

Squarestone Brasil confirms funding to develop Golden Square Shopping mall

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Squarestone Brasil Limited (AIM: SQB.L, SQBW.L), the Anglo-Brazilian real estate development and investment company has, via its wholly owned subsidiary SB Brast Participacoes SA, signed agreements with a leading Brazilian investment bank and an experienced US private equity real estate group (the Bondholders) to fund and develop to completion Golden Square Shopping Mall.

Under the funding arrangements through a Convertible Bond (the Bond), the Bondholders have committed BRL192.5m to SB Brast Participacoes SA (SB Brast), a wholly owned subsidiary of Squarestone Brasil, to assist in funding the acquisition of the remaining 50 per cent that it does not already own of the Golden Square shopping mall development project and importantly also provides Squarestone Brasil with the funds to construct the project to full completion. Construction of the 31,000 sq m net leasable area (NLA) scheme is expected to begin in the next three weeks and Golden Square is expected to open by Q3 2012. Prior to this transaction Squarestone Brasil owned a 50 per cent interest in Golden Square.

Golden Square shopping mall is a flagship development for Squarestone Brasil, opening up an entirely new growing 'A' and 'B' class consumer market for Squarestone Brasil to access. Upon completion, Golden Square will be a 31,000 sq m NLA mall on three levels, designed and built to international shopping mall standards combined with the local culture, tastes and fashions of Brazil that is intended to deliver the optimal tailored retailing experience targeting the ABC region of Sao Paulo. Golden Square's goal is to redefine the local retail experience based on international standards, hosting both domestic and international retailers under one roof and presenting a distinctive retail offer that currently does not exist in this part of greater Sao Paulo.

The Bond is under terms consistent with local market practice. The coupon on the Bond during the development phase of Golden Square has a margin of 3.25 per cent above the benchmark SELIC rate (Bank base rate in Brazil) currently at 11.75 per cent and decreasing to a margin of 0.75 per cent above SELIC after Golden Square has substantially opened. Both coupon rates are index-linked as are rents. The interest shall accrue until six months after Golden Square has substantially opened at which point, interest becomes payable on a monthly basis and amortised over five years.

The Bond can be converted into equity of SB Brast for a period of up to seven months after Golden Square has substantially opened. The Directors of Squarestone Brasil currently expect conversion to occur since projected returns to the Bondholders are significantly higher following conversion. Conversion will result in Squarestone Brasil's final equity position in Golden Square being a minimum of 33 per cent. Any interest accrued is discounted from the outstanding balance of the Bond for the purposes of the conversion.

Additionally, under an option agreement (the "Option Agreement") signed with Squarestone Brasil, the Bondholders have the right to buy 49 per cent of the management company of Squarestone Brasil, Squarestone Brasil Administracao E Participacoes S.A., subject to conversion of the Bond into

equity of SB Brast and also providing 50 per cent of the required equity for the funding of three additional malls.

Squarestone Brasil will pay a total consideration of BRL95.2m to acquire the remaining 50 per cent of Golden Square that it does not already own and to settle the outstanding amount owed by Squarestone Brasil for its original 50 per cent acquisition. Squarestone Brasil will make an initial payment of BRL60m, BRL40m of which will come from its own cash reserves with the remaining BRL20m from the Bond advance. The balance of the total consideration is deferred until the opening of the mall.

James Morse, Chief Executive of Squarestone Brasil, says: "Squarestone Brasil is delighted to have two such strong partners working together with us in Brazil. We believe that these agreements will help us deliver on our strategy and ambitions to be a leading developer and manager of Brazilian shopping malls and, together, we now represent a significant force in this space. We at Squarestone Brasil look forward to a long and successful partnership on Golden Square and at least three other shopping mall developments in Brazil.

These agreements emphasise Squarestone Brasil's capabilities in and commitment to the Brazilian shopping mall sector and will allow us to bring a new generation of shopping malls to Sao Paulo."

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