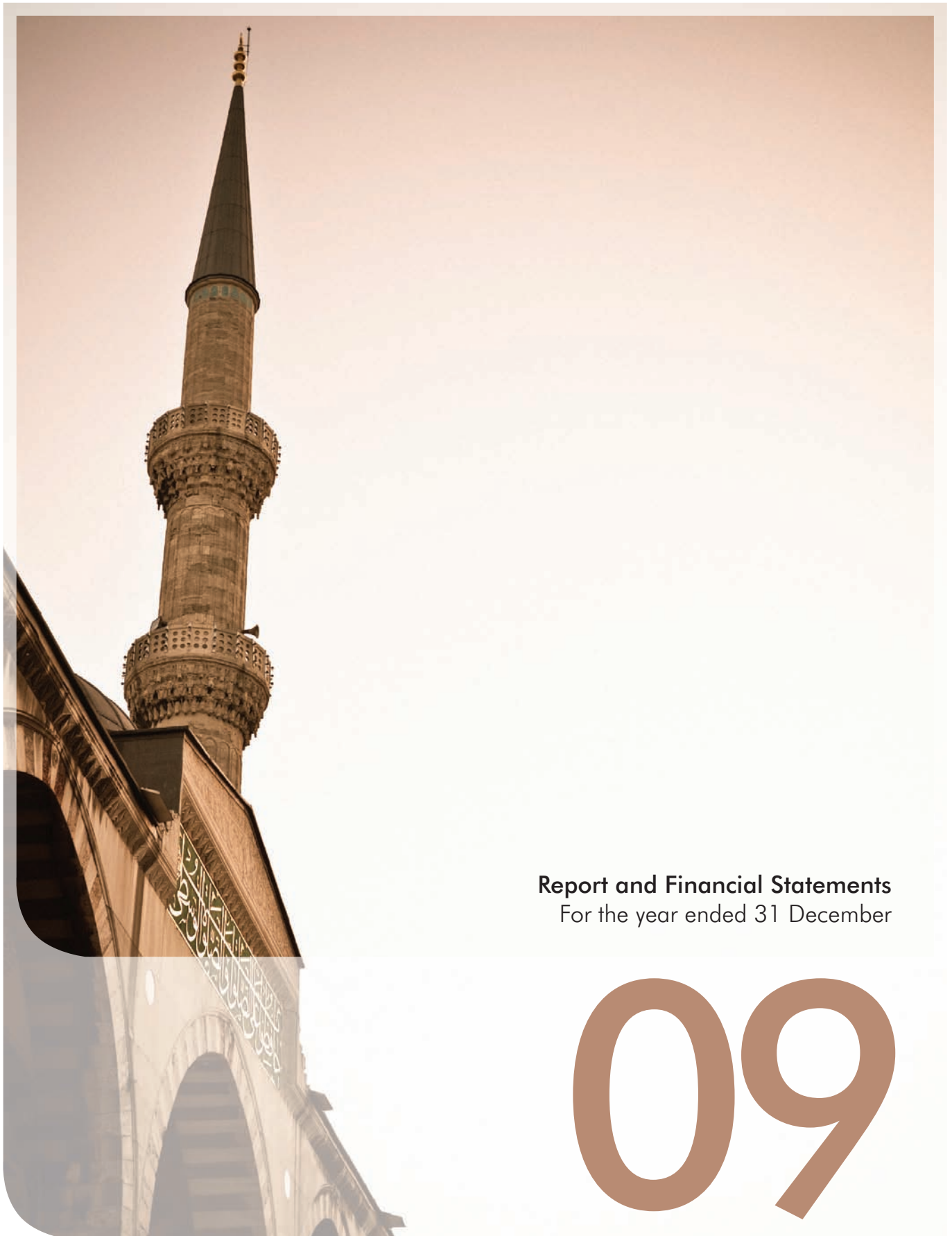


EASTERN EUROPEAN PROPERTY FUND LIMITED



Report and Financial Statements
For the year ended 31 December

09

EASTERN EUROPEAN PROPERTY FUND LIMITED

Investing Policy

Investment Objective

Eastern European Property Fund Limited (the “Company”) and its subsidiaries’ (together the “Group”) investment objective is to provide shareholders with a high level of income and the potential for significant capital growth by investing in property in the major urban centres of Turkey, Romania and Bulgaria (the “Target Countries”).

Investment Strategy

The Group invests in a range of office, retail, industrial and residential properties in the Target Countries. The initial focus has been on office and retail property. The Group primarily invests in income-producing properties in or around major urban centres in the Target Countries.

The Group has no investment restrictions in terms of levels of investment in different property classes or by country. The Group’s primary policy, however, is to provide the equity financing to purchase existing or newly built properties and, through the Investment Adviser, actively manage the leasing of its property investments.

The Group may also invest in construction and development or refurbishment of properties, either wholly owned by the Group or in conjunction with other investors.

No single investment, at the time of its acquisition, will represent more than 20% of the Group’s gross asset value, although there is no guarantee that this will always be the case.

Borrowings

The Group may, either directly or through its subsidiary property-holding companies, borrow amounts of up to 70% of any single investment’s purchase price such that for the Group, as a whole, only up to 60% of the aggregate value of all investments may be financed from third party debt financing.

The Board intends to put a resolution to shareholders to alter the Investing Policy of the Company. Further details are contained in the Chairman’s Statement. The Notice of Annual General Meeting and Form of Proxy will be sent to shareholders in due course.

Risk Warnings

Please refer to the Admission Document for details of the risk warnings.

www.eepfl.com

An authorised closed-ended investment company, incorporated under The Companies (Guernsey) Law, 2008 as amended.
REGISTERED IN GUERNSEY No. 44424

IFC Investing Policy

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IBC Directors and Advisers



Garden at Kadife Palas Building, Cihangir, Istanbul

Highlights

- Property valued by DTZ Debenham Tie Leung at £27.7 million (2008: £31.2 million).
- Net asset value at 31 December 2009 of £21.4 million, 110.44p per Ordinary Share (2008: £24.7 million, 127.21p per Ordinary Share).
- Loss for the year ended 31 December 2009 of £2.8 million, equal to a loss of 14.49p per Ordinary Share (2008: profit of £1.1 million, equal to 5.68p per Ordinary Share).
- Loss on revaluation of investment properties (after accounting for the foreign exchange loss) of £4.1 million (2008: gain of £4.9 million).
- 37% decrease in operating expenses from 2008 and a 17% decrease in operating expenses (excluding performance fees and interest payable) from 2008.
- Proposed amendment to strategy, including divestment from Bulgaria and Romania, further investment in Turkey and buy-back of Ordinary Shares.



Pera Residence, Beyoglu, Istanbul



Markiz (Oriental) Passage, Beyoglu, Istanbul

Chairman's Statement

2009 commenced amidst extremely challenging circumstances in Eastern European Property Markets. The Group has not been immune to these conditions but the Group's Turkish property portfolio has performed significantly better than its properties in Bulgaria and Romania.

Results

The Group reported a net loss for the year ended 31 December 2009 of £2.8 million (2008: profit of £1.1 million), representing a loss per Ordinary Share of 14.49p (2008: earnings of 5.68p). The loss for the year was mainly attributable to the £4.1 million loss (2008: gain of £4.9 million) arising from the revaluation of investment property, of which £1.3 million (2008: profit of £8.5 million) related to losses arising from foreign exchange movements.

The consolidated net asset value at 31 December 2009 was £21.4 million, 110.44p per Ordinary Share (2008: £24.7 million, 127.21p per Ordinary Share).

Despite the continued difficult economic climate, the share price of the Group remained largely unaffected during the year, falling by only 1.50p to 52.50p at 31 December 2009 (31 December 2008: fall of 40.00p during the year to 54.00p).

The discount of the share price to the Net Asset Value ("NAV") narrowed slightly during the year from 57.6% at 31 December 2008 to 47.5% at 31 December 2009. This is still much wider than the Board would wish and thus the Board is proposing a property rationalisation and share buy-back scheme as part of the strategy proposal outlined below.

Strategy

Although there are signs that the global economy is starting to recover from the recent recession, Turkey is faring significantly better than Bulgaria and Romania. In addition, the opportunities to add to the portfolio in Bulgaria and Romania have been extremely limited, and thus the Group has not been able to achieve the benefits in either location that a larger portfolio would have provided.

Therefore, as announced on 23 April 2010, the Board, following discussions with shareholders and its advisors, proposes that the Group divests from Bulgaria and Romania and focuses its resources entirely on Turkey. This will remove the overhead and administrative costs arising from operating in Romania, Bulgaria, Malta and Cyprus and reduce the overall overhead costs of the Group.

It is intended to fill the voids on the back of improving rental incomes in both Bulgaria and Romania and then dispose of both properties within the coming months. The proceeds from the sale of the Bulgarian and Romanian properties may be used to undertake share buy-backs and, if projected returns are sufficient, to invest further in the Turkish property market.

Additionally, it is proposed that the continuation vote on the Company be brought forward by one year to September 2012 and that the current fee structure be replaced with one that provides more emphasis on a rebased performance fee and less on annual management fees. These proposed changes will be contained in the resolutions to be placed before shareholders at the forthcoming Annual General Meeting.

Operating Costs

I mentioned in my last report that the Board and its advisers had taken steps to implement a more streamlined and efficient structure. The Group has already benefitted from these initial steps in the form of reduced costs, with operating expenses (excluding performance fees and financing charges) being reduced by 17% from 2008. Including the effect of the reduced interest rates, the Group's total operating costs have decreased by £1 million (37%) from 2008.

The Board is committed to identifying all possible areas of cost savings for the Group and is hopeful that, with the strategy outlined above, further cost savings can be made.

Property

During the year, the Group purchased one small property, the Taka Building, in Istanbul and continued to refurbish the Turkish portfolio to maximise the value of its assets.

The Group has focused on increasing the value of the portfolio by initiating extensive redevelopment and refurbishment of two of its largest Turkish properties. The construction work is expected to be finished in the second half of 2010 and will significantly increase the rental and earnings potential of the buildings.

Property values in the Group's Target Countries declined during the year and the Group suffered a net unrealised loss on revaluation of investment properties of £4.1 million (2008: gain of £4.9 million), including a foreign exchange loss on property of £1.3 million (2008: profit of £8.5 million). Further details of the properties are disclosed in the Property Manager and Adviser's Report.

Loan Facility

The US\$17.5 million loan facility that the Group's Turkish subsidiary has with HSBC Bank plc (the "Bank") contains financial and other covenants, including the requirement that the loan to value ("LTV") of the Turkish properties charged to the Bank, which comprise all of the Turkish properties with the exception of the "Yellow" Building, Gonul Sokak and the Taka Building, would not exceed 50%. At 31 December 2008, the LTV ratio was in excess of the 50% LTV covenant. Following negotiation with the Bank, a side letter and pledge agreement were signed in May 2009 whereby the Group's Turkish subsidiary pledged US\$4 million of a cash deposit to the Bank and is only able to draw on this cash deposit to purchase new property in Turkey.

The side agreement and pledge to the Bank are still in place and, at 31 December 2009, the Group complied with its LTV covenant.

Following a review by the Bank in April 2010, the amount pledged by the Group to the Bank was reduced to US\$2,545,000.

Dividend

The Board carefully considered the payment of a dividend for the year ended 31 December 2009. However, as the Directors are proposing to divest from Bulgaria and Romania and, with the proceeds, plan to invest further in Turkey and also buy-back shares, the Board considers it prudent to conserve funds and does not propose an interim or final dividend for the year ended 31 December 2009 (2008: *nil*).

Directorship Changes

At the Annual General Meeting held on 10 September 2009, the Ordinary Resolution to re-elect Richard Barnes as a Non-Executive Director was not passed. I would like to take this opportunity to thank Richard for his valuable contribution since the Group's launch in 2006.

Investing Policy

Following the changes to the AIM Rules for Companies, during the year, the Group replaced its Investment Objective and Investment Policy with the Investing Policy noted in the inside front cover of this report.

Outlook

Following the comparatively slow rate of recovery expected of the Bulgarian and Romanian property markets, the Board has set in motion a strategy for the exit from both markets. It is expected that, following this, the fortunes of the Group will be significantly enhanced as our core strength and expertise will be focused in the more vibrant and prestigious areas of Istanbul. This, coupled with prospective higher rental income from the completion of major renovation works and the general recovery in Turkey from the recent recession, lead me to believe that the outlook for the Group is positive in the medium-term.

The Board and its advisers believe that the forthcoming year will be challenging in respect of the implementation of the proposed strategy. However, the Board is confident that it will be able to manage the necessary changes effectively and in the best interests of shareholders.

Charles Parkinson

Chairman

14 May 2010

Property Manager and Adviser's Report

During the year ended 31 December 2009, the Group continued to experience difficult trading conditions, which varied significantly between the different geographical regions. Whilst Turkey showed signs of greater economic resilience, this contrasted with the rapid decline of economic conditions in Romania and Bulgaria.

Despite a tough year economically in Turkey, the property portfolio overall has performed well and the majority of the space available for letting has been occupied. The various refurbishment and regeneration projects have all progressed and the Group has suffered very few tenant defaults. The Turkish Lira has also recovered much of its previous year decline against the US Dollar, which has helped the Group's tenants in Turkey.

The economic climates of Romania and Bulgaria have become more difficult as these countries have experienced similar trading conditions to those that existed in the United Kingdom twelve months previously. Fortunately we believed that conditions in Romania and Bulgaria would prove to be difficult and that property in Turkey would offer more attractive returns, and therefore the Group's exposure to Romania and Bulgaria has been limited to one property in each location.

Both Romania and Bulgaria have suffered from the rapid decline in inward investment as a result of difficult global economic conditions. Romania has had a particular problem arising from the decline in its local currency, which has affected local consumers who tend to have loans in Euros or Swiss Francs. The corruption issues associated with the highest levels of the Bulgarian government and administration have caused the European Union to withhold further substantial infrastructure grants.

In Romania, the Group's single tenant decided to relinquish its occupation of the logistics premises, the Transalkim Warehouse, as of 31 January 2010 and we are actively seeking new tenants.

In Bulgaria, the Group lost one of the two tenants at its George Washington Street property in Sofia in the second half of 2009 and has taken over the remaining sub-tenancies put in place by that tenant. United Bulgarian Bank, the main tenant, remains in occupation.

In both Romania and Bulgaria the location of our property remains a primary attribute and we are confident that new lettings will be achieved in the near future. It is inevitable that there will be pressure on rent levels, but this is likely to take the form of 'incentives' to occupy, as opposed to substantial drops in rent levels. At the time of writing, local agents have indicated that they do not expect the existing rent levels of the Group's properties to come under pressure.

Property Portfolio

The principal success of 2009 proved to be the resilience of the property portfolio in Beyoglu, Istanbul, Turkey where the leased income improved by 4% (in Turkish Lira terms) over the twelve month period, compared to 2008. Currently, 64% of the Group's 8,981sqm of floor space in Turkey has been let, with the majority of the remaining space in the process of being renovated and not yet available for letting. With the enduring pressure of declining property trading and letting conditions elsewhere, the Group's portfolio in Beyoglu continued to benefit from its central location and proximity to Istiklal Street, which remains at the centre of various regeneration projects and initiatives.

The Group has made progress with its renovation and refurbishment projects and has won a legal case to recover vacant possession of the Ravuna Apartments in Istiklal Street, which will enable it to begin its renovation of that property during 2010.



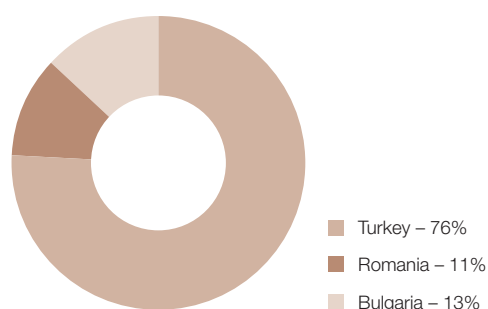
The Atrium, 24 George Washington Street, Sofia

Property Manager and Adviser's Report (continued)

Current Holdings

		Market Values	
		31 December 2009	31 December 2008
		£'000	£'000
Bulgaria			
24 George Washington Street, Sofia	Leisure/Office	3,636	5,315
Romania			
Transalkim Warehouse, Gara Progresului Street, S. Bucharest	Industrial	3,158	3,996
Turkey			
Kadife Palas Building, 134-139 Susam Street, Cihangir, Istanbul	Leisure/Office/Residential	2,474	2,515
6th Floor, The Misir Building, Istiklal Street, Beyoglu, Istanbul	Office	2,041	2,172
Ravuna Apartments, 401 Istiklal Street, Beyoglu, Istanbul	Office/Retail	3,207	3,289
Markiz (Oriental) Passage, Istiklal Street, Beyoglu, Istanbul	Leisure/Office/Retail	9,276	10,574
Nil Passage, Istiklal Street, Beyoglu, Istanbul	Leisure/Office/Retail	1,351	1,179
Pera Residence, Asmalimescrit Street, Beyoglu, Istanbul	Retail	1,268	1,336
"Yellow" Building, Asmalimescrit Street, Beyoglu, Istanbul	Retail	235	240
Gonul Sokak, Asmalimescrit Street, Beyoglu, Istanbul	Retail/Office	507	589
Taka Building, Asmalimescrit Street, Beyoglu, Istanbul	Retail	556	–
		20,915	21,894
Total investment properties		27,709	31,205

Country Split by Market Value



The properties held at the year end were as follows:

24 George Washington Street, Sofia, Bulgaria (Leisure/Office)

The United Bulgarian Bank remains in occupation under a lease for approximately 50% of the building. Bulgarian Property Management previously held a lease for the balance. However, it had difficulty maintaining occupancy throughout all of its leased areas and, despite the Group providing assistance to try

to help it through the difficult trading conditions, Bulgaria Property Management was unable to meet the lease payments. Consequently its lease was brought to an end during 2009. The Group has taken over its two remaining sub-tenancies, including the Bulgarian National Art Centre, which occupies most of the ground floor. The Group is marketing the void space (five units on the top floors, which accounts for 31% of the property by floor area), via local agents.

Transalkim Warehouse, Gara Progresului Street, S. Bucharest, Romania (Industrial)

The three-year lease to Transalkim expired on 31 January 2010 and the tenant has relocated entirely to its new facility. On the lease's conclusion, the Group signed three very short-term leases for approximately 10% of the space. Although two of these finished at the end of March, the Group is hoping to sign a longer-term lease with the remaining tenant, a global group, for approximately 10% of the office space and 5% of the warehousing space. The Group continues to market the rest of the property via local agents.

Kadife Palas Building, 134-139 Susam Street, Cihangir, Istanbul, Turkey (Leisure/Office/Residential)

During 2009 the Group let the remainder of the vacant space in this property. The Group has spread the risk of tenant default through the letting of this property to six different tenants. The main restaurant continues to trade well.

6th Floor, The Misir Building, Istiklal Street, Beyoglu, Istanbul, Turkey (Office)

The property remains fully occupied and is let to two tenants.

Ravuna Apartments, 401 Istiklal Street, Beyoglu, Istanbul, Turkey (Office/Retail)

The tenant appealed to the High Court against the Group's possession case. However the Group won the case in late 2009 and has taken possession of the premises with the intention of carrying out its major refurbishment and upgrading during 2010.

Markiz (Oriental) Passage, Istiklal Street, Beyoglu, Istanbul, Turkey (Leisure/Office/Retail)

The principal tenants remain in occupation as the Group pursues its renovation and upgrade proposals for leisure use on the upper floors. The proposed apart-hotel project has proved to be unviable as consent requirements appear to be too onerous and costly to implement. However, these issues are being taken forward by local specialists and the Group is looking for potential new tenants for the upper floors.

Nil Passage, Istiklal Street, Beyoglu, Istanbul, Turkey (Leisure/Office/Retail)

All the commercial occupiers on the upper floors have vacated and the Group is obtaining quotes for the renovation of the individual offices prior to re-letting. The external facades of the building have already been refurbished.

Pera Residence, Asmalimescrit Street, Beyoglu, Istanbul, Turkey (Retail)

The single restaurant operator continues to trade successfully.

"Yellow" Building, Asmalimescrit Street, Beyoglu, Istanbul, Turkey (Retail)

The Group has been seeking to work with the adjoining owner to enhance the overall project proposals for this building.

Gonul Sokak, Asmalimescrit Street, Beyoglu, Istanbul (Office/Retail)

The office tenant has vacated and this element of the property is currently being marketed. The retail tenant continues to trade well.

Taka Building, Asmalimescrit Street, Beyoglu, Istanbul, Turkey (Retail)

The Taka building is fully let as the ground floor has been let to a small bar operation, which has been trading well.

Regional Overview

Romania

On 6 December 2009, the incumbent centre-right PD-L (Democratic Liberal Party) President won the second round run-off election, beating the centre-left PSD (Social Democratic Party) candidate in a very close count and a PD-L led government is now in power. This has brought some stability after months of political wrangling and Fitch has raised Romania's rating outlook from "negative" to "stable".

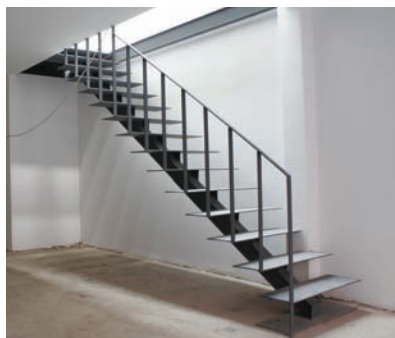
According to Fitch ratings agency director, David Heslam, the improvement of foreign economic and financial conditions, adjustment of the 2009 current account deficit beyond expectations, going past the risk posed by elections, the enforcement of the 2010 budget and expectations to resume normal relationships with the IMF have reduced pressure on Romania's rating.

When the global recession hit, Romania's government turned to the international community for assistance and received a €12.9 billion loan from the IMF in March 2009 as part of a co-ordinated financial support package of €20 billion. This programme has protected the lowest paid and boosted social spending, in order to protect the most vulnerable through this difficult period.

The IMF has forecast that economic growth for Romania will be 1.3% for 2010. However, this mainly reflects the recovery of external markets and the Romanian economy remains under pressure. Rental levels for Bucharest's main shopping streets, Calea Victoriei and Magheru, fell by 46.2% and 42.3% respectively in the past year, to €70-€75/sqm/month, according to a recent Cushman & Wakefield report. Despite the sharp downturn, inflation remained relatively high at 4.7% at the end of 2009, which was slightly above the upper limit of the National Bank of Romania's inflation target. However, the IMF expected inflation to ease to around 3.5% by the end 2010 on the back of the implementation of a prudent monetary policy.



6th Floor, The Misir Building, Beyoglu, Istanbul



Bulgaria

Bulgaria's current account deficit contracted almost threefold in 2009 (according to preliminary estimates by the Central Bulgarian Bank) against a background of the global financial and economic crisis. However, the National Statistics Institute has stated that the Bulgarian economy shrank by 6% (in real terms) in the fourth quarter of 2009 and 5% over the course of the whole of 2009.

Consumption, which had been one of the main drivers of economic growth in previous years, decreased by 6.2% in 2009 and exports shrank by 9.8%, year-on-year, while imports were down by an annual 22.3%. However, at the end of December 2009, the current account deficit was €2.9 billion, a significant decrease from the current account deficit of €8.6 billion at the end of 2008. The two figures represent 8.6% of GDP for 2009 and 25.0% for 2008.

The Bulgarian Finance Minister, Simeon Dyankov, recently explained to the Bulgarian Parliament that the economic recovery was underway and that the budget deficit was expected to narrow in May. However, many economists disagree with this view and the economic crisis continues to hit Bulgaria severely. This has been exacerbated by its currency board regime, which prevents adjustments of the Lev against the Euro.

Turkey

Like many countries, the Turkish economy has been affected by the global financial crisis, with GDP decreasing by an estimated 5.6% in 2009. However, in January 2010, Fitch upgraded Turkey's sovereign debt from BB- to BB+. In addition, the Economist reported that Turkey had weathered the credit crunch better than other emerging economies and, partly due to its tough regulation, the Turkish banks have few toxic assets and limited mortgage exposure, so the government has not had to divert public money to rescue banks.

The Turkish government is close to agreeing terms for a standby loan with the IMF. However, the government appears to be trying to resist signing as, in some respects, it could be seen as an admission of economic weakness.

Although the economic conditions in Turkey seem to be relatively stable, the government appears to have locked horns with the military elite and middle classes, who see themselves as the guardians of the secular state and who constantly seek to undermine the government's pro-Islamic stance. The government, in turn, is seeking to reduce the power base of the military and this scenario is likely to repeat itself over time as part of a permanent power transfer to the civil government.

There had been concern in the first quarter of 2010 that the market crisis could spread from Greece to Turkey. However, economists have commented that the fundamentals of the Turkish economy are sound and many property agents have reported an increased number of sales in Istanbul (as a whole) in 2010, compared to 2009, an encouraging sign that the economy is improving. Predictions for growth in 2010 are 4-5% as tourism and others sectors have been relatively resilient during the economic crisis.

Prospects

It is expected that the Bulgarian and Romanian property markets will experience a slow rate of recovery. However, we anticipate that the value of the Group's property in Turkey will remain stable in US Dollar terms in 2010 as confidence in the Turkish economy improves and the Group continues to benefit from the location of these properties.

We continue to view the Group's positions in Turkey very positively, as they provide continued opportunities for growth in overall returns. However, we believe that opportunities in Romania and Bulgaria are limited and so we plan to divest the holdings in Romania and Bulgaria in order to concentrate the Group's resources on Turkey

Bob Locker

CNC Property Fund Management Limited

Keiran Gallagher

Oliver Cadogan

Active Property Investments Limited

14 May 2010

Report of the Directors

We are pleased to present the Report and Financial Statements of the Group for the year ended 31 December 2009.

Status and Activities

The Company was incorporated in Guernsey on 27 February 2006 as an authorised closed-ended investment company. On 23 March 2006 the Company raised gross proceeds of £20.0 million (net proceeds of £19.1 million) through the issue of 20,000,000 Ordinary Shares at 100.00p each, with the Ordinary Shares being admitted to trading on AIM, a market operated by the London Stock Exchange. The Company received consent from the Guernsey Financial Services Commission under the Control of Borrowing (Bailiwick of Guernsey) Ordinances, 1959 to 1989 for the issue of the Admission Document and the associated raising of funds.

The Group's objective is to provide shareholders with a high level of income and the potential for significant capital growth by investing in property in the major urban centres of Turkey, Romania and Bulgaria (the "Target Countries").

Results

The Group made a net loss for the year ended 31 December 2009 of £2.8 million (2008: profit of £1.1 million), representing losses per Ordinary Share of 14.49p (2008: earnings of 5.68p). The consolidated net asset value at 31 December 2009 was £21.4 million (2008: £24.7 million), 110.44p per Ordinary Share based on 19,391,250 Ordinary Shares in issue (2008: 127.21p per Ordinary Share).

Share Capital

Pursuant to the authority granted at the Company's last Annual General Meeting, the Company has authority to buy back up to 14.99% of the Ordinary Shares issued at the original placing for cancellation. No Shares were purchased for cancellation during the year. The Company intends to seek to renew the necessary authorities to buy back Ordinary Shares at the forthcoming Annual General Meeting.

The Company has the authority to purchase up to 10% of the Ordinary Shares in issue and hold them as Treasury Shares, enabling the Board to exert a positive influence, as and when deemed appropriate, over the level of discount to net asset value at which the Ordinary Shares trade. During the year ended 31 December 2009, the Company did not purchase any shares to hold as Treasury Shares (during the year ended

31 December 2008, 608,750 Ordinary Shares were purchased to be held as Treasury Shares). At 31 December 2009, 608,750 Ordinary Shares were held as Treasury Shares.

Dividends

The Board carefully considered the payment of a dividend for the year ended 31 December 2009. However, as the Directors are proposing to divest from Bulgaria and Romania and, with the proceeds, plan to invest further in Turkey and also buy-back shares, the Board considers it prudent to conserve funds and does not propose an interim or final dividend for the year ended 31 December 2009 (31 December 2008: nil).

Financing

On 18 December 2007, HSBC Bank plc (the "Bank") made available to the Group's two Turkish subsidiaries two loan facilities totalling US\$17.5 million, which were drawn down on 19 December 2007 and are to be repaid at the end of five years from drawdown (this is now one loan facility, as the two Turkish subsidiaries merged at 31 December 2008). The loan facilities contain financial and other covenants, including the requirement that the loan to value ("LTV") of the Turkish properties charged to the Bank, which comprise all of the Turkish properties with the exception of the "Yellow" Building, Gonul Sokak and the Taka Building, would not exceed 50% after 18 December 2008.

At 31 December 2008 the LTV ratio was in excess of the 50% LTV covenant. Following negotiation with the Bank, a side letter and pledge agreement were signed in May 2009 whereby Markiz (Doğu Avrupa changed its name to Markiz on 8 September 2009), the Turkish subsidiary of the Company, pledged US\$4 million of a cash deposit to the Bank and is only able to draw on this cash deposit to purchase new property in Turkey. The side agreement and pledge to the Bank were still in place and, as at 31 December 2009, the Group complied with its LTV covenant.

Following a review by the Bank in April 2010, the amount pledged by the Group to the Bank was reduced to US\$2,545,000.

The Property Manager and Investment Adviser continue to monitor the loan covenants and, subject to Turkish property markets remaining at current levels, the Directors have no reason to believe that any breaches of the financial covenants will occur in the foreseeable future.

Property

During the year the Group continued to refurbish and renovate its investment property portfolio and purchased one small property, the Taka Building. The properties were independently valued by DTZ Debenham Tie Leung at £27.7 million at 31 December 2009 (2008: £31.2 million). The valuation of the portfolio resulted in a loss on revaluation (excluding the net loss from foreign exchange movements) of £2.8 million during the year (2008: loss of £3.6 million). Including the foreign exchange loss, the Group incurred a loss on revaluation of investment properties of £4.1 million (2008: gain of £4.9 million) (see note 15). At 31 December 2009 the market value of the properties was £7.7 million above the cost of £20.0 million.

Details of these properties are set out in the Property Manager and Adviser's Report on pages 4 to 9.

Material Contracts

The Company's material contracts are with Elysium Fund Management Limited ("Elysium") which acts as Administrator, Manager and Secretary, Smith & Williamson Corporate Finance Limited, which acts as Nominated Adviser, Liberum Capital Limited, which acts as Broker, Capita Registrars (Guernsey) Limited, which acts as Registrar and HSBC Bank plc, the Group's principal bankers. As the Group is fully invested, it no longer has a requirement for custodian services and on 19 January 2010 the Group gave notice to Collins Stewart (CI) Limited, which acted as Custodian, to terminate the contract.

Elysium is entitled to receive a quarterly management fee, an annual performance fee and a quarterly administration fee from the Group, details of which are disclosed in note 5.

The Manager has entered into a contract for services with both an Investment Adviser and a Property Manager, Active Property Investments Limited ("API") and CNC Property Fund Management Limited ("CNC") respectively. All costs for services provided by both the Investment Adviser and the Property Manager are borne by the Manager.

Appointment of the Manager, Property Manager and Investment Adviser

The Directors believe that the Manager, Property Manager and Investment Adviser performed creditably during the financial period. In the opinion of the Directors, it is in the interests of the Company to retain the services of Elysium, CNC and API.

Taxation

The Company has been granted exemption from Guernsey taxation under The Income Tax (Exempt Bodies) (Guernsey) Ordinance 1989 and is currently charged an annual exemption fee of £600. The Directors intend to conduct the Company's affairs such that it continues to remain eligible for exemption from Guernsey tax.

The subsidiaries of the Company are liable to taxation under the taxation laws of the countries in which they are incorporated.

Future Prospects

The Board, following discussions with shareholders and its advisors, proposes that the Group divests from Bulgaria and Romania and focuses its resources entirely on Turkey. The proceeds from the sale of the Bulgarian and Romanian properties will then be used to undertake share buy-backs and, if projected returns are sufficient, to invest further in the Turkish property market.

Additionally, it is proposed that the continuation vote on the Company be brought forward by one year to September 2012 and that the current fee structure be replaced with one that provides more emphasis on a rebased performance fee and less on annual management fees. These proposed changes will be contained in the resolutions to be placed before shareholders at the forthcoming Annual General Meeting.

The Board believes that the Group is well prepared to survive any downturns that the property markets in the Target Countries may suffer in the next twelve months, having exceptional properties in prime locations, and is also well placed to take advantage of opportunities that may arise within the Turkish property market to acquire further properties. Further details are given in the Property Manager and Adviser's Report.

Directors

The present members of the Board are listed on the inside back cover of this report. At the Annual General Meeting held on 10 September 2009, the Ordinary Resolution to re-elect Richard Barnes as a Non-Executive Director was not passed.

Report of the Directors (continued)

At 31 December 2009 the Directors' interests in the Ordinary Shares of the Company were as follows:

	<i>Ordinary Shares</i>
Charles Parkinson	10,000
Carol Goodwin	–
Hugh Ward	30,000

On 8 March 2010, Charles Parkinson sold 10,000 Ordinary Shares in the Company and no longer has a holding in the Company. There were no other changes in the interests of Directors between 31 December 2009 and 14 May 2010.

There are no service contracts in place between the Company and the Directors.

Substantial Interests

As at 14 May 2010, the following interests of 5% or more of the issued Ordinary Share Capital had been notified to the Company:

<i>Funds managed by:</i>	<i>Number of Ordinary Shares held</i>	<i>% of share capital</i>
Spearpoint*	8,157,821	42.07%
Insight Investment Management	2,327,500	12.00%
NCL Smith & Williamson	1,415,300	7.30%
Charles Stanley	1,163,854	6.00%
Rathbone	1,140,000	5.88%

* Of these shares, 5,815,321 Ordinary Shares, representing 29.99% of the issued Ordinary Share Capital, are held under discretionary management on behalf of clients of Spearpoint, while the balance are held under non-discretionary management.

Going Concern

After making appropriate enquiries, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future and do not consider there to be any threat to the going concern status of the Group. For this reason, they continue to adopt the going concern basis in preparing the consolidated financial statements.

Corporate Governance

As a Guernsey incorporated company and under the AIM Rules for companies, the Company is not required to comply with the Combined Code published by the Financial Reporting Council (the "2008 FRC Code"). The Board has however put

in place a framework for corporate governance which it believes is suitable for a property investment company and which enables the Company to voluntarily comply with the main requirements of the 2008 FRC Code, which sets out principles of good governance and a code of best practice.

The Board considers that the Company has complied with the provisions contained within the 2008 FRC Code throughout this accounting period, except where indicated below. The following statement describes how the relevant principles of governance are applied to the Company.

The Board

The Board currently consists of three Non-Executive Directors, all of whom are independent. As the Chairman of the Board is an independent non-executive director, the Board does not consider it necessary to appoint a senior independent director.

The Company has no executive directors and no employees. However, the Board has engaged external companies to undertake the management, advisory and administrative activities of the Company and the production of the Annual Report and Financial Statements, which are independently audited. Clear documented contractual arrangements are in place between these firms that define the areas where the Board has delegated responsibility to them. Whilst the Board delegates responsibility, it retains accountability for the functions it delegates and is responsible for the systems of internal control.

The Board meets at least four times a year and between these formal meetings there is regular contact with the Manager, Property Manager and the Investment Adviser. The Directors are kept fully informed of investment and financial controls, and other matters that are relevant to the business of the Group and should be brought to the attention of the Directors. The Directors also have access to the Secretary and, where necessary in the furtherance of their duties, to independent professional advice at the expense of the Group.

The Board has a breadth of experience relevant to the Group, and the Directors believe that any changes to the Board's composition can be managed without undue disruption. With any new appointment of a Director to the Board, consideration will be given as to whether a formal induction process is appropriate.

The Board considers Agenda Items laid out in the Notice and Agenda which are formally circulated to the Board in advance of a meeting as part of the Board Papers and therefore

	Total Meetings	Quarterly Board Meetings	Audit Committee Meetings	Other Committee Meetings
Charles Parkinson	7/7	4/4	2/2	1/1
Carol Goodwin	6/7	4/4	2/2	0/1
Hugh Ward	6/7	4/4	2/2	0/1
Richard Barnes (<i>resigned 10 September 2009</i>)	5/5	3/4	2/2	n/a

Directors may request any Agenda Items to be added that they consider appropriate for Board discussion. Additionally, each Director is required to inform the Board of any potential or actual conflicts of interest prior to Board discussion.

All members of the Board are expected to attend each Board meeting and to arrange their schedules accordingly, although non-attendance is unavoidable in certain circumstances. The table above details the number of formal meetings attended by each Director in the year.

The Board has been continuously engaged in a review of the Group's strategy with the Manager, Property Manager, Investment Adviser and Broker to ensure the employment of appropriate strategies under prevailing market, political and economic conditions at any particular time, within the overall investment restrictions of the Group.

To support the review of the strategy, the Board has focussed at Board Meetings on a review of individual property investments and returns, country exposure, the overall portfolio performance and associated matters, such as gearing and pipeline investment opportunities. Additionally a strong focus of attention is given to marketing/investor relations, risk management and compliance, peer group information and industry issues.

The Board evaluates its own performance and considers the tenure of each Director on an annual basis and believes that the mix of skills, experience, ages and length of service are appropriate to the requirements of the Company.

Board Responsibilities

The Directors have adopted a set of Reserved Powers, which establish the key purpose of the Board and detail its major duties. These duties cover the following areas of responsibility:

- Statutory obligations and public disclosure;
- Strategic matters and financial reporting;
- Oversight of management and personnel matters;

- Risk assessment and management, including reporting, monitoring, governance and control; and

- Other matters having material effects on the Company.

These Reserved Powers of the Board have been adopted by the Directors to clearly demonstrate the seriousness with which the Board takes its fiduciary responsibilities and as an ongoing means of measuring and monitoring the effectiveness of its actions.

Committees of the Board

The Board has not deemed it necessary to appoint a nomination or remuneration committee as, being comprised wholly of Non-Executive Directors, the whole Board considers these matters.

Audit Committee

An Audit Committee has been established comprising the full Board of the Company. During the year, Carol Goodwin resigned as Chairman of the Audit Committee and Hugh Ward was appointed in her place. Carol Goodwin continues to be a member of the Audit Committee. The Audit Committee examines the effectiveness of the Group's internal control systems, the Annual Report and Financial Statements and Half-Yearly Report, the Auditors' remuneration and engagement, as well as the Auditors' independence and any non-audit services provided by them. The Audit Committee receives information from the Administrator, the Secretary and the External Auditors. The Audit Committee meets at least twice a year to review the Annual Report and Financial Statements, Half-Yearly Report, audit timetable and other risk management and governance matters. A copy of the Audit Committee Terms of Reference is available upon request from the Secretary.

Internal Controls

The Board is ultimately responsible for the Company's system of internal control and for reviewing its effectiveness. The Board confirms that there is an ongoing process for identifying,

Report of the Directors (continued)

evaluating and managing the significant risks faced by the Group. This process has been in place for the year under review and up to the date of approval of this Annual Report and Consolidated Financial Statements. In line with general market practice for investment companies, the Directors do not conduct a formal annual review of the internal controls. However, the Board does conduct an annual review of the financial reporting procedures and corporate governance controls and feels that the procedures employed by the service providers adequately mitigate the risks to which the Group is exposed.

The key procedures which have been established to provide effective internal controls are as follows:

- Elysium is responsible for the provision of management, administration and company secretarial duties.
- The Directors of the Company clearly define the duties and responsibilities of their agents and advisers in the terms of their contracts.
- The Board reviews financial information produced by the Manager, Property Manager and the Investment Adviser on a regular basis.
- The Group does not have an internal audit department. All of the Group's management functions are delegated to independent third parties and it is therefore felt that there is no need for the Group to have an internal audit facility.
- On an ongoing basis, independently prepared compliance reports are provided at each Board meeting.

The internal control systems are designed to meet the Group's particular needs and the risks to which it is exposed. Accordingly, the internal control systems are designed to manage, rather than eliminate, the risk of failure to achieve business objectives and by their nature can only provide reasonable and not absolute assurance against misstatement and loss.

Relations with Shareholders

The Manager and Broker maintain a regular dialogue with major shareholders, the feedback from which is reported to the Board. In addition, Board members will be available to respond to shareholders' questions at the forthcoming Annual General Meeting.

The Board monitors the trading activity and shareholder profile on a regular basis and maintains contact with the Group's

Broker to ascertain the views of shareholders. Shareholder sentiment is also ascertained by the careful monitoring of the premium/discount that the shares are traded in the market when compared to those experienced by similar companies. Major shareholders are contacted directly by the Broker, Property Manager and Investment Adviser on a regular basis.

The Group reports formally to shareholders twice a year and a proxy voting card for use at the Annual General Meeting is sent to shareholders. Additionally, current information is provided to shareholders on an ongoing basis through the Group website. The Secretary monitors the voting of the shareholders and proxy voting is taken into consideration when votes are cast at the Annual General Meeting. Shareholders may contact the Directors via the Company Secretary.

Litigation

During the year ended 31 December 2009 the Group has been engaged in obtaining vacant possession of the Ravuna Apartments, in Istanbul, a significant property in the Group's portfolio. The Group was successful in its case against the sitting tenant; however the tenant is appealing against the verdict. The appeal will be fought by the Group.

The Group is also engaged in a legal dispute in Bulgaria. A long-term tenant has defaulted on the lease agreement in place. As a result the Group is pursuing a claim, through the courts in Bulgaria, for unpaid rent, VAT paid over to the tax authorities and all other costs incurred by the Group in pursuit of the claim.

Auditors

KPMG Channel Islands Limited has expressed its willingness to act as Auditors to the Company and a resolution for its reappointment will be proposed at the forthcoming Annual General Meeting.

Payment to Creditors

Amounts due to suppliers and service providers are settled promptly within the terms of the payment, except in cases of dispute.

Financial Risk Profile

The Group's main assets are its freehold investment properties. Its financial instruments comprise cash, loans and various items such as receivables and payables that arise directly from the Group's operations. The main purpose of these instruments is the investment of shareholders' funds.

The main risks are market price, liquidity, credit, interest rate and foreign currency risks. Further details are given in note 28 to the financial statements.

Possible adverse economic and political conditions

The financial operations of the Group may be adversely affected by general economic conditions and particularly by economic conditions in the Target Countries. The returns that are likely to be achieved on an investment in property or land in the Target Countries will be materially affected by the political and economic climate in Eastern Europe, particularly in the Target Countries. In particular, changes in the rates of inflation and interest rates in the Target Countries may affect the income generated by, and capital value of, the property portfolio.

The property and land markets in which the Group invests are relatively immature and the economies of the Target Countries are not as fully developed as those in Western Europe. Further, those countries carry risks of political, legal and economic instability, which could adversely affect the Group's results or operations. With any investment in a foreign country there exists the risk of adverse political or regulatory developments including, but not limited to, nationalisation, confiscation without fair compensation, terrorism, war or currency restrictions. The latter may be imposed to prevent capital flight and may make it difficult or impossible to exchange local currency into foreign currency or to repatriate foreign currency.

Further, any deterioration in the Western European economies can be expected to have an adverse effect on the economies of the Target Countries and potentially on property values and the level of rents in the Target Countries.

Statement of Directors' Responsibilities

The Directors are responsible for preparing the Report of the Directors and the financial statements in accordance with applicable laws and regulations.

Company law requires that directors prepare financial statements for each financial year. Under that law, the Directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards and applicable law. The financial statements are required by law to give a true and fair view of the state of affairs of the Group and of the profit and loss of the Group for that period.

In preparing those financial statements the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on a going concern basis unless it is inappropriate to presume that the Group will continue in business.

The Directors confirm that the financial statements comply with the above requirements.

The Directors are also responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and of the Group and to enable them to ensure that the financial statements comply with The Companies (Guernsey) Law, 2008 as amended. They are also responsible for safeguarding the assets of the Company and of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are also responsible for the maintenance and integrity of the website on which these financial statements can be published.

Disclosure of Information to Auditors

The Directors who held office at the date of approval of this Report of the Directors confirm that, so far as they are each aware, there is no relevant audit information of which the Group's Auditors are unaware and each Director has taken all the steps that he ought to have taken as a Director to make himself aware of any relevant audit information and to establish that the Group's auditors are aware of that information.

On behalf of the Board.

Charles Parkinson Director	Hugh Ward Director
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14 May 2010	14 May 2010
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Independent Auditor's Report

to the Members of Eastern European Property Fund Limited

We have audited the consolidated financial statements (the "financial statements") of Eastern European Property Fund Limited (the "Company") for the year ended 31 December 2009 which comprise the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Changes in Equity, the Consolidated Statement of Financial Position, the Consolidated Statement of Cash Flows and the related notes. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the Company's members, as a body, in accordance with section 262 of The Companies (Guernsey) Law, 2008, as amended. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and Auditors

The Directors' responsibilities for preparing the financial statements which give a true and fair view and are in accordance with International Financial Reporting Standards and are in compliance with applicable Guernsey law are set out in the Statement of Directors' Responsibilities on page 15.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view, are in accordance with International Financial Reporting Standards and comply with The Companies (Guernsey) Law, 2008, as amended. We also report to you if, in our opinion, the Group has not kept proper accounting records, or if we have not received all the information and explanations we require for our audit.

We read the other information accompanying the financial statements and consider whether it is consistent with those statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements:

- give a true and fair view of the state of the Group's affairs as at 31 December 2009 and of its loss for the year then ended;
- are in accordance with International Financial Reporting Standards; and
- comply with The Companies (Guernsey) Law, 2008, as amended.

KPMG Channel Islands Limited

Chartered Accountants
Guernsey, Channel Islands

14 May 2010

Consolidated Statement of Comprehensive Income

for the year ended 31 December 2009

	Note	Year ended 31 December 2009 £'000	Year ended 31 December 2008 £'000
Income			
Rent receivable		1,610	1,499
Bank interest receivable		46	261
Other income		16	36
Total income		1,672	1,796
Expenses			
Administration fees	5	(125)	(125)
Management fees	5	(594)	(571)
Performance fee	5	–	(475)
Interest payable and similar charges	7	(398)	(712)
Other operating expenses	9	(678)	(987)
Total expenses		(1,795)	(2,870)
Investment gains and losses			
(Loss)/gain on revaluation of investment properties	15	(4,102)	4,866
Total investment (loss)/gain		(4,102)	4,866
Net (loss)/profit from operating activities before gains and losses on foreign currency exchange			
		(4,225)	3,792
Gain/(loss) on foreign currency exchange		1,135	(2,023)
Net (loss)/profit from operating activities		(3,090)	1,769
Taxation	20	280	(653)
(Loss)/profit for the year		(2,810)	1,116
Other comprehensive income			
Exchange differences arising from translation of foreign operations		(443)	312
Total other comprehensive (loss)/income		(443)	312
Total comprehensive (loss)/income for the year attributable to the Owners of the Group			
		(3,253)	1,428
(Loss)/earnings per share – basic and diluted	11	(14.49)p	5.68p

All the items in the above statement are derived from continuing operations.

The accompanying notes on pages 21 to 48 form an integral part of these financial statements.

Consolidated Statement of Changes in Equity

Attributable to Owners of the Company
for the year ended 31 December 2009

	Share capital £'000	Reserve for own shares £'000	Distributable reserves £'000	Foreign exchange translation reserve £'000	Total £'000
Net assets at 1 January 2009	200	(497)	24,047	918	24,668
<i>Total comprehensive loss for the year</i>					
Loss for the year	–	–	(2,810)	–	(2,810)
Other comprehensive loss	–	–	–	(443)	(443)
Net assets at 31 December 2009	200	(497)	21,237	475	21,415

Consolidated Statement of Changes in Equity

for the year ended 31 December 2008

	Note	Share capital £'000	Reserve for own shares £'000	Distributable reserves £'000	Non- distributable reserves £'000	Foreign exchange translation reserve £'000	Total £'000
Net assets at 1 January 2008		200	–	17,174	5,757	606	23,737
Re-designation of non-distributable reserves	3n	–	–	5,757	(5,757)	–	–
<i>Total comprehensive income for the year</i>							
Profit for the year		–	–	1,116	–	–	1,116
Other comprehensive income		–	–	–	–	312	312
<i>Contributions by and distributions to owners</i>							
Purchase of own shares for treasury	23	–	(497)	–	–	–	(497)
Net assets at 31 December 2008		200	(497)	24,047	–	918	24,668

The accompanying notes on pages 21 to 48 form an integral part of these financial statements.

Consolidated Statement of Financial Position

as at 31 December 2009

	Note	31 December 2009 £'000	31 December 2008 £'000
Non-current assets			
Freehold investment property	15,32	27,709	31,205
Property, plant and equipment	14	33	39
Advances for fixed assets		–	15
Intangible assets	13	10	12
Deferred tax assets	21	62	–
Cash pledged to bank	17, 22	2,474	–
		30,288	31,271
Current assets			
Trade and other receivables	18	538	1,101
Tax assets		15	57
Cash and cash equivalents	17	2,389	6,428
		2,942	7,586
Total assets		33,230	38,857
Current liabilities			
Trade and other payables	19	(212)	(927)
Overseas corporate tax		(22)	(98)
Bank loan	22	–	(11,932)
		(234)	(12,957)
Non-current liabilities			
Rents received in advance		(221)	(217)
Deferred tax liabilities	21	(539)	(968)
Other provisions and payables		(40)	(47)
Bank loan	22	(10,781)	–
		(11,581)	(1,232)
Total liabilities		(11,815)	(14,189)
Net assets		21,415	24,668
Capital and reserves			
Called-up share capital	23	200	200
Reserve for own shares		(497)	(497)
Distributable reserves		21,237	24,047
Foreign exchange translation reserve		475	918
Total equity attributable to owners of the Group		21,415	24,668
Net Asset Value per Ordinary Share – basic and diluted	25	110.44p	127.21p

The financial statements on pages 17 to 48 were approved by the Board of Directors on 14 May 2010 and were signed on its behalf by

Charles Parkinson
Director

Hugh Ward
Director

14 May 2010

14 May 2010

The accompanying notes on pages 21 to 48 form an integral part of these financial statements.

Consolidated Statement of Cash Flows

for the year ended 31 December 2009

	Note	Year ended 31 December 2009 £'000	Year ended 31 December 2008 £'000
Net (loss)/profit from operating activities		(3,090)	1,769
Adjustments for:			
Bank interest receivable		(46)	(261)
Loss/(gain) on revaluation of investment properties	15	4,102	(4,866)
(Gain)/loss on foreign currency exchange		(1,135)	2,023
Amortisation and depreciation	13,14	8	(10)
Amortisation of bank loan fees	7,22	18	–
Bank loan interest payable		370	660
Net cash inflow/(outflow) from operating activities before working capital changes		227	(685)
Decrease/(increase) in trade and other receivables		563	(166)
(Decrease)/increase in trade and other payables		(683)	85
Increase in other non-current liabilities		33	98
Interest received in the year		46	261
Interest paid in the year		(380)	(439)
(Tax paid)/tax refund received in the year		(111)	107
Net cash outflow from operating activities		(305)	(739)
Investing activities			
Acquisition and development of investment property		(496)	(2,288)
Purchase of property, plant and equipment		(96)	(10)
Net cash outflow from investing activities		(592)	(2,298)
Financing activities			
Cash pledged to bank	22	(2,474)	–
Purchase of own shares		–	(497)
Net cash outflow from financing activities		(2,474)	(497)
Decrease in cash and cash equivalents		(3,371)	(3,534)
Cash and cash equivalents at beginning of year		6,428	8,008
Decrease in cash and cash equivalents		(3,371)	(3,534)
Foreign exchange movement		(668)	1,954
Cash and cash equivalents at end of year		2,389	6,428

The accompanying notes on pages 21 to 48 form an integral part of these financial statements.

Notes to the Financial Statements

for the year ended 31 December 2008

1. General Information

The Company was incorporated in Guernsey on 27 February 2006 as an authorised closed-ended investment company. The registered office of the Company is No. 1 Le Truchot, St Peter Port, Guernsey GY1 3JX.

On 23 March 2006 the Company raised gross proceeds of £20.0 million (net proceeds of £19.1 million) through the issue of 20,000,000 Ordinary Shares at 100.00p each, with the Ordinary Shares being admitted to trading on AIM, a market operated by the London Stock Exchange. The Company received consent from the Guernsey Financial Services Commission under the Control of Borrowing (Bailiwick of Guernsey) Ordinances, 1959 to 1989 for the issue of the Admission Document and the associated raising of funds.

The Group's objective is to provide shareholders with a high level of income and the potential for significant capital growth by investing in property in the major urban centres of Turkey, Romania and Bulgaria (the "Target Countries"). However, as announced on 23 April 2010, the Board, following discussions with shareholders and its advisors, proposes that the Group divests from Bulgaria and Romania and focuses its resources entirely on Turkey. These proposed changes will be contained in the resolutions to be placed before shareholders at the forthcoming Annual General Meeting.

2. Basis of Preparation

a) Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs"), they give a true and fair view and are in compliance with The Companies (Guernsey) Law, 2008, as amended.

The consolidated financial statements were authorised for issuance by the Board of Directors on 14 May 2010.

b) Basis of measurement

The consolidated financial statements have been prepared on a historic cost basis, except for freehold investment property, which has been measured at fair value.

c) Functional and presentation currency

These consolidated financial statements are presented in Sterling, which is also the Company's functional currency. All amounts are rounded to the nearest thousand.

d) Use of estimates and judgements

The preparation of financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and the reported amounts of assets and liabilities, income and expense. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of IFRSs that have a significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 15: Freehold Investment Property and note 31: Fair Values.

Notes to the Financial Statements (continued)

3. Significant accounting policies

a) Basis of consolidation

The financial statements consolidate the financial statements of the Company and its subsidiary undertakings to 31 December 2009. The results of the subsidiary undertakings are accounted for in the Consolidated Statement of Comprehensive Income from the date the subsidiaries were formed (the subsidiaries have only been owned by the Company).

Subsidiaries are those entities, including special purpose entities, controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account.

The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences to the date that control ceases. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group.

All intercompany balances and transactions are eliminated on consolidation.

b) Revenue

Rental income

Rental income from freehold investment property rented under operating leases is recognised through the Consolidated Statement of Comprehensive Income on a straight-line basis over the period commencing on the later of the start of the lease, or acquisition of the property by the Group, and ending on the earlier of the end of the lease and the next break point, unless it is reasonably certain that the break option will not be exercised. Rental income revenue excludes service charges and other costs directly recoverable from tenants. Direct costs of rental income comprise head rents payable, irrecoverable service charge costs and other property outgoings. Rental income is included gross of any foreign income tax charged.

Interest income

Interest income is accounted for on an accruals basis, taking into account the effective yield.

c) Expenses

All expenses are accounted for on an accruals basis. The management, performance and administration fees, finance costs and all other expenses (with the exception of bank loan arrangement fees, which are deducted from the carrying amounts of the loans) are charged through the Consolidated Statement of Comprehensive Income in the period in which they are incurred.

d) Taxation

Investment income is recorded gross of applicable taxes and tax expense is recognised through the Consolidated Statement of Comprehensive Income as incurred. The property subsidiaries are subject to tax on income arising on the property portfolio, after deduction of allowable expenses. Withholding tax and irrecoverable VAT may also arise on distributions and interest from the subsidiaries.

e) Deferred taxation

Deferred income tax is provided, using the liability method, on all temporary differences at the financial reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred income tax liabilities are recognised for all taxable temporary differences.

Deferred income tax assets are recognised for all deductible temporary differences and unused tax losses, to the extent that it is probable that taxable profit will be available in the foreseeable future against which the deductible temporary differences and unused tax losses can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the relevant tax benefit will be realised.

Deferred tax is measured at the tax rates that are expected to apply when the liability is settled, based on tax rates (and tax laws) that have been enacted or substantially enacted at the financial reporting date.

f) Intangible assets

Intangible assets are measured at cost less accumulated amortisation and impairment losses. Amortisation is recognised through the Consolidated Statement of Comprehensive Income on a straight-line basis over the estimated useful lives of the intangible assets. The estimated useful life of the trade mark is fifteen years.

The depreciation methods, useful lives and residual values of the intangible assets are reviewed at each reporting date.

g) Property, plant and equipment

Items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset.

Depreciation is recognised through the Consolidated Statement of Comprehensive Income on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. When parts of an item of property, plant and equipment have different useful lives, those components are accounted for as separate items of property, plant and equipment. The estimated useful lives of the furniture and fixtures are from five to ten years.

The depreciation methods, useful lives and residual values of the property, plant and equipment are reviewed at each reporting date.

h) Freehold investment property

Freehold investment property is initially measured at cost, being the fair value of consideration given including related transaction costs. Additions to freehold investment property consist of costs of a capital nature and, in the case of investment property under development, capitalised interest. After initial recognition, freehold investment property is carried at its fair value. The fair value of the freehold investment property is largely based on estimates using property appraisal techniques and other valuation methods as outlined below. Such estimates are inherently subjective and actual values can only be determined in a sales transaction.

The appraisers determine the fair value by applying the methodology and guidelines as set out in the appropriate sections of both the current Practice Statements and United Kingdom Practice Statements contained within the RICS Appraisal and Valuation Standards, 6th Edition (the "Red Book") and in accordance with IAS 40: Investment Property. This approach is based on discounting the future net income receivable from properties to arrive at the net present value of the future income stream. Future net income comprises the rent secured under existing leases, less any known or expected non-recoverable costs and the current market rent attributable to future vacancy years. The consideration basis for this calculation excludes the effects of any taxes. The discount factors used to fair value are consistent with those used to value similar properties, with comparable leases in each of the respective markets.

All freehold investment properties are valued twice per year by independent appraisers. The last valuation of the investment properties was carried out by DTZ Debenham Tie Leung at 31 December 2009.

The difference between the fair value of an investment property at the reporting date and its carrying amount prior to re-measurement is recognised through the Consolidated Statement of Comprehensive Income as a valuation gain or loss.

When the Group begins to redevelop an existing investment property for continued future use as an investment property, the property remains an investment property and is accounted for as such. When the Group begins to redevelop an existing investment property with a view to sale, the property is transferred to trading properties and held as a current asset. The property is re-measured to fair value as at the date of the transfer with any gain or loss being taken to the Consolidated Statement of Comprehensive Income. The re-measured amount becomes the deemed cost at which the property is then carried in trading properties.

Notes to the Financial Statements (continued)

3. Significant accounting policies (continued)

i) Impairment of intangible assets and property, plant and equipment

The assets or groups of assets are assessed for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. Individual assets are grouped for impairment assessment purposes at the lowest level at which there are identifiable cash flows that are largely independent of the cash flows of other groups of assets. If any such indication of impairment exists, the Group makes an estimate of its recoverable amount. An asset group's recoverable amount is the higher of its fair value less costs to sell and its value in use. Where the carrying amount of an asset group exceeds its recoverable amount, the asset group is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are adjusted for the risks specific to the asset group and are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money.

j) Trade and other receivables

Trade and other receivables are carried at the original invoice amount, less allowance for doubtful receivables. Provision is made when there is objective evidence that the Group will be unable to recover balances in full. Balances are written off when the probability of recovery is assessed as being remote.

k) Trade and other payables

Trade and other payables are carried at payment or settlement amounts. Where the time value of money is material, payables are carried at amortised cost.

l) Bank loans

All loans and borrowings are initially recognised at cost, being the fair value of the consideration received. After initial recognition, all floating-rate interest-bearing loans and borrowings are subsequently measured at amortised cost on an effective interest rate basis, taking into account any discount or premium on settlement.

Bank loan arrangement fees are deducted from the carrying amounts of the relevant loan and are expensed in the Consolidated Statement of Comprehensive Income as a component of the loan's effective interest rate charge.

m) Share capital

Ordinary Shares are classified as equity. Incremental costs directly attributable to the issue of Ordinary Shares are recognised as a deduction from equity.

When share capital recognised as equity is repurchased, the amount of the consideration paid, which includes directly attributable costs, is recognised as a deduction from equity. Repurchased shares are classified as Treasury Shares and are presented as a deduction from equity. When Treasury Shares are sold or subsequently reissued, the amount received is recognised as an increase in equity and the resulting surplus or deficit is transferred to/from retained earnings.

Funds received from the issue of Ordinary Shares are allocated to share capital, to the extent that they relate to the nominal value of the Ordinary Shares, with any excess being allocated to distributable reserves.

n) Distributable and non-distributable reserves

All income and expenses, foreign exchange gains and losses and realised investment gains and losses of the Group are allocated to the distributable reserve. However, before 1 July 2008, the management charges, performance fees, interest expense and unrealised investment gains and losses (including foreign exchange gains and losses included in the gain on revaluation of investment properties) were allocated to the non-distributable reserve. All other income and expenses, foreign exchange gains and losses and realised investment gains and losses of the Group were allocated to the distributable reserve. However, from 1 July 2008, and pursuant to The Companies (Guernsey) Law, 2008 as amended, all reserves can be designated as distributable. Therefore, during the year ended 31 December 2008, the Group transferred the non-distributable reserves to the distributable reserve.

Dividends are accounted for when paid and are reflected in the Consolidated Statement of Changes in Equity.

o) Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits. Cash and cash equivalents are defined as cash in hand, demand deposits and short-term, highly liquid investments readily convertible to known amounts of cash and subject to insignificant risk of changes in value.

Cash pledged to bank represents an amount pledged to HSBC Bank plc in order for the Group to comply with the Loan to Value bank loan covenant. The pledged amount is classified as a non-current asset.

p) Net asset value per share and earnings per share

The net asset value per share disclosed on the face of the Consolidated Statement of Financial Position is calculated by dividing the net assets by the number of Ordinary Shares in issue at the year end.

Earnings per share is calculated by dividing the profit for the year by the weighted average number of Ordinary Shares in issue during the year.

q) Foreign currency transactions

The currency of the primary economic environment in which the Company operates (the functional currency) is deemed to be Sterling as the Company's Ordinary Shares were issued in Sterling and the majority of the Company's expenses are in Sterling. Sterling is also the Group's presentational currency. The functional and presentational currencies of the majority of the Company's subsidiaries are not Sterling. Transactions involving currencies other than Sterling are recorded at the exchange rate ruling on the transaction date. At each financial reporting date, monetary items and non-monetary assets and liabilities that are fair valued, which are denominated in foreign currencies are revalued at the closing rates of exchange. Gains and losses on revaluation are recognised through the Consolidated Statement of Comprehensive Income.

r) Financial statements of foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on consolidation, are translated to Sterling at the foreign exchange rates ruling at the financial reporting date. The income and expenses of foreign operations, are translated into Sterling at rates approximating the foreign exchange rates ruling at the dates of the transactions. Foreign currency differences arising on translation are recognised in the Consolidated Statement of Comprehensive Income, in Other Comprehensive Income in accordance with IAS 1: *Presentation of Financial Statements*. Previously such differences had been recognised in the foreign exchange translation reserve as a separate component of equity.

Notes to the Financial Statements (continued)

3. Significant accounting policies (continued)

s) Operating leases

Rental income from freehold investment property leased out under an operating lease is recognised in the Statement of Comprehensive Income on a straight-line basis over the term of the lease. Lease incentives granted are recognised as an integral part of the total rental income over the terms of the lease.

t) Segmental reporting

The Group reports its segments in geographical areas as it derives its revenues from the same type of product (being freehold investment property) within three main geographical segments, being Bulgaria, Romania and Turkey.

u) Changes in accounting policy

i) Presentation of Financial Statements

The Group applies revised IAS 1: *Presentation of Financial Statements*, which became effective as of 1 January 2009. As a result, the Group presents in the Consolidated Statement of Changes in Equity all owner changes in equity, whereas all non-owner changes in equity are presented in the Consolidated Statement of Comprehensive Income. Comparative information has been re-presented so that it also is in conformity with the revised standard. Since the change in accounting policy only impacts presentation aspects, there is no impact on earnings per share.

ii) Operating Segments

IFRS 8: *Operating Segments* is effective for accounting periods beginning on or after 1 January 2009, it requires disclosure of information about the Group's operating segments and replaced the requirement to determine primary (business) and secondary (geographical) reporting segments of the Group. For management purposes, the Group is organised into three main geographical segments being the same as the business segments previously identified under IAS 14: Segment Reporting.

4. New standards and interpretations

a) Standards effective for 2009 but which had no impact on the financial performance of the Group

The following standards, amendments and interpretations were effective for 2009 but had no impact of the financial position or performance of the Group:

IAS 1 (revised)	Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation
IAS 23 (amendment)	Borrowing Costs
IAS 32 (amendment)	Financial Instruments: Presentation
IAS 39 (amendment)	Financial Instruments: Recognition and Measurement
IFRS 1 (amendment)	First Time Adoption of IFRS
IFRS 2 (amendment)	Share-based Payments – Vesting Conditions and Cancellations
IFRS 8	Operating Segments
IFRIC 9 (amendment)	Reassessment of Embedded Derivatives
IFRIC 13	Customer Loyalty Programmes
IFRIC 15	Agreements for the Construction of Real Estate
IFRIC 16	Hedges of a Net Investment in a Foreign Operation
IFRIC 18	Transfer of Assets from Customers

b) Improvements to IFRS

In May 2008, the IASB issued its first omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate provisions for each standard. The amendments to the following standards did not have any impact on the accounting policies, financial position or performance of the Group:

IFRS 5	Non-current Assets Held for Sale and Discontinued Operations: <i>Plan to sell the controlling interest in a subsidiary</i>
IFRS 7	Financial Instruments Disclosures: <i>Presentation of finance costs</i>
IAS 1	Presentation of Financial Statements: <i>Current/non-current classification of derivatives</i>
IAS 8	Accounting Policies, Change in Accounting Estimates and Errors: <i>Status of Implementation guidance</i>
IAS 10	Events after the Reporting Period: <i>Dividends declared after the end of the reporting period</i>
IAS 16	Property, Plant and Equipment: <i>Recoverable amount</i>
IAS 16	Property, Plant and Equipment: <i>Sale of assets held for rental</i>
IAS 18	Revenue: <i>Costs of originating loan</i>
IAS 19	Employee Benefits: <i>Curtailments and negative past service costs</i>
IAS 19	Employee Benefits: <i>Plan administration costs</i>
IAS 19	Employee Benefits: <i>Replacement of the term "fall due"</i>
IAS 19	Employee Benefits: <i>Guidance on contingent liability</i>
IAS 20	Accounting for Government Grants and Disclosures of Government Assistance: <i>Government loans with a below-market rate of interest</i>
IAS 20	Accounting for Government Grants and Disclosures of Government Assistance: <i>Consistency of terminology with other IFRS</i>
IAS 23	Borrowing Costs: <i>Components of borrowing costs</i>
IAS 27	Consolidated and Separate Financial Statements: <i>Measurement of subsidiary held for sale in separate financial statements</i>
IAS 28	Investment in Associates: <i>Required disclosures when investments in associates are accounted for at fair value through profit or loss</i>
IAS 28	Investment in Associates: <i>Impairment of investment in associate</i>
IAS 29	Financial Reporting in Hyperinflationary Economies: <i>Description of measurement basis in financial statements</i>
IAS 29	Financial Reporting in Hyperinflationary Economies: <i>Consistency of terminology with other IFRS</i>
IAS 31	Interest in Joint Ventures: <i>Required disclosures when interests in jointly controlled entities are accounted for at fair value through profit or loss</i>
IAS 34	Interim Financial Reporting: <i>Earnings per share disclosures in interim financial reporting</i>
IAS 36	Impairment of Assets: <i>Disclosure of estimates used to determine recoverable amount</i>
IAS 38	Intangible Assets: <i>Advertising and promotional activities</i>
IAS 38	Intangible Assets: <i>Unit of production method of amortisation</i>
IAS 39	Financial Instruments: Recognition and Measurement: <i>Reclassification of derivatives into or out of the classification of at fair value through profit or loss</i>
IAS 39	Financial Instruments: Recognition and Measurement: <i>Designation and documentation of hedges at the segment level</i>
IAS 39	Financial Instruments: Recognition and Measurement: <i>Applicable effective interest rate on cessation of fair value hedge accounting</i>
IAS 40	Investment Property: <i>Property under construction or development for future use as investment property</i>
IAS 40	Investment Property: <i>Consistency of terminology with IAS 8, investment property held under lease</i>
IAS 41	Agriculture: <i>Discount rate for fair value calculations</i>
IAS 41	Agriculture: <i>Additional biological transformations</i>
IAS 41	Agriculture: <i>Examples of agricultural produce and products, point of sale costs</i>

Notes to the Financial Statements (continued)

4. New standards and interpretations (continued)

c) New standards and interpretations not applied

The IASB has issued/revised the following relevant standards and interpretations with an effective date after the date of these financial statements:

<i>International Accounting Standards (IAS/IFRS)</i>		<i>Effective date</i>
IAS 1	Presentation of Financial Statements (revised April 2009)	1 January 2010
IAS 7	Statement of Cash flows (revised April 2009)	1 January 2010
IAS 17	Leases (revised April 2009)	1 January 2010
IAS 24	Related Party Disclosures (revised November 2009)	1 January 2011
IAS 27	Consolidated and Separate Financial Statements (revised January 2008)	1 July 2009
IAS 28	Investments in Associates (revised 2008)	1 July 2009
IAS 31	Interests in Joint Ventures (revised 2008)	1 July 2009
IAS 32	Financial Instruments: Presentation (revised 2009)	1 February 2010
IAS 36	Impairment of Assets (revised April 2009)	1 January 2010
IAS 38	Intangible Assets (revised April 2009)	1 January 2010
IAS 39	Financial Instruments: Recognition and Measurement (revised July 2008)	1 January 2010
IFRS 1	First time adoption of International Reporting Standards (revised July 2009 and January 2010)	1 January 2010 and 1 July 2010
IFRS 2	Share-based Payments (revised April 2009 and July 2009)	1 January 2010
IFRS 3	Business Combinations (revised January 2008 and April 2009)	1 July 2010
IFRS 5	Non-current Assets Held for Sale and Discontinued Operations (revised April 2009)	1 January 2010
IFRS 8	Operating Segments (revised April 2009)	1 January 2010
IFRS 9	Financial Instruments – Classification and Measurement (revised November 2009)	1 January 2013
IFRIC 17	Distributions of Non-Cash Assets to Owners (issued November 2008)	1 July 2009
IFRIC 18	Transfers of Assets from Customers	1 July 2009
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments	1 July 2010

The Directors have chosen not to early adopt the above standards and interpretations and they do not anticipate that they would have a material impact on the Group's financial statements in the period of initial application.

5. Management and administration fees

Elysium Fund Management Limited ("Elysium") is Manager, Administrator and Secretary to the Company, CNC Property Fund Management Limited ("CNC") is Property Manager and Active Property Investments Limited ("Active") is the Investment Adviser.

Administration fee

The Group pays Elysium, by way of remuneration for its administration and secretarial services hereunder, an administration fee of 0.1% of the Gross Asset Value per annum calculated at the close of business at each quarter end, subject to a minimum of £125,000 per annum.

Management fee

Elysium is entitled to receive a management fee of 1.75% of the Gross Asset Value of the Group per annum. The management fee is payable quarterly in advance.

Performance fee

In addition, Elysium is entitled to a performance fee in certain circumstances. This fee is payable by reference to the increase in Adjusted NAV per Ordinary Share over the course of a 'performance period'. The first performance period began on Admission and ended on 31 March 2007; each subsequent performance period is a period of one financial period. Elysium is entitled to

a performance fee in respect of a performance period only if two conditions are met. First, a performance hurdle condition must be met. The performance hurdle is that the Adjusted NAV per Ordinary Share at the end of the relevant performance period exceeds an amount equal to the Placing Price increased at a rate of 7% per annum on a compounding basis up to the end of the relevant performance period.

The second condition to be met (a 'high watermark' test) is that the Adjusted NAV per Ordinary Share at the end of the relevant performance period is higher than the highest previously recorded Adjusted NAV per Ordinary Share at the end of a performance period, in relation to which a performance fee was last earned (or if no performance fee had been earned since Admission, is higher than the Placing Price).

If the performance hurdle is met, and the high watermark exceeded, the performance fee will be an amount equal to 20% of the excess of the Adjusted NAV per Ordinary Share at the end of the relevant performance period over the higher of (i) the performance hurdle; (ii) the Adjusted NAV per Ordinary Share at the start of the relevant performance period; and (iii) the high watermark (in both cases on a per Ordinary Share basis), multiplied by the time weighted average of the number of Ordinary Shares in issue in the performance period (or since Admission in the first performance period).

The Manager has the benefit of an indemnity from the Group in relation to liabilities incurred by the Manager in the discharge of its duties other than those arising by reason of any fraud, willful default, negligence or bad faith on the part of the Manager or its delegates.

The Manager's appointment as investment manager is terminable by either party on not less than twelve months' notice. The Management Agreement may also be terminated by either the Manager or the Group if the other party, or CNC, has gone into liquidation, administration or receivership or has committed a substantial or continuing breach of the Management Agreement.

The Manager is responsible for the payment of the fees of the Investment Adviser and Property Manager.

It is proposed that the current fee structure be replaced with one that provides more emphasis on a rebased performance fee and less on annual management fees. These proposed changes will be contained in the resolutions to be placed before shareholders at the forthcoming Annual General Meeting.

6. Segmental analysis

In accordance with IFRS 8: *Operating Segments*, it is mandatory for the Group to present and disclose segmental information based on the internal reports that are regularly reviewed by the Board in order to assess each segment's performance and to allocate resources to them. Under this "management approach" the Group will continue to present segmental information in respect of its business and geographical segments.

The Board has organised the Group in geographical areas as it derives its revenues from the same type of product (being freehold investment property) within each geographical area. The Group operates in three main geographical segments, being Bulgaria, Romania and Turkey. Guernsey is where the primary holding company is registered; it provides loans to the other subsidiaries and receives bank and loan interest and dividend income. The Maltese and Cypriot subsidiaries are investment holding companies and Bulgaria, Romania and Turkey hold investment property.

The Board of Directors is charged with setting the Group's Investing Policy. It has delegated the day-to-day implementation of the Investing Policy to the Group's Manager, Property Manager and Investment Adviser but retains responsibility to ensure that adequate resources of the Group are directed in accordance with the Board's decisions. All potential property purchases and sales proposed by the advisers are approved by the Board of Directors before any transaction is undertaken. The Board therefore retains full responsibility as to the major allocation decisions made on an ongoing basis. The Manager will always act under the terms of the Admission Document, which cannot be radically changed without the approval of the Board of Directors.

Notes to the Financial Statements (continued)

6. Segmental analysis (continued)

Information about reportable segments

for the year ended 31 December 2009

	Bulgaria £'000	Romania £'000	Turkey £'000	Total £'000
Rent receivable	340	412	858	1,610
Interest receivable ^[1]	6	–	40	46
Interest payable ^[2]	(294)	–	(499)	(793)
Loss on revaluation of investment properties	(1,753)	(874)	(1,475)	(4,102)
Depreciation	–	–	(8)	(8)
Reportable segment (loss)/profit before tax ^[3]	(1,834)	(720)	1,315	(1,239)
Taxation ^[4]	114	68	141	323
Freehold investment property	3,636	3,158	20,915	27,709
Reportable segment total assets ^[5]	3,860	3,471	25,822	33,153
Reportable segment total liabilities ^[6]	(4,842)	(3,552)	(16,968)	(25,362)

Information about reportable segments

for the year ended 31 December 2008

	Bulgaria £'000	Romania £'000	Turkey £'000	Total £'000
Rent receivable	301	368	830	1,499
Interest receivable ^[1]	13	–	237	250
Interest payable ^[2]	(271)	–	(1,320)	(1,591)
Profit/(loss) on revaluation of investment properties	825	(20)	4,061	4,866
Depreciation and amortisation	–	–	10	10
Reportable segment profit/(loss) before tax ^[3]	747	(46)	(1,197)	(496)
Taxation ^[4]	(46)	(55)	(458)	(559)
Freehold investment property	5,315	3,996	21,894	31,205
Reportable segment total assets ^[5]	6,186	4,433	28,199	38,818
Reportable segment total liabilities ^[6]	(5,849)	(4,361)	(19,460)	(29,670)

	Year ended 31 December 2009 £'000	Year ended 31 December 2008 £'000
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[1] Reconciliation of reportable segment interest receivable

Interest receivable for reportable segments	46	250
Other corporate interest receivable	–	11
Consolidated interest receivable	46	261

[2] Reconciliation of reportable segment interest payable

Interest payable for reportable segments	793	1,591
Interest payable from the reportable segments to the Guernsey parent	(423)	(936)
Interest payable by Guernsey parent	–	5
Consolidated interest payable (note 7)	370	660

	<i>Year ended</i> 31 December 2009 £'000	<i>Year ended</i> 31 December 2008 £'000
<i>[3] Reconciliation of reportable segment (loss)/profit before tax</i>		
Total (loss)/profit before tax for reportable segments	(1,239)	(496)
Interest payable from the reportable segments to the Guernsey parent	423	936
Other corporate expenses	(965)	(1,503)
Other profit or loss (including gain or loss on foreign currency exchange)	(1,309)	2,832
Consolidated net (loss)/profit from operating activities	(3,090)	1,769
<i>[4] Reconciliation of reportable segment taxation</i>		
Taxation for reportable segments	323	(559)
Other Corporate taxation	(43)	(94)
Consolidated total taxation	280	(653)
<i>[5] Reconciliation of reportable segment total assets</i>		
Total assets for reportable segments	33,153	38,818
Other corporate assets	77	39
Consolidated total assets	33,230	38,857
<i>[6] Reconciliation of reportable segment total liabilities</i>		
Total liabilities for reportable segments	(25,362)	(29,670)
Liabilities due from the reportable segments to the Guernsey parent	13,779	16,097
Other Corporate liabilities	(232)	(616)
Consolidated total liabilities	(11,815)	(14,189)

7. Interest payable and similar charges

	<i>Year ended</i> 31 December 2009 £'000	<i>Year ended</i> 31 December 2008 £'000
Bank loan interest payable	370	660
Amortisation of bank loan arrangement fees (note 22)	18	15
Other finance charges	10	37
	398	712

Notes to the Financial Statements (continued)

8. Directors' remuneration

	Year ended 31 December 2009 £'000	Year ended 31 December 2008 £'000	Amount due at 31 December 2009 £'000	Amount due at 31 December 2008 £'000
Charles Parkinson	25	25	6	6
Carol Goodwin	20	20	5	5
Hugh Ward	20	20	5	5
Richard Barnes (<i>resigned on 11 September 2009</i>)	14	20	–	5
	79	85	16	21

No bonuses or pension contributions were paid or were payable on behalf of the Directors.

Details of the Directors' interests in the share capital are set out in the Report of the Directors on page 12.

9. Other operating expenses

	Year ended 31 December 2009 £'000	Year ended 31 December 2008 £'000
Administration of subsidiaries	82	163
Building maintenance, power, and management	133	202
Auditors' remuneration	88	83
Depreciation and amortisation (note 13 and note 14)	8	(10)
Directors' remuneration (note 8)	79	85
Insurance	63	50
Legal, professional and consultancy fees	100	214
Nominated Adviser fees	25	25
Nominated Broker fees	5	6
Registrar fees	12	13
Other expenses	83	156
	678	987

10. Tax effects of other comprehensive income

There are no tax effects arising from the other comprehensive income disclosed in the Consolidated Statement of Comprehensive Income (31 December 2008: nil).

11. Loss per share – basic and diluted

The loss, in pence per Ordinary Share, is based on a loss of £2,810,000 (31 December 2008: gain of £1,116,000) and on a weighted average number of 19,391,250 (31 December 2008: 19,636,749) Ordinary Shares in issue. There is no difference between the basic and diluted loss per share.

12. Dividends

The majority of the Group's income has been absorbed by its operating costs as the Group is still in the process of refurbishing and renovating a number of its properties and thus no rental income has been received on these. The revaluation of the properties held at 31 December 2009 led to a revaluation loss of £4.1 million (31 December 2008 revaluation gain of £4.9 million) and an overall loss for the Group of £2.8 million. (31 December 2008 profit of £1.1 million).

The Board carefully considered the payment of a dividend for the year ended 31 December 2009. However, as the Directors are proposing to divest from Bulgaria and Romania and, with the proceeds, plan to invest further in Turkey and also buy-back shares, the Board considers it prudent to conserve funds and thus does not propose an interim or final dividend for the year ended 31 December 2009 (31 December 2008: nil).

13. Intangible assets

During the period ended 31 March 2007, the Group purchased a trademark for Markiz Patisserie. The estimated useful economic life of the trade mark is fifteen years.

	<i>Year ended</i> 31 December 2009 £'000	<i>Year ended</i> 31 December 2008 £'000
<i>Cost</i>		
Brought forward and carried forward	15	15
<i>Accumulated Amortisation</i>		
Brought forward	(3)	(2)
Provided during the year	(2)	(1)
Carried forward	(5)	(3)
Net book value	10	12

14. Property, plant and equipment

	<i>Year ended</i> 31 December 2009 £'000	<i>Year ended</i> 31 December 2008 £'000
<i>Cost</i>		
Brought forward	54	222
Additions	–	18
Transfers to freehold investment property	–	(186)
Carried forward	54	54
<i>Accumulated Depreciation</i>		
Brought forward	(15)	(26)
Write back on transfer to freehold investment property	–	16
Provided during the year	(6)	(5)
Carried forward	(21)	(15)
Net book value	33	39

Notes to the Financial Statements (continued)

15. Freehold investment property

	Year ended 31 December 2009 £'000	Year ended 31 December 2008 £'000
Brought forward	31,205	24,936
Additions	606	1,403
(Loss)/gain on revaluation of investment properties ^[1]	(4,102)	4,866
Carried forward	27,709	31,205
^[1] (Loss)/gain on revaluation of investment properties comprises:		
Unrealised loss on revaluation in Euros/US Dollars (as applicable)	(2,808)	(3,643)
Foreign exchange (loss)/gain	(1,294)	8,509
(Loss)/gain on revaluation of investment properties	(4,102)	4,866
At the year end:		
Cost (at historical foreign exchange rates)	20,056	19,450
Unrealised gain	7,653	11,755
Fair value	27,709	31,205

In the opinion of the Directors, the Property Manager and the Investment Adviser, the fair value of the properties held at the year end is equal to the values attributed to them in the independent valuation report prepared by DTZ Debenham Tie Leung.

Property assets are inherently difficult to value as there is no liquid market or pricing mechanism. As a result, valuations are subject to substantial uncertainty. This uncertainty may be accentuated in the Target Countries as there are fewer benchmarks available for valuation purposes than in, for example, Western Europe. There is no assurance that the estimates resulting from the valuation process will reflect the actual sales price even where such sales occur shortly after the date of the valuation.

The Group invests primarily in US Dollars, Euros or local currency in the Target Countries. Although US Dollars, Euros and the local currencies of the Target Countries are freely convertible into other currencies, exchange rate fluctuations and currency devaluation could have a material effect on the market value of the Group's property investments, which although expressed in Sterling above, are valued by DTZ Debenham Tie Leung in either US Dollars or Euros.

All investment properties were valued by qualified professional valuers working for DTZ Debenham Tie Leung, international property advisers, at fair value (see note 3h) at 31 December 2009 and 31 December 2008 in accordance with the latest edition of the Royal Institution of Chartered Surveyors ("RICS") Appraisal and Valuation Manual. All such valuers are Chartered Surveyors, being members of RICS.

16. Investments in subsidiary undertakings

Details of the subsidiary undertakings held by the Company at 31 December 2009 were as follows:

	Registered	% of ordinary shares held	Principal Activity
Markiz Gayrimenkul Yatirim ve Ticaret Limited Şirketi ("Markiz") ^[1]	Turkey	100%	Property investment
Gateway Properties SRL ^[2]	Romania	100%	Property investment
Sarnia Eastern Property (Cyprus) Limited	Cyprus	100%	Investment holding
Sarnia Eastern Property (Malta) Limited	Malta	100%	Investment holding
Sarnia Real Estate (Cyprus) Limited	Cyprus	100%	Investment holding
Sarnia Real Estate (Cyprus) No. 2 Limited	Cyprus	100%	Investment holding
Southern Properties EOOD	Bulgaria	100%	Property investment
Southern Properties SRL	Romania	100%	Property investment

^[1] On 8 September 2009 the subsidiary formerly known as Doğu Avrupa changed its name to Markiz Gayrimenkul Yatirim ve Ticaret Limited Şirketi.

^[2] Gateway Properties SRL is dormant. Therefore, in order to reduce costs, it was voluntarily suspended from the Registrar of Companies in Romania on 30 June 2009.

Sarnia Eastern Property (Cyprus) Limited and Sarnia Real Estate (Cyprus) Limited each have 50% shareholdings in Southern Properties SRL and Gateway Properties SRL. All other companies are wholly (and directly) owned by the Company.

17. Cash and cash equivalents

	31 December 2009 £'000	31 December 2008 £'000
Cash balances with banks	2,389	6,428
	2,389	6,428

The Group did not have any cash equivalents at the financial reporting date.

In addition to the cash balances above, at 31 December 2009 the Group had pledged US\$4,000,000 (equivalent to £2,474,000) of a cash deposit to the Bank and is only able to draw on this cash deposit to purchase new property in Turkey. Following a review by the Bank in April 2010, the amount pledged by the Group to the Bank was reduced to US\$2,545,000.

Cash balances held with banks earn interest at prevailing bank interest rates.

18. Trade and other receivables

	31 December 2009 £'000	31 December 2008 £'000
VAT control account	417	846
Other receivables and prepayments	121	255
	538	1,101

Notes to the Financial Statements (continued)

19. Trade and other payables

	31 December 2009 £'000	31 December 2008 £'000
Administration fee	32	32
Directors' fees	16	21
Management fee	2	6
Performance fee	–	475
Trade payables	–	32
Other payables and accruals	162	361
	212	927

20. Taxation

The taxation charge in the Consolidated Statement of Comprehensive Income is made up as follows:

	Year ended 31 December 2009 £'000	Year ended 31 December 2008 £'000
Other taxes and duties charged overseas	(54)	(110)
Overseas corporate tax	(39)	(33)
Deferred taxation (note 21)	416	(416)
Withholding tax	(43)	(94)
	280	(653)

The Group has been granted exemption from Guernsey taxation under The Income Tax (Exempt Bodies) (Guernsey) Ordinance 1989 and is charged an annual exemption fee, which is currently £600.

Other taxes and duties charged overseas relate to taxes imposed in the Turkish, Bulgarian and Romanian subsidiaries for expenses such as environment tax, withholding tax, property tax and stamp tax.

The corporation tax charge has arisen in the Romanian subsidiary, Southern Properties SRL, on profits chargeable to corporation tax of 1,388,783 Leu (2008: loss of 646,185 Leu).

The deferred tax benefit has largely been created by the movement in unrealised gain or loss on freehold investment property. In the year to 31 December 2009 the following movements occurred:

- The Turkish subsidiary, Markiz, has decreased its deferred tax liabilities by TRY 380,789;
- The Bulgarian subsidiary, Southern Properties EOOD has decreased its deferred tax assets by BGN 323,510; and
- The Romanian subsidiary, Southern properties SRL has decreased its deferred tax liabilities by Leu 534,223.

Withholding tax has been deducted from interest receivable in relation to the loan interest payable by the Turkish and Bulgarian subsidiaries at a rate of 10%.

The following table provides a reconciliation of the Guernsey statutory tax rate to the effective rate on profit from operating activities:

	<i>Year ended</i> 31 December 2009 £'000	<i>Year ended</i> 31 December 2008 £'000
Net (loss)/profit from operating activities	(3,090)	1,769
Company's Guernsey rate (as exempt from Guernsey tax)	–	–
Taxation	280	(653)
Effective tax rate	9%	37%
Company's Guernsey rate (as exempt from Guernsey tax)	0%	0%
Supplementary overseas taxes at higher rates: – Bulgaria	10%	10%
– Romania	16%	16%
– Turkey	20%	20%

21. Deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the items detailed in the table below:

	<i>31 December 2009</i> £'000	<i>31 December 2008</i> £'000
Deferred tax asset	62	–
Deferred tax liability	(539)	(968)
Net deferred tax liability	(477)	(968)

The movement in the net deferred tax liability for the year (including movements on foreign exchange rates) is £491,000 (31 December 2008: £495,000). After negating the effect of movements in foreign exchange rates of £75,000 (31 December 2008: £79,000), the positive deferred tax movement for the year was £416,000 (31 December 2008: negative movement of £416,000) (note 20).

The deferred tax assets and deferred tax liabilities at 31 December 2009 and 31 December 2008 are as follows:

	<i>31 December</i> 2009 Assets £'000	<i>31 December</i> 2009 Liabilities £'000	<i>31 December</i> 2008 Assets £'000	<i>31 December</i> 2008 Liabilities £'000
Tax losses carried forward	895	–	953	–
Impairment losses	5	–	–	–
Gains on freehold investment property	29	(1,438)	–	(1,934)
Loans and borrowings	29	–	–	–
Trade and other payables	3	–	13	–
Total	961	(1,438)	966	(1,934)
Amount netted off	(899)	899	(966)	966
Deferred tax asset/(liability)	62	(539)	–	(968)

Notes to the Financial Statements (continued)

22. Bank Loan

On 18 December 2007, HSBC Bank plc (the "Bank") made available to the Company's two Turkish subsidiaries two loan facilities totalling US\$17,500,000 (US\$14,500,000 to Doğu Avrupa and US\$3,000,000 to EEPF Susam Sokak) which were drawn down on 19 December 2007 and are due to be repaid at the end of five years from drawdown. Interest is payable at 2.35% per annum above the US\$ London interbank euro-currency deposit rate. Following the merger of Doğu Avrupa and EEPF Susam Sokak on 31 December 2008, the two loan facilities were merged into one US\$17,500,000 loan facility with the Bank. The loan facility contains financial and other covenants including, inter alia, that:

- i. The loan to value ("LTV") of the properties (Turkish properties only) charged to the Bank, which comprise all of the Turkish properties with the exception of the "Yellow" Building, Gonul Sokak and the Taka Building, will not exceed 50%;
- ii. The interest cover ratio for the combined Turkish companies will not be less than:
 - 1:1 on the first quarterly payment date (18 March 2008);
 - 1.2:1 on the quarterly payment dates from 18 June to 18 December 2008; and
 - 1.35:1 on the quarterly payment dates from 18 March 2009 onwards.

Following negotiation with the Bank, as the LTV ratio was in excess of 50% at 31 December 2008, a side letter and pledge agreement were signed in May 2009 whereby Markiz pledged US\$4,000,000 of a cash deposit to the Bank and is only able to draw on this cash deposit to purchase new property in Turkey. As at 31 December 2009, the pledge agreement was still in place.

Following a review by the Bank in April 2010, the amount pledged by the Group to the Bank was reduced to US\$2,545,000.

Even though the loan is not repayable until 18 December 2012, because the LTV ratio was in excess of the 50% covenant at 31 December 2008, the loan was disclosed as a current liability at 31 December 2008. At 31 December 2009 the LTV ratio (including the pledged cash) was 49% and therefore the loan has been disclosed as a non-current liability at 31 December 2009.

The Manager, Property Manager and Investment Adviser continue to monitor the loan covenants and, subject to Turkish property markets remaining at current levels, the Directors have no reason to believe that any breaches of the financial covenants will occur in the foreseeable future.

In line with the loan facility, the Turkish properties (excluding the "Yellow" Building, Gonul Sokak and the Taka Building), valued at £19,617,000 at 31 December 2009 (2008: £21,065,000) have been charged as security to the Bank.

The bank loan arrangement fees amounted to US\$148,750 (0.85% of the amounts drawn down). They have been deducted from the amount of the loan and are being amortised over the period of the loan.

	31 December 2009 £'000	31 December 2008 £'000
Loan drawn down	8,784	8,784
Loan arrangement fees	(75)	(75)
Loan arrangement fees amortised	34	16
Foreign exchange loss	2,038	3,207
Carried forward	10,781	11,932

23. Share Capital and Reserves

	31 December 2009 £'000	31 December 2008 £'000
Authorised:		
200,000,000 Ordinary Shares of 1 pence each	2,000	2,000
Issued and fully paid:		
19,391,250 Ordinary Shares of 1 pence each	194	194
608,750 (2008: 608,750) Treasury Shares of 1p each	6	6
	200	200

The Company has one class of Ordinary Shares, which carry no right to fixed income. Ordinary Shares carry the right to vote at general meetings and the entitlement to receive any dividends and surplus assets of the Company on a winding-up.

The Ordinary Shares held in treasury do not have the right to vote at general meetings nor do they have an entitlement to receive any dividends or surplus assets of the Company on a winding-up.

Foreign Exchange Translation Reserve

The translation reserve comprises all foreign currency differences arising from the translation of the financial statements of foreign operations.

Reserve for Own Shares

The Company has the authority to utilise the distributable reserves to buy back up to 14.99% of the Ordinary Shares (2,907,000 Ordinary Shares) issued at the Placing for cancellation. In addition, the Company has the authority to purchase up to 10% of the Ordinary Shares in issue and hold them as Treasury Shares until a time when they are either re-issued or cancelled.

During the year ended 31 December 2009, no shares were purchased to be held as Treasury Shares (31 December 2008: 608,750 shares were purchased for £497,094). The "reserve for own shares" comprises the cost of the Ordinary Shares held by the Group. At 31 December 2009 the Group held 608,750 Ordinary Shares (2008: 608,750) in treasury.

24. Duration of the Company

The continuation of the Company was due to be voted on at the Annual General Meeting to be held in 2013. However to align the continuation of the Company with the repayment of the Turkish bank loan in December 2012, the continuation vote is now proposed to take place at the Annual General Meeting of the Company to be held in 2012, whereby a special resolution shall be put forward that the Company ceases to continue as an investment company. If that resolution is passed, the Directors are required to formulate proposals to put to shareholders to reorganise, unitise or reconstruct the Company or to wind the Company up.

If the resolution to cease being an investment company is not passed, a similar resolution will be proposed at every fifth Annual General Meeting thereafter.

25. Net asset value per Ordinary Share

The net asset value, in pence per Ordinary Share, is based on the net assets attributable to equity shareholders of £21,415,000 (31 December 2008: £24,668,000) and on 19,391,250 Ordinary Shares in issue at the end of the year (2008: 19,391,250).

Notes to the Financial Statements (continued)

26. Related parties

The relationship and transactions between the Group, Elysium, CNC and Active are disclosed in the Report of the Directors and note 5.

During the year, the Group incurred £125,000, £594,000 and £nil (2008: £125,000, £571,000 and £475,000) in respect of administration, management and performance fees, which were due to Elysium.

At 31 December 2009, £32,000, £2,000 and £nil (2008: £32,000, £6,000 and £475,000) was due to Elysium in respect of administration, management and performance fees.

The fees payable to CNC and Active are borne by Elysium.

The relationship that the Company has with each of its subsidiaries is disclosed in full in note 16.

During the year ended 31 December 2009, the Investment Adviser paid for certain expenses of the Romanian subsidiary, Gateway Properties SRL. These expenses and the amount outstanding at 31 December 2008 were repaid to the Investment Adviser in full during the year ended 31 December 2009.

The Directors are not aware of any ultimate controlling party.

27. Maturity of financial liabilities

The Group's main financial liability is its bank loan, details of which are disclosed in note 22. The bank loan is repayable in December 2012, however, at 31 December 2008, because the LTV ratio was in excess of the 50% covenant, the loan was disclosed as a current liability. At 31 December 2009, the LTV ratio was 49% and therefore the bank loan was disclosed as a non-current liability (see note 22). The maturity of the Group's financial liabilities at 31 December 2009 was as follows:

	31 December 2009		31 December 2008	
	One year or less	Between two and five years	One year or less	Between two and five years
	£'000	£'000	£'000	£'000
Trade and other payables	212	–	927	–
Overseas corporate tax	22	–	98	–
Bank loan	–	10,781	11,932	–
Rents received in advance	–	221	–	217
Other provisions and payables	–	40	–	47
	234	11,042	12,957	264

28. Financial risk management

The principal investment objective of the Group is to provide a high level of income and the potential for significant capital growth by investing in property in a range of sectors in the major urban centres of Turkey, Romania and Bulgaria. Consistent with that objective, the Group holds freehold investment property. In addition, the Group holds cash and liquid resources as well as having creditors that arise directly from its operations.

The main risks arising from the Group's assets are market risk, liquidity risk and credit risk. Market risk comprises of price risk, interest rate risk and foreign currency risk. For a more complete list of the risks facing the Group, please refer to the risk warning in the Admission Document.

The Manager is responsible for identifying and controlling risks. The Board of Directors supervises the Investment Manager and is ultimately responsible for the overall risk management approach within the Group. The Board reviews and agrees policies for managing its risk exposure. These policies are summarised below and have remained unchanged during the year under review.

Excessive risk concentration

Concentration indicates the relative sensitivity of the Group's performance to developments affecting a particular industry or geographical location. Concentrations of risk arise when a number of financial instruments or contracts are entered into with the same counterparty, or where a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations of liquidity risk may arise from the repayment terms of financial liabilities, sources of borrowing facilities or reliance on a particular market in which to realise liquid assets. Concentrations of foreign exchange risk may arise if the Group has a significant net open position in a single foreign currency, or aggregate net open positions in several currencies that tend to move together.

The Group entered into the bank facility in US Dollars in Turkey in order to reduce the Group's net exposure to US Dollars (the currency with which the Turkish properties are linked).

It is proposed that the Group divests from both Bulgaria and Romania and focuses the activities of the Group in Turkey. If this should happen the Group will be exposed to a higher concentration of geographical risk than it is now exposed to.

Market price risk

The Group's exposure to market price risk mainly arises as a result of fluctuations in the value of the Group's portfolio of investment properties. The Board has contracted with CNC and Active to provide up to date information regarding the market in which the properties are invested. The properties are valued on a six monthly basis by independent property valuers DTZ Debenham Tie Leung in order that the Board can respond to any adverse effects on a timely basis. A 5% increase in the value of the freehold investment property at 31 December 2009 would have increased net assets by £1,385,483 (2008: £1,560,250). A decrease of 5% would have had an equal but opposite effect.

Further risks associated with the ownership of property are detailed below.

Liquidity risk

The Group has invested in investment properties, which, by their nature, are illiquid. However, the Group maintains sufficient cash balances to meet its working capital requirements and has obtained bank financing (see note 22) to fund further purchases of investment properties. See note 27 for details of the contractual maturities of financial liabilities.

Notes to the Financial Statements (continued)

28. Financial risk management (continued)

Credit risk

The risk of financial loss arising from the failure of a party to honour its obligations arises principally in connection with property leases and the investment of surplus cash and transactions where the Group sells properties with an element of deferred consideration.

Tenant rent payments are monitored regularly and appropriate action is taken to recover monies owed or if necessary to terminate the lease. At 31 December 2009, approximately €83,000 (£74,000) was owed to the Group in relation to unpaid rental income on a lease held by a tenant; this is being pursued by the Group through the courts in Bulgaria. £49,000 had been provided for against this debt at 31 December 2009.

Deferred consideration terms are only agreed with counterparties approved by the Board or, where some additional security is available.

Funds may be invested and derivative transactions contracted only with banks and financial institutions with a high credit rating. The bank accounts held by the Group are with HSBC Bank plc, the Group's primary bank. At the year end a total of £2,389,000 (31 December 2008: £6,428,000) was held on deposit with HSBC Bank plc together with a pledged amount of £2,474,000 for the sole purpose of purchasing Turkish property (note 22).

Interest rate risk

The Group's exposure to interest rate risk is on its cash balances, cash pledged to the bank and bank loan. The cash balances and cash pledged to the bank are held in instant access or short-term deposits earning interest at floating rates. The bank loan (see note 22) bears interest at 2.35% per annum above the US\$ London interbank euro-currency deposit rate. The Group does not hedge against movements in interest rates.

Interest rate risk profile of assets and liabilities

<i>Assets as at 31 December 2009</i>	<i>Total as per Consolidated Statement of Financial Position</i>		<i>Assets on which no interest is received</i>
	<i>£'000</i>	<i>Floating rate £'000</i>	<i>£'000</i>
Non-current assets	30,288	2,474	27,814
Cash and cash equivalents	2,389	2,389	–
Other current assets	553	–	553
Total assets	33,230	4,863	28,367

<i>Assets as at 31 December 2008</i>	<i>Total as per Consolidated Statement of Financial Position</i>		<i>Assets on which no interest is received</i>
	<i>£'000</i>	<i>Floating rate £'000</i>	<i>£'000</i>
Non-current assets	31,271	–	31,271
Cash and cash equivalents	6,428	6,428	–
Other current assets	1,158	–	1,158
Total assets	38,857	6,428	32,429

<i>Liabilities as at 31 December 2009</i>	<i>Total as per Consolidated Statement of</i>		<i>Financial</i>
	<i>Financial Position</i>	<i>Floating rate</i>	<i>liabilities on which no interest is paid</i>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
Bank loan (note 22)	10,781	10,781	–
Other non-current liabilities	800	–	800
Current liabilities	234	–	234
Total liabilities	11,815	10,781	1,034

<i>Liabilities as at 31 December 2008</i>	<i>Total as per Consolidated Statement of</i>		<i>Financial</i>
	<i>Financial Position</i>	<i>Floating rate</i>	<i>liabilities on which no interest is paid</i>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
Bank loan (note 22)	11,932	11,932	–
Non-current liabilities	1,232	–	1,232
Other current liabilities	1,025	–	1,025
Total liabilities	14,189	11,932	2,257

Interest sensitivity analysis

Assuming all factors remain the same, a 0.5% increase in the US\$ London interbank euro-currency deposit rate would have decreased profit for the year by £27,000 (2008: decreased profit by £16,000). A decrease of 0.5% would have had an equal but opposite effect.

Foreign exchange risk

The Group conducts business in jurisdictions that generate revenue, expenses and liabilities in currencies other than Sterling. As a result, the Group is subject to the effects of exchange rate fluctuations with respect to any of these currencies.

As stated in the Admission Document, the Group reports its consolidated results and its consolidated financial position in Sterling. The Group invests primarily in US Dollars, Euros or local currency in the Target Countries and, accordingly, it generates revenue in currencies other than Sterling. The Group declares its dividends in Sterling and the amount received by shareholders will be an amount in Sterling. As a consequence, shareholders may experience fluctuations in the market price of their Ordinary Shares as a result of movements in the exchange rate between Sterling and US Dollars, Euros and any other local Target Country currencies. Such movements in the exchange rate may also adversely affect the net asset value of the Group and the amount of dividends paid. In addition, the amount of any dividends declared by the Group will be determined based on the results of the Group's operations.

Although US Dollars, Euros and local currencies of the Target Countries are freely convertible into other currencies, exchange rate fluctuations and currency devaluation could have a material effect on the value of the Group's property investments, which are expressed in Sterling.

As stated in the Admission Document, on an on-going basis, the Group does not intend to hedge the exchange rate risk between Sterling, and US Dollars, Euros and local currencies in the Target Countries. The Group has freehold investment property and rental agreements denominated in currencies other than Sterling (the functional and presentational currency).

Notes to the Financial Statements (continued)

28. Financial risk management (continued)

Currency split of financial assets and liabilities as at 31 December 2009

	Total £'000	GBP £'000	EUR £'000	US\$ £'000	TRY £'000	BGN £'000	LEU £'000
<i>Financial assets:</i>							
Cash pledged to bank	2,474	–	–	2,474	–	–	–
Trade and other receivables	538	10	–	–	439	78	11
Tax assets	15	–	–	–	7	–	8
Cash and cash equivalents	2,389	73	73	1,490	454	10	289
Total financial assets	5,416	83	73	3,964	900	88	308
<i>Financial liabilities:</i>							
Trade and other payables	(212)	(105)	(27)	–	(50)	(14)	(16)
Overseas corporate tax	(22)	–	–	–	(7)	(5)	(10)
Rents received in advance	(221)	–	–	(188)	(33)	–	–
Bank loans	(10,781)	–	–	(10,781)	–	–	–
Other provisions and payables	(40)	–	–	–	–	–	(40)
Total financial liabilities	(11,276)	(105)	(27)	(10,969)	(90)	(19)	(66)
Net financial (liabilities)/assets	(5,860)	(22)	46	(7,005)	810	69	242
Net exposure to currency		(0.4)%	0.8%	(119.5)%	13.8%	1.2%	4.1%

Currency split of financial assets and liabilities as at 31 December 2008

	Total £'000	GBP £'000	EUR £'000	US\$ £'000	TRY £'000	BGN £'000	LEU £'000
<i>Financial assets:</i>							
Trade and other receivables	1,101	25	–	–	575	431	70
Tax assets	57	–	–	–	43	14	–
Cash and cash equivalents	6,428	12	2	5,139	497	426	352
Total financial assets	7,586	37	2	5,139	1,115	871	422
<i>Financial liabilities:</i>							
Trade and other payables	(927)	(616)	–	–	(129)	(146)	(36)
Overseas corporate tax	(98)	–	–	–	(55)	(2)	(41)
Rents received in advance	(217)	–	–	–	(217)	–	–
Bank loans	(11,932)	–	–	(11,932)	–	–	–
Other provisions and payables	(47)	–	–	–	–	–	(47)
Total financial liabilities	(13,221)	(616)	–	(11,932)	(401)	(148)	(124)
Net financial (liabilities)/assets	(5,635)	(579)	2	(6,793)	714	723	298
Net exposure to currency		(10.3)%	0.1%	(120.6)%	12.7%	12.8%	5.3%

The currency split after taking account of non-financial assets and liabilities (including freehold investment property, property, plant and equipment, advances for fixed assets, intangible assets and prepayments) is as follows:

	Total £'000	GBP £'000	EUR £'000	US\$ £'000	TRY £'000	BGN £'000	LEU £'000
<i>31 December 2009</i>							
Net assets/(liabilities)	21,415	(23)	6,840	13,911	328	132	227
Net exposure to currency		(0.1%)	32.0%	64.9%	1.5%	0.6%	1.1%
<i>31 December 2008</i>							
Net assets/(liabilities)	24,668	(579)	9,313	15,101	32	633	168
Net exposure to currency		(2.3%)	37.8%	61.2%	0.1%	2.6%	0.7%

Foreign currency sensitivity analysis

A 5% strengthening of Sterling against each currency at 31 December 2009 would have decreased the net assets and the profit for the period by the amounts shown below. This analysis assumes that all other variables remain constant and that any change in foreign exchange rates would not affect the prices of the properties.

The effect on equity of a strengthening of Sterling by 5% against each currency:

	Financial assets and liabilities only		Financial and non-financial assets and liabilities	
	31 December 2009 £'000	31 December 2008 £'000	31 December 2009 £'000	31 December 2008 £'000
Euro	(2)	–	342	465
US Dollar	349	340	696	755
Turkish Lira	(40)	(36)	16	2
Bulgarian Lev	(3)	(36)	7	32
Romanian Leu	(12)	(15)	11	8
Total	292	253	1,072	1,262

A weakening of Sterling against each currency would have an equal but opposite effect.

In order to manage the Group's exposure to foreign exchange risk, rather than purchase properties in local currency, the Group agreed prices for the properties and subsequently values the properties in either US Dollars or Euros. However, all payments for the properties are made in the relevant local currency, namely the Bulgarian Lev, Romanian Leu or Turkish Lira, at the relevant exchange rates at the time of payment. The same process is used in respect of rental agreements. The Board believes that this removes some of the volatility and reduces the foreign exchange exposure that may be experienced with the less stable local currencies, namely the Bulgarian Lev, Romanian Leu, and Turkish Lira.

In addition, the Group entered into the bank facility in US Dollars in Turkey in order to reduce the Group's net exposure to US Dollars (the currency with which the Turkish properties are linked).

Possible adverse economic and political conditions

The financial operations of the Group may be adversely affected by general economic conditions and particularly by economic conditions in the Target Countries. The returns that are likely to be achieved on an investment in property or land in the Target Countries will be materially affected by the political and economic climate in Eastern Europe, particularly in the Target Countries. In particular, changes in the rates of inflation and interest rates in the Target Countries may affect the income generated by, and capital value of, the property portfolio.

Notes to the Financial Statements (continued)

28. Financial risk management (continued)

The property and land markets in which the Group invests are relatively immature and the economies of the Target Countries are not as fully developed as those in Western Europe. Further, those countries carry risks of political, legal and economic instability, which could adversely affect the Group's results or operations. With any investment in a foreign country there exists the risk of adverse political or regulatory developments including, but not limited to, nationalisation, confiscation without fair compensation, terrorism, war or currency restrictions. The latter may be imposed to prevent capital flight and may make it difficult or impossible to exchange local currency into foreign currency or to repatriate foreign currency.

Further, deterioration in the Western European economies can be expected to have an adverse effect on the economies of the Target Countries and potentially on property values and the level of rents in the Target Countries.

Risks of property ownership

Investments in property may be difficult, slow or impossible to realise. The Ordinary Shares will be subject to the general risks incidental to the ownership of real or heritable property, including changes in the supply of or demand for competing investment properties in an area, changes in interest rates and the availability of mortgage funds, changes in property tax rates and landlord/tenant or planning laws, credit risks of tenants and borrowers and environmental factors. The marketability and value of any properties owned by the Group will, therefore, depend on many factors beyond the control of the Group and there is no assurance that there will be either a ready market for any properties held by the Group or that such properties will be sold at a profit or will yield a positive cash flow.

Changes in law relating to foreign ownership of property in any of the jurisdictions in which the Group invests might also have an adverse effect on the net returns from the property portfolio.

Property investment risk

The performance of the Group could be adversely affected by a downturn in the property market in terms of capital value or weakening of rental markets. In the event of default by a tenant, the Group may suffer a rental shortfall and incur additional costs including legal expenses and costs of maintaining, insuring and re-letting the property. Any future property market recession could materially adversely affect the value of the properties.

Returns from an investment in property depend largely upon the amount of rental income generated from the property and the expenses incurred in the development or redevelopment and management of the property, as well as changes in its market value.

Rental income and the market value for properties are generally affected by overall conditions in the local economy, such as growth in GDP, employment trends, inflation and changes in interest rates. Changes in GDP may also impact employment levels, which in turn may impact demand for premises, especially for office space for commercial enterprises. Furthermore, movements in interest rates may also affect the cost of financing for real estate companies.

Both rental income and property values may also be affected by other factors relevant to the real estate market, such as competition from other property owners and developers, the perceptions of prospective tenants on the attractiveness, convenience and safety of properties, the inability to collect rents because of the bankruptcy or insolvency of tenants or otherwise, the periodic need to renovate, repair or re-lease space and the costs thereof, the costs of maintenance and insurance, and increased operating costs. In addition, the owner must meet certain significant expenditures, including operating expenses, even if the property is vacant.

Investments in property are relatively illiquid and more difficult to realise than investments in equities or bonds.

29. Capital commitments

All contracted capital commitments have been provided for.

30. Subsequent events

Following a review by the Bank in April 2010, the amount pledged by the Group to the Bank was reduced to US\$2,545,000.

There were no other material events after the financial reporting date that required disclosure as at 14 May 2010.

31. Fair values

The fair value of interest-bearing loans and borrowings has been calculated based on discounted expected future principal and interest cash flows. For receivables and payables with a remaining life of less than one year, the notional amount is deemed to reflect the fair value. The fair value of the deferred tax liabilities is linked to the fair value of the freehold investment property and is thus carried at its fair value. The fair value of the Group's bank loan is equal to its carrying value as the repayment of the bank loan is discounted at the variable rate at which it bears interest. All other receivables/payables are discounted to determine the fair value.

There is no significant difference between the carrying amount and the fair value of the Group's assets and liabilities. In addition, at 31 December 2009 the Group held 608,750 Ordinary Shares in treasury (note 23). The fair value of these shares at 31 December 2009 was £319,594 (31 December 2008: £322,161).

32. Operating leases

The Group leases out its freehold investment property under operating leases. At 31 December 2009, the future minimum lease receipts under non-cancellable leases were as follows:

	<i>31 December 2009</i>	<i>31 December 2008</i>
	<i>£'000</i>	<i>£'000</i>
Less than one year	1,262	1,904
Between one and five years	2,362	3,847
	3,624	5,751

The total above comprises the total contracted rent receivable as at 31 December 2009.

Leases have been negotiated for terms of between one and five years and are either for fixed amounts per annum over the term of the lease or are increased annually at amounts set in advance or are linked to various price indices. The lessees do not have options to purchase the properties at the expiry of the lease periods.

Notes to the Financial Statements (continued)

33. Capital management policy and procedures

The Group's capital management objectives are:

- to ensure that it will be able to continue as a going concern; and
- to maximise its total return primarily through the capital appreciation of its investments.

The Board, with the assistance of the Manager, Property Manager and Investment Adviser, monitors and reviews the structure of the Group's capital on an ad hoc basis. This review includes:

- the current and future levels of gearing;
- cash flow projections for the Group;
- the working capital requirements of the Group;
- the need to buy back Ordinary Shares for cancellation or to be held in treasury, which takes account of the difference between the net asset value per Ordinary Share and the Ordinary Share price; and
- the current and future dividend policy.

The Group's objectives, policies and processes for managing capital remain unchanged from the previous year.

As at 31 December 2009, the Group held a bank loan of £10,781,000 (net of bank loan arrangement fees) (31 December 2008: £11,932,000) (US\$17,500,000) (see note 22). As disclosed in the Consolidated Statement of Financial Position, the total equity shareholders' funds is £21,415,000 (31 December 2008: £24,668,000).

Directors

Charles Parkinson *(Chairman)*

Charles Parkinson is a Deputy in the States of Guernsey and is Minister for Treasury and Resources in Guernsey. A graduate of Cambridge, he is a Fellow of the Institute of Chartered Accountants in England and Wales and a qualified barrister. He was the founder and, until 2004, chairman of the Guernsey office of PKF, having started his career as a chartered accountant at KPMG in London. Mr Parkinson is the chairman or a director of two companies listed on the London Stock Exchange, including a property investment company. Mr Parkinson is a resident of Guernsey.

Carol Goodwin

Carol Goodwin has extensive experience in the finance industry and has held senior executive positions in several European and North American banks, managing businesses in London, Toronto, Montreal, Amsterdam, Nassau and Guernsey. She is currently a director of Investec Bank (Channel Islands) Limited where she was managing director between 1994-1996 and 1998-2001. Ms. Goodwin is vice chairman of another Guernsey bank and is also a non-executive director of a number of financial services entities including several listed and unlisted investment funds. Ms. Goodwin is a Fellow of the Institute of Canadian Bankers, a Trust and Estate Practitioner and a Chartered Director of the Institute of Directors. Ms. Goodwin is a resident of Guernsey.

Hugh Ward

Hugh Ward has worked within the financial services industry since 1972 and held senior executive positions with a number of major investment management companies. Prior to 2002 he was chief executive officer of Invesco UK Limited, a subsidiary of AMVESCAP Limited and was previously chairman and managing director of Capital House International Investment Management Limited in Jersey. He now acts as a consultant or non-executive director for a number of companies within the financial services, property and computer software industries. Mr Ward is a member of the Chartered Institute for Securities and Investment and is a resident of Jersey.

Directors

Charles Parkinson *(Non-Executive Chairman)*

Carol Goodwin *(Non-Executive Director)*

Hugh Ward *(Non-Executive Director)*

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Manager, Administrator, Secretary and Registered Office

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