LONDON CITY EQUITIES
LIMITED

ABN 59 003 200 664

Please Note – This is a letter applicable solely to our shareholders and associated parties. It covers the views of the Board relating to a transaction being proposed by a company in which London City and associates have a major interest. It is provided as being helpful for discussion and private research purposes. It should not be regarded as any form of investment advice. Shareholders and other readers are urged to speak with their advisers if considering any investment action.

11 January 2024

Dear Shareholder,

Update - Our Investment in Excelsior Capital Limited ("ECL")

Directors said on 2 January they would send a more detailed letter to shareholders about their decision to vote against the resolution submitted by Excelsior Capital Limited ("ECL") at a forthcoming Extraordinary General Meeting. This resolution endorses the sale by ECL of its main undertaking, its CMI Electrical activities.

Your Board has reviewed the circumstances of the sale and its consequences. As a result, together with other associated parties such as Imperial Pacific Limited ("IPC"), and holding a combined 12.6% of ECL's capital, the London City Board and its associates have now cast their votes against the resolution. While a range of the reasons do apply, the Board sets out its key reasons for rejecting the resolution. They may not necessarily apply to all shareholders.

- The proposed transaction being submitted to the vote is the sale of the CMI Electrical business. We believe the impact is more far-reaching than just a major asset disposal and that there are two serious components arising:

    1. The sale for $101 million of its main undertaking, the CMI Electrical business

    PLUS

    2. An inherent reinvestment "endorsement" expectation that the ECL Board may go ahead investing $125 million into what are presently an unknown "range of operating companies and other investments".

- While the sale proceeds appear acceptable, indeed comfortable, the fact is that ECL's main asset which makes over $15 million a year is being sold for $101 million cash and shareholders get nothing direct from the proceeds.

- It is the reinvestment aspects of the now $125 million that cause particular concern. ECL has given no information to its shareholders on the use of these liquid funds other than to say "to further develop and grow its primary investment portfolio business. The Company is currently considering a range of investment opportunities in both operating companies and other investments" and "the Excelsior Board intends to take a prudent approach''. Those aspirations are far too broad for our group. We pride ourselves on extensive detailed appraisals before spending money.

- It is frustrating that the dominant 51% owner has already concluded the proposal is good and is voting for it. What chance do we 49% minority shareholders have?

- The timing just twelve days after the 2023 AGM (when no mention of a sale was made to shareholders) was remarkable. Shareholders had travelled interstate to attend the AGM. It appears from the meeting documentation that the sale process had been in play for many months.

- We question parts of the EGM documentation relating to both the Directors and the Independent Expert, RSM. They may well be explained later.

  - There is a strange claim from ECL on page 3 that the Proposed Transaction will "further strengthen its (ECL) position as a leading Australian Listed Investment Company" – with pure investments of only $4.8 million?

  - The "independent advisor" RSM has calculated the sale price justification of "FAIR" is according to "takeover" values for CMI Electrical. However "takeover" values apply where the shareholders receive all the proceeds. That does NOT happen here. Shareholders get nothing. Indeed, the ECL shares have fallen to $2.85 in the market – well below "post CMI sale" NTA estimates in the press of around $4.20.

  - In our view, RSM has not properly examined the "zero" logic in shareholders (a) getting nothing from the sale of their major asset, (b) having to rely on seemingly inexperienced investment people for the future outlay of their $125 million, (c) having to experience very low dividend payouts and (d) continuing to have no say in either the management or Director appointments. Accordingly, we consider the transaction might be "FAIR" but it is "NOT REASONABLE".

  - The RSM report concludes that "the market has reacted "favourably" to the announcement of the Proposed Transaction (Page 8). However, we see that Ms Catelan interests purchased 320,000 shares at the time – up to $3.22. That point was not raised in the report. The shares are now down to $2.85 - pre-CMI sale levels.

  - There is no mention in the EGM document of Franking Credits ($31.7 million at 30 June 2023). These massive credits would allow the payment of a fully franked special dividend of over $2.00 per ECL share to holders.

- Oddly, ECL released its 30 November NTA on 14 December (two weeks after the 28 November announcement) stating that its NTA per share was $2.03. The new NTA is probably now around $4.25 – more than double the quoted number.

Directors advise they are considering what action they may take so that all shareholders can consider full information on proposed investments that ECL Board might consider pursuing. Then vote to approve them. We are, after all, talking about a substantial increase in investment funds from $4 mill to $125 mill in the hands of the current Board.

For and on behalf of the Board

Peter EJ Murray
Chairman of Directors

11 January 2024