



**Trustees Diligence Report
to
Dolphin Capital GmbH, Germany
March 2012**



'The Castle – Villa Windsor' at Neustadt am Rübenberge, Hannover, Germany



Introduction to Parties Concerned

Dolphin International Group, including Dolphin Capital GmbH, has built a reputation for **creating homes** that surpass expectations in terms of design, quality of construction, and vision for sustainable development. Throughout Germany, their developments encompass refurbished Listed Buildings, new homes and contemporary urban apartments.

Listed Buildings are the face of a city; they give the city its character. The preservation of these buildings is a major priority for the German government, and as a result, the purchase and renovation of these buildings is incentivised with unique tax advantages for German buyers. Many German cities have listed buildings in excellent central locations. Such buildings are full of character, personality and charisma and once renovated to a high standard they offer a unique ambiance for the owners/tenants.

Many of the developments combine leading edge design whilst maintaining and renovating key elements from German architectural heritage. Dolphin International Group is a leader in the business of urban regeneration, with a target to build over 95% of its developments from refurbishing existing Listed Buildings, and this has become their area of expertise.

The development of Listed Buildings involves a number of complex stages, from the initial acquisition through planning, designing, building and finally marketing a development. At each stage the Company undertakes detailed risk assessments, taking into account all relevant sustainability issues, and the changing nature of the market place. The Company also works closely with specialists throughout the various stages of each project:

- The legal team is headed by Uwe Bottermann of Bottermann Khorrami.
- The sourcing of property is headed by Axel Krechberger of EPSCO GmbH.
- The plans for the properties are drawn up by an architect in preparation for seeking Planning B Permission.
- Sales agents
- Building contractors

Dolphin consult with a wide range of stakeholders to ensure their views and concerns are taken into account; and aim to find intelligent and imaginative solutions appropriate to the needs of the community.

Key Personnel:

Charles Smethurst is the CEO of Dolphin Capital, and developed the Company from scratch. Today the Company is one of the top 5 developers in Germany and with more than 20 years of experience, Dolphin Capital GmbH has established itself as the market leader in listed buildings refurbishment. The company has a portfolio of more than 4000 units under its arm.

Marc Reilly and Cormac Smith are Directors of Dolphin International Group, and have been working very closely with Charles and Dolphin Capital GmbH for more than five years. Working together they have brought the opportunity of investing in German real estate to investors all over Europe and have now expanded to include the Asian market. Cormac will be focusing on the development of the U.K market

Stadia Trustees Limited (Stadia) www.stadiatrustees.com are establishers, administrators and Trustees of UK Self Invested Personal Pensions Schemes (SIPPs). In addition, Stadia are administrators for Qualifying Recognised Overseas Pensions Schemes (QROPS). The Company is authorised and regulated by the Financial Services Authority (FSA) number 464763.

Tony Hales is the CEO and is a Chartered Fellow of the Chartered Institute of Securities and Investment (Chartered FCSI) and a Life Member of the Personal Finance Society (PFS).

Bryan Johnston is a Director and Trustee of Stadia Trustees Limited, and has worked closely with Tony since the establishment of the Company. Bryan is also a solicitor and Managing Partner of GoodyBurrett LLP Solicitors, specialising in commercial litigation, civil litigation and employment law.

Alison Redgewell has worked closely with Tony regarding the development of Stadia Trustees since 2000, and was appointed as a Director and Trustee with effect from 1st February 2012.

Background to Due Diligence Visit

Aim of Investment:

The aim of the investment is to raise private equity on behalf of Dolphin Capital GmbH, which will be used in financing the purchase and development of listed properties in Germany. Through structuring the investment as a three year loan, the investor does not risk physical owning residential property within their pension scheme whilst receiving a fixed return. The loan is secured on property, thereby providing added comfort and security to the investor.

The investment is in the form of a loan with a fixed term of three years and a fixed interest rate, expected to be circa 8-12%. The loan will be made in Sterling, and will be repaid in the same. Any currency risk will be absorbed by Dolphin Capital GmbH through foreign currency hedging. The investor will receive two interest payments per calendar year. The payment dates are fixed, and any entitlement to interest will be paid pro-rata.

Investment Strategy

1. The listed building is bought at below market value with planning for refurbished apartment units. Listed buildings are quite rare in Germany as only 1% of the buildings are classified as listed buildings.
2. Building planning and cash flow analysis is then prepared by the developer Dolphin Capital GmbH.
3. Investors place their investment amount (loan) into an Escrow account under a German law firm, Bottermann and Khorrami. An acknowledgement of receipt from Dolphin Capital GmbH and Bottermann and Khorrami will be sent out to investors upon clearance of payment to Germany.
4. Security is organised for the investors' capital + profit. Investors are registered on the land registry and granted as first charge on the building to securitise their capital and interest repayments. Loan documentation is completed accordingly.
5. An in-depth sales brochure is completed and the apartments are offered for sale to the German market with tax breaks as an incentive. They are sold through agents who only handle properties with tax incentives.
6. The apartments are sold and contracts are signed with the German buyers.
7. The renovation begins.

Aim of the Visit

The purpose of the visit was to carry out sufficient Trustee diligence to;

1. warrant that the investment is acceptable by the Trustees of a SIPP as a suitable investment for a pension scheme to invest into,
2. review an existing project and
3. give some further comfort that the investment is by no means a scam or a Ponzi scheme

This document has been prepared as part of a due diligence process regarding a proposed investment for holding within a member-directed regulated pension scheme. The Due Diligence Process adopted by Stadia Trustees Limited aims to identify whether or not an investment is allowable based on HMRC rules as set by the Finance Act 2004 and subsequent amendments. This document is for information purposes only.

Stadia Trustees Limited do not provide financial advice, and this document is not intended and should not be taken to confirm suitability of the investment for meeting the scheme member's investment objectives or attitude to investment risk, nor should it be considered to be advice. In addition, the acceptance of an investment product for holding within a SIPP or QROPS does not indicate any judgement on behalf of Stadia Trustees Limited in respect of the performance potential of the investment, or the propriety of the provider of the investment and underlying asset(s).

General Outline

The investment rationale behind the investment projects and their sale to German investors is that when purchasing property in listed buildings the German investor receives significant tax breaks. For a German capital investor, the tax write-off in property in listed buildings is 9% of the purchase costs for the first eight years, reducing to 7% of the purchase costs for the following four years.

When compared to the general write-off for capital investors of 3% per year for commercial property and 2% per year for residential property, it is easy to see the marketable benefits of investing in property in listed buildings.

The rental market is very strong in Germany, especially in city and large town locations. Prior to purchasing a property for development Dolphin will undertake comprehensive 'sourcing review' regarding the suitability of the property and the feasibility of the project. This 'sourcing review' includes:

- screening of the property and site
- macro analysis of the site, including economic power, demographic data and regional economic data
- micro analysis of the site, including fine-tuned demographic analysis, rental market (strength and rental values)
- site visit with the appropriate photographic documentation of the property, site and surrounding area collected
- discussion of the facts and pictures with architects and contractors
- further site meeting with architect and others as appropriate
- tender offer to vendor
- preparation of purchase contracts

If at any stage the results are not as required, and the project is not deemed to be viable for any reason, financial or otherwise, the project will not proceed.

Documents Required For Due Diligence

The following documentation is collated prior to proceeding with tendering an offer of purchase:

1. Certificate of Title, with possible consent of registration and plans for all liabilities in Section II
2. Neighbour agreements, caretaker, winter services, administrator details
3. Actual register map, cadastral survey¹, floor plan
4. Development plan or statement that §34 BauGB² is appropriate
5. Planning permission along with proof of available parking space as other official authorisations and statements as appropriate
6. Abgeschlossenheitsbescheinigung³
7. Declaration of division
8. Specification
9. Architect agreement for the renovation of the building
10. Property tax assessment and record of payment
11. Property purchase agreement in the event that the vendor is not recorded in the cadastral register as the owner of the property
12. Extract from the Registry of Public Land Charges
13. Old load land register/old loan suspicion area land register/building reason expert opinion/wood protection expert opinion
14. Construction Contracts
15. Confirmation that all development and public charges are paid
16. Certificate of Insurance (fire, flood, natural hazards, water pipe damage, Public Liability, et al)
17. Floor plans or approved pre-construction drawings
18. Registered charges, and if present, the appropriate registration documents
19. Documentation in terms of monument protection
20. Statics Bestand and if existent for redevelopment plans
21. Loan contracts, if financed, for optional acceptance text

Profile for Required (Sourced) Property

Property Type:

- Housing areas, apartment buildings and commercial buildings, preferably vacant and not renovated
- Restoration properties in areas of positive redevelopment
- Listed properties in need of restoration and renovation
- Properties must be freehold and have approved planning permission

Location:

- The most popular addresses are those based in middle to good addresses in urban town centres and large cities with at least 20,000 residents
- Areas benefiting from good infrastructure, shopping facilities, public transport connections, schools and leisure facilities nearby
- Areas with positive economic growth

¹ Cadastral survey: (1) a public record, survey, or map of the value, extent, and ownership of land as a basis of taxation (2) showing or recording of property boundaries, subdivision lines, buildings and related details

² Building Code

³ Seclusion Certificate

Previous Projects

Since 1993 Dolphin Capital GmbH has been involved with numerous redevelopment projects resulting in the sale of over 4,000 individual residential units.

Development projects have been undertaken in the following locations:

- Markkleeberg
- Düsseldorf
- Kassel
- Dresden
- Kempten
- Stuttgart / Baden-Württemberg
- Altenberg
- Dortmund
- Ludwigshafen
- Hannover
- Magdeburg
- Berlin
- Eckernförde
- Leipzig
- Frankfurt
- Neustadt am Rübenberge, near Hannover

Development

Prior to offering a tender to purchase a property Dolphin will have obtained an indication from Post Bank regarding the maximum value or price per square metre available on the future sale of the property.

The cost of the building and development work is calculated up front, and the work is undertaken on fixed price contracts.

All units are sold to German investors off-plan before the development and or renovation commences.

The local planning authority is involved at all stages of the planning and development work, and has a say on what can and cannot be constructed and or removed. This includes interior and exterior walls, windows, balconies and the external finish of the property.

Where possible Dolphin will work with the existing internal features of a property, however where new walls are required, these are of a construction similar to stud walls. Given that the listed properties are often old with limit or no insulation, insulation is fitted as part of the renovation and development work.

Retail

Only 1% of the German properties have been granted the status of a listed building by the German government. Listed buildings give cities their character and are the faces of a city. The preservation of these buildings are a priority for the German government as these buildings are brimming full of character, personality and charisma.

Once renovated, they offer a unique ambiance for the owners/tenants. As a result, the purchase and renovation of these buildings are heavily incentivised with unique tax advantages for German buyers.

Newly renovated units in listed buildings gain superior sale prices due to the rare nature of the buildings. For the German property investor, rent gained from the property is also higher as it generally an inflation-protected property investment. In addition, German investors are able to receive 100% financing for the purchase of property within listed buildings.

Furthermore, the German investor can reclaim upto 100% of the capital cost of investment over the next 12 years as a deduction from their tax bill.



Property before renovation



Property post renovation

Social

As part of the initial sourcing review the type of property prevalent in the area is ascertained. This enables Dolphin to ensure that the right size of property is offered by the finished development.

The statistical data provided on Leipzig shows that 54% of the habitants are female and 46% are male. Approximately 60% of the population is aged between 25 and 64 years with approximately 54% of households consisting of one person and a further 30% consisting of two people. Furthermore, approximately 90% of habitants leased rather than owned the property in which they were resident.

By reviewing statistical data such as that referred to above, Dolphin are able to ensure that the development occurs in an area that is marketable and where the type of accommodation provided by Dolphin developments is sought after.

Environmental

As part of the initial sourcing review Dolphin seek to ensure that the location of the listed building has good infrastructure and good connections to public transport.

Renovating old properties is more environmentally friendly than demolishing them and replacing them with a new structure. In addition, as part of the renovation and development work, the property is likely to be insulated, resulting in a more energy efficient property.

Risks

Dolphin minimise the risks regarding the development and renovation of a property through the completion of an in-depth due diligence and analysis process. This has resulted in an almost 100% success rate in obtaining planning permission for properties and the projects completing successfully.

The UK Pension Scheme Investor is providing a loan to Dolphin, which is an allowable pension scheme investment as stated within the HM Revenue & Customs Registered Pension Scheme Manual, Chapter 07103010, which states that 'all pension schemes may make loans to third parties...all loans are only acceptable if they are genuine investments of pension schemes. They should be prudent, secure and on a commercial basis.'

The loan is for a fixed term of three years and the investor will receive a fixed rate of interest. The interest will be paid twice a year on a pro rata basis. The loan is secured on the property held by Dolphin (or a subsidiary SPV established for a specific project). During the period of the loan the investor will hold a loan note confirming their security; however the loan note will expire on the termination date of the loan.

In order to reduce any currency risk to the investor, the investment will be made and repaid in GB Pounds Sterling. Dolphin will use foreign currency hedging in order to absorb or reduce any currency risk for themselves.

As previously stated, property in listed buildings have a premium value and are sought after, with all properties being sold off plan before development. This, together with capital resources held for contingency purposes, effectively reduces the risk to the investor of future default on the loan.

Management Team

Charles Smethurst is the CEO and Head of Project Development for Dolphin Capital GmbH, and has over twenty years of experience in developing and renovating listed property into residential units for sale to German investors.

Marc Reilly and **Cormac Smith** are directors of Dolphin International Group, and work closely with Charles in raising private equity investments, which finances the purchase of the listed properties. To date Marc and Cormac have been developing the investment markets in Ireland, Asia and now the UK.

Axel Krechberger is the Managing Director of EPSCO GmbH, and is responsible for the sourcing of listed property, including preparing and collating the statistical data required for the due diligence assessment of the project and its viability.

Emina Hasanovic is the Investment Relationship Manager for Dolphin Capital GmbH, and has been with the Company for approximately three years.

Manou Lenz is the head of Marketing and PR for Dolphin Capital GmbH. Manou is focusing on the German Market.

Gerhard Tausch is the Managing Director of SFG. Gerhard is responsible for selling the listed property on to the German market.

Uwe Bottermann, LL.M. of Bottermann Khorrami is the legal adviser to Dolphin Capital GmbH, and is involved in drawing up of contracts and loan agreements.

Lisa Marie Smith is the Client Relations and Marketing Manager for Dolphin International Group. Lisa Marie will be involved in the development of the market in the U.K.

Summary of Investment

In summary, the investment is structured as a third party loan to Dolphin Capital GmbH. The loan is written on a fixed term of three years with a fixed rate of interest payable to the investor. During the life of the loan the investor's interest is registered as a charge against property owned by Dolphin Capital GmbH.

Dolphin Capital GmbH will, via inter-company loans, make the funds available to a number of projects during the investment term. Each renovation or development project is established as a German Special Purpose Vehicle (SPV), however by structuring the investment as a three year loan to Dolphin Capital GmbH the investor is not reliant on any one individual property for their investment return. In addition, by raising private equity investment via loans with known repayment terms and interest rates, Dolphin Capital GmbH are able to incorporate the cost of the loans within the financial feasibility stage of the pre-purchase due diligence process that is undertaken on each property.

Structuring the investment as a loan also ensures that at no time does the pension scheme hold, or risk holding, residential property.

Investment Scenario

Based on an assumed interest rate of 8% per annum fixed for the life of the loan, and a minimum investment (loan) of £10,000, the gross return would be £12,400. The actual return will be dependent on the rate of interest applied to the loan.

Administration

Stadia Trustees Limited, as the Trustees investing on behalf of the pension scheme member, will receive a loan agreement and repayment schedule in respect of the investment amount. In addition, a Loan Note will be issued providing entitlement to a return of funds in the event of liquidation of Dolphin Capital GmbH. The investor's interest will be registered as a charge against the property during the loan term, and the Loan Note will automatically expire at the same time as the loan agreement terminates.

UK Regulation

Dolphin Capital GmbH have contracted the services of Pitmans LLP of 1 crown Court, London to provide a legal opinion regarding whether or not the investment structure would be classified as a Collective Investment Scheme under the Financial Services & Markets Act 2000. In addition, Pitmans LLP have been asked to provide a legal opinion regarding the allowability of the investment within a pension scheme as per guidance provided by the HM Revenue & Customs Registered Pension Scheme Manual.

This report does not replace the need for the investor to ensure that the investment is appropriate for their investment risk and for their circumstances and requirements, nor does it endorse any future potential returns. Any investment should be discussed with an Independent Financial Adviser who is authorised and regulated by the Financial Services Authority.

HM Revenues & Customs

A UK SIPP can invest in a wide range of assets without being taxable. The main exceptions are direct investment into residential property and tangible movable assets such as works of art, fine wines and bloodstock. It is my professional opinion that investment into a loan, backed by a registered charge on an asset, does not fall into either of these categories.

During the period of the loan, the properties are in a stage of renovation and development, and cannot be considered habitable. In addition, the properties are sold off-plan to German investors prior to the renovation and or development work commencing. With this investment the SIPP does not at any time become the legal owner of the properties, and therefore the SIPP does not directly invest in residential property.

SippWise Kite Mark

The Dolphin Capital GmbH investment has been approved under the SippWise 'Kite Mark' as the project actively addresses social, environmental and sustainability issues through the following actions:

- Restoration of a degraded environment and conservation of listed property
- Active participation of local communities through jobs created during the renovation and development of the properties
- Sustainability through knowledge transfer and education of skills

Conclusion

Following the recent volatility amongst the global stock markets, investment in financial instruments such as loans can offer portfolio diversification into a potentially less volatile market. Investors must realise the importance of portfolio diversification to minimise risk and the relative stability of an asset-backed short-term loan makes this investment an ideal portfolio hedge against more volatile markets.

Attitude to and capacity for investment risk is only part of the picture. It is also important to look at the structure of the investment portfolio, including diversification and liquidity.

Diversification is a familiar term to most investors, and taken at its most general, it can be summarised as "Don't put all your eggs in one basket."

Diversification is a technique that reduces risk by allocating investments among various financial instruments, industries and other categories. The aim of diversification is to maximise return by investing in different areas that would each react differently to the same event. Most investment professionals agree that, although it does not guarantee against loss, diversification is the most important component of reaching long-range financial goals while minimising risk.

In my professional opinion I found the management and operations team on the ground in Germany to be very knowledgeable and experienced and I have no doubt that the investment is an acceptable investment for a Trustee of a UK SIPP to invest as appropriate.

A R Hales
CEO Stadia Trustees Ltd
Chartered FCSI, Certified PFS
March 2012