

Eastern European Property Fund Limited

UNAUDITED INTERIM REPORT AND FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 30 SEPTEMBER 2006



Investment Objective

Eastern European Property Fund Limited and its subsidiaries' (the "Company") investment 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, Ukraine and Bulgaria (the "Target Countries").

Investment Policy

The Company intends to invest in a range of office, retail, industrial and residential properties in the Target Countries. It is expected that there will be an initial focus on office and retail property. The Company will primarily seek to invest in income-producing properties in or around major urban centres in the Target Countries. The Company's primary policy will be to provide the equity financing to purchase existing or newly built properties.

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

A closed-ended investment company, incorporated under
The Companies (Guernsey) Laws 1994 to 1996, as amended.

REGISTERED IN GUERNSEY No. 44424

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Chairman's Statement

I am pleased to present the Interim Report and Financial Statements of the Company for the period ended 30 September 2006.

The Company was incorporated on 27 February 2006 and on 23 March 2006 the Company raised gross proceeds of £20 million through the issue of 20,000,000 Ordinary Shares at 100.00p each, with the Ordinary Shares being admitted to trading on the Alternative Investment Market ("AIM") of the London Stock Exchange.

The Company's objective is to provide Shareholders with a high level of income and potential for significant capital growth by investing in a range of office, retail, industrial and residential properties in Turkey, Bulgaria, Romania and Ukraine. Generating the desired level of income will not be possible until the Company's funds are fully invested.

Unsurprisingly the Company's income in its first accounting period has been absorbed by its operating costs. The Company is in the process of investing its funds and its income in this period consisted exclusively of bank interest. The Company suffered a net loss for the period to 30 September 2006 of £38,000, representing a loss per Ordinary Share of 0.19p. The consolidated net asset value at 30 September 2006 was £19,053,000 (95.27p per Ordinary Share). The Board does not propose an interim dividend for the period.

The price of the Ordinary Shares ranged from 97.00p to 105.50p each during the period. At the period end the mid price of the Ordinary Shares was 98.75p (a premium to net asset value of 3.7%).

Finding properties of appropriate quality has proved to be challenging in very competitive markets. Existing owners are expecting unrealistically high price for

buildings that are let, despite, in some cases, the leases being quite short. Fortunately investors continue to focus on these 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 better value than fully-let equivalents, despite the additional letting risk which this strategy entails.

During the period investment was slower than originally anticipated, with the Company only purchasing two properties in Istanbul, details of which are set out in the Property Manager's Report. Since the period end three other properties have been purchased, two in Istanbul and one in Bulgaria. In addition, the current pipeline of potential acquisitions is very promising.

Based on the current negotiations the Board is optimistic that the equity of the Company will be fully invested by the year end and expect to be able to make further positive announcements in the coming weeks regarding acquisitions.

To date the Company has invested approximately £11.5 million, with a further £2 million committed, in acquiring five properties and the Company continues active discussion on a number of other property purchases. The Company intends to take advantage of the opportunities which still exist to acquire properties in excellent locations, but the Board believes that the best overall return in the current market is where value can be added through refurbishment and leasing.

Charles Parkinson

Chairman

21 December 2006

Property Manager's Report

The Property Manager and the Adviser have focussed, and continue to focus, on good quality locations in the principal cities of the Target Countries.

In the period we experienced some frustrating and protracted negotiations. However, following the successful conclusion of three property acquisitions since the period end, the overall position in terms of property acquisitions for the Company looks very positive.

The Advisor has focussed on properties that will provide good overall returns for the Company and has resisted being drawn into unproductive deals. We continue to focus on the principal cities, Istanbul, Sofia, Bucharest and Kiev and existing buildings where occupancy is high. In all these locations the Company's experience is that rental growth continues and yields continue to fall.

As a result, we feel that the most productive opportunities are from properties where the seller is not over pricing the property relative to its income stream, and, in this respect, much progress has been made in the past few months. We believe that, in the current market, the Company can achieve the best returns through the refurbishment of part-let or un-let properties. However, we will continue to explore all opportunities when considering potential investments.

The properties purchased during the period are:

134.39 Susam Street – Istanbul

Susam Street is an established and cosmopolitan street and is located in the Beyoglu area of Istanbul, the city's major commercial centre. The property, built in 1904, is in a mixed-use area consisting of shops, offices and residential accommodation. The building

is arranged over six floors and has an annex and, unusually for property in this area, it also has a large rear garden and garage space. The Company is currently renovating the property, which we expect to be completed in March 2007, prior to letting the property as office accommodation, with a bar/restaurant situated over the garage.

6th Floor, The Misir Building, Istiklal Street – Istanbul

Istiklal Street is one of the main thoroughfares in the Beyoglu area of Istanbul. The Misir Building is of historical importance and includes existing renovated office accommodation. Internal renovation and upgrading to a high standard has been completed and the property is now on the market.

Since the period end the following properties have been purchased:

401 Istiklal Street – Istanbul

The Company has acquired a further property in Istiklal Street. The property, which was built in 1894, has a street frontage of 7 metres and includes a retail shop, which is let to an established local operator. It is the Company's intention to carry out refurbishment works prior to letting the upper floors of the building and renegotiating the shop tenancy.

24 George Washington Street – Sofia

The property in Bulgaria utilises an existing façade with a new construction to the rear. It will provide five stories of mixed office and retail use with underground parking and is part pre-let. Payment will be made to the developer in stages as the work on the building, which is scheduled to occur in the first quarter of 2007, is completed.

Property Manager's Report *(continued)*

Oriental Passage Building, Istiklal Street – Istanbul

The property, which was acquired for 9.2 million Euros, is a passage building linking Istiklal Street and Amasalimescrit Street. It comprises a gross internal space of 3,100 square metres (including mezzanine) over five floors and a further four basement floors, which provide a further 1,495 square metres of car parking space. The building is located close to a number of consulates and embassies as well as the new metro station which is due to open in 2007.

Originally built in the 1890s the building was renovated approximately four years ago and little further work is required prior to letting. It is proposed that the building will have a mix of retail, leisure and office use.

Bob Locker

Collins Stewart Property Fund Management Limited

21 December 2006

Consolidated Income Statement

for the period from 27 February 2006 to 30 September 2006 (unaudited)

	Note	27 February 2006 to 30 September 2006 £'000
Income		
Bank interest		422
Total income		422
Expenses		
Administrator's fees	2	(66)
Management fees	2	(175)
Other operating expenses	3	(203)
Total expenses		(444)
Loss before taxation		(22)
Taxation		(16)
Loss for the period		(38)
Earnings per share – basic and diluted	4	(0.19)p

Consolidated Statement of Changes in Equity

for the period from 27 February 2006 to 30 September 2006 (unaudited)

	Note	Share capital £'000	Share premium £'000	Distributable reserves £'000	Non- distributable reserves £'000	Total £'000
Proceeds of placing	6	200	18,891	–	–	19,091
Cancellation of share premium account	6	–	(18,891)	18,891	–	–
Profit/(loss) for the period		–	–	137	(175)	(38)
Net assets at 30 September 2006		200	–	19,028	(175)	19,053

The accompanying notes on pages 8 to 13 form an integral part of these unaudited interim financial statements. These financial statements are unaudited and are not the Company's statutory financial statements.

Consolidated Balance Sheet

as at 30 September 2006 (unaudited)

	Note	30 September 2006 £'000
Non-current assets		
Freehold investment property	5	1,604
Current assets		
Cash and cash equivalents		17,521
Debtors		64
		17,585
Total assets		19,189
Current liabilities		
Creditors and accruals		(136)
Net assets		19,053
Capital and reserves		
Called-up share capital	6	200
Share premium	6	–
Distributable reserves		19,028
Non-distributable reserves		(175)
Total equity shareholders' funds		19,053
Net Asset Value per Ordinary Share	7	95.27p

The accompanying notes on pages 8 to 13 form an integral part of these unaudited interim financial statements. These financial statements are unaudited and are not the Company's statutory financial statements.

Consolidated Cash Flow Statement

for the period from 27 February 2006 to 30 September 2006 (unaudited)

27 February 2006 to
30 September 2006
£'000

Operating activities	
Bank interest received	409
Management fee paid	(175)
Other expenses paid	(189)
Foreign exchange loss	(11)
Net cash inflow from operating activities	34
Investing activities	
Purchase of/additions to investment property	(1,604)
Net cash outflow from investing activities	(1,604)
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	17,521

The accompanying notes on pages 8 to 13 form an integral part of these unaudited interim financial statements. These financial statements are unaudited and are not the Company's statutory financial statements.

Notes to the Interim Financial Statements

for the period from 27 February 2006 to 30 September 2006 (unaudited)

1. Significant accounting policies

a) Statement of compliance

These unaudited interim financial statements have been prepared in accordance with International Accounting Standard 34, “*Interim Financial Reporting*”. These unaudited interim financial statements are prepared in accordance with International Financial Reporting Standards, issued by the International Accounting Standards Board (“IASB”), interpretations issued by the International Financial Reporting Interpretations Committee of the IASB and applicable legal and regulatory requirements of Guernsey Law and reflect the following policies, which have been adopted and applied consistently.

International Financial Reporting Standard 7: *Financial Instruments: Disclosure* (“IFRS 7”) is effective for periods beginning on or after 1 January 2007. The Directors have chosen not to early adopt IFRS 7.

b) Basis of preparation

The unaudited interim financial statements have been prepared on a historical cost basis except for the measurement at fair value of investment properties. The financial statements are presented in Sterling, rounded to the nearest thousand.

The accounting policies have been consistently applied by the Company.

These financial statements consolidate the financial statements of the Company and its subsidiary undertakings drawn up to 30 September 2006. The results of the subsidiary undertakings are accounted for in the Consolidated Income Statement from the date the subsidiaries were formed (the subsidiaries are special purpose vehicles and have only been owned by the Company).

c) Basis of consolidation

These financial statements incorporate the net assets and liabilities of the Company and its subsidiaries (together the “Company”) at the balance sheet date and their results for the period then ended.

d) Income recognition

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

e) Expenses

All expenses are accounted for on an accruals basis. The Company’s management, performance and administration fees, finance costs and all other expenses are charged through the Consolidated Income Statement in the period to which they relate.

f) 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 will be subject to tax on income arising on the Property Portfolio, after deduction of its debt financing costs and allowable expenses. Withholding tax and irrecoverable VAT may also arise on distributions and interest from the property subsidiaries.

g) 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 amount 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.

h) Distributable and non-distributable reserve

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.

i) Cash and cash equivalents

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

Notes to the Interim Financial Statements (continued)

j) Investment properties – freehold

Investment properties are initially recognised at cost, being the fair value of consideration given, including transaction costs associated with the investment property. This is in accordance with International Accounting Standard 40, “Investment Properties”.

After initial recognition, freehold and leasehold investment properties are measured at fair value, with unrealised gains and losses recognised in the Consolidated Income Statement.

k) 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.

Net gain per share is calculated by dividing net gain for the period by the weighted average number of Ordinary Shares in issue during the period.

l) Issue costs

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

2. Management and administration fees

During the financial period Collins Stewart Fund Management Limited (“CSFM”) acted as 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.

CSFM was entitled to receive an annual fee of 1.75% of the Gross Asset Value of the Group. The management fee was payable quarterly in advance.

In addition, CSFM was entitled to a performance fee in certain circumstances. This fee was 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 ends on 31 March 2007; each subsequent performance period is a period of one financial year. CSFM would have become entitled to a performance fee in respect of a performance period only if two conditions were met.

First, a performance hurdle condition must be met. The performance hurdle was that Adjusted NAV per Ordinary Share at the end of the relevant performance period exceeded 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) (together, if applicable, with an amount equal to the VAT thereon).

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

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 Company 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.

On 20 October 2006 Collins Stewart Tullet 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.

The former management team and staff of CSFM have transferred to Elysium and your Board has been informed that there will continue to be a close working arrangement between Collins Stewart and Elysium. On 27 October 2006 the Board agreed, in the interests of continuity and to minimise any disruption to the Company'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.

Notes to the Interim Financial Statements (continued)

3. Other operating expenses

	<i>27 February 2006 to 30 September 2006</i>
	<i>£'000</i>
Directors' fees	50
Custodian and settlement fees	5
Auditors' remuneration:	16
Nominated advisor fees	8
Nominated broker fees	8
Registrar fees	6
Loss on foreign currency exchange	78
Other expenses	32
	203

4. Earnings per share

The loss per Ordinary Share is based on a loss of £38,000 and on a weighted average number of 20,000,000 Ordinary Shares in issue.

There is no difference between the basic and diluted earnings per share.

5. Freehold investment property

	<i>Freehold Investment Properties £'000</i>
Purchases at cost	1,604
Movement in unrealised appreciation	–
At 30 September 2006	1,604

See note 1 (j) regarding the classification, recognition, measurement and derecognition of investment properties.

In the opinion of the Directors and the Property Manager the fair value of the properties held at the period end is the same as their cost.

6. Share Capital

30 September 2006

£'000

Authorised:

200,000,000 Ordinary Shares of 1p each	2,000
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Issued and fully paid:

20,000,000 Ordinary Shares of 1p each	200
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On 23 March 2006, the Company raised gross proceeds of £20 million through the issue of 20,000,000 Ordinary Shares of 1p each at 100p each. All the Ordinary Shares were admitted to trading on the Alternative Investment Market ("AIM") of 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 issued at the Placing for cancellation. No shares were purchased for cancellation during the period.

7. Net asset value per Ordinary Share

The net asset value per Ordinary Share is based on the net assets attributable to equity shareholders of £19,053,000 and on 20,000,000 Ordinary Shares in issue at the end of the period.

8. Risk warnings

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

Directors

Charles Parkinson (aged 52) (Chairman)

Charles Parkinson is the Deputy Minister in the Treasury and Resources Department of 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. Charles 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 62)

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 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 44)

Richard Barnes is a Chartered Surveyor who has practiced in the UK between 1984 and 1992 with Hillier Parker, Vigers and Bernard Thorpe. Mr Barnes is now a principal of Barnes Daniels and Partners based in Jersey and specialises in Channel Island commercial property investment and development. He is the director of a number of listed property funds including O Twelve Estates, Macau Property Opportunity Fund and is Chairman of Invesco Property Income Trust. He is also director of a number of Jersey based expert funds and property unit trusts. Mr Barnes is a past chairman of the Jersey branch of the Royal Institution of Chartered Surveyors and is a resident of Jersey.

Advisers

Manager, Administrator, Secretary and Registered Office

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Investment Adviser

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Notes

