

---

**THE BLACK SEA PROPERTY FUND LIMITED**

**Interim Report and Condensed Consolidated Financial Statements**

**for the period ended 30 June 2010**

---

**TABLE OF CONTENTS**

	<u>Pages</u>
Chairman's Statement	2 to 3
Independent Review Report	4 to 5
Condensed Consolidated Statement of Comprehensive Income	6
Condensed Consolidated Statement of Financial Position	7
Condensed Consolidated Statement of Changes in Equity	8
Condensed Consolidated Statement of Cashflows	9 to 10
Notes to the Condensed Consolidated Financial Statements	11 to 20
Corporate Information	21

## THE BLACK SEA PROPERTY FUND LIMITED

---

### Interim report and condensed consolidated financial statements for the period ended 30 June 2010

#### Chairman's Statement

Bulgaria remains deeply mired in recession and the rest of the world has little appetite for holiday property. These facts are reflected in the decline in our net asset value. Our NAV per share as at 30 June 2010 was 6.5pence as compared with 9.1pence as at 31 December 2009 (adjusted for the distribution of 2.815 pence per share paid on 23 June 2010). The reason for this decline is a reduction in the value of our assets and a strengthening of Sterling as against the Euro.

Some highlights of the last six months are the stabilization of our costs(excluding legal fees) with the internalization of management at the board level and a wholly owned advisor in Sofia. We have made no new investments over the last six months and instead are focusing on selling assets and recovering our investments in Nikea Park and Magnolia, which have been the subject of long running lawsuits. Our cash position as at 30 June 2010 is £5.6 million.

The 30 June 2010 carrying value of our assets in Euro and Sterling as compared with our total investment at cost, our 2009 year end and 30 June 2009 valuations are as follows:

	30 June 2010	30 June 2009	31 December 2009	Total investment & capitalised costs
	€	€	€	€
Borovets Lakes	3,441,157	5,530,654	4,599,201	10,968,173
Byala	3,007,388	5,425,192	5,145,974	9,843,360
Evergreen	2,205,949	2,392,415	2,258,226	4,132,407
Nikea Park	283,980	-	357,197	4,489,607
Obzor	1,265,133	4,866,665	1,733,892	5,079,726
Pamporovo (Magnolia)	-	-	-	6,936,096
	£	£	£	£
Borovets Lakes	2,824,093	4,700,542	4,082,010	7,678,421
Byala	2,468,106	4,610,909	4,567,297	7,279,612
Evergreen	1,810,381	2,033,330	2,004,550	2,825,588
Nikea Park	233,057	-	317,029	3,534,532
Obzor	1,038,271	4,136,210	1,538,912	4,060,041
Pamporovo (Magnolia)	-	-	-	5,456,739

We are continuing to make progress selling units at Obzor. Since January, ten more units have been sold with five of those ten units paid in full. Shareholders will recall that the arrangement with the Obzor developer was restructured about a year ago. Since then thirty-two units have been sold and we have received €3,722,206. As of 30 June 2010, fifty-four units comprising 5,658 m<sup>2</sup> remain unsold. The market remains Russian, and our marketing efforts are directed entirely at the Russian market.

Progress has also been made at Nikea Park. Shareholders will recall that our development partner defaulted on his obligations to repay Black Sea and that Black Sea then commenced legal action to recover its investment. The court has issued a judgment in favour of Black Sea, and under Bulgarian legal procedure the asset is being put up for auction next month to repay the defaulted obligation. We expect to be able to inform you of the results of the auction when we publish our year end results.

**Interim report and condensed consolidated financial statements for the period ended 30 June 2010**

**Chairman's Statement - continued**

With respect to our other assets:

The appraised value of Evergreen has fallen by about ten percent in keeping with a similar decline of asset prices in its vicinity. Evergreen is a serviced and zoned property in a prime Sofia location. We believe it remains a valuable asset and we have received purchaser inquiries about its sale, though not at prices we find attractive. Magnolia remains mired in lawsuits that commenced three years ago when Black Sea's development partner defaulted on his obligations to Black Sea. Because of the unpredictability of the Bulgarian legal process we continue to carry this asset at nil. We have written down the value of our investment in Borovets Lakes to £2.8 million. This is a reflection of the fall in asset values in the Borovets/Samokov area. Shareholders will recall this land is in the vicinity of the Borovets ski area. The Government's plan was to expand the ski area with a lot of new investment including something called "Super Borovets." Those plans are now on hold, which has affected the price of land in the area. The value of the Byala land has fallen to £2.5 million. The Byala land is unzoned and unserviced. The original plan was for an upscale holiday development at Byala that would ride on the coattails of another similar project on an adjacent property. Both projects have now been mothballed. We are also continuing to monitor the situation with respect to Natura 2000, and initial provisional findings indicate that this legislation should not unduly block Byala's development, although we have maintained the thirty percent write down until we have completed the process. The external valuers will take this into account in the year end valuation.

Shareholders should keep in mind that there are very few reported transactions for assets similar to ours. Furthermore, our valuations are based on appraisals, and these appraisals are often based on asking price (as adjusted by the appraiser) rather than transactions. Consequently shareholders should not take these valuations too literally. I look forward to writing to you when we release our report for the year ended 31 December 2010.

Respectfully yours,

John D. Chapman  
Chairman  
29 September 2010

# **INDEPENDENT REVIEW REPORT TO THE BLACK SEA PROPERTY FUND LIMITED**

## **Introduction**

We have been engaged by the Company to review the condensed consolidated financial statements for the period ended 30 June 2010 which comprise the Condensed Consolidated Statement of Comprehensive Income, Condensed Consolidated Statement of Financial Position, Condensed Consolidated Statement of Changes in Equity, Condensed Consolidated Statement of Cashflows and the related notes 1 to 16. We have read the other information contained in the interim report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the Company in accordance with guidance contained in International Standard on Review Engagements 2410 (UK and Ireland) "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company, for our work, for this report, or for the conclusions we have formed.

## **Directors' Responsibilities**

The half-yearly financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half-yearly financial report in accordance with International Accounting Standard 34, "Interim Financial Reporting," as adopted by the European Union.

As disclosed in note 1, the annual financial statements of the Company and its subsidiaries (together, the "Group") are prepared in accordance with IFRSs as adopted by the European Union. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with International Accounting Standard 34, "Interim Financial Reporting," as adopted by the European Union.

## **Our Responsibility**

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

## **Scope of Review**

Except as explained in the following paragraph, 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.

## **Basis for Qualified Conclusion**

The carrying value of the investment properties owned by the Group is based on a valuation report prepared by an independent valuer. In respect to the Byala property owned by the Group's wholly owned subsidiary BSPF Project 1 EAD, management has applied a discount of 30% (representing £1,057,759) to the value derived by the external valuer to reflect the potential impact of the environmental preservation issues noted. The directors have revisited the carrying values of the Byala property within the 30 June 2009 and 31 December 2009 comparative information and have impaired them by 30% to reflect the fact that these same environmental issues impacted from the inception of the investment. We were unable to perform sufficient appropriate review procedures as regards the carrying amount of this investment property.

## **INDEPENDENT REVIEW REPORT TO THE BLACK SEA PROPERTY FUND LIMITED - (continued)**

We were also unable to perform sufficient appropriate review procedures as regards to the prior period restatement based on the same reasons.

The Group has made loans to a third party developer, Magnolia Holdings EAD. Legal action to recover amounts due to The Black Sea Property Fund Limited or to exercise the company's charge over the loan collateral, being the share capital of Magnolia Holidays EAD, is ongoing. Whilst various court rulings have been made in support of the company's position, the ultimate outcome of the legal action is not certain and accordingly the directors of the company have not been able to assess the recoverability of this loan. As a result, the loan receivable balance and accrued interest due from Magnolia Holidays EAD at 30 June 2009, 31 December 2009 and 30 June 2010 have been written off in full. We were unable to perform sufficient appropriate review procedures regarding the recoverability, and hence carrying value, of this loan balance.

The Group has also made loans to a second third party developer, Bulmix 97 Group OOD. Legal action to recover amounts due to the Black Sea Property Fund Limited or to exercise the company's charge over the loan collateral, being the Nikea Park Riviera Resort property near Varna, is ongoing. Whilst various court rulings have been made in support of the company's position, the ultimate outcome of the legal action is not certain and accordingly the directors of the company have not been able to assess the recoverability of this loan. As a result, the loan receivable balance and accrued interest due from Bulmix 97 Group OOD at 30 June 2009, 31 December 2009 and 30 June 2010 have been written off in full. We were unable to perform sufficient appropriate review procedures regarding the recoverability, and hence value, of this loan balance.

### **Qualified Conclusion**

Except for the adjustments to the interim financial information that we might have become aware of had it not been for the situations described above, based on our review, nothing has come to our attention that causes us to believe that the interim report and condensed consolidated financial statements for the period ended 30 June 2010 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union.

Ernst & Young LLP  
Jersey, Channel Islands  
30 September 2010

## THE BLACK SEA PROPERTY FUND LIMITED

### Interim report and condensed consolidated financial statements for the period ended 30 June 2010

#### Condensed Consolidated Statement of Comprehensive Income

		(Unaudited)	Restated (Unaudited)	(Audited)
		6 months to 30 June 2010	6 months to 30 June 2009	12 months to 31 December 2009
	Notes	£	£	£
Investment income		-	-	5,662
Bank interest		43,132	22,190	49,516
<b>Total revenue</b>		<b>43,132</b>	<b>22,190</b>	<b>55,178</b>
Net loss on investments held at fair value through profit or loss		-	( 718,660)	( 889,882)
Gain on disposal of investment property		14,061	-	-
Foreign exchange loss on investment property	5 (a)	( 1,670,601)	( 546,699)	( 874,502)
Revaluation of investment property	5 (a)	( 2,034,134)	( 4,324,286)	( 5,349,595)
<b>Net loss on investment property</b>		<b>( 3,690,674)</b>	<b>( 4,870,985)</b>	<b>( 6,224,097)</b>
<b>Total loss</b>		<b>( 3,647,542)</b>	<b>( 5,567,455)</b>	<b>( 7,058,801)</b>
<b>Operating expenses</b>				
Management fee	2	-	( 93,527)	( 136,212)
Other operating expenses		( 606,749)	( 468,192)	( 1,015,312)
Foreign exchange losses		( 2,128,514)	( 3,759,275)	( 1,586,692)
<b>Total operating expenses</b>		<b>( 2,735,263)</b>	<b>( 4,320,994)</b>	<b>( 2,738,216)</b>
<b>Loss before impairment</b>		<b>( 6,382,805)</b>	<b>( 9,888,449)</b>	<b>( 9,797,017)</b>
Impairment of loans and receivables	6	-	( 448,265)	( 448,265)
<b>Loss before tax</b>		<b>( 6,382,805)</b>	<b>( 10,336,714)</b>	<b>( 10,245,282)</b>
Tax expense	4	( 230,329)	( 60,927)	( 303,615)
<b>Loss for the period/year after tax</b>		<b>( 6,613,134)</b>	<b>( 10,397,641)</b>	<b>( 10,548,897)</b>
<b>Other comprehensive income</b>				
Foreign currency translation differences for foreign operations		1,097,313	414,089	( 122,324)
<b>Total comprehensive loss for the period/year</b>		<b>( 5,515,821)</b>	<b>( 9,983,552)</b>	<b>( 10,671,221)</b>
Basic (loss) per share (pence)	3	( 3.10)	( 4.88)	( 4.95)
Diluted (loss) per share (pence)	3	( 3.10)	( 4.88)	( 4.95)

The notes on pages 11 to 20 are an integral part of these condensed consolidated financial statements

Interim report and condensed consolidated financial statements for the period ended 30 June 2010

Condensed Consolidated Statement of Financial Position

As at 30 June 2010

	Notes	(Unaudited) 30 June 2010	Restated (Unaudited) 30 June 2009	(Audited) 31 December 2009
		€	€	€
<b>Non-current assets</b>				
Plant and equipment		115,423	125,022	118,522
Investment properties	5 (a)	7,335,637	11,344,781	10,970,886
Loans and receivables	5 (c)	1,038,271	4,136,210	1,538,912
		<b>8,489,331</b>	15,606,013	12,628,320
<b>Current assets</b>				
Other receivables	7	64,303	2,050,356	1,965,767
Investments at fair value through profit or loss		-	4,374,143	-
Cash and cash equivalents		5,572,617	4,206,648	11,127,836
		<b>5,636,920</b>	10,631,147	13,093,603
<b>Total assets</b>		<b>14,126,251</b>	26,237,160	25,721,923
<b>Equity and liabilities</b>				
Issued share capital		46,478,064	46,478,064	46,478,064
Retained deficit		(33,992,105)	(21,228,587)	(21,379,843)
Foreign currency translation differences		1,322,683	761,783	225,370
<b>Total equity</b>		<b>13,808,642</b>	26,011,260	25,323,591
<b>Liabilities</b>				
Other payables		213,196	165,156	192,908
Tax payable		104,413	60,744	205,424
		<b>317,609</b>	225,900	398,332
<b>Total equity and liabilities</b>		<b>14,126,251</b>	26,237,160	25,721,923
<b>Number of ordinary shares in issue</b>		<b>213,112,896</b>	213,112,896	213,112,896
<b>Net asset value per ordinary share (pence)</b>		<b>6.5</b>	12.2	11.9

The financial statements on pages 6 to 20 were approved and authorised for issue by the Board of Directors on 29 September 2010 and were signed on its behalf by:

Andrew Wignall  
Director

Antony Gardner-Hillman  
Director

The notes on pages 11 to 20 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 2010

#### Condensed Consolidated Statement of Changes in Equity

	Notes	Share capital £	Retained deficit £	Foreign currency translation differences £	Total £
As at 1 January 2010		46,478,064	( 21,379,843)	225,370	25,323,591
Loss for the period		-	( 6,613,134)	-	( 6,613,134)
Return of capital	12	-	( 5,999,128)	-	( 5,999,128)
Foreign exchange gain on subsidiaries translation		-	-	1,097,313	1,097,313
<b>As at 30 June 2010</b>		<b>46,478,064</b>	<b>( 33,992,105)</b>	<b>1,322,683</b>	<b>13,808,642</b>
As at 1 January 2009 - previously reported		46,478,064	( 7,597,002)	347,694	39,228,756
Change in accounting policy	1 ( b )	-	( 646,461)	-	( 646,461)
Prior period restatement	1 ( a )	-	( 2,587,483)	-	( 2,587,483)
Restated at 1 January 2009		46,478,064	( 10,830,946)	347,694	35,994,812
Loss for the period (restated)		-	( 10,397,641)	-	( 10,397,641)
Foreign exchange gain on subsidiaries translation		-	-	414,089	414,089
<b>As at 30 June 2009</b>		<b>46,478,064</b>	<b>( 21,228,587)</b>	<b>761,783</b>	<b>26,011,260</b>
As at 1 January 2009 - previously reported		46,478,064	( 7,597,002)	347,694	39,228,756
Change in accounting policy	1 ( b )	-	( 646,461)	-	( 646,461)
Prior period restatement	1 ( a )	-	( 2,587,483)	-	( 2,587,483)
Restated at 1 January 2009		46,478,064	( 10,830,946)	347,694	35,994,812
Loss for the year		-	( 10,548,897)	-	( 10,548,897)
Foreign exchange loss on subsidiaries translation		-	-	( 122,324)	( 122,324)
<b>As at 31 December 2009</b>		<b>46,478,064</b>	<b>( 21,379,843)</b>	<b>225,370</b>	<b>25,323,591</b>

The notes on pages 11 to 20 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 2010

#### Condensed Consolidated Statement of Cashflows

	(Unaudited)	Restated (Unaudited)	(Audited)
	6 months to 30 June 2010	6 months to 30 June 2009	12 months to 31 December 2009
Notes	€	€	€
<b>Operating activities</b>			
Loss before tax for the period/year	<b>( 6,382,805)</b>	( 10,336,714)	( 10,245,282)
Loss on investments held at fair value through profit or loss	-	718,660	889,882
Gain on disposal of investment property (Nikea Park)	<b>( 14,061)</b>	-	-
Foreign exchange loss on investment property	<b>1,670,601</b>	546,699	874,502
Foreign exchange losses	<b>2,128,514</b>	3,759,275	1,586,692
Revaluation of investment property	<b>2,034,134</b>	4,324,286	5,349,595
Impairment of loans and receivables	-	448,265	448,265
Decrease/(increase) in other receivables	<b>1,901,464</b>	( 1,673,864)	( 1,667,684)
Increase/(decrease) in other payables	<b>20,288</b>	( 125,776)	( 98,023)
<b>Net cash inflow/(outflow) from operating activities after interest and before taxation</b>	<b>1,358,135</b>	( 2,339,169)	( 2,862,053)
Tax paid	<b>( 331,340)</b>	( 237,828)	( 335,583)
<b>Net cash inflow/(outflow) from operating activities</b>	<b>1,026,795</b>	( 2,576,997)	( 3,197,636)
<b>Investing activities</b>			
Loans to developers	-	( 297,467)	( 297,467)
Loans repaid (Obzor)	<b>384,701</b>	311,153	2,979,106
Sales proceeds of investment property - Nikea Park	<b>60,332</b>	-	-
Purchase of land and property/plant and equipment	<b>( 1,034)</b>	( 12,069)	( 12,122)
Sales of money market funds	-	6,324,349	10,995,134
Acquisition of investment property	<b>( 55,425)</b>	( 114,029)	( 114,024)
<b>Net cash inflow from investing activities</b>	<b>388,574</b>	6,211,937	13,550,627
<i>Net cash inflow before financing activities - carried forward</i>	<b>1,415,369</b>	3,634,940	10,352,991

The notes on pages 11 to 20 are an integral part of these consolidated financial statements

**THE BLACK SEA PROPERTY FUND LIMITED**

Interim report and condensed consolidated financial statements for the period ended 30 June 2010

**Condensed Consolidated Statement of Cashflows (continued)**

	(Unaudited)	Restated (Unaudited)	(Audited)
	6 months to 30 June 2010	6 months to 30 June 2009	12 months to 31 December 2009
Notes	€	€	€
<i>Net cash inflow before financing activities - brought forward</i>	<b>1,415,369</b>	3,634,940	10,352,991
<b>Financing activities</b>			
Return of capital	12 ( 5,999,128)	-	-
<b>Net cash outflow from financing activities</b>	<b>( 5,999,128)</b>	-	-
<b>Net (decrease)/increase in cash and cash equivalents</b>	<b>( 4,583,759)</b>	3,634,940	10,352,991
<b>Cash and cash equivalents at beginning of period/year</b>	<b>11,127,836</b>	1,196,045	1,196,045
Effect of foreign exchange rates	( 971,460)	( 624,337)	( 421,200)
<b>Cash and cash equivalents at end of period/year</b>	<b>5,572,617</b>	4,206,648	11,127,836

The notes on pages 11 to 20 are an integral part of these condensed consolidated financial statements

**Interim report and condensed consolidated financial statements for the period ended 30 June 2010**

**Notes to the Condensed Consolidated Financial Statements**

**1. Basis of preparation**

The condensed consolidated financial statements of the Company for the period ended 30 June 2010 comprise the financial statements of the Company and its subsidiaries (together, the "Group") and have been prepared in accordance with IAS 34 (Interim Financial Reporting).

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 2009, 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 are available to download from [www.blackseapropertyfund.com](http://www.blackseapropertyfund.com).

The condensed consolidated interim financial statements for the current and comparative period 30 June 2009 are unaudited. The comparatives for 31 December 2009 are audited and received a qualified opinion arising from limitation in audit scope.

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

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

**(a) Prior period restatement**

As was disclosed the 31 December 2009 financial statements, the Directors have restated the carrying value of the Byala investment property from 1 January 2008 by a write down of 30% because of environmental issues caused in connection with the EU Directive, Natura 2000. The directors have reflected this write down within the restated comparatives for 30 June 2009 which has resulted in a decrease in the previously reported loss for the period by £611,378.

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

The accounting policies applied by the Group in preparing the Condensed Consolidated Financial Statements for the period ended 30 June 2010 are consistent with those applied by the Group in its Audited Consolidated Financial Statements for the year ended 31 December 2009. There have been changes to the accounting policies to those applied in the Condensed Interim financial statements for the six months ended 30 June 2009 as follows:

In 2008 certain capitalised costs in connection with development of real estate property were disclosed as inventory - property held for resale as per IAS 2 Inventories. Management decided to freeze the development of the residential project Evergreen and project Borovets Lakes and to return all apartment reservation fees received and as a result of the change in intentions property has now been reclassified as Investment Property. As a result of this change in accounting policy the Group has reclassified an amount of (£78,156) for the period ended 30 June 2009 and £27,561 for the year ended 31 December 2009 from Inventories to Investment Property. Reported losses for the period ended 30 June 2009 and the year ended 31 December 2009 have increased/(decreased) by these amounts as a result.

## THE BLACK SEA PROPERTY FUND LIMITED

---

### Interim report and condensed consolidated financial statements for the period ended 30 June 2010

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

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

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

In the interim financial statements for the period ended 30 June 2009 an amount of £311,153 was disclosed as proceeds from the sale of Obzor units. As at 31 December 2009, this accounting treatment was amended to set-off the proceeds received against the balance outstanding on the loan to Obzor. An impairment provision of £2,747,548 was created to amend the balance on the Obzor loan to £1,699,814 (€2,000,000) as at 30 June 2009 as previously reported. Therefore, the Obzor loan balance as at 30 June 2009 has now been restated to £4,136,210 to take account of the restatement of the proceeds from the sale of Obzor units and the reversal of the impairment provision. The previously reported loss for the period ended 30 June 2009 of £13,523,572 has been restated to £10,397,641 as a result of the changes in accounting policy in respect of inventories, Obzor unit sales and the prior period/year adjustments in respect of Byala land.

##### 2. Management fees

	30 June 2010	30 June 2009	31 December 2009
	£	£	£
Management fees	-	93,527	136,212

The contracted management fee to Development Capital Management (Jersey) Limited (the "Manager") was 2% per annum of the amount subscribed at IPO plus any gains retained by the Company for reinvestment.

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

The increase in management fees from 30 June 2009 to 31 December 2009 of £42,685 was due to the final settlement of outstanding obligations to the former Manager.

##### 3. Earnings per share

	30 June 2010	30 June 2009	31 December 2009
	£	£	£
Loss for the period/year	( 6,613,134 )	( 10,397,641 )	( 10,548,897 )
Weighted average number of ordinary shares	213,112,896	213,112,896	213,112,896
Diluted number of ordinary shares	213,112,896	213,112,896	213,112,896

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

The diluted loss per ordinary share was based on the loss for the period and the diluted number of ordinary shares in issue.

**THE BLACK SEA PROPERTY FUND LIMITED**

**Interim report and condensed consolidated financial statements for the period ended 30 June 2010**

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

**4. Tax**

	<b>30 June 2010</b>	30 June 2009	31 December 2009
	£	£	£
Withholding tax *	<b>110,126</b>	60,927	303,615
Other state taxes	<b>66,985</b>	-	-
Community taxes	<b>53,218</b>	-	-
	<b>230,329</b>	60,927	303,615

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

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

**5. Investing activities**

**(a) Investment property**

	Restated		
	<b>30 June 2010</b>	30 June 2009	31 December 2009
	£	£	£
Cost brought forward	<b>16,231,567</b>	10,448,585	11,095,046
Additions	<b>55,425</b>	7,696,443	5,136,521
Cost at period end	<b>16,286,992</b>	18,145,028	16,231,567
Gain on disposals	<b>14,061</b>	-	-
Fair value adjustment	<b>( 10,505,536)</b>	( 9,128,352)	( 8,471,402)
Foreign exchange gain	<b>1,540,120</b>	2,328,105	3,210,721
Net book amount	<b>7,335,637</b>	11,344,781	10,970,886

**(b) Fair value of investment properties**

	Restated		
	<b>30 June 2010</b>	30 June 2009	31 December 2009
Borovets Lakes	<b>2,824,093</b>	4,700,542	4,082,010
Byala	<b>2,468,106</b>	4,610,909	4,567,297
Evergreen	<b>1,810,381</b>	2,033,330	2,004,550
Nikea Park	<b>233,057</b>	-	317,029
	<b>7,335,637</b>	11,344,781	10,970,887

**Interim report and condensed consolidated financial statements for the period ended 30 June 2010****Notes to the Condensed Consolidated Financial Statements (continued)****5. Investing activities - (continued)****(b) Fair value of investment properties - (continued)****Borovets Lakes**

The valuation of Borrovets Lakes since 31 December 2009 has decreased by 31% because of a reduction in the average asking price of land in the Borovetz/Samokov area, with some reductions of over 50%.

**Byala**

The decrease in the valuation of Byala land is explained by the change in the market comparables currently available. The average price of land in the area has decreased by 31%. As referred to in note 1(a) the directors have written down the Byala investment property valuation by 30% as at 30 June 2010 due to the environmental issues relating to the EU Directive, Natura 2000.

**Evergreen**

The change in valuation from 31 December 2009 to 30 June 2010 is in line with the performance of the market for land in the area.

There have been no significant changes to the market since 30 June 2010.

**(c) Loans and receivables**

		Restated	
	<b>30 June 2010</b>	30 June 2009	31 December 2009
	£	£	£
Magnolia Holidays EAD (Pamporova - Magnolia)	-	-	-
Bulmix 97 Group OOD (Nikea Park)	-	-	-
Black Sea Investment Trust EAD (Obzor)	<b>1,038,271</b>	4,136,210	1,538,912
	<b>1,038,271</b>	4,136,210	1,538,912

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

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

**Magnolia, Pamporovo**

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

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

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

Following the receipt of legal advice on the recoverability of the loan, the loan continues to be fully provided against as at 30 June 2010, as in the opinion of the directors there are significant doubts concerning its recoverability.

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

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

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

**Nikea Park**

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

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

On 14 June 2010, an application for issuance of a second enforcement order and writ of execution for the amount of €3,774,822 against Bulmix was filed on behalf of BSPF (Property 4) Limited. On 2 July 2010 the Sofia Regional Court issued in favour of BSPF (Property 4) Limited a writ of execution for the amount of €3,774,822 plus procedural fees against Bulmix – 97 – Group Ltd. An execution case against the debtor was initiated by BSPF (Property 4) Limited with a private bailiff in Varna and public tenders for the remaining apartments in Nikea Park Hotel mortgaged by Bulmix – 97 – Group Ltd in favour of BSPF (Property 4) Limited is scheduled for 12, 14 and 15 October 2010.

**Obzor**

Prior to the period under review loans totalling €5,274,750 were made to BSPF (Property 5) Limited ("BSPF 5"), which then lent €5,079,726 of the funds to Black Sea Investment Trust AD ("BSIT"). A repayment of €207,550 was made by BSPF 5 to the Black Sea Property Fund Limited (the Parent) on 20 February 2009. The loan to BSIT was secured by a third ranking mortgage (after two mortgages in favour of the financing bank). A revised agreement was signed in June 2009 under which the developer repaid €2,000,000 on 17 July 2009 to BSPF 5. The Parent and the developer have agreed to initially split the proceeds of future unit sales at the Obzor site 70:30 respectively and 80:20 once an aggregate total of €4,000,000 in sales have been made. As at 30 June 2010 a balance of £1,038,271 remains payable by BSIT. BSIT paid £340,570 (€400,000) to the Group during the period ended 30 June 2010. This remaining loan balance is not interest bearing.

## THE BLACK SEA PROPERTY FUND LIMITED

### Interim report and condensed consolidated financial statements for the period ended 30 June 2010

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

##### 6. Impairment of loans and receivables

	30 June 2010	Restated 30 June 2009	31 December 2009
	£	£	£
Loans	-	448,265	448,265

A payment of £297,466 (€350,000) was made by the Group to Magnolia Holidays EAD to enable it meet its loan obligations to its bank. This loan by the Group was recognised as an impairment at 30 June 2009 due to ongoing litigation which is fully explained in Note 9 to the financial statements. There was a further impairment of £150,799 at 30 June 2009 on capitalised development costs incurred in acquiring the option on the Byala land. The total impairment of loans for the period ended 30 June 2009 and year ended 31 December 2009 is therefore £448,265 as outlined above.

##### 7. Other receivables

	30 June 2010	Restated 30 June 2009	31 December 2009
	£	£	£
Bank and deposit interest receivable	106	110	115
Prepayments and accrued income	37,990	87,437	57,538
Other debtors	26,207	1,962,809	1,908,114
	<b>64,303</b>	<b>2,050,356</b>	<b>1,965,767</b>

Included in other debtors as at 31 December 2009 is VAT receivable of £1,776,909 (€2,002,043) in Bulgaria, which was recovered by the Group on 6 April 2010.

##### 8. Net asset value per share

	30 June 2010	Restated 30 June 2009	31 December 2009
	£	£	£
Total equity	<b>13,808,642</b>	26,011,260	25,323,591
Number of ordinary shares	<b>213,112,896</b>	213,112,896	213,112,896
Net asset value per ordinary share (pence)	<b>6.5</b>	12.2	11.9

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

**Interim report and condensed consolidated financial statements for the period ended 30 June 2010**

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

**9. Summary of status on loan recoveries**

**Magnolia, Pamporovo**

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

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

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

On 12 September 2008, the former shareholder of Magnolia Holidays EAD filed claims with the Plovdiv District Court against BSPF Magnolia EAD and Magnolia Holidays EAD as defendants, claiming that the share pledge was a nullity and sought cancellation of the enforcement of the share pledge. On 24 September 2008 the Plovdiv District Court suspended the registration of BSPF (Property 3) Limited as a sole owner of the capital of Magnolia Holidays EAD. That case has now been separated into two cases, one pending in the Arbitration Court at the Bulgarian Chamber of Commerce and Industry and the other in the Sofia City Court. The case pending in the Arbitration Court has since been terminated, while the case pending in the Sofia City Court is scheduled to be heard on 17 December 2010.

On 24 November 2008 the former shareholder of Magnolia Holidays EAD purported to increase its share capital from BGN 50,000 to BGN 500,000 and registered the capital increase at the Trade Register. On 5 December 2008 BSPF (Property 3) Limited filed a claim against Magnolia Holidays EAD to nullify the purported capital increase and asked the court to confirm BSPF (Property 3) Limited as the lawful sole owner of the capital of Magnolia Holidays EAD. A court hearing is scheduled for 11 October 2010 before the Plovdiv District Court.

**Interim report and condensed consolidated financial statements for the period ended 30 June 2010**

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

**9. Summary of status on loan recoveries - (continued)**

**Magnolia, Pamporovo - (continued)**

The Plovdiv Regional Court is now hearing a case initiated by the former shareholder of Magnolia Holidays EAD against the distribution of proceeds resulting from the share pledge enforcement. The basis of the claim is his allegation that his signature was forged on certain documents. Expert reports twice confirmed the authenticity of the relevant signatures. The case is now suspended as a result of negotiations for achieving settlement agreement with the former shareholder of Magnolia Holidays EAD. On 02 July 2010 Plovdiv Regional Court issued a judgment denying the claims of the former shareholder. The judgment is subject to appeal before Plovdiv District Court. The Appeal is not yet filed.

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

On 2 February 2009 the Plovdiv District Court issued a judgment that effectively rejected the refusal of the Bulgarian Trade Register to register BSPF (Property 3) Limited as the sole owner of the capital of Magnolia Holidays EAD along with the registration of the new management appointed by BSPF (Property 3) Limited. On 28 April 2009 the Plovdiv Court of Appeals refused to hear an appeal against that decision. The decision was not appealed before the Supreme Court of Cassation.

On 14 July 2009 BSPF (Property 3) Limited filed a claim with Sofia City Court against Magnolia Holidays EAD declaring the resolutions of the General Shareholders Meeting of Magnolia Holidays EAD to be unlawful. BSPF (Property 3) Limited was granted a distraint order which suspended the registration of the resolutions of the said meeting at the Trade Register. Magnolia Holidays EAD appealed the order to the Sofia Court of Appeals and the order was cancelled. However, a new distraint order was obtained by BSPF (Property 3) Limited from Plovdiv District Court on 27 July 2009. The Plovdiv Court of Appeal cancelled the distraint order. As described in Note 5 (c), this loan has been provided for in its entirety. Court hearings before the Sofia City Court and the Plovdiv District Court were scheduled for 15 March 2010. The Plovdiv District Court postponed the hearings and the next court session has not been scheduled. The case regarding the cancellation of the resolutions of the General Shareholders Meeting was terminated by the Sofia City Court. Under the second case (for declaring the resolutions of the General Shareholders Meeting of Magnolia Holidays EAD to be null and void) Sofia City Court ruled in favour of BSPF (Property 3) Limited. Magnolia Holidays has appealed the court decision and the scheduling of a court hearing before the Sofia Court of Appeal is pending. Another court case initiated by the developer is scheduled for hearing on 22 November 2010.

**Interim report and condensed consolidated financial statements for the period ended 30 June 2010**

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

**9. Summary of status on loan recoveries - (continued)**

**Nikea Park**

On 28 February 2008 the Company's subsidiary BSPF (Property 4) Limited filed an application for issuance of a writ of execution as a lender against Bulmix 97 Group Ltd ("Bulmix") with the Sofia Regional Court for breach of its contractual obligations. On 19 May 2008 a writ of execution was issued. On 20 June 2008 the procedure of forced enforcement of the mortgage was initiated through private bailiff in Varna. On 3 July 2008 Bulmix filed an application with Varna Regional Court for suspending the enforcement procedures and on 25 July 2008 the Varna Regional Court issued a court order suspending the enforcement procedure. Due to the successful appeal filed on behalf of the creditor BSPF (Property 4) Limited before the Varna District Court on 17 December 2008 the Court issued an order cancelling the suspension of the enforcement procedure. The order of Varna District Court was then appealed to the Supreme Court of Cassation, which on 22 April 2009 issued order returning the case for second hearing to the Varna District Court. On 18 September 2009 Varna District Court issued an order confirming its original ruling. As a result on 28 December 2009 BSPF (Property 4) Limited acquired full and marketable title to ten apartments in Nikea Park. Full physical possession of those apartments was completed on 9 February 2010. On 14 June, 2010, an application for issuance of a second enforcement order and writ of execution for the amount of €3,774,822 against Bulmix was filed on behalf of BSPF (Property 4) Limited. On 2 July 2010 the Sofia Regional Court issued in favour of BSPF (Property 4) Limited a writ of execution for the amount of €3,774,821.89 plus procedural fees against Bulmix – 97 – Group Ltd. An execution case against the debtor was initiated by BSPF (Property 4) Limited with a private bailiff in Varna and public tenders for the remaining apartments in Nikea Park Hotel mortgaged by Bulmix – 97 – Group Ltd in favour of BSPF (Property 4) Limited is scheduled for 12, 14 and 15 October 2010.

**10. Contingencies and commitments**

The Company had an agreement to advance €5,274,750 to the developer of the site at Obzor. A revised agreement has been signed, under which the developer repaid £2,972,738 (€3,403,273) during 2009 to the Company. The Company and the developer will initially split the proceeds of all future unit sales at the Obzor site 70:30 respectively, and 80:20 once an aggregate total of €4,000,000 sales have been made. During the period ended 30 June 2010 the developer repaid £384,700 (€468,758) to the Company. The expected value of future proceeds from the sale of units as at 30 June 2010 has been valued by Colliers International at £2,321,416 (€2,828,646).

**11. Events after the reporting period**

On 1 July 2010 the Board of Directors of The Black Sea Property Fund Limited notified IPES (Jersey) Limited of their intention to terminate the administration agreement dated 27 July 2009 on 30 September 2010. Saltgate Limited will replace IPES (Jersey) Limited as Administrator on 1 October 2010 subject to formal appointment.

Your attention is also drawn to the events of 2 July 2010 in relation to Nikea Park outlined in Note 9 above.

**12. Return of capital**

On 23 June 2010 a return of capital to Ordinary Shareholders of £6m was paid.

**13. Related party transactions**

The management fees paid are disclosed in note 2. As at 30 June 2010 there were no unpaid amounts.

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

---

### **Interim report and condensed consolidated financial statements for the period ended 30 June 2010**

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

##### **14. Directors' interests**

Total compensation paid to the Directors during the period was as follows:

	<b>30 June 2010</b>	30 June 2009	31 December 2009
	<b>£</b>	£	£
Directors' remuneration	<b>71,061</b>	84,205	160,373

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

##### **15. Ultimate controlling party**

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

##### **16. Company domicile**

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

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

---

**Interim report and condensed consolidated financial statements for the period ended 30 June 2010**

### **Corporate Information**

#### **Registered office**

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

#### **Registrar**

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

#### **Administrator & Secretary**

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

#### **Property Investment Advisor**

BSPF Bulgaria EAD  
World Trade Centre Intreped  
36 Dragan Tzankov Blvd  
1040 Sofia  
Bulgaria

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

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

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

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

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

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

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

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

#### **Strategic Adviser**

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