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States of Jersey

15 August 2006

Mr J C Russell
Fox International Property Holdings Ltd
La Rue des Pres
St Saviour
Jersey
JE1 3UP

Our ref: TLES/D/JM

Dear Mr Russell

UK Pension and Superannuation Funds

Thank you for your letter dated 19 July 2006 regarding UK Pension and Superannuation Funds in the light of the 0/10% Design Proposals.

I will ensure that your comments are carefully considered when the 0/10% legislation is drafted.

Yours sincerely

Senator Terry Le Sueur
Treasury and Resources Minister

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cc. Sam Power, Scrutiny Panel

FOX INTERNATIONAL

19th July 2006.

Treasurer's Office
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Senator Terence A. Le Sueur,
Minister, Treasury and Resources Department,
PO Box 353,
Cyril Le Marquand House,
The Parade,
St. Helier. JE4 8UL.

Dear Terry.

UK Pension and Superannuation Funds.

We met with Dougie Peedle on Monday afternoon and I hope we were able to clarify for him some of the elements behind our concerns. It is a complicated subject for those not involved directly in it.

I want to stress to you that our motivation in raising this has nothing to do with whether we sell Sir Walter Raleigh House to a fund at a marginally higher price than to a local purchaser, who was a close under-bidder. The difference, in our case is rendered even more marginal because the majority of our shareholders are resident in Ireland and they will have to pay capital gains tax. We believe it is in the best interests of the Island to encourage a major new fund to take an interest in the Island.

The UK market has operated very effectively with gross funds and tax paying entities alongside each other since time immemorial. The gross funds provide the ultimate liquidity that enables the developer/traders to provide product for the funds in the form of completed and let schemes that are producing income. The banks can then provide the interim finance that is generally short to medium term. Developers do not favour using their own cash for this funding!

Excluding gross funds from the market and the reductions in capital values that will follow will have a material effect on the residual site values of any new development and may well render larger schemes with end values in excess of £10.0 million almost impossible to finance. It seems to be envisaged that the deduction will commence in 2009. It is impossible to second-guess how gross funds currently with holdings in the Island will

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react. I imagine that they will face reductions in the capital values of their properties, in addition to the reduced income, with a consequent drop in the asset values of the pension funds and the assets of their members. This may not be material but there may be a backlash.

Perhaps we should not forget how much the Island has benefited from the huge expansion of the indirect property investment market in the last few years and the establishment of many Jersey Property Unit Trusts. My City Livery Company has, until recently, always viewed Jersey slightly askance but we now have investments in four Jersey property unit trusts and these have, undoubtedly, changed perceptions amongst the members of our Investment Management Board.

I imagine that our sale is not the only transaction caught up by this proposal and I further imagine that it must be nigh on impossible for any valuer to produce valuations for the local market until this issue is resolved. Although it forms part of the overall proposal for Zero/Ten, from my limited understanding of the whole, it does not seem to be a fundamental plank and I would hope, therefore, that it would not take too long before a decision in favour of retaining the ability of gross funds to receive their income without deduction of tax can be confirmed.

With kind regards,

Yours sincerely,

Jock C. Russell.

c.c Senator Walker.
Senator Ozouf.
Simon Buckley.
Simon Prescott, Lloyds TSB Offshore.
Jane Stubbs, PwC.