

THE BLACK SEA PROPERTY FUND LIMITED

Annual Report and Consolidated Financial Statements

for the year ended 31 December 2012

THE BLACK SEA PROPERTY FUND LIMITED
Annual report and consolidated financial statements for the year ended 31 December 2012

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Chairman's Statement

Dear Shareholders,

Our Net Asset Value ('NAV') as at 31 December 2012 was 2.1p per share compared to 7p per share at the end of 2011. The primary reasons for this reduction in NAV were the return of capital of 1.25p per share in December and the Board's decision to write down the carrying value of the Company's assets to reflect Colliers International's estimate of their "commercialization value." The Company has continued to sell completed units at Nikea and Obzor and over the past year has generated € 2,166,344 (£1,754,125) of cash from those sales.

At the annual general meeting of shareholders held on 28 June 2012, Black Sea's shareholders resolved to extend the life of the Company to 30 June 2014 to allow the Directors to effect an orderly realization of Company assets. We consequently instructed Colliers to value our assets on both a "market value" and "commercialization value" as at 31 December 2012. The Royal Institute of Chartered Surveyors defines market value as "the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's length transaction after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion". Colliers defines commercialization value as its estimate of the likely sale prices of the Company's assets if such sale were effected within twelve months of period end. It is meant to take into account the extreme illiquidity of the Bulgarian market coupled with the fact that because of this illiquidity "market value" is necessarily primarily a reflection of asking, rather than sale, prices.

Colliers' analysis at period end of the market and commercialization values of the Company's assets are as follows:

Asset	Market Value	Per m ²	Commercialization Value	Per m ²	Liquidity Discount
Evergreen	£1,727,143	£70.2	£863,572	£35.1	50%
Borovets Lakes	£2,487,678	£20.0	£497,535	£4.0	80%
Byala	£2,467,688	£15.2	£493,538	£3.0	80%
Obzor	£927,827	£327.3	£603,088	£212.7	35%
Nikea Park	£620,080	£370.4	£403,052	£240.8	35%
Total	£8,230,416		£2,860,785		

Given the lifespan of the Company, the Board has decided to use Colliers' commercialization values in preparing our financial statements. This results in a non-cash charge of £5,369,631, which reflects most of the "loss" on our statement of comprehensive income and most of the decline in our NAV.

Since the boom in the middle of the last decade Bulgaria has suffered from political instability, civil unrest, market illiquidity, an oversupply of assets comparable to ours, a diminished risk appetite, and an unavailability of bank financing. The holiday sector, which was Black Sea's primary focus, has been hit especially hard. Borovets and Byala are large plots of undeveloped land in non-established locations. They were planned to piggy back on larger adjacent developments, which have not come to fruition. There is no substantial infrastructure in place in either location and no shortage of comparable land. All of these issues have been flagged in the past. The Board does not at present know of any facts that would likely indicate an increase in value of Black Sea's assets for the foreseeable future. As a consequence, the Board believes that Colliers' estimate of the portfolio's "commercialization value" is the best guideline for what Black Sea's assets will realize over the Company's remaining life.

I look forward to writing you next when we release our interim accounts for the period ending 30 June 2013.

Respectfully yours,

John D. Chapman
 Chairman
 The Black Sea Property Fund Limited
 15 April 2013

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Directors' Report

The Directors submit their Report and audited Consolidated Financial Statements for the year ended 31 December 2012.

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. The Black Sea Property Fund Limited group of companies (the "Group") encompasses the Company and entities controlled by the Company.

On 4 March 2009, the shareholders resolved to apply for listed fund status and 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 property advisory services to the Company's Board.

Listing

The Company is quoted on AIM.

Investment objective and policy

The Group is no longer seeking to make further investments in real estate assets and is managing its portfolio with a view to returning capital to Shareholders.

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

In accordance with the resolution passed at the annual general meeting held on 28 June 2012, the shareholders authorised the directors to pursue a strategy of asset realisation on the best terms and by such means as they consider to be reasonably achievable, with the view to liquidating as much as possible of the assets of the Company by 30 June 2014.

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

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Directors' Report (continued)

Results and dividends

The consolidated statement of comprehensive income is set out on page 10 of this Annual Report and Consolidated Financial Statements. The Directors announced a special dividend of £2,663,912 or 1.25 pence per ordinary share (2011: £2,131,130 or 1.00 pence per ordinary share) to shareholders which was paid on 7 December 2012.

Property asset valuations

At the AGM on 28 June 2012, the Company's strategy was amended and the intention is now for the Company to realise its assets in accordance with the resolutions passed on that date. As a result of the change in strategy, the Company's assets have been valued based on Colliers' determination of their 'commercialization value' as explained in the Chairman's Statement.

Going concern

In accordance with the resolution passed at the annual general meeting held on 28 June 2012, the shareholders authorised the directors to pursue a strategy of asset realisation on the best terms and by such means as they consider to be reasonably achievable, with the view to liquidating as much as possible of the assets of the Company by 30 June 2014. Prior to that date the board will then put to shareholders a special resolution that a liquidator be appointed and the Company be wound up.

Accordingly the financial statements have not been prepared on a going concern basis. This has affected the carrying value of the Group's investment properties and available for sale asset, as further discussed in the Chairman's statement and in note 1(c) to the Financial Statements. It asset sales are not completed by that date then further reductions could be required to the carrying amounts of the Group's assets.

Life of the Group

A special resolution was passed at the AGM held on 28 June 2012 in order to extend the life of the Company for an additional two years until 30 June 2014. The Company's life may be further 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)
Stephen Coe
Antony Gardner-Hillman
Andrew Wignall

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Directors' Report (continued)

Shareholders' Interests

The following table shows the spread of the Company's shareholder base as at 1 April 2013.

<i>Extent of holdings (number of shares)</i>	<i>No. of shareholders</i>
1-10,000	43
10,001-100,000	39
100,001-500,000	22
>500,000	24
	128

At 31 December 2012, the Company was aware of the following interests of 3% or more in the ordinary share capital of the Company:

	<i>Number</i>	<i>Percentage interest</i>
Vidacos Nominees Limited	63,200,993	29.66%
The Bank of New York (Nominees) Limited	43,649,581	20.48%
Pershing Nominees Limited	25,134,567	11.79%
Securities Services Nominees Limited	22,036,000	10.34%
BNY (OCS) Nominees Limited	10,128,705	4.75%
Mr Nicholas John Greenwood	7,150,000	3.36%
Barclayshare Nominees Limited	7,052,778	3.31%

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

<i>Beneficial owner</i>	<i>Number</i>	<i>Percentage interest</i>
QVT Financial Fund	63,126,806	29.62%
Brookdale International Partners	30,337,457	14.24%
BP2S Jersey	22,036,000	10.34%
GLG Partners	20,550,000	9.64%
Brookdale Global Opportunity Fund	13,312,124	6.25%
Scottish Mortgage & Trust plc	10,000,000	4.69%
Mr Nicholas John Greenwood	9,000,000	4.22%
Mr Peter Jackson	6,800,000	3.19%

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

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Directors' Report (continued)

Group Auditors

BDO LLP are the auditors of the Group. A resolution to re-appoint BDO LLP as the Company's auditor will be put to the forthcoming Annual General Meeting.

Auditors

So far as the Directors are aware at the time the report is approved:

- there is no relevant audit information of which the Company's auditors are unaware; and
- each Director has taken all the steps that he or she ought to have taken as a Director in order to make himself or herself aware of any relevant audit information and to establish that the Company's auditors are aware of the information.

Directors' interests

Mr Stephen Coe currently holds 45,000 ordinary shares in The Black Sea Property Fund Limited, which represents less than 0.1% of the issued share capital. No other current Director has an interest in the share capital of the Group.

Directors' remuneration

Directors' remuneration is solely salary payments received by the Directors. No Directors received any benefits under long term or short term incentive schemes.

The maximum amount of the aggregate 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 £63,000 (2011: £54,666) for the year ended 31 December 2012. In addition John Chapman received special remuneration under Article 30.04 of £58,291 by way of fees pursuant to contracts for Services with the Group (2011: John Chapman and Angelo Moskov similarly received special remuneration of £75,586 in total).

	2012	2011
	£	£
John Chapman	58,291	57,586
Antony Gardner-Hillman	25,000	25,000
Steve Coe	20,000	5,000
Andrew Wignall	18,000	18,000
Angelo Moskov	-	18,000
Irena Komitova	-	3,333
Bogdan Stanchev	-	3,333
	121,291	130,252

Simon Riley

By Order Of The Board
SJ Secretaries Limited
Secretary

THE BLACK SEA PROPERTY FUND LIMITED

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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 Group are required by law to give a true and fair view of the state of affairs of the Group at the year end and of the results of the Group 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 (for the reasons explained in the going concern paragraph above and also in note 1(c) of the financial statements, these financial statements have not been prepared on a going concern basis).

The Directors are responsible for keeping accounting records which are sufficient to show and explain the Group's transactions and are such as to disclose with reasonable accuracy at any time the financial position of the Group 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 Group 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 Auditors' Report to the Members of The Black Sea Property Fund Limited

We have audited the consolidated financial statements of The Black Sea Property Fund Limited for the year ended 31 December 2012 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. The financial reporting framework that has been applied in their preparation is International Financial Reporting Standards as adopted by the EU and the Companies (Jersey) Law 1991.

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 auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and auditors

As explained more fully in the Statement of Directors' Responsibilities, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the Financial Statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on the Financial Statements

In our opinion, the consolidated financial statements:

- give a true and fair view of the state of the Group's affairs as at 31 December 2012 and of its loss for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards as adopted by the EU; and
- have been properly prepared in accordance with the Companies (Jersey) Law 1991.

Independent Auditors' Report to the Members of The Black Sea Property Fund Limited (continued)

Emphasis of matter – Going concern

In forming our opinion on the financial statements, which is not modified, we draw your attention to the disclosures in note 1(c) to the financial statements which explains that the financial statements have not been prepared on a going concern basis.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies (Jersey) Law 1991 requires us to report to you if, in our opinion:

- proper accounting records have not been kept, or proper returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- we have not received all the information and explanations we require for our audit.

Geraint Jones
For and on behalf of BDO LLP
Chartered Accountants
55 Baker Street
London, W1U 7EU, UK

Date: 15 April 2013

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

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Consolidated Statement of Comprehensive Income

	Notes	2012 £	2011 £
Total revenue			
(Loss)/gain on disposal of investment property		(234,776)	6,215
Loss on revaluation of investment property	6(a)	(5,788,695)	(432,737)
Net loss on investment property		<u>(6,023,471)</u>	<u>(426,522)</u>
Total loss		<u>(6,023,471)</u>	<u>(426,522)</u>
Operating expenses			
Impairment of available for sale assets		(1,638,547)	-
Other operating expenses	3	(595,116)	(794,147)
Depreciation of plant and equipment		(53,921)	(53,921)
Foreign exchange gains/(losses)		942	(60,952)
Total operating expenses		<u>(2,286,642)</u>	<u>(909,020)</u>
Operating loss before interest and tax		<u>(8,310,113)</u>	(1,335,542)
Bank interest receivable	4	187,336	242,017
Bank charges and interest payable		(4,453)	(4,097)
Loss before tax		<u>(8,127,230)</u>	(1,097,622)
Tax expense	5	-	-
Loss for the year after tax		<u>(8,127,230)</u>	(1,097,622)
Other comprehensive income			
Loss in fair value of available for sale assets	6(c)	-	(169,678)
Losses on translation of foreign operations		(290,539)	(320,488)
Recycle of cumulative losses in fair value of available for sale assets		644,425	-
Total comprehensive loss for the year		<u>(7,773,344)</u>	<u>(1,587,788)</u>
Loss per share			
Basic loss per share (pence)	11	(3.81)	(0.52)
Diluted loss per share (pence)	11	(3.81)	(0.52)

All losses for the year and total comprehensive income are attributable to the owners of the Company.

The notes on pages 14 to 33 are an integral part of these consolidated financial statements.

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Consolidated Statement of Financial Position
As at 31 December 2012

		31 December	31 December
		2012	2011
	<i>Notes</i>	£	£
Non-current assets			
Plant and equipment	6(a)	-	53,921
Investment properties	6(a)	2,257,697	9,883,370
Available for sale assets	6(c)	603,088	1,830,328
		<u>2,860,785</u>	<u>11,767,619</u>
Current assets			
Other receivables	8	51,477	74,226
Cash and cash equivalents		1,575,280	3,132,519
		<u>1,626,757</u>	<u>3,206,745</u>
Total assets		<u>4,487,542</u>	<u>14,974,364</u>
Equity and liabilities			
Issued share capital	10	46,478,064	46,478,064
Retained deficit		(40,377,080)	(29,585,938)
Foreign exchange reserve		(1,655,879)	(1,365,340)
Available for sale reserve		-	(644,425)
Total equity		<u>4,445,105</u>	<u>14,882,361</u>
Liabilities			
Other payables	9	42,437	92,003
Tax payable		-	-
		<u>42,437</u>	<u>92,003</u>
Total equity and liabilities		<u>4,487,542</u>	<u>14,974,364</u>
Number of ordinary shares in issue	10	213,112,896	213,112,896
Net asset value per ordinary share (pence)	11	2.1	7.0

The financial statements on pages 10 to 33 were approved and authorised for issue by the Board on 15 April 2013 and were signed on its behalf by:

Antony Gardner-Hillman

Director

Andrew Wignall

Director

The notes on pages 14 to 33 are an integral part of these consolidated financial statements.

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Consolidated Statement of Changes in Equity

	Share capital	Retained deficit	Foreign exchange reserve	Available for sale reserve	Total
	£	£	£	£	£
At 1 January 2012	46,478,064	(29,585,938)	(1,365,340)	(644,425)	14,882,361
Loss for the year	-	(8,127,230)	-	-	(8,127,230)
Other comprehensive income	-	-	(290,539)	644,425	353,886
Transactions with owners					
- Special dividend (Note 16)	-	(2,663,912)	-	-	(2,663,912)
At 31 December 2012	<u>46,478,064</u>	<u>(40,377,080)</u>	<u>(1,655,879)</u>	<u>-</u>	<u>4,445,105</u>
At 1 January 2011	46,478,064	(26,357,186)	(1,044,852)	(474,747)	18,601,279
Loss for the year	-	(1,097,622)	-	-	(1,097,622)
Other comprehensive income	-	-	(320,488)	(169,678)	(490,166)
Transactions with owners					
- Special dividend (Note 16)	-	(2,131,130)	-	-	(2,131,130)
At 31 December 2011	<u>46,478,064</u>	<u>(29,585,938)</u>	<u>(1,365,340)</u>	<u>(644,425)</u>	<u>14,882,361</u>

The notes on pages 14 to 33 are an integral part of these consolidated financial statements.

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Consolidated Statement of Cashflows

		31 December	31 December
		2012	2011
	<i>Notes</i>	£	£
Operating activities			
Loss after tax for the year		(8,127,230)	(1,097,622)
Depreciation	6(a)	53,921	53,921
Loss/(gain) on disposal of investment property		234,776	(6,215)
Revaluation of investment property	6(a)	5,788,695	432,737
Loss in fair value of available for sale assets	6(c)	1,638,547	-
Foreign exchange losses		(942)	60,952
Interest received	4	(187,336)	(242,017)
Finance expense		4,453	4,097
Movement in net cash outflow from operating activities		(595,116)	(794,147)
Decrease in other receivables	8	22,749	252,771
Decrease in other payables	9	(49,566)	(107,813)
Net cash outflow from operating activities		(621,933)	(649,189)
Withholding tax paid		-	(218,873)
Net cash outflow from operating activities		(621,933)	(868,062)
Investing activities			
Proceeds on disposal of investment property	6(a)	1,337,974	21,110
Cash received on available for sale assets	6(c)	416,151	202,889
Net cash inflow from investing activities		1,754,125	223,999
Financing activities			
Bank interest received	4	4,303	41,754
Interest paid		(4,453)	(4,097)
Special dividend	16	(2,663,912)	(2,131,130)
Net cash outflow from financing activities		(2,664,062)	(2,093,473)
Net decrease in cash and cash equivalents		(1,531,870)	(2,737,536)
Cash and cash equivalents at beginning of year		3,132,519	5,918,831
Effect of foreign exchange rates		(25,369)	(48,776)
Cash and cash equivalents at end of year		1,575,280	3,132,519

The notes on pages 14 to 33 are an integral part of these consolidated financial statements

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Notes to the Consolidated Financial Statements

1. Accounting policies

(a) Basis of preparation

The consolidated financial statements of the Company for the period ended 31 December 2012 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"); endorsed for use in the European Union.

The Black Sea Property Fund Limited is incorporated in Jersey with company number 89392 and registered office located at 22-24 Seale Street, St Helier, Jersey, Channel Islands, JE2 3QG.

(b) 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 reporting date. Profit or loss amounts are translated at an average rate. Differences are taken directly to foreign currency translation differences in equity.

(c) Going concern

The Company's Articles of Association required the Board to convene an extraordinary general meeting of the Company on or within 60 days before 30 June 2012 to consider a resolution to wind up the Company. On 28 June 2012 a special resolution was passed at the AGM which authorised the Directors to pursue a strategy of asset realisation on the best terms and by such means as they consider to be reasonably achievable, with the view to liquidating as much as possible of the assets of the Company and then proposing to the Members not later than 30 June 2014 a resolution (which will be proposed as a special resolution) that a liquidator be appointed and the Company be wound up.

Following this special resolution the Company's strategy is to now seek an orderly disposal programme of the Group's assets and return surplus capital to shareholders.

As the Directors intend to return all excess capital to shareholders of the Company they have not prepared the financial statements on a going concern basis. This has reduced the carrying value of the Group's investment properties and available for sale asset. Given the low level of activity in the Bulgarian property market there can be no guarantee that the assets will be realised in the life of the Company, and should the asset disposal programme not look likely to be completed in this timescale then further reductions could be required to the carrying amounts of the Group's assets.

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Notes to the Consolidated Financial Statements (continued)

1. Accounting policies (continued)

(d) Investment and interest income

Income on investments is recognised on an accruals basis.

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.

(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.

Expenses associated with special dividends are recognised as legal and professional fees within other operating expenses in the consolidated statement of comprehensive income.

(f) Investments

As a result of the change in the Company's strategy, the basis of the property asset valuations has been revised to take into account the limited time frame that the Group now has to realise its assets. This has resulted in significant discounts.

Notes to the Consolidated Financial Statements (continued)

1. Accounting policies (continued)

(f) Investments (continued)

Investment property

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

The valuations are adjusted, if necessary, for any difference in the nature, location or condition of the specific asset.

Financial assets – Available for sale

Non-derivative financial assets not included in loans and receivables are classified as available-for-sale and comprise the Group's investment in Obzor. They are carried at fair value with changes in fair value, other than those arising due to exchange rate fluctuations and interest calculated using the effective interest rate, recognised in other comprehensive income and accumulated in the available-for-sale reserve.

Exchange differences on available for sale assets denominated in a foreign currency and interest calculated using the effective interest rate method are recognised in profit or loss.

Where there has been a significant or prolonged decline in the fair value of an available for sale financial asset (which constitutes objective evidence of impairment), the full amount of the impairment, including any amount previously recognised in other comprehensive income, has been recognised in profit or loss.

Purchases and sales of available for sale financial assets are recognised on settlement date with any change in fair value between trade date and settlement date being recognised in the available-for-sale reserve.

On sale, the cumulative gain or loss recognised in other comprehensive income is reclassified from the available-for-sale reserve to profit or loss.

Notes to the Consolidated Financial Statements (continued)

1. Accounting policies (continued)

(f) Investments (continued)

Loans and receivables at amortised cost

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.

Plant and Equipment

Given the limited life of the Company, all plant and equipment has been written-down to nil value.

(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) Other receivables

Other receivables are recognised at amortised cost and include prepayments. All amounts are recoverable within one year.

(i) Cash and cash equivalents

Cash and cash equivalents comprise current deposits with banks.

(j) Trade and other payables

Trade and other payables are recognised at amortised cost and relate to amounts accrued in the normal course of business which are payable within one year.

THE BLACK SEA PROPERTY FUND LIMITED
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Notes to the Consolidated Financial Statements (continued)

1. Accounting policies (continued)

(k) Taxation

The tax expense represents the sum of the tax currently payable and deferred tax.

Current tax would be payable on taxable profits for the year. Taxable profit differs from net profit as reported in the statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the reporting date.

Current taxes include irrecoverable withholding tax on the interest receivable on loans from the Company to its Bulgarian subsidiaries.

Deferred tax is recognised in respect of all temporary differences that have originated but not reversed at the reporting 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 reporting 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.

(l) Foreign currency

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

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 using the year end rate. The closing rate used at the end of 2012 was Euro 1.2330 per GBP (2011: Euro 1.2013 per GBP). Income and expenses are translated at year average exchange rates. The average rate used for 2012 was Euro 1.2350 per GBP (2011: Euro 1.1521 per GBP). All resulting exchange differences are recognised in other comprehensive income.

(m) 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.

(n) Operating leases

Rental payments under operating leases are expensed in the statement of comprehensive income on an accruals basis.

Notes to the Consolidated Financial Statements (continued)

1. Accounting policies (continued)

(o) Changes in accounting policies and disclosures

The accounting policies adopted are consistent with those of the prior year.

New and amended standards and interpretations that are applicable at the year-end and relevant:

- IFRS 7 Financial Instruments: Disclosures – Enhanced Derecognition Disclosure Requirements.

The amendment requires additional disclosure about financial assets that have been transferred but not derecognised to enable the users of the Group's financial statements to understand the relationship with those assets that have not been derecognised and their associated liabilities. In addition, the amendment requires disclosures about the entity's continuing involvement in derecognised assets to enable the users to evaluate the nature of, and risks associated with, such involvement. The amendment is effective for annual periods beginning on or after 1 July 2011. The Group does not have any assets with these characteristics so there has been no effect on the presentation of its financial statements.

New and amended standards and interpretations that are applicable at the year-end but not relevant:

- IAS 12 Income Taxes (Amendment) – Deferred Taxes: Recovery of Underlying Assets; and
- IFRS 1 First-Time Adoption of International Financial Reporting Standards (Amendment) – Severe Hyperinflation and Removal of Fixed Dates for First-Time Adopters.

New and amended standards and interpretations issued that are effective subsequent to December 2012 year-ends:

- IFRS 7 Disclosures – Offsetting Financial Assets and Financial Liabilities – Amendments to IFRS 7;
- IFRS 9 Financial Instruments: Classification and Measurement;
- IFRS 10 Consolidated Financial Statements;
- IAS 27 Separate Financial Statements;
- IFRS 12 Disclosure of Interests in Other Entities; and
- IFRS 13 Fair Value Measurement.

IFRS 7 Disclosures – Offsetting Financial Assets and Financial Liabilities – Amendments to IFRS 7

These amendments require an entity to disclose information about rights to set-off related arrangements (e.g., collateral agreements). The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on an entity's financial position. The new disclosures are required for all recognised financial instruments that are set off in accordance with IAS 32 Financial Instruments: Presentation. The disclosures also apply to recognised financial instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are set off in accordance with IAS 32. These amendments will not impact the Group's financial position or performance and become effective for annual periods beginning on or after 1 January 2013.

Notes to the Consolidated Financial Statements (continued)

1. Accounting policies (continued)

(o) Changes in accounting policies and disclosures (continued)

IFRS 9 Financial Instruments: Classification and Measurement

IFRS 9, as issued, reflects the first phase of the IASB's work on the replacement of IAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in IAS 39. The standard was initially effective for annual periods beginning on or after 1 January 2013, but Amendments to IFRS 9 Mandatory Effective Date of IFRS 9 and Transition Disclosures, issued in December 2011, moved the mandatory effective date to 1 January 2015. In subsequent phases, the IASB will address hedge accounting and impairment of financial assets. The adoption of the first phase of IFRS 9 is expected to have an impact on the Group's classification and measurement of financial assets and liabilities. The Group will quantify the effect in conjunction with the other phases, when the financial standard including all phases is issued.

IFRS 10 Consolidated Financial Statements, IAS 27 Separate Financial Statements

IFRS 10 replaces the portion of IAS 27 Consolidated and Separate Financial Statements that addresses the accounting for consolidated financial statements. It also addresses the issues raised in SIC-12 Consolidation – Special Purpose Entities. IFRS 10 established a single control model that applied to all entities including special purpose entities. The changes introduced by IFRS 10 will require management to exercise significant judgement to determine which entities are controlled and therefore are required to be consolidated by a parent, compared with the requirements that were in IAS 27. This standard becomes effective for annual period beginning on or after 1 January 2013. The Group is currently assessing the impact that this standard will have on its financial position and performance.

IFRS 12 Disclosure of interests in other entities

IFRS 12 includes all the disclosures that were previously in IAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in IAS 31 and IAS 28. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required, but have no impact on the Group's financial position or performance. This standard becomes effective for annual periods beginning on or after 1 January 2013.

IFRS 13 Fair Value Measurement

IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. The Group is currently assessing the impact that this standard will have on its financial position and performance. This standard becomes effective for annual periods beginning on or after 1 January 2013.

The Directors expect no impact, except from the additional disclosure on fair value following IFRS13 becoming effective, from the adoption of the new standards and amendments on the Group's financial position or performance.

THE BLACK SEA PROPERTY FUND LIMITED
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Notes to the Consolidated Financial Statements (continued)

2. 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 following areas require the Directors to make significant judgments.

Investment property

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 those applied when using the Market Comparison Method to compare the property against similar assets or the Income Approach where fair value is based on projected future cashflows from assets along with discount rates applicable to those assets. In addition development risks are also taken into consideration when determining the appropriate discount rate. These estimates are based on local market conditions existing at the date of the statement of financial position.

The continuing volatility in the global financial system is reflected in the turbulence in commercial and residential property markets across the world. The significant reduction in transaction volumes continued this year. Therefore, as noted in the Chairman's statement, in arriving at their estimates of market values at year end, 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.

In accordance with the resolution passed at the annual general meeting held on 28 June 2012, the shareholders authorised the directors to pursue a strategy of asset realisation on the best terms and by such means as they consider to be reasonably achievable, with the view to liquidating as much as possible of the assets of the Company by 30 June 2014. The property fair values have therefore been discounted to represent commercialization values as Colliers' estimates of their projected sale prices of the Group's assets if such sale were effected within twelve months of period end.

Nikea Park, Borovets Lakes and Byala

The Market Comparison Method has been used to obtain an initial value for the investment property at Borovets Lakes and Byala as there is no approved concept design and it is uncertain when future development will be undertaken given the current market for these assets. The Market Comparison Method has also been used to obtain the initial value of the apartments at Nikea Park with reference to suitable comparable properties in the area. The values were determined directly by reference to observable asking prices and recent realised arm's length transactions. These initial valuations have then been discounted by 35% for Nikea Park and 80% for both Borovets Lakes and Byala.

Evergreen, Sofia

The Income Approach (Extraction Method) and Market Comparison Approach has been used to obtain an initial value the development land in the Malinova District of Sofia as the land has been granted construction permits. The initial valuation has then been discounted by 50%.

The Extraction Method has been employed in order to benchmark the asset value against a comparable lease value – applying the assumed net rental income of the asset upon construction with reference to the rental values of comparable assets in the current market place.

Available for sale assets - Obzor

The Income Approach has been used to obtain an initial value the Group's interest in the apartments in Obzor on the basis of the special contractual relationship with Black Sea Investment Trust AD (owner of the property). The initial valuation has then been discounted by 35%.

THE BLACK SEA PROPERTY FUND LIMITED
Annual report and consolidated financial statements for the year ended 31 December 2012

Notes to the Consolidated Financial Statements (continued)

3. Other operating expenses

	2012	2011
	£	£
Directors' remuneration	121,291	130,252
Administration fees	89,429	90,595
Other legal and professional fees	73,895	192,062
Staff costs		
- Wages and salaries	62,690	65,988
- NI and social security	6,000	8,079
Rates and local authority charges	54,749	96,719
Auditors' remuneration		
- Parent company audit	38,723	35,425
- Subsidiaries audit	13,603	14,582
Nominated advisor fees	35,000	35,000
Repairs & maintenance at Nikea	29,259	24,145
Registrar fees	22,221	22,531
Bulgaria office rent	11,819	23,025
Regulatory fees	11,613	11,345
Valuation fees	8,816	25,331
Other operating expenses	16,008	19,068
	595,116	794,147

In 2012, in addition to the four (2011: four) Directors there were three (2011: three) employees in Bulgaria. Key management personnel comprise the Board. Their compensation comprised salary payments only during the year, the amount of which is summarised within the Director's Report.

Other operating expenses include £11,819 (2011: £23,025) for the rental of office premises in Sofia, Bulgaria. The lease contract does not have a minimum term and can be terminated by either party upon three months' notice. The total future value of minimum lease periods at any given time is therefore £3,649 (2011: £4,005).

4. Interest receivable

	2012	2011
	£	£
Notional Interest on Available for Sale assets (Note 6)	183,033	200,263
Bank interest receivable	4,303	41,754
	187,336	242,017

Notional interest has been applied on the available for sale assets at 10% - representing a commercial rate between operator and developer.

THE BLACK SEA PROPERTY FUND LIMITED
Annual report and consolidated financial statements for the year ended 31 December 2012

Notes to the Consolidated Financial Statements (continued)

5. Taxation

Jersey

There is no taxation payable on the Company's or its Jersey subsidiaries' results as they are based in Jersey where the Corporate Income Tax rate for Jersey resident companies is zero percent. Additionally, Jersey does not levy tax on capital gains.

Consequently, Shareholders resident outside Jersey will not incur any income tax in Jersey on any distributions made to them.

Bulgaria

Subsidiaries of the Company incorporated in Bulgaria are taxed in accordance with the applicable tax laws of Bulgaria. The Bulgarian corporate tax rate for the year was 10% (2011: 10%).

No deferred tax assets are recognised on trading losses in the subsidiary companies as there is significant uncertainty as to whether sufficient future profits will be available in order to utilise these losses.

A reconciliation of the tax charge for the year to the standard rate of corporation tax for Jersey of Nil% (2011: Nil%) is shown below.

	2012	2011
Loss before tax	(8,127,230)	(1,097,622)
Loss on ordinary activities multiplied by the standard rate in Jersey of Nil% (2011: Nil%)	-	-
Bulgarian tax at 10% (2011: 10%)		
- Net trading loss in Bulgarian subsidiaries at 10%	(19,433)	(30,202)
- Tax losses created in the year	19,433	30,202
- Withholding tax	-	-
Current charge for the year	-	-
Bulgarian tax losses brought-forward at 10%	(3,250,151)	(3,219,949)
Bulgarian losses carried forward in the year at 10%	(19,433)	(30,202)
Bulgarian tax losses carried-forward at 10%	(3,269,584)	(3,250,151)

The Group has not recognised deferred tax assets as there remains significant uncertainty as to whether sufficient future profits will be available in order to utilise these losses.

THE BLACK SEA PROPERTY FUND LIMITED
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Notes to the Consolidated Financial Statements (continued)

6. Investing activities

The Group's investments relate to freehold land at Borovets Lakes, Byala, Pamporovo and Evergreen (Sofia) and freehold holiday home apartments at Nikea Park and Obzor.

(a) Investment property and plant and equipment

	Investment property £	Plant and equipment £	Total £
Valuation or cost			
At 1 January 2012	9,883,370	137,039	10,020,409
Disposals - Nikea Park	(1,571,308)	-	(1,571,308)
Revaluation	(5,788,695)	-	(5,788,695)
Currency translation differences	<u>(265,670)</u>	<u>-</u>	<u>(265,670)</u>
At 31 December 2012	<u>2,257,697</u>	<u>137,039</u>	<u>2,394,736</u>
Depreciation			
At 1 January 2012	-	83,118	83,118
Write-down in the year	-	53,921	53,921
Disposals	<u>-</u>	<u>-</u>	<u>-</u>
At 31 December 2012	<u>-</u>	<u>137,039</u>	<u>137,039</u>
NBV at 31 December 2012	<u>2,257,697</u>	<u>-</u>	<u>2,257,697</u>
At 1 January 2011	10,663,666	137,039	10,800,705
Disposals - Nikea Park	(14,895)	-	(14,895)
Revaluation	(432,737)	-	(432,737)
Currency translation differences	<u>(332,664)</u>	<u>-</u>	<u>(332,664)</u>
At 31 December 2011	<u>9,883,370</u>	<u>137,039</u>	<u>10,020,409</u>
Depreciation			
At 1 January 2011	-	29,197	29,197
Write-down in the year	-	53,921	53,921
Disposals	<u>-</u>	<u>-</u>	<u>-</u>
At 31 December 2011	<u>-</u>	<u>83,118</u>	<u>83,118</u>
NBV at 31 December 2011	<u>9,883,370</u>	<u>53,921</u>	<u>9,937,291</u>

The valuations of the individual investment properties are as follows:

	Valuation		Valuation	
	2012	2012	2011	2011
	€	£	€	£
Borovets Lakes	613,461	497,535	3,131,875	2,606,972
Byala	608,532	493,538	3,918,038	3,261,375
Evergreen	1,064,784	863,572	2,056,833	1,712,108
Nikea Park	496,963	403,052	2,766,596	2,302,915
	<u>2,783,740</u>	<u>2,257,697</u>	<u>11,873,342</u>	<u>9,883,370</u>

THE BLACK SEA PROPERTY FUND LIMITED
Annual report and consolidated financial statements for the year ended 31 December 2012

Notes to the Consolidated Financial Statements (continued)

6. Investing activities (continued)

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

In accordance with the resolution passed at the annual general meeting held on 28 June 2012, the shareholders authorised the directors to pursue a strategy of asset realisation on the best terms and by such means as they consider to be reasonably achievable, with the view to liquidating as much as possible of the assets of the Company by 30 June 2014.

As a result of the change in strategy, the basis of the investment property valuations has been revised to take into account the limited time frame that the Group now has to realise its assets. This has resulted in significant discounts (80% at Borovetz Lakes and Byala, 50% at Evergreen, and 35% at Nikea Park) being required when compared to previous periods.

A 5% change in the value of the Group's investment properties would result in a change of £112,886 to the Group's NAV (2011: £494,168).

(b) Loans and receivables

Nikea Park

The original loan to Bulmix 97 Group OOD was for Euro 3,844,425 and was fully impaired in 2008.

The Group acquired a total of 106 apartment units when it called in security on the original loan agreement with the third party developer. In 2010, a total of twenty-two of these 106 units were sold for a total consideration of Euro 531,298 (£456,252) and net gain of Euro 51,954 (£44,586) to the Group.

Because of the developer's failure to repay the loan in accordance with the contract, the Group commenced legal proceedings in Bulgaria. Prior to conclusion of the legal proceedings an auction was held in November 2010 to sell sixteen of the 106 apartments. The remaining ninety units with a market value of Euro 1,667,736 (£1,435,476) later became the property of the Group and were recognised as investment property.

Six of the remaining ninety units were sold in 2010 for a total consideration of Euro 168,650 (£145,030) and resulted in a net gain of Euro 51,954 (£44,586) to the Group. One sale occurred in 2011 with proceeds of Euro 24,320 (£21,110) and a net gain of Euro 7,159 (£6,215).

In the year ended 2012, sixty units were sold for net proceeds of Euro 1,652,398 (£1,337,974) with a net loss of Euro 288,167 (£233,334). Sales of a further two units have been completed in 2013 and the Group continues to own the remaining twenty-one units.

The remaining twenty-three units were valued at Euro 764,559 (£620,080) at 31 December 2012 (2011: eighty-three apartments valued at Euro 2,766,596 or £2,302,915).

After applying a 35% discount, the commercialization value of the Nikea Park property portfolio was valued at Euro 496,963 (£403,052) at 31 December 2012.

THE BLACK SEA PROPERTY FUND LIMITED
Annual report and consolidated financial statements for the year ended 31 December 2012

Notes to the Consolidated Financial Statements (continued)

6. Investing activities (continued)

(c) Loans and receivables (continued)

Magnolia, Pamporovo

On 10 November 2011, the Board decided to settle all pending cases connected with Magnolia because the Board determined that following the collapse in Bulgarian property prices the value of the Company's interest in Magnolia was less than the first mortgage on that property. A settlement agreement with mutual releases was signed in June 2012.

BSPF Magnolia EAD is now in a liquidation procedure which is expected to complete by the end of June 2013.

(d) Available for sale financial assets

	2012	2011
	£	£
At 1 January	1,830,328	2,002,632
Cash receipts on sale of available for sale assets	(416,151)	(202,889)
Notional interest receivable (Note 4)	183,033	200,263
Movement in fair value on available for sale asset	-	(169,678)
Impairment of available for sale assets	(994,122)	-
At 31 December	603,088	1,830,328

IFRS 7 requires financial instruments measured at fair value to be classified by the fair value hierarchy in this standard. The Group has only one such financial instrument being the above available for sale assets which are level 3 assets within this hierarchy.

Obzor

A revised agreement with Black Sea investment Trust EAD (BSIT) was signed in June 2009 which governs the flow of revenues expected from the sales of the Obzor apartment units and was subsequently amended on 1 January 2011. Marketing fees are no longer collected and, in return, the Group's interest in the apartments has reduced by 3.5% to 66.5% of the net sales proceeds, if cumulative sales income is less than Euro 4,000,000, and from 80% to 76% thereafter.

As of 31 December 2012 the Fund has the option to seek unconditional acquisition from BSIT of the remaining twenty-four units in Obzor instead of profit share. The non-interest bearing loan has now been repaid in full (2011: £343,000).

A further fourteen units were sold in 2012 for net proceeds of Euro 513,946 (£416,151) in addition to the five units previously sold in 2011 for net proceeds of Euro 233,744 (£202,889)). There are currently twenty-four unsold units and the Group's share of the property portfolio was valued at Euro 1,144,011 (£927,827) at 31 December 2012 (2011: thirty-eight apartments, valued at Euro 2,198,856 or £1,830,328).

After applying a 35% discount, the commercialization value of the Group's share of the Obzor property portfolio was valued at Euro 743,607 (£603,088) at 31 December 2012.

THE BLACK SEA PROPERTY FUND LIMITED
Annual report and consolidated financial statements for the year ended 31 December 2012

Notes to the Consolidated Financial Statements (continued)

7. Details of Group undertakings

The Group holds 20% or more of the nominal value of any class of share capital in the following investments:

	Share- holding	Proportion of voting rights	Nature of Business	Country of incorporation
<i>Held directly:</i>				
BSPF (Property) Limited	1	100%	Property investment	Jersey
BSPF (Property 2) Limited	1	100%	Property investment	Jersey
BSPF (Property 3) Limited	1	100%	Property investment	Jersey
BSPF (Property 4) Limited	1	100%	Property investment	Jersey
BSPF (Property 5) Limited	1	100%	Property investment	Jersey
BSPF (Property 6) Limited	1	100%	Property investment	Jersey
BSPF Project 1 EAD	17,252	100%	Property investment	Bulgaria
BSPF Project 4 EAD	17,552	100%	Property investment	Bulgaria
BSPF Bulgaria EAD	23,952	100%	Investment property adviser	Bulgaria
<i>Held indirectly:</i>				
BSPF Magnolia EAD	17,194	100%	Property investment	Bulgaria
BSPF Tchernomore EAD	19,585	100%	Property investment	Bulgaria
BSPF Super Borovetz EAD	17,522	100%	Property investment	Bulgaria

BSPF (Property 3) Limited and BSPF (Property 6) Limited are both dormant companies.

8. Other receivables

	2012	2011
	£	£
Bank and deposit interest receivable	112	112
Prepayments and accrued income	36,121	47,385
Other debtors	15,244	26,729
	51,477	74,226

All amounts are due within one year.

9. Other payables

	2012	2011
	£	£
Trade payables	12,842	40,818
Accruals	29,595	51,185
	42,437	92,003

None of the amounts are past due or impaired.

THE BLACK SEA PROPERTY FUND LIMITED
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Notes to the Consolidated Financial Statements (continued)

10. Issued share capital

	2012	2011
Authorised:	Number	Number
Founder shares of no par value	10	10
Ordinary shares of no par value	Unlimited	Unlimited
Issued and fully paid:	£	£
2 founder shares of no par value	-	-
213,112,896 (2011: 213,112,896) ordinary shares of no par value	<u>46,478,064</u>	<u>46,478,064</u>
	<u>46,478,064</u>	<u>46,478,064</u>

There was no movement in stated capital during the year or prior 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 Directors consider capital to be the net assets of the Group.

In accordance with the resolution passed at the annual general meeting held on 28 June 2012, any proceeds of sale of the property portfolio will be returned to shareholders as determined by the Board and distributions may be made by way of a dividend or a redemption or repurchase of ordinary shares, at the Board of Directors' discretion.

11. Loss and Net Asset Value per share

The loss per ordinary share of 3.81 pence (2011: 0.52 pence) is based on the loss for the year of £8,127,230 (2011 loss: £1,097,622) and on the weighted average number of ordinary shares in issue of 213,112,896 (2011: 213,112,896).

There is no difference between diluted and undiluted earnings per share.

The net asset value per ordinary share of 2.1 pence (2011: 7.0 pence) is based on the net assets attributable to ordinary shareholders, divided by 213,112,896 (2011: 213,112,896) being the number of outstanding ordinary shares in issue at the year end.

THE BLACK SEA PROPERTY FUND LIMITED
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Notes to the Consolidated Financial Statements (continued)

12. Segmental analysis

IFRS 8 Operating Segments requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segments and to assess their performance.

Other than the previous investments in money market funds in the UK, the Group is organised into one main operating and reporting segment focusing on investment in the Bulgarian property market (see Note 6).

No additional disclosure is included in relation to segmental reporting as the Group's activities are limited to one operating and reporting segment.

13. Contingencies and Commitments

There are no contingencies or commitments outstanding at 31 December 2012.

14. 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 considers risks applicable to the portfolio. 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.

Market price sensitivity

The table below details the Group's sensitivity to a 5% decrease in the value of financial instruments available for sale. The analysis is performed on the same basis for 2011.

	2012	2011
	£	£
Obzor	30,154	91,516
	<u>30,154</u>	<u>91,516</u>

THE BLACK SEA PROPERTY FUND LIMITED
Annual report and consolidated financial statements for the year ended 31 December 2012

Notes to the Consolidated Financial Statements (continued)

14. Financial risk management objectives and policies (continued)

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 GBP	Euro	Bulgarian LEV	Total
	£	£	£	£
As at 31 December 2012				
Financial instruments				
Available for sale	-	-	-	-
Other receivables	16,680	-	34,797	51,477
Cash and cash equivalents	520,675	977,305	77,300	1,575,280
Other payables	(21,085)	(8,511)	(12,841)	(42,437)
Tax payable				
Net exposure	<u>516,270</u>	<u>968,794</u>	<u>99,256</u>	<u>1,584,320</u>
As at 31 December 2011				
Financial instruments				
Available for sale	-	343,000	-	343,000
Other receivables	26,680	-	47,546	74,226
Cash and cash equivalents	2,756,747	175,218	200,554	3,132,519
Other payables	(41,815)	-	(50,188)	(92,003)
Net exposure	<u>2,741,612</u>	<u>518,218</u>	<u>197,912</u>	<u>3,457,742</u>

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 2011.

	2012		2011	
	Euro	Bulgarian LEV	Euro	Bulgarian LEV
	£	£	£	£
Financial instruments	<u>48,440</u>	<u>4,963</u>	<u>25,911</u>	<u>9,896</u>
Effect on comprehensive income	<u>(48,440)</u>	<u>(4,963)</u>	<u>(25,911)</u>	<u>(9,896)</u>

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.

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Notes to the Consolidated Financial Statements (continued)

14. Financial risk management objectives and policies (continued)

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 2012. The interest rate profile of the Group's financial instruments excluding other receivables was as follows:

	Variable rate £	Non-interest bearing £
As at 31 December 2012		
Available for sale assets	-	-
Other payables	-	(42,437)
Euro cash deposit	977,305	-
Bulgarian Lev cash deposit	77,300	-
Sterling GBP cash deposit	520,675	-
	<u>1,575,280</u>	<u>(42,437)</u>
As at 31 December 2011		
Available for sale assets	-	343,000
Other payables	-	(92,003)
Euro cash deposit	175,218	-
Bulgarian Lev cash deposit	200,554	-
Sterling GBP cash deposit	2,756,747	-
	<u>3,132,519</u>	<u>250,997</u>

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 £15,753 (2011: £31,325). 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 2012, 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:

	On demand	< 1 year £	Total £
As at 31 December 2012			
Cash and cash equivalents	-	1,575,280	1,575,280
Available for sale assets	-	-	-
Other payables	-	(42,437)	(42,437)
	<u>-</u>	<u>1,532,843</u>	<u>1,532,843</u>
As at 31 December 2011			
Cash and cash equivalents	-	3,132,519	3,132,519
Available for sale assets	343,000	-	343,000
Other payables	-	(92,003)	(92,003)
	<u>343,000</u>	<u>3,040,516</u>	<u>3,383,516</u>

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Notes to the Consolidated Financial Statements (continued)

14. 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, available for sale assets, 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.

No significant credit risk is recognised in respect of 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:

	2012	2011
	£	£
Amounts held with a credit rating of A or above	526,152	2,762,224
Amounts held with a credit rating of B or above	1,049,128	370,295
Amounts held with a credit rating less than B	-	-
Cash and cash equivalents as at 31 December	<u>1,575,280</u>	<u>3,132,519</u>

The Group's credit risk is primarily attributable to loans and receivables and available for sale assets from third parties. The Board monitors each balance according to the individual characteristics of each project, and when necessary consults with an outsourced real estate consultant to evaluate whether there is any impairment. There is currently no credit risk on investment loans which have been provided for in full and receivables are due within one year and no amounts are overdue.

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 2012 was as follows:

	2012		2011	
	Statement of financial position	Maximum exposure	Statement of financial position	Maximum exposure
Non-current assets	£	£	£	£
Cash	1,575,280	1,575,280	3,132,519	3,132,519
Available for sale assets	<u>603,088</u>	<u>603,088</u>	<u>1,830,328</u>	<u>1,830,328</u>
	<u>2,178,368</u>	<u>2,178,368</u>	<u>4,962,847</u>	<u>4,962,847</u>

The available for sale assets are carried at fair value and hence the amounts in the table above reflect the maximum exposure to this risk.

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Notes to the Consolidated Financial Statements (continued)

15. Events after the reporting period

There have been no significant events since 31 December 2012 which affect the financial position or performance as disclosed in these financial statements.

16. Special dividend

On 7 December 2012, the Company paid a special dividend to ordinary shareholders of £2,663,912 (2011: £2,131,130) in accordance with Article 115 of Companies (Jersey) Law 1991.

17. Related Party Transaction

The key management personnel costs paid are disclosed in Note 3. As at 31 December 2012 there were no unpaid amounts.

18. Directors' Interests

Total compensation paid to the Directors during the period was £121,291 (2011: £130,252).

Mr Stephen Coe currently holds 45,000 ordinary shares in The Black Sea Property Fund Limited, which represents less than 0.1% of the issued share capital. No other current Director has an interest in the share capital of the Group.

19. Ultimate controlling party

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

20. Company Domicile

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

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Corporate information

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Administrator

Saltgate Limited
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St. Helier
Jersey, CI
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