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**THE BLACK SEA PROPERTY FUND LIMITED**

**Annual Report and Audited Consolidated Financial Statements**

**for the year ended 31 December 2009**

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## **THE BLACK SEA PROPERTY FUND LIMITED**

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## THE BLACK SEA PROPERTY FUND LIMITED

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### Annual report and audited consolidated financial statements for the year ended 31 December 2009

#### Chairman's Statement

Dear Shareholders:

Our net asset value per share at year end 2009 was 11.9 pence as compared with 16.9 pence a year earlier. The primary cause of this diminution in NAV is a reduction in the value of our assets somewhat offset by a strengthening of Sterling as against the Euro. Expenses have been substantially reduced due to our termination of the external manager and internalization of management at the board level with a wholly owned advisor in Sofia. Those savings will be more evident in our 2010 financial statements as our 2009 financials contain some legacy obligations and nonrecurring change over costs. We have made no new investments over the last year and instead focused on maximizing the value of what we have.

The year end carrying value of our assets as compared with our total investment at cost and our 2008 year end valuation are as follows:

	<b>Total investment &amp; capitalised costs</b>	<b>Total investment &amp; capitalised costs</b>	<b>Restated 2008</b>	<b>Restated 2008</b>	<b>2009</b>	<b>2009</b>
	<b>€</b>	<b>£</b>	<b>€</b>	<b>£</b>	<b>€</b>	<b>£</b>
Borovetz Lakes	10,918,102	7,637,329	8,928,100	8,631,604	4,599,201	4,082,010
Byala	9,843,360	7,279,612	6,244,847	6,037,460	5,145,974	4,567,297
Evergreen	4,114,943	2,811,256	3,544,570	3,426,858	2,258,226	2,004,550
Nikea Park	4,489,607	3,534,532	-	-	357,197	317,029
Obzor	5,079,726	4,060,041	5,079,727	4,911,033	1,733,892	1,538,912
Pamporova (Magnolia)	6,936,096	5,456,739	-	-	-	-

I have previously pointed out issues with valuation. Twice annually a leading international valuation company appraises our property assets. These numbers comprise the basis for a large part of the asset side of our balance sheet. Because of the lack of transparency in the Bulgarian property market coupled with a dearth of transactions over the last year, the appraiser primarily relies on asking prices for what it deems to be similar assets. The appraiser then adjusts these numbers according to some internal methodology to reach the valuation numbers. The Board then reviews these numbers. We tend to accept the appraiser's numbers unless there are exogenous factors requiring their adjustment. We thus continue to carry Magnolia at nil and Nikea Park at a nominal value given the uncertainty of the litigation surrounding both projects. We have also decided to write down Byala by thirty percent and similarly adjust the 2007 and 2008 figures as a prior year adjustment (see note 1(n) in the Financial Statements for detailed disclosure) because of possible environmental issues caused in connection with EU directive, Natura 2000, that came to light during 2010. This has given rise to the auditors modifying their audit opinion as to 'limitation in audit scope' as there are considerable uncertainties as to what impact this will have on the valuation. We will seek to obtain a full environmental report on the implications of Natura 2000 and are hopeful of a resolution to the litigation in respect of Magnolia and Nikea Park and would therefore hope that subsequent audit reports would not be so modified. The remaining property assets are held at their appraised value.

This slide in asset values again masks some real progress. We have now received £2.97 million (€3.54 million) in repayment of the Obzor loan. Over the last year, twenty-nine units at Obzor have been sold and fifty-seven remain. In connection with Byala, the State Treasury has refunded nearly £1.8 million (€2 million) in VAT post year end (this figure is not included in the table above). In connection with Nikea Park, we have now obtained possession of ten of the units and are seeking to obtain possession of the remainder of the project.

**Annual report and audited consolidated financial statements for the year ended 31 December 2009**

**Chairman's Statement (continued)**

Let me now turn to each of our assets:

*Borovets Lakes*

Borovets Lakes is undeveloped unserviced land located adjacent to the "Super Borovets" project at the Borovets ski area about forty-five minutes outside of Sofia. Super Borovets was a project intended to modernize and expand the Borovets ski area, and the idea behind Borovets Lakes seems to have been that our development would ride on the coattails of Super Borovets. Over the last several years there has been a realignment of investors, but otherwise little activity in connection with Super Borovets. Until that project gets off the ground it is unlikely that Borovets Lakes could either be sold at a reasonable price or developed. In the meantime, earlier this year, we have obtained environmental approvals and expect the detailed zoning plan will be completed by mid-2010. We expect that both should positively affect the asset's value over time.

*Byala*

Byala is a large parcel of unzoned and unserviced land located on the Black Sea coast. Byala had been structured as an interest free loan to a developer along with an option giving that developer the right to either repay the loan or put the land to us in full satisfaction of his obligations. With the decline in asset values, the developer decided to put the land to us. When he exercised the put, we were required to make a refundable VAT payment to the State in the amount of approximately £1.8 million (€2 million) to complete the asset transfer. Earlier this year that money was refunded to the Company. This amount does not appear in our cash position since the money was received post year end. The original idea behind Byala seems to have been similar to Borovets Lakes: the Company would ride on the coattails of a much larger investor who had intended to develop adjacent land. The denouement was also similar in that at least for the present this larger project is not being developed. In connection with Byala, we have decided to undertake a full environmental license analysis for the valuation purposes. It will be completed this year. Our current strategy is to sell this asset once an appropriate price can be obtained.

*Evergreen*

Evergreen is a parcel of zoned and serviced land in the Malinova Dolina district of Sofia. It is an attractive asset for a lot of reasons including that it is located on a major ring road in Sofia where the city is expanding. In October 2008, as the financial crisis was beginning to unfold and we were about ready to commence construction, we decided that the project was too risky, for the time being anyway, and mothballed it. It appears that our decision was correct since neighboring developments have seen very slow sales volume. We have continued to make small investments on infrastructure since we believe they will increase the asset's value.

*Pamporova (Magnolia)*

Pamporova (Magnolia) has been a troubled investment almost from the outset. Magnolia was planned as a ski resort in the Pamporova Mountains in southern Bulgaria. Our development partner failed to complete the development, failed to account for loan proceeds, and ultimately failed to repay his loan. We brought suit to enforce our contractual obligations and due to the vagaries of the legal system are now involved in a number of lawsuits with the borrower. The ultimate outcome of these disputes remains uncertain.

*Nikea Park*

Nikea Park has also been a troubled investment almost from the outset. We have been in litigation with the developer for several years in our effort to recover our loan. We have now successfully recovered ten of the units in that development and have sold one of them. We are endeavouring to take possession of the remainder of the development and then sell it.

**Annual report and audited consolidated financial statements for the year ended 31 December 2009**

**Chairman's Statement (continued)**

Obzor

Obzor is a completed holiday development along the Black Sea. The Company was a mezzanine lender with a profit participation in the sale of units. We have restructured that loan to provide an appropriate return to the Company and proper incentives to the developer to market units. So far we have received £2.97 million (€3.54 million) in cash and have a profit participation in the remaining fifty-seven units that have not been sold. Prior to the restructuring, 169 units had been sold, and over the last year twenty-nine additional units have been sold.

Bulgaria has been in recession for some time. GDP declined by five percent in 2009 and unemployment is projected to reach fifteen percent by year end. The sectors in which the Company is invested – holiday homes along the Black Sea and mountain resorts – have been the sectors hardest hit with very substantial contraction in demand and virtually no transactions. Unfortunately this crisis' end is not in sight. Nonetheless, there remain reasons for long term optimism over Bulgarian property assets: an emerging middle class in Bulgaria and neighboring countries, insufficient modern housing, low property prices as compared with competing venues, and a limited supply of prime coastal assets.

Following year end, we have announced a distribution of £6 million or 2.815 pence per ordinary share which was paid on 23 June 2010. We had been approached with a number of opportunities over the last year, but none presented an appropriate risk reward trade off. Following the distribution we will remain well capitalized with over £6 million of cash on our balance sheet and no debt.

Respectfully yours,

John D. Chapman  
Chairman  
The Black Sea Property Fund Limited  
30 June 2010

## **THE BLACK SEA PROPERTY FUND LIMITED**

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### **Annual report and audited consolidated financial statements for the year ended 31 December 2009**

#### **Directors' Report**

The Directors submit their Report and audited Consolidated Financial Statements for the year ended 31 December 2009.

The Black Sea Property Fund Limited (the "Company") was incorporated on 27 January 2005 in Jersey and was launched as an unclassified Fund on 14 March 2005 within the provisions of the Collective Investment Funds (Jersey) Law 1988, raising net proceeds of £50 million. On 4 March 2009, the shareholders resolved to apply for listed fund status under Article 3 of the Collective Investment Funds (Jersey) Law, 1988. On 5 March 2009, listed fund status was granted to the Group. The Group is now self-managed and its wholly-owned subsidiary, BSPF Bulgaria EAD provides advisory services to the Company's board of directors in relation to its property portfolio. The Black Sea Property Fund Limited Group (the "Group") encompasses the Company and entities controlled by the Company.

#### **Listing**

The Group is quoted on AIM.

#### **Investment objective and policy**

Following the introduction of the revised AIM Rules for Companies on 1 July 2009 (the "AIM Rules"), the Directors have reviewed the Group's investment policy initially stated in its Admission Document dated 21 February 2005 as amended by ordinary resolution on 22 June 2007 and further amended on 4 March 2009. In accordance with Article 8.01 of the Company's Articles of Association, the Directors have made minor amendments to the previous policy to ensure it is sufficiently precise and detailed so that it is clear, specific and definitive (as required by the AIM Rules).

The Group may invest in, acquire or develop residential or commercial real estate located in any part of Bulgaria including, but not limited to, real estate located along the Black Sea coastline. In addition, the Group may also invest in collective investment funds whose primary investment objective is property investment in the Balkan region.

The Group may also invest up to 75% of its assets (at the time of investment) in land, and in property backed and joint venture projects (which could include ski resort and golf course projects) with local and other partners (including banks).

The Group's investment policy does not prohibit it from taking management control of any underlying investments held by the Group.

Any cash held by the Group may only be held on deposit or invested in money-market funds or other near-cash investments.

The investment policy of the Group as stated in this document may only be varied in whole or in part by way of ordinary resolution of the holders of Shares but such sanction shall not be required if such variation is to correct a manifest error or is necessary to comply with fiscal or other statutory or official requirements, actual or proposed, or if the Directors shall certify that such variation does not materially prejudice the interests of the holders of ordinary shares and does not operate to a material extent to release the Directors from any responsibility to any such holders.

Distributions may be made by way of dividend or a redemption or repurchase of ordinary shares, at the Directors' discretion.

#### **Prior year adjustment**

As discussed in the Chairman's Statement on page 2, Byala has been written down at 31 December 2009 by 30% from the appraiser's valuation due to possible environmental issues in connection with the EU Directive, Natura 2000. As a result the loans in 2007 and 2008 relating to Byala have also been adjusted by 30% ( see note 1 (n) in the financial statements).

**Annual report and audited consolidated financial statements for the year ended 31 December 2009**

**Directors' Report (continued)**

**Results and Dividends**

It is not intended in normal circumstances that the Group will pay income dividends on the shares.

If the ordinary shares are trading at a discount to net asset value, the Group may purchase ordinary shares for cancellation.

Proceeds realised from the property portfolio are available for reinvestment into further investment property (net of any performance fees due). Following the end of the fifth year of the Group's life (27 January 2010), the proceeds of sale of the property portfolio will be returned to shareholders as determined by the Board.

If the Group completes the purchase of investment properties and thereafter generates rental yield through letting, such rental income (net of expenses) may be distributed by way of an annual dividend (or more frequently at the Directors' discretion if the amount available is significant).

The consolidated statement of comprehensive income is set out on page 12 of this Annual Report and Consolidated Financial Statements. The Directors announced a return of capital of £6m or 2.815 pence per ordinary share to shareholders which was paid on 23 June 2010.

**Life of the Group**

On incorporation in 2005, the Group planned to have a life of 5 years plus up to 2 further years for the planned realisation of its property portfolio. On or before 30 June 2012, the Directors will convene an extraordinary general meeting of the Company to consider a special resolution to wind-up the Group. Under Jersey law a special resolution requires the approval of a majority of two-thirds of the votes cast to be passed. The Group's life may also be extended by special resolution of Shareholders.

**Board of Directors**

The Directors of the Company, all of whom (other than John Chapman) are non-executive, are :

John Chapman (Executive Chairman)  
Antony Gardner-Hillman  
Irena Komitova  
Andrey Kruglykhin (resigned 19 May 2009)  
Angelo Moskov  
Bogdan Stanchev  
Andrew Wignall

## **THE BLACK SEA PROPERTY FUND LIMITED**

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### **Annual report and audited consolidated financial statements for the year ended 31 December 2009**

#### **Directors' Report (continued)**

##### **Change of Administrator and Registered Office**

On 17 July 2009, the Black Sea Property Fund (the "Group") appointed IPES (Jersey) Limited as administrator of the Group in place of its former administrator, BNP Paribas Securities Services Fund Administration Limited and relocated its registered office to 3rd Floor, South Tower, 29/31 Esplanade, St Helier, Jersey JE4 5SJ.

##### **Termination of Custodian**

On 17 July 2009, the Black Sea Property Fund (the "Group") terminated the appointment of BNP Paribas SA Jersey Branch as custodian of the Fund. A new custodian has not been appointed as the functions performed by BNP Paribas SA Jersey Branch as custodian were limited in practice. IPES (Jersey) Limited hold the title to the property assets held by the Group through its Jersey and Bulgarian incorporated Special Purpose Vehicles ("SPVs").

##### **Change of Nominated Adviser and Broker**

On 14 August 2009, Singer Capital Markets replaced Numis Securities Limited as nominated adviser and broker.

##### **Resignation and Appointment of Group Auditors**

At the meeting of the Board of Directors on 2 December 2009, it was approved to replace KPMG Channel Islands Limited with Ernst & Young LLP as auditors to the Group. Ernst & Young LLP were appointed on 10 March 2010.

##### **Shareholders' Interests**

The following table shows the spread of the Group's shareholder base as at 28 June 2010, the latest date practicable prior to publication of this report.

<i>Extent of holdings (number of shares)</i>	<i>No. of shareholders</i>
1-9,999	61
10,000-99,999	37
100,000 - ,499,999	29
500,000+	26
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## THE BLACK SEA PROPERTY FUND LIMITED

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### Annual report and audited consolidated financial statements for the year ended 31 December 2009

#### Directors' Report (continued)

##### Shareholders' interests - (continued)

At 31 December 2009 the Group was aware of the following interests of 3% or more in the ordinary share capital of the Group:

	<i>Number</i>	<i>Percentage interest</i>
Vidacos Nominees Limited	63,725,993	29.90%
The Bank of New York (Nominees) Limited	34,889,181	16.37%
Securities Services Nominees Limited	22,036,000	10.34%
BNY (OCS) Nominees Limited	21,628,705	10.15%
Euroclear Nominees Limited	20,585,000	9.66%
Lynchwood Nominees Limited	7,529,900	3.53%
Nortrust Nominees Limited	7,135,400	3.35%

The Group has been informed of the following interests of 3% or more in the ordinary share capital of the Group from beneficial owners:

<i>Beneficial shareholder</i>	<i>Number</i>	<i>Percentage interest</i>
QVT Financial LP	63,912,558	29.99%
Weiss Asset Management	34,889,181	16.37%
Knox D'arcy	22,036,000	10.34%
SVM Asset Management Limited	21,871,825	10.26%
GLG Partners	20,550,000	9.64%
Baillie Gifford	10,000,000	4.69%

The Directors are not otherwise aware of interests of 3% or more in the Group's issued share capital.

##### Directors' interests

Mr Angelo Moskov is a partner of QVT Financial LP, which owns or has a beneficial interest in 63,912,558 ordinary shares in the Group. No other director has an interest in the share capital of the Group.

##### Directors' remuneration

The maximum amount of directors' ordinary remuneration permitted under Article 30.03 of the Company's Articles of Association is £100,000 per annum, plus expenses. The Directors received in aggregate £99,733 (2008: £96,242) for the year ended 31 December 2009. In addition, John Chapman received special remuneration under Article 30.04 of £60,640 (2008: £47,675) by way of fees pursuant to his Contract for Services with the Group.

**By Order Of The Board**  
**IPES (Jersey) Limited**  
**Secretary**

**30 June 2010**

**Annual report and audited consolidated financial statements for the year ended 31 December 2009**

**Statement of Directors' Responsibilities**

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

Jersey Company law requires the directors to prepare financial statements for each financial period in accordance with generally accepted accounting principles. The financial statements of the Company are required by law to give a true and fair view of the state of affairs of the Company at the year end and of the profit or loss of the Company for the year then ended. In preparing these financial statements, the directors should:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- specify which generally accepted accounting principles have been adopted in their preparation; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping accounting records which are sufficient to show and explain the Company's transactions and are such as to disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements prepared by the Company comply with the requirements of the Companies (Jersey) Law 1991. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in Jersey governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

## **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF THE BLACK SEA PROPERTY**

We have audited the consolidated financial statements for the year ended 31 December 2009 which comprise the Consolidated Statement of Comprehensive Income, Consolidated Statement of Financial Position, Consolidated Statement of Changes in Equity, Consolidated Statement of Cashflows and the related notes 1 to 21. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with Article 113A of the Companies (Jersey) Law 1991. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

### **Respective responsibilities of directors and auditors**

The directors are responsible for the preparation of the financial statements in accordance with applicable Jersey law as set out in the Statement of Directors' Responsibilities.

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

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies (Jersey) Law 1991. We also report to you if, in our opinion, the company has not kept proper accounting records or if we have not received all the information and explanations we require for our audit.

We read the other information contained in the annual report and consider whether it is consistent with the audited consolidated financial statements. The other information comprises the Chairman's Statement, Directors' Report and Statement of Directors' Responsibilities. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Consolidated financial statements. Our responsibilities do not extend to any other information.

### **Basis of audit opinion**

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

As disclosed in Note 1 (n) to the accompanying financial statements, the carrying value of the investment properties owned by the Group is based on a valuation report prepared by an independent valuer. In respect to the Byala property owned by the Group's wholly owned subsidiary BSPF PROJECT 1 EAD, management have applied a discount of 30% (representing £1,957,413) to the value derived by the external valuer to reflect the potential impact of the environmental preservation issues noted. Title in respect to this land was obtained during 2009. In prior years the investment was in the form of a loan and reflected as such within the 2008 financial statements. Subsequently the directors have revisited the carrying value of the loans within the 2008 comparative information and have impaired them by 30% to reflect the fact these same environmental issues impacted from the inception of the investment. We were unable to obtain sufficient appropriate audit evidence as regards the carrying amount of this investment property and accordingly to determine whether any adjustments were necessary in respect of its carrying value in order for the financial statements to comply with the requirements contained in International Accounting Standard 40, Investment Property. We are also unable to obtain sufficient appropriate audit evidence as regards to the prior year adjustment based for the same reasons.

## **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF THE BLACK SEA PROPERTY FUND LIMITED (continued)**

### **Basis of Audit Opinion (continued)**

The Group has made loans to a third party developer, Magnolia Holidays EAD, as described in note 6(c) to the financial statements. Legal action to recover amounts due to The Black Sea Property Fund Limited or to exercise the company's charge over the loan collateral, being the share capital of Magnolia Holidays EAD, is ongoing. Whilst various court rulings have been made in support of the company's position, the ultimate outcome of the legal action is not certain and accordingly the directors of the company have not been able to assess the recoverability of this loan. As a result, the loan receivable balance and accrued interest due from Magnolia Holidays EAD at 31 December 2008 and 31 December 2009 have been written off in full. No satisfactory audit procedures could be performed to obtain reasonable assurance regarding the recoverability, and hence carrying value, of this loan balance.

The Group has also made loans to a second third party developer, Bulmix 97 Group OOD, as described in note 6(c) of the financial statements. Legal action to recover amounts due to The Black Sea Property Fund Limited or to exercise the company's charge over the loan collateral, being the Nikea Park Riviera Resort property near Varna, is ongoing. Whilst various court rulings have been made in support of the company's position, the ultimate outcome of the legal action is not certain and accordingly the directors of the company have not been able to assess the recoverability of this loan. As a result, the loan receivable balance and accrued interest due from Bulmix 97 Group OOD at 31 December 2008 and 31 December 2009 have been written off in full. No satisfactory audit procedures could be performed to obtain reasonable assurance regarding the recoverability, and hence value, of this loan balance.

In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

### **Qualified Opinion arising from limitation in audit scope**

Except for the financial effects of such adjustments, if any, as might have been determined to be necessary had we been able to satisfy ourselves as to the carrying value of the Byala investment property, as at 31 December 2009 (and the equivalent loan receivable as at 31 December 2008) and also as to the carrying value of the loans to third party developers described above, in our opinion the financial statements give a true and fair view, in accordance with International Financial Reporting Standards, of the state of the Group's affairs as at 31 December 2009 and of its loss for the year then ended and have been properly prepared in accordance with the Companies (Jersey) Law 1991.

Christopher James Matthews, FCA  
For and on behalf of Ernst & Young LLP  
Jersey, Channel Islands

30 June 2010

## THE BLACK SEA PROPERTY FUND LIMITED

### Annual report and audited consolidated financial statements for the year ended 31 December 2009

#### Consolidated Statement of Comprehensive Income

	Notes	2009 £	Restated 2008 £
Investment income		5,662	14,858
Bank interest		49,516	23,739
Loan interest		-	871,552
<b>Total revenue</b>		<b>55,178</b>	<b>910,149</b>
Net (loss)/gain on investments held at fair value through profit or loss	9	( 889,882)	6,850,090
Foreign exchange (loss)/gain on investment property	6 (a)	( 874,502)	4,060,315
Revaluation of investment property	6 (a)	( 5,349,595)	( 3,121,807)
<b>Net (loss)/gain on investment property</b>		<b>( 6,224,097)</b>	<b>938,508</b>
<b>Total (loss)/income</b>		<b>( 7,058,801)</b>	<b>8,698,747</b>
<b>Operating expenses</b>			
Management fee	2	( 136,212)	( 555,000)
Other operating expenses	3	( 1,015,312)	( 935,158)
Foreign exchange losses		( 1,586,692)	-
<b>Total operating expenses</b>		<b>( 2,738,216)</b>	<b>( 1,490,158)</b>
<b>(Loss)/profit before impairment</b>		<b>( 9,797,017)</b>	<b>7,208,589</b>
Impairment of loans and receivables	7	( 448,265)	( 11,872,914)
<b>Loss before tax</b>		<b>( 10,245,282)</b>	<b>( 4,664,325)</b>
Tax expense	5	( 303,615)	( 252,617)
<b>Loss for the year</b>		<b>( 10,548,897)</b>	<b>( 4,916,942)</b>
<b>Other comprehensive income</b>			
Foreign currency translation differences for foreign operations		( 122,324)	1,154,357
<b>Total comprehensive loss for the year</b>		<b>( 10,671,221)</b>	<b>( 3,762,585)</b>
Basic (loss) per share (pence)	4	( 4.95)	( 2.05)
Diluted (loss) per share (pence)	4	( 4.95)	( 2.04)

All income is attributable to the equity holders of The Black Sea Property Fund Limited.

The notes on pages 17 to 40 are an integral part of these audited consolidated financial statements

Annual report and audited consolidated financial statements for the year ended 31 December 2009

Consolidated Statement of Financial Position  
As at 31 December 2009

	Notes	31 December 2009 £	Restated 31 December 2008 £	Restated 1 January 2008 £
<b>Non-current assets</b>				
Plant and equipment	6 (a)	118,522	117,182	123,165
Investment properties	6 (a)	10,970,886	12,058,462	10,680,846
Capitalised development expenses		-	150,799	150,799
Interest in property		-	-	96,941
Loans and receivables	6 (c)	1,538,912	10,948,493	17,194,523
		<b>12,628,320</b>	<b>23,274,936</b>	<b>28,246,274</b>
<b>Current assets</b>				
Other receivables	11	1,965,767	298,083	376,870
Investments at fair value through profit or loss		-	11,754,071	13,200,466
Cash and cash equivalents		11,127,836	1,196,045	1,877,181
		<b>13,093,603</b>	<b>13,248,199</b>	<b>15,454,517</b>
<b>Total assets</b>		<b>25,721,923</b>	<b>36,523,135</b>	<b>43,700,791</b>
<b>Equity and liabilities</b>				
Issued share capital	13	46,478,064	46,478,064	50,138,313
Retained deficit		( 21,379,843)	( 10,830,946)	( 5,914,004)
Foreign currency translation differences		225,370	347,694	( 806,663)
<b>Total equity</b>		<b>25,323,591</b>	<b>35,994,812</b>	<b>43,417,646</b>
<b>Liabilities</b>				
Other payables	12	192,908	290,931	282,301
Tax payable		205,424	237,392	844
		<b>398,332</b>	<b>528,323</b>	<b>283,145</b>
<b>Total equity and liabilities</b>		<b>25,721,923</b>	<b>36,523,135</b>	<b>43,700,791</b>
<b>Number of ordinary shares in issue</b>	13	<b>213,112,896</b>	213,112,896	250,691,563
<b>Net asset value per ordinary share (pence)</b>	14	<b>11.9</b>	16.9	17.3

The financial statements on pages 12 to 40 were approved and authorised for issue by the Board of Directors on 30 June 2010 and were signed on its behalf by:

Andrew Wignall  
Director

Antony Gardner-Hillman  
Director

The notes on pages 17 to 40 are an integral part of these audited consolidated financial statements

**THE BLACK SEA PROPERTY FUND LIMITED****Annual report and audited consolidated financial statements for the year ended 31 December 2009****Consolidated Statement of Changes in Equity**

	Share capital	Retained deficit	Foreign currency translation differences	Total
	£	£	£	£
As at 1 January 2009 - previously reported	46,478,064	( 7,597,002)	347,694	39,228,756
Change in accounting policy (see note 1(m))	-	( 646,461)	-	( 646,461)
Prior year adjustment	-	( 2,587,483)	-	( 2,587,483)
Restated at 1 January 2009	46,478,064	( 10,830,946)	347,694	35,994,812
Loss for the year	-	( 10,548,897)	-	( 10,548,897)
Foreign exchange loss on subsidiaries translation	-	-	( 122,324)	( 122,324)
<b>As at 31 December 2009</b>	<b>46,478,064</b>	<b>( 21,379,843)</b>	<b>225,370</b>	<b>25,323,591</b>
As at 1 January 2008 - previously reported	50,138,313	(5,322,889)	(806,663)	44,008,761
Prior year adjustment	-	(591,115)	-	( 591,115)
Restated at 1 January 2008	50,138,313	(5,914,004)	(806,663)	43,417,646
Share repurchase	( 3,660,249)	-	-	( 3,660,249)
Loss for the year (as restated)	-	(4,916,942)	-	( 4,916,942)
Foreign exchange gain on subsidiaries translation	-	-	1,154,357	1,154,357
<b>As at 31 December 2008 (as restated)</b>	<b>46,478,064</b>	<b>(10,830,946)</b>	<b>347,694</b>	<b>35,994,812</b>

The notes on pages 17 to 40 are an integral part of these audited consolidated financial statements

## THE BLACK SEA PROPERTY FUND LIMITED

Annual report and audited consolidated financial statements for the year ended 31 December 2009

### Consolidated Statement of Cashflows

	2009	Restated 2008
	£	£
<b>Operating activities</b>		
Loss before tax for the year	<u>( 10,245,282)</u>	<u>( 4,664,325)</u>
Loss/(gain) on investments held at fair value through profit or loss	889,882	( 6,850,090)
Foreign exchange loss/(gain) on investment property	874,502	( 4,060,315)
Foreign exchange losses	1,586,692	-
Revaluation of investment property	5,349,595	3,121,807
Impairment of loans and receivables	448,265	11,872,914
Increase in loan interest receivable	-	( 774,611)
Increase in other receivables	( 1,667,684)	( 533,607)
(Increase)/decrease in other payables	( 98,023)	117,128
<b>Net cash outflow from operating activities after interest and before taxation</b>	<u>( 2,862,053)</u>	<u>( 1,771,099)</u>
Withholding tax paid	( 335,583)	( 43,797)
<b>Net cash outflow from operating activities</b>	<u>( 3,197,636)</u>	<u>( 1,814,896)</u>
<b>Investing activities</b>		
Loans to developers	( 297,467)	( 982,693)
Loans repaid	2,979,106	-
Purchase of land and property/plant and equipment	( 12,122)	( 14,977)
Refund of deposit on land and property	-	247,238
Sales of money market funds	10,995,134	5,205,080
Acquisition of investment property	( 114,024)	-
<b>Net cash inflow from investing activities</b>	<u>13,550,627</u>	<u>4,454,648</u>
<i>Net cash inflow before Financing activities - carried forward</i>	<u>10,352,991</u>	<u>2,639,752</u>

The notes on pages 17 to 40 are an integral part of these audited consolidated financial statements

## THE BLACK SEA PROPERTY FUND LIMITED

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Annual report and audited consolidated financial statements for the year ended 31 December 2009

### Consolidated Statement of Cashflows (continued)

	2009	2008
	£	£
<i>Net cash inflow before Financing activities - brought forward</i>	<u>10,352,991</u>	<u>2,639,752</u>
<b>Financing activities</b>		
Share repurchases	-	( 3,660,249)
<b>Net cash outflow from financing activities</b>	-	( 3,660,249)
<b>Net increase/(decrease) in cash and cash equivalents</b>	<u>10,352,991</u>	<u>( 1,020,497)</u>
<b>Cash and cash equivalents at beginning of year</b>	1,196,045	1,877,181
Effect of foreign exchange rates	<u>( 421,200)</u>	339,361
<b>Cash and cash equivalents at end of year</b>	<u><u>11,127,836</u></u>	<u><u>1,196,045</u></u>

In 2009, the Group acquired the Byala investment property in settlement of the Byala loan at a cost of £5,108,960.

The notes on pages 17 to 40 are an integral part of these audited consolidated financial statements

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**Annual report and audited consolidated financial statements for the year ended 31 December 2009**

**Notes to the Consolidated Financial Statements**

**1. Basis of preparation**

The consolidated financial statements of the Company for the year ended 31 December 2009 comprise the financial statements of the Company and its subsidiaries (together, the "Group") and have been prepared in accordance with International Financial Reporting Standards ("IFRS"); adopted for use in the European Union in accordance with Article 3 of the IAS Regulation (EC) No. 1606/2002; issued by the International Accounting Standards Board (IASB) and interpretations issued by the International Financial Reporting Committee of the IASB (IFRIC).

The consolidated financial statements have been prepared on the historical cost basis except for the following:

- financial instruments at fair value through profit or loss are measured at fair value; and
- investment property is measured at fair value.

**Prior year adjustment**

Further details of a prior year adjustment are referred to in note 1 (n) below.

**(a) Significant accounting judgements, estimates and assumptions**

The preparation of financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected. The areas which require significant judgements are valuations of investment properties and impairment of loans as outlined in Note 1 (f).

**(b) Going concern**

The Group's management has made an assessment of the Group's ability to continue as a going concern and is satisfied that the Group has the resources to continue in business for the foreseeable future. Furthermore, the management is not aware of any material uncertainties that may cast significant doubt upon the Group's ability to continue as a going concern. Therefore, the financial statements continue to be prepared on the going concern basis.

**(c) Revenue recognition**

Interest receivable on loans and receivables is recognised in 'loan interest' using the effective interest rate method. The effective interest method is a way of calculating the amortised cost of a financial asset or a financial liability (or groups of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period.

The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial instrument or, where appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument but not future credit losses. The calculation includes all amounts paid or received by a member of the Group that are an integral part of the effective interest rate, including transaction costs and all other premiums or discounts.

Interest on impaired financial assets is calculated by applying the original effective interest rate of the financial asset to the carrying amount as reduced by any allowance for impairment.

**Notes to the Consolidated Financial Statements (continued)**

**1. Basis of preparation - (continued)**

**(d) Basis of consolidation**

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries) made up to 31 December each year. All companies within the Group have a 31 December year end and apply consistent accounting policies. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences up to the date that control ceases. All intra group balances, income and expenses and unrealised gains and losses resulting from intra-group transactions are eliminated in full. Assets and liabilities of subsidiaries denominated in foreign currencies are translated at the closing rate at the balance sheet date. Income statement amounts are translated at average rate. Differences are taken directly to foreign currency translation differences" in equity.

**(e) Expenses**

Expenses are charged through the consolidated statement of comprehensive income, except for expenses which are attributable to the disposal of an investment, which are deducted from the disposal proceeds of the investment. In addition, development costs, legal fees and taxes associated with the acquisition of an investment are capitalised and reviewed for impairment on an annual basis.

**(f) Investments**

**Plant and Equipment**

Plant and equipment is stated at cost less accumulated depreciation and any recognised impairment loss. Depreciation is charged so as to write off the cost of assets, other than land or properties under construction, over their estimated useful lives, using the straight line method, on the following bases:

Electricity Transformer	4%
Mobiles & Computers	50%
Office Equipment	15%

The gain or loss on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the consolidated statement of comprehensive income.

***Investments at fair value through profit or loss***

An instrument is classified as at fair value through profit or loss if it is held for trading or is designated as such upon initial recognition. Financial instruments are designated at fair value through profit or loss if the relevant member of the Group manages such investments and makes purchase and sale decisions based on their fair value. Fair value is the amount at which an investment could be exchanged between knowledgeable willing parties in an arms length transaction.

Purchases of investments are recognised on the settlement date, being the date that amounts are due for payment. Investments are derecognised when the rights to receive cash flows from the investments have expired or the relevant member of the Group has transferred substantially all risks and rewards of ownership.

Investments are initially recognised at fair value being the transaction price. Transaction costs for all financial assets carried at fair value through profit or loss are expensed as incurred.

**Notes to the Consolidated Financial Statements (continued)**

**1. Basis of preparation - (continued)**

**(f) Investments - (continued)**

***Investments at fair value through profit or loss - (continued)***

Subsequent to initial recognition, all financial assets at fair value through profit or loss are measured at fair value. Gains and losses arising from changes in fair value are presented in the consolidated statement of comprehensive income in the year in which they arise. On disposal, realised gains and losses are also recognised in the consolidated statement of comprehensive income.

***Loans and receivables***

Loans and receivables include loans and advances originated by a member of the Group which are not intended to be sold in the short term and are recognised on an amortised cost basis. Loans and receivables are recognised when cash is advanced to borrowers and are derecognised when the borrowers repay their obligations, the loans are sold or written off or substantially all the risks and rewards of ownership are transferred. They are initially recorded at fair value plus any directly attributable transaction costs and are subsequently measured at amortised cost using the effective interest method, less impairment losses.

A provision for impairment is established when there is objective evidence that the relevant member of the Group will not be able to collect all amounts due from the relevant borrower. Where they are denominated in a foreign currency they are translated at the exchange rate at the date of each statement of financial position. The Group determines whether loans are impaired at least on an annual basis. This requires an estimation of the recoverable amount of the loans by reference to the companies the loans are with. Estimating the recoverable amount is by reference to the higher of the fair value less costs to sell and 'value in use'. A value in use calculation requires the Group to make an estimate of the expected future cash flows from the company the loan is with and also to choose a suitable discount rate in order to calculate the present values of those cashflows.

***Investment property***

Property that is held for capital appreciation, and that is not occupied by the companies in the Group, is classified as investment property.

Investment property comprises freehold land and freehold buildings. Land held for capital appreciation or for development as an investment property is immediately classified as investment property.

Investment property is measured initially at its cost, including related transaction costs. After initial recognition, investment property is carried at fair value. Changes in fair value are recorded in the consolidated statement of comprehensive income.

Fair value is based on active market prices, adjusted if necessary for any difference in the nature, location or condition of the specific asset. If this information is not available, the Group uses alternative valuation methods. The property valuations upon which the directors base their valuation of investments are prepared annually by Colliers International.

The determination of the fair value of investment properties requires the use of estimates such as future cashflows from assets and discount rates applicable to those assets. In addition development risks are also taken into consideration when determining the fair value of investment properties under construction. These estimates are based on local market conditions existing at the statement of financial position date.

**Notes to the Consolidated Financial Statements (continued)**

**1. Basis of preparation - (continued)**

**(f) Investments (continued)**

***Investment property - (continued)***

The continuing volatility in the global financial system is reflected in the turbulence in commercial property markets across the world. The significant reduction in transaction volumes continued this year. Therefore, in arriving at their estimates of market values as at 31 December 2009, the valuers have used their market knowledge and professional judgement and have not relied solely on historical transaction comparables. In these circumstances, there is a greater degree of uncertainty than exists in a more active market in estimating the market values of the investment property.

The lack of liquidity in capital markets also means that, if it was intended to dispose of the property, it may be difficult to achieve a successful sale of the investment property in the short term. The significant methods and assumptions used by Colliers International in estimating the fair value of investment property are set out below.

***Borovetz Lakes and Byala Land***

The Market Comparison Method has been used to value investment property in Borovetz Lakes and Byala as there is no approved concept design and it is uncertain when future development will be undertaken given the current market situation. The values were determined directly by reference to observable asking prices and recent realised arm's length transactions. As discussed in note 1 (n) the Directors have written down the Byala investment property by 30% due to environmental issues.

***Evergreen***

The Income Approach (Extraction Method) and Market Comparison Approach has been used to value the development land in the Malinova District of Sofia as the land has been granted construction permits.

**(g) Movements in fair value**

Changes in the fair value of all investments held at fair value through profit or loss and investment properties are taken to the consolidated statement of comprehensive income. On disposal, realised gains and losses are also recognised in the consolidated statement of comprehensive income.

**(h) Cash and cash equivalents**

Cash and cash equivalents comprise current deposits with banks.

**(i) Taxation**

With effect from the 2009 year of assessment Jersey abolished the exempt company regime for existing companies. Profits arising in the Company for the 2009 year of assessment and future periods will be subject to tax at the rate of 0%. In the prior year the Company was exempt from taxation under the provisions of Article 123A of the Income Tax (Jersey) Law 1961 as amended.

The Company's subsidiary companies, BSPF Magnolia AD, BSPF Project 1 EAD, BSPF Project 4 EAD, BSPF Super Borovetz EAD and BSPF Tchernomore EAD will be liable for Bulgarian corporation tax at a rate of 10%. The subsidiary companies are not liable for any further local taxes, however withholding tax may be payable on repatriation of assets and income to the Company, as currently there is no double taxation treaty between Jersey and Bulgaria.

**Notes to the Consolidated Financial Statements (continued)**

**1. Basis of preparation - (continued)**

**(i) Taxation (continued)**

Deferred tax is recognised in respect of all temporary differences that have originated but not reversed at the balance sheet date, where transactions or events that result in an obligation to pay more tax in the future or right to pay less tax in the future have occurred at the balance sheet date. This is subject to deferred tax assets only being recognised if it is considered more likely than not that there will be sufficient profits from which the future reversal of the temporary differences can be deducted.

**(j) Foreign currency**

The results and financial position of the Group are expressed in pounds sterling, which is the functional currency as share creations, cancellations or buybacks of the Company are denominated in pounds sterling. The functional currency of the subsidiaries is Euro.

Transactions in currencies other than pounds sterling are recorded at the rates of exchange prevailing on the dates of the transactions. Assets and liabilities are translated at the date of each statement of financial position. Income and expenses are translated at year average exchange rates. All resulting exchange differences are recognised in other comprehensive income.

**(k) Share capital**

***Ordinary share Capital***

Ordinary shares are classified as equity. External costs directly attributable to the issue of new shares are deducted from the proceeds of issue and shown as a deduction to reserves.

***Founder shares***

Founder shares are classified as equity.

**(l) Segmental analysis**

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments.

A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

Other than the investment in money market funds in the UK, the Group is organised into one main geographical and business segment focusing on the Bulgarian property market.

The chief operating decision maker considers performance on an investment by investment basis. No additional disclosure is included in relation to segmental reporting as the Group's activities are limited to one business segment and one main geographical segment.

**Notes to the Consolidated Financial Statements (continued)**

**1. Basis of preparation - (continued)**

**(m) Changes in accounting policies and disclosures**

The accounting policies adopted are consistent with those of the prior year except as follows:

In 2008 certain capitalised costs in connection with development of real estate property were disclosed as inventory - property held for resale as per IAS 2 Inventories. Management decided to freeze the development of the residential project Evergreen and project Borovets Lakes and to return all apartment reservation fees received and as a result of the change in intentions property has now been reclassified as Investment Property. As a result of this change in accounting policy the Group has reclassified an amount of £27,561 for 2009 and £646,461 for 2008 from Inventories to Investment Property. Reported losses for 2009 and 2008 have increased by these respective amounts as a result.

**New standards, amendments and interpretations to published standards adopted by the Group in accounting period under review:**

IAS 1 (revised), 'Presentation of Financial Statements'. The Group has adopted IAS 1 (revised) from 1 January 2009, and has elected to present solely a consolidated statement of comprehensive income. The adoption of this standard has not resulted in a significant change to the presentation of the Group's performance.

IAS 39 (amendment), 'Financial Instruments: Recognition and Measurement'. The definition of a financial asset or financial liability at fair value through profit or loss as it relates to items that are held for trading was amended. Adoption did not have an impact on the Group's financial statements.

**At the date of authorisation of these financial statements the following accounting standards are effective for 2009, and their effects on the financial statements are:**

- Amendments to IAS 23 - Borrowing Costs
  - this has resulted in no change to the accounting policy.
- Amendments to IAS 27 - Consolidated and Separate Financial Statements
  - this has resulted in no change to the accounting policy.
- Amendments to IAS 32 Financial Instruments:
  - this has resulted in no change to the accounting policy.
- Amendments to IAS 36 - Impairment of Assets
  - this has resulted in no change to the accounting policy.
- Amendments to IAS 38 - Intangible Assets
  - this has resulted in no change to the accounting policy.
- Amendments to IAS 40 - Investment Property
  - this has resulted in no change to the accounting policy.
- Revised IFRS 3 - Business Combinations
  - this has resulted in no change to the accounting policy.
- Amendments to IFRS 7 Financial Instruments: Disclosures - Improving Disclosures about Financial
  - this has resulted in no change to the accounting policy, and disclosures in Note 9.
- IFRS 8 - Operating Segments
  - this has resulted in no change to the accounting policy, and disclosures in Note 1 (l) above.

## THE BLACK SEA PROPERTY FUND LIMITED

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### Annual report and audited consolidated financial statements for the year ended 31 December 2009

#### Notes to the Consolidated Financial Statements (continued)

##### 1. Basis of preparation - (continued)

###### (m) Changes in accounting policies and disclosures - (continued)

At the date of authorisation of these financial statements the following accounting standards are effective for 2009, however they have no effect on the financial statements as they are not applicable to the Group:

- Amendments to IAS 19 - Employee Benefits
- Amendments to IAS 28 - Investments in Associates
- Amendments to IAS 29 - Financial Reporting in Hyperinflationary Economies
- Amendments to IAS 31 - Interests in Joint Ventures
- Revised IFRS 5 - Non-current Assets Held for Sale and Discontinued Operations
- IFRIC 17 - Distribution of Non-Cash Assets to Owners'
- IFRIC 18 - Transfers of Assets from Customers

Standards, amendments and interpretations to published standards that are not yet effective and have not been early adopted by the Group are:

- IAS 24 (revised), 'Related Party Disclosures' (effective from 1 January 2011)

Standards, amendments and interpretations to published standards that are not yet effective and have not been early adopted, nor will be adopted as they are not applicable to the Group are:

- IFRS 1 (amendment) 'Additional Exemptions for First Time Adopters' (effective 1 January 2010)
- IFRS 2 (amendment), 'Group Cash Settled Share-Based Payment Transactions' (effective from 1 January 2010)
- IFRIC 19 - Extinguishing Financial Liabilities with Equity Instruments, (effective from 1 July 2010)

###### (n) Prior year adjustment

In accordance with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors the Directors have restated the loan to the Bulgarian Property Investment Trust EAD (BPIT) secured by land in Byala from 1 January 2008 by a write down of 30% because of environmental issues caused in connection with the EU Directive, Natura 2000, and on the grounds that the EU Directive, Natura 2000 was effective for the accounting periods 2007 and 2008. As a result of the adoption of the amendments to the financial statements, the Directors' have written down the Byala Land valuation represented as a loan to the BPIT of £7,156,161 by 30% to £6,468,104 and £8,624,943 to £6,037,460 for the 2007 and 2008 accounting periods respectively. The prior year adjustments have resulted in a decrease in the previously reported profit of £2,767,936 by £591,115 to £2,176,821 in respect of the year ended 31 December 2007, and increased the previously reported loss of £2,274,113 by £1,996,368 in respect of the year ended 31 December 2008. This has also resulted in a decrease in the reported equity for 2008 of £2,587,483 and £591,115 for 2007.

##### 2. Management fees

	2009	2008
	£	£
Management fees	<u>136,212</u>	<u>555,000</u>

The contracted management fee to Development Capital Management (Jersey) Limited (the "manager") was 2% per annum of the amount subscribed at IPO plus any gains retained by the Company for reinvestment. The management agreement between the Company and the Manager could be terminated by either party on twelve months notice.

The management agreement was terminated on 5 March 2009. The Company is now managed by its board of directors with advice from its property adviser in Bulgaria.

## THE BLACK SEA PROPERTY FUND LIMITED

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### Annual report and audited consolidated financial statements for the year ended 31 December 2009

#### Notes to the Consolidated Financial Statements (continued)

#### 3. Other operating expenses

	2009	2008
	£	£
Advisory and consultancy fees	136,675	282,324
Legal and professional fees	279,457	221,919
Directors' remuneration	160,373	143,917
Staff costs	81,226	-
Amortisation charge	-	96,941
Depreciation charge	10,047	5,983
Administration fees	117,361	62,692
Auditors' remuneration	69,037	26,536
- Non-audit services	-	-
Custodian fees and bank charges	16,009	25,066
Travel and subsistence	20,246	20,664
Marketing and public relations	1,976	1,267
Funding to Black Sea Investment Trust	64,190	-
Other	58,715	47,849
	<u>1,015,312</u>	<u>935,158</u>

The Company provided funding of £64,190 (€72,092) to the Black Sea Investment Trust to cover costs in relation to the marketing of the Obzor units for sale.

On 10 December 2008, the Company's wholly-owned property adviser entered into an executive service contract with Mihail Polendakov.

#### 4. Earnings per share

The loss per ordinary share is based on the loss for the year of £10,548,897 (2008: £4,916,942) and on weighted average number of shares in issue, 2009: 213,112,896 (2008: 240,224,373) ordinary shares.

The diluted loss per ordinary share was based on the loss for the year and 213,112,896 ordinary shares (2008: 240,605,366 ordinary shares). As at 31 December 2009, the agreement to grant options over the sites at Shabla and Kavarna were cancelled in connection with the termination of the Management Agreement.

#### 5. Tax

	2009	2008
	£	£
Withholding tax *	303,615	217,325
Property tax	-	35,292
	<u>303,615</u>	<u>252,617</u>

\* This tax represents irrecoverable withholding tax on the interest received on loans to subsidiaries.

No tax reconciliation has been provided as there are significant losses for the year end cumulatively no deferred tax assets are recognised on these losses and the withholding tax charge is levied on a distribution basis rather than on profitability.

**THE BLACK SEA PROPERTY FUND LIMITED****Annual report and audited consolidated financial statements for the year ended 31 December 2009****Notes to the Consolidated Financial Statements (continued)****6. Investing activities****(a) Investment property and plant and equipment**

	<b>Investment Property</b>	<b>Plant and Equipment</b>	<b>Total</b>
	<b>£</b>	<b>£</b>	<b>£</b>
At 1 January 2009	11,095,046	124,918	11,219,964
Accumulated depreciation brought forward	-	( 7,736)	( 7,736)
Net book amount brought forward	<b>11,095,046</b>	<b>117,182</b>	11,212,228
Additions	5,136,521	11,387	5,147,908
Depreciation charge	-	( 10,047)	( 10,047)
	<b>16,231,567</b>	<b>118,522</b>	16,350,089
At 31 December 2009			
Cost	16,231,567	136,305	16,367,872
Fair value adjustment	( 8,471,402)	-	( 8,471,402)
Foreign exchange gain	3,210,721	-	3,210,721
Accumulated depreciation	-	( 17,783)	( 17,783)
Net book amount	<b>10,970,886</b>	<b>118,522</b>	11,089,408
At 1 January 2008	10,680,846	124,918	10,805,764
Accumulated depreciation brought forward	-	( 1,753)	( 1,753)
Net book amount brought forward	<b>10,680,846</b>	<b>123,165</b>	10,804,011
Additions	14,977	-	14,977
Change in accounting policy in respect of reclassification	646,461	-	646,461
Return of deposit	( 247,238)	-	( 247,238)
Depreciation charge	-	( 5,983)	( 5,983)
	<b>11,095,046</b>	<b>117,182</b>	11,212,228
At 31 December 2008			
Cost	10,448,585	124,918	10,573,503
Change in accounting policy in respect of reclassification	646,461	-	646,461
Restated Cost	11,095,046	124,918	11,219,964
Fair value adjustment	( 3,121,807)	-	( 3,121,807)
Foreign exchange gain	4,085,223	-	4,085,223
Accumulated depreciation	-	( 7,736)	( 7,736)
Net book amount	<b>12,058,462</b>	<b>117,182</b>	12,175,644

## THE BLACK SEA PROPERTY FUND LIMITED

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### Annual report and audited consolidated financial statements for the year ended 31 December 2009

#### Notes to the Consolidated Financial Statements (continued)

#### 6. Investing activities - continued

##### (a) Investment property and plant and equipment - (continued)

###### Byala

Prior to the periods under review two loans totalling €9,709,200 were made to BSPF (Property) Limited, which then lent these funds to the Bulgarian Property Investment Trust EAD. On 26 June 2009, pursuant to this agreement, the developer Bulgarian Property Investment Trust EAD agreed to transfer the ownership rights to the land at Byala to the Company's subsidiary, BSPF Project 1 EAD in full satisfaction of the loan. The obligation for repayment of the loan has been transferred to BSPF Project 1 EAD. On 24 June 2009 a loan of €2,133,736 was made to BSPF Project 1 EAD to finalise the Byala land ownership transfer. The interest rate on the loan is a multiple of 1.25 times the aggregate of 5% and the six month EURIBOR rate. The loans and interest are payable on demand and are unsecured. The investment property is now reflected with a fair value of £4,567,297 (€5,145,974) as at 31 December 2009.

###### Evergreen

A loan of €5,086,604 was made to BSPF (Property) Limited, which then lent these funds to its subsidiary, BSPF Tchernomore EAD. The interest rate is a multiple of 1.25 times the aggregate of 5% and the six month EURIBOR rate. The loans and interest are payable on demand and are unsecured. These funds have been utilised by BSPF Tchernomore EAD to acquire 24,600 square metres of development land in the Malinova Dolina district of Sofia and for the design and development process. There were a further two drawdowns in the current period of €81,784 on 17 April 2009 and €114,524 on 15 June 2009 to satisfy contractual obligations. This property is held with a fair value of £2,004,550 (€2,258,526) as at 31 December 2009.

###### Borovets Lakes

Loans totalling €11,561,670 were made to BSPF Project 4 EAD. The interest rate on the loan is a multiple of 1.25 times the aggregate of 5% and the six month EURIBOR rate. This loan is repayable on demand and unsecured. These funds have been utilised by BSPF Project 4 EAD to acquire 123,961 square metres of development land in the Borovets ski resort. The property is held at a fair value of £4,082,010 (€4,599,201) at 31 December 2009.

###### Nikea Park

On 28 December 2009 BSPF (Property 4) Limited acquired full and marketable title to ten apartments in Nikea Park with a value at 31 December 2009 of £317,029. Full physical possession of those apartments was completed on 9 February 2010. On 14 June, 2010, an application for issuance of a second enforcement order and writ of execution for the amount of €3,774,822 against Bulmix was filed on behalf of BSPF (Property 4) Limited. A court order under the same is now expected.

##### (b) Capitalised development expenses

	2009	2008
	£	£
Cost	-	150,799

The capitalised development expenses in the prior year have been fully impaired during 2009. (please see note 7 for further details of the impairment)

## THE BLACK SEA PROPERTY FUND LIMITED

### Annual report and audited consolidated financial statements for the year ended 31 December 2009

#### Notes to the Consolidated Financial Statements (continued)

#### 6. Investing activities - continued

##### (c) Loans and receivables

	2009	2008	1 January 2008
		Restated	Restated
	£	£	£
Black Sea Investment Trust EAD (Obzor)	1,538,912	4,911,033	2,822,768
Bulgarian Property Investment Trust EAD (Byala)	-	6,037,460	6,468,104
Magnolia Holidays EAD (Pamporova - Magnolia)	-	-	4,640,795
Bulmix 97 Group OOD (Nikea Park)	-	-	3,262,856
	<u>1,538,912</u>	<u>10,948,493</u>	<u>17,194,523</u>

The carrying amount of the loans and receivables is a reasonable approximation of their fair value.

Details of loans and the corresponding developments in existence at the year end are given below:

##### **Magnolia, Pamporovo**

Loans totalling €5,596,096 were advanced to BSPF Magnolia EAD on 14 November 2005, 23 May 2006, 18 November 2006 and 2 April 2007. The interest rate is a multiple of 1.25 times the aggregate of 5% and the six month EURIBOR rate. The loan and interest are payable on demand.

BSPF Magnolia EAD subsequently made loans totalling €5,488,938 to a developer, Magnolia Holidays EAD with the same interest rate. Interest from Magnolia Holidays EAD is payable on demand. The repayment date of the loan was stated to be the earlier of, when all units have been sold or 9 January 2009. The loan to Magnolia Holidays EAD has been secured by a share pledge over that company's entire share capital of 50,000 registered shares as well as security interests in other assets.

At the beginning of July 2008, the Group took control over 100% of the pledged shares of Magnolia Holidays EAD, the entity which owns the real estate at Pamporovo.

Following the receipt of legal advice on the recoverability of the loan, the loan was fully provided against as at 31 December 2009 as in the opinion of the directors there are significant doubts concerning the recoverability of the loan. More information is provided in Note 15. A further loan of €350,000 was advanced on 30 March 2009 to fund a payment of interest due to the bankers to Magnolia Holidays EAD and thereby forestall foreclosure. Interest is no longer being accrued on the loan.

##### **Byala**

Prior to the periods under review two loans totalling €9,709,200 were made to BSPF (Property) Limited, which then lent these funds to the Bulgarian Property Investment Trust EAD. On 26 June 2009, pursuant to this agreement, the developer Bulgarian Property Investment Trust EAD agreed to transfer the ownership rights to the land at Byala to the Company's subsidiary, BSPF Project 1 EAD in full satisfaction of the loan. The obligation for repayment of the loan has been transferred to BSPF Project 1 EAD. On 24 June 2009 a loan of €2,133,736 was made to BSPF Project 1 EAD to finalise the Byala land ownership transfer. The interest rate on the loan is a multiple of 1.25 times the aggregate of 5% and the six month EURIBOR rate. The loans and interest are payable on demand and are unsecured. The investment property is now reflected with a fair value of £4,567,297 (€5,145,974) as at 31 December 2009.

**Notes to the Consolidated Financial Statements (continued)**

**6. Investing activities - (continued)**

**(c) Loans and receivables - (continued)**

**Borovets**

A loan of €453,744 was made to BSPF (Property 2) Limited, which then advanced these funds to its subsidiary, BSPF Super Borovetz EAD. The first tranche of €360,720 was lent on 26 January 2006 at 5% per annum. The second tranche of €93,024 was lent on 4 May 2007. The interest per annum is a multiple of 1.25 times the aggregate of 5% and the six month EURIBOR rate. An amount of €287,326 of the principal and €43,620 of the interest was repaid to the Group on 23 February 2009. The loans and interest are payable on demand. This loan is unsecured.

These funds were utilised to pay a deposit for the acquisition of up to 40,000 square metres of development land in the Borovets ski resort. Following re-negotiation of the contract in respect of the land during 2008, a portion of the amounts lent were returned to BSPF Super Borovetz EAD. No interest is being accrued on the loan.

**Nikea Park**

Loans totalling €4,006,605 were made to BSPF (Property 4) Limited, which then lent on €3,844,425 of the funds to Bulmix 97 Group OOD. Interest is accruing at 7% per annum on these loans and they are repayable on the sale of the individual units at Nikea Park. The loan to Bulmix 97 Group OOD is secured by a second ranking mortgage over the land and a first ranking mortgage over the units as well as the construction rights for these units.

The loan and interest have been fully provided against as in the opinion of the directors, there are significant doubts concerning the recoverability of the amounts due.

**Obzor**

Prior to the period under review loans totalling €5,274,750 were made to BSPF (Property 5) Limited ("BSPF 5"), which then lent €5,079,726 of the funds to Black Sea Investment Trust AD ("BSIT"). A repayment of €207,550 was made by BSPF 5 to the Company on 20 February 2009. The loan to BSIT was secured by a third ranking mortgage (after two mortgages in favour of the financing bank). A revised agreement was signed in June 2009 under which the developer repaid €2,000,000 on 17 July 2009 to the Parent company. The Parent company and the developer have agreed to initially split the proceeds of future unit sales at the Obzor site 70:30 respectively and 80:20 once an aggregate total of €4,000,000 in sales have been made. As at 31 December 2009 a balance of £1,538,912 remains payable by BSPF 5. This remaining loan balance is not interest bearing.

## THE BLACK SEA PROPERTY FUND LIMITED

### Annual report and audited consolidated financial statements for the year ended 31 December 2009

#### Notes to the Consolidated Financial Statements (continued)

#### 7. Impairment of loans and receivables

	2009	2008
	£	£
Loans	<u>448,265</u>	<u>11,872,914</u>

A payment of £297,466 (€350,000) was made by the Group to Magnolia Holidays EAD to enable it meet its loan obligations to its bank. This loan by the Group has been recognised as an impairment due to ongoing litigation which is fully explained in Note 15 to the financial statements. There was a further impairment of £150,799 on capitalised development costs incurred in acquiring the option on the Byala Land. This has been derecognised as an asset following a revised agreement on 26 June 2009 to transfer the ownership rights of the land at Byala to the Group subsidiary, BSPF Project 1 EAD and terminate any previous agreements. The total impairment of loans for the year ended 31 December 2009 is therefore £448,265 as outlined above.

The loan to the Bulgarian Property Investment Trust EAD in the sum of £9,411,673 (€9,709,200) had been partially provided against at 31 December 2008 to its estimated recoverable amount of £6,037,460 (€6,244,847) being the market value of the land upon which it is secured. This is restated from the previously reported amounts of £8,624,943 (€8,921,210) arising from the prior year adjustments described in note 1 (n). The loan to Magnolia Holidays EAD in the sum of £5,456,740 (€6,963,096) including accrued interest had been fully provided against as in the opinion of the Directors there are significant doubts concerning the recoverability of the loan. The loan to Bulmix 97 Group OOD in the sum of £3,534,533 (€4,489,607) including accrued interest had been fully provided against as in the opinion of the Directors there are significant doubts concerning the recoverability of the loan. The interest previously accrued on the loan to Black Sea Investment Trust was not deemed recoverable and accordingly the amount outstanding relating to prior periods was written off in the sum of £123,451. The total impairment of loans for the year ended 31 December 2008 was £11,872,914 as outlined above.

#### 8. Investments held at fair value through profit or loss

	2009	2008
	£	£
Accumulation money market funds		
Opening book cost	7,540,741	11,822,918
Movements in year:		
Sales - proceeds	( 10,995,134)	( 5,205,080)
- realised (loss)/gain on sales	( 758,937)	268,781
- realised exchange gain / (loss) on sales	-	654,122
- reversal of unrealised fair value and foreign exchange gains	4,213,330	-
Closing book cost	-	7,540,741
Closing fair value adjustment on money market funds	-	1,169,861
Closing unrealised exchange gain	-	3,043,469
<b>Closing fair value</b>	<u>-</u>	<u>11,754,071</u>

## THE BLACK SEA PROPERTY FUND LIMITED

### Annual report and audited consolidated financial statements for the year ended 31 December 2009

#### Notes to the Consolidated Financial Statements (continued)

#### 9. Gains on investments held at fair value through profit or loss

	2009	2008
	£	£
(Loss)/profit on disposal of money market investment	( 758,937)	922,903
Foreign exchange (loss)/gain	( 130,945)	3,091,405
Movement in fair value adjustment on money market funds	-	2,835,782
<b>Net (loss)/gain on investments</b>	<b>( 889,882)</b>	<b>6,850,090</b>

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1:

quoted (unadjusted) prices in active markets for identical assets or liabilities

Level 2:

other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly

Level 3:

techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

The money market investment was valued under Level 2 of the hierarchy. The money market investment was fully disposed of on 20 November 2009. Therefore as at 31 December 2009, the Group no longer holds financial instruments measured at fair value as shown in Note 8.

#### 10. Details of Group Undertakings

Details of the investments in which the Group holds 20% or more of the nominal value of any class of share capital

	Holding	Proportion of voting rights	Nature of Business
BSPF (Property) Limited	1	100%	Investment Holding Company
BSPF (Property 2) Limited	1	100%	Investment Holding Company
BSPF (Property 3) Limited	1	100%	Investment Holding Company
BSPF (Property 4) Limited	1	100%	Investment Holding Company
BSPF (Property 5) Limited	1	100%	Investment Holding Company
BSPF (Property 6) Limited	1	100%	Investment Holding Company
BSPF Project 1 EAD	17,252	100%	Investment Holding Company
BSPF Project 4 EAD	17,552	100%	Investment Holding Company
BSPF Magnolia EAD	17,194	100%	Investment Holding Company
BSPF Tchernomore EAD	19,585	100%	Investment Holding Company
BSPF Super Borovetz EAD	17,522	100%	Investment Holding Company
BSPF Bulgaria EAD *	23,952	100%	Investment Property Adviser

## THE BLACK SEA PROPERTY FUND LIMITED

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### Annual report and audited consolidated financial statements for the year ended 31 December 2009

#### Notes to the Consolidated Financial Statements (continued)

##### 10. Details of Group Undertakings (continued)

The Euro amounts have been translated at the respective rate prevailing at the date of acquisition. The Company holds 50,000 ordinary shares of Bulgarian Lev 1 in BSPF Project 1 EAD, BSPF Project 4 EAD, BSPF Magnolia EAD and BSPF Bulgaria EAD which are incorporated in Bulgaria.

These shares are fully paid and represent 100% of the issued share capital of each entity. The Company also holds 1 ordinary share of €1 in each of the remaining subsidiaries which are incorporated in Jersey. This represents 100% of the issued share capital of these companies. The authorised share capital of each is €10,000.

\* BSPF Bulgaria EAD was incorporated during the 2009 accounting period.

##### 11. Other receivables

	2009	2008
	£	£
Bank and deposit interest receivable	115	2,459
Prepayments and accrued income	57,538	78,566
Other debtors	1,908,114	217,058
	<u>1,965,767</u>	<u>298,083</u>

Included in other debtors is VAT receivable of £1,776,909 (€2,002,043) in Bulgaria, which was recovered by the Group on 6 April 2010.

##### 12. Other payables

	2009	2008
	£	£
Trade creditors	65,892	92,424
Accruals	120,445	157,843
Advances from customers	6,571	34,524
Other creditors	-	6,140
	<u>192,908</u>	<u>290,931</u>

None of the amounts are past due or impaired.

## THE BLACK SEA PROPERTY FUND LIMITED

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### Annual report and audited consolidated financial statements for the year ended 31 December 2009

#### Notes to the Consolidated Financial Statements (continued)

##### 13. Issued share capital

	2009	2008
<b>Authorised:</b>		
Founder shares of no par value	10	10
Ordinary shares of no par value	Unlimited	Unlimited
<b>Issued and fully paid:</b>	£	£
2 founder shares of no par value	-	-
213,112,896 (2008: 213,112,896) ordinary shares no par value	46,478,064	46,478,064
	<u>46,478,064</u>	<u>46,478,064</u>

There was no movement in stated capital during the year.

Founder shares are not eligible for participation in Group investments and carry no voting rights at general meetings of the Company.

##### Capital management

The primary objective of the Group's capital management is to provide shareholders with a high level of long-term capital appreciation through acquiring marketable investment properties which offer the prospect of sustainable capital growth. Investments in property are made by reference to specific criteria, which include: location, type of property, development standards and timing. All investment property purchases made by the Group are funded by loans from the parent company (and thus from equity), rather than funding from banks or other third parties. No changes were made in the objectives, policies or processes during the years ending 31 December 2009 and 31 December 2008.

Where the Group completes the acquisition of an investment property, the Group would intend to hold the investment property until the capital value recovers sufficiently to generate a capital profit on realisation, however, the Group retains the discretion to sell any such investment at a loss if it is believed to be in the interests of shareholders.

Proceeds realised from the property portfolio are available for reinvestment into further investment property (net of any performance fees due). Following the end of the fifth year of the Group's life (27 January 2010), the proceeds of sale of the property portfolio will be returned to shareholders as determined by the Board.

If the group completes the purchase of investment properties and thereafter generates rental yield through letting, such rental income (net of expenses) may be distributed by way of an annual dividend (or more frequently at the Directors' discretion if the amount available is significant) on the ordinary shares.

No dividends will be paid on the founder shares.

If the ordinary shares are trading at a discount to net asset value, the Group may purchase ordinary shares for cancellation. The purchase of ordinary shares on this basis may address the imbalance between supply and demand indicated by the presence of a discount, and would be beneficial to the net asset value of the remaining ordinary shares.

Distributions may be made by way of a dividend or a redemption or repurchase of ordinary shares, at the Directors' discretion.

## THE BLACK SEA PROPERTY FUND LIMITED

### Annual report and audited consolidated financial statements for the year ended 31 December 2009

#### Notes to the Consolidated Financial Statements (continued)

##### 14. Net asset value per share

The net asset value per ordinary share (group) is based on the net assets attributable to ordinary shareholders of £25,323,591 (2008: £35,994,812) divided by 213,112,896 (2008: 213,112,896) ordinary shares, being the number of outstanding ordinary shares in issue at the year end.

##### 15. Financial risk management objectives and policies

The Group's financial instruments, comprise cash and cash equivalents, receivables and payables that arise directly from its operations, for example, in respect of sales and purchases awaiting settlement, and receivables for accrued income. The main risks the Group faces from its financial instruments are (i) market price risk (comprising currency risk, interest rate risk and other price risk), (ii) liquidity risk and (iii) credit risk.

The Board regularly reviews and agrees on policies for managing each of these risks. The policies for managing these risks are summarised below and have been applied throughout the period. The numerical disclosures exclude short-term receivables and payables.

###### (i) Market price risk

Market price risk arises mainly from uncertainty about future prices of financial instruments used in the Group's operations. It represents the potential loss the Group might suffer through holding market positions as a consequence of price movements and movements in exchange rates. The Board meets regularly in order to review investment strategy.

###### (ii) Currency risk

The presentational currency of the Group is pounds sterling. Loans and other investments are denominated in Euro and the Group is therefore exposed to movements in the exchange rate between the Euro and the pound sterling. The Group does not hedge this risk.

An analysis of the Group's currency exposure is detailed below:

	Sterling	Euro	Bulgarian LEV	Total
As at 31 December 2009	£	£	£	£
<b>Financial Investments</b>				
Loans and receivables	-	1,538,912	-	1,538,912
Other receivables	16,960	1,948,807	-	1,965,767
Cash and cash equivalents	1,491	11,064,541	61,804	11,127,836
Other payables	( 138,646)	( 54,262)	-	( 192,908)
Tax payable	-	( 205,424)	-	( 205,424)
	( 120,195)	12,753,662	61,804	12,695,271
<b>Net exposure</b>	<b>( 120,195)</b>	<b>14,292,574</b>	<b>61,804</b>	<b>14,234,183</b>

**THE BLACK SEA PROPERTY FUND LIMITED****Annual report and audited consolidated financial statements for the year ended 31 December 2009****Notes to the Consolidated Financial Statements (continued)****15. Financial risk management objectives and policies (continued)****(ii) Currency risk - (continued)**

	Sterling	Euro	Bulgarian LEV	Total
As at 31 December 2008 (restated)	£	£	£	£
<b>Financial Investments</b>				
Investment at fair value through profit and loss	-	11,754,071	-	11,754,071
Loans and receivables	-	10,948,493	-	10,948,493
	-	22,702,564	-	22,702,564
Other receivables	29,523	268,560	-	298,083
Cash and cash equivalents	20,674	620,122	555,249	1,196,045
Other payables	( 157,844)	( 133,087)	-	( 290,931)
Tax payable	-	( 237,392)	-	( 237,392)
	( 107,647)	518,203	555,249	965,805
<b>Net exposure</b>	<b>( 107,647)</b>	<b>23,220,767</b>	<b>555,249</b>	<b>23,668,369</b>

**Foreign currency sensitivity**

The table below details the Group's sensitivity to a 5% increase in the value of sterling against the relevant currency. With all other variables held constant, net assets attributable to shareholders and the change in net assets attributable to shareholders per the consolidated statement of comprehensive income would have decreased by the amounts shown below. The analysis is performed on the same basis for 2008.

	2009		Restated 2008	
	Euro	Bulgarian Lev	Euro	Bulgarian Lev
	£	£	£	£
Financial investments	714,629	3,090	1,161,038	27,762
Effect on comprehensive income	( 714,629)	( 3,090)	( 1,161,038)	( 27,762)

## THE BLACK SEA PROPERTY FUND LIMITED

### Annual report and audited consolidated financial statements for the year ended 31 December 2009

#### Notes to the Consolidated Financial Statements (continued)

#### 15. Financial risk management objectives and policies (continued)

##### Foreign currency sensitivity - (continued)

A 5% weakening of sterling against the relevant currency would have resulted in an equal and opposite effect on the above financial statement amounts to the amounts shown above, on the basis that all other variables remain constant.

##### (iii) Interest rate risk

Interest rate movements may affect: (i) the fair value of the investments in fixed interest rate securities and (ii) the level of income receivable on cash deposits. There are no fixed interest rate securities as at 31 December 2009.

The interest rate profile of the Group's financial instruments excluding inventories and other receivables was as follows:

	Variable rate	Non- interest bearing
	£	£
<b>As at 31 December 2009</b>		
Euro loans to third parties	-	1,538,912
Investments at fair value through profit or loss	-	-
Payables	-	( 192,908)
Euro cash deposit	11,064,541	-
Bulgarian Lev cash deposit	61,804	-
Sterling cash deposit	1,491	-
	<u>11,127,836</u>	<u>1,346,004</u>
<b>As at 31 December 2008 (restated)</b>		
Euro loans to third parties	10,948,493	-
Investments at fair value through profit or loss	11,754,071	-
Payables	-	( 290,931)
Euro cash deposit	620,122	-
Bulgarian Lev cash deposit	555,249	-
Sterling cash deposit	20,674	-
	<u>23,898,609</u>	<u>( 290,931)</u>

**Notes to the Consolidated Financial Statements (continued)****15. Financial risk management objectives and policies (continued)****(iii) Interest rate risk - (continued)****Interest rate sensitivity**

An increase of 100 basis points in interest rates during the year would have increased the net assets attributable to shareholders and changes in net assets attributable to shareholders by £111,278 (2008: £238,986). A decrease of 100 basis points would have had an equal but opposite effect.

**(iv) Liquidity risk**

The liquidity risk to the Group is the risk of not being able to meet the Group's funding commitments. A significant portion of the Group's assets comprises of cash balances. As at 31 December 2009, the Group does not have any significant liabilities due and therefore the liquidity risk is deemed insignificant.

The following table sets out the carrying amount, by maturity, of the Group's financial instruments that are exposed to liquidity risk:

	<b>On demand</b>	<b>&lt; 1 year</b>	<b>Total</b>
	<b>£</b>	<b>£</b>	<b>£</b>
<b>As at 31 December 2009</b>			
Cash and cash equivalents	-	11,127,836	11,127,836
Loans to third parties	1,538,912	-	1,538,912
Investments at fair value through profit or loss	-	-	-
Other payables	-	( 192,908)	( 192,908)
	<u>1,538,912</u>	<u>10,934,928</u>	<u>12,473,840</u>
<b>As at 31 December 2008 (restated)</b>			
Cash and cash equivalents	-	1,196,045	1,196,045
Loans to third parties	10,948,493	-	10,948,493
Investments at fair value through profit or loss	11,754,071	-	11,754,071
Other payables	-	( 290,931)	( 290,931)
	<u>22,702,564</u>	<u>905,114</u>	<u>23,607,678</u>

## THE BLACK SEA PROPERTY FUND LIMITED

### Annual report and audited consolidated financial statements for the year ended 31 December 2009

#### Notes to the Consolidated Financial Statements (continued)

#### 15. Financial risk management objectives and policies (continued)

##### (v) Credit risk

The Group places funds with third parties and is therefore potentially at risk from the failure of any such third party of which it is a creditor. The Group expects to place any such funds on a short-term basis only and spread these over several investments.

The Group's principal financial assets are loans and receivables, other receivables, investments, cash and cash equivalents. The maximum exposure of the Group to the credit risk is the carrying amount of each class of financial assets.

Loans and receivables are represented by loans to and receivables from third parties.

No significant credit risk is recognised in respect of other receivables represented mainly by prepayments and other receivables, and cash and cash equivalents. Credit risk on cash and cash equivalents is minimised as the Group primarily banks with institutions with a credit rating in excess of B as follows:

	£
Amounts held with a credit rating of A or above	10,841,106
Amounts held with a credit rating of B or above	286,730
Amounts held with a credit rating less than B	-
Cash and cash equivalents as at 31 December 2009	<u><u>11,127,836</u></u>

The Group's credit risk is primarily attributable to loans and receivables from third parties. The Board monitors each loan according to the individual characteristics of each project, including regular contact with developers, site visits and if necessary reporting by an outsourced real estate consultant to evaluate whether there is any impairment.

##### (vi) Credit risk exposure

In summary, compared to the amounts in the Consolidated Statement of Financial Position, the maximum exposure to credit risk at 31 December 2009 was as follows:

	2009		Restated 2008	
	Statement of financial position	Maximum exposure	Statement of financial position	Maximum exposure
	£	£	£	£
<b>Non-current assets</b>				
Cash	11,127,836	11,127,836	1,196,045	1,196,045
Loans and Receivables	1,538,912	1,538,912	10,948,493	10,948,493
	<u><u>12,666,748</u></u>	<u><u>12,666,748</u></u>	<u><u>12,144,538</u></u>	<u><u>12,144,538</u></u>

**Annual report and audited consolidated financial statements for the year ended 31 December 2009**

**Notes to the Consolidated Financial Statements (continued)**

**15. Financial risk management objectives and policies (continued)**

**(vi) Credit risk exposure (continued)**

**Magnolia, Pamporovo**

Magnolia Holidays EAD has defaulted on its loan repayment to the wholly – owned subsidiary of the Company, BSPF Magnolia EAD in the amount of €5,488,938 and the interest thereon of €636,050. On 17 January 2008 BSPF Magnolia EAD declared the loan provided to Magnolia Holidays EAD in the sum of € 5,488,938 and the interest of €636,050 as due and payable. Magnolia Holidays EAD did not pay any of the amounts claimed by BSPF Magnolia EAD. As a result, on 29 January 2008 BSPF Magnolia EAD registered the enforcement of the share pledge, which is security under the Loan and Guarantee Agreement. The pledge is for 50,000 shares, which is the entire share capital of Magnolia Holidays EAD.

On 6 February 2008, the former shareholder of Magnolia Holidays EAD filed an application with the Plovdiv Regional Court to suspend the enforcement of the share pledge on the grounds that the claimed amount had not yet become due and payable. The Court granted the application with a ruling on 11 February 2008. On 20 February 2008 BSPF Magnolia EAD appealed the ruling of the Plovdiv Regional Court. The case was forwarded to the Plovdiv District Court and it cancelled the ruling of the Plovdiv Regional Court. Thereafter, the case has been forwarded to the Supreme Court of Cassation and pursuant to a ruling issued by it has been returned to Plovdiv Regional Court which confirmed its original ruling. The case was submitted to Plovdiv District Court for a second hearing and it cancelled the ruling of the Regional Court. The case is now to be submitted to the Supreme Court of Cassation.

As a result of the completion of the share pledge enforcement procedure, initiated by BSPF Magnolia EAD on 29 January 2008, on 16 July 2008 the Company's subsidiary BSPF (Property 3) Limited acquired all 50,000 shares in the capital of Magnolia Holidays EAD. BSPF Magnolia EAD as pledgee then endorsed the shares to BSPF (Property 3) Limited in accordance with the Bulgarian Registered Pledges Act and thus completed the share pledge enforcement procedure.

On 12 September 2008, the former shareholder of Magnolia Holidays EAD filed claims with the Plovdiv District Court against BSPF Magnolia EAD and Magnolia Holidays EAD as defendants, claiming that the share pledge was a nullity and sought cancellation of the enforcement of the share pledge. On 24 September 2008 the Plovdiv District Court suspended the registration of BSPF (Property 3) Limited as a sole owner of the capital of Magnolia Holidays EAD. The said case has now been separated into two cases, one pending in the Arbitration Court at the Bulgarian Chamber of Commerce and Industry and the other in the Sofia City Court.

On 24 November 2008 the former shareholder of Magnolia Holidays EAD purported to increase its share capital from BGN 50,000 to BGN 500,000 and registered the capital increase at the Trade Register. On 5 December 2008 BSPF (Property 3) Limited filed a claim against Magnolia Holidays EAD to nullify the purported capital increase and asking the court to confirm BSPF (Property 3) Limited as the lawful sole owner of the capital of Magnolia Holidays EAD. A court hearing is expected to be scheduled and a subsequent court decision is pending.

The Plovdiv Regional Court is now hearing a case initiated by the former shareholder of Magnolia Holidays EAD against the distribution of proceeds resulting from the share pledge enforcement. The basis of the claim is the individual's allegation that their signature was forged on certain documents. Expert's reports confirmed twice the authenticity of the relevant signatures. The case is now suspended as a result of negotiations for achieving settlement agreement with the former shareholder of Magnolia Holidays EAD. Pleadings under the case are now completed and a court judgment is expected by 2 July 2010.

**Annual report and audited consolidated financial statements for the year ended 31 December 2009**

**Notes to the Consolidated Financial Statements (continued)**

**15. Financial risk management objectives and policies (continued)**

**(vi) Credit risk exposure (continued)**

**Magnolia, Pamporovo - (continued)**

On 9 December 2008 a complaint was sent to the Plovdiv Regional Prosecution Authority on behalf of BSPF (Property 3) Limited claiming that the actions of the former shareholder of Magnolia Holidays EAD in connection with the purported capital increase were illegal and provided sufficient grounds for the Republic of Bulgaria to instigate a criminal case against him. The case is closed without any further criminal investigation.

On 2 February 2009 the Plovdiv District Court issued judgment that effectively rejected the refusal of the Bulgarian Trade Register to register BSPF (Property 3) Limited as the sole owner of the capital of Magnolia Holidays EAD along with the registration of the new management appointed by BSPF (Property 3) Limited. On 28 April 2009 the Plovdiv Court of Appeals refused to hear an appeal against that decision. The decision was not appealed before the Supreme Court of Cassation. Now BSPF (Property 3) Limited and Victor Drehemov both appear as shareholders due to the purported capital increase performed by the latter and due to the fact that the court cases pertaining to that issue are not completed with final judgements.

On 14 July 2009 BSPF (Property 3) Limited filed a claim with Sofia City Court against Magnolia Holidays EAD declaring the resolutions of the General Shareholders Meeting of Magnolia Holidays EAD to be unlawful. BSPF (Property 3) Limited was granted a distraint order which suspended the registration of the resolutions of the said meeting at the Trade Register. Magnolia Holidays EAD appealed the said order before the Sofia Court of Appeals and the order was cancelled. However, a new distraint order was obtained by BSPF (Property 3) Limited from Plovdiv District Court on 27 July 2009. The Plovdiv Court of Appeal cancelled the distraint order. As described in Note 6 (c), this loan has been provided for in its entirety. Court hearings before the Sofia City Court and Plovdiv District Court were scheduled for 15 March 2010. The Plovdiv District Court postponed the hearings and the next court session is still not scheduled. The case regarding the cancellation of the resolutions of the General Shareholders Meeting was terminated by the Sofia City Court. Under the second case (for declaring the resolutions of the General Shareholders Meeting of Magnolia Holidays EAD to be null and void) Sofia City Court ruled in favour of BSPF (Property 3) Limited. The court decision has not come into effect yet and it can still be appealed before the Sofia Court of Appeal.

**Nikea Park**

On 28 February 2008 the Company's subsidiary BSPF (Property 4) Limited filed an application for issuance of a writ of execution as a lender against Bulmix 97 Group Ltd ("Bulmix") with the Sofia Regional Court for breach of its contractual obligations. On 19 May 2008 a writ of execution was issued. On 20 June 2008 the procedure of forced enforcement of the mortgage was initiated through private bailiff in Varna. On 3 July 2008 Bulmix filed an application with Varna Regional Court for suspending the enforcement procedures and on 25 July 2008 the Varna Regional Court issued a court order suspending the enforcement procedure. Due to successful appeal filed on behalf of the creditor BSPF (Property 4) Limited before the Varna District Court on 17 December 2008 the Court issued an order cancelling the suspension of the enforcement procedure. The order of Varna District Court was then appealed to the Supreme Court of Cassation, which on 22 April 2009 issued order returning the case for second hearing to the Varna District Court. On 18 September 2009 Varna District Court issued an order confirming its original ruling. As a result on 28 December 2009 BSPF (Property 4) Limited acquired full and marketable title to ten apartments in Nikea Park. Full physical possession of those apartments was completed on 9 February 2010. On 14 June, 2010, an application for issuance of a second enforcement order and writ of execution for the amount of €3,774,822 against Bulmix was filed on behalf of BSPF (Property 4) Limited. A court order under the same is now expected.

**Annual report and audited consolidated financial statements for the year ended 31 December 2009**

**Notes to the Consolidated Financial Statements (continued)**

**16. Contingencies and commitments**

The Company had an agreement to advance €5,274,750 to the developer of the site at Obzor. A revised agreement has been signed, under which the developer repaid €2,000,000 on 17 July 2009 to the Company. The Company and the developer will initially split the proceeds of all future unit sales at the Obzor site 70:30 respectively, and 80:20 once an aggregate total of €4,000,000 sales have been made. The Company also received €130,000 on 17 July 2009 and €1,065,723 on 4 November 2009. The expected value of future proceeds from the sale of units as at 31 December 2009 has been valued by Colliers International at €3,264,668.

**17. Events after the reporting period**

On 9 February 2010 the BSPF (Property 4) Limited took physical possession of ten apartments in Nikea Park having completed the acquisition procedure in its entirety. Legal title to these apartments was obtained on 28 December 2009. In May 2010, BSPF (Property 4) sold one of the 10 apartments acquired for £29,657 (€34,850). On 6 April 2010, BSPF Project 1 EAD received a VAT refund of £1,775,294.93 (€1,995,068.22). Following the year end the Directors have announced a return of capital of £6m or 2.815 pence per ordinary share to shareholders which was paid on 23 June 2010.

**18. Related party transactions**

Information regarding subsidiaries can be found in Notes 6(c) and 10.

The management fees incurred for the year are disclosed in note 2. As at 31 December 2009 there were no unpaid amounts.

**19. Directors' interests**

Total compensation paid to the Directors during the year was £160,373 (2008: £143,917).

Mr Angelo Moskov is a partner of QVT Financial LP, which owns or has a beneficial interest in 63,912,558 ordinary shares in the Company.

**20. Ultimate controlling party**

The Directors consider that there is no controlling or ultimate controlling party of the company.

**21. Company domicile**

The Black Sea Property Fund Limited is a company domiciled in Jersey, Channel Islands.

## **THE BLACK SEA PROPERTY FUND LIMITED**

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### **Annual report and audited consolidated financial statements for the year ended 31 December 2009**

#### **Corporate Information**

##### **Registered office**

###### **To 16 July 2009**

BNP Paribas House  
Anley Street  
St. Helier  
Jersey, CI  
JE2 3QE

###### **From 17 July 2009**

3rd Floor, South Tower  
29/31 Esplanade  
St. Helier  
Jersey, CI  
JE2 3QA

##### **Property Investment Advisor**

###### **Resigned 5 March 2009**

Development Capital  
Management (Bulgaria) EAD  
14 Tzar Osvoboditel Boulevard  
Sofia 1000  
Bulgaria

###### **Appointed 5 March 2009**

BSPF Bulgaria EAD  
Centre  
Tzankov  
1040 Sofia  
Bulgaria

##### **Legal Adviser (UK)**

Travers Smith LLP  
10 Snow Hill  
London  
EC1A 2AL  
United Kingdom

##### **Manager & Promoter**

###### **Resigned 5 March 2009**

Development Capital  
Management (Jersey) Limited  
BNP House, Anley Street  
St. Helier, Jersey, CI  
JE2 3QE

##### **Custodian**

###### **Resigned 17 July 2009**

BNP Paribas (Jersey Branch)  
BNP Paribas House  
Anley Street  
St. Helier  
Jersey, CI  
JE2 3QE

##### **Registrar**

Capita Registrars (Jersey) Limited  
12 Castle Street  
St. Helier  
Jersey, CI  
JE2 3RT

##### **Nominated Advisor & Broker**

###### **Resigned 14 August 2009**

Numis Securities Limited  
The London Stock Exchange Building  
10 Paternoster Square  
London  
EC4M 7LT

###### **Appointed 14 August 2009**

Singer Capital Markets Limited  
One Hanover Street  
London  
W1S 1YZ  
United Kingdom

##### **Legal Adviser (Jersey)**

Ozannes Advocates  
PO Box 733  
29 Esplanade  
St Helier  
Jersey, CI  
JE4 0ZS

##### **Administrator & Secretary**

###### **Resigned 17 July 2009**

BNP Paribas Fund Services Jersey Ltd  
BNP Paribas House  
Anley Street  
St. Helier  
Jersey, CI,  
JE2 3QE

###### **Appointed 17 July 2009**

IPES (Jersey) Limited  
PO Box 477  
3rd Floor, South Tower  
29/31 Esplanade  
St. Helier  
Jersey, CI  
JE4 5SJ

##### **Auditors of the Company & Group**

###### **Year ended 31 December 2008**

KPMG Channel Islands Ltd  
PO Box 453  
5 St. Andrew's Place  
St. Helier  
Jersey, CI  
JE4 8WQ

###### **Year ended 31 December 2009**

Ernst & Young LLP  
Liberation House  
Castle Street  
St. Helier  
Jersey, CI  
JE1 1EY

##### **Strategic Adviser**

Colliers International  
Business Park Sofia  
Mladost 4  
Build 13B  
1715 Sofia  
Bulgaria