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Announcement Regarding Implementation of Investment Policy AND Manager's Update Report

May 22, 2013

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Update in Regard to Investment Policy:

Further to its announcement of 1 February 2013, the Company hereby notifies the market that as of 14 May 2013 the Company has met its requirement pursuant to AIM Rule 15 to implement its new investment policy.

Update on Current Positions:

Subsequent to the Manager's First Quarter Report dated April 19, 2013 Terra Capital plc ("Terra") entered into 17 new positions thereby increasing the invested part of its portfolio to over 53% as of May 14, as set out in more detail in the chart to be found at the end of this update. These investments were made in accordance with the Investment Objectives adopted by the shareholders as set forth in the circular of 1 May 2012 (the "Circular") which changed the investment policy and name of Speymill Macau Property Fund, plc. The Investment Manager purchased undervalued stocks wherever it could find them, concentrating on Frontier and Emerging markets, with an emphasis on dividend paying stocks so it can provide cash flow to shareholders. In the

meantime, the Manager continues to seek positions capable of providing corporate activism.

Summary of Most Recent Investment Portfolio

This report will review the top nine largest new positions acquired since the Manager's First Quarter Report in their order of size to bring shareholders up to date on the progress of the portfolio.

1. Prime Office REIT: Prime is a German Real Estate Investment Trust (REIT) which went public in July 2011. It currently manages 14 office properties with a total floor space of around 383,000 m2 located in some of the most important office markets in Germany (Frankfurt, Hamburg, Munich), as well as some regional centers (e.g. Dusseldorf, Essen, and Stuttgart). All of its properties are located in metropolitan regions of their cities. Berlin, Dusseldorf, Frankfurt, Hamburg, Cologne, Munich and Stuttgart are generally considered as "prime" office market, while "regional" cities would include Bremen, Darmstadt, Essen, Hannover, and Mannheim. The properties are let on a long term basis to tenants with a good credit rating to generate stable, long-term rental income. Core tenants include BMW, Deutsche Post, Deutsche Telekom, Hochtief, Vodafone, Medtronic. All properties in the portfolio have a 100% occupancy rate except for Frankfurt and Stuttgart which have 90% and 46% occupancy rates respectively. The portfolio's weighted average term of lease is 6.5 years as of 30 Jun 2012. Further, it lacked a shareholder holding more than 10% which left it open to possible corporate activism.

Within weeks of our acquiring our targeted allocation, its largest shareholder announced it was entering into merger talks and the stock immediately jumped in price. It currently trades at about 20% over our average acquisition price.

2. JSC Acron: Acron is a Russian domiciled fertilizer manufacturer. While most of its production is done in Russia, it sells its products globally. Akron specializes in the sale of NPK, a complex form of fertilizer, and is the second largest NPK manufacturer in the world. At Terra's entry price it traded at a lower Price to Earnings, at a lower Price to Book Value, and a lower EV/EBITDA ratio than any other company in the industry. Acron is currently involved in a major expansion plan, with funding from a variety of sources, which will see its debt increase from current levels (around 2X EBIT-DA) by about 33% (to about 3X-EBITDA). The money will be used to change Acron into an integrated company, with interests in raw material mining (Potash and Apatite, especially) and the manufacturing of Urea. While the targeted debt burden is high for the industry, with debt roughly equal to common equity, the company has the following strengths:

- Solid management, a broad product portfolio, and a good long term track record of performance;
- A reasonable, value accretive expansion plan;
- A strong discount to international prices to its competitors, -as far as can be determined – since it is entirely domiciled in Russia, and the lowest price to earnings ratio in this industry in the world market.

3. Ardent Leisure: Ardent Leisure, formerly Macquarie Leisure Trust, is a well-run tourism and leisure service business headquartered in Australia with a number of potential opportunities that could increase its profit. We were impressed that it managed to navigate through a number of difficult challenges, including a year of exceptionally bad weather and a general slump in consumer spending in Australia, and

still offer an above average dividend yield while reporting relatively solid profits. Its growth has come from health clubs, which it buys at valuations significantly lower than its own P/E, entertainment centers in the United States, which it has been profitably developing in Texas, and although the theme park is somewhat stagnant, it has engaged in several measures to turn it around, including licensing Dreamworks characters and engaging in constant corporate improvement.

Revenue and core earnings are up about 8-9% on the half year on a year by year comparison basis (the business is seasonal). While its P/E is a bit higher than we normally like for our investments, the stock pays a healthy 8% dividend in AUD and has a history of competent, defensive management.

4. <u>Crnogorski Telekom AD Podgorica (Montenegro Telecom):</u> Crnogorski Telekom was privatized in 2005 and its majority owner (76.53%) is Magyar Telekom NyRt. a Hungarian subsidiary of Deutche Telekom AG. The remainder of its shares is publicly traded. It is one of the leading telecommunication operators in Montenegro, with a 34% share of the overall mobile market and it is the only serious player in ADSL and IPTV services, where it has more than 85% of the market. It trades on a forward P/E of 7.2 at a price to book of 0.85.

The Company has no debt; liabilities are €33 Million in trade payables vs. €71 Million in trade receivables and cash. Its current dividend yield is 10%. Magyar has done a good job defending its position in a very bad market environment and Montenegro Telekom benefits from Magyar's expertise. Management previously told us that the company managed to achieve significant savings by lowering salary costs through layoffs, saving €3.5 Million for the first 6 months, or almost 5% of revenue. This lowering of personnel costs was higher than the drop in revenue – which led to almost 20% higher profitability. This good performance has gone relatively unnoticed by the muted Montenegrin market, and the stock was up only 7.7% on the year when we accumulated this position.

5. <u>Vib Vermoegen AG:</u> VIB Vermögen AG ("VIH") is a German real estate holding company with an interestingly diversified and almost fully occupied portfolio which includes logistics properties, industrial real estate, shopping centers and retail parks, as well as commercial, service and office centers. The majority of its portfolio was obtained through acquisitions. VIH's preferred area of investment is in the economically strong region of Southern Germany, which shows vibrant economic activity that positively affects the property market as well. While VIH trades at a discount, logistics REITS often sell at a premium to book in both Germany and Belgium. Furthermore, its tenants appear financially strong and the rents on its properties are for long periods. It has high leverage due to the Group's fairly aggressive approach toward expanding its property portfolio. On the other hand, the Company's management has been able to increase VIH's net asset value in each of past ten years (except in 2008 when it dropped only 1%).

As at Dec-12, VIH owned 96 properties with a total rentable area of approx. 839,400 square meters (FY11: 87 properties; 661,000 sqm). It had a vacancy rate of 2.2% and its average rental yield for the portfolio rose to 7.5% in FY12, as compared to 7.3% in FY11. The average yields for particular segments in FY12 were: 8.0% for logistics, 7.2% for retail, 7.5% for industrial, and 7.4% for offices/others. The average length of remaining lease contracts was 6 years and 5 months (Dec-12).

Terra bought into this position at about 80% of book value while getting a dividend yield in excess of 4%. VIH has paid out a dividend in every year since 2000 and for the last fiscal year it proposed a €0.40 per share dividend, an increase of 14.3% from €0.35 per share paid for FY11.

6. <u>Ciments Francis</u>: Ciments Francais SA is a French cement company majority owned by Italcementi, the fifth largest cement producer in the world. While the company had significant losses in 2012, the main reasons for the losses were its write off of goodwill in a number of subsidiaries and the write down of PP&E adjusted for foreign currency depreciation in subsidiaries.

Adjusting for goodwill, it not only trades at a much lower Price to Book ratio than any major cement company, but at a significantly strong discount to major cement companies on all major valuation indicators. In addition, it provides an almost 7% dividend yield which is more than covered by operations. The company's cash flow has historically been strong enough to repay debt, pay a dividend, make further investments and yet still retain cash from its operation. Ciments Francais is one of the most conservatively managed companies in terms of liabilities/adjusted equity, with a significant short term cash position, and most of its debt maturing in 2017. While the stock trades, and derives the majority of its revenue, from France, it controls major subsidiaries in Morocco and Egypt.

7. <u>Masraf Al Rayan:</u> This is a Qatari bank providing commercial and investment banking products in accordance with Islamic principles. The bank's return on equity and assets have been much better than the averages for its regional peers for a number of prior years but its net interest margin lagged its peer's average in all analyzed years. The lack of net interest margin is compensated by better costs as the efficiency ratio shows.

Qatar has one of the strongest Macro-economies in the world. Its significant oil and gas surplus led to a 29% current account surplus (as a share of GDP) and it funds one of the world's most ambitious infrastructure and development projects. Non-oil and gas GDP growth is forecast to outstrip oil and gas GDP growth in 2013. While banks in Qatar have underperformed from an ROE and interest rate spread point of view recently (we believe this was due to the government's desire to cool down excess property developments) over the next 10 years Qatar has committed to a massive expansion plan, including significant infrastructure development and the import of possibly one million more workers of all types – this could lead to an increase in the spreads. The market's current focus on short term results in the Qatari market and the relatively robust P/BV has led to a good entry point. The bank is in a market currently in a cyclical trough, but still has managed a very high ROE; the Qatari macroeconomy is strong, there is an obvious need for mass infrastructure spending and the resultant need for higher spreads. Also, the bank should benefit from the general rise of Islamic banking worldwide since Qatar has become one of the world centers of the certification of Islamic financial products, development of Islamic financing techniques and specialists handling large Islamic financial loans.

8. <u>Square Pharmaceutical Ltd:</u> Square is the largest pharmaceutical company in Bangladesh with a 2011 market share of around 19%. We anticipate it will retain a similar market share in its 2012-13 fiscal year, despite recent tepid growth. It trades at a P/E of 15.2 and a P/B of 2 with a low yield of 1.05%. Square currently operates at 56% capacity for tablets and at a reported overcapacity of 125% of capacity for

capsules at its two production plants in Pabna and Gazipur. With 97% of its revenue coming from the local market and the local retail sector growing at 23% in 2010 and 2011, it decided to establish a third manufacturing unit next to its factory in Gazipur. The new unit, begun in late 2010, should allow for an increase in production capacity to ten billion tablets and capsules per year, a 22% increase from its current 8.2bn capacity. The pharmaceutical industry in Bangladesh is expected to grow at around 15.4% annually for the next four years.

The World Bank estimates that between 2008-2012 annual *per capita* pharmaceutical expenditures in Bangladesh were $23 USD per person, among the lowest rates in the world. This is only 11% of that in China ($221 USD per capita) less than half of that in India ($54 USD per capita) and only about 30% of Vietnam. Although the Bangladeshi economy is improving thanks to capital investments in labor intensive industries and large remittance payments, pharmaceutical expenditure *per capita* remains at the levels of the world's worst/poorest states and is lower than Yemen and even Chad and Rwanda.

While we bought at a slightly higher P/E than we generally like to pay, this was still at the low end of its trading range and given the resilience of the stock in the market it appears to be a reasonable ratio. In addition, we are buying shortly before a major increase in capacity comes on line. While the new plant was originally scheduled for completion in 2013, we believe it is likely to be completed in early 2014 so Square's growth will be organic for another year. However, its liabilities are only 18% of the balance sheet and are down 13%, with the company paying off the bulk of creditors this year. The company has the lowest Debt to Equity ratio among its peer group. Seventy percent of Equity comes from retained earnings and with its debt/asset ratio of 0.18, a debt/equity ratio of 0.21 and a cash balance of BDT 1.18bn, the company is in a very solid position to further expand its capacity.

9. <u>Qingling Motors Co. Ltd:</u> Qing Ling is Hong Kong listed Chinese company ("H" Share) that manufactures, distributes and sells Isuzu light trucks, pick-up trucks, medium and heavy trucks under license from Isuzu as well as auto parts, importing many of these parts from Isuzu in Japan. The majority is state-owned but Isuzu is a key shareholder with 20% of its shares and it also provides a significant amount of management expertise and technology transfer as part of its agreement. With about a 2% market share of China's light truck market in 2010 it began to invest in production and distribution of medium and heavy trucks, but its contribution from this segment is still minimal.

Qingling has followed a strategy of having higher prices combined with higher quality and in return it has been punished by the market with the lowest P/BV in the industry, and in addition, displays a much lower ROE – partially explained by a lack of any leverage – but a lower ROA as well. However, despite this, the revenue and profit growth in the company has been steady, and the company has come from having a negligible market share in 2008 to having about 3% of the overall market for light trucks, making it the 7th largest manufacturer, and a dominant manufacturer in the niche of high-end light trucks. The largest players all focus on much cheaper commercial vehicles.

The company is trading at only a slight premium to cash, implying a limited downside. A major concern is the low ROE and ROA, which is the cost of Qingling's "go slowly" strategy; however the strategy seems to be: "Go slowly, build up the brand, ramp up capacity only as new orders come in, use the cash sparingly and hold it on the balance

sheet for the right moment". Sales have grown significantly over the years, as well as market share. In 2008, Qing Ling was not considered one of the top ten commercial vehicle manufacturers, but is now the 9th largest manufacturer.

Terra Capital Fund Cayman

Summary of positions as of May 14, 2013

Security	Percent of Assets
Ste de la Tour Eiffel	3.49
Equity Bank Ltd	2.77
Eurobank Properties	2.56
EGIS RT	2.32
Prime Office	2.21
Oman Cement	2.21
Portucell	2.10
Hrvatski Telekom DD	2.04
IRSA Inversiones y represent.	2.03
Al Khaliji Bank	2.00
JSC ACRON S GDR	1.99
U-Blox AG	1.83
Ardent Leisure Group	1.81
Bank of Georgia Holdings Plc	1.80
Crnogorski Telekom a.d.	1.79
Housing Finance Kenya	1.74
Any Security Printing Co.Plc	1.73
Komercijalna Banka AD	1.69
Oman Refreshment	1.55
Ciments Francais	1.51
Vib Vermoegen O.N	1.50
Masraf Al Ratan	1.50
Silvano Fashion Group AS	1.42
Imexpharm Pharmaceutical JSC.	1.27
Brac Bank Ltd	1.25
Square Pharma	1.20
Hung Vuong Corporation	1.16
Qingling Motors	1.09
KHGM Polska Miedz	0.91
Being Acquired	0.69
Being Acquired	0.16
Being Acquired	0.18
TOTAL INVESTED PORTFOLIO	**53.50%**