

Colebream Estates current situation and potential sale.

Situation: Strategic overview for Colebream estates

- Colebream Estates is celebrating its 90th year, and the Board has been conducting an ongoing evaluation of the company's future, considering all options such as remaining as is, expanding, or selling/liquidating and exploring opportunities for shareholders such as share buy-back schemes or a potential rights issue.
- The shareholder base has grown significantly to approximately 114 shareholders, with two-thirds owning less than 1% of the company, making administration unwieldy and diluting rewards. The cost of support of these small shareholdings has become untenable and often is greater than the payments involved.
- To be more agile and able to react to opportunity we proposed the update and modernisation to our Articles of Association accepted at the EGM on the 4th August 2025.
- The current market conditions are challenging with increasing costs both on the property and administration side. We are seeing tenants able to negotiate rent reductions to keep quality occupancy in place.

Complications: What are the challenges or issues we face?

- **Large Shareholder Base:** The high number of shareholders with small stakes makes administration challenging, expensive and the costs dilute rewards overall.
- **Succession Planning:** Future leadership after the current Board retires will likely involve more expensive outside hires because the time involved in running the company is now very considerable and not a part-time job.
- **Limited Portfolio Opportunities:** Increase in labour and material costs means that development opportunities are simply not as viable as they have been in the past. The main opportunity, a residential scheme in Reigate, is not currently financially viable.
- **Macroeconomic and Geopolitical Uncertainty:** The current environment is not particularly supportive of property investment, with low growth, rising taxes, and interest rate uncertainty.
- **Property Market Outlook:** The medium-term outlook for the property market is poor.

- **Dividend Policy:** Sustaining the current dividend payout (10p pa) does not leave enough capital significantly to grow the company in the short to medium term. Dividend pay outs would have to be stopped or minimised to build a capital reserve. The directors must consider whether shareholders are getting the best return on their investment
- **Debt for Expansion:** While the low debt ratio presents an opportunity, increasing debt for expansion carries risk. Raising £3m-£5m could be considered unpalatable levels of risk.
- **Bank Appetite to Lend:** Banks are less keen on lending to illiquid sectors like property, leading to higher margins (around 2.5% above base rate).

What are the considerations

- **Sale of Colebream:** Colebream has recently been approached with an offer to buy the company by UK Land.
- **Financial Benefit:** The UK Land offer represents ~£3.76 per share, which is almost 2.5 times the HMRC-approved share incentive scheme price of £1.55.
- **Comparison to Liquidation:** Compare the offer to the net assets in the accounts £4.95 and an estimated net realisation from liquidation of c£4.25 per share allowing for costs and variation in actual prices achieved. The offer avoids the associated costs and uncertainties including time, tax environment, and the unstable market.
- **Tax Efficiency:** The offer allows for the opportunity to access close to net assets, especially given the current hostile taxation environment. UK Land also offers a loan note alternative to cash (see later explanation), which can assist with IHT and CGT planning by rolling gains into a new security, receiving interest on the gross receipt rather than the net. The interest paid at 0.3% below base rate will pay an equivalent/ similar to the current dividend per share of 10p per annum.
- **Improved Income Post-Completion:** We anticipate shareholders would be able to generate more income after completion by reinvestment in alternative opportunities that provide a higher yield. This would be most significant if Colebream's dividend is reduced or suspended to build up a capital reserve.
- **Director Warranties:** The Directors would be compensated for the additional work this complex sale entails and loss of office. The Directors will also have to provide and bear the risk of limited financial warranties for at least 18 months post the sale of Colebream.

Position: What is the proposed solution?

- **Formal and Final Offer:** UK Land are proposing to make a formal and final offer to acquire all the share capital of Colebream Estates Limited for approximately ~£10.77m, or ~£3.76 per share.
- **Payment Structure:** Shareholders will receive approximately 95% of the expected receipt on completion, with the balance paid 3-6 months later after a completion accounts process.
- **UK Land Credibility:** UK Land is a family company operating since the 1970s, specializing in acquiring family property companies, with sufficient cash on hand to complete the acquisition without third-party finance.
- **Cash and Loan note purchase option.** Shareholders will need to get tax advice for their own specific circumstances. UK Land are offering two options as to how they acquire your Colebream shares
 - **Cash offer** is a straight payment for shares. Shareholders receive a lump sum of money for their stock when the transaction is complete (95% upfront 5% after completion accounts). A cash offer provides immediate value for the shares. Cash offers also trigger a tax event. Any profit from the sale (the difference between the sale price and the original purchase price) is subject to Capital Gains Tax.
 - **Guaranteed Loan note** Instead of cash, shareholders receive a certificate (a loan note) that promises to pay them a set amount, plus interest, at a future date. **Tax Deferral:** This is the primary advantage. By accepting a loan note, shareholders can defer their Capital Gains Tax liability. The tax isn't paid until the loan notes are redeemed (cashed in) or sold. This allows the shareholder effectively to "roll over" their gain into the new security, which is particularly beneficial for those who don't want to pay a large tax bill immediately. **Income Stream:** Loan notes will pay a fixed rate of interest (0.3% below Bank of England base rate) to be paid twice a year. This can provide a stable, predictable income stream for shareholders. The loan note can be redeemed in part or in full, with 6 months' notice, over the next 10 years.
 - **Cash offer and Loan Note.** Shareholders would have the option to take a mix of cash and loan note in proportions of their choice at time of sale. This will allow for flexible financial planning.

Action: What do you need to do?

- This is not an easy decision and has taken considerable analysis. We have engaged external advisors to assess the provisional offer. Ultimately it is the

Directors role to protect the interests of the shareholders. Your Board of Directors is inclined to recommend this offer.

- You will be asked to review the Offer Document when/ if it is issued.
- For a sale to be completed, UK Land will require approval from shareholders representing at least 75% of the total shareholdings. No single shareholder owns more than 6%. Hence, the board are looking to gauge the depth of support for this from shareholders.

Benefit: What are the advantages of accepting this offer?

- **Significant return on investment:** The offer provides a substantial increase in value for shareholders compared to the HMRC-approved valuation.
- **Access to capital:** It provides an opportunity for shareholders to realise their investment and access close to net asset value.
- **Avoids any market downturn:** The sale is recommended given the poor market outlook for the foreseeable future and the impact this could have on liquidation of the portfolio.
- **Clear exit strategy:** This offer provides exit plan for the company.
- **Smooth transaction:** UK Land has a strong track record of successfully acquiring family property companies and has the financial capacity to complete the deal and guarantee the loan notes.