

DUKEMOUNT CAPITAL PLC*

20 January 2017

Dukemount Capital Plc (“DKE”) intends to acquire UK residential and hotel properties valued up to £10m, consolidate them into a package of sufficient size, targeting at least £20m and sequentially sell them to institutions on a sale and lease back basis. DKE will predominantly target residential properties within the UK Supported Living sector, which will already be pre-leased to Housing Associations producing long-dated income linked to CPI.

INITIATION REPORT

Stock Data

Price:
Mkt Cap:
Share Out:

Ticker: DKE.L

Key Management

Geoffrey G Dart (Chairman)
Peter Redmond (Director)
Timothy Le Druillenec (Director)

Notifiable Shareholders pre-admission

**Chesterfield Capital Ltd 69m shares (34%)
Continental Natural Resources Limited 57m shares (28%)
Peter Redmond 12.5m shares (6%)
Beaufort Nominees Limited 12m shares (6%)
David Wylde 10m shares (5%)
Optiva Securities 8m shares (4%)

*Optiva will act as joint broker to Dukemount Capital Plc

** Chesterfield Capital is to be awarded warrants over 8% of the issued share capital of the Company at Admission with an exercisable Placing Price of £0.005. The warrants can only be exercised up to an overall cap of 15% of total shares in issue at that time.

Peter Redmond and Continental Resources holds warrants over 3.05m and 7.63m shares respectively. The warrants have an exercisable Placing Price of £0.005 with an expiry date of 8 September 2021.

Dukemount will offer investors a balance of income and growth by profiting from the difference in long-dated income yields between the Housing Associations and institutions, presenting a unique opportunity to generate capital income for shareholders in form of dividends. Furthermore, DKE will own the properties on a freehold basis thereby strengthening their balance sheet and underpinning the value of the Company. We believe this will present an excellent entry point for investors at the current market valuation.

Market demand and supply imbalance for long-dated income: A report by Schroders, entitled, “Pension funds and index-linked gilts; A supply/demand mismatch made in hell”, calculated that the potential demand for long-dated income could be in the magnitude of £1.6 trillion, implying that demand will almost be five times the current market value, with supply expected to trail the demand for long-dated income. DKE has identified a niche opportunity and will aim to close the demand and supply gap by providing institutions such as pension providers, higher income yields.

Peer Group Analysis: There are no direct comparators with DKE. However, we have identified a company called Civitas, which is an investment trust that successfully raised c.£350m in November 2016 for an IPO with a market valuation of £365m as of 15th January 2017. Civitas is the first REIT focused on social housing and has recently made its first acquisition since floating, acquiring a portfolio of supported living properties for £65m. It is important to highlight that DKE will not be set up as a REIT structure but will operate in the same sector as Civitas. We consider DKE an exciting growth and income play in a dynamic sector.

Dukemount Capital Plc has a highly-experienced team with more than 70 years of combined experience in the property market: Geoffrey Dart, Chairman of DKE is a merchant banker with an established track record in hotel development. Geoffrey intends to leverage off his institutional relationships to execute a long-dated income transactions.

Company profile

DKE will seek to raise up to £1m and target a Main Market Listing (Standard List) on the London Stock Exchange. The Company intends to acquire, manage, and where appropriate, develop UK residential and hotel properties utilising the managements experience in those fields. DKE will predominantly target residential properties within the UK Supported Living sector that will already be pre-leased to Housing Associations on a long-term CPI linked basis. These are typically 30+ year leases, often referred to as “long-dated income”. DKE will fund the purchase of the properties by agreeing a long-dated CPI linked sale and leaseback with institutions. Hotels could also be leased depending on the nature of the transactions. Figure 1 below shows a 4-stage process of a typical transaction deal, which will be structured as a simultaneous settlement. **Please note that the figures below are for illustrative purposes only.**

Stage 1: DKE will acquire freehold UK properties and will aim to package them into a £20m portfolio.

Stage 2 and 3 will occur simultaneously: The properties will already be pre-leased to the Housing Association for a 6.5% CPI linked yield. DKE will then concomitantly agree a sale and leaseback at a 4.5% CPI linked yield with institutions. This will fund the acquisition of the properties through the sale and leaseback agreement.

Stage 4: DKE will profit from the yield differential of 2% plus CPI.

Please note that these figures are for illustrative purposes only

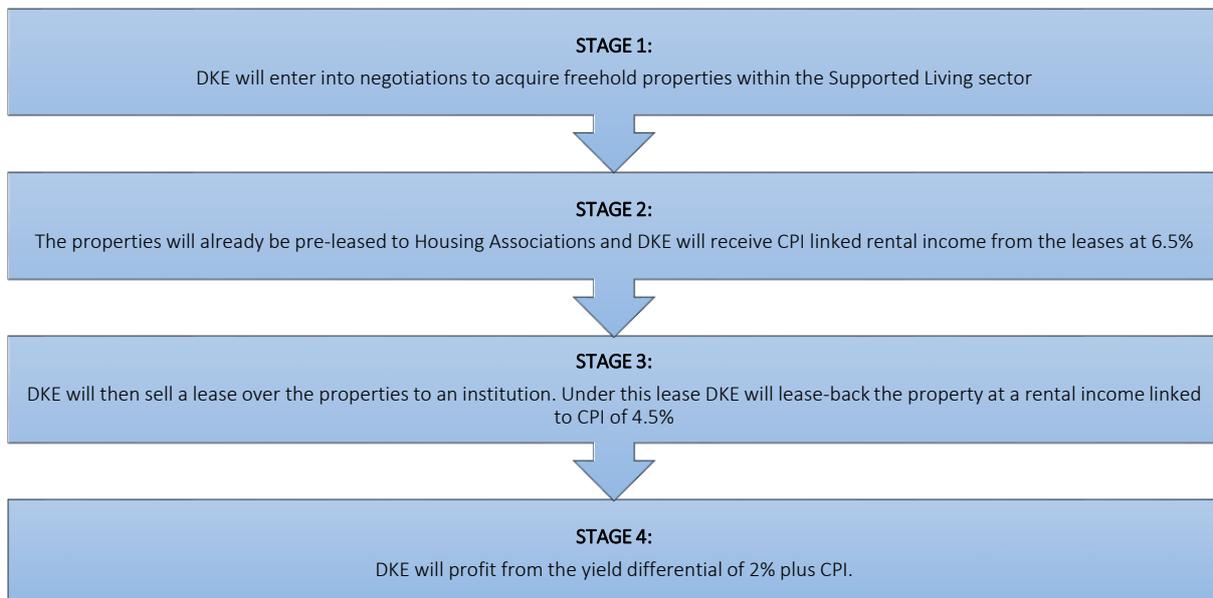


Figure 1
Source: Optiva Securities

Market demand and supply

A report from Schroders in June 2016, entitled, “Pension funds and index-linked gilts; A supply/demand mismatch made in hell”, showed that the UK private pension liabilities are valued over £2 trillion on a buyout basis and the potential demand for long-dated income could be in the magnitude of £1.6 trillion, almost five times the current market value as shown in Figure 2.

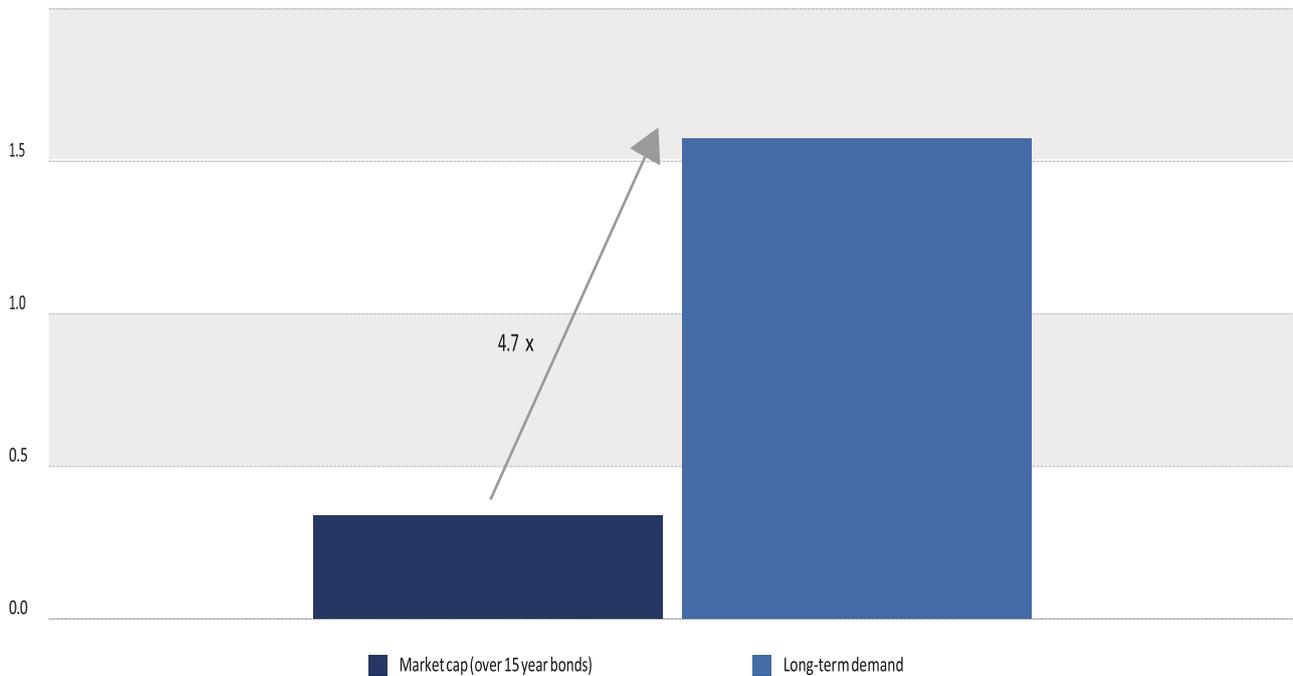


Figure 2

Source: The Pensions Regulator Purple Book 2015, Schroders, Datastream, as at 1 June 2016

Furthermore, the UK private sector defined benefits scheme owns an estimated 80% of the long-dated inflation linked market. With such high demand and ownership for index-linked Gilts, it is no surprise that the pension providers have been bidding up the bond prices. For example, the UK 2% IL Treasury 2035 currently trades with a yield-to-maturity of -3.5% as of 16th January 2017, this has forced the pension funds to seek alternative inflation-linked investments. We believe this is likely to continue based on economic fundamentals, such as inflation expectations. Figure 3 on the next page shows that the market supply for long-dated issuance is set to weaken over the next few years, which is likely to increase the imbalance between demand and supply.

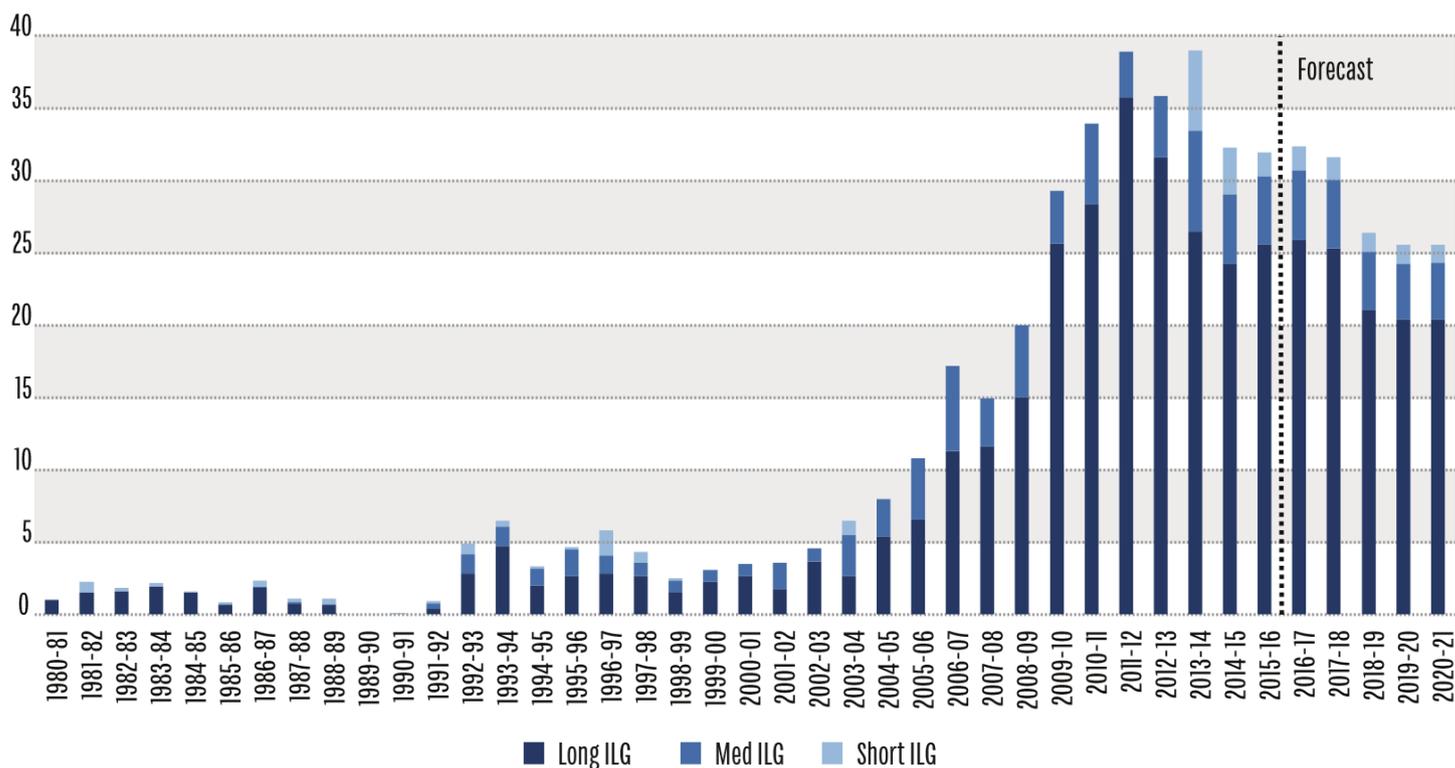


Figure 3
Source: Debt Management Office, Schroders as at 1 June 2016

An opportunity to earn a balance of income and growth

As DKE profit from the yield differential (as discussed earlier), this presents a unique opportunity to generate capital income for the shareholders in the form of dividends. Furthermore, DKE will own the properties on a freehold basis thereby strengthening their balance sheet and underpinning the value of the Company. The management believe that institutions are actively seeking alternative inflation-linked investments in a low yield environment, and will consider income from properties leased to the Housing Association because of the government link, which leads them to be viewed as a good credit risk. In our view, DKE presents an excellent entry point for investors at the current market valuation.

Peer Group Analysis:

There are no direct comparators with DKE. However, we have identified a company called Civitas, which is an investment trust that successfully raised c.£350m in November 2016 for an IPO with a market valuation of £365m as of 15th January 2017. Civitas is the first REIT focused on social housing and has recently made its first acquisition since floating, acquiring a portfolio of supported living properties for £65m. It is important to highlight that DKE will not be set up as a REIT structure but will operate in the same sector as Civitas. We consider DKE an exciting growth and income play in a dynamic sector.

The Team:

Geoffrey G Dart (Chairman)

Geoffrey is a Merchant Banker and a Director of Harrell Hospitality Group (HHG), with over 25 years' experience in the Hotel Industry. HHG is a hotel development and management company based in Dallas Texas. At present HHG owns, develops and manage a range of branded hotels, which include Courtyard by Marriott, Hampton Inn by Hilton, Westin and a full-service Marriott. As well as, serving on the board of HHG, he has served as chairman/director on several public listed companies, currently he is Chairman of Silver Falcon Plc.

Peter Redmond (Director)

Peter Redmond is a corporate financier with some 30 years' experience in corporate finance and venture capital. He has acted and assisted on a wide range of public and private companies, with experience in the Unlisted Securities Market, the Full List and AIM, whether by IPO or in many cases via reversals, across a wide range of sectors. He has been active over many years in corporate rescues and reconstructions on AIM and in reverse takeovers. He was a founder and director of Cleeve Capital plc (now Satellite Solutions plc) and Mithril Capital plc, both of which were admitted to the Standard List of the London Stock Exchange, and took a leading role in the reconstruction and refinancing of AIM-quoted Kennedy Investments and 3Legs Resources plc. He is a founder and director of Silver Falcon Plc, which was admitted to the Standard List of the London Stock Exchange in November 2015.

Timothy Le Druillene (Director)

Tim, is a Fellow of the Chartered Institute of Management Accountants and provides consultancy and accounting services to several public and private companies including Silver Falcon Plc listed on the Main Market and during 2013, the AIM listed Leed Resources Plc, Kennedy Ventures Plc and Pires Investments Plc. From 2005 to 2012, he was CEO of Richards Walford & Company Ltd, a fine wine importer. Prior to that from 1995 to 2004, he was the group finance director and company secretary of Pacific Media Plc, Main Market Company and acted in the same capacity at Bella Media Plc an AIM listed company.

Shareholder structure and warrants:

The following shareholders had a notifiable interest in the issued shares of DKE prior to Admission:

Shareholder	No. of Ordinary Shares prior to Admission	As a %
Chesterfield Capital*	69,000,000	34.4%
Continental Natural Resources Ltd**	57,000,000	28.4%
Peter Redmond***	12,500,000	6.2%
Beaufort Nominees	12,000,000	5.9%
David Wylde	10,000,000	4.9%
Optiva Securities Limited	8,000,000	3.9%

*Chesterfield Capital Limited, of which Geoffrey Dart is a director, is to be awarded warrants over 8% of the issued share capital of DKE at Admission and which are exercisable at the placing price of £0.005. The warrants can only be exercised up to an overall cap of 15% of the total shares in issue at that time.

**Continental Natural Resources Ltd holds 7,625,000 existing warrants with an exercisable price of £0.005 at an expiry date of 8th September 2021.

*** Peter Redmond holds 3,050,000 existing warrants with an exercisable price of £0.005 at an expiry date of 8th September 2021

Furthermore, Bryan Dart holds 15,250,000 existing warrants with an exercisable price of £0.005 at an expiry date of 8th September 2021.

Risks:

Availability of assets: The growth of the Company depends upon the ability of its management team and advisers to identify, select and acquire properties with existing or future tenancy arrangements with Housing Associations.

Competition: The Company may be competing against other investors to acquire asset. Competition for appropriate acquisition opportunities may increase, reducing the number of opportunities available to, and/or increasing the prices required to be paid by the Company which may affect the Company's returns.

Property Value Risks: Challenging global economic conditions could have adverse and wide ranging effects on demand for the Company's property assets and any proposed developments. Falling property prices may impact on the value of assets held on the Company's balance sheet.

Inflation Risks: Rising inflation may erode the value of assets owned by the Company and the income derived from its assets.

Sector trends: The Company will be affected by market conditions and trends within the wider property market and specific conditions and trends within the Supported Living and hotel sectors.

Changes in taxation legislation may adversely affect the Company: Any change in the Company's tax status or in taxation legislation in the UK, or elsewhere could affect the value of its business and its ability to achieve its stated objectives, or alter the post-tax returns to Shareholders.

Political risk: One of the property sectors that the Company will operate in is Supported Living properties leased to Housing Associations. There is a consensus that rents paid by Housing Associations under lease agreements are "protected" by local government. However, this is not the subject of an explicit statutory or written guarantee.

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