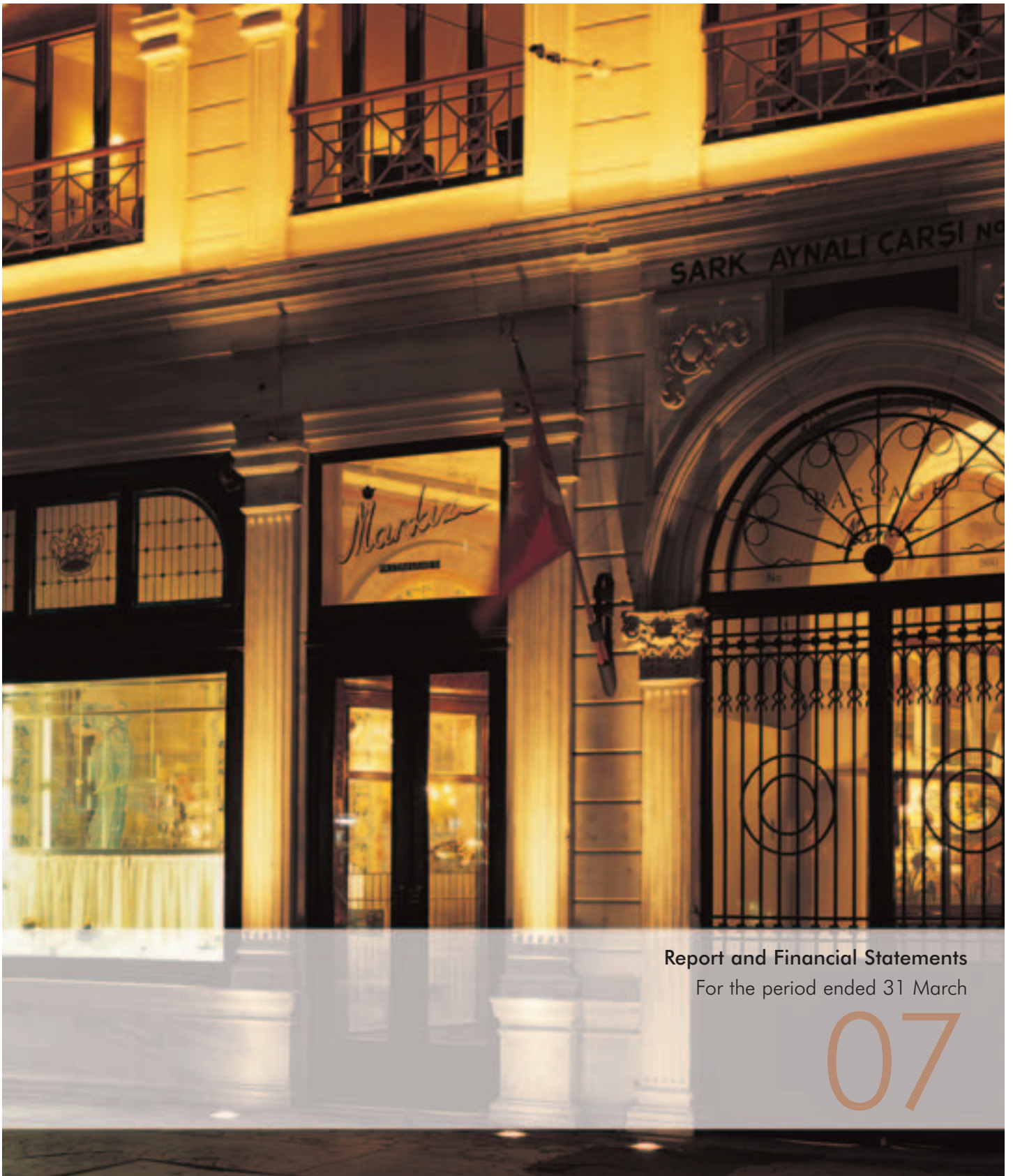


Eastern European Property Fund Limited



Report and Financial Statements
For the period ended 31 March

07

Investment Objective

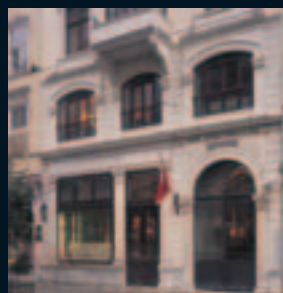
The investment objective of Eastern European Property Fund Limited (the “Company”) and its subsidiaries’ (together the “Group”) is to provide Shareholders with a high level of income and the potential for significant capital growth by investing in property in the major urban centres of Turkey, Romania,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

Investment Policy

The Group invests in a range of office, retail, industrial and residential properties in the Target Countries. The Group will primarily seek to invest in income-producing properties that also offer potential for significant capital growth in or around major urban centres in the Target Countries. The Group’s primary policy will be to purchase existing or newly built properties.

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

Investment objective and policy	IFC
Chairman’s Statement	01
Property Manager and Adviser’s Report	02
Property Portfolio	02
Report of the Directors	05
Independent Auditor’s Report	11
Consolidated Income Statement	12
Consolidated Statement of Changes in Equity	12
Consolidated Balance Sheet	13
Consolidated Cash Flow Statement	14
Notes to the Financial Statements	15
Directors	36
Notice of Annual General Meeting	37
Form of proxy	
Advisers	IBC



Chairman's Statement

I am pleased to present the Report and Financial Statements of the Group for the period ended 31 March 2007.

The Company was incorporated on 27 February 2006 and on 23 March 2006 the Company raised gross proceeds of £20 million (net proceeds of £19.1 million) through the issue of 20,000,000 Ordinary Shares at 100.00 pence each, with the Ordinary Shares being admitted to trading on AIM, a market operated by the London Stock Exchange.

The Group's investment objective is to provide Shareholders with a high level of income and the potential for significant capital growth by investing in a range of office, retail, industrial and residential properties in Turkey, Bulgaria, Romania and Ukraine (the "Target Countries"). Since it began trading, the Group has successfully made acquisitions in Turkey, Romania and Bulgaria. Investment in the Ukraine, which we previously thought to be an area where significant opportunities existed, has not taken place to date due to a lack of perceived return and additional risk relative to the other Target Countries. Your Board will continue to review the suitability of the Ukraine as a Target Country and may still invest in the Ukraine if considered appropriate.

Results

At 30 September 2006 I reported to you that to generate the desired level of return, the Group would have to be fully invested. Six months on, I am happy to report that through the purchase of carefully selected properties we have fully committed our net proceeds of the Placing and are in negotiations to secure bank debt to expand our portfolio further.

During the period the Group built an investment property portfolio, which has been valued by DTZ Debenham Tie Leung at £21.5 million, as at 31 March 2007. Details of these properties are set out in the Property Manager and Adviser's Report on pages 2 to 4. I am pleased to report that the valuation of our recently acquired portfolio resulted in a gain of £4.6 million (an increase of 27%) on the cost (including acquisition expenses) of £17.0 million.

The Group made a net profit for the period to 31 March 2007 of £3.3 million, representing earnings per Ordinary Share of 16.55 pence. The consolidated net asset value as at 31 March 2007 was £22.4 million (112.01 pence per Ordinary Share).

During the period, the price of the Ordinary Shares ranged from 97.00 pence to 105.50 pence each. At the period end, the mid price of the Ordinary Shares was 97.75 pence, representing a discount to net asset value of 12.33%.

Dividend

The Group's income in its first accounting period has been absorbed by its operating costs. The income in this period

consisted largely of bank interest, with a minimal amount of rental income derived from the property portfolio. Since the year end however, I am pleased to report that, through the letting of some of the properties where refurbishment has been completed, solid income streams are now being produced.

Although the Group suffered a distributable loss for the period of £0.7 million, due to the unrealised gain on revaluation of investment properties, it achieved an overall profit for the period of £3.3 million and at the period end, after £18,891,000 was transferred to distributable reserves from the share premium account, distributable reserves stood at £18.2 million. Therefore, on 6 August 2007, the Board declared an interim dividend for the period ended 31 March 2007 of 3.20 pence per Ordinary Share. The Directors do not propose a final dividend for the period.

The Board and its advisers hope that, as the Group's properties are refurbished and let, the enhanced rental income will enable the Company to increase dividends in future periods.

Outlook

Finding properties of appropriate quality during the period has proved to be challenging in under developed commercial lending markets of the Target Countries. Existing owners are expecting unrealistically high prices for buildings that are let, despite, in some cases, the leases being quite short. Fortunately investors continue to focus on fully-let properties, opening up opportunities to purchase property, which is only part-let or un-let on an attractive valuation. Part-let or un-let properties generally represent much better value than fully-let equivalents, despite the additional letting risk that this approach entails.

During the period, investment was initially slow but, during the last six months, a number of suitable properties have been acquired. The Group now owns six properties in Turkey, one in Bulgaria and one in Romania, details of which are set out in the Property Manager and Adviser's Report.

The Group intends to take advantage of the opportunities that still exist to acquire further properties in excellent locations. The Directors have inspected the properties in Istanbul and believe that the best overall return in the current market is to be found where value can be added through refurbishment prior to letting.

Charles Parkinson

Chairman

6 August 2007

Property Manager and Adviser's Report

Strategy

We have pursued a strategy of purchasing property in strategic locations in or around the major urban centres in the Target Countries, which, have the potential to realise gain through active management. We are pleased to report that all available equity, which the Company raised on its placing and admission to AIM in March 2006, has now been invested across Istanbul (Turkey) – 69%; Bucharest (Romania) – 17% and Sofia (Bulgaria) – 14%.

Despite reviewing a large number of potential purchases in Kiev (Ukraine), none were concluded as we judged that the overall level of return achievable was insufficient, after allowing for the additional risk of investing there, relative to the risk adjusted returns available in the other major cities of our Target Countries. Whilst no acquisitions have been made in

the Ukraine to date, these factors are continually reviewed and re-evaluated and, should the situation improve, then the Group may commence investment in this country.

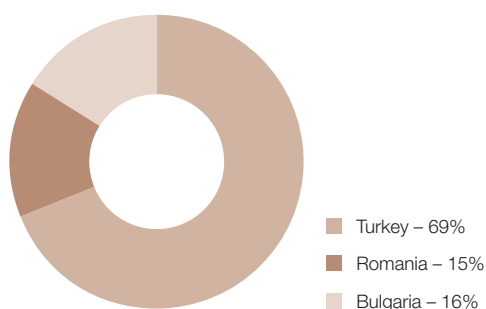
Property Portfolio

Tenant demand for available space has been above expectations and substantial lettings have been concluded in Istanbul to Roberts (a Scandinavian Coffee Shop operator) and Darty (part of the Kesa Group plc) with income yields on costs for all properties on target at more than 9%. Yield compression has occurred on fully-let investments in all Target Countries. A combination of astute buying and letting has resulted in a valuation surplus on the invested property compared to the purchase cost (including acquisition expenses) of approximately 27% overall, as valued locally by DTZ Debenham Tie Leung in either US Dollars or Euros as appropriate.

Current Holdings

		Cost £'000	Market Value £'000
Bulgaria			
24 George Washington Street, Sofia	Office	2,429	3,421
Romania			
Transalkim Warehouse, S Bucharest	Industrial	2,902	3,285
Turkey			
134.39 Susam Street, Cihangir, Istanbul	Office	806	1,481
6th Floor, The Misir Building, Istiklal Street, Istanbul	Office	996	1,192
Ravouna Apartments, 401 Istiklal Street, Beyoglu, Istanbul	Office/retail	1,763	2,226
Oriental Passage, Istiklal Street, Beyoglu, Istanbul	Leisure/office/retail	6,417	8,222
Nil Passage, Istiklal Street, Beyoglu, Istanbul	Leisure/office/retail	1,099	1,016
Pera Residence, Asmalimescrit Street, Beyoglu, Istanbul	Retail	562	661
		11,643	14,798
Total investment properties		16,974	21,504

Properties in each country by market value



The investments at the period end were as follows:

24 George Washington Street, Sofia, Bulgaria (office)

These premises were bought at the end of 2006. €1.4million was paid on purchase and the balance of €3.4million is payable on completion of the building contract. A pre-let is in place for part of the space at €180,000 p.a. Once fully let, the yield on cost is expected to be over 10% p.a.

Transalkim Warehouse, S. Bucharest, Romania (industrial)

This industrial complex was bought fully-let in February 2007 for €3.95 million at an initial yield of approximately 10%. The tenant, Transalkim, is a leading European logistics operator.

134.39 Susam Street, Cihangir, Istanbul, Turkey (office)

The property has been completely renovated at a total cost of approximately US\$2.0 million. Interested buyers continue to come forward at levels substantially above the total cost, and the Group is reviewing a potential sale as well as rental options.

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

A total of circa US\$1.9 million was allocated to this purchase, including refurbishment costs of US\$0.3 million. The two tenants, Elektronik and Propaganda (both media companies) now occupy the 6th Floor on leases to March 2012 at an initial yield of 9% per annum. Each tenancy has built-in rental growth mechanisms on an annual basis at 5% on leases denominated in US Dollars.

Ravouna Apartments, 401 Istiklal Street, Beyoglu, Istanbul, Turkey (office/retail)

This property, which fronts Istiklal Street, was purchased in 2006 for US\$3.3 million and provides an opportunity to create new retail space with enhanced rental value once renovation works are carried out. We have submitted renovation proposals to the Local Authority and are in negotiation with the existing tenant as well as seeking offers from alternative operators who are looking to secure a presence on Istiklal Street.

Oriental Passage, Istiklal Street, Beyoglu, Istanbul, Turkey (leisure/office/retail)

This mixed use property was purchased for US\$11.6 million at the end of 2006. A Scandinavian coffee operator "Roberts" which has 180 outlets in Northern Europe has taken a five-year lease. Darty Electrical, part of the Kesa Group plc, a well-established network of electrical retail outlets throughout the UK and France, has agreed to rent the remaining ground and first floors and part of the basement. This is the second store taken by Darty in Turkey. Further lettings have also been completed to other occupiers. When fully let, the yield on acquisition cost should be approximately 10%.

Nil Passage, Istiklal Street, Beyoglu, Istanbul, Turkey (leisure/office/retail)

This recent purchase is adjacent to the Oriental Passage and cost US\$2.5million. Through this strategic purchase we hope to exploit the potential of the Oriental Passage by combining it in time with Nil Passage to create a larger retail mall.

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

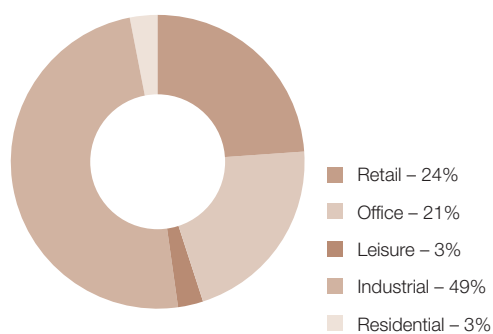
This property cost in the region of US\$1.1 million. Refurbishment of the three ground floor shops and basement is complete and the Group is in discussions with potential tenants. The rental return should comfortably exceed 10% on cost.

Regional Economic Overview

On 1 January 2007, Romania and Bulgaria joined the EU. Accordingly, the European Commission now receive regular reports on progress and reform, which were a condition of accession and which are linked to the granting of agricultural and development aid. Infrastructure and rural development funds have now been allocated. Bulgaria and Romania are expected to receive €12 billion and €20 billion respectively. Despite some political turmoil, which might delay the disbursement of structural funds, we do not believe that this will have an adverse affect on the economy as growth in both property prices and overall prosperity seems strong.

The election of a new Turkish president in April led to some political instability, with general elections being called forward from November to July 2007. Following the return of the existing government, Turkish financial markets have reacted favourably to the prospect of a continuation of its pro-business policies.

The Ukraine also has a political crisis as President Viktor Yushchenko continues to feud with the Prime Minister Viktor Yanukovich resulting in early elections called for 30 September 2007. However, the underlying economy remains strong despite political uncertainties.

Property uses making up the portfolio (by floor area)*Property Markets Overview*

Romania – From early this year, there is evidence of an increasing supply in the office market but despite this the growth in demand continues to outstrip supply causing rental values to continue to rise.

Property Manager and Adviser's Report *(continued)*

Bulgaria – Central Sofia office rents have increased significantly in the last quarter due to the very limited supply of quality properties. EU accession appears to have reduced perceived risks and resulted in further external interest in property investments.

Turkey – The country continues to benefit from strong foreign investment. Residential mortgages have been introduced although restricted to 75% loan to value and banks are developing commercial mortgage products. There are no indications of any slowing in the markets within the Beyoglu district in Istanbul where the Group is investing. Indeed, many more projects seem to be emerging with the refurbishment of offices, residential and retail units in much of Istiklal Street, the main street in the area.

Ukraine – the property market in Kiev continues to be strong in all areas with a significant shortage of western standard space in both the commercial and residential property sectors. Bureaucratic planning processes however limit the opportunities to capitalise on this shortage of quality space and the costs of local financing for projects remains very high.

Financing

With the Group now having fully invested the initial equity raised, further investment will be funded by a combination of gearing against the existing portfolio and further issues of Ordinary Shares. Negotiations to secure bank funding are currently taking place with several banks in order to secure appropriate borrowing terms.

Hedging

As stated in the Admission Document, the Company does not intend to hedge the exchange rate risk on the property portfolio. The Company has raised equity by way of a Sterling share issue and has purchased property in a combination of US Dollars and Euros with rental flows also being received in US Dollars and Euros. It is likely that bank funding, should it be secured, will be denominated in US Dollars and/or Euros and that this will, to an extent, provide a natural hedge to the activities of the Group.

General

Tenant demand and scarcity of certain types of property has caused, and continues to maintain, pressure on rent levels, throughout the Target Countries. As the Group is focused on property within the existing urban fabric, where planning constraints restrict the release of modern premises, the Property

Manager and Adviser remain confident that opportunities to expand the Group will exist for some time into the future.

The Group will continue to focus on property in the major cities and try to exploit opportunities with limited risk in terms of planning and construction cost exposure. This will not preclude buying existing buildings and refurbishing them, or new property, which may be close to completion. It is likely that the Group will continue to take risks in respect of letting vacant space, but will always balance this risk by focusing on location and quality of premises that are considered scarce for the potential occupier for that space. However, the Group will continue to seek out investment opportunities that are likely to be vacant space.

In terms of geographical exposure it is likely that the Group will continue to have the largest portion of its portfolio (by value) in Istanbul, with Bucharest second and Sofia with the least exposure, due to the size of the population. As indicated above we will be monitoring Kiev (Ukraine) but it seems unlikely that the Group will be investing in this location in the near future.

Prospects

At the present time we are exploring potential acquisitions in Beyoglu, Turkey and Central Bucharest, Romania. Generally, we remain committed to seeking property in central city locations (for offices and retail) and close to principal transport routes (for industrial/warehouse). We remain convinced that further significant opportunities exist which would enhance and grow the existing portfolio further.

Bob Locker

Collins Stewart Property Fund Management Limited

Keiran Gallagher

Oliver Cadogan

Active Property Investments Limited

6 August 2007

Report of the Directors

We are pleased to present the Report and Financial Statements of the Group for the first period ended 31 March 2007.

Status and Activities

The Company was incorporated on 27 February 2006 as a closed-ended investment company registered under the provisions of The Companies (Guernsey) Laws, 1994 to 2001. On 23 March 2006 the Group raised gross proceeds of £20.0 million (net proceeds of £19.1 million) through the issue of 20,000,000 Ordinary Shares at 100.00 pence 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 potential for significant capital growth by investing in property in the major urban centres of Turkey, Romania, Bulgaria and the Ukraine (the "Target Countries").

Results

During the period the Group built an investment property portfolio, which has been valued by DTZ Debenham Tie Leung at £21.5 million, as at 31 March 2007. Details of these properties are set out in the Property Manager and Adviser's Report on pages 2 to 4. It is pleasing to report that the valuation of our recently acquired portfolio resulted in a gain of £4.6 million (an increase of 27%) on the cost (including acquisition expenses) of £17.0 million.

The Group made a net profit for the period to 31 March 2007 of £3.3 million, representing earnings per Ordinary Share of 16.55 pence. The consolidated net asset value at 31 March 2007 was £22.4 million (112.01 pence per Ordinary Share).

Share Capital

Pursuant to the authority granted on 13 March 2006, 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 period. The Company intends to seek to renew the necessary authorities to buy back Ordinary Shares at the forthcoming Annual General Meeting.

A further resolution enabling the Company to purchase up to 10% of the Ordinary Shares in issue and hold them as Treasury Shares will be proposed at the forthcoming Annual General Meeting. The ability for Guernsey registered companies to make use of the Treasury Share facility has only become possible since May 2006, following the introduction of The Companies (Purchase of Own Shares) (Treasury Shares) Ordinance 2006. With these measures your Board will have the ability to exert a positive influence, as and when deemed appropriate, over the level of any discount to net asset value, at which the Ordinary Shares may trade. It is hoped that Shareholders will support these proposals.

Dividends

The Group's income in its first accounting period has been absorbed by its operating costs. The Company was in the process of investing its funds and thus its income in the period consisted substantially of bank interest. Taking account of the unrealised gain on revaluation of investment properties, the Group achieved an overall profit for the period of £3,310,000. Therefore, on 6 August 2007, the Board announced an interim dividend for the period ended 31 March 2007 of 3.20 pence per Ordinary Share.

The Directors do not propose a final dividend for the period ended 31 March 2007.

Property

The Group acquired eight properties during the period at a cost, including acquisition expenses, of £17.0 million. The properties were independently valued, by DTZ Debenham Tie Leung at £21.5 million as at 31 March 2007. Since the period end one more property has been identified with a view to purchase. Further details of the properties are given in the Property Manager and Adviser's Report on pages 2 to 4.

Financing

The Board are in negotiations for additional financing to assist in the procurement of further properties to enhance the portfolio of investments. The Manager is in discussion with several institutions with a view to obtaining gearing on the existing portfolio.

Report of the Directors (continued)

Despite the slower than anticipated start, the Board, the Property Manager and the Investment Adviser are pleased with the number and quality of the investments made in the initial period of the Company's life and believe that the Company will be in a position to meet its investment objectives.

Material Contracts

At launch, the Company's material contracts were with Collins Stewart Fund Management Limited ("CSFM") which acted as Administrator, Manager and Secretary, Collins Stewart Property Fund Management Limited ("CSPFM"), which acts as Property Adviser, Collins Stewart (CI) Limited, which acts as Custodian, Capita Registrars (Guernsey) Limited (formerly Capita IRG (CI) Limited), which acts as Registrar and HSBC Bank plc, the Group's principle bankers. During the financial period your Board was advised by Collins Stewart Tullett plc ("Collins Stewart") of its intention to withdraw from the provisions in Guernsey of administration services and fund structures, and that it was negotiating to sell substantially all of the business of CSFM to a new fund management/administration business to be set up by the former management team of CSFM.

On 20 October 2006, Collins Stewart sold substantially all of the business of CSFM to Elysium Fund Management Limited ("Elysium") a new fund management/administration business set up by the former management team of CSFM.

On 27 October 2006 the Board agreed, in the interests of continuity and to minimise any disruption to the Group's activities, to novate to Elysium the agreements previously held with CSFM. All of the previous fee arrangements for these services and the role of CSPFM as Property Adviser remain unaffected by these changes.

Elysium is entitled to receive a quarterly management and an annual performance fee from the Group, details of which are disclosed in note 2.

The Manager has entered into a contract for services with both an Investment Adviser and a Property Manager, Active Property Investments Limited and CSPFM 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 Property 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 Shareholders as a whole to retain the services of Elysium, CSPFM and Active Property Investments Limited.

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 Eastern European Property Fund Limited are liable to taxation under the taxation laws of the countries in which they are incorporated.

Future Prospects

During the period investment was slower than originally anticipated, especially in the first six months. However, the Board and its advisers are pleased with the number and quality of the investments made by the end of the period and believe that the Company will meet its investment objectives and that the growth of the Group can be maintained over the coming year. Further details are given in the Chairman's Statement and the Property Manager and Advisers' Reports on pages 1 to 4 respectively.

Directors

The present members of the Board are listed on the inside back cover of this report.

At 31 March 2007 the Directors' interests in the Ordinary Shares of the Group were as follows:

	<i>Ordinary Shares</i>
Charles Parkinson	10,000
Carol Goodwin	–
Hugh Ward	15,000
Richard Barnes	–

There were no changes in the interests of Directors between 31 March 2007 and 30 June 2007.

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

Substantial Interests

As at 30 June 2007, 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 shares</i>	<i>% of share capital</i>
HBOS	2,400,000	12.00%
Bank of Valetta	1,865,000	9.33%
GLG Partners	1,771,824	8.86%
Credit Suisse	1,518,623	7.59%
Charles Stanley	1,315,300	6.58%
Rathbone	1,275,000	6.38%
Collins Stewart	1,064,869	5.32%
Lehman Brothers	1,050,000	5.25%
New Star Asset Management	1,000,000	5.00%

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 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 "2003 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 2003 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 2003 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 four 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, administrative and custodial 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 and the Secretary. The Directors are kept fully informed of investment and financial controls, and other matters that are relevant to the business of the Company 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 Company.

The Board has a breadth of experience relevant to the Company, 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 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 below details the number of formal meetings attended by each Director in the period.

Report of the Directors (continued)

	Total Meetings	Quarterly Board Meetings Attended	Ad hoc Board Meetings Attended	Audit Meetings Attended	Other Committee Meetings Attended
Charles Parkinson	14/16	4/4	6/8	1/1	3/3
Carol Goodwin	13/16	4/4	7/8	1/1	1/3
Hugh Ward	11/16	3/4	6/8	1/1	1/3
Richard Barnes	13/16	4/4	7/8	1/1	1/3

The primary focus at Board Meetings is 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 has not currently considered it necessary to have formal annual strategy sessions, as the investment strategy, which is set out in the Company's Admission Document, is reviewed regularly with the Property Manager and Investment Adviser 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.

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 with Carol Goodwin as its Chairman. The Audit Committee examines the effectiveness of the Group's internal control systems, the annual report and accounts and interim 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 accounts, interim accounts and 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, evaluating and managing the significant risks faced by the Group. This process has been in place for the period under review and up to the date of approval of this Annual Report and Accounts. 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 duties of Property Manager and the custody of assets are segregated. The procedures are designed to complement one another.
- 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 Property Manager and the Manager 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 compliance reports are provided at each board meeting from the Administrator.

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 Property Manager maintains 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 Annual General Meeting.

The Board monitors the trading activity and Shareholder profile on a regular basis and maintains contact with the Company'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 Property Manager and Investment Adviser on a regular basis.

The Group reports formally to Shareholders twice a year and a proxy voting card is sent to shareholders with the Annual Report and Financial Statements. Additionally, current information is soon to be provided to Shareholders on an ongoing basis through the Group website. The Registrar 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

The Group is not engaged in any litigation or claim of material importance, nor, so far as the Directors are aware, is any litigation or claim of material importance pending or threatened against the Group.

Auditors

KPMG Channel Islands Limited has expressed their willingness to act as Auditors to the Company and a resolution for their 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 financial instruments comprise freehold investment property, cash, loans and various items such as debtors and creditors 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 and foreign currency risks. Further details are given in note 23 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.

Report of the Directors (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.

Directors' Responsibilities

The Directors are responsible for preparing financial statements for each financial period which give a true and fair view of the state of affairs of the Company and of the Group for that period and of the profit or loss of the Group and are in accordance with applicable laws. 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 Company 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, 1994, 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.

On behalf of the Board.

Charles Parkinson	Hugh Ward
<i>Director</i>	<i>Director</i>
6 August 2007	6 August 2007

Independent Auditor's Report

to the Members of Eastern European Property Fund Limited

We have audited the Group and parent company financial statements (the 'financial statements') of Eastern European Property Fund Limited for the period ended 31 March 2007 which comprise the Consolidated Income Statement, the Consolidated Statement of Changes in Equity, the Consolidated Balance Sheet, the Consolidated Statement of Cash Flow and the related notes. These financial statements have been prepared under the accounting policies set out herein.

This report is made solely to the Company's members, as a body, in accordance with section 64 of The Companies (Guernsey) Law, 1994. 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' are responsible for preparing the Directors' Report and the financial statements in accordance with applicable Guernsey Law and International Financial Reporting Standards (IFRS) as set out in the Statement of Directors' Responsibilities.

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

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with The Companies (Guernsey) Law, 1994. We also report to you if, in our opinion, the Company 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 Report of the Directors and consider the implications for our report if we become aware of any apparent misstatements within it.

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 in accordance with International Financial Reporting Standards, of the state of the Group's and the parent company's affairs as at 31 March 2007 and of the Group's and Company's profit for the period from 27 February 2006 to 31 March 2007; and
- have been properly prepared in accordance with The Companies (Guernsey) Law, 1994.

KPMG Channel Islands Limited

Guernsey, Channel Islands

6 August 2007

Consolidated Income Statement

for the period from 27 February 2006 to 31 March 2007

	Note	27 February 2006 to 31 March 2007 £'000
Income		
Rent receivable		69
Bank interest receivable		614
Unrealised gain on revaluation of investment properties	10	4,559
Total income		5,242
Expenses		
Administrator's fees	2	(131)
Management fees	2	(340)
Performance fee	2	(241)
Other operating expenses	5	(391)
Total expenses		(1,103)
Net profit from operating activities		4,139
Taxation	16	(829)
Profit for the period		3,310
Earnings per share – basic and fully diluted	6	16.55p

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

Consolidated Statement of Changes in Equity

for the period from 27 February 2006 to 31 March 2007

	Note	Share capital £'000	Share premium £'000	Distributable reserves £'000	Non- distributable reserves £'000	Total £'000
Gross proceeds of placing	18	200	19,800	–	–	20,000
Issue costs	18	–	(909)	–	–	(909)
Cancellation of share premium account	18	–	(18,891)	18,891	–	–
Profit/(loss) for the period		–	–	(668)	3,978	3,310
Net assets at 31 March 2007		200	–	18,223	3,978	22,401

The accompanying notes on pages 15 to 35 form an integral part of these financial statements.

Consolidated Balance Sheet

as at 31 March 2007

	Note	31 March 2007 £'000
Non-current assets		
Freehold investment property	10	21,504
Property, plant and equipment	9	73
Intangible assets	8	15
Deferred tax assets	17	161
		21,753
Current assets		
Trade and other receivables	13	759
Cash and cash equivalents		1,364
		2,123
Total assets		23,876
Current liabilities		
Trade and other payables	14	(446)
Overseas corporate tax		(89)
		(535)
Non-current liabilities		
Rents received in advance	15	(72)
Deferred tax liabilities	17	(868)
		(940)
Total liabilities		(1,475)
Net assets		22,401
Capital and reserves		
Called-up share capital	18	200
Share premium	18	–
Distributable reserves		18,223
Non-distributable reserves		3,978
Total equity Shareholders' funds		22,401
Net Asset Value per Ordinary Share – basic and fully diluted	20	112.01p

The financial statements on pages 12 to 35 were approved by the Board of Directors on 6 August 2007 and were signed on its behalf by

Charles Parkinson
Director

Hugh Ward
Director

6 August 2007

6 August 2007

The accompanying notes on pages 15 to 35 form an integral part of these financial statements.

Consolidated Cash Flow Statement

for the period from 27 February 2006 to 31 March 2007

	Note	27 February 2006 to 31 March 2007 £'000
Net profit from operating activities		4,139
Adjustments for:		
Interest receivable		(614)
Gain on revaluation of investment properties		(4,559)
Depreciation		5
Net cash outflow from operating activities before working capital changes		(1,029)
Increase in trade and other receivables		(755)
Increase in trade and other payables		446
Increase in other non-current liabilities		72
Interest received in the period		610
Tax paid in the period		(33)
Net cash outflow from operating activities		(689)
Investing activities		
Purchase of investment property		(16,974)
Purchase of intangible assets	8	(15)
Purchase of property, plant and equipment		(78)
Net cash outflow from investing activities		(17,067)
Financing activities		
Issue of shares		20,000
Share issue costs		(909)
Net cash inflow from financing activities		19,091
Increase in cash and cash equivalents		1,335
Cash and cash equivalents at beginning of period		–
Increase in cash and cash equivalents		1,335
Foreign exchange movement		29
Cash and cash equivalents at end of period		1,364

The accompanying notes on pages 15 to 35 form an integral part of these financial statements.

Notes to the Financial Statements

for the period from 27 February 2006 to 31 March 2007

1. Significant accounting policies

a) Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs"), issued by the International Accounting Standards Board ("IASB"), interpretations issued by the International Financial Reporting Interpretations Committee and applicable legal and regulatory requirements of Guernsey Law and reflect the following policies, which have been adopted and applied consistently.

The financial statements were authorised for issuance on 6 August 2007.

b) Basis of preparation

The financial statements have been prepared on a fair value basis for investment property and financial assets and financial liabilities at fair value through profit or loss. Other financial assets and financial liabilities are stated at amortised cost. The financial statements are presented in Sterling, rounded to the nearest thousand.

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 notes 10 and 23.

The accounting policies have been consistently applied by the Group.

c) Basis of consolidation

The financial statements consolidate the financial statements of the Company and its subsidiary undertakings drawn up to 31 March 2007. The results of the subsidiary undertakings are accounted for in the Consolidated Income Statement 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 cost of investment in a subsidiary is eliminated against the Company's share in net assets at the date of acquisition. All intercompany receivables, payables, income and expenses are eliminated. Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Company obtains control, and continue to be consolidated until the date that such control ceases.

The financial statements of subsidiaries are included in the Consolidated Financial Statements from the date that control commences. Where properties are acquired by the Group through corporate acquisitions and there are no significant assets or liabilities acquired other than the property, the acquisition has been treated as an asset acquisition.

The consolidated results incorporate the net assets and liabilities of the Company and its subsidiaries at the balance sheet date and their results for the period then ended. All intercompany balances and transactions are eliminated.

Notes to the Financial Statements (continued)

1. Significant accounting policies (continued)

d) Income recognition

Bank interest

Short-term deposit interest is accounted for on an accruals basis.

Rental income

Rental income from investment property rented under operating lease is recognised through the Consolidated Income Statement 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.

e) 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 share issue costs, which are charged directly to the share premium account) are charged through the Consolidated Income Statement in the period in which they are incurred.

f) Intangible assets

Intangible assets are measured at cost less accumulated amortisation and impairment losses. Amortisation is recognised in the Consolidated Income Statement on a straight-line basis over the estimated useful lives of the intangible assets. The estimated useful lives of the current period are as follows:

Trade mark	15 years
------------	----------

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 in the Consolidated Income Statement 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 current period are as follows:

Furniture and fixtures	5-10 years
------------------------	------------

h) Freehold investment property

Investment property is initially measured at cost, being the fair value of consideration given including related transaction costs. Additions to investment property consist of costs of a capital nature and, in the case of investment property under development, capitalised interest. After initial recognition, investment property is carried at its fair value. The fair value of the 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, 5th Edition (the "Red Book") and in accordance with IAS 40. 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 investment properties are valued twice per year by independent appraisers. The last valuation for investment properties carried out by DTZ Debenham Tie Leung was at 31 March 2007.

The difference between the fair value of an investment property at the reporting date and its carrying amount prior to re-measurement is included in the Consolidated Income Statement 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 Income Statement. The re-measured amount becomes the deemed cost at which the property is then carried in trading properties.

i) Trade and other receivables

Trade and other receivables are carried at the original invoice amount, less allowances made 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.

j) 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.

k) Taxation

The Company 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. The Directors intend to conduct the Company's affairs such that it continues to remain eligible for exemption from Guernsey tax.

Investment income is recorded gross of applicable taxes and tax expense is recognised in the Consolidated Income Statement 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.

l) Deferred taxation

Deferred income tax is provided, using the liability method, on all temporary differences at the balance sheet 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 balance sheet date.

m) Distributable and non-distributable reserve

Management charges, performance fees, interest charged and unrealised investment gains and losses are 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 are allocated to the distributable reserve.

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

Notes to the Financial Statements (continued)

1. Significant accounting policies (continued)

n) Cash and cash equivalents

Cash in hand and in banks and short-term deposits, which are held to maturity, are carried at fair value. 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.

For the purpose of the Consolidated Cash Flow Statement, cash and cash equivalents consist of cash in hand and deposits at banks but does not include deposits with solicitors.

o) Net asset value per share and earnings per share

The net asset value per share disclosed on the face of the Consolidated Balance Sheet is calculated by dividing the net assets by the number of Ordinary Shares in issue at the period end.

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

p) Issue costs

The placing expenses incurred have been written off in full against the share premium account.

q) Foreign exchange translations

The currency of the primary economic environment in which the Group operates (the functional currency) is deemed to be Sterling as there is no one dominant currency. Sterling is also its presentational currency. Transactions involving currencies other than Sterling are recorded at the exchange rate ruling on the transaction date. At each balance sheet date, monetary items and non-monetary assets and liabilities that are fair valued, which are denominated in foreign currencies are retranslated at the closing rates of exchange.

Exchange differences arising on settlement of monetary and non-monetary items, and from retranslating investments and other financial instruments measured at fair value through profit or loss at the balance sheet date, and other monetary items are charged through the Consolidated Income Statement to the distributable reserve.

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 balance sheet date. The income and expenses of foreign operations, excluding foreign operations in hyperinflationary economies, are translated into Sterling at rates approximating to the foreign exchange rates ruling at the dates of the transactions. The revenues and expenses of foreign operations in hyperinflationary economies are translated into Sterling at the foreign exchange rates ruling at the balance sheet date. Foreign exchange differences arising on retranslation are recognised as a separate component of equity.

Prior to translating the financial statements of foreign operations in hyperinflationary economies, the financial statements, including comparatives, are restated to account for changes in the general purchasing power of the local currency. The restatement is based on relevant price indices at the balance sheet date.

s) Segmental reporting

The Directors are of the opinion that the Group is engaged in a single segment of business, being investment in property, and operates in five geographical areas; Guernsey, Bulgaria, Cyprus and Malta, Romania and Turkey.

t) 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.

u) Share capital

Funds received from the issue of Ordinary Shares is allocated to share capital, to the extent that it relates to the nominal value of the Ordinary Shares, with any excess being allocated to the share premium account.

Ordinary Shares are classified as equity.

v) Loans to subsidiary undertakings

Loans to subsidiary undertakings are valued at cost, less allowances made for doubtful receivables. Where the time value of money is material, receivables are carried at amortised cost. Provision is made when there is objective evidence that the Company will be unable to recover balances in full. Balances are written off when the probability of recovery is assessed as being remote.

The loans to subsidiary undertakings are translated at the relevant foreign exchange rate at the balance sheet date. Exchange differences arising on the settlement or retranslation of the loans to subsidiary undertakings are charged through the Company Income Statement to the distributable reserve.

w) Investment in subsidiary undertakings

The Company's investments in subsidiary undertakings are carried in the Company Balance Sheet at cost subject to the need for provision for impairment.

Recognition

The Company recognises investments in subsidiary undertakings on the date it commits to purchase the instruments. From this date, any gains and losses arising from the changes in fair value of the assets are recognised.

Derecognition

An investment in a subsidiary undertaking is derecognised when the Company loses control over the contractual rights that comprise that asset. This occurs when rights are realised, expire or are surrendered. Realised gains and losses on the investments in subsidiary undertakings sold are calculated as the difference between the sales proceeds and cost. Investments in subsidiary undertakings that are sold are derecognised and corresponding receivables from the buyer for the payment are recognised as of the date the Company commits to sell the assets. The Company uses the weighted average method to determine realised gains and losses on derecognition.

Notes to the Financial Statements (continued)

1. Significant accounting policies (continued)

x) New standards and interpretations not applied

IASB and IFRIC have issued the following 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 (revised)	Presentation of Financial Statements (revised)	1 January 2007
IFRS 7	Financial Instruments: Disclosure	1 January 2007
IFRS 8	Operating Segments	1 January 2008
<i>International Financial Reporting Interpretations Committee (IFRIC)</i>		
IFRIC 7	Applying the Restatement Approach Under IAS 29 Financial Reporting in Hyperinflationary Economies	1 March 2006
IFRIC 8	Scope of IFRS 2	1 May 2006
IFRIC 9	Reassessment of Embedded Derivatives	1 June 2006
IFRIC 10	Interim Financial Reporting and Impairment	1 November 2006
IFRIC 11	IFRS 2 – Group and Treasury Share Transactions	1 March 2007
IFRIC 12	Service Concession Arrangements	1 January 2008

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

Upon adoption of IFRS 7, the Group will have to disclose additional information about its financial instruments, their significance and the nature and extent of risks that they give rise to. More specifically the Group will need to disclose the fair value of its financial instruments and its risk exposure in greater detail. There will be no effect on reported income or net assets.

2. Management and administration fees

At launch, Collins Stewart Fund Management Limited ("CSFM") was Manager, Administrator and Secretary to the Company, Collins Stewart Property Fund Management Limited ("CSPFM") acted as Property Manager and Active Property Investments Limited acted as the Investment Adviser.

On 20 October 2006 Collins Stewart Tullett plc ("Collins Stewart") sold substantially all of the business of CSFM to Elysium Fund Management Limited ("Elysium") a new fund management/administration business set up by the former management team of CSFM.

On 27 October 2006 the Board agreed, in the interests of continuity and to minimise any disruption to the Group's activities, to novate to Elysium the Management Agreement, Administration Agreement and Investment Advisory Agreement previously held with CSFM. The terms of the new Management Agreement, Administration Agreement and Investment Advisory Agreement remain unchanged from those with CSFM. All of the previous fee arrangements for these services and the roles of CSPFM as Property Manager and Active Property Investments Limited as Investment Adviser remain unaffected by these changes.

Administration fee

The Group shall pay the Administrator 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 an annual fee of 1.75% of the Gross Asset Value of the Group. 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 year. 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, such notice to expire at any time on or after the third anniversary of Admission. The Management Agreement may also be terminated by either the Manager or the Group if the other party, or CSPFM, 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.

Notes to the Financial Statements (continued)

3. Segmental analysis

Segment information is presented in respect of the Group's geographical segments.

The Group operates in five principal geographic segments, being Guernsey, Bulgaria, Cyprus and Malta, 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.

Income Statement	<i>Guernsey</i> £'000	<i>Bulgaria</i> £'000	<i>Cyprus & Malta</i> £'000	<i>Romania</i> £'000	<i>Turkey</i> £'000	<i>Total</i> £'000
Rent income receivable	–	–	–	49	20	69
Bank interest receivable	579	6	–	25	4	614
Income	579	6	–	74	24	683
Administrative, other expenses and foreign exchange movements	(914)	(5)	(32)	9	(161)	(1,103)
Net (loss)/profit from operating activities	(335)	1	(32)	83	(137)	(420)
Unrealised gain on revaluation of investment properties	–	981	–	378	3,200	4,559
(Loss)/profit before tax	(335)	982	(32)	461	3,063	4,139
Taxation	(20)	(93)	–	(82)	(634)	(829)
(Loss)/profit for the period	(355)	889	(32)	379	2,429	3,310

Balance Sheet	<i>Guernsey</i> £'000	<i>Bulgaria</i> £'000	<i>Cyprus & Malta</i> £'000	<i>Romania</i> £'000	<i>Turkey</i> £'000	<i>Total</i> £'000
Investment property	–	3,421	–	3,285	14,798	21,504
Property, Plant & Equipment	–	–	–	36	37	73
Intangible assets	–	–	–	–	15	15
Deferred tax assets	–	5	–	4	152	161
Trade and other receivables	67	485	2	26	179	759
Cash and cash equivalents	960	129	5	133	137	1,364
Total assets	1,027	4,040	7	3,484	15,318	23,876
Current liabilities	(390)	(7)	(10)	(48)	(80)	(535)
Non-current liabilities	–	(99)	–	(61)	(780)	(940)
Total liabilities	(390)	(106)	(10)	(109)	(860)	(1,475)
Net assets/(liabilities)	637	3,934	(3)	3,375	14,458	22,401

4. Directors' fees

27 February 2006
to 31 March 2007
£'000

Charles Parkinson	27
Carol Goodwin	22
Hugh Ward	22
Richard Barnes	22
	93

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 6.

5. Other operating expenses

27 February 2006
to 31 March 2007
£'000

Custodian and settlement fees	5
Depreciation (note 9)	2
Directors' fees	93
Auditors' remuneration	47
Nominated Adviser fees	15
Nominated broker fees	15
Registrar fees	10
Legal and professional fees	95
Loss on foreign currency exchange ⁽¹⁾	2
Other expenses	107
	391

⁽¹⁾ The loss on foreign exchange relates to exchange differences arising on settlement of monetary and non-monetary items, and from retranslating investments and other financial instruments measured at fair value through profit or loss at the balance sheet date, and other monetary items.

6. Earnings per share – basic and fully diluted

The gain, in pence per Ordinary Share, is based on a profit of £3,310,000 and on a weighted average number of 20,000,000 Ordinary Shares in issue. There is no difference between the basic and fully diluted gain per share.

7. Dividends

No dividends were paid in the period ended 31 March 2007. However, on 6 August 2007 the Board declared an interim dividend of 3.20 pence per Ordinary Share for the period ended 31 March 2007. The Directors do not propose a final dividend for the period to 31 March 2007.

Notes to the Financial Statements (continued)

8. Intangible assets

During the period the Company purchased a trademark for Markiz Patisserie. The estimated useful economic life of the trade mark is fifteen years.

	<i>31 March 2007</i> £'000
<i>Cost</i>	
Addition	15
<i>Accumulated Amortisation</i>	
Provided during the period	–
Balance carried forward 31 March 2007	15

9. Property, plant and equipment

	<i>31 March 2007</i> £'000
<i>Cost</i>	
Addition	75
<i>Accumulated Depreciation</i>	
Provided during the period	(2)
Balance carried forward 31 March 2007	73

10. Freehold investment property

	<i>27 February 2006</i> <i>to 31 March 2007</i> £'000
Purchases at cost	16,974
Movement in unrealised appreciation	4,559
Foreign exchange loss – adjustment between using average and balance sheet rates	(29)
	4,530
At 31 March 2007	21,504

In the opinion of the Directors and the Property Manager the fair value of the properties held at the period end is as detailed in the valuation report provided to the Directors.

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, Continental 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 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.

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. In order to manage the Group's exposure to foreign exchange risk, rather than purchase properties in local currency; the Group has purchased the properties and subsequently values the properties in either US dollars or Euros. This removes the volatility of and reduces the foreign exchange exposure that may be experienced with the less stable local currencies, namely the Bulgarian Lev, Romanian RON, and Turkish Lira.

All investment properties were valued by qualified professional valuers working for DTZ Debenham Tie Leung, international property advisers, at fair value (see note 1h) as at 31 March 2007 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.

11. Investments in subsidiary undertakings

Details of the subsidiary undertakings held by the Company at 31 March 2007 were as follows:

	<i>Registered</i>	<i>% of ordinary shares held</i>	<i>Principal Activity</i>	<i>Cost £'000</i>
Doğu Avrupa Gayrimenkul Yatırım ve Ticaret Limited Şirketi ("Doğu Avrupa")	Turkey	100%	Property Investment	3,806
EEPF Susam Sokak Gayrimenkul ve Turizm Ticaret Limited Şirketi ("EEPf Susam Sokak")	Turkey	100%	Property Investment	1,734
Gateway Properties SRL	Romania	100%	Property Investment	–
Sarnia Eastern Property (Cyprus) Limited	Cyprus	100%	Investment Holding Co.	1
Sarnia Eastern Property (Cyprus) No 2 Limited	Cyprus	100%	Investment Holding Co.	1
Sarnia Eastern Property (Malta) Limited	Malta	100%	Investment Holding Co.	2
Sarnia Real Estate (Cyprus) Limited	Cyprus	100%	Investment Holding Co.	1
Southern Properties EOOD	Bulgaria	100%	Property Investment	2
Southern Properties SRL	Romania	100%	Property Investment	–
				5,547

Sarnia Eastern Property (Cyprus) Limited and Sarnia Real Estate (Cyprus) Limited each have a 50% shareholding in Gateway Properties SRL. At 3 July 2007 the 100% shareholding in Southern Properties EOOD was transferred to Sarnia Eastern Property (Cyprus) Limited (50%) and Sarnia Real Estate (Cyprus) Limited (50%). All other companies are wholly owned by Eastern European Property Fund Limited.

Notes to the Financial Statements (continued)

12. Loans to subsidiary undertakings

During the period to 31 March 2007, Eastern European Property Fund Limited made loan facilities available to its subsidiary undertakings. Details of these are shown below:

	31 March 2007				
	Interest-free loan £'000	Interest- bearing loan £'000	Total loan £'000	Accrued interest £'000	Interest rate %
Doğu Avrupa	276	3,793	4,069	170	18.0
EEPF Susam Sokak	1,864	583	2,447	16	18.0
Sarnia Eastern Property (Cyprus) Limited	4	–	4	–	n/a
Sarnia Eastern Property (Malta) Limited	6	7	13	–	LIBOR+3.0%
Sarnia Real Estate (Cyprus) Limited	4	–	4	–	n/a
Sarnia Real Estate (Cyprus) No 2 Limited	3	–	3	–	n/a
Southern Properties EOOD	–	3,054	3,054	43	7%
Southern Properties SRL	2,988	–	2,988	–	n/a
Total loans to subsidiary undertakings at 31 March 2007	5,145	7,437	12,582	229	

The loans to Doğu Avrupa and EEPF Susam Sokak are repayable on 30 June 2008 and were made in Turkish Lire. The loan to Southern Properties EOOD is repayable on demand and is denominated in Euros.

The loan to Sarnia Eastern Property (Malta) Limited is repayable on demand and is denominated in Sterling.

13. Trade and other receivables

	Group 31 March 2007 £'000	Company 31 March 2007 £'000
VAT control account	193	–
Short term loan ⁽¹⁾	352	–
Other debtors and prepayments	214	67
	759	67

⁽¹⁾ The Bulgarian subsidiary, Southern Properties EOOD, has granted a loan to the company which is performing the reconstruction of 24 George Washington Street, Sofia. The loan will be closed upon delivery of the completed works, certified by an affirmative report of "Advisory Engineering Group" Limited, which has undertaken to perform the supervision of the project.

14. Trade and other payables

	Group 31 March 2007 £'000	Company 31 March 2007 £'000
Directors' fees	22	22
Management fee	41	41
Performance fee	241	241
Other creditors and accruals	142	85
	446	389

15. Non-current liabilities

	<i>Group</i> 31 March 2007 £'000	<i>Company</i> 31 March 2007 £'000
Rents received in advance	72	–

16. Taxation

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

	<i>27 February 2006</i> <i>to 31 March 2007</i> £'000
Other taxes and duties charged overseas	72
Overseas corporate tax	30
Deferred taxation (note 17)	707
Withholding tax	20
	<u>829</u>

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

	<i>27 February 2006</i> <i>to 31 March 2007</i> £'000
Net profit from operating activities	4,139
Company's Guernsey rate (as exempt from Guernsey tax)	–
Taxation	829
Effective tax rate	<u>20.0%</u>
Company's Guernsey rate (as exempt from Guernsey tax)	0.0%
Supplementary overseas taxes at higher rates	20.0%
Effective tax rate	<u>20.0%</u>

Overseas corporate tax has arisen in the Turkish subsidiary EEPF Susam Sokak Gayrimenkul ve Turizm Ticaret Limited Şirketi ("Susam Sokak"). Profits of TRY 148,718 have been taxed at 20% and then adjusted for disallowable expenses of TRY 834.

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

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 15%.

Notes to the Financial Statements (continued)

17. Deferred tax assets and liabilities

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

	<i>31 March 2007</i>
	<i>£'000</i>
Deferred tax asset arising on tax losses	161
Deferred tax liability arising on investment gains	(868)
	(707)

The deferred tax assets arising on tax losses arose as follows:

<i>Subsidiary</i>	<i>Tax losses</i> <i>'000</i>	<i>Tax rate</i>	<i>Deferred</i> <i>tax asset</i> <i>'000</i>	<i>Deferred</i> <i>tax asset</i> <i>£'000</i>
Doğu Avrupa	TRY 1,909	20%	TRY 382	136
EEPF Susam Sokak	TRY 221	20%	TRY 44	16
Southern Properties EOOD	BGN 260	10%	BGN 26	9
				161

The deferred tax liabilities arising on investment gains arose as follows:

	<i>Unrealised</i> <i>gain</i> <i>'000</i>	<i>Tax rate</i>	<i>Deferred</i> <i>tax liability</i> <i>'000</i>	<i>Deferred</i> <i>tax liability</i> <i>£'000</i>
Doğu Avrupa	USD 3,973	20%	USD 795	(416)
EEPF Susam Sokak	USD 2,833	20%	USD 567	(297)
Southern Properties EOOD	EUR 1,420	10%	EUR 142	(95)
Southern Properties SRL	EUR 556	16%	EUR 89	(60)
				(868)

The differences between the deferred tax assets and liabilities in the Consolidated Income Statement and the Consolidated Balance Sheet are accounted for by the translation of foreign currency balances in relation to deferred taxation at the average rate of exchange for the Consolidated Income Statement and the rate ruling on the balance sheet date for the Consolidated Balance Sheet.

18. Share Capital

31 March 2007
£'000

Authorised:	
200,000,000 Ordinary Shares of 1 pence each	2,000
Issued and fully paid:	
20,000,000 Ordinary Shares of 1 pence each	200

On 23 March 2006, the Company raised gross proceeds of £20 million (net proceeds of £19.1 million) through the issue of 20,000,000 Ordinary Shares of 1 pence each at 100 pence each. All the Ordinary Shares were admitted to trading on AIM, a market operated by the London Stock Exchange, on 23 March 2006.

On 23 March 2006, as stated in the Admission Document, the Company cancelled all of its share premium account (as approved by the Royal Court of Guernsey on 24 March 2006), transferring it to a distributable reserve.

By written resolution on 13 March 2006 the Company resolved to authorise it to utilise the distributable reserves to buy back up to 14.99% of the Ordinary Shares (2,998,000 Ordinary Shares) issued at the Placing for cancellation. No Shares were purchased for cancellation during the period.

In accordance with The Companies (Purchase of Own Shares) (Treasury Shares) Ordinance 2006, at the forthcoming Annual General Meeting the Board is seeking to renew 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.

19. Duration of the Company

At the Annual General Meeting of the Company to be held in 2013, a special resolution shall be proposed 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.

20. 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 £22,401,000 and on 20,000,000 Ordinary Shares in issue at the end of the period.

21. Related parties

The relationship and transactions between the Group, CSPFM, and Elysium and Active Property Investments Limited are disclosed in the Report of the Directors and note 2.

The Directors are not aware of any ultimate controlling party.

The transactions between the Company and the subsidiary undertakings and loans and loan interest due to the Company from the subsidiaries are detailed in note 12.

Notes to the Financial Statements (continued)

22. Maturity of financial liabilities

At 31 March 2007 the Group had no financial liabilities. The maturity of the Group's total liabilities at 31 March 2007 was as follows:

	31 March 2007 £'000
In one year or less	535
Between two and five years	940
	1,475

23. Analysis of assets and liabilities

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

The main price risks arising from the Group's assets are market price risk, liquidity risk, credit 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 Board reviews and agrees policies for managing its risk exposure. These policies are summarised below and have remained unchanged during the period under review.

Market price risk

The Group's exposure to market price risk will mainly arise as a result of fluctuations in the value of the Group's portfolio of investment properties. The Board have contracted with CSPFM and Active Property Investments Limited 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. 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 is in the process of obtaining bank financing to fund further purchases of investment properties.

Credit risk

The risk of financial loss due to a counterparty's failure to honour its obligations arises principally in connection with property leases, 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. 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.

Interest rate risk

The Group's exposure to interest rate risk is on its cash balances. These are held on short term deposits earning interest at floating rates.

The Company has additional exposure to interest rate risk arising from the loans to subsidiaries. The terms of these loans are disclosed in Note 12.

Foreign exchange risk

The Group conducts business in jurisdictions that will 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. Accordingly, it generates revenue in currencies other than Sterling declares its dividends in Sterling and the amount received by Shareholders will be an amount in Sterling. As a consequence, Shareholders will 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 amount of dividends paid. In addition, the amount of any dividends declared by the Company 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 Net Asset Value of the Group's property investments, which will be 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 investment property, and rental agreements denominated in currencies other than Sterling, (the functional and presentational currency).

In order to manage the Group's exposure to foreign exchange risk, rather than purchase properties in local currency; the Group has purchased the properties and subsequently values the properties in either US dollars or Euros. This removes the volatility of and reduces the foreign exchange exposure that may be experienced with the less stable local currencies, namely the Bulgarian Lev, Romanian RON, and Turkish Lira. The accounts prepared by the Maltese and Cypriot subsidiaries are prepared in Sterling.

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, 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.

Notes to the Financial Statements (continued)

23. Analysis of assets and liabilities (continued)

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.

24. Capital commitments

On 15 December 2006, a wholly-owned subsidiary, Southern Properties EOOD, purchased 24 George Washington Street in Sofia for EUR 4.8 million, although only EUR 1.4 million was paid on completion. A further EUR 520,000 was paid to the developer on 16 January 2007 with the remaining EUR 2.88 million to be paid on completion of the building contract. There is an overrun on the building contract on which the Group is entitled to damages equivalent to EUR 40,000 per month.

All contracted capital commitments have been provided for.

25. Company Income Statement

	Note	27 February 2006 to 31 March 2007 £'000
Income		
Interest receivable on inter-company loans	12	245
Bank interest receivable		579
Total income		824
Expenses		
Administrator's fees	2	(131)
Management fees	2	(340)
Performance fee	2	(241)
Other operating expenses		(187)
Total expenses		(899)
Loss before taxation		(75)
Taxation		(20)
Loss for the period		(95)

26. Company Statement of Changes in Equity

	Note	Share capital £'000	Share premium £'000	Distributable reserves £'000	Non- distributable reserves £'000	Total £'000
Gross proceeds of placing	18	200	19,800	–	–	20,000
Issue costs	18	–	(909)	–	–	(909)
Cancellation of share premium account	18	–	(18,891)	18,891	–	–
Profit/(loss) for the period		–	–	486	(581)	(95)
Net assets at 31 March 2007		200	–	19,377	(581)	18,996

Notes to the Financial Statements (continued)

27. Company Balance Sheet

	Note	31 March 2007 £'000
Non-current assets		
Investments in subsidiary undertakings	11	5,547
Current assets		
Loan to subsidiary undertakings	12	12,582
Interest receivable from subsidiary undertakings	12	229
Trade and other receivables	13	67
Cash and cash equivalents		960
		13,838
Total assets		19,385
Current liabilities		
Trade and other payables	14	(389)
Net assets		18,996
Capital and reserves		
Called-up share capital	18	200
Share premium	18	–
Distributable reserves		19,377
Non-distributable reserves		(581)
Total equity shareholders' funds		18,996

28. Company Cash Flow Statement

	Note	27 February 2006 to 31 March 2007 £'000
Loss for the period		(95)
Increase in trade and other receivables		(67)
Increase in interest receivable from subsidiary undertakings		(229)
Increase in trade and other payables		389
Net cash outflow from operating activities		(2)
Investing activities		
Investment in subsidiary undertakings	11	(5,547)
Loans to subsidiary undertakings	12	(12,582)
Net cash outflow from investing activities		(18,129)
Financing activities		
Issue of shares		20,000
Share issue costs		(909)
Net cash inflow from financing activities		19,091
Increase in cash and cash equivalents		960

29. Fair values

The fair values of financial assets and liabilities are not materially different from their carrying value in the financial statements.

30. Operating leases

The Group leases out its investment property under operating leases. At 31 March 2007, the future minimum lease receipts under non-cancellable leases were as follows:

	27 February 2006 to 31 March 2007 £'000
Less than one year	424
Between one and five years	1,039
More than five years	–
	1,462

The total above comprises the total contracted rent receivable as at 31 March 2007.

Directors

Charles Parkinson (aged 53) (Chairman)

Charles Parkinson is a Deputy in the States of 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 four companies listed on the London Stock Exchange, including two property investment companies. Mr Parkinson is a resident of Guernsey.

Carol Goodwin (aged 63)

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 (aged 54)

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 Securities Institute and is a resident in Jersey.

Richard Barnes (aged 45)

Richard Barnes is a principal of chartered surveyors, BDP Barnes Daniels and Partners, and specialises in Channel Island commercial property, valuation, consultancy, investment and development. Prior to this, Mr Barnes was a manager of the Mourant de Feu & Jeune Property Department (1995-1997) and a director of ATIS REAL Weatheralls Jersey (1997-2001) where he was director of a number of offshore property structures administered on behalf of clients. Mr Barnes has over 20 years' experience of working in the real estate sector and has also held posts at Hillier Parker, Vigers and Bernard Thorpe. Mr Barnes is chairman of Invesco Property Income Trust and past chairman of the Jersey branch of the Royal Institution of Chartered Surveyors and often acts as an independent expert and arbitrator in Jersey and Guernsey third party disputes. Mr Barnes is a resident of Jersey.

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the first ANNUAL GENERAL MEETING of EASTERN EUROPEAN PROPERTY FUND LIMITED will be held at No. 1 Le Truchot, St Peter Port, Guernsey GY1 3JX on 24 August 2007 at 2.30pm for the following purposes:

Resolution on form of proxy

As ordinary business:

Ordinary Resolution 1

To receive and, if thought fit, to accept the reports of the Directors and Auditors and the audited financial statements for the period ended 31 March 2007.

Ordinary Resolution 2

To appoint KPMG Channel Islands Limited as Auditors and to authorise the Directors to agree their remuneration.

Ordinary Resolution 3

To re-elect Charles Parkinson, who offers himself for re-election, as a Director.

Ordinary Resolution 4

To approve the Group's investment strategy (in accordance with AIM Rules) as follows:

"The investment objective of the Group 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, Bulgaria and the Ukraine (the "Target Countries"). The Group invests in a range of office, retail industrial and residential properties in the Target Countries. The Group will primarily seek to invest in income-producing properties that also offer potential for significant capital growth in or around major urban centres in the Target Countries. The Group's primary policy will be to purchase existing or newly built properties, which may require refurbishment or renovation before being let. The Group may also invest in the construction and development, renovation or refurbishment of properties, either wholly owned by the Group or in conjunction with other investors."

As special business:

Ordinary Resolution 5

That the Company be and is hereby generally and unconditionally authorised in accordance with The Companies (Purchase of Own Shares) Ordinance 1998 to make market purchases, as defined in that Ordinance, of and cancel its Ordinary Shares of 1p each, provided that:

- (i) the maximum number of Ordinary Shares hereby authorised to be purchased shall be 2,998,000;
- (ii) the minimum price which may be paid for an Ordinary Share shall be 1p;
- (iii) the maximum price which may be paid for an Ordinary Share shall be an amount equal to 105% of the average of the middle market quotations for an Ordinary Share taken from and calculated by reference to the London Stock Exchange AIM Daily Official List for the five business days immediately preceding the date on which the Ordinary Share is purchased;
- (iv) the price paid per Ordinary Share shall be less than the net asset value per Ordinary Share;
- (v) the authority hereby conferred shall expire at the conclusion of the Annual General Meeting of the Company in 2008, unless the authority is renewed prior to such time; and
- (vi) the Company may make a contract to purchase Ordinary Shares under the authority hereby conferred prior to the expiry of such authority which will or may be executed wholly or partly after the expiration of such authority and may make a purchase of Ordinary Shares pursuant to any such contract.

Special Resolution 1

That Article 4 of the Company's Articles of Association be amended by the inclusion of a new paragraph as set out below and renumbering subsequent paragraphs accordingly:

4.6 The Company may hold any Shares purchased by it as Treasury Shares in accordance with The Companies (Purchase of Own Shares) (Treasury Shares) Ordinance, 2006, as amended from time to time.

Notice of Annual General Meeting (continued)

Special Resolution 2

That Article 6 of the Company's Articles of Association be amended by the inclusion of a new paragraph 6.16 as set out below:

Notwithstanding any other provision of this Article, any Member who acquires an interest in the Company equal to or exceeding 3% of the issued Shares (a "**Notifiable Interest**") shall forthwith notify the Company of such interest and having acquired a Notifiable Interest, a Member shall forthwith notify the Company if he ceases to hold such interest and of any increase or decrease to the nearest whole percentage number in his Notifiable Interest.

By order of the Board

Registered office:
No. 1 Le Truchot
St Peter Port
Guernsey
GY1 3JX

Elysium Fund Management Limited, *Secretary*

6 August 2007

A member entitled to attend and vote at the meeting is entitled to appoint one or more proxies to attend and vote in his or her stead. A proxy need not also be a member of the Company. To be effective, forms of proxy must be lodged with the Company's Secretary, Elysium Fund Management Limited, not less than 48 hours before the time appointed for holding the meeting. Lodgement of the form of proxy will not preclude a Shareholder from attending the meeting and voting in person.

Note:

The following documents will be available for inspection at the registered office of the Company during usual business hours on any weekday (except Saturdays, Sundays and public holidays) until the date of the meeting and at the place of the meeting for a period of 15 minutes prior to and during the meeting:

- a) A statement of Directors' interests in the share capital of the Company; and
- b) The Articles of Association.

Form of Proxy

For use at the ANNUAL GENERAL MEETING (Block capitals please)

I/We, the undersigned,

Of

being a member/members of Eastern European Property Fund Limited, hereby appoint the Chairman of the meeting/

.....
as my/our proxy to vote for me/us on my/our behalf at No. 1 Le Truchot, St Peter Port, Guernsey, GY1 3JX on 24 August 2007 at 2.30pm and at any adjournment thereof and at his discretion on any other matter arising at such meeting.

Signature Dated

Please indicate with an X in the spaces below how you wish your votes to be cast.

		For	Against	Abstain
Ordinary Resolution 1	To receive and, if thought fit, to adopt the reports of the Directors and Auditors and the audited financial statements for the period ended 31 March 2007.			
Ordinary Resolution 2	To appoint KPMG Channel Islands Limited as Auditors and to authorise the Directors to agree their remuneration.			
Ordinary Resolution 3	To re-elect Charles Parkinson, who offers himself for re-election as a Director.			
Ordinary Resolution 4	To approve the Group's investment strategy in accordance with the AIM Rules.			
Ordinary Resolution 5	To authorise the Company to buy back its own Shares.			
Special Resolution 1	To amend the Company's Articles of Association to allow it to hold Treasury Shares.			
Special Resolution 2	To amend the Company's Articles of Association to require disclosure of Notifiable Interests.			

Notes

1. A member may appoint a proxy of his or her own choice. If such an appointment is made, delete the words 'the Chairman of the meeting' and insert the name of the person appointed proxy in the space provided.
2. If the appointor is a corporation, this form must be under its common seal or under the hand of some officer or attorney duly authorised in that behalf.
3. In the case of joint holders, the signature of any one holder will be sufficient, but the names of all joint holders should be stated.
4. If this form is returned without any indication as to how the person appointed proxy shall vote, he or she will exercise his or her discretion as to how he or she votes or whether he or she abstains from voting.
5. To be valid, this form must be completed and deposited at the office of the Company's Secretary not less than 48 hours before the time fixed for holding the meeting or adjourned meeting.



Third fold and tuck in

Affix
stamp
here

Elysium Fund Management Limited
PO Box 650
No. 1 Le Truchot
St Peter Port
Guernsey, GY1 3JX

First Fold

Second fold

Advisers

Manager, Administrator, Secretary and Registered Office

Elysium Fund Management Limited
No. 1 Le Truchot
St Peter Port
Guernsey
GY1 3JX

Investment Adviser

Active Property Investments Limited
22 Smith Street
St Peter Port
Guernsey
GY1 5JQ

Registrar

Capita Registrars (Guernsey) Limited
Landes du Marché Chambers
Vale
Guernsey
GY1 3TY

Custodian

Collins Stewart (CI) Limited
Landes du Marché Chambers
Vale
Guernsey
GY1 3TY

English Legal Adviser to the Group

Stephenson Harwood
One, St Paul's Churchyard
London
EC4M 8SH

Property Manager

Collins Stewart Property Fund Management Limited
CNC House
Grand Union Office Park
Packet Boat Lane
Uxbridge
UB8 2GH

Nominated Adviser and Broker

Collins Stewart Europe Limited
9th Floor
88 Wood Street
London
EC2V 7QR

Valuer

DTZ Debenham Tie Leung
One Curzon Street
London
W1A 5PZ

Auditors

KPMG Channel Islands Limited
20 New Street
St Peter Port
Guernsey
GY1 4AN

Guernsey Legal Adviser to the Group

Carey Olsen
7 New Street
St Peter Port
Guernsey
GY1 4BZ

