

Preferential Shares Valuation Report

Prepared for:

Lisa Kent,
Lorca Investments Limited
22 Bramley Road, Ferndown
England
BH22 9JJ



dns accountants
DNS House, 382 Kenton Road,
Harrow, Middlesex UK HA3 8DP
0330 088 6686 | info@dnsassociates.co.uk
www.dnsassociates.co.uk

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Lisa Kent,
Lorca Investments Limited
22 Bramley Road, Ferndown
England
BH22 9JJ

September 11th, 2023

Re: Redeemable Preferential Shares C Valuation – Lorca Investments Limited

Dear Ms. Kent,

We have been engaged to estimate the fair redeemable value of the Preferential Shares C in the business enterprise known as Lorca Investments Ltd., private limited company as of Sept 11th, 2023. At your request, we have provided a restricted appraisal report, which is advisory in nature and intended to be used for the stated purpose only. Please refer to the statement of limiting conditions contained in the report.

For business appraisal, fair market value is defined as the expected price at which the subject business would change hands between a willing buyer and a willing seller, neither being under a compulsion to conclude the transaction and both having full knowledge of all the relevant facts.

In our valuation, we have assessed a fully marketable, ownership interest in the company's preferential shares. However, due to the company's current financial constraints, our appraisal is performed under a premise that closely aligns with the liquidation value rather than a standard going-concern basis. This approach is necessary given the insufficiency of reserves to redeem all preferential shares at their full redeemable value.

In light of the current scenario, the liquidation value premise represents the most realistic and practical use of the subject business assets. This form of valuation aligns with the liquidity constraints faced by the company and takes into account the preferential shareholders' rights in a potential liquidation scenario. Consequently, our valuation approach offers a more accurate reflection of the likely redeemable value of the preferential shares C, considering the company's current financial standing.

Based on the information contained in the report, we estimate the redeemable value of Lorca Investments Ltd., private limited company Preferential Shares C, on Valuation Date to be:

Current Redemption Value of each Preferential Shares: £0.18

Current Redemption Value of all Preferential Shares: £27,501

The valuation is subject to the information provided to us, the assumptions and the financial data which appear in the report.

After the date of this report, we are not obliged to update this report or our assessment of value if new information comes to our attention.

Sincerely,

dns accountants

Description of the Appraisal Assignment

dns accountants have been retained by Ms. Kent to estimate the fair market value of Lorca Investments Ltd., private limited company Preferential Shares C as of September 11th, 2023, to assist the existing shareholders in redeeming the shares.

Scope of the Report

During the preparation of this report, we have made certain assumptions as follows:

We have not conducted a site review of the subject business premises, nor have we audited or otherwise reviewed the business financial statements, which have been provided by the business management and its financial advisors. It was assumed that these financial statements are true and accurate.

Information Sources

The following sources of information were used in preparing the appraisal:

1. Business financial statements of the subject business for the last three years and YTD reports till 28th February, 2022.
2. Email Conversations between Lisa Janet Kent & Carlton James, private investment group, to obtain the fund statement.
3. Business Metro Bank Account Statement for May 2023.
4. Special Resolutions of Lorca Investments Ltd (Appendix I).
5. Rights attaching to Preferred Shares of Lorca Investments Ltd (Appendix I).
6. We conducted telephonic interview with Lisa Janet Kent & Helen Anne Winter, Directors of Lorca Investments Limited.

Business Description

The preferential shares of the subject business being valued is **Lorca Investments Ltd.**; a private limited company, incorporated and registered in England & Wales with company number **11228992** whose registered office is at 22 Bramley Road, Ferndown, England, BH22 9JJ.

The subject business (company) is an asset holding & investment company.

Capital Structure

The share capital is formed of 150,000 preference shares of £1.00 each and 150 ordinary shares of £1.00 each. The shares are owned by Ms. Lisa Janet Kent and Ms. Helen Anne Winter respectively.

Shareholder Name	No of shares	Class of Shares	Share Class and Nominal Value Per Share
Helen Anne Winter	100	Ordinary A	Ordinary shares of £1.00 each
Lisa Janet Kent	50	Ordinary B	Ordinary shares of £1.00 each
The Trustees of the DC Pension Scheme	150,000	Preference C	Preference shares of £1.00 each
TOTAL	150,150		

Sources of Company Financial Information

Historic financial statements have been obtained from the subject business management and their accountants and have not been audited to confirm their accuracy. In preparing this report we have taken these financial statements and projections to be true and accurate.

Balance Sheet

Lorca Investments Limited As of 28th February 2023

Particular	Feb-20	Feb-21	Feb-22	Feb-23
Assets				Adjusted
Fixed Assets	136,000	136,000	105,642	-
Current Assets	3,976	3,375	33,470	29,170
Prepayments and accrued income	1,196	1,196	1,196	-
Total Assets	141,172	140,571	140,308	85,950
Liabilities				
Creditors	910	1,868	2,228	1,669
Accruals and deferred income	600	-	-	-
Total Liabilities	1,510	1,868	2,228	1,669
Net Current Assets	3,662	2,703	32,438	27,501
Total assets less current liabilities	140,262	138,703	138,080	27,501
Net Assets	139,662	138,703	138,080	27,501
Total capital and reserves	139,662	138,703	138,080	27,501

Notes to the Balance Sheet

The adjusted balance sheet for Feb 2023:

1. Current Assets include the bank balance as of May 2023.
2. Fixed Assets comprise of Lorca Investments Ltd's investment in the Diversified Alpha Fund. The Directors of the Fund have decided to suspend redemption for Carlton James Diversified Alpha Fund Segregated Portfolio for a period of 3 months from the September 1. The Fund has received an above average request to redeem. Hence, the investors suspect that the current fund value is zero. Please note that this amount is subject to investment fluctuations and is crucial when evaluating the availability of funds for redeeming the preferential shares. Please refer to Appendix I.
3. Creditors are estimated based on an average of the past three years.
4. It is assumed that there are no accruals or deferred income.

Income Statement

The company does not trade actively.

Lorca Investments Limited Profit & Loss Account

Particular	Feb 2019 -2020	Feb 2020 - 2021	Feb 2021 - 2022
Turnover	1,058	552	-
Sales	1,058	552	-
Cost of Sales	-	77	-
Cost of raw materials and consumables	-	77	-
Gross Profit	1,058	475	-
Other Income	-	-	785
Total Other Income	-	-	785
Other charges	2,085	1,434	1,408
Operating Profit	(1,027)	(959)	(623)
Profit after Tax	(1,027)	(959)	(623)
Net Profit	(1,027)	(959)	(623)

Preferential Share Valuation Approaches and Methods

There are three fundamental ways to measure the value of shares:

- Asset approach.
- Market approach.
- Income approach.

Within each approach, there are multiple methods that can be used to ascertain the value of preferential shares. Each valuation method follows a distinct procedure to calculate the redeemable value. It is important to note that no single valuation approach or method can be deemed definitive. When evaluating the value of preferential shares, additional factors such as the redemption period, coupon rate, dividend policies, and more are taken into consideration. Below is an overview of each approach.

Asset Approach

The asset approach to valuation considers the underlying business assets to estimate the value of the overall business enterprise. This approach relies upon the economic principle of substitution and seeks to estimate the costs of recreating a business of equal economic utility, i.e., a business that can produce the same returns for its owners as the subject business. This method is particularly useful when the preferred shares have a claim on specific assets or have a liquidation preference.

Market Approach

In a market-based approach, also called as multiples approach, we assume that the valuation is based on the idea that similar assets sell at similar prices. It assumes that the type of ratio used in comparing firms, such as operating margins or cash flows, is the same across similar firms. The method works to determine the business value relative to other businesses in a similar industry. The multiples approach relies on the comparative analysis method that seeks to value similar companies using the same financial metrics.

Income Approach

The Income Approach uses the cashflow estimates from future periods to arrive at discounted present value of the income streams. There are two income-based approaches that are primarily used when valuing a business, the Capitalization of Cash Flow Method, and the Discounted Cash Flow Method. These methods are used to value a company based on the amount of income the company is expected to generate in the future.

Valuation Rational

In our assessment of the company's financial position, it is pertinent to note that there are 150,000 Class C Preferential Shares currently outstanding. These shares attract a 7% annual coupon, dispersed semi-annually at the directors' discretion. The redeemable value of these shares is calculated considering the initial issue price, in addition to the accumulated dividends accrued over the tenure of ownership.

Nonetheless, the company's current financial reserves are insufficient to redeem all these preferential shares at their full redeemable value. As the preferential shareholders hold precedence in capital distributions, the company would utilise its available reserves to fulfil the redemption to the greatest extent possible.

Considering this financial situation, we find the asset approach to be the most appropriate valuation method for assessing the redeemable value of the preferential shares. This approach considers the company's tangible and intangible assets, thus providing a realistic and comprehensive view of the company's financial standing. In this scenario, it accommodates the limited reserves and prioritises the preferential shareholders' rights in the redemption process. As a result, it offers the most accurate and fair valuation of the redeemable preferential shares.

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Conclusion

Our valuation report addresses the critical aspects of the preferential shares for the company in question. Each share, with a face value of £1, has garnered dividends of £0.315 over the past 4.5 years. This yield gives us a theoretical redeemable value of £1.315 per share.

With the total number of preferential shares standing at 150,000, the theoretical value for redeeming all shares amounts to £197,250 ($£1.315 \times 150,000$ shares). Nevertheless, the company's reserves, which total £27,501 fall significantly short of this redemption value.

Given this discrepancy, if the company were to call for the redemption of all preferential shares, it wouldn't be feasible to redeem at the full value per share due to the limited reserve funds. As such, a discounted redemption rate would be necessary. Dividing the total reserves by the number of shares gives us an available redemption value of approximately £0.18 per share ($£27,501 / 150,000$ shares). This figure indicates a considerable discount from the theoretical redeemable value of £1.32 per share.

Preferential Shares Redeemable Value	
Total Shares	150,000
Issue Price	£1.00
Redemption Value per share	£1.00
Redemption Value	150,000
Coupon Rate	7%
Issue Date	23/11/2018
Current Date	30/05/2023
No. of years	4.5
Accrued dividend per share	£0.32
Theoretical Redemption Value Per Share	£1.32
Theoretical Aggregate Redemption Value	£197,250
Available Reserves in the Company	£27,501
Available Redemption Value Per Share	£0.18
Available Aggregate Redemption Value	£27,501

A critical aspect to consider in the valuation of the company's preferential shares is the composition of the company's reserves, which are comprised of both cash and investments. The presence of both these assets in the reserve structure adds to the complexity of the valuation process. While the cash component offers a certain level of stability, the investment portion introduces a degree of variability that may affect the overall reserve value and, subsequently, the valuation of the preferential shares.

The investments held by the company necessitate a 30-day notice period for redemption. This stipulation imposes a liquidity constraint, further impacting the redeemable value of the company's reserves and, by extension, the value of the preferential shares. Owing to the inherent volatility of markets, the value of these investment holdings may undergo fluctuations over the 30-day notice period, potentially affecting the liquid value of the reserves.

These possible value changes underscore the inherent uncertainties associated with our valuation. We are essentially making projections of future value, subject to the often-unpredictable dynamics of the market. While we endeavour to provide the most accurate estimates possible, it is crucial to

acknowledge this uncertainty and volatility as integral to the company's financial situation and to our assessment of its preferential share value.

Current Redemption Value of each Preferential Shares: £0.18

Current Redemption Value of all Preferential Shares: £27,501

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Statement of Limiting Conditions

This business appraisal relies upon the following contingent and limiting conditions:

1. We assume no responsibility for legal matters including, but not limited to, legal or title concerns. The title to all subject business assets is assumed good and marketable.
2. All information provided by the client and others is thought to be accurate. However, we offer no assurance as to its accuracy.
3. Absent a statement to the contrary, we have assumed that no hazardous conditions or materials exist which could affect the subject business or its assets. However, we are not qualified to establish the absence of such conditions or materials, nor do we assume the responsibility for discovering the same.
4. The report may not fully disclose all the information sources, discussions, and business valuation methodologies used to conclude value. Supporting information concerning this report is on file with the business appraiser.
5. The valuation analysis and conclusion of value presented in the report are for this engagement only and are not to be used for any other reason, any other context, or by any other person except the client to whom the report is addressed.
6. The opinion of value expressed in this report does not obligate us to render a comprehensive business appraisal report, to give testimony, or attend court proceedings about the subject business assets, properties, or business interests unless such arrangements had been made previously.
7. Possession of this report does not imply permission to publish the same or any part thereof. No part of this report is to be communicated to the public employing advertising, news releases, sales, and promotions, or any other media without prior written consent and approval by us.
8. This report is valid only for the date specified herein.

Appendix I

Reference Sources

Diversified Alpha Fund Balance



Preferred Shares Right as per Company Resolution dated 12/11/2018

Clause 6: Redemption

6.1 The Company may, at any time on not less than one month's written notice to the holders of Preferred Shares, redeem such total number of Preferred Shares as is specified in such notice.

6.6 If the Company is unable, because of having insufficient Available Profits, to redeem in full the relevant number of Preferred Shares on the date fixed for redemption, the Company shall redeem as many of such Preferred Shares as can lawfully and properly be redeemed.

6.10 There shall be paid on the redemption of each Preferred Share an amount equal to:

6.10.1. its Issue Price; and

6.10.2. all accruals and/or unpaid amounts of dividend in respect thereof, calculated down to and including the date of actual payment,

and the amount referred to in paragraph 6.10 shall become due from and immediately payable by the Company to the holders of such Preferred Shares.

Rights Attaching to Preferred Shares

3. The Preferred Shares will have a preferential cumulative coupon of 7% per annum from 12/11/2018 (the "Preference Dividend") to be paid in two equal instalments on the 12/11 and the 12/05 in each year and every year, until such time as the Preferred Shares are redeemed. Any other dividends or distributions will be payable to all shareholders on a pro rata basis.