and Landesbank Hessen-Thuringen Girozentrale). The loan has two tranches of debt of which one tranche has an agreed schedule of amortisation as reflected in the repayment table above; the balance of the loans after amortisation is repayable on 4 October 2017. The loans are secured by a first charge mortgage against the Spanish property.

The Spanish property owning SPV has entered into an interest rate cap under which the floating rate element of the interest charge is capped at 2.85% for the full term of the loan on €50 million of the principal borrowings of €75 million (note 24).

# Notes to the financial statements (continued)

For the year ended 31 March 2014

## 19. Share capital

| | | | | | Number of shares |
|---|---|---|---|---|---|
| **Authorised** | | | | | |
| Ordinary shares of no par value | | | | | Unlimited |
| | | | | | |
| **Issued and fully paid** | **Ordinary treasury** | **A shares external** | **Ordinary external** | **Ordinary total** | **Total shares** |
| **At 1 April 2013** | **5,763,252** | **20,860,583** | **51,869,272** | **57,632,524** | **78,493,107** |
| Share conversion | - | (5,712,455) | 5,712,455 | 5,712,455 | - |
| Shares cancelled following buyback | - | - | (1,869,278) | (1,869,278) | (1,869,278) |
| Shares bought back | 246,722 | - | (246,722) | - | - |
| **At 31 March 2014** | **6,009,974** | **15,148,128** | **55,465,727** | **61,475,701** | **76,623,829** |

The Company has one class of ordinary shares which carries no right to fixed income and class A shares, which carries the same rights as ordinary shares save that class A shares carry the additional right to participation in the Company's investments in Romulus and ACE and the right to convert into ordinary shares.

The Company has the right to reissue or cancel the remaining treasury shares at a later date.

At the Extraordinary General Meeting on 7 March 2013, consistent with the Company's commitment to shareholder value, the Company's shareholders approved a general authority allowing the Company to acquire up to 24.99% of the Voting Share Capital during the period expiring on the earlier of (i) the conclusion of the annual general meeting of the Company in 2014 and (ii) 6 September 2014. A waiver conditionally granted by the Takeover Panel of any obligation on ARC and/or its concert parties to make a general offer to all shareholders, was also approved.

During the year ended 31 March 2014, the Company purchased 2,116,000 ordinary shares at an average price (before expenses) of 50 pence per share. Of the purchased ordinary shares, 1,869,278 were cancelled and 246,722 shares will be held in treasury. As at 31 March 2014, the ordinary share capital of the Company, following the purchase and cancellation of those ordinary shares which are to be repurchased, was 61,475,701 (including 6,009,974 shares held in treasury). The Company also had 15,148,128 A shares in issue. The total voting rights in ART, following the purchase and cancellation and purchase for treasury of ordinary shares, was 70,613,855.

Post year end, a total of 2,224,596 A Shares were converted into Ordinary Shares. At the date of signing these financial statements, the ordinary share capital of the Company is 63,700,297 (including 6,009,974 shares held in treasury) and the Company has 12,923,532 A Shares in issue. The total voting rights in ART is therefore unchanged at 70,613,855.

## 20. Reserves

The movements in the reserves for the Group are shown on page 34.

### Special reserve

The special reserve is a distributable reserve to be used for all purposes permitted under Guernsey company law, including the buy-back of shares and payment of dividends.

### Translation reserve

The translation reserve contains exchange differences arising on consolidation of the Group's overseas operations. These amounts may be subsequently reclassified to profit or loss.

### Capital reserve

The capital reserve contains increases and decreases in the fair value of the Group's investment property, gains and losses on the disposal of property, gains and losses arising from indirect property investment at fair value together with expenses allocated to capital.

### Revenue reserve

Any surplus arising from net profit after tax is taken to this reserve, which may be utilised for the buy-back of shares and payment of dividends.

## 21. Share based payments

The Group has not recognised any share based payment for the year ended 31 March 2014 (2013: £nil).

## 22. Events after the balance sheet date

After the balance sheet date, a total of 2,224,596 A Shares were converted into Ordinary Shares (Note 19). The Company has also received a £0.5 million loan repayment from AURE, which has reduced the outstanding principal balance on the loan to £3.7 million (Note 16).

# Notes to the financial statements (continued)

For the year ended 31 March 2014

## 23. Related party transactions

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. ARC is the Investment Manager to the Company under the terms of the Investment Manager Agreement and is thus considered a related party of the Company.

During the year, the Company announced the extension of its management agreement with the Investment Manager for a further term of eight years expiring on 21 December 2022.

The Investment Manager is entitled to receive a fee from the Company at an annual rate of 2% of the net assets of the Company, payable quarterly in arrears. The Investment Manager is also entitled to receive an annual performance fee calculated with reference to total shareholder return ("TSR"), whereby the fee is 20% of any excess over an annualised TSR of 15% subject to a rolling 3 year high water mark.

The Investment Manager has a management agreement directly with the H2O property company, Alpha Tiger Spain 1, SLU under which it earns a fee of 0.9% per annum based upon the gross assets of Alpha Tiger Spain 1, SLU. In order to avoid double charging fees to the Company, the Investment Manager will provide a rebate to the Company of a proportion of its current fee equivalent to the value of the Company's net asset value attributable to the H2O investment.

The Company has invested in AUMP where ARC is the Investment Manager. Mark Rattigan, as partner of ARC, is a Director on the Board of AUMP. ARC rebates fees earned in relation to the Company's investment in AUMP.

The Company has invested in FIAF where ARPIA, a subsidiary of ARC, is the Investment Manager. ARC is the Authorised Corporate Director of FIAF. ARC rebates fees earned in relation to the Company's investment in FIAF.

The Company has invested in AURE, where ARC is the Investment Manager. Mark Rattigan and Brad Bauman, partners of ARC, are Directors on the Board of AURE. ARC rebates fees earned in relation to the Company's investment in AURE.

The Company has invested in Europip, where ARPIA, a subsidiary of ARC, is the Investment Adviser. ARC rebates fees earned in relation to the Company's investment in Europip.

The Company has invested in BCP, where ARPIA, a subsidiary of ARC, is the Industry Adviser. ARC rebates fees earned in relation to the Company's investment in BCP.

The Company has invested in Romulus, where ARPIA, a subsidiary of ARC, is Trust Manager and Property Manager. ARC rebates fees earned in relation to the Company's investment in Romulus.

The Company has invested in ACE, where ARPIA, a subsidiary of ARC, is Property Investment Adviser. ARC rebates fees earned in relation to the Company's investment in ACE.

The Company has invested in Phase 1000, Cambourne Business Park, Cambridge, and ARC was appointed as Asset and Property Manager of the joint venture entity. ARC rebates to ART the relevant proportion of fees earned by ARC, which apply to the Company's investment.

Loans granted to related parties include loans granted to AUMP, AURE and Europip. Details of the loan amounts outstanding and interest receivable as at year end are provided in note 16.

Details of the Investment Manager's fees for the year are disclosed on the face of the consolidated statement of comprehensive income and the balance payable at 31 March 2013 is provided in note 17.

Alpha Global Property Securities Fund Pte. Ltd, a wholly owned subsidiary of ARC registered in Singapore, held 20,000,000 shares in the Company at 31 March 2014 (31 March 2013: nil).

ARC held 2,550,000 shares in the Company at 31 March 2014 (31 March 2013: 22,550,000). The following, being partners of the Investment Manager, have interests in the following shares of the Company at 31 March 2014:

| | 31 March 2014<br>Number of shares held | 31 March 2013<br>Number of shares held |
|---|---|---|
| IPGL Limited | 3,010,100 | 3,010,100 |
| Brian Frith | 1,125,000 | 1,125,000 |
| Phillip Rose | 139,695 | 139,695 |
| Brad Bauman | 55,006 | 55,006 |
| Ronald Armist | 500 | 500 |

Details of the Directors fees and share interests in the Company are included in the Directors Report.

Serena Tremlett is also the Managing Director and a major shareholder of Morgan Sharpe Administration Limited, the Company's Administrator and Secretary. During the year the Company paid Morgan Sharpe Administration Limited fees of £77,000 (2013: £77,000) and no amount was outstanding at year end.

# Notes to the financial statements (continued)

For the year ended 31 March 2014

## 24. Financial instruments risk exposure and management

In common with similar businesses, the Group is exposed to risks that arise from its use of financial instruments. This note describes the Group's objectives, policies and processes for managing those risks and the methods used to measure them. Further quantitative information in respect of these risks is presented throughout these financial statements.

There have been no substantive changes in the Group's exposure to financial instrument risks, its objectives, policies and processes for managing those risks or the methods used to measure them from previous periods unless otherwise stated in this note.

### Principal financial instruments

The principal financial instruments used by the Group from which financial instrument risk arises, are as follows:

| Financial assets and liabilities carrying value | 31 March 2014 £'000 | 31 March 2013 (restated) £'000 |
|---|---|---|
| **Current financial assets** | | |
| Investment held at fair value | 13,145 | 15,252 |
| Trade and other receivables | 19,135 | 16,641 |
| Cash and cash equivalents | 5,444 | 12,602 |
| **Derivatives held at fair value through profit or loss** | | |
| Currency options | - | 252 |
| Foreign exchange forward contract | 159 | - |
| **Total current financial assets** | **37,883** | **44,747** |
| | | |
| **Non-current financial assets** | | |
| **Derivatives held at fair value through profit or loss** | | |
| Interest rate cap | 63 | 158 |
| **Total derivatives held at fair value through profit or loss** | **63** | **158** |
| Investments held at fair value | 11,275 | 12,869 |
| Indirect property investment at fair value | 4,525 | 5,451 |
| Trade and other receivables | 11,500 | 7,481 |
| **Total non-current financial assets** | **27,363** | **25,959** |
| **Total financial assets** | **65,246** | **70,706** |
| | | |
| **Current financial liabilities** | | |
| Trade and other payables | (1,374) | (3,740) |
| Bank borrowings | (595) | (606) |
| **Total current financial liabilities** | **(1,969)** | **(4,346)** |
| | | |
| **Non-current financial liabilities** | | |
| Bank borrowings | (58,740) | (60,736) |
| Total non-current financial liabilities | (58,740) | (60,736) |
| **Total financial liabilities** | **(60,709)** | **(65,082)** |

# Notes to the financial statements (continued)

For the year ended 31 March 2014

## 24. Financial instruments risk exposure and management (continued)

Net changes in realised and unrealised gains or losses on financial instruments can be summarised as follows:

| | 31 March 2014 £'000 | 31 March 2013 (restated) £'000 |
|---|---|---|
| **Realised gains or losses on loans and receivables** | | |
| Bank interest receivable | 91 | 109 |
| Interest receivable on convertible loan stock | 1,011 | 1,477 |
| Interest receivable on loans granted to related parties | 2,014 | 692 |
| Impairment of trade and other receivables | 33 | (12) |
| **Net realised gains on loans and receivables** | **3,149** | **2,266** |
| | | |
| **Unrealised gains and losses on financial assets and liabilities held at fair value through profit or loss** | | |
| Movement in fair value of interest rate cap | (94) | (367) |
| Movement in fair value of currency swap | (110) | (127) |
| Movement in fair value of the conversion options | - | (20) |
| Movement in fair value of foreign exchange forward contract | 159 | - |
| Movement in fair value of investments | (1,494) | 193 |
| Undistributed investment income | 474 | 329 |
| **Realised gains and losses on financial assets and liabilities held at fair value through profit or loss** | | |
| Dividend received from investments held at fair value | 88 | 63 |
| Distributed investment income | 691 | 504 |
| **Net losses on financial assets and liabilities held at fair value through profit or loss** | **(286)** | **575** |
| | | |
| **Disclosed as:** | | |
| Finance income (note 5) | 1,412 | 1,089 |
| Finance costs (note 6) | (1,698) | (514) |
| **Net gains/(losses) on financial assets and liabilities held at fair value through profit or loss** | **(286)** | **575** |

| | Year ended 31 March 2014 £'000 | Year ended 31 March 2013 (restated) £'000 |
|---|---|---|
| Bank interest receivable | 91 | 109 |
| Interest receivable on convertible loan stock | 1,011 | 1,477 |
| Interest receivable on loans granted to related parties | 2,014 | 692 |
| Interest on bank borrowings | (2,098) | (2,194) |
| **Net interest income** | **1,018** | **84** |

### General objectives, policies and processes

The Board has overall responsibility for the determination of the Group's risk management objectives and policies and, whilst retaining ultimate responsibility for them, it has delegated the authority for designing and operating processes that ensure the effective implementation of the objectives and policies to the Group's finance function.

The overall objective of the Board is to set polices that seek to reduce risk as far as possible without unduly affecting the Group's competitiveness and flexibility. Further details regarding these policies are set out below.

### Project monitoring

Projects are monitored through regular Project Control Meetings held with development partners to discuss progress and monitor risks. The Investment Manager attends these meetings and reports to the Board on a quarterly basis.

# Notes to the financial statements (continued)

For the year ended 31 March 2014

## 24. Financial instruments risk exposure and management (continued)

### Credit risk

Credit risk arises when a failure by counter parties to discharge their obligations could reduce the amount of future cash inflows from financial assets on hand at the balance sheet date.

The carrying amount of financial assets recorded in the financial statements, which is net of impairment losses, represents the Group's maximum exposure to credit risk.

The Group policy is to maintain its cash and cash equivalent balances with a number of financial institutions as a means of diversifying credit risk. The Group monitors the placement of cash balances on an ongoing basis and has policies to limit the amount of credit exposure to any financial institution.

With regards to the investment property business, a property advisor monitors the tenants in order to anticipate and minimise the impact of default by occupational tenants. Where possible, tenants' risk is mitigated through rental guarantees. The Group meets with the tenant frequently and monitors its financial performance closely.

With regard to its other investments, the Group receives regular updates from the relevant Investment Manager as to the performance of the underlying investments and assesses its credit risk as a result.

With particular regard to the Company's investments in AUMP and AURE, further details are given in note 2 (b)(b) above.

### Liquidity risk

Liquidity risk is the risk that arises when the maturity of assets and liabilities does not match. An unmatched position potentially enhances profitability, but can also increase the risk of losses. The Group has procedures with the object of minimising these risks such as maintaining sufficient cash and other highly liquid current assets. Cash and cash equivalents are placed with financial institutions on a short term basis reflecting the Group's desire to maintain a high level of liquidity in order to enable timely completion of investment transactions.

The following table illustrates the contractual maturity analysis of the Group's financial liabilities.

| 31 March 2014 | Within 1 year | 1-2 years | 2-5 years | Over 5 years | Total |
|---|---|---|---|---|---|
| | £'000 | £'000 | £'000 | £'000 | £'000 |
| Trade and other payables | 1,372 | - | - | - | **1,372** |
| Interest payable on bank borrowings | 1,877 | 1,863 | 2,793 | - | **6,533** |
| Bank borrowings | 449 | 449 | 58,842 | - | **59,740** |
| **Total** | **3,698** | **2,312** | **61,635** | **-** | **67,645** |

| 31 March 2013 | Within 1 year | 1-2 years | 2-5 years | Over 5 years | Total |
|---|---|---|---|---|---|
| (restated) | £'000 | £'000 | £'000 | £'000 | £'000 |
| Trade and other payables | 3,631 | - | - | - | **3,631** |
| Interest payable on bank borrowings | 1,939 | 1,917 | 4,754 | - | **8,610** |
| Bank borrowings | 458 | 458 | 61,000 | - | **61,916** |
| **Total** | **6,028** | **2,375** | **65,754** | **-** | **74,157** |

### Market risk

#### (a) Foreign exchange risk

The Group operates in India and Spain and is exposed to foreign exchange risk arising from currency exposures with respect to Indian Rupees and Euros. Foreign exchange risk arises from future commercial transactions, recognised monetary assets and liabilities and net investments in foreign operations.

The Group's policy is, where possible, to allow Group entities to settle liabilities denominated in their functional currency with the cash generated from their own operations in that currency.

The Group does not currently hedge its Indian foreign currency exposure and only partially hedges its Euro currency exposure through a foreign exchange forward contract: the Group entered into this contract to hedge €5 million of Euro exposure.

The Board monitors the Group's exposure to foreign currencies on a quarterly basis as part of its Risk Management review.

A strengthening of the Rupee by 5 Rupees against Sterling (representing management's assessment of a reasonably possible change) would increase the net assets by £240,000 (2013: £351,000). A weakening of the Rupee by 5 Rupees would decrease net assets by £217,000 (2013: £311,000). A strengthening of the Euro by 5 cents would increase the net assets by £500,000 (2013: £569,000). A weakening of the Euro by 5 cents would decrease net assets by £544,000 (2013: £523,000).

# Notes to the financial statements (continued)

For the year ended 31 March 2014

## 24. Financial instruments risk exposure and management (continued)

### b) Cash flow and fair value interest rate risk

The Group's interest rate risk arises from long term borrowings. The Group has interest rate caps, entered into by the Spanish property owning SPV, under which the floating rate element of the interest charge is capped at 2.85% for the full term of the loan on €50 million of the principal borrowings of €75 million.

The Group also holds significant cash balances and loan assets which accrue interest based on variable interest rates.

The Group's cash flow is periodically monitored by the Board.

The sensitivity analysis below is based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated – for example, changes in interest rate and changes in market value.

For the Group, a decrease of 100 basis points in interest rates would result in an increase in post-tax profits of £555,000 (2013: £527,000). An increase of 100 basis points in interest rates would result in a decrease in post tax profits of £555,000 (2013: £527,000).

### c) Price risk

The Company announced on 28 May 2010 that it had entered into a Settlement Agreement with Logix Group under which it has sold its interest in its Technova investment and has agreed a floor price mechanism for the sale of the Galaxia project. The Settlement Agreement lapsed on 28 May 2011 returning the parties to the pre-existing agreement. The terms of the pre-existing agreement provide for a minimum return of INR 450 million and an additional preferred return and profit.

The Group has invested in income units of FIAF, a fund offering monthly redemptions (note 15). FIAF is an open ended unauthorised unit trust which operates a monthly dealing facility to provide investment liquidity. The value of the income units are assessed monthly and are subject to fluctuation.

The Group has invested in AUMP's ordinary shares, which are traded on the LSE so are subject to market fluctuation.

The Group has invested in Participating Redeemable Preference Shares in Europip, BCP and HLP; the value of these shares is assessed regularly and is subject to fluctuation: Europip and BCP provide pricing quarterly and HLP provides pricing half yearly.

### d) Fair values

The following methods and assumptions were used to estimate fair values:

- Cash and short-term deposits, trade receivables, trade payables, and other current liabilities approximate their carrying amounts due to the short-term maturities of these instruments
- The fair value of the derivative interest rate cap contracts is determined by reference to an applicable valuation model employed by the contractual counter parties; valuations are provided quarterly
- The fair value of the foreign exchange forward contract is determined by reference to the quarter end one year forward market rate provided by the contractual counter party
- The fair value of the Galaxia investment is based on quarterly Directors' estimate of the recoverable amount based upon legal advice
- The fair value of the FIAF investment is based upon monthly valuations, provided by the issuer, of the net asset value of its units
- The fair value of the investment in AUMP's ordinary shares, which are traded on the LSE, is based upon the quarterly market value of the shares
- The fair value of the investment in BCP's participating redeemable preference shares is based upon quarterly valuations, provided by the issuer, of the net asset value of its shares
- The fair value of the investment in Europip's participating redeemable preference shares is based upon quarterly valuations, provided by the issuer, of the net asset value of its shares
- The fair value of the investment in HLP's participating redeemable preference shares is based upon half yearly valuations, provided by the issuer, of the net asset value of its shares.

As a result the carrying values less impairment provision of loans and receivables and financial liabilities measured at amortised cost are approximate to their fair values.

Note 25 contains details regarding the fair value measurement of the interest rate swaps.

### e) Growth in rental income and defaults

Income growth may not continue at a consistent rate. Future income is dependent on, amongst other things, the Group negotiating suitable rent levels when compared to associated financing costs.

## Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The Group regularly reviews the adequacy of its level of borrowings by monitoring its compliance with the relevant bank covenants.

# Notes to the financial statements (continued)

For the year ended 31 March 2014

## 25. Fair value measurement

IFRS 13 requires disclosure of the fair value measurement of the Group's assets and liabilities, the related valuation techniques, the valuations' recurrence and the inputs used to assess and develop those measurements.

The Group discloses fair value measurements by level of the following fair value measurement hierarchy:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The level in the fair value hierarchy within which the asset or liability is categorised is determined on the basis of the lowest input that is significant to the fair value measurement. Assets and liabilities are classified in their entirety into one of the three levels.

Investment property is valued on a recurring basis: half yearly.

The Group's valuers derive the fair value of the investment property by applying the methodology and valuation guidelines as set out by the Royal Institution of Chartered Surveyors in the United Kingdom. This approach is based on discounting the future net income receivable from properties to arrive at the net present value of that future income stream. Future net income comprises the rent secured under existing leases, less any known or expected non-recoverable costs and the current market rent attributable to vacant units. The consideration basis for this calculation excludes the effects of any taxes on the net income. The discount factors used to calculate fair value are consistent with those used to value similar properties, with comparable leases in each of the respective markets. A decrease in the net rental income or an increase in the discount rate will decrease the fair value of the investment property.

Indirect property investment at fair value, investments held at fair value, derivative contracts and the Convertible Loan's option are valued on a recurring basis as indicated on note 24.

The following table shows an analysis of the fair values of assets and liabilities recognised in the balance sheet by level of the fair value hierarchy described above:

| 31 March 2014 | Assets and liabilities measured at fair value | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| | £'000 | £'000 | £'000 | £'000 |
| **Assets measured at fair value** | | | | |
| **Non-current** | | | | |
| Investment property (note 13) | - | - | 69,942 | 69,942 |
| Indirect property investment at fair value (note 14) | - | - | 4,525 | 4,525 |
| Investments held at fair value | 1,243 | 10,032 | - | 11,275 |
| Interest rate cap | - | 63 | - | 63 |
| **Current** | | | | |
| Investments held at fair value | - | 13,145 | - | 13,145 |
| Foreign exchange forward contract | - | 159 | - | 159 |
| | | | | |
| **Assets for which fair values are disclosed** | | | | |
| **Non-current** | | | | |
| Trade and other receivables | - | 11,500 | - | 11,500 |
| **Current** | | | | |
| Trade and other receivables | - | 19,135 | - | 19,135 |
| | | | | |
| **Liabilities for which fair values are disclosed** | | | | |
| **Current** | | | | |
| Trade and other payables | - | (1,374) | - | (1,374) |
| Bank borrowings | - | (595) | - | (595) |
| | | | | |
| **Non-current** | | | | |
| Bank borrowings | - | (58,740) | - | (58,740) |

The Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

There were no transfers between level 1 and level 2 fair value measurements and no transfers into or out of level 3 fair value measurements during the year ended 31 March 2014.

# Notes to the financial statements (continued)

For the year ended 31 March 2014

## 25. Fair value measurement (continued)

The fair value of investment property is based on unobservable inputs and it is therefore disclosed as level 3. The following methods, assumptions and inputs were used to estimate fair values of investment property:

| Class of investment property | Carrying amount / fair value '000 | Area (square meters) | Valuation technique | Significant unobservable inputs | Range/value |
|---|---|---|---|---|---|
| Europe | £69,942 (€84,630) | 51,825 | Discounted cash flow | Gross ERV per sqm p.a. | €6.00/€129.50 |
| | | | | Discount rate | 11.75% |

The Directors assessed at the balance sheet date whether the Group's investment property is being exploited according to its highest and best use and they are satisfied that this is the case.

## 26. Commitments

The Group had no un-provided material commitments within its Group undertakings.

# Directors and Company information

### Directors
David Jeffreys (Chairman)
Jeff Chowdhry
Roddy Sage
Phillip Rose
Serena Tremlett

### Registered office
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### Investment Manager
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### Administrator and secretary
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Spain

### Registrar
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St Helier
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# Shareholder information

Further information on the Company, compliant with the SFM regulations, can be found at the Company's website: www.alpharealtrustlimited.com

## Share price

The Company's Ordinary Shares are listed on the SFM of the London Stock Exchange.

## Change of address

Communications with shareholders are mailed to the addresses held on the share register. In the event of a change of address or other amendment, please notify the Company's Registrar under the signature of the registered holder.

## Investment Manager

The Company is advised by Alpha Real Capital LLP which is authorised and regulated by the Financial Conduct Authority in the United Kingdom.

# Financial calendar

| Financial reporting | Reporting/Meeting dates | Dividend period | Ex-dividend date | Record date | Payment date |
|---|---|---|---|---|---|
| Annual report published | 27 June 2014 | | | | |
| Annual General Meeting | 12 August 2014 | | | | |
| First Interim Management Statement (Qtr 1) | 15 August 2014 | Quarter ending 30 June 2014 | 27 August 2014 | 29 August 2014 | 26 September 2014 |
| Half year report | 21 November 2014 | Quarter ending 30 September 2014 | 4 December 2014 | 5 December 2014 | 19 December 2014 |

Alpha Real Trust

www.alpharealtrustlimited.com

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