



report & accounts

2010



The Charities Property Fund

Investment Objectives

The aim of The Charities Property Fund (the “Fund”) is to provide a high and secure level of income with the prospect of growth in income and to maintain the capital value of the assets held in the Fund, through investing in a diversified UK commercial property portfolio. The Fund invests in the three principal commercial property sectors: office, retail and industrial. It does not undertake speculative developments.

The Manager does not intend to hold more than 10% by value of the Fund in cash or Near Cash (as defined in FSA Handbook of Rules and Guidance).

Strategy

The Fund’s strategy is to acquire a diversified portfolio of institutional quality investments. Traditionally the Fund has focused on the retail warehouse, supermarket, office and industrial markets. The Fund has avoided high street retail due to the low yield available. The Fund aims to achieve a return of 8% per annum delivered through 6% per annum in income and 2% per annum in capital growth.

The Fund does not use strategic gearing (i.e. it does not enter into long term borrowing) although it does have the use of a short term bridging facility to enable it to manage the investment or disinvestment of cashflows associated with the application and redemption process.

Benefits anticipated in The Charities Property Fund may be affected by changes in UK tax legislation. Past performance is not necessarily a guide to future performance. The price of units, and the income generated from them is not guaranteed and can go down as well as up and investors may not get back the amount they have invested. Investing in property can be difficult to realise. The value of property is generally a matter of a valuer’s opinion rather than fact.



The Charities Property Fund

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It has been a very good 12 months for the commercial property investment market and for the Fund, both recording returns close to 20%. Historically low bank interest rates continue to drive investor demand for property, although it is unlikely that the strong growth of the last 12 months will be sustained at these levels. Occupational markets remain fragile and we will need to see a recovery in these markets before we can expect further increases in capital values, which is likely to take some time. In the meantime, the focus should be on income.

Fund Performance

The total return for the Fund during the 12 months to June 2010 was +19.1%, of which 7.6% was from income (Source: Investment Property Databank (IPD) UK Pooled Property All Balanced Funds Index). This compares to the Fund's target annual return of 8.0% (6.0% income and 2.0% capital growth on a rolling basis). The IPD UK Pooled Property All Balanced Funds Index produced +18.9% total return over the same period.

The Fund has grown in size by 64.7% during the past 12 months from £208.0 million in June 2009 to £342.8 million in June 2010. This was made up of £109.7 million (52.7%) of net cash inflow and £25.1 million (12.0%) of realised and unrealised gains. It is impressive

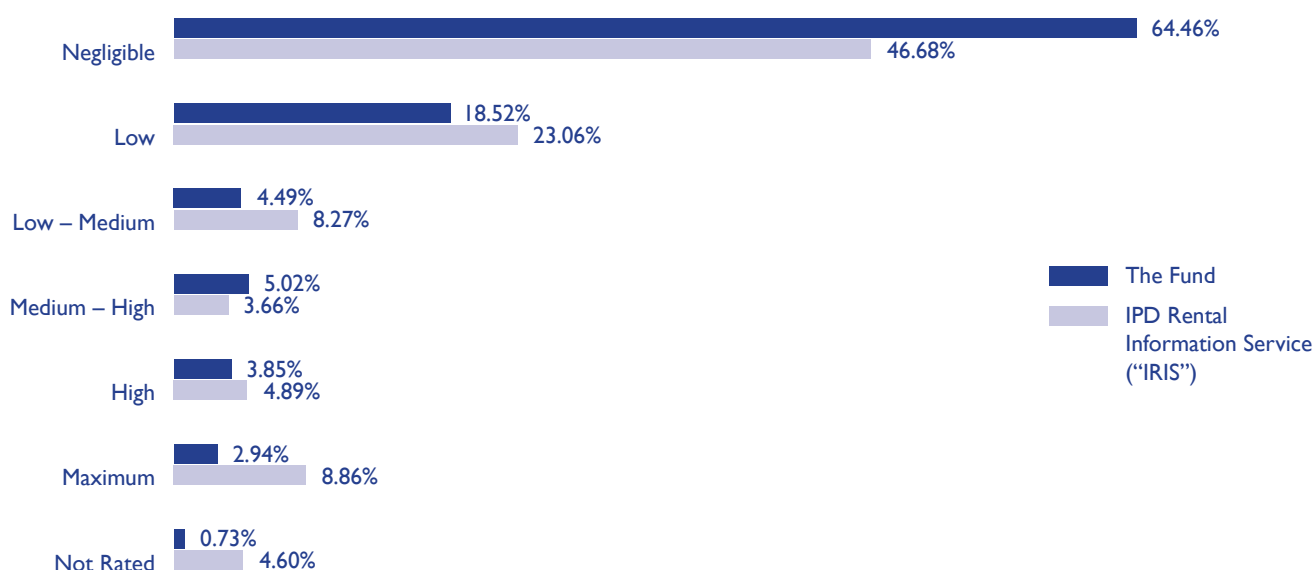
that whilst the Fund has grown by 64.7% and investments have been made, with all the associated transaction costs, the Fund has outperformed not only its benchmark, but also its peer group.

Income Security

The security of income in the Fund is supported by tenants with above average financial profiles, with 83% of the rent received from tenants rated "Public Sector/Negligible or Low Risk" by Experian, compared to 69% for the universe of portfolios measured by IPD. The Fund also has an extremely low void level at 4.1% (compared to the IPD average of 10.1%). The weighted average unexpired lease term is 9.8 years.

Tenant Credit Risk Profile

Percentage of Annual Rent, June 2010



The Fund has purchased 13 separate properties in six different transactions over the past 12 months, investing £100 million. Considering the gloomy economic outlook, these properties were generally of high quality, let to very good covenants (92% secured on “Public Sector/Negligible or Low Risk” covenants as rated by Experian), on long leases (average unexpired term of 14.7 years) with extremely low voids (0% compared to the IPD average of 10.1%). The average income yield was 6.75% and importantly almost 40% of the income benefits from future index linked increases in line with the retail price index.

The purchases included:

- a retail warehouse in Redditch let to B&Q for 18 years at a low rent of £12.60 per sq ft – acquired for £16.31 million, a yield of 7.9%.
- the Civil Court building in Chester, let to The Secretary of State for Communities and Local Government until April 2026, for £6.0 million, a yield of 7.2%.
- a mixed use office (70%) and retail (30%) property in the centre of Bath, let to a variety of different tenants, for £6.85 million, a yield of 8.4%.
- the in-specie transfer of the Paul Hamlyn Portfolio comprising eight properties in total – three retail (46%), three offices (40%) and two industrial (14%) for £13.12 million, a yield of 9.0%.
- Apex Retail Park in Twickenham, let to Curry’s and Wickes on leases expiring in December 2019, for £14.4 million, a yield of 6.4%.
- A recently constructed superstore in Mansfield, let to Tesco on a lease expiring in March 2030 with annual fixed uplifts in line with the retail price index, for £43.0 million, a yield of 5.3%.

The Fund made one part-sale, being a piece of land at an industrial estate in Uckfield. Planning permission was obtained for eight houses on a strip of landscaping and the site was sold to a local developer for £400,000.

Redemptions and Applications

At the date of this report there are no outstanding redemptions.

The Fund is currently holding £11.8 million of cash plus £13.6 million from new subscriptions as at 30 June 2010.

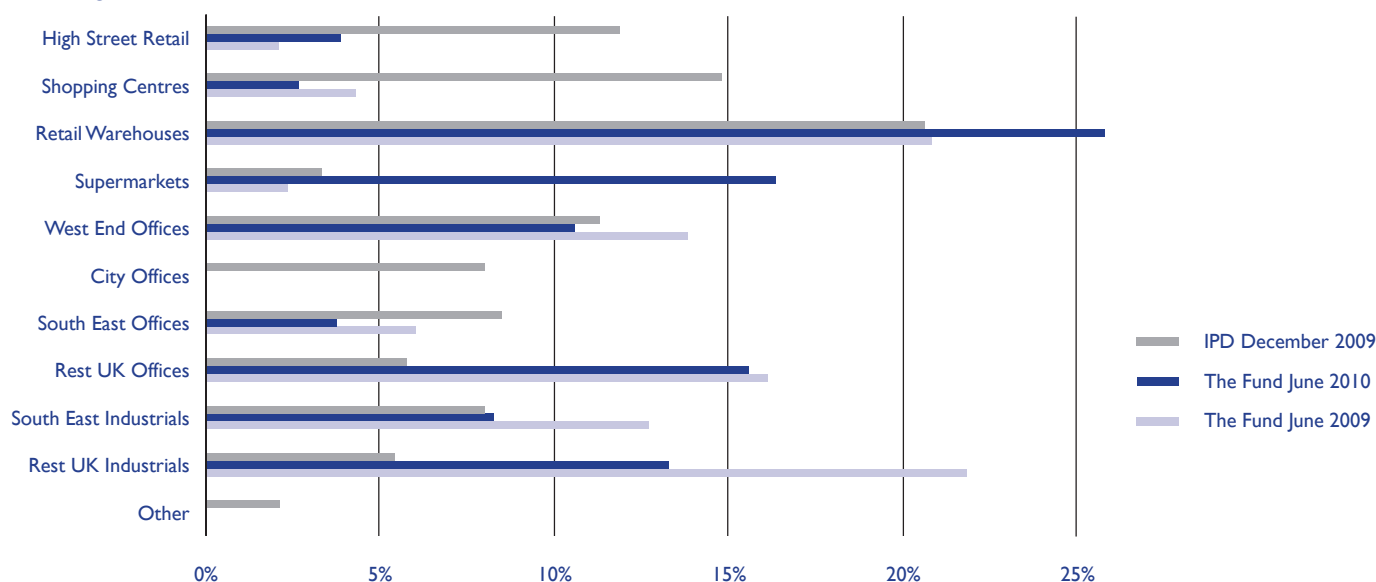
In the past 12 months the Fund received total applications for 129.2 million units in the Fund and redemptions of 10.7 million units, a net addition of 118.5 million units.

Sector Weightings

The portfolio continues to have a bias to supermarkets, retail warehousing, regional offices and the industrial/distribution sectors. It is underweight to high street retail and the City of London office market.

The Fund structure as at June 2010 is compared to the position at June 2009 and the industry average as shown by the IPD Annual Index.

Sector Weightings Percentage of Fund



The Fund will aim to achieve an above average income return through keeping voids and void costs (such as empty rates, service charge and insurance) to a minimum (currently 4.1% compared to the IPD average of 10.1%) and driving income growth through rent reviews and new lettings. Importantly, approximately 15% of income now benefits from rental uplifts linked to RPI or CPI, guaranteeing income growth over the next few years whilst occupier markets are difficult.

In addition to this, we believe our sector weightings also deliver a small benefit through maintaining a higher weighting to the retail warehouse and industrial sectors and lower weightings to the high street. We continue to look for interesting opportunities to add value with a bias towards the retail warehouse and industrial/distribution markets in strong centres, and where properties are well let.

The Fund team retain their focus on intensive asset management and will continue to look to improve security and enhance capital growth through refurbishment, lease surrenders and lease re-gears. Over the last 12 months there have been a number of successes, including:

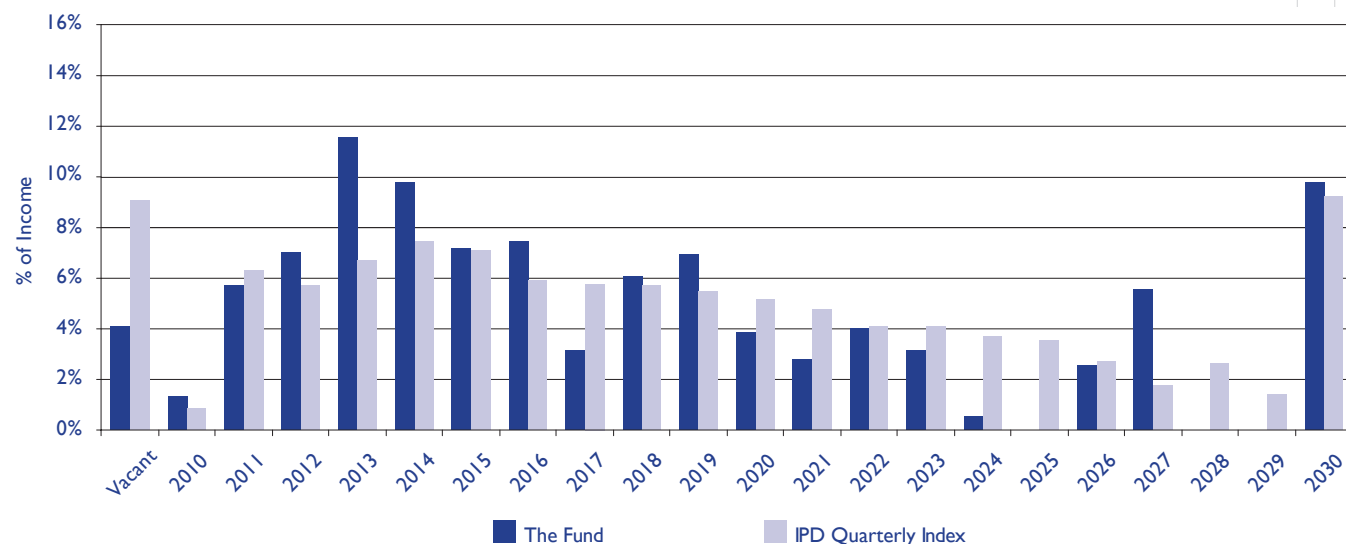
1. Staines: This property formed part of the Paul Hamlyn portfolio and was let to Lloyds Banking Group on a lease expiring in June 2011. The lease has now been extended until June 2025.
2. Dean Farrar Street: Approximately half of this building was let to the Metropolitan Police Authority on three leases expiring in February 2011. These have now all been extended until January 2020, with tenant break options in January 2015.
3. Rayleigh: This property was let to Somerfield Stores Limited on a lease expiring in August 2013. The rent has now been increased from £332,000 per annum to £417,500 per annum (+26%) and the lease expiry date extended until January 2025.

Lease Expiry Profile

The average time to lease expiry is 9.8 years, weighted by income, or 8.6 years when all tenant break options are included.

Fund Lease expiry profile June 2010

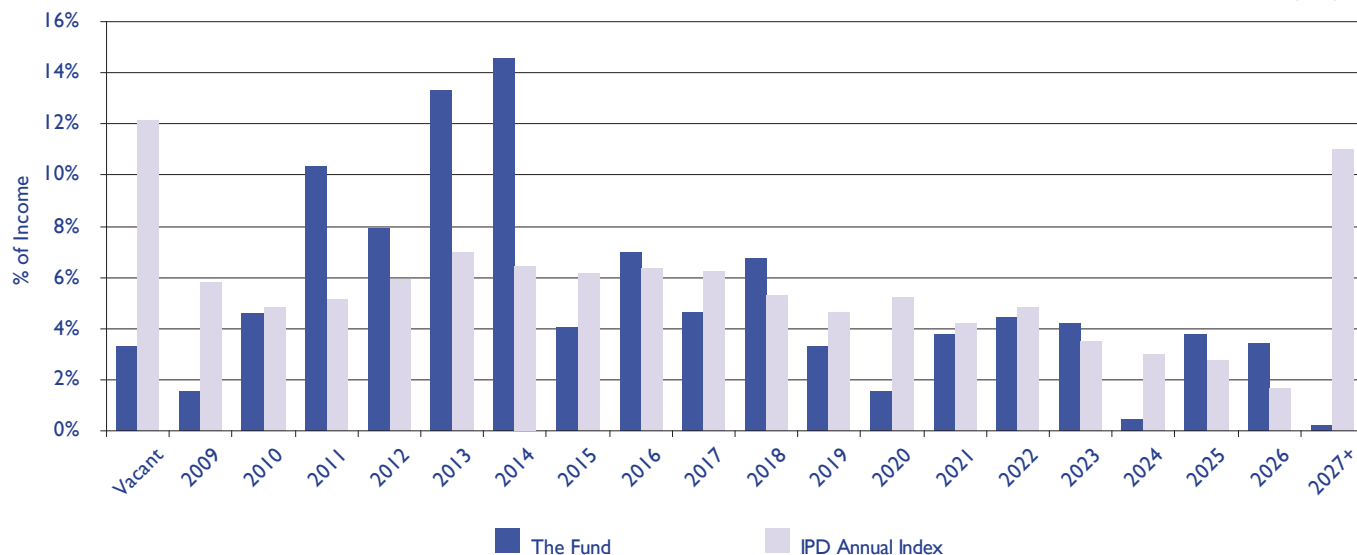
(to earliest date - including all breaks)



We have significantly improved the income profile over the last 12 months through a number of successful active management initiatives and selective new purchases.

Fund Lease expiry profile June 2009

(to earliest date - including all breaks)



Map of Properties

Retail

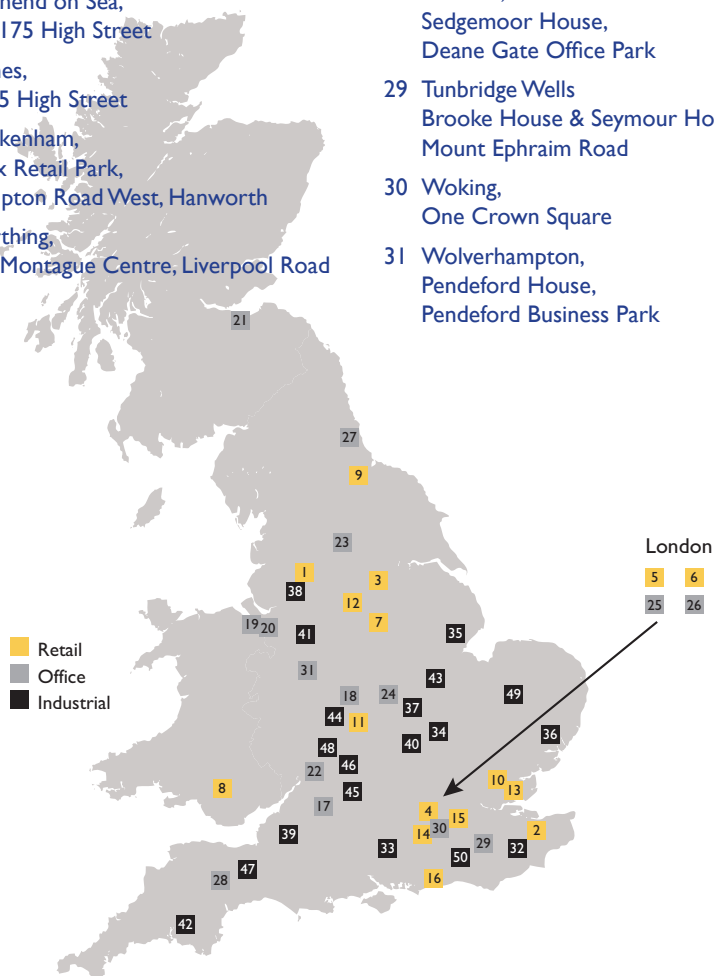
- 1 Bury
Moorgate Retail Park
- 2 Canterbury
Units 1 & 2 Wincheap
- 3 Doncaster
Wickes Unit, Leger Way
- 4 Guildford
Magnet Unit, Ladymead
- 5 London, SE15
593-613 Old Kent Road
- 6 London, N1
54/55 Chapel Market, Islington
- 7 Mansfield,
Tesco Extra Store
- 8 Methyr Tydl
Pentrebach Retail Park
- 9 Middlesbrough
Focus DIY, Parkway Centre,
Coulby Newham
- 10 Rayleigh
Co-op, 12-24 Eastwood Road
- 11 Redditch,
B&Q, Tunnel Drive
- 12 Sheffield, Units 1-7,
Cambridge St, Barkers Pool
- 13 Southend on Sea,
169/175 High Street
- 14 Staines,
73/75 High Street
- 15 Twickenham,
Apex Retail Park,
Hampton Road West, Hanworth
- 16 Worthing,
The Montague Centre, Liverpool Road

Office

- 17 Bath,
Westpoint, James Street
- 18 Birmingham,
The Pavillions, 3010/3020,
The Crescent
- 19 Chester,
Chester Civil Justice Centre,
Trident House
- 20 Chester,
Elder House, Sealand Road
- 21 Edinburgh
The Tun, Holyrood
- 22 Gloucester
Axsia House, Waterwells Business Park
- 23 Leeds
Jubilee House, Mid Point Business Park
- 24 Leicester
Unit 2, Bede Island Business Park
- 25 London, SW1
10 Dean Farrar Street
- 26 London, WC2
Denning House, 90 Chancery Lane
- 27 Sunderland
Barclays PLC, Phase IV,
Doxford International Business Park
- 28 Taunton,
Sedgemoor House,
Deane Gate Office Park
- 29 Tunbridge Wells
Brooke House & Seymour House,
Mount Ephraim Road
- 30 Woking,
One Crown Square
- 31 Wolverhampton,
Pendeford House,
Pendeford Business Park

Industrial

- 32 Ashford
Units A-D, Phase IV,
Ashford Business Park
- 33 Basingstoke
Bayard (Unit B)
Knights Park Houndsmills
- 34 Biggleswade
Smiths Metal Centres,
Stratton Business Park
- 35 Boston
Havenside, Fishtoft Road
- 36 Ipswich
Medite Unit,
Orion Business Park
- 37 Kettering
Bunzl Unit,
Telford Way Industrial Estate
- 38 Manchester
Units A & B,
Wardley Cross Industrial Estate
- 39 Midsomer Norton, Bath
Westfield Industrial Estate
- 40 Milton Keynes
Dawson Road,
Mount Farm Industrial Estate
- 41 Newcastle-under-Lyme
Unit 1, Rosevale Business Park
- 42 Plymouth
Unit 2, Westernwood Way,
Langage Business Park
- 43 Peterborough,
Orton Southgate
- 44 Redditch
Alto House, Ravensbank
- 45 Swindon
Jewson Unit, Kembrey
Street, Kembrey Park
- 46 Swindon
Edison House, Dorcan Industrial Estate
- 47 Taunton,
Site N, Crown Industrial Estate
- 48 Tewkesbury
Alexandra Way, Ashchurch Business Park
- 49 Thetford,
TNT Unit, Fison Way Industrial Estate,
Thetford
- 50 Uckfield,
Units 1-20, Ridgewood Industrial Park



List of Properties – Retail

| Property | Principal Tenants | Annual Rent As at 30 June 2010 £ | Expiry (Breaks) |
|----------------------------|---|--|--|
| Bury | Carpentright, Halfords, Comet, KFC | 563,066 | 2021 |
| Canterbury | Dunelm, Carpentright | 521,000 | 2026 |
| Doncaster | Wickes | 287,000 | 2018 |
| Guildford | Magnet | 600,000 | 2014 |
| London, N1 | First Sport, Superdrug Stores Limited | 194,000 | 2011 |
| London, SE15 | Magnet | 305,000 | 2011 |
| Mansfield | Tesco | 2,278,820 | 2030 |
| Merthyr Tydfil | Halfords, B&Q, Comet, PC World, Dreams | 856,377 | 2015 to 2022 |
| Middlesbrough | Focus DIY | 239,180 | 2023 |
| Rayleigh | Somerfield | 417,500 | 2025 (2020) |
| Redditch (Tunnel Drive) | B&Q | 1,294,020 | 2027 |
| Sheffield | AF Blakemore, JD Wetherspoon, ASK | 274,000 | 2014 to 2024 (2019) |
| Southend on Sea | The Works, Early Learning Centre | 199,000 | 2011 to 2012 |
| Staines | Lloyds | 159,000 | 2025 (2022) |
| Twickenham | DSG Retail, Wickes | 931,500 | 2019 |
| Worthing | Laura Ashley, Game, Internationale, Select (Retail), Clinton Cards, The Works, European Vision Ltd, Standard Life | 715,900 | 2010 to 2017, 2088 (2010 - 2015) |



List of Properties – Office

| Property | Principal Tenants | Annual Rent As at 30 June 2010 £ | Expiry (Breaks) |
|-----------------------------------|---|--|-------------------------------|
| Bath | Able & Imray, Bath News and Media, London and Country Mortgages, Coral Racing, Benson Beds, Co-op | 582,207 | 2017 to 2024 (2012 - 2015) |
| Birmingham | Spring Group, Arval UK Group | 714,000 | 2014 - 2019 |
| Chester (Civil Justice Centre) | The Secretary of State for Communities and Local Government | 437,615 | 2026 (2016) |
| Chester (Elder House) | Crest Nicholson | 108,000 | 2020 |
| Edinburgh | BBC, Scottish Enterprise, Secretary of State, British Council, European Parliament, General Medical Council, TCG, Covefield, Bunnyfoot | 800,353 | 2011 - 2026 (2011 - 2016) |
| Gloucester | Signet Armorlite Europe | 283,500 | 2018 |
| Leeds | Car Care Plan | 251,100 | 2017 (2012) |
| Leicester | Ericsson | 275,000 | 2023 (2013) |
| London SW1 | Metropolitan Police Authority, CMG UK, Bircham Dyson Bell, Q Med UK | 1,043,965 | 2011 to 2020 (2012 - 2015) |
| London WC2 | BNP Paribas Real Estate | 1,352,500 | 2013 |
| Sunderland | Barclays Bank | 702,000 | 2013 |
| Taunton (Sedgemoor House) | Lloyds | 242,000 | 2015 |
| Tunbridge Wells | Cripps Harries Hall | 340,000 | 2014 (2013) |
| Woking | RBS, Petrofac Engineering, Proctor & Gamble, RJ Rowlands, Frontera, New Start, PLP, Wadham & Isherwood, Courtney Westlake, Vipre UK, JS2, Clarity, Lascom Communications, Fresch Coffee, UPCO Limited, Managed Support Services | 493,345 | 2010 - 2021 (2010 - 2014) |
| Wolverhampton | Carillion Capital Projects | 131,000 | 2015 |



List of Properties – Industrial

| Property | Principal Tenants | Annual Rent £ | Expiry (Breaks) |
|--------------------------------------|--|------------------|------------------------------|
| Ashford | Sauflon Pharmaceuticals, Dentalsky, Hickson International | 335,506 | 2010 - 2014 |
| Basingstoke | Debenhams | 317,000 | 2017 |
| Biggleswade | Smiths Metal Centres | 397,000 | 2018 |
| Boston | Fogarty | 350,000 | 2035 |
| Ipswich | Mediterranean Shipping | 409,000 | 2017 (2012) |
| Kettering | Bunzl | 490,320 | 2014 |
| Manchester | Royal Mail, Wilkinson Star | 318,250 | 2017 - 2018 |
| Midsomer Norton | Communis | 475,730 | 2023 (2011) |
| Milton Keynes | TNT Logistics | 435,085 | 2016 |
| Newcastle-under-Lyme | John Menzies | 502,500 | 2015 |
| Peterborough | Schmidt UK | 531,835 | 2022 |
| Plymouth | Geocel | 235,000 | 2017 |
| Redditch (Alto House) | Sapa Profiles UK | 250,000 | 2020 (2013) |
| Swindon (Kembrey Park) | Jewson | 146,500 | 2023 |
| Swindon (Edison House) | Vacant | n/a | n/a |
| Taunton (Crown Industrial Estate) | Wickes | 87,500 | 2016 |
| Tewkesbury | Oberthur Card Systems | 265,000 | 2020 |
| Thetford | TNT | 74,500 | 2020 |
| Uckfield | Challenge Packaging, Alexir Contract Packaging, Absolute Self Storage, K2 Race Engineering, Paperfile, Naval & Military Press, Ixia, Moor Spa, | 382,108 | 2010 - 2017 (2010 - 2012) |



Portfolio Statement

Year Ended 30 June 2010

Portfolio of Investments

Properties valued at greater than £15.1m

Tesco, Chesterfield South Road, Mansfield

B&Q Unit, Tunnel Drive, Redditch

Denning House, 90 Chancery Lane, London

10 Dean Farrar Street, London

Total

Market valuation
£000

Percentage of
total net assets

97,530

28.45%

Properties valued from £10.1m to £15m

Apex Retail Park, Hampton Road West, Twickenham

Pentrebach Retail Park, Merthyr Tydfil

The Tun, Holyrood, Edinburgh

Total

36,700

10.71%

Properties valued from £5.1m to £10m

Moorgate Retail Park, Bury

The Montague Centre, Liverpool Road, Worthing

Magnet Unit, Ladymead, Guildford

One Crown Square, Woking

Units 1 & 2, Wincheap, Canterbury

The Pavilions, The Crescent, Birmingham

Westpoint, James Street West, Bath

12-24 Eastwood Road, Rayleigh

Chester Civil Justice Centre, Trident House, Little St John Street, Chester

Building A, Phase IV, Doxford International Business Park, Sunderland

HEC plc, Southgate Way, Orton Southgate, Peterborough

Unit 1, Rosevale Business Park, Newcastle-Under-Lyme

Units 1, 4 & 5, Westfield Trading Estate, Midsomer Norton

Ridgewood Industrial Park, Uckfield

Total

94,500

27.57%

Properties valued from £2.6m to £5m

Fogarty Ltd, Havenside, Fishtoft Road, Boston

Dawson Road, Mount Farm Industrial Estate, Milton Keynes

Bunzl Unit, Telford Point, Telford Way Industrial Estate, Kettering

Smiths Metal Centres, Stratton Business Park, Biggleswade

Portfolio Statement

| | Market valuation £000 | Percentage of total net assets |
|--|--------------------------|-----------------------------------|
| Wickes Unit, Leger Way, Doncaster | | |
| 593-613 Old Kent Road, London | | |
| Units 1-7 Cambridge Street, Barkers Pool, Sheffield | | |
| Unit B, Bayard, Knight's Park, Houndmills, Basingstoke | | |
| Brooke House & Seymour House, 3/13 Mount Ephraim Road, Tunbridge Wells | | |
| Units A & B, Wardley Cross Industrial Estate, Manchester | | |
| Units A, B, C & D, Phase IV, Ashford Business Park, Ashford | | |
| Medite Unit, Orion Business Park, Ipswich | | |
| Alexandra Way, Ashchurch Business Centre, Tewkesbury | | |
| SA Europe House, Waterwells Business Park, Gloucester | | |
| 54/55 Chapel Market, Islington, London | | |
| Focus DIY Unit, Parkway Centre, Coulby Newham, Middlesbrough | | |
| Sedgemoor House, Deane Gate Office Park, Taunton | | |
| Total | 62,875 | 18.34% |
| Properties valued from £0m to £2.5m | | |
| 73-75 High Street, Staines | | |
| Unit 2, Western Wood Way, Langage Business Park, Plymouth | | |
| Unit 2, Bede Island North, Western Boulevard, Leicester | | |
| Alto House, Ravensbank Drive, Redditch | | |
| 169-175 High Street, Southend on Sea | | |
| Jewson Unit, Kembrey Street, Kembrey Park, Swindon | | |
| Jubilee House, Mid Point Business Park, Leeds | | |
| Edison House, Dorcan Industrial Estate, Swindon | | |
| Pendeford House, Pendeford Business Park, Wolverhampton | | |
| Elder House, Sealand Road, Chester | | |
| Site N, Crown Industrial Estate, Taunton | | |
| TNT Unit, Fisons Way Industrial Estate, Thetford | | |
| Total | 21,705 | 6.33% |
| Total value of direct properties | 313,310 | 91.40% |
| Indirect Holdings | | |
| Invista Property Portfolio Fund* | 1,730 | 0.50% |
| Total value of indirect holdings | 1,730 | 0.50% |
| Portfolio of investments | 315,040 | 91.90% |
| Net other assets | 27,773 | 8.10% |
| Net assets attributable to unitholders | 342,813 | 100.00% |

* The Invista Property Portfolio Fund suspended dealing in December 2007.

Expense Ratios

| | Total Expense Ratio | Property Expense Ratio | Transaction Cost Ratio |
|--------------|---------------------|------------------------|------------------------|
| 30 June 2009 | 0.70% | 0.27% | 0.07% |
| 30 June 2010 | 0.62% | 0.50% | 0.46% |

The total expense ratio (TER) of the fund is the ratio of the fund's total operating costs to its average net assets for 12 months. The property expense ratio (PER) includes those costs associated with the assets which are not recoverable from tenants. Operating costs are specifically those costs associated with operating the fund itself and do not include additional costs associated with the day to day maintenance of the assets. The transaction cost ratio of the fund is the ratio of all professional fees and other costs associated with the purchase and sale of property to the Fund's average net assets for 12 months.

Portfolio Turnover Rate

| Year to | Portfolio Turnover Rate |
|--------------|-------------------------|
| 30 June 2009 | -11.0% |
| 30 June 2010 | -10.4% |

The portfolio turnover rate gives an indication of how frequently assets are purchased and sold by the Fund relative to investors purchasing and selling units in the Fund.

Distribution Yield

| | Distribution Yield |
|--------------|--------------------|
| 30 June 2009 | 9.9% |
| 30 June 2010 | 6.9% |

The distribution yield represents the total distribution per unit over the previous 12 months as a percentage of the net asset value per unit as at the end of the period.

Annualised Performance

| Periods to | 1 Year | 3 Years | 5 Years |
|--------------|--------|---------|---------|
| 30 June 2009 | -20.8% | -8.8% | 0.2% |
| 30 June 2010 | 19.1% | -7.2% | 1.3% |

| Holding | Number of beneficial owners | Total percentage holding |
|--|-----------------------------|--------------------------|
| Less than 0.01% | 534 | 4.12% |
| 0.01% but less than 0.05% | 286 | 7.62% |
| 0.05% but less than 0.10% | 133 | 8.67% |
| 0.10% but less than 0.50% | 150 | 28.74% |
| 0.50% but less than 1.00% | 26 | 18.09% |
| 1.00% but less than 2.00% | 9 | 11.98% |
| 2.00% but less than 4.00% | 2 | 5.17% |
| Greater than 4.00% | 3 | 15.61% |
| Total Number of Units in issue at the end of the period | | 362,812,435 |
| Percentage held by largest investor | | 5.90% |

Fund History

| Net Asset Value/Fund Size | Date | Net Asset Value £ | Units in Issue | Net Asset Value pence per unit |
|---------------------------|--------------|----------------------|----------------|-----------------------------------|
| | 30 June 2005 | 277,394,145 | 225,906,639 | 122.79 |
| | 30 June 2006 | 347,779,165 | 254,270,464 | 136.78 |
| | 30 June 2007 | 375,386,412 | 256,253,001 | 146.49 |
| | 30 June 2008 | 275,025,113 | 234,655,340 | 117.20 |
| | 30 June 2009 | 208,048,945 | 244,353,156 | 85.14 |
| | 30 June 2010 | 342,812,795 | 362,812,435 | 94.45 |

| Price And Income History | Year Ended | Highest Purchase Price (p) | Lowest Sale Price (p) | Net Income Per Unit (p) |
|--------------------------|--------------|-------------------------------|--------------------------|----------------------------|
| | 30 June 2005 | 124.84 | 114.74 | 7.21 |
| | 30 June 2006 | 139.03 | 122.87 | 7.43 |
| | 30 June 2007 | 149.15 | 137.62 | 7.43 |
| | 30 June 2008 | 143.31 | 115.45 | 7.53 |
| | 30 June 2009 | 112.81 | 83.75 | 8.37 |
| | 30 June 2010 | 95.99 | 84.55 | 6.48 |

Distributions

| | | 2009/2010 | | 2008/2009 | |
|---------------------|---------------------------|---------------------------|-----------|---------------------------|-----------|
| Distribution Number | Distribution period | Distribution per unit (p) | Date Paid | Distribution per unit (p) | Date Paid |
| 1 | 01 July to 30 September | 1.65 | 15/11/09 | 2.01 | 15/11/08 |
| 2 | 01 October to 31 December | 1.56 | 15/02/10 | 2.30 | 13/02/09 |
| 3 | 01 January to 31 March | 1.41 | 14/05/10 | 2.05 | 15/05/09 |
| 4 | 01 April to 30 June | 1.46 | 13/08/10 | 1.86 | 14/08/09 |
| Total | | 6.08 | | 8.22 | |

Statement of the Manager's Responsibilities in respect of the financial statements

The Manager

The Charities (Accounts & Reports) Regulations 2008 (the "Regulations") require the Manager to prepare financial statements for each accounting period which give a true and fair view of the financial affairs of the Fund and of its income and expenditure for the period. In preparing the financial statements the Manager is required to:

- select suitable accounting policies and apply them consistently;
- follow generally accepted accounting principles and applicable accounting standards;
- keep proper accounting records which enable it to demonstrate that the financial statements as prepared comply with the above requirements;
- make judgements and estimates that are reasonable and prudent.
- prepare financial statements on a going concern basis unless it is inappropriate to presume that the Fund will continue in business.

The Manager is also responsible for:

- managing the investments of the Fund;
- obtaining regular independent valuations of the Fund's property and ensuring that units issued and cancelled by the Fund are correctly priced based on those valuations;
- instructing the Corporate Trustee regarding the creation and cancellation of units in the Fund;
- maintaining a quarterly position record of the units the Manager has either purchased or sold on behalf of the Corporate Trustee;
- appointing the auditors of the Fund.

The Manager is responsible for the management of the Fund in accordance with the Charities Act 1993 and the Scheme, Scheme Particulars and the Regulations. Additional duties and powers of the Manager not reported above are contained in the Scheme and the Scheme Particulars.

The Manager is also responsible for the maintenance and integrity of the corporate and financial information included on the Fund's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Statement of the Corporate Trustee's Responsibilities in respect of the financial statements and Corporate Trustee's Report

The Corporate Trustee

The Corporate Trustee is responsible for the custody and control of the property of the Fund and the collection of all income due to the Fund. The Corporate Trustee is responsible for the creation and cancellation of units in the Fund in accordance with the instructions of the Manager. The Corporate Trustee also has the duty of supervision and oversight of the Manager's compliance with the Scheme and the Scheme Particulars. In particular, the Corporate Trustee must be satisfied on a continuing basis that the Manager is not exceeding the powers conferred on the Manager by the Scheme and that the Manager is maintaining adequate and proper records.

The Corporate Trustee is also responsible for making an annual report on the discharge of its responsibilities for the management of the Fund. The Corporate Trustee has delegated its duty as registrar for the Fund to Capita Financial Administrators Limited. The Corporate Trustee has conducted reviews of the delegated registration function to satisfy itself that the register is accurate. Any additional duties and powers of the Corporate Trustee not listed above are contained in the Scheme and Scheme Particulars.

Under the Regulations relating to reports it is the duty of the Corporate Trustee to enquire into the conduct of the Manager in the management of the Scheme in each annual accounting period and report thereon to unitholders. A copy of the Corporate Trustee's report is included below.

Report of the Corporate Trustee to the Unitholders of The Charities Property Fund for the Year to 30 June 2010.

The responsibilities of the Manager are stated on page 15 of this report.

In fulfilling our responsibilities, Citibank International Plc, as Corporate Trustee of the Fund, confirm that having made due enquiries of the Manager and having carried out such checks as we considered necessary to discharge our responsibilities, it is our opinion that the Manager has managed the Fund, in all material respects:

- a) in accordance with the limitations imposed on the investment and borrowing powers of the Manager and Corporate Trustee by the Scheme and the Scheme Particulars; and
- b) otherwise in accordance with the provisions of the Scheme and the Scheme Particulars.

Citibank International Plc
London
15 September 2010

Independent Auditor's Report to the Unitholders of The Charities Property Fund ('the Fund')

We have audited the financial statements of the Fund for the year ended 30 June 2010 which comprise the Statement of Total Return, the Statement of Change in Net Assets Attributable to Unitholders and the Balance Sheet together with the related notes and the Distribution Table. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the Fund's unitholders, as a body, in accordance with the Scheme and Scheme Particulars, section 43 of the Charities Act 1993 and regulations made under section 44 of that Act and paragraph 6(2) of the Charities (Accounts & Reports) Regulations 2008 made under Part VI of the Charities Act 1993. Our audit work has been undertaken so that we might state to the Fund's unitholders those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Fund and its unitholders as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Manager and auditor

The Manager's responsibility for preparing the Manager's Report and the Fund's financial statements in accordance with the Scheme and Scheme Particulars, applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the Statement of Manager's Responsibilities on page 15.

Our responsibility is to audit the financial statements in accordance with the Scheme and Scheme Particulars, relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). We have been appointed as auditor under Section 43 of the Charities Act 1993 and in accordance with regulations made under Section 44 of that Act.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Scheme and Scheme Particulars, the Charities Act 1993 and regulation 6 of the Charities (Accounts & Reports) Regulations 2008 and the Statement of Recommended Practice relating to authorised funds.

In addition we report to you if, in our opinion, proper accounting records for the Fund have not been kept or if the financial statements are not in agreement with those records.

We read the other information contained in the Manager's Report and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the Manager in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Fund's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements:

- give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the financial position of the Fund as at 30 June 2010 and of the net revenue and the net capital gains on the property of the Fund for the year then ended;
- have been properly prepared in accordance with the Scheme and Scheme Particulars, the Charities Act 1993 and regulation 6 of the Charities (Accounts & Reports) Regulations 2008 and the Statement of Recommended Practice relating to authorised funds; and
- are consistent with the information given in the Manager's Report.

We have received all the information and explanations which we consider necessary for the purposes of the audit.

Karen T Orr (Senior Statutory Auditor)

For and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants

Leeds

15 September 2010

Statements of Total Return and Change in Net Assets Attributable to Unitholders

Year Ended 30 June 2010

| | | 30 June 2010 | 30 June 2009 |
|---|------|--------------|--------------|
| | Note | £ | £ |
| Net capital gains/(losses) | 3 | 25,213,324 | (73,540,684) |
| Revenue | 4 | 21,014,778 | 20,956,338 |
| Expenses | 5 | (3,065,460) | (2,166,291) |
| Net revenue before finance costs | | 17,949,318 | 18,790,047 |
| Finance costs – borrowings and interest | 6 | (218,291) | (575) |
| Net revenue | | 17,731,027 | 18,789,472 |
| Total return before distributions | | 42,944,351 | (54,751,212) |
| Finance costs – distributions | 7 | (17,884,459) | (18,782,355) |
| Change in net assets attributable to unitholders' from investment activities | | 25,059,892 | (73,533,567) |
| Statement of change in net assets attributable to unitholders | | | |
| Opening net assets attributable to unitholders | | 208,048,945 | 275,025,113 |
| Amounts receivable on creation of units | | 109,703,958 | 15,976,675 |
| Amounts payable on cancellation of units | | - | (9,419,276) |
| Change in net assets attributable to unitholders from investing activities | | 25,059,892 | (73,533,567) |
| Closing net assets attributable to unitholders | | 342,812,795 | 208,048,945 |

Balance Sheet

As at 30 June 2010

| | | 30 June 2010 | 30 June 2009 |
|---|------|--------------------|--------------------|
| | Note | £ | £ |
| Investments assets | | 315,039,527 | 189,041,756 |
| Net current assets | | | |
| Debtors | 8 | 22,097,887 | 16,331,678 |
| Cash and Bank balances | | 11,780,500 | 10,297,073 |
| | | <u>33,878,387</u> | <u>26,628,751</u> |
| Less: current liabilities | | | |
| Creditors | 9 | 1,014,855 | 3,421,174 |
| Distribution payable | | 5,090,264 | 4,200,388 |
| | | <u>6,105,119</u> | <u>7,621,562</u> |
| Net current assets | | <u>27,773,268</u> | <u>19,007,189</u> |
| Net assets attributable to unitholders | | <u>342,812,795</u> | <u>208,048,945</u> |

The financial statements were approved by the Board of Directors of the Manager on 15 September 2010 and were signed on its behalf by:

William Hackney
15 September 2010

Cashflow Statement

Year Ended 30 June 2010

| | 30 June 2010 | 30 June 2009 |
|--|---------------|--------------|
| | £ | £ |
| Cash flow from operating activities | | |
| Reconciliation from net operating income to net cash flows from operating activities | | |
| Net operating income | 17,949,318 | 18,790,047 |
| Bank interest received | (124,221) | (533,686) |
| (Increase) in trade and other receivables | (8,180,666) | (223,160) |
| (Decrease)/Increase in trade and other payables | (2,406,319) | 2,514,432 |
| Net cash flow from operating activities | 7,238,112 | 20,547,633 |
| Cash flows from investment activities | | |
| Purchase of properties | (101,184,447) | (210,923) |
| Sale of properties | 400,000 | 9,043,135 |
| Bank interest received | 124,221 | 533,686 |
| Bank interest paid | (48) | (575) |
| Net cash flow from investment activities | (100,660,274) | 9,365,323 |
| Cash flows from financing activities | | |
| Net amounts paid on cancellation | - | (18,208,773) |
| Net amounts received on creation | 112,118,415 | - |
| Borrowing costs and interest | (218,243) | - |
| Income distributions paid | (16,994,583) | (19,458,117) |
| Net cash inflow/(outflow) from financing activities | 94,905,589 | (37,666,890) |
| Net increase/(decrease) in cash and cash equivalents | 1,483,427 | (7,753,934) |
| Cash and cash equivalents at the start of the year | 10,297,073 | 18,051,007 |
| Cash and cash equivalents at the end of the year | 11,780,500 | 10,297,073 |

1 Accounting policies

- a) **Basis of accounting:** The financial statements have been prepared under the historical cost basis, as modified by the revaluation of investments, and in accordance with the requirements of the Charities Act 1993, Charities (Accounts and Reports) Regulations 2008 and the Statement of Recommended Practice for Financial Statements of Authorised Funds issued by the IMA in November 2008 (the "SORP"). The Fund is exempt from complying with the Charities Statement of Recommended Practice under paragraph 449 of that document.

The prior year financial statements were prepared in accordance with the SORP issued by the IMA in December 2005. The adoption of the 2008 SORP did not change either the total return or net assets attributable to unitholders in either the current or prior year. However it resulted in certain changes to presentation which include:

- Returns from capital property are now disclosed as net capital gains/(losses)
 - Income from property and other sources is now disclosed as revenue
- b) **Basis of valuation of investments:** The direct property investments of the Fund are valued quarterly on an open market basis, as defined in the Appraisal and Valuation Manual prepared by the Royal Institution of Chartered Surveyors, and in accordance with the Scheme. The interests in property were last valued by Cushman & Wakefield on 29 June 2010. In accordance with SSAP 19: Accounting for Investment Properties, no depreciation has been provided for on the property assets. Holdings in indirect property including collective investment schemes are valued at quoted bid prices for dual priced funds and quoted prices for single priced funds, on the last business day of the accounting period. Investments for which quoted market prices are not available are included at the Manager's valuation.
- c) **Recognition of income and expenses:** Rental income, interest deposits and expenses are accounted for on an accruals basis. The periodic charge of the Manager is deducted from income. Distributions from collective investment schemes are recognised when the schemes are quoted ex-distribution.
- d) All expenses, other than transaction charges relating to the purchase and sale of investments and certain borrowing costs (see below), are included in 'Expenses' in the Statement of Total Return. Transaction charges are charged against capital.
- e) **Accounting policy for lease incentives:** Lease incentives are spread on a straight line basis from the lease start date until the date on which a prevailing market rate becomes payable, in accordance with Urgent Issues Task Force 28 'Operating Lease Incentives' (UITF 28).
- f) **Borrowing costs:** Costs and interest associated with the bridging loan established during the year are allocated against the distributable income of the Fund or to capital in accordance with the SORP. Further details of the allocation of these costs is included in note 6.
- g) **Distribution policy:** Income arising from the Fund's investments accumulates during each accounting period. Surplus income is allocated to unitholders of the Fund in accordance with the

Regulations after adjusting for any items of a capital nature. It is the policy of the Fund to distribute all income gross of income tax on a quarterly basis.

- h) **Taxation:** As a charity, the Fund is not currently liable to UK tax on gains arising on disposals of investments, nor on income from investments, and is not liable to pay stamp duty land tax on purchases of property.

2 Financial instruments

In pursuing its investment objective, the Fund holds a number of properties and financial instruments. These comprise:

- Direct property holdings; and
- Units in collective investment schemes.

The following are held in accordance with the Fund's investment policy:

- Cash, liquid resources and short-term debtors and creditors that arise directly from its operations;
- Short-term borrowings used to finance investment activity; and
- Operating leases on freehold and leasehold properties.

The Manager has responsibility for monitoring the portfolio in accordance with the investment objective and seeks to ensure that investments in direct properties and individual securities also meet a risk reward profile that is acceptable.

The typical risks applicable to the Fund are market risks, liquidity risk and credit risk.

Market Risks

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. The Fund's market risks arise from (a) interest rate movements and (b) market price movements.

a) Interest rate risk

The Fund's exposure to interest rate risk mainly arises from any variation in interest income earned on bank balances and interest payable on credit facilities due to volatility in interest rates. The Manager does not consider interest income earned on bank balances to be significant risk to the Fund as it is not the intention of the Fund to maintain cash balances for the purpose of generating income, but to invest in investment properties when suitable investments become available.

In respect of interest payable on credit facilities, if a credit facility is utilised, the Manager will consider the life of the borrowing and will take appropriate action on a case by case basis.

b) Market price movements

Direct property is independently valued on a quarterly basis. However such valuations are a matter of the valuer's professional judgement and opinion. Such values may or may not be achieved on a sale of a property.

When proposing and considering a disposal, the Property Adviser and Manager will assess each property and consider factors such as current and estimated future prices, Fund liquidity, upcoming redemptions, cash held by the Fund and the portfolio profile before concluding on whether a property should be disposed of and when.

Liquidity Risk

The key liquidity risk is the holding of direct property assets. Indirect property holdings currently represent a small proportion of the property portfolio and therefore are not deemed to be a significant risk.

Direct Property Interests

Direct properties are illiquid and the investments are not readily realisable. Sales may take a number of months depending on the nature and location of the asset. The main liquidity risk of the Fund is the redemption of units.

The Manager monitors the level of redemptions, and other cash flows, on a regular basis to ensure sufficient funding is available.

If insufficient cash is available to fund redemptions, the Fund can dispose of direct or indirect holdings, utilise short term credit facilities, and defer redemptions.

Credit Risk

Credit risk is the risk that one party to a financial arrangement will cause a financial loss for the other party by failing to discharge an obligation.

Sector exposure risk

The Fund's assets are invested in direct properties and property collective investment schemes. As such the Fund is exposed to sector specific risk as a result of its concentration in this market sector. The underlying risk is the ability to obtain tenants for these properties and tenants being able to fulfil lease commitments.

The Manager mitigates these risks by investing in a diversified portfolio of direct properties in different geographical areas and sectors. In addition, before purchasing a direct property or entering into a new lease, the Manager will examine the covenant strength offered and will aim to let only to tenants with good credit ratings.

3 Net capital gains/(losses)

The net capital gains/(losses) on investments during the year comprise:

| | 30 June 2010 | 30 June 2009 |
|---|--------------|--------------|
| | £ | £ |
| Investment assets | 25,213,324 | (73,540,684) |
| Net capital gains/(losses) on investments | 25,213,324 | (73,540,684) |

4 Revenue

| | 30 June 2010 | 30 June 2009 |
|--|--------------|--------------|
| | £ | £ |
| Distributions from collective investment schemes | 69,483 | 102,649 |
| Rental income | 20,744,299 | 20,320,003 |
| Insurance income | 7,605 | - |
| Bank interest | 124,221 | 533,686 |
| Property insurance claims | 69,170 | - |
| | 21,014,778 | 20,956,338 |

Insurance income has arisen in the current year (30 June 2009: expense £41,312) due to timing differences on income and expenses relating to property insurance which has been recharged to tenants.

5 Expenses

| | 30 June 2010 | 30 June 2009 |
|--|------------------|------------------|
| | £ | £ |
| Manager and Property Manager Fees | 1,368,668 | 1,095,479 |
| Corporate Trustee's fees | 106,717 | 82,820 |
| Other expenses: | | |
| Registration fees | 11,319 | 10,833 |
| Insurance (see note 4 for further information) | - | 41,312 |
| Audit fee | 9,750 | 6,500 |
| Valuation fees | 45,265 | 36,848 |
| Legal and professional fees | 595,290 | 476,197 |
| Marketing and communication costs | 34,250 | 42,505 |
| Vacant property costs | 529,917 | 161,188 |
| Rent review fees | 59,153 | 47,191 |
| Lease incentives | 305,131 | 165,418 |
| | 1,590,075 | 987,992 |
| | 3,065,460 | 2,166,291 |

In the prior year, other costs were included within legal and professional fees. These have been presented separately in the current year and an adjustment has been made to the corresponding comparatives.

6 Finance costs: Borrowing and Interest

Finance cost during the year (excluding distributions) comprise:

| | 30 June 2010 | 30 June 2009 |
|--|----------------|--------------|
| | £ | £ |
| Capital Expenses | | |
| Loan arrangement fee | 80,000 | - |
| Legal & professional fees | 64,117 | - |
| | 144,117 | - |
| Loan interest | 20,499 | - |
| Non-Utilisation fee | 53,627 | - |
| Other | 48 | 575 |
| Finance costs: Borrowings and Interest | 218,291 | 575 |

On 24 February 2010, the fund entered into a 364 day revolving credit facility (the "Facility") with the Royal Bank of Scotland International ("RBSI"). The Facility can be utilised as follows:

- a maximum drawdown of £20,000,000 for the purchase of investment properties
- a maximum drawdown of £10,000,000 for redemptions and distributions

Notes to the Financial Statements continued

On 31 March 2010, £10,100,000 was drawn down to part finance the acquisition of an investment property. This capital was repaid in full on 30 April 2010, using subscription monies received during April 2010. At the year end, the Facility was unutilised and the Fund has not entered into any derivative contracts in respect of interest rates.

Loan arrangement fees payable to RBSI and legal costs associated with the establishment of the facility are deemed to be capital in nature and excluded from distribution calculations.

7 Finance Costs: Distributions

Included in the income available for distribution is the income received on the creation of units and deducted on cancellation of units, and comprise:

| | 30 June 2010 | 30 June 2009 |
|--|--------------|--------------|
| | £ | £ |
| Included in the income available for distribution is the income received on the creation of units and deducted on cancellation of units, and comprise: | | |
| 1st Interim distribution | 4,031,827 | 4,716,572 |
| 2nd Interim distribution | 4,164,358 | 5,234,419 |
| 3rd Interim distribution | 4,598,010 | 4,630,976 |
| 4th Final distribution | 5,090,264 | 4,200,388 |
| Net distribution for the year | 17,884,459 | 18,782,355 |
| Interest | 48 | 575 |
| Total finance costs | 17,884,507 | 18,782,930 |

Details of the distribution per unit are set out in the distribution table on page 14

Represented by:

| | | |
|--|------------|------------|
| Net income | 17,731,027 | 18,789,472 |
| Loan costs transferred to capital (note 6) | 144,117 | - |
| Balance of income brought forward | 12,127 | 5,010 |
| Balance of income carried forward | (2,812) | (12,127) |
| Net distribution for the year | 17,884,459 | 18,782,355 |

8 Debtors

| | 30 June 2010 | 30 June 2009 |
|--|--------------|--------------|
| | £ | £ |
| Amounts receivable for creation of units | 13,562,218 | 15,976,675 |
| Rent receivable | 1,143,701 | - |
| Accrued income | 379,056 | 325,431 |
| Insurance prepayment | 77,954 | 1,405 |
| Sundry debtors | 28,167 | 28,167 |
| VAT recoverable | 6,906,791 | - |
| | 22,097,887 | 16,331,678 |

During the year, the Fund purchased a Tesco Store in Mansfield. As the purchase was not deemed to be a transfer as a going concern for VAT purposes, the fund had to pay VAT on this transaction. This amount has been repaid by HMRC post year end.

Notes to the Financial Statements continued

Cash collection in respect of rental income is assessed on a net basis for the direct property portfolio as a whole. Therefore the outstanding debtor of £1,143,701 (30 June 2009 prepaid rent balance of £2,552,462) has arisen due to year on year timing differences between when rental invoices have been raised and when these invoices have been settled.

9 Creditors

| | 30 June 2010 | 30 June 2009 |
|---|------------------|------------------|
| | £ | £ |
| Amounts payable on cancellation of units | - | - |
| Acquisition costs awaiting settlement | 260,160 | 85,785 |
| Prepaid rent (see note 8 for further information) | - | 2,552,462 |
| Manager and Property Manager fees | 445,357 | 301,809 |
| Marketing and communication costs | 39,118 | 37,647 |
| Corporate Trustee fees | 38,157 | 17,996 |
| Audit fees | 6,000 | 7,000 |
| Registration fees | 5,405 | 2,659 |
| Valuation fees | 14,207 | 8,697 |
| Legal and professional fees | 30,759 | 763 |
| Rent review fees | 78,460 | 41,914 |
| Vacant property costs | 43,389 | - |
| Credit facility non utilisation fee | 36,609 | - |
| Other | 17,234 | - |
| VAT payable | - | 364,442 |
| | 1,014,855 | 3,421,174 |

10 Related Party Transactions

Amounts payable to the Manager or associates of the Manager are shown in note 5. Amounts due are shown in note 9.

The amount outstanding at the year end in respect of those fees was £445,357 (30 June 2009 £106,520)

Amounts payable to the Corporate Trustee or associates of the Corporate Trustee are shown in note 5. Amounts due are shown in note 9.

The amount outstanding at the year end in respect of those fees was £38,157 (30 June 2009 £17,996)

During the year the Property Manager has received fees of £1,049,897 (30 June 2008 £1,077,705)

Details of the Manager and Corporate Trustee can be found on page 28.

11 Post Balance Sheet Events

There were no post balance sheet events.

12 Contingent Liabilities

There were no contingent liabilities at the year end (30 June 2009 £nil).

Fund Structure

The Charities Property Fund is a Common Investment Fund which is an open ended investment vehicle, similar to a unit trust, but designed specifically for charities and established under Section 24 of the Charities Act 1993. Common Investment Funds are themselves charities with schemes approved and regulated by the Charity Commission. As a charity, the Fund is currently exempt not only from stamp duty land tax (currently 4% on all property transactions over £500,000) but also capital gains tax and income tax.

Investment Objectives

The Fund aims to provide a high and secure level of income with the prospect of growth in income and to maintain the capital value of assets held in the Fund, through investing in a diversified UK commercial property portfolio. The Fund invests in the three principal commercial property sectors: office, retail and industrial. It does not invest in speculative developments.

The Manager does not intend to hold no more than 10% in value of the property of the Fund in cash or Near Cash (as defined in FSA Handbook of Rules and Guidance).

Unit Dealing

As the Fund is valued quarterly, units can be purchased at the end of March, June, September and December. Normally units will be redeemed with effect from a quarter day though this is subject to cash being available for redemptions. In addition, where there are both subscriptions and redemptions at a quarter day, the Manager may apply a matching process. Further details of the process for buying and selling units is set out in the Scheme Particulars which are available on request. To protect the overall position of Unit Holders, there are clearly defined restrictions on the right to redeem as are set out in the Scheme Particulars.

Minimum Investment

The minimum investment in the Fund is £25,000 although smaller amounts may be accepted at the Manager's discretion. There is no minimum investment for existing unitholders.

Distribution

The income is paid gross on a quarterly basis, six weeks after each valuation point (on or before 15 February, 15 May, 15 August and 15 November).

Corporate Trustee

The Corporate Trustee will be entitled to receive fees (payable quarterly in arrears) based on the Net Asset Value at the start of the accrual period, on each Valuation Date. The fees (excluding value added tax) will be based on the following annual rates:

- £0 to £200 million – 0.05%;
- above £200 million – 0.0375%.

The Corporate Trustee may increase the current rates of fees if:

- (i) the Corporate Trustee has given notice in writing to the Manager and to the Unit Holders of its intention to increase these rates of fees;
- (ii) the Scheme Particulars have been revised (subject to the prior written approval of the Commission) to reflect the proposed increase in the rates; and
- (iii) 90 days have elapsed since the revised Scheme Particulars became available.

The Manager and Property Manager

The Manager's fees and the Property Manager's fees are combined into one management charge. This periodic management charge shall accrue on a quarterly basis and will be determined by the Net Asset Value of the Fund at the start of the accrual period. It will be deducted and paid at the end of each quarter out of the Fund's assets. The fees (excluding value added tax) will be based on the following annual rates:

- £0 to £100 million – 0.70%;
- £100 to £500 million – 0.525%;
- above £500 million – 0.45%.

The Manager may increase the current annual management fees and the current preliminary charge (or introduce a redemption charge) if:

- (i) the Manager has given notice in writing to the Corporate Trustee and to the Unit Holders of its intention to increase the rates of annual management fees, or to increase the preliminary charge, or to introduce a redemption charge (as the case may be);
- (ii) the Scheme Particulars have been revised subject to the prior written approval of the Commission to reflect the proposed increase in these rates of annual management fees, or to increase the current preliminary charge, or to introduce a redemption charge; and
- (iii) 90 days have elapsed since the revised Scheme Particulars became available.

Preliminary Charge

The Manager also applies a preliminary charge of 0.25% of the initial price of the Units and this is included in the price at which Units may be purchased.

This charge may be reduced at the Manager's sole discretion.

Borrowing Powers

Under the Scheme, the Manager is allowed to borrow money for the use of the Fund in certain circumstances. The Manager intends to use this power when it considers this to be in the best interests of the Unit Holders, principally either to obtain bridging finance to purchase real property for the Fund in anticipation of the receipt of committed subscriptions from existing or new Unit Holders or to finance the redemption of Units pending the receipt of sales proceeds. Borrowing will not exceed 10% of the net value of the assets of the Fund on any Business Day.

Management and Advisers

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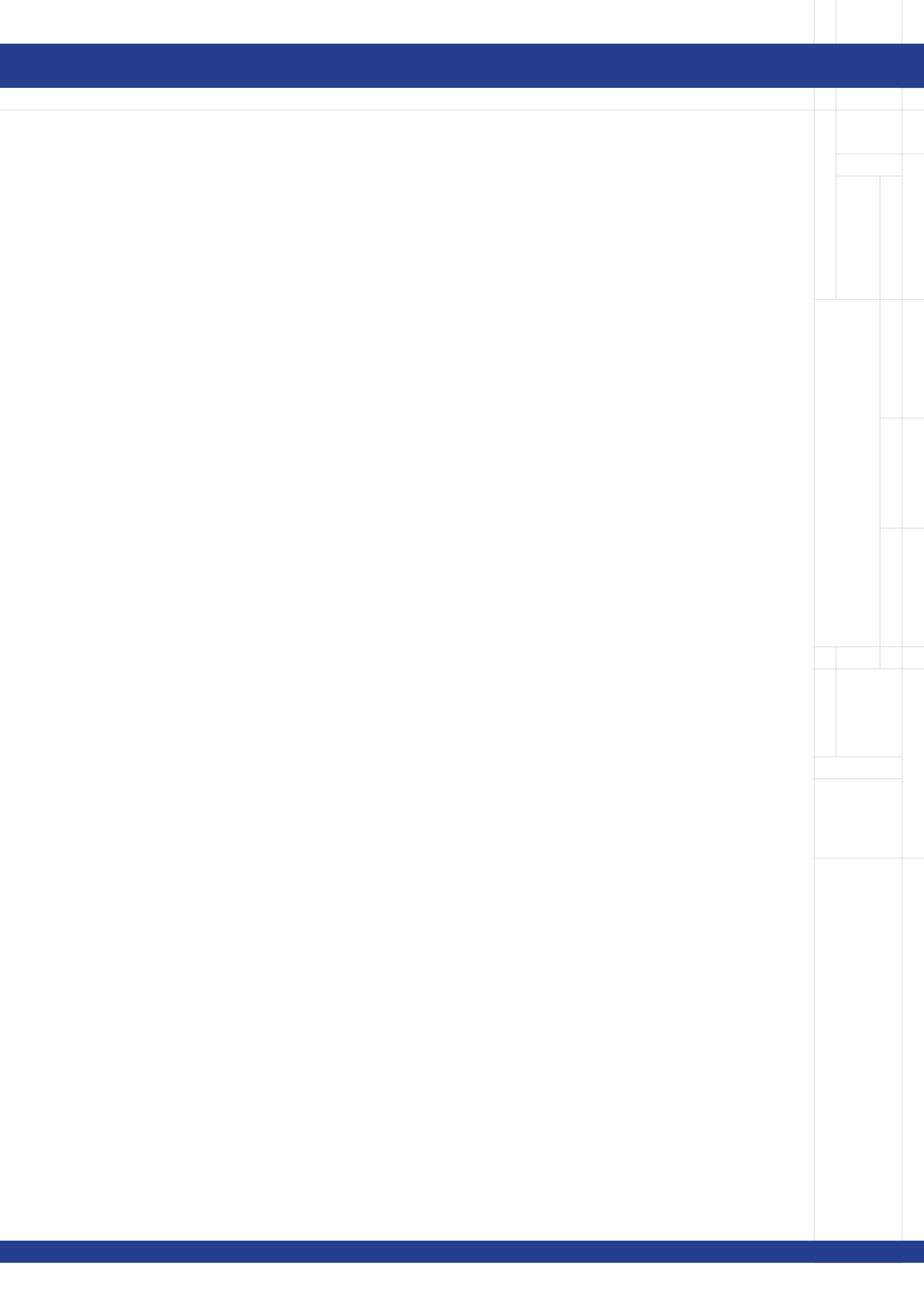
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The Corporate Trustee, Manager and Investment Advisor are authorised and regulated by the FSA.





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