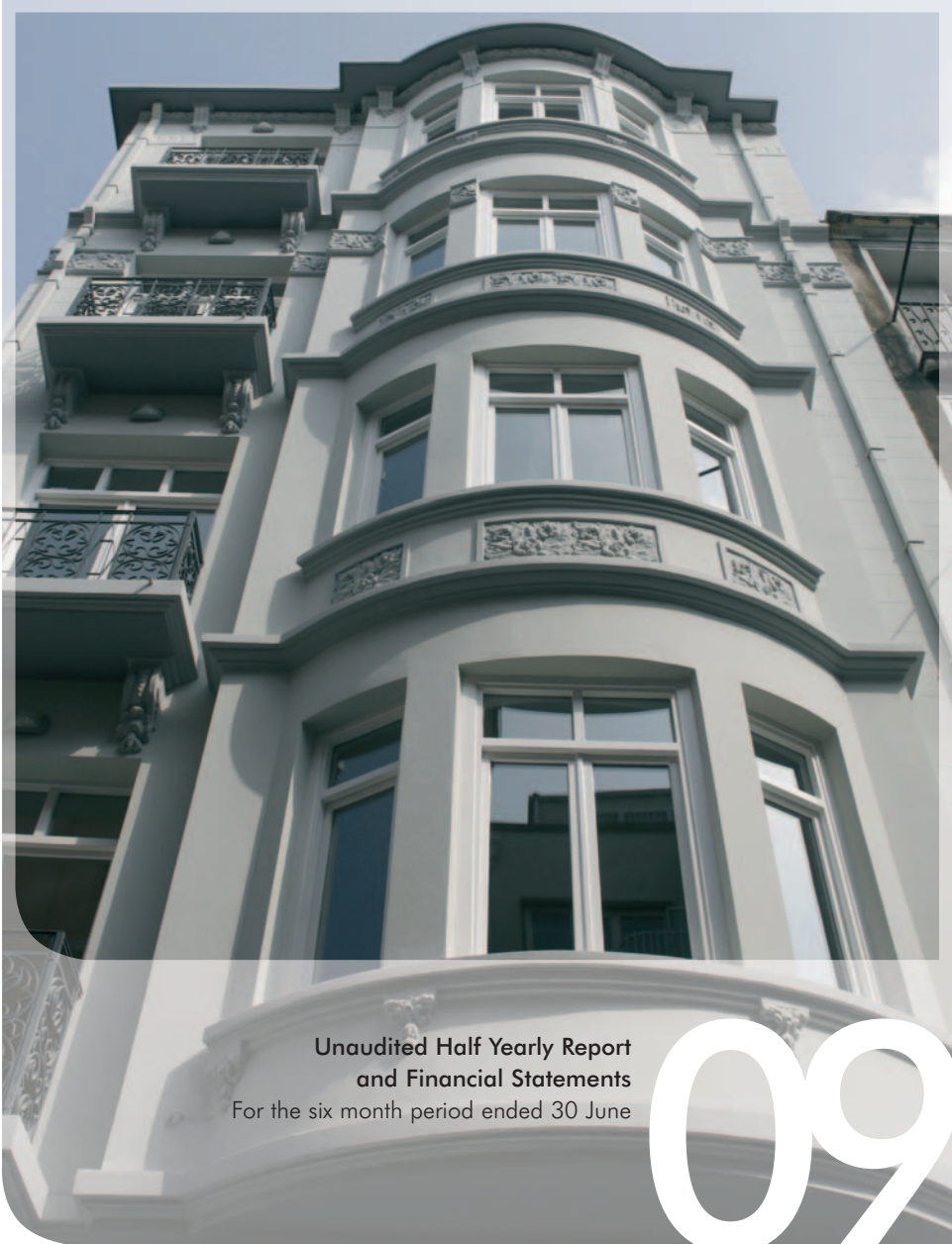


# EASTERN EUROPEAN PROPERTY FUND LIMITED



**Unaudited Half Yearly Report  
and Financial Statements**  
For the six month period ended 30 June

09

### 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 and Bulgaria (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 properties in need of refurbishment or renovation. 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.

### Risk Warnings

Please refer to the Admission Document, which can be found on the Company’s website ([www.eepfl.com](http://www.eepfl.com)), for details of the risk warnings.

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

An authorised closed-ended investment company, incorporated under The Companies (Guernsey) Law, 2008, as amended.

REGISTERED IN GUERNSEY No. 44424

Front Cover: Façade of Kadife Palas Building, Cihangir, Istanbul

## 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 2009 of

### Results and operations

The Group suffered a net loss for the six month period ended 30 June 2009 of £3.5 million (June 2008: loss of £12,000), representing a loss per Ordinary Share of 17.90p (June 2008: loss of 0.06p). The majority (£2.0 million) of this loss was attributable to adverse movements in the US Dollar and the Euro against Sterling.

In line with the terms of the Admission Document, the Group does not hedge exchange rate risk at this time. As a result, during the period, the Group suffered net foreign exchange losses of £2.8 million (including a loss of £3.5 million, which is included in the movement in unrealised gain on revaluation of investment properties).

The consolidated net asset value at 30 June 2009 was £20.4 million, 105.42p per Ordinary Share (December 2008: £24.7 million, 127.21p per Ordinary Share).

### Property

During the period, the Group purchased one small property in Turkey and continued to refurbish the Turkish portfolio to maximise the value of its assets. As mentioned in our previous annual report, the Board and its advisers believe that, due to the investment opportunities available and the better financial and political stability in Turkey than in Romania or Bulgaria, the Group's resources are best employed investing in Turkey. The Group has begun to benefit from its strategy of focusing on the refurbishment of property in Turkey, with rental income for the period increasing by 28%, compared to the same period in 2008.

Property prices in the Group's Target Countries continued to decline during the period and the Group suffered a loss on the revaluation of investment properties of £5.3 million (including a foreign exchange loss of £3.5 million). Further details of the properties are disclosed in the Property Manager and Adviser's Report.

### Dividend

The Board considers it prudent to conserve funds and does not propose an interim dividend for the period ended 30 June 2009. The Board expects that the income position of the Group will continue to strengthen as refurbished properties are let and will regularly review its ability to generate a sustainable dividend.

### Structure

I mentioned in my last report that the Board had taken steps to implement a more streamlined and efficient structure. The Group has already benefitted from these initial steps in the form of reduced costs, with operating expenses (excluding the performance fee and interest payable) being reduced by 14% from those incurred in the comparable period in 2008. Of particular note was the reduction in administration and building maintenance fees in Turkey, which decreased by 49% from £221,000, for the comparable period in 2008, to £114,000 for the period ended 30 June 2009.

The Board and its advisers believe that the Group would benefit from additional funding and, although there have been few opportunities available in the current economic climate, we continue to explore various strategic options to maximise shareholder value.

## Chairman's Statement *(continued)*

### Outlook

At 30 June 2009, the Group held property with a fair value of £26.4 million and had £2.8 million of cash, available to use as working capital and for the refurbishment of properties, and an additional £2.4 million, which has been pledged to HSBC but can be used to purchase additional property in Turkey. The Board and its advisers believe that the Group will be able to weather any further short-term downturn in the valuation of its portfolio and will utilise the funds that it currently has available to secure the best medium-term returns for shareholders. The Group's strategy is to consolidate and to build on the current portfolio in Istanbul and to purchase additional properties in Istanbul as suitable opportunities arise.

**Charles Parkinson**

*Chairman*

10 September 2009

## Property Manager and Adviser's Report

### Strategy

The half year period to 30 June 2009 has been a time of consolidation with cautious management of the property portfolio in order to maximise income and maintain progress on refurbishment and redevelopment opportunities where they exist.

Overall, economic conditions remain difficult. The economic environment in Bulgaria and Romania has been more volatile than in Turkey where some stability has returned as the Turkish Lira has rebounded against the US Dollar. Due to their dependency on external investment and their links to the European Union, Romania and Bulgaria have struggled to maintain any momentum with respect to urban regeneration, as infrastructure improvements, the availability of major development sites and property transactions have been scarce.

As a result of previous decisions, the Group's exposure to Bulgaria and Romania is restricted to single properties in good locations. While there will be challenges ahead, particularly as rental levels come under pressure in these countries, the Group will continue to adopt a pro-active policy in dealing with, and where necessary assisting, its tenants.

The pro-active nature of the Group's management in Turkey does appear to have reaped rewards as additional lettings were achieved and gross income for the period increased by 28%, compared to the same period in 2008. However, the Group continues to be cautious, due to the overall economic environment and the fragile property market conditions, although we remain confident enough to pursue selective refurbishment and development programs as a means to enhance value going forward.

The Group does not have any borrowings in Romania and Bulgaria and HSBC in Turkey continues to be supportive; overall the leverage in the Group remains low. At 30 June 2009, the loan to value ("LTV") ratio of the Turkish properties and the US\$4 million cash pledge to HSBC was 49.3%. We have sufficient cash available (£2.8 million at 30 June 2009) to repair any breach of the LTV covenant should property values fall further in the short-term.

### Property Portfolio – Turkey

One additional property was purchased during the period, adding to the portfolio in the Pera area of Beyoglu in Istanbul, Turkey. This is a small retail unit, close to the Pera Palas Hotel and a number of foreign consulates. Following minor refurbishment, this property has been let, generating a yield in excess of 10% on cost.

While the rent levels and lettings of other retail areas, and particularly "shopping malls" in Istanbul, have come under considerable pressure, Istiklal Street and the Pera area of Beyoglu, where most of the Group's property portfolio in Turkey is based, has benefited from the continued regeneration of this area. Despite this, office rental levels have fallen by approximately 20% in Beyoglu from the peak of early 2008.

During the period, the Group entered into new lettings and, at 30 June 2009, all of the portfolio in Turkey (excluding properties undergoing refurbishment) was let. The Group continues to invest in its portfolio and is optimistic that it will be able to let units as refurbishment projects are completed.

Although progress has been made with respect to the refurbishment, renovation and letting of the portfolio, property values continue to fall, as anticipated in the

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

previous year end report. During the period, the value of the Turkish properties fell by 3% (before accounting for additions to property and foreign exchange movements).

### Property Portfolio – Romania and Bulgaria

The decline in values has been greater in respect of the Romanian and Bulgarian properties than in Turkey, as these economies are experiencing a relatively delayed response to the global economic conditions compared to the more established and larger economies.

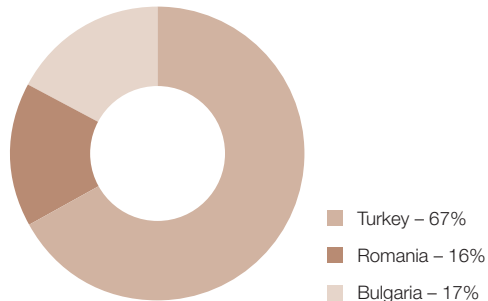
During the period, the value of the Romanian and Bulgarian properties fell by 14% (before accounting for additions to property and foreign exchange movements).

### Property Valuation

DTZ Debenham Tie Leung valued the properties at 30 June 2009, in either US Dollars (Turkish properties) or Euros (Romanian and Bulgarian properties), at £26.4 million (31 December 2008: £31.2 million), a decline of £5.3 million, of which approximately £3.5 million related to foreign exchange movements.

		<i>Market Value</i>	
		<i>30 June</i>	<i>31 December</i>
		<i>2009</i>	<i>2008</i>
		<i>£'000</i>	<i>£'000</i>
<b>Bulgaria</b>			
24 George Washington Street, Sofia	Leisure/Office	4,118	5,315
<b>Romania</b>			
Transalkim Warehouse, Gara Progresului Street, S Bucharest	Industrial	3,138	3,996
<b>Turkey</b>			
Kadife Palas Building, 134-139 Susam Street, Cihangir, Istanbul	Leisure/Office/ Residential	2,127	2,515
6th Floor, The Misir Building, Istiklal Street, Beyoglu, Istanbul	Office	2,017	2,172
Ravouna Apartments, 401 Istiklal Street, Beyoglu, Istanbul	Office/Retail	2,771	3,289
Markiz (Oriental) Passage, Istiklal Street, Beyoglu, Istanbul	Leisure/Office/Retail	8,986	10,574
Nil Passage, Istiklal Street, Beyoglu, Istanbul	Leisure/Office/Retail	1,009	1,179
Pera Residence, Asmalimescrit Street, Beyoglu, Istanbul	Retail	1,173	1,336
"Yellow" Building, Asmalimescrit Street, Beyoglu, Istanbul	Retail	194	240
Gonul Sokak, Asmalimescrit Street, Beyoglu, Istanbul	Retail/Office	498	589
Taka Building, Asmalimescrit Street, Beyoglu, Istanbul	Retail	349	–
		19,124	21,894
<b>Total Investment Properties</b>		<b>26,380</b>	<b>31,205</b>

## Country Exposure by Market Value



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

The United Bulgarian Bank is in occupation under a lease for approximately 50% of the building.

Although Bulgaria Property Management has sub-let the ground floor to the Bulgarian National Art Centre, which was officially opened in March 2009, and other parts of the upper floors, it is having difficulty maintaining occupancy throughout its leased areas of the building. The Group has provided assistance to Bulgaria Property Management in order to help it in the current difficult conditions.

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

The property is let to Transalkim, which remains in occupation under a lease due to expire in January 2010. The premises are being marketed as the tenant has indicated that it will leave at the end of its term.

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

During the period the Group let the remainder of this property. The main restaurant tenant continues to trade well.

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

The property remains fully let to Elektronik and Propaganda.

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

As mentioned in the previous year end report, the Group had won its possession case against Mudo, the tenant on the ground floor. However, during the period, Mudo appealed to the High Court in Ankara and the Group will now have to wait until late autumn for the result of the hearing. As a result, the Group has not yet been able to proceed with its major renovation proposals for this property.

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

The major tenants remain in occupation and have reported that they are trading well compared to last year. Minor improvements were made to the fabric of the building and the coffee shop was replaced by a casual-style restaurant, resulting in a five-fold increase in footfall in the building.

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

Negotiations for the letting of the remaining space in all the upper floors are taking place with a single tenant.

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

The smaller internal units have been completely vacated and the Group is proceeding with the renovation of the premises.

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

The single restaurant tenant remains in occupation.

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

Proposals for the redevelopment of the building, including the addition of two extra floors, have been submitted to the Building Conservation Committee and the local municipality. The Group is in continuing dialogue with these parties in respect of the proposals.

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

During the period the Group let the remaining space and this building is now fully let.

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

The Taka Building is a small retail unit, which was purchased early in the period. Following minor refurbishment it has been let.

### Regional Overview – Romania

Compared to the same period in 2008, GDP registered a fall of 8.8% in the second quarter of 2009 and 7.6% in the first half of the year (source: National Institute of Statistics Romania). That second quarter fall represents the fourth highest decline in the European Union, which experienced an average decline of 4.8% over the same period.

The value of major real estate transactions concluded on the Romanian market in the first half of 2009 fell by 92%, from €815 million in the first six months of 2008 to just €62 million in the first half of this year, while the rented office lettings market shrank by 60%, according to data from Cushman & Wakefield and Jones Lang LaSalle.

The total volume of property investment in Romania in the first half of 2009 was the smallest in the last five years and was only one-third of the total investment in the second half of 2008 (source: CBRE Romania).

The first instalment of €5 billion of the stand-by agreement with the International Monetary Fund ("IMF"), signed in early 2009 – worth a total of €12.95 billion, was transferred to the National Bank of Romania in May 2009. It is hoped that these funds will help to stimulate the economy, including the property market.

The presidential election will be held in Romania in November 2009. A poll by CURS has indicated that the incumbent Traian Basescu (with 33% of the votes) may retain the presidency but his lead over Mircea Geoana has been trimmed from 12% to 6% in recent months. If no candidate garners more than 50% of the vote in the first round, a run-off between the top two candidates will take place within fourteen days. It is unlikely that the outcome would have a significant impact on either the Romanian economy or the Group.

### Regional Overview – Bulgaria

Bulgaria's real GDP growth is forecast to contract by 5.3% in 2009, following estimated growth of 6% in 2008, according to the latest forecast of the Economist Intelligence Unit.

Actual real estate deals have decreased by 42% in Bulgaria and 58% in Sofia for the first six months of

2009, compared to the corresponding period in 2008, according to a research conducted by Raiffeisen Imoti.

A new government led by the charismatic former mayor of Sofia, Boyko Borisov and his new centre-right party, Citizens for European Development of Bulgaria, is claiming to fight the corruption and maladministration, which had previously led to funding from the European Union being frozen.

#### **Regional Overview – Turkey**

While the Turkish economy has been reported as being one of the worst hit in terms of GDP contraction, it has been recognised as coming through the global crisis better than other emerging economies. Not a single Turkish bank has required support as they have few toxic assets and limited mortgage exposure. Also, suggestions that Turkish companies that borrowed heavily abroad would have serious problems following the devaluation of the Turkish Lira in 2008 have not yet proved correct.

There is still pressure for the Turkish Government to take up a US\$13 billion facility from the IMF as it is believed this will reinforce fiscal stability. However, Mr Erdogan, the country's Prime Minister, is reluctant to use this facility. Some economists support this approach as the economy has shown signs of robustness which suggests that survival without the IMF support may be possible.

Merrill Lynch has recently forecast that Turkish GDP will grow by an average of 4.5% per annum between 2010 and 2019.

Although the Justice and Development Party ("AKP") experienced a drop in support in the March 2009 election for the first time since coming to power in 2002, there is now greater political stability in Turkey

than has been the case in recent years and this may help Mr Erdogan's conservative approach to the IMF.

The Turkish Lira has stabilised and recovered against the US Dollar and this appears to have provided greater confidence that the economy will improve, despite the dramatic contraction in GDP in the latter half of 2008 and early 2009.

#### **Prospects**

It is likely that there will be a further decline in property values in Romania and Bulgaria in the second half of 2009. While Turkish property may also be affected, it is anticipated that the value of the Group's property in Turkey will remain stable in US Dollar terms as confidence in the Turkish economy improves and the Group continues to benefit from the location of its property in this country, relative to other areas.

Although the yields may continue to increase in Bulgaria and Romania, the scarcity of comparable quality properties (in Sofia in particular) should limit the impact of negative trends on valuations going forward. Therefore, while it would be prudent to acknowledge that further declines in value may occur, it is anticipated that the rental income of the Group will continue to grow and that, in the medium-term, the Group's property values will once again increase.

#### **Bob Locker**

*CNC Property Fund Management Limited*

#### **Keiran Gallagher**

**Oliver Cadogan**

*Active Property Investments Limited*

10 September 2009

## 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*;
- 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, as detailed in the Chairman's Statement, and, where no changes, in the notes to the financial statements for the year ended 31 December 2008; 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, together with disclosure of any changes in related party transactions in the last annual financial statements which have had a material effect on the financial position of the Group in the current period.

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

On behalf of the Board

**Charles Parkinson**

*Director*

10 September 2009

# Independent Review Report

to Eastern European Property Fund Limited

## Introduction

We have been engaged by the Company to review the set of financial statements in the half yearly report for the six months ended 30 June 2009 which comprises the unaudited condensed consolidated half yearly statement of comprehensive income, the unaudited condensed consolidated half yearly statement of financial position, the unaudited condensed consolidated half yearly statement of changes in equity, the unaudited condensed consolidated half yearly statement of cash flows 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 set of financial statements.

This report is made solely to the Company in accordance with the terms of our engagement letter dated 4 September 2009. 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 half yearly report is the responsibility of, and has been approved by, the Directors. The Directors are responsible for preparing the 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 set of financial statements included in this half yearly report has been prepared in accordance with IAS 34: *Interim Financial Reporting* ("IAS 34").

## Our responsibility

Our responsibility is to express to the Company a conclusion on the 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 set of financial statements in the half yearly report for the six months ended 30 June 2009 is not prepared, in all material respects, in accordance with IAS 34 and the AIM Rules.

KPMG Channel Islands Limited  
Guernsey

10 September 2009

## Condensed Consolidated Half Yearly Statement of Comprehensive Income

for the six month period ended 30 June 2009 (unaudited)

	Note	01 January 2009 to 30 June 2009 (unaudited) £'000	01 January 2008 to 30 June 2008 (unaudited) £'000	01 January 2008 to 31 December 2008 (audited) £'000
<b>Income</b>				
Rent receivable		857	671	1,499
Bank interest receivable		38	164	261
Other income		14	–	36
<b>Total income</b>		<b>909</b>	<b>835</b>	<b>1,796</b>
<b>Expenses</b>				
Administration fees	5	(62)	(62)	(125)
Management fees	5	(318)	(283)	(571)
Performance fee	5	–	(213)	(475)
Interest payable and similar charges		(242)	(384)	(712)
Other operating expenses		(364)	(519)	(987)
<b>Total expenses</b>		<b>(986)</b>	<b>(1,461)</b>	<b>(2,870)</b>
<b>Investment gains and losses</b>				
(Loss)/gain on revaluation of investment properties		(5,348)	1,148	4,866
<b>Total investment (loss)/gain</b>		<b>(5,348)</b>	<b>1,148</b>	<b>4,866</b>
<b>Net (loss)/profit from operating activities before gains and losses on foreign currency exchange</b>				
		<b>(5,425)</b>	<b>522</b>	<b>3,792</b>
Gain/(loss) on foreign currency exchange		1,473	(7)	(2,023)
<b>Net (loss)/profit from operating activities</b>		<b>(3,952)</b>	<b>515</b>	<b>1,769</b>
<b>Taxation</b>				
		<b>480</b>	<b>(527)</b>	<b>(653)</b>
<b>(Loss)/profit for the period/year</b>		<b>(3,472)</b>	<b>(12)</b>	<b>1,116</b>
<b>Other comprehensive (loss)/income</b>				
Exchange differences arising from translation of foreign operations		(754)	19	312
<b>Total other comprehensive (loss)/income</b>	7	<b>(754)</b>	<b>19</b>	<b>312</b>
<b>Total comprehensive (loss)/income for the period/year</b>		<b>(4,226)</b>	<b>7</b>	<b>1,428</b>
<b>(Loss)/earnings per share – basic and fully diluted</b>				
	8	<b>(17.90)p</b>	<b>(0.06)p</b>	<b>5.68p</b>

The accompanying notes on pages 15 to 24 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 Statement of Changes in Equity

for the six month period ended 30 June 2009 (unaudited)

	Share capital £'000	Reserve for own shares £'000	Distributable reserves £'000	Foreign exchange translation reserve £'000	Total £'000
Net assets at 31 December 2008	200	(497)	24,047	918	24,668
Loss for the six month period	-	-	(3,472)	-	(3,472)
Other comprehensive loss	-	-	-	(754)	(754)
<b>Net assets at 30 June 2009</b>	<b>200</b>	<b>(497)</b>	<b>20,575</b>	<b>164</b>	<b>20,442</b>

## Condensed Consolidated Statement of Changes in Equity

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

	Note	Share capital £'000	Reserve for own shares £'000	Distributable reserves £'000	Non- distributable reserves £'000	Foreign exchange translation reserve £'000	Total £'000
Net assets at							
31 December 2007		200	-	17,174	5,757	606	23,737
Profit/(loss) for the six month period		-	-	259	(271)	-	(12)
Other comprehensive income		-	-	-	-	19	19
Purchase of own shares for treasury	12	-	(497)	-	-	-	(497)
<b>Net assets at 30 June 2008</b>		<b>200</b>	<b>(497)</b>	<b>17,433</b>	<b>5,486</b>	<b>625</b>	<b>23,247</b>

## Condensed Consolidated Statement of Changes in Equity

for the year ended 31 December 2008 (audited)

	Note	Share capital £'000	Reserve for own shares £'000	Distributable reserves £'000	Non- distributable reserves £'000	Foreign exchange translation reserve £'000	Total £'000
Net assets at							
31 December 2007		200	–	17,174	5,757	606	23,737
Profit for the year		–	–	1,116	–	–	1,116
Other comprehensive income		–	–	–	–	312	312
Re-designation of non-distributable reserves		–	–	5,757	(5,757)	–	–
Purchase of own shares for treasury	12	–	(497)	–	–	–	(497)
<b>Net assets at</b>							
<b>31 December 2008</b>		<b>200</b>	<b>(497)</b>	<b>24,047</b>	<b>–</b>	<b>918</b>	<b>24,668</b>

The accompanying notes on pages 15 to 24 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 Financial Position

as at 30 June 2009 (unaudited)

	Note	30 June 2009 (unaudited) £'000	30 June 2008 (unaudited) £'000	31 December 2008 (audited) £'000
<b>Non-current assets</b>				
Freehold investment property	10	26,380	26,995	31,205
Property, plant and equipment		36	174	39
Advances for fixed assets		–	24	15
Intangible assets		11	13	12
Deferred tax assets		11	149	–
Cash pledged to bank	11	2,430	–	–
		28,868	27,355	31,271
<b>Current assets</b>				
Trade and other receivables		719	1,633	1,101
Tax assets		34	21	57
Cash and cash equivalents		2,764	5,908	6,428
		3,517	7,562	7,586
<b>Total assets</b>		<b>32,385</b>	<b>34,917</b>	<b>38,857</b>
<b>Current liabilities</b>				
Trade and other payables		(723)	(1,864)	(927)
Overseas corporate tax		(53)	(68)	(98)
Bank loan	11, 16	–	–	(11,932)
		(776)	(1,932)	(12,957)
<b>Non-current liabilities</b>				
Rents received in advance		(225)	(175)	(217)
Deferred tax liabilities		(320)	(783)	(968)
Bank loan	11	(10,582)	(8,780)	–
Other provisions and payables		(40)	–	(47)
		(11,167)	(9,738)	(1,232)
<b>Total liabilities</b>		<b>(11,943)</b>	<b>(11,670)</b>	<b>(14,189)</b>
<b>Net assets</b>		<b>20,442</b>	<b>23,247</b>	<b>24,668</b>
<b>Capital and reserves</b>				
Called-up share capital	12	200	200	200
Reserve for own shares		(497)	–	(497)
Distributable reserves		20,575	16,936	24,047
Non-distributable reserves		–	5,486	–
Foreign exchange translation reserve		164	625	918
<b>Total equity shareholders' funds</b>		<b>20,442</b>	<b>23,247</b>	<b>24,668</b>
<b>Net Asset Value per Ordinary Share – basic and fully diluted</b>	13	<b>105.42p</b>	<b>119.88p</b>	<b>127.21p</b>

The accompanying notes on pages 15 to 24 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 Cash Flows

for the six month period ended 30 June 2009 (unaudited)

Note	01 January 2009 to 30 June 2009 (unaudited) £'000	01 January 2008 to 30 June 2008 (unaudited) £'000	01 January 2008 to 31 December 2008 (audited) £'000
<b>Net (loss)/profit from operating activities</b>	<b>(3,952)</b>	<b>515</b>	<b>1,769</b>
Adjustments for:			
Bank interest receivable	(38)	(164)	(261)
Loss/(gain) on revaluation of investment properties	5,348	(1,148)	(4,866)
(Gain)/loss on foreign currency exchange	(1,473)	7	2,023
Depreciation and amortisation	12	23	(10)
Interest payable	242	384	660
<b>Net cash inflow/(outflow) from operating activities before working capital changes</b>	<b>139</b>	<b>(383)</b>	<b>(685)</b>
Decrease/(increase) in trade and other receivables	264	(14)	(166)
(Decrease)/increase in other payables	(40)	(230)	85
(Decrease)/increase in other non-current liabilities	(96)	9	98
Interest received in the six month period/year	38	164	261
Interest paid in the six month period/year	(231)	(364)	(439)
(Tax paid)/tax refund received in the six month period/year	(95)	(396)	107
<b>Net cash outflow from operating activities</b>	<b>(21)</b>	<b>(1,214)</b>	<b>(739)</b>
<b>Investing activities</b>			
Acquisition and development of investment property	(537)	(522)	(2,288)
Purchase of property, plant and equipment	–	–	(10)
<b>Net cash outflow from investing activities</b>	<b>(537)</b>	<b>(522)</b>	<b>(2,298)</b>
<b>Financing activities</b>			
Cash pledged to bank	11	(2,430)	–
Purchase of own shares to be held in treasury	12	–	(497)
<b>Net cash outflow from financing activities</b>	<b>(2,430)</b>	<b>(497)</b>	<b>(497)</b>
<b>Decrease in cash and cash equivalents</b>	<b>(2,988)</b>	<b>(2,233)</b>	<b>(3,534)</b>
Cash and cash equivalents at beginning of the period/year	6,428	8,008	8,008
Decrease in cash and cash equivalents	(2,988)	(2,233)	(3,534)
Foreign exchange movement	(676)	133	1,954
Cash and cash equivalents at end of period/year	2,764	5,908	6,428

The accompanying notes on pages 15 to 24 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 2009

## 1. General information

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

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

## 2. Statement of compliance

These unaudited condensed consolidated half yearly financial statements, which have been reviewed by an independent auditor, but have not been audited by them, have been prepared in accordance with IAS 34: *Interim Financial Reporting*. 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 year ended 31 December 2008.

These consolidated half yearly financial statements were approved by the Board of Directors on 10 September 2009.

## 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.

For periods beginning on or after 1 January 2009, the amendments to IAS 1: *Presentation of Financial Statements* became mandatory for all entities preparing accounts under IFRS. Although the adoption of this amended standard has altered the appearance of the primary financial statements, there has been no impact on the substance of the financial statements.

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

### 4. Estimates

The preparation of these unaudited condensed consolidated 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.

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 year ended 31 December 2008.

### 5. Management and administration fees

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

#### *Administration fee*

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

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

## 6. Segmental analysis

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

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

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

### 6. Segmental analysis (continued)

	Bulgaria £'000	Romania £'000	Turkey £'000	Total £'000
<i>Information about reportable segments for the six months ended 30 June 2009</i>				
Rent receivable	248	206	403	857
Loss on revaluation of investment properties	(1,268)	(871)	(3,209)	(5,348)
Reportable segment (loss)/profit before tax <sup>[1]</sup>	(1,253)	(883)	229	(1,907)
Freehold investment property	4,118	3,138	19,124	26,380
Reportable segment total assets <sup>[2]</sup>	4,302	3,310	23,788	31,400
Reportable segment total liabilities <sup>[3]</sup>	(4,588)	(3,439)	(16,377)	(24,404)
<i>Information about reportable segments for the six months ended 30 June 2008</i>				
Rent receivable	74	195	402	671
Gain on revaluation of investment properties	140	389	619	1,148
Reportable segment (loss)/profit before tax <sup>[1]</sup>	(381)	234	687	540
Freehold investment property	4,665	4,270	18,060	26,995
Reportable segment total assets <sup>[2]</sup>	6,616	4,605	23,202	34,423
Reportable segment total liabilities <sup>[3]</sup>	(6,036)	(3,625)	(14,779)	(24,440)
<i>Information about reportable segments for the year ended 31 December 2008</i>				
Rent receivable	301	368	830	1,499
Gain/(loss) on revaluation of investment properties	825	(20)	4,061	4,866
Reportable segment profit/(loss) before tax <sup>[1]</sup>	747	(46)	(1,197)	(496)
Freehold investment property	5,315	3,996	21,894	31,205
Reportable segment total assets <sup>[2]</sup>	6,186	4,433	28,199	38,818
Reportable segment total liabilities <sup>[3]</sup>	(5,849)	(4,361)	(19,460)	(29,670)

	Six months ended 30 June 2009 £'000	Six months ended 30 June 2008 £'000	Year ended 31 December 2008 £'000
<i><sup>(1)</sup> Reconciliation of reportable segment profit/(loss) before tax</i>			
Total (loss)/profit before tax for reportable segments	(1,907)	540	(496)
Other corporate expenses	(522)	(738)	(1,500)
Other profit or loss (including gain or loss on foreign currency exchange)	(1,523)	713	3,765
Consolidated net (loss)/profit from operating activities	(3,952)	515	1,769
<i><sup>(2)</sup> Reconciliation of reportable segment total assets</i>			
Total assets for reportable segments	31,400	34,423	38,818
Other corporate assets	985	494	39
Consolidated total assets	32,385	34,917	38,857
<i><sup>(3)</sup> Reconciliation of reportable segment total liabilities</i>			
Total liabilities for reportable segments	(24,404)	(24,440)	(29,670)
Liabilities due from the reportable segments to the Guernsey parent	13,047	13,181	16,097
Other corporate liabilities	(586)	(411)	(616)
Consolidated total liabilities	(11,943)	(11,670)	(14,189)

#### 7. Tax effects of other comprehensive income

There are no tax effects arising from the other comprehensive income disclosed in the condensed consolidated half yearly statement of comprehensive income (30 June 2008 and 31 December 2008: nil).

#### 8. Earnings per share – basic and fully diluted

The loss, in pence per Ordinary Share, is based on a loss of £3,472,000 (30 June 2008: loss of £12,000; 31 December 2008: profit of £1,116,000) and on a weighted average number of 19,391,250 (30 June 2008: 19,884,945; 31 December 2008: 19,636,749) Ordinary Shares in issue. There is no difference between the basic and fully diluted earnings per share.

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

### 9. Dividends

The majority of the Group's income has been absorbed by its operating costs as the Group is still in the process of refurbishing and renovating a number of its properties and thus no rental income has been received on these. Taking account of the unrealised loss on revaluation of investment properties, the Group achieved a loss for the period of £3,472,000 (30 June 2008: loss of £12,000; 31 December 2008: profit of £1,116,000).

The Board have carefully considered the payment of an interim dividend for the period ended 30 June 2009. However, due to the current market conditions, the Directors consider it prudent to conserve funds and thus do not propose an interim dividend for the period ended 30 June 2009 (30 June 2008 and 31 December 2008: nil).

### 10. Freehold investment property

	<i>Six months ended 30 June 2009 (unaudited) £'000</i>	<i>Six months ended 30 June 2008 (unaudited) £'000</i>	<i>Year ended 31 December 2008 (audited) £'000</i>
Brought forward	31,205	24,936	24,936
Additions	523	911	1,403
(Loss)/gain on revaluation of investment properties <sup>[1]</sup>	(5,348)	1,148	4,866
Carried forward	26,380	26,995	31,205

<sup>[1]</sup> (Loss)/gain on revaluation of investment properties comprises:

Movement in unrealised (loss)/gain on revaluation in			
Euros/US Dollars (as applicable)	(1,861)	609	(3,643)
Foreign exchange (loss)/gain	(3,487)	539	8,509
(Loss)/gain on revaluation of investment properties	(5,348)	1,148	4,866
Cost	19,973	18,958	19,450
Unrealised gain	6,407	8,037	11,755
Fair value	26,380	26,995	31,205

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, Western Europe. There is no assurance that the estimates resulting from the valuation process will reflect the actual sales price even where such sales occur shortly after the date of the valuation.

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

All investment properties were valued by qualified professional valuers working for DTZ Debenham Tie Leung, international property advisers, at fair value at 30 June 2009, 30 June 2008 and 31 December 2008 in accordance with the latest edition of the Royal Institution of Chartered Surveyors ("RICS") Appraisal and Valuation Manual. All such valuers are Chartered Surveyors, being members of RICS.

## 11. Bank loan

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

The loan 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)

### 11. Bank loan (continued)

Following negotiation with the Bank, as the LTV ratio at 31 December 2008 was in excess of 50%, a side letter and pledge agreement were signed in May 2009 whereby Doğu Avrupa pledged US\$4,000,000 of a cash deposit to the Bank and is only able to draw on this cash deposit to purchase new property in Turkey. The LTV ratio (Turkish properties only) at 30 June 2009 was 55.6%. However, including the US\$4,000,000 cash pledge, the LTV ratio was 49.3%.

At 31 December 2008, the bank loan was disclosed as a current liability (even though it was not repayable until 18 December 2012) as the LTV ratio was in excess of the 50% covenant at that time. However, as the LTV ratio (inclusive of the US\$4 million cash pledge) was less than 50% at 30 June 2009, the bank loan has been disclosed as a non-current liability at 30 June 2009.

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

In line with the loan 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. At 30 June 2009, after accounting for bank loan arrangement fees and foreign exchange movements, the bank loan included in the Condensed Consolidated Half Yearly Statement of Financial Position was £10,582,000 (30 June 2008: £8,780,000, 31 December 2008: £11,932,000).

### 12. Share Capital

	30 June 2009 (unaudited) £'000	30 June 2008 (unaudited) £'000	31 December 2008 (audited) £'000
<b>Authorised:</b>			
200,000,000 Ordinary Shares of 1 pence each	2,000	2,000	2,000
<b>Issued and fully paid:</b>			
19,391,250 Ordinary Shares of 1 pence each	194	194	194
608,750 Treasury Shares of 1 pence each	6	6	6
	<b>200</b>	<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 period ended 30 June 2009, no shares were purchased (year to 31 December 2008 (including period to 30 June 2008) 608,750 shares, for £497,094) to be held as Treasury Shares.

### 13. 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 £20,442,000 (30 June 2008: £23,247,000; 31 December 2008: £24,668,000) and on 19,391,250 Ordinary Shares in issue at the end of the six month period/year (30 June 2008 and 31 December 2008: 19,391,250 Ordinary Shares).

### 14. Related parties

The relationship and transactions between the Group, Elysium, CNC and Active Property Investments Limited are disclosed in note 5.

The Directors are not aware of any ultimate controlling party.

### 15. Subsequent Events

There were no material subsequent events.

### 16. Capital management policy and procedures

The Group's financial risk management objectives and policies are consistent with those disclosed in the consolidated financial statements for the year ended 31 December 2008.

The Group's capital management objectives are:

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

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

- the current and future levels of gearing;
- cashflow projections for the Group;
- the working capital requirements of the Group;

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

### 16. Capital management policy and procedures *(continued)*

- the need to buy back Ordinary Shares for cancellation or to be held in treasury, which takes account of the difference between the net asset value per Ordinary Share and the Ordinary Share price; and
- the current and future dividend policy.

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

As at 30 June 2009, the Group held a bank loan of £10,582,000 (US\$17,500,000) (see note 11). As disclosed in the Condensed Consolidated Half Yearly Statement of Financial Position, the total equity shareholders' funds at 30 June 2009 was £20,442,000 (30 June 2008: £23,247,000, 31 December 2008: £24,668,000).

## Directors

Charles Parkinson (*Chairman*)

Carol Goodwin

Hugh Ward

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

## Advisers

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