City Living PCC Limited: Poland Geared Growth Cell Investor Report

31 December 2023

Key Developments

- **Significant Fund Re-structuring Completed: In-specie Liquidation of the FIZAN (Polish Investment Fund), Debt Refinancing and subsequent Termination of all agreements with Skarbiec**
- **The In-specie Liquidation of the FIZAN (Polish Investment Fund) was completed and all agreements with Skarbiec TFI and Skarbiec AMH were subsequently terminated to further reduce operating costs and simplify the structure (see section immediately below).**
- The Fund repaid its last remaining loan in Poland with Santander Bank leaving the Fund with no Polish debt. The HNW GBP loans came to the end of their 2 year term and were refinanced with a local regulated Jersey lender, Sancus, at a slightly lower rate of interest.
- The Property Portfolio increased in value by 3.12% over the period (see table on page 4) continuing to build further on value gains from previous quarters.
- Despite ongoing events in the Ukraine, the Polish residential real estate and residential development markets have so far remained largely unscathed. Following the initial sudden influx of approximately 5 million Ukrainian refugees, it is estimated that between 2 and 3 million have remained in Poland, creating strong additional demand for residential real estate. The previous Polish Government also introduced a 2% mortgage deal with a duration of 9 years for first time buyers which was extremely popular and price supportive.
- Though interest rates increased sharply in Poland over the course of 2022, with 3 months WIBOR peaking at 7.43% in November 2022, rates have eased a little to 5.83% currently. This translates into borrowing rates in excess of 10% after the lender's margin has been added along with Polish banks requiring borrowers to take out interest rate caps to protect against further interest rate increases, though the Fund has been unable to secure any Polish debt so far.

In-specie Liquidation of FIZAN

- **FIZAN (Polish Investment Fund)**

- The in-specie liquidation of the FIZAN was completed such that the remaining Polish SPVs are now owned directly by the Fund's Luxembourg subsidiary, City Living Luxembourg Sarl whilst the FIZAN (containing only sufficient cash for liquidation costs) is liquidated. This eliminates one layer of the structure completely.
- The re-structuring was facilitated by the removal of all collateral pledges taken over the FIZAN certificates and Polish SPV shares after the repayment of both the Santander and HNW loans that had previously prevented the re-structuring from taking place. The new Sancus loan was structured in such a way that it did not impair the Fund restructuring.
- Besides simplifying the operating structure, the removal of the FIZAN achieves the following operating cost benefits for the Fund:
- FIZAN operating costs have been eliminated – saving the Fund approximately PLN 600,000 (£120,000) per annum.
- Termination of the agreements with Skarbiec (who acted as Fund Manager, Investment Advisor, Administrator and Purchase/Sale and Rental's Co-Ordinator since the Fund's inception) removes fees of approximately £140,000 per annum.
- The re-structuring also results in additional cost savings arising from there being no need for quarterly/six monthly real estate valuations; no half yearly FIZAN audit; NAV valuations will be calculated at year end only to coincide with the valuation point of the Audited Financial Statements; restrictions previously associated with FIZAN concentration limits whereby assets had to be held across a number of Polish SPVs such that no more than 20% of the FIZAN's assets were held in any one SPV is removed to facilitate further consolidation of the remaining 10 Polish SPVs and subsequent associated operating cost reductions.
- The total estimated operating cost savings arising from the re-structuring are estimated at approximately £300,000 per annum with further operating cost savings expected from a reduction in the number of Polish SPVs.

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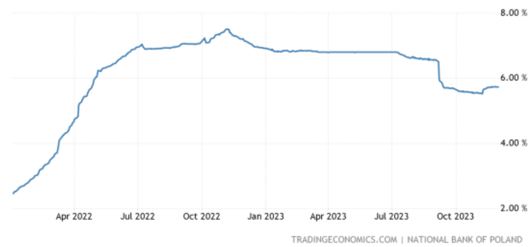
Debt Refinancing

- Total Fund debt has been reduced by 37% from approximately £5.4m as at 2022 year end to £3.4m to date resulting in a significant reduction in ongoing interest charges notwithstanding the fact that interest rates have increased.
- The intention is to seek longer term PLN debt so as to align the Fund's assets and rental income with PLN liabilities which should assist with any future realisation event**.**

PLN Interest Rates

- **Polish Interest Rates Started to Fall:**
- The Polish lending rate 'WIBOR' (3 months) remains at around 5.83% having declined from its recent peak in late 2022 of approximately 7.43% (graph below). Polish lenders require corporate borrowers to take out interest rate swap or cap agreements to protect against further rises in interest rates as well as adding their own margins – resulting in PLN borrowing rates in excess of 10%.



Development Pipeline

Architectural drawings of Szaserow, Warsaw.

- **Development Pipeline Update:**
- **Szaserow, Warsaw Plot - Completed Development Value @ PLN 13,430,000 (illustration)**
- The land plot of approximately 700 square metres is located in an attractive part of Warsaw, expected to be developed into a four-story apartment block, comprising 12 apartments and parking.
- The building permit was received in August 2023 and various lenders are being considered for construction finance.
- **Spiska, Warsaw Plot – New Master Plan**
- Despite the Fund having received several valid zoning permits for this site, the City of Warsaw council issued a Master Plan which decreed the Spiska site to be an access only road despite submissions from the Fund to protest against such a change. This effectively prevents the Fund from building on the site.
- Accordingly, a claim is currently being prepared by lawyers for submission to the City of Warsaw Council for compensation of losses via an alternative land plot of similar value or a cash based compensation claim. The former is considered the better option as it is expected to take less time without incurring significant additional legal costs whereas any court based compensation claim could take several years to achieve any outcome which may or may not be successful as well as incurring significant additional legal fees.

Rental Income

- **Rental Income**
- Total gross rental income to the Fund is approximately PLN 6.6m annualised (excluding Szaserow) which now reflects full occupancy and is a significant improvement compared to previous quarters..
- **Rejtana, Poznan Fit-Out and Rental:**
- Six of the nine units have been fitted out for the rental market and are rented. The last three units will be fitted out once funds permit. Full occupancy should generate gross annual rental income of PLN 250,000.
- **Grodzisk, Warsaw, Final Unit Rented**
- The significant arrears that had accumulated during the Covid period in relation to two particular tenants have now been cleared. The lease for the largest tenant came to the end of its term in October 2023 and negotiations to rent the vacated space to a nursery are advancing. It is expected that the new rental agreement should be signed in January 2024.
- **Jesionowa, Katowice, Full Occupancy**
- This building has long been the Fund's most difficult rental asset to rent out and manage, accounting for a significant part of the rental income gap reported in previous Investor Reports. However, through a combination of a new rental/building manager and selected sales, occupancy is now at 100% which has eliminated the cost burden on the Fund from having to pay significant running costs for vacant units of approximately PLN 50,000 per annum. .

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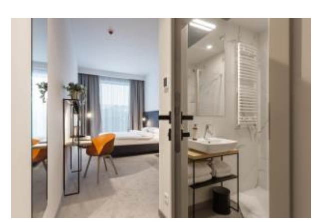
Realisation Update

- **Project to Assess Optimal Realisation Value Underway**
- Having completed the refinancing and the in-specie liquidation of the FIZAN, the Directors have now commenced work on determining an optimal realisation plan for the Fund's assets in a timely fashion.
- Projects to examine the optimal merger plan for the remaining SPVs aligned with retaining usable tax losses have commenced in order to assist in streamlining the structure to further reduce operating costs to preserve shareholder value.
- Further cost efficiencies include, reducing the number and frequency of financial filings, bank accounts, accounting costs and general simplification of the operating systems through elimination of nearly all intra-group debt. Improved VAT recovery and tax loss utilisations are further objectives.
- This should enable the Fund to more readily access long-term PLN debt which at present is not available to the Fund, partly due to its complex cross-border structure.
- Thereafter, the Directors intend to review several realisation strategies for the Fund's assets.
- Interest rate reductions, lower inflation and a general improvement in the economic environment should also assist in achieving improved shareholder returns.

Platinum Towers (top row); Rejtana (bottom left) and Wilanow (bottom right

Platinum Towers, Warsaw

Rejtana, Poznan



Wilanow, Warsaw

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Real Estate Portfolio

Developed Portfolio (adjusted for sales)	Valuation (PLN) 30/09/2023	Valuation (PLN) 31/12/2022	Valuation Change In period (%)
Platinum Towers	36,348,564	37,160,664	2.23
Jesionowa	23,129,000	23,853,200	3.13
Grodzisk	7,910,900	7,423,000	-6.17
Wilanow	4,761,600	4,863,400	2.14
Rejtana	4,718,500	5,175,900	9.69
Arkada	3,502,400	3,638,400	3.88
Plaskowickiej and Wlochy Parking Spaces	60.000	60,000	0.00
Total : Developed Portfolio	80,431,804	82,174,564	2.17
Under Construction or Land Plot			
Spiska**	1,722,000	1,500,600	-12.86
Szaserow	12,012,500***	13,430,000	11.80
Total: Under Construction/Land Plot	13,734,500	14,930,600	8.71
Total Portfolio	94,166,304	97,105,164	3.12

* Grodzisk – valuation reduced pending new lease being signed in January 2024.
** Note - Spiska land plot only revalued after Master Plan decision - not compensation claim value.
*** March 2023 valuation fair value of completed build..

Key Fund Facts

Total Shares in Issue	43,958,507.64
Number of Ordinary Shares in Issue	38,625,507.64
Number of Preference Shares in Issue	5,333,000.00
Launch Date and Share Launch Prices	31 May 2006 – Ordinary Shares at 100.00p 28 December 2022 – Preference Shares at 37.50p
Valuation Points	Annually at Year End
Listing	The International Stock Exchange ('TISE')
Price published	Reuters and TISE
SEDOL Ordinary and Preference	Ordinary Shares: B125N44
ISIN Ordinary Shares	Ordinary Shares: GB00B125N441
Bloomberg Ticker	POLGEGR GU
Administrator	JTC Fund Solutions (Guernsey) Limited
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Important Information

- These materials do not constitute an offer to sell or solicitation of an offer to buy shares in the Scheme. The Scheme referred to in this Investor Report constitutes an 'unregulated collective investment scheme' for the purposes of the restriction on the promotion of unregulated schemes under section 238 of the UK FSMA and, accordingly, the Scheme cannot be marketed in the UK to the general public. Past performance is no guide to future performance and the value of the shares in the Fund may go down as well as up.
- This Investor Report should be read in conjunction with, and in the context of, the Information Memorandum of the City Living PCC Limited: Poland Geared Growth Cell (the 'Scheme') which has been prepared to comply with the terms of Rule 4.1(1) of The Authorised Closed-ended Investment Schemes Rules and Guidance 2021 (the 'Rules') as issued by the Guernsey Financial Services Commission pursuant to the Protection of Investors (Bailiwick of Guernsey) Law, 2020 (the 'Law'), Expressions of opinion herein are subject to change without notice.
- City Living PCC Limited was established as a protected cell company on 13 June 2006, and is governed by the provisions of the Companies (Guernsey) Law 2008, and subsequent amendments. On 30 November 2022, the Fund wrote to the Guernsey Financial Services Commission confirming its intention to convert from a Class B Scheme to an Authorised Closed-ended Scheme. The Fund converted from a Class B Scheme to an Authorised Closed-ended Scheme, under the Authorised Closed-ended Investment Scheme Rules and Guidance 2021 on 22 December 2022. Prior to this date, the cell was authorised by the Guernsey Financial Services Commission as a Class B Scheme under The Authorised Collective Investment Schemes (Class B) Rules and Guidance.