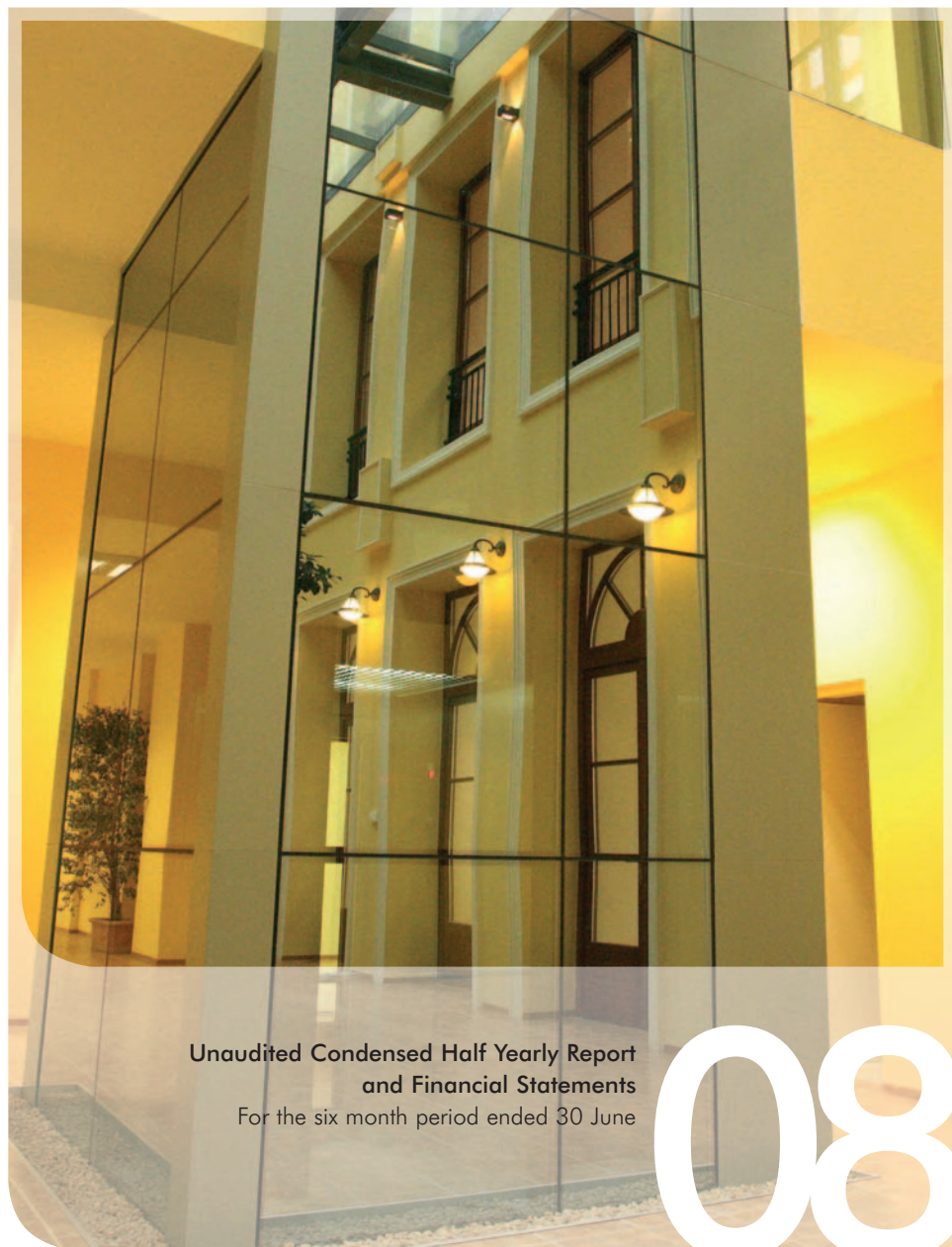


# EASTERN EUROPEAN PROPERTY FUND LIMITED



**Unaudited Condensed Half Yearly Report  
and Financial Statements**

For the six month period ended 30 June

# 08

### 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.

### Risk Warnings

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

[www.eepfl.com](http://www.eepfl.com)

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

REGISTERED IN GUERNSEY No. 44424

## Chairman's Statement

I am pleased to present the half yearly Report and Financial Statements of the Group for the six month period ended 30 June 2008.

### Results and operations

In what were difficult trading conditions, the Group suffered a net loss for the six month period ended 30 June 2008 of £12,000 (2007: profit of £2.0 million), representing a loss per Ordinary Share of 0.06p. The consolidated net asset value at 30 June 2008 was £23.2 million (119.88p per Ordinary Share).

The Group purchased one small new property during the six month period and utilised its funds to try to maximise the value of its existing properties through ongoing refurbishment. This has proved to be a profitable strategy with the fair value of the Group's properties, as valued by DTZ Debenham Tie Leung, increasing by £2.1 million, an uplift of £0.6 million during the six month period, excluding additions and foreign exchange movements.

In line with the Admission Document, the Group did not hedge the exchange rate risk, which increased the Group's income for the six month period by £0.6 million.

### Share buybacks

The price of the Ordinary Shares has suffered from current market sentiment, falling 15.50p during the six month period to 77.00p at 30 June 2008 (a discount to net asset value of 36%). During the six month period the Board bought back 608,750 Ordinary Shares (at an average price of 81.66p) for £497,094, instead of paying a dividend, to try to narrow the discount of the share price to net asset value. The share price initially rose from 69.25p on 1 May, when we announced that we would buy back shares, to 85p during May, when we were buying back shares. However, at the time of

writing, general market conditions have resulted in the share price falling further to 59.50p, a 50% discount to the 30 June 2008 net asset value. We expect world equity markets to continue to suffer difficult trading conditions in the medium-term. Therefore, we will keep under active review the relative merits of further share buy backs against the payment of cash dividends.

### Raising further equity

In my last statement I reported that we continued to explore ways to increase the equity base of the Company. However, due to the depressed equity market conditions, which are expected to persist for some months, we were not able to raise further equity. We continue to monitor this situation with our advisers and will seek to raise additional funds when conditions allow.

### Outlook

We still believe that the Turkish property market in particular remains positive and that excellent opportunities still exist to acquire further properties in prime locations. The Bulgarian, Romanian and Turkish property markets have not followed the same recent downturn as the UK property market. Although the Board and its advisers believe that the global economic downturn will feed through to the property markets of the Target Countries, we do not anticipate that these markets will suffer to the same extent as has been experienced elsewhere.

**Charles Parkinson**  
Chairman

25 September 2008

## Property Manager's Report

### Strategy and Overview

With the various uncertainties in the markets, the Group has continued to focus on the consolidation and management of its properties during the first half of 2008.

While the loss of confidence in property in the UK and some other European countries has not carried over to the Target Countries to the same extent, the lack of continuing foreign investment into property in the Target Countries and political uncertainty in Turkey is beginning to slow growth in the property sector. This is more noticeable in Romania and Bulgaria where the European perspective is greater. In Turkey the greater impact has been the political uncertainty where the Governing Party was being challenged by the Secular orientated Higher Courts. The Court ultimately did not rule against the ruling AK Party ("AKP") but has tried to warn it against potential anti-secular activity continuing.

Half year highlights are the completion of George Washington Street, Sofia and the letting of that same building to the United Bulgarian Bank and Bulgarian Property Management. The Group has also completed further consolidating purchases in Beyoglu, Istanbul and continued to progress with existing projects in the same vicinity.

A combination of the above refurbishment and asset management initiatives and continued underlying growth in the target markets has led to the Property Portfolio being valued at levels above the figures for 31 December 2007. This growth compares favourably with the downturns experienced in other European locations and the falling NAVs of many AIM listed European funds.

Notwithstanding the relative success to-date of the Portfolio, it is likely that the Group will be affected to some extent by the enormous weight of uncertainty over the current credit crisis and the downturn in the wider global market. In Turkey, retailers in some of the new malls have already acted together to try to force rent concessions from the landlords. In Bucharest, Romania the lack of foreign investment in land has halted residential development schemes, whilst in Bulgaria commercial development activity around Sofia Airport appears to have slowed considerably.

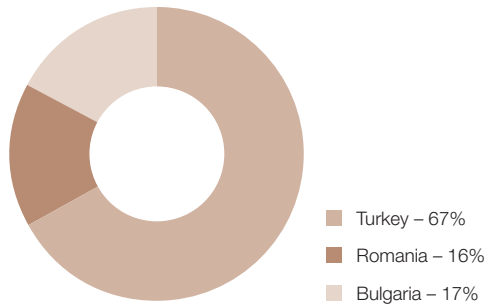
The US\$17.5 million facility was drawn down in full in December 2007 and at 30 June 2008 the Group's gearing was 37.8% (12.4% after accounting for cash and cash equivalents). At 30 June 2008 the Group had £5.9 million of cash and cash equivalents, a proportion of which is available for further purchases.

### Property Portfolio

Progress has been made with the Group's refurbishment projects; George Washington Street, Sofia being the most noticeable change from a 'development in progress' to a 'finished investment'. In addition, substantial progress has been made with the legal case at 401 Istiklal Street, Istanbul and ongoing refurbishment work at Markiz Passage and Nil Passage.

DTZ has valued the following properties as at 30 June 2008 at a total equivalent to £26,995,000, an increase of £2,059,000 from 31 December 2007.

## Country Split by Market Value



## Current Holdings

**Bulgaria**

24 George Washington Street, Sofia

Office

**Romania**

Transalkim Warehouse, S Bucharest

Industrial

**Turkey**

134-39 Susam Street, Cihangir, Istanbul

Leisure/Office/Residential

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

Office

Ravouna Apts, 401 Istiklal Street, Beyoglu, Istanbul

Office/Retail

Markiz Passage, Istiklal Street, Beyoglu, Istanbul

Leisure/Office/Retail

Nil Passage, Istiklal Street, Beyoglu, Istanbul

Leisure/Office/Retail

Pera Residence, Asmalimescit Street, Beyoglu, Istanbul

Retail

'Yellow' Building, Asmalimescit Street, Beyoglu, Istanbul

Retail

Gonul Sokak, Pera, Beyoglu, Istanbul

Retail/Office

## Property Manager's Report (continued)

The properties in detail are:

### *24 George Washington Street, Sofia, Bulgaria (Office)*

This building has been completed and let to the United Bulgarian Bank and Bulgarian Property Management.

### *Transalkim Warehouse, S Bucharest, Romania (Industrial)*

The property remains let to Transalkim. Transalkim has plans to relocate at the end of the lease in January 2010 but it is having difficulties procuring the redevelopment of its new site.

### *134-39 Susam Street, Cihangir, Istanbul, Turkey (Leisure/Office/Residential)*

The Annex is let to a Restaurant, which appears to be trading well, and the top floors are let to a 'Next' executive. The ground floor and basement is let to a marketing company. The Group is marketing the remaining space as offices.

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

The property remains let to Elektronik and Propaganda.

### *Ravouna Apartments, 401 Istiklal Street, Beyoglu, Istanbul, Turkey (Office/Retail)*

Following a delay in obtaining fire regulations consent, our application to the High Court for possession on grounds of redevelopment has been filed. Also a legal case is ongoing which, if the outcome is favourable, would increase the rent currently payable by the tenant on the ground floor. The hearings are expected to conclude by Spring 2009.

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

It has been difficult to find a suitable leisure operator to lease the middle floor. Therefore, with the increasing demand and growth in rental for offices in Istiklal Street, the Property Manager is reviewing the potential to let more space in the building for office use.

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

The external facades of this building have been restored and the property is being incrementally improved, while rents from individual office suites continue to be collected.

### *Pera Residence, Asmalimescit Street, Beyoglu, Istanbul, Turkey (Retail)*

This property is let to an upmarket restaurant operator offering French cuisine.

### *'Yellow' Building, Asmalimescit Street, Beyoglu, Istanbul, Turkey (Retail)*

We are considering redeveloping the building, including the addition of extra floors, subject to Municipality consents.

### *Gonul Sokak, Pera, Beyoglu, Istanbul, Turkey (Retail/Office)*

This property, which was purchased recently, has been renovated and is available to let as a restaurant.

## Regional Overview

### *Romania*

Romania's Central Bank is predicting that inflation will reach a higher than expected 6.6% for 2008, with forecasts for 2009 of 4.2%. This is higher than previously suggested and may be due to a weakening in the national currency (the Lei).

Despite the turmoil in international markets, Romania experienced economic growth four times higher than the European Union ("EU") average for the first quarter of this year, growing by 8.2%. However, it is predicted that annual growth will be in the region of 6%, which could be maintained up until 2020.

On the negative side, the EU is applying pressure on Romania to accelerate structural reforms and fiscal consolidation.

#### *Bulgaria*

A combination of factors has led to the Bulgarian Government accumulating record budget surpluses. In addition, GDP growth in Bulgaria for the first half of 2008 reached a record of 7% and unemployment fell steadily from 18%, in 2003, to 8%, in 2008. However, the economy is still considered to be at risk to the global downturn and rising prices have resulted in inflation of 13%, well above the Bulgarian Government's 4.5% target. With a pegged currency and therefore limited monetary options available to the Bulgarian National Bank there may be little that the Bulgarian Government will be able to do to rein in inflation significantly this year.

The main right wing political parties in the Bulgarian opposition are calling for early elections citing the Bulgarian Government's inability to address organised crime and corruption. The EU has frozen hundreds of millions of Euros in aid to the country in order to put pressure on the Government in this regard.

#### *Turkey*

Turkey has undergone considerable political turmoil in the first half of 2008 as challenges were made regarding the Governing party (AKP) and its senior ministers' approach to secularism. However, the Judiciary in Ankara eventually ruled out banning the

party and instead imposed a restriction on its funding over the coming year. This effectively amounted to a warning over its potential anti-secular activity.

Since the ruling the AKP appear (according to national polls) to have become more popular as stability has returned to the country.

Inflation appears to have peaked at close to 12% mid year, but overall GDP growth is around 4%.

The property markets have slowed following further moves to curtail foreign property ownership after the Judiciary became concerned that the previous legal controls were not working. New legislation is now in place, one outcome of which is that foreign owned companies, as well as private individuals, require clearance for property purchases. This may affect the pace of change, but we see this as potentially beneficial as 'hype' continues to prevail in respect of certain owners' views on the value of their properties when coming to sell.

As indicated previously in the 'Strategy and Overview', prominent retailers have got together in the new shopping malls to complain that their rents are too high which has resulted in concessions being given by the owners at some locations. The impact on the High Street is not clear and certainly rents currently remain buoyant on Istiklal Street, Beyoglu where the Group is focused.

#### *Prospects*

The Managers remain positive about the overall position of the Group. While it is likely that the wider economic downturn in the global markets and various local issues will feed through to the property market, we do not anticipate the collapse in values experienced elsewhere. Indeed the supply of space in the restricted

## Property Manager's Report *(continued)*

urban city centres may slow as the pace of regeneration reduces which will, in turn, maintain rental values. This is becoming evident in the office market in Beyoglu, Istanbul, whereas all of the new shopping malls built in Turkey in the last few years are exhibiting signs of over-supply.

Therefore, the Group will remain committed to investing in existing urban centres, where there is a natural restriction to the provision of supply, and where it can employ its skills to contribute to the regeneration of the historic building fabric.

### **Bob Locker**

*CNC Property Fund Management Limited  
(formerly Collins Stewart Property Fund  
Management Limited)*

### **Keiran Gallagher**

#### **Oliver Cadogan**

*Active Property Investments Limited*

25 September 2008

## Directors' Responsibilities

The Directors are responsible for preparing these unaudited half yearly financial statements, which have been reviewed but not audited by an independent auditor, and are required to:

- prepare the unaudited half yearly financial statements in accordance with International Accounting Standard 34: *Interim Financial Reporting* ("IAS 34");
- include a fair review of important events that have occurred during the six month period, and their impact on the unaudited half yearly financial statements, together with a description of the principal risks and uncertainties of the Group for the remaining six months of the financial year; and
- include a fair review of related party transactions that have taken place during the six month period which have had a material effect on the financial position or performance of the Group.

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

On behalf of the Board

**Charles Parkinson**

*Director*

25 September 2008

# Independent Review Report

to Eastern European Property Fund Limited

## Introduction

We have been engaged by the Company to review the condensed set of financial statements in the half-yearly report for the six months ended 30 June 2008 which comprises the unaudited condensed consolidated half-yearly income statement, the unaudited condensed consolidated half yearly balance sheet, the unaudited condensed consolidated half yearly statement of changes in equity, the unaudited condensed consolidated half yearly cash flow statement and the related explanatory notes. We have read the other information contained in the half-yearly report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the Company in accordance with the terms of our engagement letter dated 19 September 2008. Our review has been undertaken so that we might state to the Company those matters we are required to state to it in this 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 for our review work, for this report, or for the conclusions we have reached.

## Directors' responsibilities

The condensed half-yearly report is the responsibility of, and has been approved by, the Directors. The Directors are responsible for preparing the condensed half-yearly report in accordance with the AIM Rules.

As disclosed in note 2, the annual financial statements of the group are prepared in accordance with IFRS. The condensed set of financial statements included in this half-yearly report has been prepared in accordance with IAS 34 *Interim Financial Reporting*.

## Our responsibility

Our responsibility is to express to the Company a conclusion on the condensed set of financial statements in the half-yearly report based on our review.

## Scope of review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity* issued by the Auditing Practices Board for use in the UK. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

## Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly report for the six months ended 30 June 2008 is not prepared, in all material respects, in accordance with IAS 34 and the AIM Rules.

KPMG Channel Islands Limited  
Guernsey  
25 September 2008

## Condensed Consolidated Half Yearly Income Statement

for the six month period ended 30 June 2008 (unaudited)

	Note	01 January 2008 to 30 June 2008 (unaudited) £'000	01 January 2007 to 30 June 2007 (unaudited) £'000
<b>Income</b>			
Rent receivable		671	191
Bank interest receivable		164	114
Movement in unrealised gain on revaluation of investment properties		609	3,004
Gain on foreign currency exchange		532	–
<b>Total income</b>		<b>1,976</b>	<b>3,309</b>
<b>Expenses</b>			
Administrator's fees	6	(62)	(64)
Management fees	6	(283)	(179)
Performance fees	6	(213)	(200)
Other operating expenses		(519)	(271)
Finance expenses	9	(384)	–
Loss on foreign currency exchange		–	(261)
<b>Total expenses</b>		<b>(1,461)</b>	<b>(975)</b>
<b>Net profit from operating activities</b>		<b>515</b>	<b>2,334</b>
<b>Taxation</b>		<b>(527)</b>	<b>(343)</b>
<b>(Loss)/profit for the six month period</b>		<b>(12)</b>	<b>1,991</b>
<b>Earnings per share – basic and fully diluted</b>	7	<b>(0.06)p</b>	<b>9.96p</b>

The accompanying notes on pages 13 to 16 form an integral part of these unaudited half yearly financial statements. These financial statements are unaudited and are not the Group's statutory financial statements.

## Condensed Consolidated Half Yearly Statement of Changes in Equity

for the six month period ended 30 June 2008 (unaudited)

	Note	Share capital £'000	Distributable reserves £'000	Non- distributable reserves £'000	Foreign exchange translation reserve £'000	Total £'000
Net assets at 31 December 2007		200	17,573	5,358	606	23,737
Profit/(loss) for the six month period		–	259	(271)	–	(12)
Purchase of own shares	8	–	(497)	–	–	(497)
Foreign exchange movement		–	–	–	19	19
<b>Net assets at 30 June 2008</b>		<b>200</b>	<b>17,335</b>	<b>5,087</b>	<b>625</b>	<b>23,247</b>

## Condensed Consolidated Half Yearly Statement of Changes in Equity

for the six month period ended 30 June 2007 (unaudited)

	Share capital £'000	Distributable reserves £'000	Non- distributable reserves £'000	Total £'000
Net assets at 31 December 2006	200	18,415	2,112	20,727
Loss/(profit) for the six month period	–	(423)	2,414	1,991
<b>Net assets at 30 June 2007</b>	<b>200</b>	<b>17,992</b>	<b>4,526</b>	<b>22,718</b>

The accompanying notes on pages 13 to 16 form an integral part of these unaudited half yearly financial statements. These financial statements are unaudited and are not the Group's statutory financial statements.

## Condensed Consolidated Half Yearly Balance Sheet

as at 30 June 2008 (unaudited)

	Note	30 June 2008 (unaudited) £'000	31 December 2007 (audited) £'000
<b>Non-current assets</b>			
Freehold investment property		26,995	24,936
Property, plant and equipment		174	196
Advances for fixed assets		24	28
Intangible assets		13	13
Deferred tax assets		149	148
		27,355	25,321
<b>Current assets</b>			
Trade and other receivables		1,633	1,888
Tax assets		21	14
Cash and cash equivalents		5,908	8,008
		7,562	9,910
<b>Total assets</b>		<b>34,917</b>	<b>35,231</b>
<b>Current liabilities</b>			
Trade and other payables		(1,864)	(1,869)
Overseas corporate tax		(68)	(89)
		(1,932)	(1,958)
<b>Non-current liabilities</b>			
Rents received in advance		(175)	(166)
Deferred tax liabilities		(783)	(621)
Bank loans	9	(8,780)	(8,749)
		(9,738)	(9,536)
<b>Total liabilities</b>		<b>(11,670)</b>	<b>(11,494)</b>
<b>Net assets</b>		<b>23,247</b>	<b>23,737</b>
<b>Capital and reserves</b>			
Called-up share capital	10	200	200
Distributable reserves		17,335	17,573
Non-distributable reserves		5,087	5,358
Foreign exchange translation reserve		625	606
<b>Total equity shareholders' funds</b>		<b>23,247</b>	<b>23,737</b>
<b>Net Asset Value per Ordinary Share – basic and fully diluted</b>	11	<b>119.88p</b>	<b>118.69p</b>

The accompanying notes on pages 13 to 16 form an integral part of these unaudited half yearly financial statements. These financial statements are unaudited and are not the Group's statutory financial statements.

## Condensed Consolidated Half Yearly Cash Flow Statement

for the six month period ended 30 June 2008 (unaudited)

Note	01 January 2008 to 30 June 2008 (unaudited) £'000	01 January 2007 to 30 June 2007 (unaudited) £'000
<b>Net profit from operating activities</b>	<b>515</b>	<b>2,334</b>
Adjustments for:		
Interest payable	384	–
Interest receivable	(164)	(114)
Gain on revaluation of investment properties	(609)	(3,004)
(Gain)/loss on foreign currency exchange	(532)	261
Depreciation and amortisation	23	14
<b>Net cash outflow from operating activities before working capital changes</b>	<b>(383)</b>	<b>(509)</b>
Increase in trade and other receivables	(14)	(579)
(Decrease)/increase in other payables	(230)	1,117
Increase in other non-current liabilities	9	33
Interest received in the six month period	164	117
Interest paid in the six month period	(364)	–
Tax paid in the six month period	(396)	(16)
<b>Net cash (outflow)/inflow from operating activities</b>	<b>(1,214)</b>	<b>163</b>
<b>Investing activities</b>		
Acquisition and development of investment property	(522)	(6,192)
<b>Net cash outflow from investing activities</b>	<b>(522)</b>	<b>(6,192)</b>
<b>Financing activities</b>		
Purchase of own shares to be held in treasury 8	(497)	–
<b>Net cash outflow from financing activities</b>	<b>(497)</b>	<b>–</b>
<b>Decrease in cash and cash equivalents</b>	<b>(2,233)</b>	<b>(6,030)</b>
Cash and cash equivalents at beginning of six month period	8,008	6,439
Decrease in cash and cash equivalents	(2,233)	(6,030)
Foreign exchange movement	133	1,293
Cash and cash equivalents at end of six month period	5,908	1,702

The accompanying notes on pages 13 to 16 form an integral part of these unaudited half yearly financial statements. These financial statements are unaudited and are not the Group's statutory financial statements.

# Notes to the Condensed Consolidated Half Yearly Financial Statements

for the six month period ended 30 June 2008

## 1. General information

The Company is a closed-ended investment company domiciled and incorporated as a limited liability company under the laws of Guernsey.

The Group's principal objective is to provide Shareholders with a high level of income and the potential for significant capital growth by investing in property in the major urban centres of Turkey, Romania, Bulgaria and the Ukraine.

Elysium Fund Management Limited is Manager, Administrator and Secretary and the Group is provided with property management services by CNC Property Fund Management Limited and investment advisory services by Active Property Investments Limited.

The Company's Ordinary Shares are traded on AIM, a market operated by the London Stock Exchange.

The condensed consolidated half yearly financial statements of the Group for the six months ended 30 June 2008 comprise the results of the Company and its subsidiaries and are available at [www.eepfl.com](http://www.eepfl.com).

## 2. Statement of compliance

These unaudited condensed consolidated half yearly financial statements have been prepared in accordance with International Accounting Standard 34: *Interim Financial Reporting* ("IAS 34"). They do not include all of the information required for full annual financial statements and should be read in conjunction with the consolidated financial statements for the nine month period ended 31 December 2007.

These condensed consolidated half yearly financial statements were approved by the Board of Directors on 25 September 2008.

## 3. Significant accounting policies

These unaudited condensed consolidated half yearly financial statements have adopted the same accounting policies as the last audited financial statements, which were prepared in accordance with International Financial Reporting Standards, issued by the International Accounting Standards Board, interpretations issued by the International Financial Reporting Interpretations Committee and applicable legal and regulatory requirements of Guernsey Law and reflect the accounting policies as disclosed in the Group's last audited financial statements, which have been adopted and applied consistently.

## 4. Estimates

The preparation of these half yearly financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

## Notes to the Condensed Consolidated Half Yearly Financial Statements (continued)

The significant judgements made by the Directors in applying the accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the nine month period ended 31 December 2007.

### 5. Financial risk management

The Group's financial risk management objectives and policies are consistent with those disclosed in the consolidated financial statements for the nine month period ended 31 December 2007.

### 6. Management and administration fees

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

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.

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'. 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 must exceed 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.

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.

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.

#### 6. Management and administration fees (continued)

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 CNC, has gone into liquidation, administration or receivership or has committed a substantial or continuing breach of the Management Agreement.

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

#### 7. Earnings per share

The loss, in pence per Ordinary Share, is based on a loss of £12,000 (2007: profit of £1,991,000) and on a weighted average number of 19,884,945 (2007: 20,000,000) Ordinary Shares in issue. There is no difference between the basic and fully diluted earnings per share.

#### 8. Dividend and purchase of Ordinary Shares

No dividends were paid during the six month period ended 30 June 2008 or 30 June 2007. However, as previously announced, the Company purchased 608,750 Ordinary Shares for £497,094 during the six month period ended 30 June 2008. These shares are held in treasury and at 30 June 2008 were worth £456,563 (when valued at the market bid price).

#### 9. Bank loans

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

- i. During the first year after 18 December 2007, the loan to value ("LTV") of the properties (Turkish properties only) charged to the Bank will not exceed 55%;
- ii. The LTV ratio after 18 December 2008 will not exceed 50%;
- iii. The interest cover ratio for the combined Turkish companies will not be less than:
  - 1:1 on the first quarterly payment date (18 March 2008);
  - 1.2:1 on the quarterly payment dates from 18 June to 18 December 2008; and
  - 1.35:1 on the quarterly payment dates from 18 March 2009 onwards.

## Notes to the Condensed Consolidated Half Yearly Financial Statements (continued)

The LTV ratio (Turkish properties only) at 30 June 2008 was 49%.

The Group has complied with its financial covenants throughout the six month period. The Property Manager and Investment Adviser continue to monitor the loan covenants. Subject to Turkish property markets remaining at current levels, the Directors have no reason to believe that any breaches of the financial covenants will occur in the foreseeable future.

In line with the loan facilities, the Turkish properties have been charged as security to the Bank.

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

### 10. Share Capital

	30 June 2008 (unaudited) £'000	31 December 2007 (audited) £'000
<b>Authorised:</b>		
200,000,000 Ordinary Shares of 1 pence each	2,000	2,000
<b>Issued and fully paid:</b>		
19,391,250 (2007: 20,000,000) Ordinary Shares of 1 pence each	194	200
608,750 (2007: nil) Treasury Shares of 1 pence each	6	–
	<b>200</b>	<b>200</b>

The Company has the authority to purchase up to 10% of the Ordinary Shares in issue and hold them as Treasury Shares until a time when they are either re-issued or cancelled. During the six month period the Company purchased 608,750 Ordinary Shares for £497,094 to be held in treasury.

### 11. 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 £23,247,000 (2007: £23,737,000) and on 19,391,250 Ordinary Shares in issue at the end of the six month period (2007: 20,000,000 Ordinary Shares).

### 12. Related parties

The relationship and transactions between the Group, and Elysium and Active Property Investments Limited are disclosed in note 6.

The Directors are not aware of any ultimate controlling party.

## Directors\*

Charles Parkinson (Chairman)  
Carol Goodwin

Hugh Ward  
Richard Barnes

*\*All of the Directors are Independent Non-Executive Directors.*

## 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 2JQ

### Registrar

Capita Registrars (Guernsey) Limited  
Longue Hougue House  
St Sampsons  
Guernsey  
GY2 4JN

### 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

### Valuer

DTZ Debenham Tie Leung  
One Curzon Street  
London  
W1A 5PZ

### Property Manager

CNC Property Fund Management Limited  
2nd Floor  
The Atrium  
31 Church Road  
Ashford  
Middlesex  
TW15 2UD

### Broker

Liberum Capital Limited  
Citypoint  
10th Floor  
1 Ropemaker Street  
London  
EC2Y 9HT

### Nominated Adviser

Smith & Williamson Corporate Finance Limited  
25 Moorgate  
London  
EC2R 6AY

### Auditor

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

