

Dear Shareholder,

5 February 2016

Proposals for an Orderly Realisation

In my Chairman's statement dated 11 December 2015, I said that it was the Board's intention to put proposals to Shareholders early in the New Year to be able to vote for an orderly realisation of the Group's investments with substantially the whole of the value being returned in cash by 31 March 2017.

I am pleased to say that your Board is satisfied that any substantive remaining issues that would prevent such a realisation can be overcome and that, accordingly, subject to the approval of Shareholders of doing so at the Annual General Meeting of the Company (AGM), proposals will be put to Shareholders at an Extraordinary General Meeting (EGM) to be held on 29 February 2016 immediately following the AGM on the same date. If passed by a two thirds majority of votes cast at the EGM that will lead to the realisation of the Group's assets into cash over as short a period as is consistent with preservation, where possible, of value and with the contracts and commitments of the Group. Notices of the AGM and EGM are enclosed.

As a necessary part of the proposals to realise the Group's assets for cash, Shareholders will be asked to approve changes to the articles of association. This is so that your Board will no longer be obliged, upon the passing of a resolution for the Company not to continue in its current form, to cause an extraordinary general meeting of the Company to be convened within 120 days at which a resolution must be proposed instructing the Directors to implement proposals for the voluntary liquidation or other reconstruction or reorganisation of the Company. Rather, the Directors would be required to put proposals for the voluntary liquidation or other reconstruction or reorganisation of the Company, and convene an extraordinary general meeting or other meeting for Shareholders to consider these, by no later than 30 April 2017. This change is being proposed so as to give the Directors the time to complete the sale of its remaining investments in an orderly and timely manner and to return the cash so realised to Shareholders. I am afraid this does introduce a little complexity into the matters to be put to the AGM and EGM. The resolutions, and your Board's recommendations, are considered further below.

The circular enclosed with the notices provides details of the EGM, to be held immediately following the AGM. The main business of the EGM is to make arrangements which will ensure that any cash realised can be returned as quickly and as fairly as possible.

At the EGM, Shareholders will be asked to approve the Board returning amounts of up to £5 million of cash at any time by way of share buybacks through the renewal of the buyback authority, regardless of the percentage of share capital of the Company that this sum represents. Together with all applicable regulatory requirements, the Board will have regard to the solvency of the Group at all times and to the price of the shares. It may be the case that we cannot buy shares in the market for cancellation, but for relatively small sums of cash which may be realised frequently, an ongoing buyback programme is considered the most efficient way to return cash to Shareholders.

In addition, at the EGM Shareholders will be asked to approve an ongoing capital return programme on similar terms to the "B share scheme" implemented in May 2015. Under this proposal, this capital return mechanism (if approved) would be capable of being implemented from time to time without the need for further shareholder approval and will, if considered appropriate at the time, be used for any sum in excess of £5 million and where shares cannot be bought in the market. Again, your Board will have regard to solvency at all times and, subject to legislative changes, intends to offer eligible Shareholders the choice of either a dividend or a return of capital.

The Board's recommended proposals for the Company's future which will be put to the AGM and the EGM are, in effect, inter-conditional such that if Shareholders do not approve any one of them, none of them shall be implemented.

Investment Manager

We must ensure that the Group has access to the resources needed to complete the contracts that it has entered into and to complete the sale of its remaining investments. The strategy of the Group will change if the vote is passed for a realisation of the Group's investments and so the Board believes it appropriate that the arrangements set up with the Investment Manager, at the time of IPO, are amended accordingly. The changes seek to incentivise and align the Investment Manager's interests with those of Shareholders through what will inevitably be a challenging period, whilst at the same time recognising that the Investment Manager needs some freedom to look to a future without its contract with the Group and to organise its business affairs accordingly.

The Board has therefore agreed, subject to the proposals set out above being passed at the AGM and EGM respectively, to make changes to the Investment Manager's contract as set out below:

Fees from 31 March 2016 will be fixed, rather than being based on a percentage of net asset value to recognise that significant cash is to be returned to Shareholders but that significant works remain ongoing.

Fees for the 12 month period to 31 March 2017 will be £4.3 million (compared to £4.6 million for the 12 months to 31 March 2016). From 31 March 2017, fees will be limited to £1 million per annum reflecting the need to build out phase 3 at Rushden Lakes and complete any final financial and corporate work.

The carried interest for the members of LXB³ Partners LLP as approved by Shareholders at the flotation will remain in place however the baseline will be the 1 January 2016 net asset value, as calculated by the Board. The carried interest provides for the Investment Manager to receive up to 20% of all profits provided that a hurdle of 12% per annum has been achieved. This is measured based on cash returned to Shareholders and will provide for one payment which will only be paid out at the same time as any final cash distribution in 2017. The likelihood and size of any payment is very sensitive to timing given the high hurdle and possible impact on value given the challenges that remain. It is absolutely essential to the delivery of this strategy that we retain an Investment Manager who is motivated, incentivised and aligned with Shareholders.

The Board is very confident that the changes which we propose to make to the Investment Manager arrangements are in the best interests of Shareholders. The revised carried interest provisions will provide a stretching target which requires the Investment Manager to first deliver value and cash to Shareholders and offers a fair reward to the Investment Manager if the strategy is delivered in these difficult circumstances.

The Board has also agreed to change the terms of appointment of the Investment Manager such that in addition to sourcing and managing the Company's investments the appointment shall now allow the Investment Manager to provide similar services to other third parties. The Board believes that this is necessary for the Investment Manager to continue as an operational business and that the Group will benefit from this by virtue of the Investment Manager being able to retain key personnel who have been involved with the Group's investments thus far. The Board will ensure that this will not affect the level of resourcing and standard of service that has been provided to the Group to date and that any conflicts of interest are managed appropriately.

The portfolio net asset value (NAV) and prospects

A detailed update was given in the financial statements covering the year to 30 September 2015 and Shareholders have been kept fully informed through announcements to AIM/CISEA. Since the last reported NAV, the only material upward change has been through the sale of Greenwich Brocklebank on 23 December 2015. If Shareholders vote for a realisation of the Group's assets, then the NAV as at 1 January 2016 will be £1.01 per share reflecting the write down of certain assets where value creation will no longer fit within the realisation period and the anticipated costs of dealing with outstanding commitments.

In addition to some relatively small write offs, there will inevitably be some challenges created by the proposed winding up or other reconstruction or reorganisation. There is much that remains to be done and there are risks to the delivery of value however, the Board has great confidence in the Investment Manager's ability to optimise value and cash returns to Shareholders.

Timing of cash returns

We expect to complete the sale of Rushden Lakes to The Crown Estate in the next three months. This is likely to give rise to a realisation of cash in the order of £75 million and it is intended that this will be returned to Shareholders by means of the B share scheme as described above assuming it is approved by Shareholders.

If Shareholders approve the proposals for cash realisation, the Investment Manager will be instructed to realise the value of our assets at Greenwich and Sheppey and the Board would anticipate a further return of cash in the summer from the realisation of these assets. In addition, the Investment Manager will be instructed to seek offers for our investments at Stafford and Sutton, although it is likely that any sales will be conditional on practical completion and/or opening which will delay further returns of cash until nearer the calendar year end.

AGM and EGM

The AGM will address the usual items of Plc business, but we include a number of additional items this year. Resolution number 5 proposes amendments to the articles in respect of when notices are deemed to be served on shareholders and resolution 6 authorises the proposals for an orderly realisation of the Group's assets into cash and distribution of that cash to Shareholders as described above to be considered at the EGM.

I mentioned above that the existing Continuation Vote causes some complexity in terms of the resolutions for the AGM and EGM. If the Board's recommendations for an orderly realisation are approved by Shareholders at the EGM, that will supersede the existing Continuation Vote provisions. However, if these proposals are not supported at the AGM (AGM resolution 6) and at the EGM (EGM resolutions 1, 2, 3 and 4), the existing Continuation Vote arrangements should be preserved. Resolutions numbered 7 and 8 at the AGM and Resolution number 5 at the EGM are intended to facilitate that (which in each case would lead to relevant proposals for the voluntary liquidation or other reconstruction or reorganisation of the Company being put to an extraordinary general meeting of the Company within 120 days).

In order to pass the usual items of Plc business and the Board's recommendations for an orderly realisation, **your Board recommends that AT THE AGM shareholders vote in the following way:**

IN FAVOUR of Resolutions 1 to 6 (inclusive)

AGAINST Resolutions 7 and 8

At the EGM, Resolutions numbered 1 to 4 (inclusive) are intended to implement the Board's recommendations for an orderly realisation. Resolution number 5 is a "default" proposal to ensure that if those proposals are not supported at the EGM, the existing Continuation Vote arrangements are preserved. **Your Board recommends that AT THE EGM you vote in the following way:**

IN FAVOUR of Resolutions 1 to 4 (inclusive)

AGAINST Resolution 5

Summary

As I said at the outset, I believe that any substantive issues that would prevent an orderly realisation of the Group's assets can be overcome. In putting these proposals to a vote, your Board is mindful of the expressed wishes of a significant number of Shareholders, however, I should reiterate the point that we are also mindful of the huge amount of work that remains to be done by the Investment Manager in challenging markets, the substantial risks to value that remain, and the increased difficulty of creating and realising that value over a relatively short and very public timeframe.

Very substantial value has already been created for Shareholders since flotation and I look forward to working with the Investment Manager and Shareholders alike to bring the life of the Group to a successful conclusion.

Yours sincerely

Phil Wrigley

Chairman

LXB Retail Properties plc