THE BLACK SEA PROPERTY FUND LIMITED

Annual Report and Consolidated Financial Statements

for the year ended 31 December 2011

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Chairman's Statement

Dear Shareholders:

Our net asset value per share as at year end 2011 was 7.0 pence as compared with 8.7 pence a year earlier. The primary reason for the reduction in NAV was a return of excess capital of £2 million in December. The major components of this year's NAV per share include 1.5 pence of cash per share and 5.5 pence per share of property assets. Colliers performs a semi-annual valuation of our properties pursuant to the terms of our admission document. This year's valuations are roughly the same as last year's. The year-end carrying value of our assets and our previous year end valuation are as follows:

	Borovets	Byala	Evergreen	Nikea	Obzor	**Total**
	£	£	£	£	£	**£**
Value at 1 January 2011	2,712,247	3,536,374	1,789,806	2,625,239	2,002,632	**12,666,298**
Sales	-	-	-	(14,895)	(202,889)	**(217,784)**
Valuation change	(16,678)	(165,372)	(19,585)	(231,102)	91,957	**(340,780)**
Currency translation differences	(88,597)	(109,627)	(58,113)	(76,327)	(61,372)	**(394,036)**
Value at 31 December 2011	2,606,972	3,261,375	1,712,108	2,302,915	1,830,328	**11,713,698**

The Bulgarian economy remains depressed and common wisdom has it that things there will not improve until stability returns to western Europe. In a letter dated 2 December 2011[1], I gave a comprehensive overview of our portfolio following a trip to Bulgaria. I explained that demand for risky Bulgarian assets such as undeveloped land, especially undeveloped land for the holiday sector, is virtually nonexistent. I believe that these observations remain true today. In Bulgaria, southern Europe in general, and perhaps most of the world, there is negligible demand for non-income producing property assets in general and especially non-income producing assets in the holiday sector. According to Colliers, the inventory of unsold Bulgarian holiday homes has not yet reached equilibrium and continues to increase. With the exception of Evergreen, which comprises 24,600 m² of residentially zoned and serviced land in Sofia, all of Black Sea's assets are in the holiday sector.

We have now entered into a contract with one of Bulgaria's leading asset sellers to market Evergreen. They will be compensated if they are successful. We have finally begun to make progress at Nikea and since the end of 2011, have sold nine units with 74 remaining for sale. We have cut prices by an average of twenty per cent. and increased broker commissions. Our realised prices equate into a value of £2,040,000 (Euro 2,450,000) for the unsold units as compared to a remaining carrying value of £2,100,000 (Euro 2,520,000).

Knight Frank Moscow has had limited success marketing the unsold units at Obzor over the last year. During 2011 Knight Frank sold five units and 38 remain unsold. In December we agreed to an average price reduction of twenty-nine per cent. for the remaining units. Since the price reduction went into effect no additional units have been sold. There has been limited activity in connection with our two large land parcels, Byala and Borovets. We have met with another large land owner in the Borovets region and will jointly work toward increasing the marketability of our land. At Byala we continue to monitor the Natura 2000 situation (see Note 2). But, for now, it is unrealistic to expect reasonable bids for either asset.

The Company's Articles of Association require us to convene a meeting this year to consider a continuation vote. As explained in detail in my December 2011 letter to shareholders, the board believes that disposing of your company's portfolio is impracticable at present. We are consequently proposing a special resolution at this year's AGM to extend the life of the Company for an additional two years. At the end of the two year period, we would either commence a winding up of the Company or propose an additional continuation vote. We urge Shareholders to approve this resolution continuing the life of the Company for an additional two years because we believe that a forced liquidation would result in a substantial destruction of Shareholder value. If, however, Shareholders fail to approve the proposed extension by the requisite 2/3 majority, the board will take all steps necessary or desirable to effect the winding up of the Company as soon as practicable after 30 June 2012.

Respectfully yours,
John D. Chapman, Chairman, The Black Sea Property Fund Limited 26 March 2012

[1] http://www.blackseapropertyfund.com/downloads/letter_to_shareholders_2011_12_02.pdf

Directors' Report

The Directors submit their Report and audited Consolidated Financial Statements for the year ended 31 December 2011.

The Black Sea Property Fund Limited (the "Company") was incorporated on 27 January 2005 in Jersey and was launched as an unclassified Fund on 14 March 2005 within the provisions of the Collective Investment Funds (Jersey) Law 1988, raising net proceeds of £50 million. On 4 March 2009, the shareholders resolved to apply for listed fund status 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 advisory services to the Company's Board in relation to its property portfolio. The Black Sea Property Fund Limited group of companies (the "Group") encompasses the Company and entities controlled by the Company.

Listing

The Company is quoted on AIM.

Investment objective and policy

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

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

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

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.

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

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

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 £2,131,130 or 1.00 pence per ordinary share to shareholders which was paid on 15 December 2011.

Life of the Group

A special resolution will be proposed at this year's AGM to extend the life of the Company for an additional two years. Under Jersey law a special resolution requires the approval of a majority of two-thirds of the votes cast to be passed. The Group's life may 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 (appointed 17 October 2011)
Antony Gardner-Hillman
Irena Komitova (resigned 1 March 2011)
Angelo Moskov (resigned 19 August 2011)
Bogdan Stanchev (resigned 1 March 2011)
Andrew Wignall

Directors' Report (continued)

Shareholders' Interests

The following table shows the spread of the Company's shareholder base as at 12 March 2012.

Extent of holdings (number of shares)	*No. of shareholders*
1-9.999	42
10,000-99,999	42
100,000-499,999	18
500,000+	26
	128

At 31 December 2011, the Company was aware of the following interests of 3% or more in the ordinary share capital of the Company:

	Number	*Percentage interest*
Vidacos Nominees Limited	63,126,806	29.62%
The Bank of New York (Nominees) Limited	42,799,581	20.08%
Securities Services Nominees Limited	22,036,000	10.34%
BNY (OCS) Nominees Limited	21,628,705	10.15%
Euroclear Nominees Limited	20,670,000	9.70%
Lynchwood Nominees Limited	6,920,083	3.25%

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

Beneficial owner	*Number*	*Percentage interest*
QVT Financial LP	63,126,806	29.62%
Brookdale International	29,742,457	13.96%
Knox D'arcy	22,036,000	10.34%
GLG Partners	20,585,000	9.66%
Brookdale Global Opportunity	13,907,124	6.53%
SVM Global Fund	11,500,000	5.40%
Baille Gifford	10,000,000	4.69%

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

Directors' Report (continued)

Resignation and Appointment of Group Auditors

The Board approved the appointment of BDO LLP as auditors of the Group on 9 March 2011. A resolution to re-appoint BDO LLP as the Company's auditor will be put to the forthcoming Annual General Meeting.

Auditors

All of the current Directors have taken all steps that they ought to have taken to make themselves aware of any information needed by the Group's auditors for the purposes of their audit and to establish that the auditors are aware of that information. The Directors are not aware of any relevant audit information of which the auditors are unaware.

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.

Mr Angelo Moskov (resigned 19 August 2011) was a partner of QVT Financial LP, which has a beneficial interest as disclosed above.

Directors' remuneration

Directors' remuneration is comprised solely of 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 £54,666 (2010: £83,000) for the year ended 31 December 2011. In addition John Chapman and Angelo Moskov received special remuneration under Article 30.04 of £75,586 (2010: £94,625) by way of fees pursuant to contracts for Services with the Group.

	2011	2010
	£	£
John Chapman	**57,586**	58,625
Antony Gardner-Hillman	**25,000**	25,000
Irena Komitova	**3,333**	20,000
Angelo Moskov	**18,000**	36,000
Bogdan Stanchev	**3,333**	20,000
Andrew Wignall	**18,000**	18,000
Stephen Coe	**5,000**	-
	130,252	177,625

S.P.A. Riley
By Order Of The Board
SJ Secretaries Limited
Secretary

26 March 2012

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.

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 2011 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 2011 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 – Uncertain outcome of Environmental Legislation

In forming our opinion on the financial statements, which is not modified, we have considered the adequacy of the disclosures in Note 2 to the 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.

Emphasis of matter – Going concern

In forming our opinion on the financial statements, which is not modified, we have considered the adequacy of the disclosures in Note 1(c) to the financial statements concerning the Company's ability to continue as a going concern. A special resolution is to be proposed at this year's AGM to extend the life of the Company beyond 30 June 2012. If the resolution is not passed then the Company will be wound up as soon as practicable after 30 June 2012. The directors are confident that the special resolution will be passed by shareholders as a forced liquidation would potentially result in a material reduction in shareholders' funds, however, there can be no guarantee that the resolution will be passed. This condition indicates the existence of a material uncertainty which may cast significant doubt about the Company's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the Company was unable to continue as a going concern.

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: 26 March 2012

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

Consolidated Statement of Comprehensive Income

	Notes	**2011** £	2010 £
Total revenue			
Gain on disposal of investment property		**6,215**	44,586
Revaluation of investment property	*6(a)*	**(432,737)**	(1,485,099)
Net loss on investment property		**(426,522)**	(1,440,513)
Total loss		**(426,522)**	(1,440,513)
Operating expenses			
Recovery of loans	*6(b)*	**-**	1,742,460
Other operating expenses	*3*	**(848,068)**	(1,050,397)
Foreign exchange losses		**(60,952)**	(285,543)
Total operating (expenses)/income		**(909,020)**	406,520
Operating loss before interest and tax		**(1,335,542)**	(1,033,993)
Bank interest receivable	*4*	**242,017**	354,141
Bank charges and interest payable		**(4,097)**	(4,013)
Loss before tax		**(1,097,622)**	(683,865)
Tax expense	*5*	**-**	(220,198)
Loss for the year after tax		**(1,097,622)**	(904,063)
Other comprehensive income			
Loss in fair value of available for sale assets	*6(c)*	**(169,678)**	(205,024)
Losses on translation of foreign operations		**(320,488)**	(975,823)
Total comprehensive loss for the year		**(1,587,788)**	(2,084,910)
Loss per share			
Basic loss per share (pence)	*11*	(0.52)	(0.42)
Diluted loss per share (pence)	*11*	(0.52)	(0.42)

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

The notes on pages 14 to 34 are an integral part of these consolidated financial statements.

Consolidated Statement of Financial Position
As at 31 December 2011

	Notes	31 December 2011 £	31 December 2010 £
Non-current assets			
Plant and equipment	*6(a)*	**53,921**	107,842
Investment properties	*6(a)*	**9,883,370**	10,663,666
Available for sale assets	*6(c)*	**1,830,328**	2,002,632
		11,767,619	12,774,140
Current assets			
Other receivables	*8*	**74,226**	326,997
Cash and cash equivalents		**3,132,519**	5,918,831
		3,206,745	6,245,828
Total assets		**14,974,364**	19,019,968
Equity and liabilities			
Issued share capital	*10*	**46,478,064**	46,478,064
Retained deficit		**(29,585,938)**	(26,357,186)
Foreign exchange reserve		**(1,365,340)**	(1,044,852)
Available for sale reserve		**(644,425)**	(474,747)
Total equity		**14,882,361**	18,601,279
Liabilities			
Other payables	*9*	**92,003**	199,816
Tax payable		**-**	218,873
		92,003	418,689
Total equity and liabilities		**14,974,364**	19,019,968
Number of ordinary shares in issue	*10*	**213,112,896**	213,112,896
Net asset value per ordinary share (pence)	*11*	7.0	8.7

The financial statements on pages 10 to 34 were approved and authorised for issue by the Board on 26 March 2012 and were signed on its behalf by:

Director Andrew Wignall **Director Antony Gardner-Hillman**

The notes on pages 14 to 34 are an integral part of these consolidated financial statements.

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**
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	**46,478,064**	**(29,585,938)**	**(1,365,340)**	**(644,425)**	**14,882,361**
At 1 January 2010	46,478,064	(19,453,995)	(69,029)	(269,723)	26,685,317
Loss for the year	-	(904,063)	-	-	(904,063)
Other comprehensive income	-	-	(975,823)	(205,024)	(1,180,847)
Transactions with owners					
- Special dividend (Note 16)	-	(5,999,128)	-	-	(5,999,128)
At 31 December 2010	46,478,064	(26,357,186)	(1,044,852)	(474,747)	18,601,279

The notes on pages 14 to 34 are an integral part of these consolidated financial statements.

Consolidated Statement of Cashflows

	Notes	31 December 2011 £	31 December 2010 £
Operating activities			
Loss after tax for the year		**(1,097,622)**	(904,063)
Depreciation	*6(a)*	**53,921**	11,414
Gain on disposal of investment property		**(6,215)**	(44,586)
Revaluation of investment property	*6(a)*	**432,737**	1,485,099
Foreign exchange losses		**60,952**	285,543
Net recovery of loans	*6(b)*	**-**	(1,742,460)
Interest received	*4*	**(242,017)**	(354,141)
Finance expense		**4,097**	4,013
Tax expense		**-**	220,198
Movement in net cash outflow from operating activities		**(794,147)**	(1,038,983)
Decrease in other receivables	*8*	**252,771**	1,638,770
(Decrease)/increase in other payables	*9*	**(107,813)**	6,908
Net cash (outflow)/inflow from operating activities		**(649,189)**	606,695
Withholding tax paid		**(218,873)**	(206,749)
Net cash (outflow)/inflow from operating activities		**(868,062)**	399,946
Investing activities			
Additions to investment properties	*6(a)*	**-**	(221,681)
Acquisition of plant and equipment	*6(a)*	**-**	(734)
Proceeds on disposal of investment property		**21,110**	145,030
Recovery of loans and receivables	*6(b)*	**-**	311,222
Cash received on available for sale assets	*6(c)*	**202,889**	983,046
Net cash inflow from investing activities		**223,999**	1,216,883
Financing activities			
Interest received	*4*	**41,754**	64,077
Interest paid		**(4,097)**	(4,013)
Special dividend	*16*	**(2,131,130)**	(5,999,128)
Net cash outflow from financing activities		**(2,093,473)**	(5,939,064)
Net decrease in cash and cash equivalents		**(2,737,536)**	(4,322,235)
Cash and cash equivalents at beginning of year		**5,918,831**	11,127,836
Effect of foreign exchange rates		**(48,776)**	(886,770)
Cash and cash equivalents at end of year		**3,132,519**	5,918,831

The notes on pages 14 to 34 are an integral part of these consolidated financial statements

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 2011 comprise the financial statements of the Company and its subsidiaries (together, the "Group") and have been prepared in accordance with International Financial Reporting Standards ("IFRS"); adopted for use in the European Union in accordance with Article 3 of the IAS Regulation (EC) No. 1606/2002; issued by the International Accounting Standards Board (IASB) and interpretations issued by the International Financial Committee of the IASB (IFRIC).

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 average rate. Differences are taken directly to foreign currency translation differences in equity.

(c) Going concern

The Group's management has made an assessment of the Group's ability to continue as a going concern and are satisfied that the Group has the resources to continue in business for at least 12 months from the date of approval of these financial statements.

The Company's Articles of Association require 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, which resolution shall be proposed as a Special Resolution. The board are consequently proposing a special resolution at this year's AGM to extend the life of the Company for an additional two years. At the end of the two year period, the board would either commence a winding up of the Company or propose an additional continuation vote. The board are urging shareholders to approve this resolution continuing the life of the Company for an additional two years because the board believe that a forced liquidation would potentially result in a substantial destruction of shareholder value. If, however, shareholders fail to approve the proposed extension by the requisite 2/3 majority, the board will take all steps necessary or desirable to effect the winding up of the Company as soon as practicable after 30 June 2012 and the going concern basis of preparation of the financial statements would not be appropriate.

The directors are confident that the special resolution will be passed by shareholders and therefore have prepared the financial statements on the going concern basis. However, as there can be no guarantee that the resolution is passed this condition indicates the existence of a material uncertainty which may cast significant doubt about the Company's ability to continue as a going concern. The financial statements do not include the adjustments that would be necessary if the Company ceased to be a going concern. Such adjustments would include presenting assets at their recoverable amounts which would potentially result in further provisions being required to the amounts presented in the financial statements.

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

Plant and Equipment

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

Mobile phones and computer equipment	50%
Office equipment	15%

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

1. Accounting policies (continued)

(f) Investments (continued)

Investment property

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

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

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

Fair value is based on market prices, adjusted if necessary for any difference in the nature, location or condition of the specific asset. If this information is not available, the Group uses alternative valuation methods.

Financial assets – Available for sale

Non-derivative financial assets not included in loans and receivables are classified as available-for-sale and comprise principally the Group's strategic investments in entities not qualifying as subsidiaries, associates or jointly controlled entities. 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 is 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, is 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.

(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.

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 2011 was Euro 1.2013 per GBP (2010: Euro 1.1618 per GBP). Income and expenses are translated at year average exchange rates. The average rate used for 2011 was Euro 1.1521 per GBP (2010: Euro 1.1652 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.

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:

- IAS 24 Related Party Disclosures (Revised).

The definition of a related party has been clarified to simplify the identification of related party relationships, particularly in relation to significant influence and joint control. The amendment is effective for financial years beginning on or after 1 January 2011.

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

- IFRS 1 First-time Adoption of International Financial Reporting Standards – Limited exemption from comparative IFRS 7 disclosures for first-time adopters;
- IAS 32 Financial Instruments: Presentation – Classification of Rights Issues (Amendment);
- IFRIC 14 Prepayments of a minimum funding requirement (Amendment); and
- IFRIC 19 Extinguishing financial liabilities with Equity Instruments.

New and amended standards and interpretations issued that are effective subsequent to December 2011 year-ends:

- IFRS 7 Financial instrument: Disclosures (amendment);
- IFRS 9 Financial Instruments: Classification and Measurement;
- IFRS 10 Consolidated Financial Statements, IAS 27 Separate Financial Statements;
- IFRS 11 Joint Arrangements;
- IFRS 12 Disclosure of Interests in Other Entities;
- IFRS 13 Fair Value Measurement;
- IAS 19 Employee Benefits (Revised).

IFRS 7 Financial instruments: Disclosures

The amendment requires additional disclosure about financial assets that have been transferred but not derecognised to enable the user of the 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 continuing involvement in derecognised assets to enable the user to evaluate the nature of, and risks associated with, the entity's continuing involvement in those derecognised assets. The amendment becomes effective for annual periods beginning on or after 1 July 2011. The amendment affects disclosure only and has no impact on the Company's position or performance.

IFRS 9 Financial Instruments: Classification and Measurement

The first phase of IFRS 9 Financial Instruments addresses the classification and measurement of financial instruments (phase 1). The standard is effective for annual periods beginning on or after 1 January 2013. The Board's work on the other phases is ongoing and includes impairment of financial statements and hedge accounting, with a view to replacing IAS 39 Financial Statements: Recognition and Measurement in its entirety. Phase 1 of IFRS 9 applies to all financial instruments within the scope of IAS39. The Company will quantify the effect in conjunction with the other phases, when issued, to present a comprehensive picture.

1. Accounting policies (continued)

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

IFRS 10 Consolidated Financial Statements, IAS 27 Separate Financial Statements

The amended standard is effective for annual periods beginning on or after 1 January 2013. IFRS 10 replaces the portion of IAS 27 that addresses the accounting for consolidated financial statements. IAS 27, as revised, is limited to the accounting for investments in subsidiaries, joint ventures, and associates in separate financial statements. IFRS 10 changes whether an entity is consolidated by revising the definition of control. Control exists when an investor has:

- Power over the investee (defined as when the investor has existing rights that give it the current ability to direct the relevant activities);
- Exposure, or rights, to variable returns from its involvement with the investee and
- The ability to use its power over the investee to affect the amount of the investor's returns.

IFRS 11 Joint Arrangements

IFRS 11 replaces IAS 31 *Interests in Joint Ventures* and SIC-13 *Jointly-controlled Entities – Non-monetary Contributions by Venturers*. IFRS 11 removes the option to account jointly controlled entities ("JCEs") using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture must be accounted for using the equity method. The application of this new standard will not impact the financial position of the Company. This standard becomes effective for annual periods beginning on or after 1 January 2013.

IFRS 12 Disclosure of Interests in Other Entities

IFRS 12 applies to an entity that has an interest in subsidiaries, joint arrangements, associates and/or structured entities. Many of the disclosure requirements of IFRS 12 were previously included in IAS 27, IAS 31, and IAS 28, whilst others are new. Effective for annual periods beginning on or after 1 January 2013, the objective is to help users of financial statements understand the following:

- The effects of an entity's interests in other entities on its financial position, financial performance and cash flows;
- The nature of, and the risks associated with, the entity's interest in other entities.

The directors are currently assessing the impact of the adoption of this standard.

IFRS 13 Fair Value Measurement

IFRS 13 does not affect when fair value is used, but rather describes how to measure fair value where fair value is required or permitted by IFRS. The standard is effective for annual periods beginning on or after 1 January 2013.

The directors, however, expect no impact from the adoption of the new standards and amendments on the Company's financial position or performance.

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 polices 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 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 significant reduction in transaction volumes continued this year. Therefore, 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.

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 and extended marketing periods may be required in which values could further fluctuate. 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. Consistent with the prior year, the Directors do not consider that an adjustment to valuation of investment properties is required in the year ended 31 December 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 it is uncertain when future development will be undertaken given the current market situation. The values were determined directly by reference to observable asking prices and recent realised arm's length transactions.

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 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 agreement governs the flow of revenues expected from the sales of 94 apartment units. It is expected that the Group's interest in the apartments represents 70% of the net sales proceeds, if cumulative sales income is less than Euro 4,000,000 and 80% thereafter.

Notes to the Consolidated Financial Statements (continued)

3. Other operating expenses

		2011	2010
		£	£
Legal and professional fees		**257,011**	291,342
Directors' remuneration		**130,252**	177,625
Marketing costs		**-**	132,376
Auditors' remuneration	- Parent company audit	**35,425**	28,500
	- Subsidiaries audit	**32,495**	-
Other auditors' fees		**-**	53,222
Staff costs	- Wages and salaries	**65,988**	94,891
	- NI and social security	**8,079**	11,339
Administration fees		**90,595**	79,745
Rates and local authority charges		**96,719**	71,137
Bad debt expense		**-**	36,936
Travel and subsistence		**11,243**	12,077
Depreciation charge		**53,921**	11,414
Other operating expenses		**66,340**	49,793
		848,068	1,050,397

In 2011, in addition to the 4 (2010: 6) Directors there were 4 (2010: 6) 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 £23,025 (2010: £25,001) in relation to 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 £4,005 (2010: £6,250).

4. Interest receivable

	2011	2010
	£	£
Notional Interest on Available for Sale assets (Note 6)	**200,263**	290,064
Bank interest receivable	**41,754**	64,077
	242,017	354,141

Notional interest has been applied on the available for sale assets at 10% - representing a commercial rate between operator and developer adjusted upwards to reflect the Directors' judgement that a higher risk applies to the current property market in Bulgaria.

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.

Shareholders resident outside Jersey will not suffer 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% (2010: 10%).

Withholding tax in the prior year represented irrecoverable tax withheld on the interest receivable on loans to subsidiaries and was levied on a distribution basis rather than on profitability. The applicable rate in 2010 was 10% and, as the withholding tax could not be utilised by the Company, it was charged to the statement of comprehensive income. During 2011 the Bulgarian subsidiaries were recapitalised by the Company and as a consequence the Directors expect no withholding tax charge will arise.

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.

	2011	2010
Current tax expense:	**£**	£
- Bulgarian corporation tax on profits for the year	**-**	-
- Withholding tax	**-**	220,198
Total income tax expense	**-**	220,198

A reconciliation of the tax charge for the year to the standard rate of corporation tax for Jersey of Nil% (2010: Nil%) is shown below.

	2011	2010
Loss before tax	**(1,097,622)**	(683,865)
Loss on ordinary activities multiplied by the standard rate in Jersey of Nil% (2010: Nil%)	**-**	-
Bulgarian tax at 10% (2010: 10%)		
- Net trading loss in Bulgarian subsidiaries at 10%	(30,202)	(535,871)
- Tax losses created in the year	30,202	535,871
- Withholding tax	**-**	220,198
Current charge for the year	**-**	220,198

The Group had unrecognised deferred tax assets of £627,000 (2010: £572,000) relating to trading losses brought-forward. These have not been recognised as there remains significant uncertainty as to whether sufficient future profits will be available in order to utilise these losses.

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

Cost or valuation	Investment property £	Plant and equipment £	Total £
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	(332,664)	-	(332,664)
At 31 December 2011	9,883,370	137,039	10,020,409
Depreciation			
At 1 January 2011	-	29,197	29,197
Write-down in the year	-	53,921	53,921
At 31 December 2011	-	83,118	83,118
NBV at 31 December 2011	**9,883,370**	**53,921**	**9,937,291**
At 1 January 2010	10,970,886	136,305	11,107,191
Additions	221,681	734	222,415
Transfer from loans and receivables	1,431,238	-	1,431,238
Disposals - Nikea Park	(100,444)	-	(100,444)
Revaluation	(1,485,099)	-	(1,485,099)
Currency translation differences	(374,596)	-	(374,596)
At 31 December 2010	10,663,666	137,039	10,800,705
Depreciation			
At 1 January 2010	-	17,783	17,783
Charge for the year	-	11,414	11,414
At 31 December 2010	-	29,197	29,197
NBV at 31 December 2010	10,663,666	107,842	10,771,508

The valuations of the individual investment properties, compared to total investment, are as follows.

	Valuation		**Valuation**		**Total investment and capitalised costs**	
	2011	**2011**	**2010**	**2010**		
	€	**£**	**€**	**£**	**€**	**£**
Borovets Lakes	3,131,875	2,606,972	3,151,089	2,712,247	10,918,102	7,637,329
Byala	3,918,038	3,261,375	4,108,559	3,536,374	9,843,360	7,279,612
Evergreen	2,056,833	1,712,108	2,079,396	1,789,806	4,114,943	2,811,256
Nikea Park	2,766,596	2,302,915	3,050,003	2,625,239	4,489,607	3,534,532
Pamporovo	-	-	-	-	6,936,096	5,456,739
	11,873,342	9,883,370	12,389,047	10,663,666	36,302,108	26,719,468

Notes to the Consolidated Financial Statements (continued)

6. Investing activities (continued)

(b) Loans and receivables

	2011	2010
	£	£
Bulmix 97 Group OOD (Nikea Park)		
- loan repayments in the year	**-**	(311,222)
- transferred to investment property	**-**	(1,431,238)
- reversal of previous impairment	**-**	1,742,460
	-	-
Black Sea Investment Trust EAD (Obzor)		
- previous impairment recovered in the year	**-**	-
- transferred to available for sale	**-**	-
		-
Magnolia Holidays EAD (Pamporovo - Magnolia)		
- additional amounts loaned in the year	**-**	-
- loan impairment in the year	**-**	-
		-
Bulgarian Property Investment Trust EAD (Byala)		
- additional amounts loaned in the year	**-**	-
- loan impairment in the year	**-**	-
	-	-
At 31st December	**-**	-

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

	2011	2010
	£	£
Recovery of previously impaired loans	**-**	1,742,460
Impairment of loans	**-**	-
	-	1,742,460

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 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 the first 16 apartments. These 16 units were not held as legal property and the net proceeds of Euro 362,648 (£311,222) were therefore 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 were recognised in investment property (see Note 6(a)) and the impairment provision recognised in earlier periods being reversed.

During 2010, a further six of the remaining 90 units were sold 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 2012, nine units have been sold to date and the Group continues to own the remaining 74 units.

In May 2011, a formal agreement was reached whereby the Group and developer released each other from any future claims.

Notes to the Consolidated Financial Statements (continued)

6. Investing activities (continued)

(b) Loans and receivables (continued)

Magnolia, Pamporovo

The loan to Magnolia Holidays EAD was fully provided against as at 31 December 2010 and 31 December 2011 and no interest has been accrued as, in the opinion of the Directors, there were significant doubts concerning its recoverability.

On 10 November 2011, the Board decided to seek settlement of all pending cases connected with Magnolia with no further consequences for the parties involved. An agreement to that effect is being drafted and is expected to be signed in 2012.

(c) Available for sale financial assets

	2011	2010
	£	£
At 1 January	**2,002,632**	2,900,638
Cash receipts on sale of available for sale assets	**(202,889)**	(983,046)
Notional interest receivable (Note 4)	**200,263**	290,064
Movement in fair value on available for sale asset	**(169,678)**	(205,024)
	1,830,328	2,002,632

Obzor

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 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.

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.

Following the latest amendment to the agreement, the Group 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 and, at 31 December 2011, £343,000 remains outstanding on the revised non-interest bearing loan (2010: £555,866). The loan is secured by a third ranking mortgage.

A further five units were sold in 2011 for net proceeds of Euro 233,744 (£202,889) and there are currently 38 unsold units and the Group's share of the property portfolio was valued at Euro 2,198,856 (£1,830,328) at 31 December 2011 (2010: 43 apartments, valued at Euro 2,326,658 or £2,002,632).

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
Held directly:				
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
Held indirectly:				
BSPF Magnolia EAD	**17,194**	**100%**	Property investment	Bulgaria
BSPF Tcherno More 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

	2011	2010
	£	£
Bank and deposit interest receivable	**112**	112
Prepayments and accrued income	**47,385**	46,884
Other debtors	**26,729**	280,001
	74,226	326,997

All amounts are due within one year.

9. Other payables

	2011	2010
	£	£
Trade payables	**40,818**	116,910
Accruals	**51,185**	82,906
	92,003	199,816

None of the amounts are past due or impaired.

10. Issued share capital

	2011	2010
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 (2010: 213,112,896) ordinary shares of no par value	**46,478,064**	46,478,064
	46,478,064	46,478,064

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 primary objective of the Group's capital management was to provide shareholders with a high level of long-term capital appreciation through acquiring marketable investment properties which offer the prospect of sustainable capital growth. Investments in property were made by reference to specific criteria, which included: location, type of property, development standards and timing. All investment property purchases made by the Group have been funded by loans from the parent company (and thus from equity), rather than funding from banks or other third parties. No changes were made in the objectives, policies or processes during the years ending 31 December 2010 or 31 December 2011.

The proceeds of sale of the property portfolio will be returned to shareholders as determined by the Board.

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

11. Loss and Net Asset Value per share

The loss per ordinary share of 0.52 pence (2010: 0.42 pence) is based on the loss for the year of £1,097,622 (2010 loss: £904,063) and on the weighted average number of ordinary shares in issue of 213,112,896 (2010: 213,112,896).

There is no difference between diluted and undiluted earnings per share as there are no share options.

The net asset value per ordinary share of 7.0 pence (2010: 8.7 pence) is based on the net assets attributable to ordinary shareholders, divided by 213,112,896 (2010: 213,112,896) being the number of outstanding ordinary shares in issue at the period end.

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

Magnolia, Pamporovo

The legal action between BSPF Magnolia EAD and BSPF (Property 3) Limited against the former shareholder of Magnolia Holidays EAD is still ongoing, however, the Board has decided to seek settlement of all pending cases connected with Magnolia with no further consequences for the parties involved. An agreement to that effect is being drafted and is expected to be signed in 2012.

The loan to Magnolia Holidays EAD was fully provided against as at 31 December 2010 and as at 31 December 2011 and no interest is being accrued as, in the opinion of the Directors, there remain significant doubts concerning its recoverability.

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 investment property. 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 2010.

	2011	2010
	£	£
Borovets Lakes	130,349	135,612
Byala	163,068	176,819
Evergreen	85,605	89,490
Nikea Park	115,146	131,262
	494,168	533,183

Similarly, 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 2010.

	2011	2010
	£	£
Obzor	91,516	100,132
	91,516	100,132

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 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	2,741,612	518,218	197,912	3,457,742
As at 31 December 2010	**£**	**£**	**£**	**£**
Financial instruments				
Available for sale	-	555,866	-	555,866
Other receivables	21,680	-	305,317	326,997
Cash and cash equivalents	13,491	5,547,173	358,167	5,918,831
Other payables	(143,080)	-	(56,736)	(199,816)
Tax payable	-	(218,871)	-	(218,871)
Net exposure	(107,909)	5,884,168	606,748	6,383,007

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 2010.

	2011		2010	
	Euro	**Bulgarian LEV**	**Euro**	**Bulgarian LEV**
	£	**£**	£	£
Financial instruments	**25,911**	**9,896**	294,208	30,337
Effect on comprehensive income	**(25,911)**	**(9,896)**	(294,208)	(30,337)

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.

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 2011. 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 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**	**-**
	3,132,519	**250,997**
As at 31 December 2010		
Available for sale assets	-	555,866
Other payables	-	(199,816)
Euro cash deposit	5,547,173	-
Bulgarian Lev cash deposit	358,167	-
Sterling GBP cash deposit	13,491	-
	5,918,831	356,050

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 £31,325 (2010: £59,188). 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 2011, 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 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)**
	343,000	**3,040,516**	**3,383,516**
As at 31 December 2010			
Cash and cash equivalents	-	5,918,831	5,918,831
Available for sale assets	555,866	-	555,866
Other payables	-	(199,816)	(199,816)
	555,866	5,719,015	6,274,881

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:

	2011	2010
	£	£
Amounts held with a credit rating of A or above	**2,762,224**	4,954,736
Amounts held with a credit rating of B or above	**370,295**	964,095
Amounts held with a credit rating less than B	**-**	-
Cash and cash equivalents as at 31 December	**3,132,519**	5,918,831

The Group's credit risk is primarily attributable to loans and receivables from third parties. The Board monitors each loan according to the individual characteristics of each project, 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 2011 was as follows:

	2011		2010	
	Statement of financial position	**Maximum exposure**	Statement of financial position	Maximum exposure
Non-current assets	**£**	**£**	£	£
Cash	**3,132,519**	**3,132,519**	5,918,831	5,918,831
Available for sale assets	**1,830,328**	**1,830,328**	2,002,632	2,002,632
	4,962,847	**4,962,847**	7,921,463	7,921,463

Notes to the Consolidated Financial Statements (continued)

15. Events after the reporting period

There have been no significant events since 31 December 2011 which impact the financial position or performance as disclosed in these financial statements.

16. Special dividend

On 15 December 2011, the Company paid a special dividend to ordinary shareholders of £2,131,130 (2010: £5,999,128) 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 2011 there were no unpaid amounts.

18. Directors' Interests

Total compensation paid to the Directors during the period was £130,252 (2010: £177,625).

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.

Mr Angelo Moskov (resigned 19 August 2011) was a partner of QVT Financial LP, which has a beneficial interest as disclosed in the Directors' Report.

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.

Registered office
22-24 Seale Street
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JE2 3RT

Administrator
Saltgate Limited
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St. Helier
Jersey, CI
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