

THE BLACK SEA PROPERTY FUND LIMITED

Interim Report and Condensed Consolidated Financial Statements

for the period ended 30 June 2011

THE BLACK SEA PROPERTY FUND LIMITED
Interim report and condensed consolidated financial statements for the period ended 30 June 2011

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THE BLACK SEA PROPERTY FUND LIMITED

Interim report and condensed consolidated financial statements for the period ended 30 June 2011

Chairman's Statement

Dear Shareholders:

Black Sea's net asset value per share as at 30 June 2011 was 9 pence as compared with 8.7 pence as at year end. The appraised value of Black Sea's portfolio as well as the appraised value of each asset are about the same as they were at the end of December. Measured in Sterling the appraised value of our property portfolio was £13.28 million as compared with £12.66 million as at year end. Measured in Euros the appraised value of our property portfolio was €14.70 million as compared with €14.71 million at year end. At period end we also held slightly in excess of £5.5 million in cash. Our running costs are about £600,000 annually. Our objectives are to keep our costs in line while meeting our responsibilities as a public company, realize assets and return cash to shareholders.

The economic environment in general in Bulgaria and especially in the property sector remains challenging. Bulgarian real GDP growth seems to have hit bottom in 2009 at negative 5.5% as compared with the prior year, was flat for 2010, and is expected to show growth of 2.5% year over year in 2011 and 3.5% in 2012. Foreign direct investment peaked in early 2007 and has been on a downward trend ever since with 2010 FDI expected to be about the same as it was in 2002.

Black Sea is primarily invested in the holiday sector and that market segment has been in a depression for several years. This is a reflection of excess supply coupled with weak demand, primarily a function of the economic difficulties in the UK, Ireland, and western Europe. According to Colliers, there are over 110,000 holiday homes on the market in Bulgaria. Sales are few and the supply of inventory continues to increase though at lower rates than previously. The increase in supply is almost entirely a function of developments started several years ago and now reaching completion. There has been virtually no new construction in the holiday sector for some time.

We continue, albeit slowly, to sell units in Obzor. In the last six months we have sold 3 units and received £120,314. Forty units remain unsold. Activity with respect to our other assets has been subdued primarily because of the factors mentioned above. Evergreen, zoned for residential in Sofia, has attracted some interest from speculators trolling for bargains. Our two largest assets, Borovets and Byala, are dormant. Those assets were intended to piggy back on much larger projects other developers envisioned for adjacent space. The larger projects have not gotten off the ground and this has affected the marketability of our assets. Pamporova, which is carried at nil, remains mired in litigation. That investment was structured as a loan with Black Sea holding a second mortgage and a Greek bank holding the first mortgage. The developer has been in default on his obligations since soon after the investment was made, and the Greek bank has now begun foreclosure proceedings. Nikea remains problematic as well. As I noted in our last report, we prevailed in litigation over our developer/partner and took possession of 84 units in that development. The developer however remains involved with Nikea because he continues to own commercial facilities in that development as well as some units. The arrangement is unsatisfactory and there are issues with upkeep and maintenance. We carry Nikea at £2.7 million.

I look forward to writing to you at year end.

Respectfully yours,

John D. Chapman
Chairman
The Black Sea Property Fund Limited

29 September 2011

Independent Review Report to the Members of The Black Sea Property Fund Limited

Introduction

We have been engaged by the company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2011 which comprises 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.

We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

Directors' responsibilities

The interim report, including the financial information contained therein, is the responsibility of and has been approved by the directors. The directors are responsible for preparing the interim report in accordance with the rules of the London Stock Exchange for companies trading securities on AIM which require that the half-yearly report be presented and prepared in a form consistent with that which will be adopted in the company's annual accounts having regard to the accounting standards applicable to such annual accounts.

Our responsibility

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

Our report has been prepared in accordance with the terms of our engagement to assist the company in meeting the requirements of the rules of the London Stock Exchange for companies trading securities on AIM and for no other purpose. No person is entitled to rely on this report unless such a person is a person entitled to rely upon this report by virtue of and for the purpose of our terms of engagement or has been expressly authorised to do so by our prior written consent. Save as above, we do not accept responsibility for this report to any other person or for any other purpose and we hereby expressly disclaim any and all such liability.

Scope of review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2011 is not prepared, in all material respects, in accordance with the rules of the London Stock Exchange for companies trading securities on AIM.

Emphasis of Matter

Without qualifying our conclusion, we draw attention to Note 2 to the condensed consolidated financial statements, which describes the uncertainties in relation to the group's investment properties which are included in the European Union's NATURA 2000 network of sites, assigned for protection of certain species and habitats. The impact of the legislation is not yet known and may have an adverse effect on future valuations if the group's investment properties are ultimately affected.

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

29 September 2011

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

THE BLACK SEA PROPERTY FUND LIMITED
Interim report and condensed consolidated financial statements for the period ended 30 June 2011

Consolidated Statement of Comprehensive Income

		(Unaudited) 6 months to 30 June 2011	Restated (Unaudited) 6 months to 30 June 2010	(Audited) Year to 31 December 2010
	<i>Notes</i>	£	£	£
Total revenue		-	-	-
Gain on disposal of investment property		-	14,061	44,586
Revaluation of investment property		(8,560)	(2,034,134)	(1,485,099)
Net loss on investment property		(8,560)	(2,020,073)	(1,440,513)
Total loss		(8,560)	(2,020,073)	(1,440,513)
Operating expenses		(408,091)	(724,652)	(1,050,397)
Foreign exchange gains / (losses)		431,730	(611,623)	(285,543)
Net recovery of loans		-	-	1,742,460
Operating profit / (loss) before interest and tax		15,079	(3,356,348)	(1,033,993)
Interest receivable		118,856	188,164	354,141
Interest payable and other charges		(1,467)	(2,300)	(4,013)
Profit / (loss) before tax		132,468	(3,170,484)	(683,865)
Tax expense	3	(110,120)	(110,126)	(220,198)
Profit / (loss) for the period / year after tax		22,348	(3,280,610)	(904,063)
Other comprehensive income				
Gains / (losses) on translation of foreign operations		350,125	(1,930,108)	(975,823)
Gain / (loss) in fair value of available for sale assets	5(c)	121,973	(383,684)	(205,024)
Total comprehensive gain / (loss) for the period / year		494,446	(5,594,402)	(2,084,910)
Earnings per share				
Basic profit / (loss) per share (pence)	4	0.0	(1.5)	(0.4)
Diluted profit / (loss) per share (pence)	4	0.0	(1.5)	(0.4)

All losses for the period and total comprehensive income are attributable to the owners of the parent.

The notes on pages 8 to 15 are an integral part of these condensed consolidated financial statements.

THE BLACK SEA PROPERTY FUND LIMITED
Interim report and condensed consolidated financial statements for the period ended 30 June 2011

Consolidated Statement of Financial Position
As at 30 June 2011

	(Unaudited)	Restated (Unaudited)	(Audited)
	30 June 2011	30 June 2010	31 December 2010
Notes	£	£	£
Non-current assets			
Plant and equipment	103,653	115,423	107,842
Investment properties	5(a) 11,179,959	7,335,637	10,663,666
Available for sale assets	5(c) 2,104,423	2,321,416	2,002,632
	<u>13,388,035</u>	<u>9,772,476</u>	<u>12,774,140</u>
Current assets			
Other receivables	359,019	64,303	326,997
Cash and cash equivalents	5,567,288	5,572,617	5,918,831
	<u>5,926,307</u>	<u>5,636,920</u>	<u>6,245,828</u>
Total assets	<u>19,314,342</u>	<u>15,409,396</u>	<u>19,019,968</u>
Equity and liabilities			
Issued share capital	46,478,064	46,478,064	46,478,064
Retained deficit	(26,334,838)	(28,733,733)	(26,357,186)
Foreign exchange reserve	(694,727)	(1,999,137)	(1,044,852)
Available for sale reserve	(352,774)	(653,407)	(474,747)
Total equity	<u>19,095,725</u>	<u>15,091,787</u>	<u>18,601,279</u>
Liabilities			
Other payables	108,517	213,196	199,816
Tax payable	110,100	104,413	218,873
	<u>218,617</u>	<u>317,609</u>	<u>418,689</u>
Total equity and liabilities	<u>19,314,342</u>	<u>15,409,396</u>	<u>19,019,968</u>
Number of ordinary shares in issue	213,112,896	213,112,896	213,112,896
Net asset value per ordinary share (pence)	6 9.0	7.1	8.7

The financial statements on pages 4 to 15 were approved and authorised for issue by the Board of Directors on 29 September 2011 and were signed on its behalf by:

Director Antony Gardner-Hillman

Director Andrew Wignall

The notes on pages 8 to 15 are an integral part of these condensed consolidated financial statements.

THE BLACK SEA PROPERTY FUND LIMITED
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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 2011	46,478,064	(26,357,186)	(1,044,852)	(474,747)	18,601,279
Profit for the period	-	22,348	-	-	22,348
Other comprehensive income	-	-	350,125	121,973	472,098
At 30 June 2011	<u>46,478,064</u>	<u>(26,334,838)</u>	<u>(694,727)</u>	<u>(352,774)</u>	<u>19,095,725</u>
At 1 January 2010	46,478,064	(19,453,995)	(69,029)	(269,723)	26,685,317
<i>As previously reported:</i>					
Special dividend (Note 7)	-	(5,999,128)	-	-	(5,999,128)
Loss for the period	-	(6,613,134)	-	-	(6,613,134)
Other comprehensive income	-	-	1,097,313	-	1,097,313
<i>Prior period adjustments (Note 1(b)):</i>					
<i>Available for sales assets:</i>					
Notional interest	-	145,032	-	-	145,032
Movement on fair value	-	-	160,071	(383,684)	(223,613)
<i>Foreign exchange:</i>					
Other comprehensive income	-	3,187,492	(3,187,492)	-	-
At 30 June 2010	<u>46,478,064</u>	<u>(28,733,733)</u>	<u>(1,999,137)</u>	<u>(653,407)</u>	<u>15,091,787</u>
As restated at 1 January 2010	46,478,064	(19,453,995)	(69,029)	(269,723)	26,685,317
Special dividend (Note 7)	-	(5,999,128)	-	-	(5,999,128)
Loss for the year	-	(904,063)	-	-	(904,063)
Other comprehensive income	-	-	(975,823)	(205,024)	(1,180,847)
At 31 December 2010	<u>46,478,064</u>	<u>(26,357,186)</u>	<u>(1,044,852)</u>	<u>(474,747)</u>	<u>18,601,279</u>

The notes on pages 8 to 15 are an integral part of these condensed consolidated financial statements.

THE BLACK SEA PROPERTY FUND LIMITED
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Consolidated Statement of Cashflows

	(Unaudited) 6 months to 30 June 2011	Restated (Unaudited) 6 months to 30 June 2010	(Audited) Year to 31 December 2010
Notes	£	£	£
Operating activities			
Profit / (loss) before tax for the period / year	22,348	(3,280,610)	(904,063)
Depreciation	4,773	5,733	11,414
Gain on disposal of investment property	-	(14,061)	(44,586)
Revaluation of investment property	(8,560)	2,034,134	1,485,099
Foreign exchange (gains) / losses	(431,730)	611,623	285,543
Net recovery of loans	-	-	(1,742,460)
Interest receivable	(118,856)	(188,164)	(354,141)
Finance expense	1,467	2,300	4,013
Tax expense	110,120	110,126	220,198
Movement in net cash outflow from operating activities	(420,438)	(718,919)	(1,038,983)
(Increase) / decrease in other receivables	(32,022)	1,901,464	1,638,770
(Decrease) / increase in other payables	(91,299)	20,288	6,908
Withholding tax paid	(218,893)	(211,137)	(206,749)
Net cash (outflow) / inflow from operating activities	(762,652)	991,696	399,946
Investing activities			
Additions to investment properties	-	(55,425)	(221,681)
Acquisition of plant and equipment	(805)	(1,034)	(734)
Proceeds on disposal of investment property	-	60,332	145,030
Recovery of loans and receivables	-	-	311,222
Cash received on available for sale assets	5(c) 120,314	340,570	983,046
Net cash inflow from investing activities	119,509	344,443	1,216,883
Financing activities			
Interest received	18,724	43,132	64,077
Interest paid	(1,467)	(2,300)	(4,013)
Special dividend	7 -	(5,999,128)	(5,999,128)
Net cash inflow / (outflow) from financing activities	17,257	(5,958,296)	(5,939,064)
Net decrease in cash and cash equivalents	(625,886)	(4,622,157)	(4,322,235)
Cash and cash equivalents at beginning of period / year	5,918,831	11,127,836	11,127,836
Effect of foreign exchange rates	274,343	(933,062)	(886,770)
Cash and cash equivalents at end of period / year	5,567,288	5,572,617	5,918,831

The notes on pages 8 to 15 are an integral part of these condensed consolidated financial statements.

Notes to the Condensed Consolidated Financial Statements

1. Accounting policies

(a) Basis of preparation

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

The condensed consolidated interim financial statements of the Company for the period ended 30 June 2011 comprise the financial statements of the Company and its subsidiaries (together, the "Group") and have been prepared in accordance with the rules of the London Stock Exchange for companies trading securities on AIM.

The condensed consolidated interim financial statements do not include all of the information and disclosures required for full annual financial statements.

They should be read in conjunction with the Annual Report and Audited Consolidated Financial Statements for the year ended 31 December 2010, which were 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). These annual financial statements are available to download from www.blackseapropertyfund.com.

The condensed consolidated interim financial statements for the current and comparative period 30 June 2010 are unaudited. The comparatives for 31 December 2010 are audited and received a qualified opinion arising from limitation of scope over the comparative figures as in 2009 the directors applied a 30% discount (representing £1,957,413) on the valuation derived by the external valuer on the property at Byala. The 2009 audit report was qualified as the directors were unable to provide sufficient appropriate audit evidence as regards the carrying amount of this investment property. Any adjustment to the amounts included in the balance sheet in respect of this property as at 31 December 2009 would have a consequential effect on the loss for the year ended 31 December 2010.

Without further qualifying the audit opinion, the auditors raised an emphasis of matter relating to the uncertainties over the group's investment properties which are included in the European Union's NATURA 2000 network of sites, assigned for protection of certain species and habitats. The impact of the legislation is not yet known and may have an adverse effect on future valuations if the group's investment properties are ultimately affected. In the prior period to 30 June 2010, the directors applied a 30% discount (representing £1,057,760) on the valuation derived by the external valuer on the property at Byala. The directors did not consider that such an adjustment was required at 31 December 2010 nor 30 June 2011.

The accounting policies applied by the Group in preparing the condensed consolidated financial statements for the period ended 30 June 2011 are consistent with those applied by the Group in its audited consolidated financial statements for the year ended 31 December 2010.

Notes to the Condensed Consolidated Financial Statements

1. Accounting policies (continued)

(b) Prior period restatement

The following prior period adjustments have been included in the condensed consolidated financial statements for the period ended 30 June 2010.

Accounting for available for sale asset

In July 2009 the Company renegotiated the terms of a loan agreement due from the developer of the properties in Obzor, and continued to account for this asset as a loan and receivable at amortised cost. On reconsideration of this accounting treatment it has been determined that the renegotiation of the asset resulted in a reclassification of the asset, which has been accounted for as an available for sale asset.

	30 June 2010
	£
Loan and receivable as previously reported	1,038,271
Reversal of final impairment loss in 2009	1,472,817
Total notional interest receivable to 30th June 2010	303,664
Total movement in fair value on AFS assets to 30th June 2010	<u>(493,336)</u>
Available for sale financial asset at 30 June 2010 as restated	<u><u>2,321,416</u></u>

As a result of this reclassification the following amendments have been made to the results of the six month period to 30 June 2010 and to the results for the year ended 31 December 2009 (which impact the six month period to 30 June 2010):

- There has been a reversal of the impairment provision which had been recognised prior to the year ended 31 December 2009 of £1,472,817.
- Notional interest of £145,032 has been charged in the six month period to 30 June 2010 in accordance with International Accounting Standard 39. This is in addition to notional interest charged in 2009 of £158,632 (see note 1(q) of the audited annual financial statements for the year ended 31 December 2010). The total notional interest charged to 30 June 2010 is therefore £303,664 compared to £nil as previously reported.
- The financial asset has been valued at fair value resulting in a loss of £383,684 in the six month period to 30 June 2010 which is recognised in other comprehensive income. This is in addition to the loss of £269,723 already recognised in 2009 (see note 1(q) of the audited annual financial statements for the year ended 31 December 2010). After adjusting for a gain on foreign exchange of £160,071 the total loss on movement in fair value up to 30 June 2010 is £493,336.

The impact of this prior period adjustment increased reported net assets by £1,283,145, decreased the reported loss for the six month period by £145,032 and decreased other comprehensive income by £223,613.

There was no impact on the cash flow statement in the six month period to 30 June 2010 other than reclassification to show the impact of cash received on available for sale assets.

Notes to the Condensed Consolidated Financial Statements

1. Accounting policies (continued)

(b) Prior period restatement (continued)

Reclassifications of other items within the financial statements

Reclassification of foreign exchange movements in prior year

Foreign exchange movements in the six month period to 30th June 2010 were incorrectly allocated between 'Loss for the year' and 'Other Comprehensive Income'. These classifications have been reconsidered, and a credit of £2,090,197 (rather than a debit of £1,097,313) has been reallocated on the face of the Consolidated Statement of Income and is shown as a transfer to the Foreign Exchange reserve in the Consolidated Statement of Equity. The total reclassification to the Consolidated Statement of Equity is therefore £3,187,492.

This had no impact on net assets, total comprehensive income or cash flow as reported in the six month period ended 30 June 2010.

Reclassification of other operating expenses and current tax in prior year

It has been identified that £120,203 of expenditure in relation to rates and local authority charges were incorrectly allocated to 'Tax' in the Consolidated Statement of Comprehensive Income' in the financial statements to 30 June 2010.

This error has been restated in the primary statements but has had no impact on net assets, total comprehensive income or cash flow as reported in the six month period to 30 June 2010.

(c) Changes in accounting policies and disclosures

There are no changes in accounting policies, presentation and methods of computation in the condensed consolidated financial statements which have arisen as a result of new standards, amendments or interpretations to published standards effective for the first time in the accounting period under review.

There are no changes in accounting standards which are expected to have a significant or material impact on the condensed consolidated financial statements for the six month period ended 30 June 2010.

THE BLACK SEA PROPERTY FUND LIMITED

Interim report and condensed consolidated financial statements for the period ended 30 June 2011

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 bi-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 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 low volume of transactions has continued. Therefore, in arriving at their estimates of market values at each period 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.

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.

There are uncertainties in relation to the Group's investment properties which are included in the European Union's NATURA 2000 network of sites, assigned for protection of certain species and habitats. The impact of the legislation is not yet known and may have an adverse effect on future valuations if the Group's investment properties are ultimately affected. In the prior period to 30 June 2010, the directors applied a 30% discount (representing £1,057,760) on the valuation derived by the external valuer on the property at Byala. The directors did not consider that such an adjustment was required at 31 December 2010 nor 30 June 2011.

Borovets Lakes, Byala Land and Nikea Park

The Market Comparison Method has been used to value investment property in Borovetz Lakes and Byala as there is no approved concept design and future development is uncertain. The values were determined by reference (with necessary adjustments) to observable asking prices .

Evergreen, Sofia

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.

Available for sale assets - *Obzor*

The Income Approach has been used to value the Company's interest in the apartments in Obzor on the basis of the contractual relationship with Black Sea Investment Trust AD (owner of the property).

THE BLACK SEA PROPERTY FUND LIMITED
Interim report and condensed consolidated financial statements for the period ended 30 June 2011

Notes to the Consolidated Financial Statements (continued)

3. Taxation

Withholding tax is charged at 20% on the interest receivable on loans from the Company to its Bulgarian subsidiaries resulting in a charge of £110,120 for the six month period ended 30 June 2011 (30 June 2010 (restated) £110,126 at 20%, and for the year ended 31 December 2010 £220,198) representing the best estimate of the average annual effective tax rate expected for the full year.

4. Earnings per share

	30th June 2011	Restated 30th June 2010	31st December 2010
	£	£	£
Profit / (loss) for the period/year	22,348	(3,280,610)	(904,063)
Weighted average no. of ordinary shares	213,112,896	213,112,896	213,112,896
Diluted no. of ordinary shares	213,112,896	213,112,896	213,112,896
Profit / (loss) per ordinary share (pence)	0.0	(1.5)	(0.4)

The profit/(loss) per ordinary share is based on the profit/(loss) for the period/year and on the weighted average number of ordinary shares in issue.

The diluted profit/(loss) per ordinary share was based on the profit/(loss) for the period and the diluted number of ordinary shares in issue. There is no difference between diluted and undiluted earnings per share as there are no share options.

5. 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

The valuations of the individual investment properties are as follows.

	30th June 2011	30th June 2010	31st December 2010
	£	£	£
Borovets Lakes	2,856,943	2,824,093	2,712,247
Byala	3,657,831	2,468,106	3,536,374
Evergreen	1,932,476	1,810,381	1,789,806
Nikea Park	2,732,709	233,057	2,625,239
	11,179,959	7,335,637	10,663,666

There have been no additions, disposals nor significant developments at the above investment properties in the six month period to 30 June 2011. The changes in the valuations over the period are mainly attributed to foreign exchange movements.

THE BLACK SEA PROPERTY FUND LIMITED

Interim report and condensed consolidated financial statements for the period ended 30 June 2011

Notes to the Condensed Consolidated Financial Statements (continued)

5. Investing activities (continued)

(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 Company acquired a total of 106 apartment units when it called in security on the original loan agreement with the third party developer. In 2010, 22 of these 106 units were sold for a total consideration of Euro 531,298 (£456,252) and net gain of £44,586 to the Group.

Prior to conclusion of the legal proceedings an auction was held in November 2010 in order to sell 16 apartments. These 16 units were not held as legal property and the net proceeds of Euro 362,648 (£311,222) have therefore been presented as amounts recovered against the previously impaired loan. The remaining 90 units with a market value of Euro 1,667,736 (£1,435,476) became the property of the Group and recognised in investment property at 31st December 2010 and the impairment provision recognised in earlier periods was reversed.

During 2010, a further 6 of the 106 units were sold for a total consideration of £145,030 and resulted in a net gain of £44,586 to the Group. No further sales have occurred in 2011 and the Company continues to own the remaining 84 units. In May 2011, a formal agreement was reached whereby the Group and developer released each other from any future claims.

There have been no significant further developments at Nikea Park in the six month period to 30 June 2011.

Magnolia, Pamporovo

The impairment in 2009 related to loans from the Group to Magnolia Holidays EAD due to significant uncertainty over the outcome of litigation, which continues to be ongoing.

The loan to Magnolia Holidays EAD is fully provided against and no interest is being accrued as, in the opinion of the directors, there remain significant doubts concerning its recoverability.

There have been no significant further developments at Pamporovo in the six month period to 30 June 2011.

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Interim report and condensed consolidated financial statements for the period ended 30 June 2011

Notes to the Condensed Consolidated Financial Statements (continued)

5. Investing activities (continued)

(c) Available for sale financial assets

	30th June 2011	Restated 30th June 2010	31st December 2010
	£	£	£
At 1 January	2,002,632	2,900,638	2,900,638
Cash receipts on sale of AFS assets	(120,314)	(340,570)	(983,046)
Notional interest receivable	100,132	145,032	290,064
Movement in fair value on AFS assets	121,973	(383,684)	(205,024)
	<u>2,104,423</u>	<u>2,321,416</u>	<u>2,002,632</u>

Obzor

The period to 30 June 2010 has been restated as the loan and receivable to Black Sea Investment Trust EAD has been reclassified as an available for sale asset (see Note 1(b)).

A revised agreement was signed in June 2009 which governs the flow of revenues expected from the sales of 86 apartment units and was subsequently amended on 1 January 2011. Marketing fees are no longer applicable and, in return, the Company'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.

From 1 January 2011, monthly marketing fees are no longer payable in relation to the sale of the Obzor apartments. Previously, marketing fees charged in the year to 31 December 2010 amounted to £132,376 (six month to 30 June 2010: £70,154).

Following the latest amendment to the agreement, the Company will be required to acquire any unsold properties at 31 December 2012 (and will be liable for VAT and expenses on transfer) in return for the remainder of the loan being written off.

There are currently 40 unsold units and the Company's share of the property portfolio was valued at Euro 2,330,221 (£2,104,423) at 30 June 2011, compared with 43 apartments held at 31 December 2010 (54 apartments at 30 June 2010) and valued at Euro 2,326,658 or £2,002,632 (June 2010: Euro 2,828,646 or £2,321,416).

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

6. Net Asset Value per share

	30th June 2011	Restated 30th June 2010	31st December 2010
	£	£	£
Total equity	19,095,725	15,091,787	18,601,279
Number of ordinary shares	213,112,896	213,112,896	213,112,896
Net asset value per ordinary share (pence)	9.0	7.1	8.7

The net asset value per ordinary share is based on the net assets attributable to ordinary shareholders, divided by the number of outstanding ordinary shares in issue at the period/year end.

7. Special dividend

On 23 June 2010, the Company paid a special dividend to Ordinary Shareholders of £5,999,128 in accordance with Article 115 of Companies (Jersey) Law 1991.

No dividend has been declared or paid in the six month period to 30 June 2011.

8. Segmental analysis

The Group is organised into one main operating and reporting segment focusing on investment in the Bulgarian property market (see Note 5).

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

9. Events after the reporting period

There have been no significant events since 30 June 2011 which impact the financial position or performance as disclosed in these financial statements.

THE BLACK SEA PROPERTY FUND LIMITED

Interim report and condensed consolidated financial statements for the period ended 30 June 2011

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