MATRIX EUROPEAN REAL ESTATE INVESTMENT TRUST LIMITED

HALF YEARLY REPORT

FOR THE PERIOD ENDED
30 JUNE 2010

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CHAIRMAN'S STATEMENT

2010 began encouragingly for the European property market and we have seen transaction levels across Europe of over €43.8 billion in the first half of the year – substantially higher than first half of 2009 (€25.7 billion) and maintaining the momentum of H2 2009 (€43.9 billion) (source: CBRE). Investors have concentrated on secure assets in major cities, and it is in these core markets where we have seen the values of properties increase.

Q2 2010 has seen some of this investor enthusiasm wane as economic difficulties have continued to beset some European economies and the improvements in value seen in core markets has yet to spread to wider locations.

The impact of this on the Group's portfolio has been that we have seen marginally reduced property values over the half-year with a figure of €385.2 million (£315.4 million) being recorded as at 30 June 2010 compared to €610.9 million (£533.6 million) as at 31 December 2009. In Euro terms this represents a like-for-like fall of 3.7% for the half year, allowing for the sale of the Group's IZD Tower office investment for €212.25 million (£182.8 million) in May 2010. The change in the sterling value of the portfolio is set out below.

The period to 30 June 2010 has been a busy one for the Group. The refinancing of €292.0 million (£259.7 million) of debt with Lloyds Banking Group ("LBG") was completed in January 2010 and the related extension of interest rate swaps was completed in April resulting in reduced interest rates for the Group on its hedged debt of 3.58% to 2.76%.

In May the completion of the sale of the Group's IZD Tower in Vienna was announced which immediately released around €64.4 million (£55.5 million) of cash and enabled MEREIT to de-gear down to €239.9 million (£196.4 million) and secure lower loan margins, reducing from 275 bps to 225 bps.

Following this, the Group has undertaken a Tender offering for 14.99% of its shares which was only taken up by 4.7% of shareholders and which the Board sees as a positive sign of investors' long term support of the Group.

Shortly after the period end the Board was pleased to be able to announce the reinstatement of the dividend, at a rate equivalent to 8 pence per annum, which is fully covered, and indicative of the Board's confidence in the long-term stability of the Group following the substantial measures undertaken over the past year.

Overall, the Group recognised Comprehensive Income for the period of £16.5 million. This was largely due to £21.9 million of exchange gains realised on the disposal of the Vienna property (which were previously recognised in Equity under Translation reserve) and £11.5 million of gains through the movement in the fair value of derivative and swap contracts. These gains were partly offset by £13.1 million of property revaluation losses and £8.9 million of exchange losses arising on the translation of foreign operations.

The following sets out the main factors affecting the value of the Group's property portfolio over the period:

Property value as at December 2009	£533.6m
Sale of IZD Tower	(£179.2m)
Valuation Movement	(£13.1m)
Currency Translation	(£27.4m)
Property value as at 30 June 2010	£313.9m
Allowance for capex	£1.5m
Value as per Valuers' reports	£315.4m

The weakening of the euro during 2010 has exacerbated the decline in the value of the portfolio in sterling. However, this currency movement also had the effect of decreasing the sterling value of the Group's borrowings by £20.6 million and at the reporting date the Group had £191.5 million of loans outstanding.

Additionally, the weakening of the euro reduced the liability relating to the foreign exchange hedging contract, as the contract's mark-to-market value varies with exchange rates. Since the start of the period the liability has lessened to £28.9 million as at 30 June 2010 from £44.8 million at 31 December 2009.

The liability from the Group's interest rate swaps has increased over the period to £8.6 million (31 December 2009: £7.7 million). Overall, the Group had an aggregate mark-to-market liability in respect of both foreign exchange and interest rate hedging contracts of £37.5 million (31 December 2009: £52.5 million).

In total, the Group has seen a decline in NAV per share of 2.4% over the period to a figure of 285 pence per share as at 30 June 2010.

The Group had an overall LTV ratio at the reporting date of 62.3% and circa £14 million of free cash resources. It remained in compliance with the financial covenants associated with its bank facilities and these are further discussed in the Manager's Report.

A dividend has been declared for the first half of the year and it is intended that a further dividend in respect of the second half of the year will be payable in February 2011.

Risks remain, not least the high level of vacancies at Europort in Frankfurt, the short income profile of the property in Nice and the Panrico covenant in Spain. However, we shall be focussing our attentions here over the remainder of the year and hope to secure solutions that will build and protect long term value.

The work that has been undertaken over the past several months places the Group on a sound financial footing. Debt levels have been reduced, net cash flow has been enhanced and this now enables the Group to concentrate fully on seeking to enhance value through management of its assets.

Crispian Collins
Chairman

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Directors confirm that to the best of their knowledge:

- The condensed set of Financial Statements have been prepared in accordance with IAS 34 "Interim Financial Reporting" as adopted by the European Union;

- The half-yearly management report includes a fair review of the information required by DTR 4.2.7 being an indication of important events that have occurred during the first 6 months of the year; and

- The half yearly management report includes a fair review of the information required by DTR 4.2.8 being disclosure of related party transactions and changes therein since the last annual report.

The Directors of Matrix European Real Estate Investment Trust Limited are listed in the Annual Report and Financial Statements for the year ended 31 December 2009, although Robert Tsenin did not stand for re-election at the Annual General Meeting held 8 April 2010. A list of current Directors is also maintained on the MEREIT website: www.mereit.info.

By order of the Board

Crispian Collins	**Stephen Coe**	**Jan van der Vlist**
Chairman	**Director**	**Director**
26 August 2010	**26 August 2010**	**26 August 2010**

MANAGER'S REPORT

Forward looking statement

This Report has been prepared solely to provide additional information to shareholders to assess the Group's strategies and the potential for these strategies to succeed. The Report should not be relied on by any other party or for any other purpose.

This report contains certain forward-looking statements with respect to the financial condition, results of operations and businesses of the Group. These statements are made in good faith based on the information available to them up to the time of their approval of this report. However, such statements should be treated with caution as they involve risk and uncertainty because they relate to events and depend upon circumstances that will occur in the future. There are a number of factors that could cause actual results or developments to differ materially from those expressed or implied by these forward looking statements. The continuing uncertainty in global economic outlook inevitably increases the economic and business risks to which the Group is exposed. Nothing in this report should be construed as a profit forecast.

Investment Objectives

The Group's underlying objective is to provide shareholders with an attractive level of income return, together with the potential for income and capital growth, through investment in European property.

Market Outlook

Throughout 2009 property markets in Europe, on the whole, saw investment volumes increasing, albeit the total value of transactions remained at low levels compared to historic peaks. Q1 2010 saw volumes slightly down on the previous quarter, a trend that is often seen as investors seek to place capital before the year-end, but the pace of investment increased in Q2 with volumes up by over 10% - perhaps as much as 15% according to some commentators. However, this activity has not translated into strong value growth.

Improvements in value have tended to be restricted to a limited spectrum with investors continuing to favour prime assets in core locations in the UK, France and Germany – markets which have seen some two-thirds of total European investment activity.

The second quarter has seen a slowing in value growth, both in the UK and on the Continent and the enthusiasm seen for prime, well-let assets has not spread to wider markets. This has not been helped by the Euro crisis that has developed over the first half of the year and concerns over sovereign risk, austerity packages and the strength of economies such as Greece and Spain, which have resulted in investors taking a much more guarded approach to property markets in the Eurozone.

Looking forward, we expect that the second half of 2010 will continue to see investors take a cautious view and to continue to favour assets concentrated in the major European markets. As a consequence of this we expect value growth over the second half of the year to be muted.

Portfolio Overview

As at 30 June 2010 the MEREIT fund comprised 13 properties with a gross portfolio value of £315.4 million (€385.2 million). Following deductions of allowances for various expenditure on the properties, the value recorded for the portfolio as at 30 June 2010 is £313.9 million.

On a like-for-like basis the value of properties fell slightly over the half-year with a decline of 3.7% in euro terms.

The property valuations were performed by the Group's external valuers in accordance with the Royal Institution of Chartered Surveyors ("RICS") Appraisal and Valuation Standards. The valuations show the "Market Value" assuming an asset sale of each property.

Country	Property	Use	€0<25m	€25<50m	€50<75m	€75m+
France	St Etienne	Office			X	
France	Nice	Office		X		
France	Lyon	Industrial	X			
Germany	Frankfurt	Industrial				X
Germany	Düren	Retail			X	
Germany	Düsseldorf	Hotel		X		
Germany	Kaiserslautern	Retail		X		
Germany	Celle	Retail	X			
Netherlands	Leiden	Office		X		
Spain	Valladolid	Industrial	X			
Spain	Madrid	Industrial	X			
Spain	Cordoba	Industrial	X			
Spain	Murcia	Industrial	X			
			6	4	2	1

MANAGER'S REPORT

The portfolio produces a current annual net rental income of £27.1 million (all derived from external customers), has a weighted average lease length of over 8 years and, as can be seen from the summary of major tenants, provides accommodation to a variety of national and international occupiers.

Rank	Tenant	Location	Latest D&B Credit Rating	30 June 2010 Annual Rent	Proportion of Annual Contracted Rent
1	Casino	St Etienne	5AA1	£5.731m	19%
2	IBM	Nice	5A1	£3.143m	10%
3	Panrico	Spain	N3[1]	£3.086m	10%
4	Schenker Deutschland	Frankfurt	EE1[2]	£2.748m	9%
5	NH Hoteles	Düsseldorf	2A1	£2.428m	8%
6	Jacobs Nederland	Leiden	5A1	£1.738m	6%
7	La Poste	Lyon	5A2	£1.635m	5%
8	Colt Telecom	Frankfurt	5A1	£0.876m	3%
9	Peek & Cloppenberg	Kaiserslautern	5AA1	£0.736m	2%
10	Hennes & Mauritz	Kaiserslautern	2A1	£0.687m	2%
				£22.808m	74%

[1] Rent guarantees totalling €4m
[2] D&B Credit recommendation €511 million

During the half-year, in May 2010, the Group sold the IZD Tower in Vienna on May 4 2010 for €212.25 million (£182.8 million). The sale released cash of €64.4 million (£55.5 million) of which €5 million (£4.09 million) is held in escrow against contractual warranties. The remaining cash has been largely used to reduce borrowings, as discussed below.

Financing & Financial Covenants

At 30 June 2010 the Group had £191.5 million of loans outstanding and all of the loans mature in January 2014. As at 30 June 2010 the Group had an overall LTV ratio of 62.3% and the Group had approximately £16.2 million of cash of which circa £14 million (after taking into account creditors and commitments) is available to protect its LTV covenants, which are considered below.

The Group utilises a range of interest rate swaps to mitigate the effect of movements in interest rates on the results of the Group. These provide an average swap rate of 2.76% and have expiration dates of October 2010 (6%) and January 2014 (94%) and at 30 June 2010 represented a liability of £8.6 million.

Debt Facilities

All of the Group's debt is held with Lloyds Banking Group ("LBG") and new loan facilities were entered into in January 2010 which provided a senior loan of €272 million (£223 million) and a mezzanine facility of €20 million (£16 million). Since that time, the de-gearing that has been undertaken with the IZD sale proceeds has paid down the entire mezzanine loan and reduced the senior loan to €239.9 million (£196.4 million).

The loan carries an initial margin of 2.75% per annum over 3 month Euribor, reducing to 2.25% whilst the LTV is below 60%, based on 31 December 2009 values. This is the case at present and this LTV ratio, together with the maximum LTV covenant of 75%, will next be tested at 31 December 2010. The LTV covenant provides headroom of circa 12.7% based on June 2010 values.

Other loan covenants include:

- In the event that the LTV is in excess of 65%, surplus operational income will be used to amortise the loan.
- If the LTV exceeds 60%, when properties are sold the debt pay-down required is equal to 120% of the allocated loan for the property sold.
- The loan is subject to an interest cover ratio of 1.30x.

Foreign Exchange Covenants

The Group uses foreign exchange rate derivative contracts to mitigate the effect of movements in exchange rates. It has a single Cross Currency Swap contract with LBG which consists of two elements:

- a cash-flow hedge whereby €5.0 million are exchanged for £3.7 million on a quarterly basis until June 2014; and
- a fair-value hedge for €150 million to be exchanged for £101.3 million due in June 2014.

MANAGER'S REPORT

This is secured on substantially all the assets of the Group and is subject to two financial covenants, which require:

- the net asset value ("NAV") of the Group (excluding the value of the foreign exchange swap contract) to be greater than twice the liability under the foreign exchange swap contract; and
- the NAV to be at least £75 million in any event.

As at 30 June 2010 the adjusted NAV for this purpose was £132 million. The Group is therefore in compliance with its covenants.

Additionally, as is standard, there exists a cross default clause, such that covenants within the debt facilities of the Group's subsidiaries must not be in default.

If there were to be a breach of any of the above covenants then LBG, the counter-indemnity party, could call for the foreign exchange hedging contract to be settled in cash. This would trigger the payment of the value of the contract, which at 30 June 2010 was a liability of £28.9 million. The cost of this potential liability will vary as exchange rates change.

Asset Management

The portfolio income is derived from a broad range of properties, which are located in established commercial locations and are occupied by a wide variety of tenants on the basis of comparatively long terms, when compared to typical European leases.

In the Annual Report, we noted that vacancy levels in the portfolio had risen to 6.8% and that this was due to rising vacancy levels in Europort, the Frankfurt property, which were 31% at that time.

Since then, vacancies at Europort have remained broadly stable, at 29%, however the sale of IZD, which was 100% let, has the effect of raising the portfolio's average vacancy rate to 7.8%.

Whilst we are pleased with the progress that has been made in negotiations with various tenants at Europort, which could see vacancy levels decrease during the next few months, further vacancies will occur at the year end, notably Colt Telecom (the Group's 8th largest rent payer) has exercised its break option which is effective from 31 December 2010.

Over the coming months we intend to continue to focus management efforts on the Europort asset in order to secure new lettings, reduce vacancy levels and irrecoverable costs and therefore increase the level of net income generated by the property. Additionally, we will be continuing to negotiate with IBM at Nice in order to secure their longer term occupancy, albeit in a reduced amount of space at the property.

Occupational markets across Europe remain weak and there is the possibility that vacancy levels in the portfolio may well increase. Positively, however, rent collection rates for the portfolio remain good and arrears remain low at 2.5%. Some of the Group's tenants, most notably Panrico, are reportedly facing business difficulties and these covenants are closely monitored.

Matrix Property Fund Management (Guernsey) Limited
Manager
26 August 2010

MATRIX EUROPEAN REAL ESTATE INVESTMENT TRUST LIMITED

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2010

	Notes	**30 June 2010 (unaudited) £'000**	30 June 2009 (unaudited) £'000	31 December 2009 (audited) £'000
Non-current assets				
Property portfolio	15	313,889	549,355	354,423
Goodwill	16	2,113	15,567	2,839
Total non-current assets		316,002	564,922	357,262
Current assets				
Current assets directly associated with properties held for sale	24	-	-	195,761
Trade and other receivables	17	13,945	5,595	9,758
Cash and cash equivalents		16,194	38,662	18,315
Total current assets		30,139	44,257	223,834
Total assets		346,141	609,179	581,096
Current liabilities				
Trade and other payables	19	9,154	15,168	18,142
Interest-rate derivative contracts	18	3,480	8,635	7,681
Exchange-rate derivative contracts	18	1,674	37,698	2,998
Bank loans and overdrafts	20	-	65,199	-
Current liabilities directly associated with properties held for sale	24	-	-	139,182
Total current liabilities		14,308	126,700	168,003
Non-current liabilities				
Bank loans	20	191,467	334,524	254,032
Exchange-rate derivative contracts	18	27,269	-	41,851
Interest-rate derivative contracts	18	5,123	-	-
Government grants		-	1,152	-
Deferred tax		5,144	14,378	6,686
Total non-current liabilities		229,003	350,054	302,569
Total liabilities		243,311	476,754	470,572
Net assets		102,830	132,425	110,524
Equity attributable to owners of the parent				
Special Reserve		225,939	228,224	228,224
Translation reserve		26,183	51,203	56,908
Revenue reserve		(149,573)	(147,282)	(174,874)
Total equity attributable to owners of the parent		102,549	132,145	110,258
Non-controlling interests		281	280	266
Total equity		102,830	132,425	110,524
Net asset value per share (basic) (pence)	14	285	350	292

The Financial Statements have been authorised for issue and approved by the Board on 26 August 2010 and were signed on its behalf by:

Stephen Coe
Director

MATRIX EUROPEAN REAL ESTATE INVESTMENT TRUST LIMITED

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE SIX MONTHS ENDED 30 JUNE 2010

	Notes	**6 months to 30 June 2010 (unaudited) £'000**	6 months to 30 June 2009 (unaudited) £'000	12 months to 31 December 2009 (audited) £'000
Revenue				
Rental income		23,853	28,018	55,022
Property operating expenditure		(5,488)	(5,577)	(11,280)
Net rental income		18,365	22,441	43,742
Loss on disposal of property		(870)	-	(1,801)
Exchange gains realised on disposal of property	8	21,861	-	-
Total profit/(loss) on disposal of property		20,991	-	(1,801)
Total income		39,356	22,441	41,941
Other administrative expenses	9	(2,842)	(5,599)	(8,174)
Impairment of goodwill	16	(531)	(1,054)	(9,711)
Exchange rate differences		(997)	(1,158)	(2,773)
Total administrative expenses		(4,370)	(7,811)	(20,658)
Net deficit on revaluation of investment properties	15	(13,076)	(37,814)	(61,472)
Operating Profit/(loss)		21,910	(23,184)	(40,189)
Finance income	10	86	47	150
Finance expense	10	(10,135)	(11,138)	(22,043)
Movement in fair value of interest rate swap contracts	10	(1,628)	(4,351)	(2,742)
Movement in fair value of derivative contracts	10	13,100	13,561	7,984
		23,333	(25,065)	(56,840)
Share of the loss of joint ventures		-	(7)	(8)
Profit/(loss) before tax		23,333	(25,072)	(56,848)
Tax	11	1,983	2,213	6,383
PROFIT/(LOSS) FOR THE PERIOD/YEAR		25,316	(22,859)	(50,465)
Other comprehensive income:				
Exchange differences on translation of foreign operations		(8,864)	(20,876)	(15,171)
Other comprehensive income for the period, net of tax		(8,864)	(20,876)	(15,171)
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD/YEAR		16,452	(43,735)	(65,636)
Profit/(loss) attributable to:				
Owners of the parent	13	25,301	(22,837)	(50,429)
Non-controlling interests		15	(22)	(36)
		25,316	(22,859)	(50,465)
Total comprehensive income/(loss) attributable to:				
Owners of the parent		16,437	(43,713)	(65,600)
Non-controlling interests		15	(22)	(36)
		16,452	(43,735)	(65,636)
Profit/(loss) per share (basic and diluted) pence	13	67.5	(60.5)	(133.6)

MATRIX EUROPEAN REAL ESTATE INVESTMENT TRUST LIMITED

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE SIX MONTHS ENDED 30 JUNE 2010

	Attributable to owners of the company						
Group	Share capital	Special reserve	Translation reserve	Revenue reserve	**Sub Total**	Non-controlling interests	**Total Equity**
	£'000	£'000	£'000	£'000	**£'000**	£'000	**£'000**
At 31 December 2008	-	228,224	72,079	(124,445)	**175,858**	302	**176,160**
Total comprehensive income for the period	-	-	(20,876)	(22,837)	**(43,713)**	(22)	**(43,735)**
At 30 June 2009	-	228,224	51,203	(147,282)	**132,145**	280	**132,425**
Total comprehensive income for the period	-	-	5,705	(27,592)	**(21,887)**	(14)	**(21,901)**
At 31 December 2009	-	228,224	56,908	(174,874)	**110,258**	266	**110,524**
Buyback and cancellation of shares	-	(2,285)	-	-	**(2,285)**	-	**(2,285)**
Exchange gains realised on disposal of property	-	-	(21,861)	-	**(21,861)**	-	**(21,861)**
Total comprehensive income for the period	-	-	(8,864)	25,301	**16,437**	15	**16,452**
At 30 June 2010	**-**	**225,939**	**26,183**	**(149,573)**	**102,549**	**281**	**102,830**

A description of the nature and purpose of each reserve is included within note 21.

MATRIX EUROPEAN REAL ESTATE INVESTMENT TRUST LIMITED

CONSOLIDATED CASH FLOW STATEMENT
FOR THE SIX MONTHS ENDED 30 JUNE 2010

	Notes	**6 months to 30 June 2010 (unaudited) £'000**	6 months to 30 June 2009 (unaudited) £'000	12 months to 31 December 2009 (audited) £'000
Net cash inflow from operating activities	22	1,328	16,780	35,610
Cash flows from investing activities				
Payments to enhance properties		-	(1,186)	(6,905)
Cash proceeds from sale of properties		175,942	24,834	39,400
Net cash inflow from investing activities		175,942	23,648	32,495
Cash flows from financing activities				
Bank loans repaid		(174,344)	(17,075)	(44,657)
Bank interest received		86	47	150
Buyback of shares		(2,285)	-	-
Finance costs paid		(11,615)	(10,573)	(20,319)
Net cash outflow from financing activities		(188,158)	(27,601)	(64,826)
Effects of exchange rate changes on cash and cash equivalents		(2,672)	(6,180)	(5,540)
Net (decrease) increase in cash and cash equivalents		(13,560)	6,647	(2,261)
Opening cash and cash equivalents		18,315	32,015	32,015
Opening cash and cash equivalents directly associated with properties held for sale		11,439	-	-
Closing cash and cash equivalents		16,194	38,662	29,754
Closing cash and cash equivalents directly associated with properties held for sale		-	-	(11,439)
Closing cash and cash equivalents		16,194	38,662	18,315

NOTES TO THE FINANCIAL STATEMENTS

1. General information

Matrix European Real Estate Investment Trust Limited is a company domiciled in Guernsey. The consolidated interim financial statements of the Company for the six months ended 30 June 2010 comprise the Company and its subsidiaries (together referred to as the "Group").

These interim consolidated financial statements were approved for issue on 26 August 2010.

These condensed interim financial results are unaudited and do not comprise statutory accounts within the meaning of section 245 of the Companies (Guernsey) Law, 2008. Statutory accounts for the year ended 31 December 2009 were approved by the Board of Directors on 22 February 2010. The report of the auditors on those accounts was unqualified and the audit report did not contain any statement of matters that needed to be brought to the attention of the members.

2. Basis of preparation

The consolidated interim financial information for the six months ended 30 June 2010 for the Group has been prepared in accordance with the Listing Rules of the Financial Services Authority and IAS 34, 'Interim Financial Reporting' as adopted by the European Union. The interim report should be read in conjunction with the annual Financial Statements for the year ended 31 December 2009, which have been prepared in accordance with IFRSs as adopted by the European Union.

3. Going Concern

The Directors have presented the Financial Statements on the basis that the Group will continue as a going concern. The Manager’s Report and Chairman’s Statement outline the actions that have been taken and results achieved within the past year in respect of improving the Group’s financial position and mitigating the risks and uncertainties facing the Group.

4. Significant accounting policies

Except as described below, the accounting policies adopted are consistent with those of the annual Financial Statements for the year ended 31 December 2009, as described in those annual financial statements.

Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total annual earnings.

(a) *Standards, interpretations and amendments to published standards effective in 2010, but which are not relevant to the group*

The following standards, amendments and interpretations to published statements are mandatory for accounting periods beginning on or after 1 January 2010 but are currently not relevant to the Group’s operations:

- IAS 39 - Financial Instruments: recognition and Measurement: Eligible Hedged Items (effective for accounting periods beginning on or after 1 July 2009).
- IFRIC 17 - Distributions of Non-Cash Assets to Owners (effective for accounting periods beginning on or after 1 July 2009).
- IFRIC 18 - Transfer of Assets from Customers (effective for accounting periods beginning on or after 1 July 2009).
- IFRS 3 - Business Combinations and Complementary Amendments to IAS 27 Consolidated and Separate Financial Statements (both effective for accounting periods beginning on or after 1 July 2009).
- Amendments to IFRS 2 Group Cash-settled Share-based Payment Transactions (effective for periods beginning on or after 1 January 2010).

(b) Standards, amendments and interpretations to published standards not yet effective

Certain new standards, amendments and interpretations to existing standards have been published that are mandatory for the Group's accounting periods beginning after 1 January 2010 or later periods and which the Group has decided not to adopt early. These are:

- Amendments to IAS 32 – Classifications of Rights Issue (effective for accounting periods beginning on or after 1 February 2010).
- IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments (effective for periods beginning on or after 1 July 2010).
- IAS 24 (Revised) Related Party Disclosures (effective for periods beginning on or after 1 January 2011).
- Amendments to IFRIC 14 & IAS 19 Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (effective for periods beginning on or after 1 January 2011).

- IFRS 9 Financial instruments (effective for periods beginning on or after 1 January 2013 –still to be endorsed).

5. Financial risk management

The Group's activities expose it to a variety of financial risks: interest rate risk, currency risk, credit risk, liquidity risk and capital risk management. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The Group uses derivative financial instruments to hedge certain risk exposures.

(a) Interest rate risk

As the Group has no significant interest-bearing assets, the Group's income and operating cash flows are substantially independent of changes in market interest rates.

The Group's interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. Borrowings issued at fixed interest rates expose the Group to fair value interest rate risk. It is the Group's policy to hedge interest rate risk through the use of interest rate swaps. Such interest rate swaps have had the economic effect of converting borrowings from floating rates to fixed rates.

The Group has raised long-term borrowings at floating rates and substantially swapped them into fixed rates that are lower than those available if the Group borrowed at fixed rates directly. Under the interest rate swaps, the Group agrees with other parties to exchange, at specified intervals, the difference between fixed contract rates and floating-rate interest amounts calculated by reference to the agreed notional amounts. As at 30 June 2010, the Group's borrowings were fully hedged (December and June 2009: 11% un-hedged).

The interest rate swap liability reflects the fact that market interest rates are at a level lower than the amount of the fixed rate interest terms. Should the Euribor increase by 1 % the interest rate swap liability would decrease to £2.36m (December 2009: £5.54m; June 2009: £5.3m). Conversely should the Euribor fall by 1% the Group's interest rate swap liability would increase to £14.7m (December 2009: £10m; June 2009: £12.1m) from a closing value at reporting date of £8.6m (December 2009: £7.7m; June 2009: £8.6m).

(b) Currency risk

Whilst the Group's investments will typically be made in currencies other than sterling and generate non- sterling revenue, any dividends will be payable to Shareholders in sterling and the Net Asset Value will be stated in sterling. As a consequence, the Group will be exposed to currency fluctuations between the Group's presentation currency and other currencies (in particular, the euro). Movements in the exchange rate between sterling and any currencies in which the Group transacts may have an unfavourable effect on the Group's returns. These movements in the exchange rate may be influenced by factors such as trade imbalances, levels of short term interest rates, differences in relative values of similar assets in different currencies, long term opportunities for investment and capital appreciation and political developments.

The Group intends to hedge its foreign exchange rate exposure at levels which the Directors consider appropriate from time to time. As at the reporting date the Group has in place an income hedge (as detailed in note 18) and a capital hedge of approximately 92% (December 2009: 85%; June 2009: 75%) of its Net Asset Value against euro/sterling fluctuations. On 12 July 2010 the Board announced the re-instatement of dividend payments.

There is no guarantee that the proportion of dividend and Net Asset Value exposure which will be hedged will remain at these levels or that it will be possible to secure hedges in the future on acceptable commercial terms. In addition, the unhedged amount of dividend and Net Asset Value will remain exposed to currency fluctuations.

The intention of the Group's foreign exchange hedging strategy is to protect it from unfavourable movements in exchange rates and to provide a more stable dividend and capital value profile. However changes in the fair value of the Group's currency hedges may introduce volatility or negatively impact the Financial Statements of the Group.

At 30 June 2010, if the euro had strengthened by 5% against sterling with all other variables held constant, the post-tax profit for the period would have increased by £0.2m (December 2009: post-tax loss increased by £2.4m; June 2009: post-tax loss increased by £1.1m) as a result of foreign exchange losses on translation of the euro-denominated entities.

The table below demonstrates the sensitivity of the foreign exchange swap to currency fluctuations. The table represents the euro to sterling conversion.

Exchange €:£	1.03	1.09	1.15	Period end closing rate	1.30	1.39
	£'000	£'000	£'000	£'000	£'000	£'000
Periodic	18,872	13,763	10,778	6,427	2,684	(1,926)
Final	43,184	37,233	29,157	22,516	15,131	8,680
Exchange rate derivative liability	62,056	50,996	39,935	28,943	17,815	6,754

* Periodic - refers to value of the €5m quarterly foreign exchange swap

** Final - refers to the value of the €150m foreign exchange swap due in 2014

NOTES TO THE FINANCIAL STATEMENTS

(c) Credit risk

The Group is exposed to credit risk from cash and cash equivalents, derivative financial instruments held with LBG for foreign exchange ("FX") and interest rate swaps, deposits with banks and financial institutions, as well as credit exposure to tenants.

The credit risk on cash and cash equivalents is limited due to the high proportion of funds being held with high rated banking institutions. The table below shows the balance of cash and cash equivalents held with various financial institutions at the end of the reporting period.

Bank	Ratings at 30 June 2010	Balance at 30 June 2010 £'000
Barclays Bank	AA-	8,204
Investec Private Bank	BBB	4,105
Dexia	A+	3,431
Fortis	A+	311
Societe Generale Bank & Trust	A+	116
Erste Bank	A	27
		16,194

NB: These ratings are obtained from Fitch Ratings

The Group is exposed to loss of rental income and increase in costs, such as legal fees, if tenants fail to meet their payment obligations under their leases. The Group seeks to mitigate default risk by assessing the credit worthiness of potential and current tenants based on ratings assigned by independent credit rating agencies such as Dun & Bradstreet, and by diversifying its tenant base to include multinational corporations and local enterprises in different sectors and Continental European markets.

The Group may also require deposits or guarantees from banks or parent companies where there is a perceived credit risk or in accordance with prevailing market practice. The Manager reviews reports prepared by an independent credit rating agent, or other sources, to assess the credit quality of the Group's tenants and aims to ensure there is no excessive concentration of risk and that the impact of any default by a tenant is minimised.

However, there is no guarantee that credit risk management procedures will be able to limit potential loss of revenues and income from tenants who default on their lease obligations. If any or all of the Group's tenants are unable to pay against their receivable accounts, the Group's revenues and profitability will be adversely affected.

The table below details the Group's ten largest tenants representing greater than 74% of total contracted rent at the reporting date. All of the Group's major tenants have met their rental requirements within the terms of arrangement.

Tenant	Location	30 June 10 annual rent £'000	Proportion of annual contracted rent %	30 June 10 debtor balance £'000
1. Casino	St Etienne	5,731	18.8%	-
2. IBM	Nice	3,143	10.3%	-
3. Panrico	Spain	3,086	9.8%	-
4. Schenker Deutschland AG	Frankfurt	2,748	9.0%	49
5. NH Hotels	Düsseldorf	2,428	8.0%	-
6. Jacobs Nederland B.V.	Leiden	1,738	5.7%	-
7. La Poste	Lyon	1,635	5.4%	-
8. Colt Telecom GmbH	Frankfurt	876	2.9%	46
9. Peek & Cloppenburg	Kaiserslautern	736	2.4%	7
10. Hennes & Mauritz	Kaiserslautern	687	2.2%	-

NOTES TO THE FINANCIAL STATEMENTS

(d) Liquidity risk

Liquidity risk is the risk that the Group will be unable to meet its financial commitments.

There is additional risk that during 2010 with the possibility of further falls in property values through Europe that the Group could breach the LTV covenants with its banks. The table shows the quantum of cash needed to pay down existing debt to ensure no breaches of LTV covenants if the asset values within the portfolio continue to fall.

Portfolio valuation fall from 30 June 2010	0%	5%	10%	15%	20%	25%
	£'000	£'000	£'000	£'000	£'000	£'000
Required amount of BOS debt to be repaid due to breach of covenants on fall of LTV	-	-	-	-	8,073	19,843

The FX financial covenant requires the Net Asset Value (as defined under the FX contract) of the Group to remain above €75m, and to be at least twice the value of the foreign exchange swaps.

The tables below analyses the Group's financial liabilities, into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant. The Board has assumed the financial covenants will not be breached.

At 30 June 2010	Less than 1 year £'000	Between 1 and 2 years £'000	Between 2 and 5 years £'000	Over 5 years £'000
Borrowings	-	-	191,467	-
Derivative financial instruments*	5,154	1,711	30,681	-
Trade and other payables	9,154	-	-	-

At 30 June 2009	Less than 1 year £'000	Between 1 and 2 years £'000	Between 2 and 5 years £'000	Over 5 years £'000
Borrowings	65,199	92,336	242,188	-
Derivative financial instruments	46,333	-	-	-
Trade and other payables	15,168	-	-	-

At 31 December 2009	Less than 1 year £'000	Between 1 and 2 years £'000	Between 2 and 5 years £'000	Over 5 years £'000
Borrowings on properties held for sale (note 24)	132,076	-	-	-
Borrowings	-	-	254,032	-
Derivative financial instruments	10,679	2,926	38,925	-
Trade and other payables	22,182	-	-	-

*The Group had an aggregate mark-to-market liability in respect of FX hedging contracts of £28.9 m.
(December 2009: £44.8 m; June 2009: £37.7 m).This becomes payable should any of the FX covenants detailed on pages 4 and 5 be breached.

NOTES TO THE FINANCIAL STATEMENTS

The table below shows the credit balance of the main counterparties in relation to the Group's bank borrowings at the end of the reporting period.

	Fitch Ratings at 30/06/10	**30 June 2010 £'000**	30 June 2009 £'000	31 December 2009 £'000
Lloyds Banking Group	AA-	191,467	279,514	254,032
Landesbank Hessen-Thüringen	A+	-	94,902	99,390
Deutsche Postbank AG	A+	-	25,307	32,686
		191,467	399,723	386,108

(e) Capital risk management

The Group's underlying objective is to provide Shareholders with an attractive level of income return, together with the potential for income and capital growth, through investment in European Property. However, in view of market conditions the Group's current priority is managing the risks to the Group from falling property values.

To mitigate against this risk, the Group has within the last year made property sales, refinanced its bank borrowings, repaid bank loans to reduce gearing, and renegotiated various financial covenant terms.

Further courses of action may be required if property values continue to fall and could include property sales, seeking covenant waivers on the various financial covenants, refinancing with existing banks (potentially with substantial loan fees and margin increases and possible ceding of some control rights), and also potentially dilutive issuance of shares in the Company, or preference equity in (or mezzanine debt of) the Company or its Subsidiaries.

Consistent with industry practice, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by the total capital. Net debt is calculated as loan and other borrowings less cash and cash equivalents. Total capital is calculated as 'equity' as shown in the Consolidated Statement of Financial Position plus net debt. The actions taken by the Group in the past year have successfully reduced the gearing ratio to below the target of 65%.

The gearing ratios at 30 June 2010 and 2009 were as follows:

	30 June 2010 £'000	30 June 2009 £'000	31 December 2009 £'000
Loans and other borrowings	191,467	399,723	386,108
Less: cash and cash equivalents	(16,194)	(38,662)	(29,754)
Net debt	175,273	361,061	356,354
Total equity	102,830	132,425	110,524
Total capital	278,103	493,486	466,878
Gearing ratio (%)	63.0%	73.2%	76.3%

6. Segmental reporting

The Directors consider that there is only one reportable operating segment being investment properties and only one geographic area being Europe. The Group's revenue, profit before taxation and net assets are attributable to this single activity and geographical area and are reported in the statement of comprehensive income and statement of financial position.

Disclosure regarding the Group's geographical split of revenue and property portfolio is given in the Manager's Report.

NOTES TO THE FINANCIAL STATEMENTS

The Group's Chief Operating Decision Maker is the Board of Directors and the accounting policies used for internal reporting purposes are consistent with those disclosed in the Group's Financial Statements for the year ended 31 December 2009.

7. Employee costs

The Group has no employees (December and June 2009: nil)

8. Exchange gains realised on disposal of property

The profit on disposal of £21.9m in the period arose from the realisation of cumulative exchange differences having previously arisen on consolidation.

NOTES TO THE FINANCIAL STATEMENTS

9. Administrative expenses

	6 months to 30 June 2010 (unaudited) £'000	6 months to 30 June 2009 (unaudited) £'000	12 months to 31 December 2009 (audited) £'000
Management fee	1,230	1,713	3,247
Legal and consultancy	675	1,452	1,766
Accountancy and administration	407	469	1,004
Audit fees	71	28	167
Other	459	1,937	1,990
	2,842	5,599	8,174

Other administrative expenses include directors' fees, office rental, valuation, registrar and regulatory fees and sundry costs.

10. Net Finance costs

	6 months to 30 June 2010 (unaudited) £'000	6 months to 30 June 2009 (unaudited) £'000	12 months to 31 December 2009 (audited) £'000
Finance income:			
Short-term deposits	(86)	(47)	(150)
Finance expense:			
Bank borrowings	8,786	10,505	20,130
Financing costs	153	-	244
Loan fee amortisation	805	633	1,669
Bank loan deferred arrangement fee	391	-	-
	10,135	11,138	22,043
Movement in fair value of derivative contracts:			
Interest-rate swaps	1,628	4,351	2,742
Exchange-rate derivative contracts	(13,100)	(13,561)	(7,984)
	(11,472)	(9,210)	(5,242)
Net finance costs	(1,423)	1,881	16,651

11. Income tax expense

Tax is charged at 32.98% for the six months ended 30 June 2010 (31 December 2009 24.94% and 30 June 2009 29.26%) representing the best estimate of the average annual effective tax rate expected for the full year, applied to the pre-tax income of the six month period.

NOTES TO THE FINANCIAL STATEMENTS

12. Dividends

There have been no dividends paid during the period (December and June 2009 £nil).

On 12 July 2010, the Board declared a dividend of 4 pence per share in respect of the half-year ended 30 June 2010. This dividend will be paid on 27 August 2010 and has not been included as a liability within these Financial Statements, in accordance with IAS 10 'Events after the balance sheet date'.

13. Profit/(loss) per share

	6 months to 30 June 2010 (unaudited) £'000	6 months to 30 June 2009 (unaudited) £'000	12 months to 31 December 2009 (audited) £'000
Profit/(loss) per share – Basic and diluted (pence)	67.5	(60.5)	(133.6)
Profit/(loss) for the period attributable to owners (£'000)	25,301	(22,837)	(50,429)
Weighted average number of shares in issue	37,481,812	37,738,118	37,738,118

As the Group has no share option schemes, the same basic and diluted profit (loss) per share is reported.

14. Net assets per share

	6 months to 30 June 2010 (unaudited)	6 months to 30 June 2009 (unaudited)	12 months to 31 December 2009 (audited)
Net assets per share (pence)	285	350	292
Net assets (£'000)	102,830	132,425	110,524
Number of shares in issue	35,953,833	37,738,118	37,738,118

NOTES TO THE FINANCIAL STATEMENTS

15. Property portfolio

	Non current assets	Current assets	
	Investment properties	Properties held for sale	Property portfolio total
	£'000	£'000	£'000
Book value at 31 December 2008 (audited)	661,894	27,015	688,909
Capital expenditure	6,321	-	6,321
Property disposal	-	(29,340)	(29,340)
Movements on revaluation of properties			
- recognised in the statement of comprehensive income	(37,814)	4,506	(33,308)
- recognised in equity	-	-	-
Exchange differences on translation of foreign currencies	(81,046)	(2,181)	(83,227)
Book value at 30 June 2009 (unaudited)	549,355	-	549,355
Capital expenditure	516	-	516
Property disposal	(19,994)	-	(19,994)
Movements on revaluation of properties		-	
- recognised in the statement of comprehensive income	(23,658)	-	(23,658)
- recognised in equity	3,499	-	3,499
Exchange differences on translation of foreign currencies	23,919	-	23,919
Transfer to properties held for sale (note 24)	(179,214)	179,214	-
Book value at 31 December 2009 (audited)	354,423	179,214	533,637
Property disposal	-	(179,214)	(179,214)
Movements on revaluation of properties			-
- recognised in the statement of comprehensive income	(13,076)	-	(13,076)
Exchange differences on translation of foreign currencies	(27,458)	-	(27,458)
Book value at 30 June 2010 (unaudited)	313,889	-	313,889

The fair value of the Group's investment properties at 30 June 2010 has been arrived at on the basis of valuations carried out by CB Richard Ellis ("CBRE") and Drivers Jonas, external valuers. The valuation basis has been by "market value" in accordance with the Royal Institution of Chartered Surveyors ("RICS") Appraisal and Valuation Standards. The historic cost of the property portfolio translated at reporting date exchange rate is £415.1m (December 2009: £671.0m; June 2009: £661.5m).

The table below reconciles the Property portfolio per the Statements of Financial Position to the gross portfolio value based on the external valuers' reports at reporting date.

	Notes	**Total £'000**
Property portfolio per Statements of Financial Position	15	313,889
Capital expenditure		1,473
Gross portfolio value per valuers' reports		315,362

NOTES TO THE FINANCIAL STATEMENTS

16. Goodwill

	6 months to 30 June 2010 (unaudited) £'000	6 months to 30 June 2009 (unaudited) £'000	12 months to 31 December 2009 (audited) £'000
At beginning of period	7,595	18,932	18,932
Impairment	(531)	(1,054)	(9,711)
Elimination on disposal of property	(4,648)	-	-
Exchange differences on translation of foreign currencies	(303)	(2,311)	(1,626)
At end of period	2,113	15,567	7,595
Disclosed within non-current assets	2,113	15,567	2,839
Disclosed within current assets directly associated with properties held for sale (note 24)	-	-	4,756
	2,113	15,567	7,595
Goodwill is attributable to the following cash generating units			
Duren	2,113	3,408	2,839
IZD (note 24)	-	12,159	4,756
	2,113	15,567	7,595

The goodwill capitalised on the acquisition of Stadt Center Duren Verwaltungs GmbH is reviewed every six months for impairment, or more frequently if there is an indication that impairment may have occurred.

17. Trade and other receivables

	30 June 2010 (unaudited) £'000	30 June 2009 (unaudited) £'000	31 December 2009 (audited) £'000
Rent receivable	4,008	2,085	4,742
Tenant lease incentives	1,746	516	1,186
Monies held by property managers	1,285	2,147	838
VAT recoverable	981	681	2,717
Amounts held in escrow	5,321	-	-
Other	604	166	275
	13,945	5,595	9,758

18. Derivative Financial Instruments

	6 months to 30 June 2010 (unaudited) £'000	6 months to 30 June 2009 (unaudited) £'000	12 months to 31 December 2009 (audited) £'000
Interest-rate derivative contracts			
- Current liabilities	(3,480)	(8,635)	(7,681)
- Non-current liabilities	(5,123)	-	-
Exchange-rate derivative contracts			-
- Current liabilities	(1,674)	(37,698)	(2,998)
- Non-current liabilities	(27,269)	-	(41,851)
	(37,546)	(46,333)	(52,530)

The Group uses interest-rate swaps to mitigate the effects of movements in interest rates on the results of the Group. The Group has a number of interest-rate swaps that exchange variable rates to fixed rates with expiration dates between October 2010 and January 2014.

The Group uses foreign exchange rate derivative contracts to mitigate the effect of movements in exchange rates on the results of the Group. The Group has a single exchange rate derivative contract which consists of two elements. The first element is a cash-flow hedge whereby €5.0 million are exchanged for £3.7 million on a quarterly basis until June 2014. The second element is a fair-value hedge for €150 million, to be exchanged for £101.3 million. This element of the hedge becomes due June 2014. In the event of a default on the covenants attaching to the swap the Group could be required to settle the swap contract which at reporting date is a liability of £28.9 million. The covenants in relation to the exchange rate derivative are detailed in note 5(d).

The Group does not apply hedge accounting.

19. Trade and other payables

	30 June 2010 (unaudited) £'000	30 June 2009 (unaudited) £'000	31 December 2009 (audited) £'000
Trade payables	453	1,522	485
Amounts due to related parties	452	1,271	777
Accruals	706	2,304	6,070
Interest payable	2,540	4,817	3,248
Rent received in advance	2,760	1,195	2,712
VAT payable	547	680	2,141
Income tax	667	950	1,580
Other payables	1,029	2,429	1,129
	9,154	15,168	18,142

NOTES TO THE FINANCIAL STATEMENTS

20. Borrowings

Movement in the Group's borrowings is analysed as follows:	**30 June 2010 (unaudited) £'000**	30 June 2009 (unaudited) £'000	31 December 2009 (audited) £'000
At the beginning of the period	386,108	475,829	475,829
Finance costs on refinancing	(908)	-	(5,661)
Repayment of borrowings	(174,344)	(17,075)	(44,060)
Amortisation of finance costs	805	633	1,669
Bank loan deferred arrangement fee	391	-	-
Exchange differences on translation of foreign currencies	(20,585)	(59,664)	(41,669)
At the period end	191,467	399,723	386,108

There is no significant difference between the fair value and the book value of the Group's borrowings.

The maturity profile of the Group's borrowings is as follows:

	30 June 2010 (unaudited) £'000	30 June 2009 (unaudited) £'000	31 December 2009 (audited) £'000
Within one year	-	65,199	-
Within one year - properties held for sale (note 24)	-	-	132,076
In the second year	-	92,336	-
In the third year	-	193,762	-
In the fourth year	191,467	48,426	-
In the fifth year	-	-	254,032
	191,467	399,723	386,108

NOTES TO THE FINANCIAL STATEMENTS

21. Share capital

The management shares rank pari passu with the participating Shares in the event of liquidation but only for the return of the nominal paid up capital, but carry no voting rights unless there are no participating Shares in issue, and carry no rights to dividends.

	30 June 2010 (unaudited)		30 June 2009 (unaudited)		31 December 2009 (audited)	
	No.	**£**	No.	£	No.	£
Authorised share capital						
Management shares of £1	100	100	100	100	100	100
Participating shares with no par value	unlimited	-	unlimited	-	unlimited	-
Closing balance						
Issued and fully paid						
Management shares						
Opening and closing balance	2	2	2	2	2	2

	30 June 2010 (unaudited)	30 June 2009 (unaudited)	31 December 2009 (audited)
	No.	No.	No.
Issued and fully paid Participating shares			
Opening balance	37,738,118	37,738,118	37,738,118
Purchase of own shares	(1,784,285)	-	-
Closing balance	35,953,833	37,738,118	37,738,118

Details regarding the purchase of own shares are given in the Chairman's statement.

The following describes the nature and purpose of each reserve within equity:

Special Reserve

On 15 December 2006 the Royal Court of Guernsey confirmed the reduction of share capital by cancellation of its share premium at that time and creation of a separate special reserve, which is an additional distributable reserve to be used for all purposes permitted under Guernsey Company law, including the buy-back of shares and the payment of dividends.

Translation Reserve

The amount of any gains and losses arising on the translation of net assets of foreign operations in to Sterling.

Revenue Reserve

The cumulative amount of any profits or losses.

Non- controlling interests

The share of net assets attributable to non-controlling interests in subsidiary undertakings.

NOTES TO THE FINANCIAL STATEMENTS

22. Cash flow from operating activities

	30 June 2010 (unaudited) £'000	30 June 2009 (unaudited) £'000	31 December 2009 (audited) £'000
Profit / (loss) for the period / year	25,316	(22,859)	(50,465)
Income tax credit	(1,983)	(2,213)	(6,383)
Profit / (loss) before tax	23,333	(25,072)	(56,848)
Share of the loss of joint ventures	-	7	8
	23,333	(25,065)	(56,840)
Movement in the fair value of interest rate derivative contracts	1,628	4,351	2,742
Movement in the fair value of foreign exchange derivative contracts	(13,100)	(13,561)	(7,984)
Finance expense	10,135	11,138	22,043
Finance income	(86)	(47)	(150)
Operating profit/(loss)	21,910	(23,184)	(40,189)
(Profit)/ loss on disposal of property	(20,991)	-	1,801
Exchange rate differences	997	1,158	2,773
Adjustments for:			
Impairment of goodwill	531	1,054	9,711
Depreciation	11	-	5
Net deficit on revaluation of property portfolio	13,076	37,814	61,472
Tenant incentives and rental guarantees	-	(217)	(863)
Changes in working capital:			
(Increase) / decrease in trade and other receivables	(4,927)	2,378	2,048
(Decrease) / increase in trade and other payables	(9,352)	(1,645)	179
	1,255	17,358	36,937
Tax received /(paid)	73	(578)	(1,327)
Net cash inflow from operating activities	1,328	16,780	35,610

NOTES TO THE FINANCIAL STATEMENTS

23. Related party transactions

The Group is managed by Matrix Property Fund Management (Guernsey) Limited ("MPFM(G)") an investment management company incorporated in Guernsey. Under the terms of the Management and Investment Advisory Agreement, MPFM(G) is entitled to a quarterly management fee, acquisition fees and performance fees. The figures below show the related party transactions at the reporting date.

	30 June 2010 (unaudited) £'000	30 June 2009 (unaudited) £'000	31 December 2009 (audited) £'000
Statement of comprehensive income			
Insurance commissions	85	-	91
Management fee	(1,230)	(1,713)	(3,247)
Accountancy fees	-	(127)	(118)
Expense reimbursements	(17)	(34)	(54)
	(1,162)	(1,874)	(3,328)

	30 June 2010 (unaudited) £'000	30 June 2009 (unaudited) £'000	31 December 2009 (audited) £'000
Statement of financial position			
Management fee	444	871	750
Accounting fees	-	34	-
Other	8	8	27
	452	913	777

24. Properties held for sale

As at 31 December 2009, the IZD Tower in Vienna ("Vienna") was classified as held for sale. The Vienna sale completed on 4 May 2010.

	30 June 2010 (unaudited) £'000	30 June 2009 (unaudited) £'000	31 December 2009 (audited) £'000
Assets classified as held for sale			
Investment properties	-	-	179,214
Goodwill	-	-	4,756
Trade and other receivables	-	-	352
Cash and cash equivalents	-	-	11,439
	-	-	195,761
Liabilities classified as held for sale			
Trade and other payables	-	-	4,040
Bank loans	-	-	132,076
Government grants	-	-	1,142
Deferred tax	-	-	1,924
	-	-	139,182

INDEPENDENT REVIEW REPORT

Introduction

We have been engaged by the Group to review the condensed set of financial statements in the half yearly report for the six months ended 30 June 2010 which comprises the consolidated statements of financial position, consolidated statements of comprehensive income, consolidated statements of changes in equity, consolidated cash flow and related notes 1 to 24. We have read the other information contained in the half-yearly report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

Directors' responsibilities

The half yearly report is the responsibility of, and has been approved by, the Directors. The Directors are responsible for preparing the half yearly report in accordance with the Disclosure and Transparency Rules of the United Kingdom's Financial Services Authority.

As disclosed in note 2, the condensed set of financial statements included in this half-yearly 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 Group a conclusion on the condensed set of financial statements in the half yearly report based on our review. This report, including the conclusion, has been prepared for, and only for, the Group for the purpose of the Disclosure and Transparency Rules of the Financial Services Authority and for no other purpose. No person is entitled to rely on this report unless such a person is a person entitled to rely upon this report by virtue of and for the purpose of our terms of engagement or has been expressly authorised to do so by our prior written consent. Save as above, we do not accept responsibility for this report to any other person or for any other purpose and we hereby expressly disclaim any and all such liability.

Scope of review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly report for the six months to 30 June 2010 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure and Transparency Rules of the United Kingdom's Financial Services Authority.

BDO Limited
Chartered Accountants
Place du Pré
Rue du Pré
St Peter Port
Guernsey
26 August 2010

MATRIX EUROPEAN REAL ESTATE INVESTMENT TRUST LIMITED

COMPANY INFORMATION

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Crispian Collins (Chairman)
Stephen Coe
Jan van der Vlist

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MATRIX EUROPEAN REAL ESTATE INVESTMENT TRUST LIMITED

INFORMATION FOR SHAREHOLDERS

Financial calendar

Second Interim Management statement	November 2010
Annual Report and Financial Statements	March 2011
Annual General Meeting	April 2011
First Interim Management statement	May 2011

Share price

Share price at 30 June 2010	116.80p
High during the 6 months ended 30 June 2010 (15 April 2010)	139.50p
Low during the 6 months ended 30 June 2010 (12 February 2010)	81.25p

Other (€:£)

Average exchange rate for the period	1.1504
Closing exchange rate for the period	1.2216

Investor relations and general enquiries

For all investor relations and general enquiries about MEREIT, including requests for further copies of the Report and Accounts, please contact:

Praxis Property Fund Services Limited
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Or visit our investor relations website www.mereit.info for full up-to-date investor relations information including the latest share price, recent annual and interim reports, results presentations and financial news.

Communications with shareholders are mailed to the addresses held on the share register. For all shareholder administration enquires, including changes of address, please contact:

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