MATRIX EUROPEAN REAL ESTATE INVESTMENT TRUST LIMITED

HALF YEARLY REPORT

FOR THE PERIOD ENDED
30 JUNE 2012

MATRIX EUROPEAN REAL ESTATE INVESTMENT TRUST LIMITED

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CHAIRMAN'S STATEMENT

The first half of 2012 has seen good progress made on the sales process, in what has turned out to be another very difficult period for the European property market.

Three sales have been secured since the start of the year; Lyon and Celle were both sold at prices above their latest valuation, Leiden, reflecting the difficult market conditions generally and significantly worsening market locally, fell short.

Further assets are being marketed but we are finding prospective purchasers to be highly selective and demanding in terms of the quality of income required from their investments. As a consequence of this, the Manager is spending additional time seeking to extend leases prior to sales in order to appeal to the widest possible market.

The headline value of the Group's existing property portfolio has declined 4.7%, in euro terms on a like-for-like basis, over the course of the period to €298.6 million (December 2011: €313.4 million). This reduction reflects the continued nervousness over European financial and property markets as a result of concerns over the stability of the Eurozone. As a result of this, investors are proving reluctant to commit to transactions during a period of heightened uncertainty.

In sterling terms, the existing portfolio has declined in value, over and above changes relevant to the euro value, by an additional £9.3 million due to changes in currency over the course of the period, from £263.1 million as at 31 December 2011 to £241.6 million and this change is reconciled in the table below:

Property Value as at 31 December 2011	€362.2m	£303.2m
Disposals (book value)	(€48.8m)	(£40.1m)
	€313.4m	£263.1m
Capital expenditure	€0.2m	£0.2m
Valuation Movement	(€15.0m)	(£12.3m)
Currency Translation	-	(£9.3m)
Rounding	-	(£0.1m)
Property Value as at 30 June 2012	€298.6m	£241.6m
Reported in the financial statement as:		
Investment property portfolio		£90.7m
Properties held for sale		£148.4m
Subtotal (refer to note 15)		£239.1m
Tenant incentives (refer to note 17)		£2.5m
		£241.6m

Whilst the weakening of the euro over the period to 30 June 2012 has reduced the sterling value of the property portfolio this is substantially off-set by declines in the sterling value of the Group's debt. In addition to a reduction of £29.7 million in loan repayments, the debt (and associated fees) decreased due to exchange rate differences in sterling terms by £6.2 million to £163.3 million at 30 June 2012.

Movement in the Group's foreign exchange hedge also helped to preserve the Group's NAV as the cross-currency swap liability decreased by £8.3 million over the course of the period to £17.3 million (£25.6 million at 31 December 2011). Of the reduction, £2.4 million was due to payments to reduce the contract value, as described in the Manager's report. The Board intends to continue to reduce the value of the capital element of the liability throughout the remaining life of the contract.

The liability from the Group's interest rate swaps has decreased over the period to stand at £5.7 million at 30 June 2012 (31 December 2011: £6.8 million). The Group had an aggregate mark-to-market liability of both foreign exchange and interest rate hedging contracts of £23.0 million (31 December 2011: £32.5 million).

Overall, the Group has seen a decline in NAV over the period from 238p as at 31 December 2011 to 206p at the period-end. The NAV per share is calculated after taking into account all liabilities including those associated with the hedging contract. During the period capital of £3.5m (equivalent to 10p per share) was returned to shareholders, thereby reducing Net Assets.

The Group had an overall loan-to-value (LTV) ratio at the reporting date of 67.7% and circa £9.5 million of free cash resources. This LTV exceeded the 65% threshold above which a cash sweep operates and the Board will, before 20 September 2012 (the date upon which a cash sweep would come into effect), decide whether de-gearing is best use of cash resources.

The Group remained in compliance with the financial covenants associated with its bank facilities and foreign exchange contract, further details of which are given in the Manager's report.

The disposal program is making steady progress in what is proving to be a very difficult market. The three sales to date have shown mixed results and have generally been hard fought and have required lengthy marketing periods. The Board hopes to be able to report on further sales, market permitting, during the second half of the year.

As previously noted, the change in Group strategy does not affect the Board's view of the quality of portfolio. The Group continues to operate well within all of its financial covenants and benefits from a strong cash flow based upon a portfolio that offers long-term income that is, in the main, secured on tenants with substantial financial covenants.

In June 2012 it was announced that Schroder Property Investment Management Limited ("Schroders") would take over from the existing Manager, Matrix Property Fund Management. Much work has taken place to effect the handover to Schroders and an announcement will be made in due course when Schroders commences the management services. I would like to take this opportunity to express the Board's thanks to the team at Matrix Property Fund Management for their hard work and support.

Crispian Collins
Chairman

MANAGER'S REPORT

Forward Looking Statement

This report has been prepared solely to provide additional information to enable 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 the Manager up to the time of its 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 Company's investment objectives reflect the intention to dispose of all of the Group's assets.

The assets of the Group will be realised in an orderly manner, that is, with a view to achieving a balance between (i) returning cash to Shareholders at such times and from time to time and in such manner as the Board may (in its absolute discretion) determine; (ii) reducing the Group's existing liabilities; and (iii) maximising the disposal value of the Group's assets. The Board aims to complete the sale of all of the Group's assets by the end of 2013.

The Group may not make new acquisitions of real estate assets except where required to preserve and/or enhance the disposal value of its existing assets.

The Group will adopt a policy of progressively reducing its gearing and swap liabilities throughout the disposal programme.

Market Outlook

In the full year accounts it was noted that 2012 looked set to be another difficult year. At that time the modest average prime yield improvements that had been seen through the earlier part of 2011 had begun to unwind and occupier markets were seeing little in the way of rental growth.

This trend has continued through the first half of the year with CBRE reporting that yields across all sectors in Q2 have continued to rise and that rental growth has only been seen in the retail sector.

Investment volumes have remained stable through the year at around €25 billion per quarter, which is perhaps surprising given the anecdotal evidence of transactions being placed on hold during the turmoil in Europe, with half of all activity taking place in the office sector and with a strong bias towards London and Paris. The common theme of recent years, a preference for core over non-core assets, remains.

Our marketing activity shows that investors continue to be very particular over their investment decisions and are seeking to limit their exposure to occupational risk in particular.

Portfolio Overview

The headline value of the property portfolio (before adjustments for tenant incentives) as at 30 June 2012 was £241.6 million (€298.6 million) representing a like-for-like fall over the period of 4.7% in euro terms from the 31 December 2011 value of £303.2 million (€362.2 million).

The valuations have been undertaken by the independent valuer (CBRE) in accordance with the Royal Institution of Chartered Surveyors (RICS) Appraisal and Valuation Standards and show the "Fair Value" assuming an asset sale of each property and allow for acquisition costs incurred by purchasers.

The portfolio produces a current annual rental income of £24.1 million (all derived from external customers), has a weighted average lease length of 8.2 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 2012 Annual Rent	Proportion of Annual Contracted Rent
1	Casino	St Etienne	5AA1	£5.5m	22.9%
2	IBM	Nice	5A1	£3.2m	13.1%
3	Panrico	Spain	N4[1]	£3.0m	12.4%
4	NH Hoteles	Düsseldorf	2A2[2]	£2.3m	9.7%
5	Schenker Deutschland	Frankfurt	5AA2	£2.1m	8.7%
6	LSG Lufthansa[3]	Frankfurt	2AA2/F3	£0.8m	3.5%
7	Peek & Cloppenberg	Kaiserslautern	5AA2	£0.7m	3.0%
8	Hennes & Mauritz	Kaiserslautern	2A2[4]	£0.6m	2.7%
9	Federal Express Europe Inc.	Frankfurt	5AA	£0.6m	2.4%
10	APCOA Carparking GmbH	Kaiserslautern	2A1	£0.5m	1.9%
				£19.3m	80.3%

[1] Rent guarantee for 12-months held.
[2] Parent company guarantee – 5A4 rating.
[3] Tenants are two LSG Sky Chefs subsidiaries of LSG Lufthansa
[4] Swedish parent company guarantee

Financing & Financial Covenants

At 30 June 2012 the Group had £163.3 million (€201.9 million) of debt outstanding. This sum comprises loans of £163.5 million (€202.2 million) net of reductions for pre-paid loan fees of £1.9 million (€2.4 million) and additions for deferred arrangement fees of £1.7 million (€2.1million). All of the loans mature in January 2014.

As at 30 June 2012 the Group had an overall LTV ratio of 67.7% and the Group had approximately £13.3 million of cash of which circa £9.5 million (after taking into account creditors and commitments) is available to protect its LTV covenants, which are considered below.

Debt Facilities

All of the Group's debt is held with Lloyds Banking Group ("LBG"). The loan has a maximum LTV covenant of 75%, which will next be tested at 20 September 2012.

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 ("cash sweep").
- When properties are sold the debt pay-down required is equal to 120% of the allocated loan for the property sold and the Foreign Exchange liability will be reduced in proportion to the property value.
- The loan is subject to an interest cover ratio of 1.30x.

The loan carries a margin of 2.75%, reducing to 2.25% if the LTV is below 60%.

The 30 June 2012 LTV exceeded the 65% threshold and, unless the Group de-gears the portfolio by €8.1m by 20 September 2012, surplus income will be used to amortise the Group's debt.

The Group has valuation headroom of circa 9.7% based on 30 June 2012 values before the 75% LTV covenant is breached.

MANAGER'S REPORT

Interest Rate Hedging

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 2.69% and all expire in January 2014.

The amount of interest rate hedging has changed substantially over the period, due to the sales that have taken place. At 31 December 2011 the Group held €231.1 million of interest rate swaps with an associated liability of £6.8 million. By 30 June 2012 the quantum of hedging had reduced to €207.2 million and the liability to £5.7 million. £0.9 million was expended in the period in breaking these hedges.

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 ("CCS") contract with LBG, which consists of two elements:

- a cash-flow hedge whereby €5.0 million is exchanged for £3.7 million on a quarterly basis until June 2014; and
- a fair-value hedge for €101.0 million to be exchanged for £68.2 million due in June 2014.

Over the course of 2012, £2.4 million has been utilised to reduce the liability associated with this contract which currently stands at £17.3 million as compared to 31 December 2011 when the liability under the contract was £25.6 million (and the capital contract sum was for an exchange of €116.3 million for £78.5 million in June 2014).

This liability is secured on 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 £75.0 million, based on the capital element of the CCS being €150m, reducing proportionately as the contract is reduced. At the period-end, therefore, the NAV must have exceeded £50.6 million.

As at 30 June 2012 the adjusted NAV for this purpose was £86.0 million. The Group is therefore in compliance with its covenants.
Additionally, as is standard, there exists a cross default clause, such that a breach of covenant within the debt facilities of the Group is an event of default under the CCS.

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 2012 was a liability of £17.3 million. The cost of this potential liability will vary as exchange rates change and Note 5(b) considers this.

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.

Since the start of the year, three disposals have been completed. Lyon has been sold for €21.5 million (31 December 2011 value €20.4 million), Celle for €9.8 million (31 December 2011 value: €9.4 million) Leiden for €16.5 million (31 December 2011 value: €19.0 million). Several other properties are currently being marketed.

Vacancy levels within the portfolio have reduced to 6.8% overall (31 December 2011: 7.4% on a like-for-like basis). All material voids in the portfolio occur within the Europort property in Frankfurt where the vacancy level has decreased to circa 22% from 24% as at 31 December 2011. Activity on Europort includes the following:

- Smartline Cargo Services has taken a five-year lease on 3,112 sqm of office and warehouse accommodation within 34D.
- SACO have also taken a five-year lease on 2,716 sqm of office and warehouse accommodation in 34C.
- Schenker have extended the lease on their office and warehouse space within 34A until January 2016.

MANAGER'S REPORT

The Group's other main multi-leased property is a shopping centre in Düren, Germany and this centre continues to trade well (turnover is 1% ahead of last year as at 30 June 2012) and remains fully occupied.

At Kaiserslautern, following the extension of the lease to H&M, discussions are under way with other tenants to extend their leases and the option to extend Casino's lease at St Etienne has been exercised. The current lease expired in July 2017 and the new agreement provides for 10 years of income from July 2012.

Matrix Property Fund Management (Guernsey) Limited

Manager

22 August 2012

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. As explained in note 3 to the Financial Statements, the directors do not believe the going concern basis to be appropriate and these Financial Statements have not been prepared on that basis.

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 2011. 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**	**Wessel Hamman**	**Roger Phillips**
Chairman	**Director**	**Director**	**Director**	**Director**
22 August 2012	**22 August 2012**	**22 August 2012**	**22 August 2012**	**22 August 2012**

UNAUDITED CONSOLIDATED CONDENSED STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2012

	Notes	**30 June 2012 £'000**	30 June 2011 £'000	31 December 2011 £'000
Non-current assets				
Investment property portfolio	15	90,697	331,677	203,261
Goodwill	16	1,344	2,065	1,625
Total non-current assets		92,041	333,742	204,886
Current assets				
Properties held for sale	15	148,410	-	94,980
Trade and other receivables	17	7,675	13,027	11,080
Cash and cash equivalents		13,331	18,398	12,380
Total current assets		169,416	31,425	118,440
Total assets		261,457	365,167	323,326
Current liabilities				
Trade and other payables	19	3,628	7,176	6,834
Interest-rate derivative contracts	18	3,628	1,912	3,015
Exchange-rate derivative contracts	18	1,332	3,405	1,711
Total current liabilities		8,588	12,493	11,560
Non-current liabilities				
Bank loans	20	163,303	213,727	197,850
Interest-rate derivative contracts	18	2,040	1,562	3,830
Exchange-rate derivative contracts	18	15,956	32,250	23,907
Deferred tax		2,888	4,912	3,949
Total non-current liabilities		184,187	252,451	229,536
Total liabilities		192,775	264,944	241,096
Net assets		68,682	100,223	82,230
Equity attributable to owners of the parent				
Special reserve		213,847	222,703	217,307
Translation reserve		26,273	36,010	28,872
Revenue reserve		(171,719)	(158,774)	(164,230)
Total equity attributable to owners of the parent		68,401	99,939	81,949
Non-controlling interests		281	284	281
Total equity		68,682	100,223	82,230
Net asset value per share (basic) (pence)	14	206	278	238

The consolidated condensed Financial Statements have been authorised for issue and approved by the Board on 22 August 2012 and were signed on its behalf by:

Jan van der Vlist
Director

MATRIX EUROPEAN REAL ESTATE INVESTMENT TRUST LIMITED

UNAUDITED CONSOLIDATED CONDENSED STATEMENT OF COMPREHENSIVE INCOME FOR THE SIX MONTHS ENDED 30 JUNE 2012

	Notes	**6 months to 30 June 2012 £'000**	6 months to 30 June 2011 £'000	12 months to 31 December 2011 £'000
Revenue				
Rental income		15,329	17,194	34,077
Property operating expenditure		(3,716)	(3,120)	(7,736)
Net rental income		11,613	14,074	26,341
Loss on disposal of properties		(1,163)	-	-
Other income	8	-	2,650	2,728
Total income		10,450	16,724	29,069
Administrative expenses	9	(2,996)	(3,086)	(5,456)
Impairment of goodwill	16	(230)	(379)	(678)
Exchange rate differences		(621)	(1,482)	(2,252)
Total administrative expenses		(3,847)	(4,947)	(8,386)
Net deficit on revaluation of investment properties	15	(12,274)	(11,370)	(20,765)
Operating (loss)/ profit		(5,671)	407	(82)
Finance income	10	16	9	45
Finance expense	10	(6,513)	(6,975)	(13,931)
Movement in fair value of interest rate swap contracts	10	35	3,233	(526)
Movement in fair value of exchange rate derivative contracts	10	5,179	(1,059)	4,602
Loss before tax		(6,954)	(4,385)	(9,892)
Tax	11	(535)	1,454	1,502
LOSS FOR THE PERIOD/YEAR		(7,489)	(2,931)	(8,390)
Other comprehensive income:				
Exchange differences on translation of foreign operations		(2,599)	4,470	(2,668)
Other comprehensive (loss)/ income for the period, net of tax		(2,599)	4,470	(2,668)
TOTAL COMPREHENSIVE (LOSS)/ INCOME FOR THE PERIOD/YEAR		(10,088)	1,539	(11,058)
Loss attributable to:				
Owners of the parent	13	(7,489)	(2,933)	(8,389)
Non-controlling interests		-	2	(1)
		(7,489)	(2,931)	(8,390)
Total comprehensive (loss)/ income attributable to:				
Owners of the parent		(10,088)	1,537	(11,057)
Non-controlling interests		-	2	(1)
		(10,088)	1,539	(11,058)
Loss per share (basic and diluted) pence	13	(22.1)	(8.2)	(23.0)

MATRIX EUROPEAN REAL ESTATE INVESTMENT TRUST LIMITED

UNAUDITED CONSOLIDATED CONDENSED STATEMENT OF CHANGES IN EQUITY
FOR THE SIX MONTHS ENDED 30 JUNE 2012

	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 2010	-	224,501	31,540	(155,841)	**100,200**	282	**100,482**
Loss for the period	-	-	-	(2,933)	**(2,933)**	2	**(2,931)**
Other comprehensive income	-	-	4,470	-	**4,470**	-	**4,470**
Dividends	-	(1,798)	-	-	**(1,798)**	-	**(1,798)**
At 30 June 2011	**-**	222,703	36,010	(158,774)	**99,939**	284	**100,223**
Loss for the period	-	-	-	(5,456)	**(5,456)**	(3)	**(5,459)**
Other comprehensive loss	-	-	(7,138)	-	**(7,138)**	-	**(7,138)**
Return of capital	-	(3,599)	-	-	**(3,599)**	-	**(3,599)**
Dividends	-	(1,797)	-	-	**(1,797)**	-	**(1,797)**
At 31 December 2011	-	217,307	28,872	(164,230)	**81,949**	281	**82,230**
Loss for the period	-	-	-	(7,489)	**(7,489)**	-	**(7,489)**
Other comprehensive loss	-	-	(2,599)	-	**(2,599)**	-	**(2,599)**
Return of capital	-	(3,460)	-	-	**(3,460)**	-	**(3,460)**
At 30 June 2012	**-**	**213,847**	**26,273**	**(171,719)**	68,401	**281**	68,682

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

UNAUDITED CONSOLIDATED CONDENSED CASH FLOW STATEMENT
FOR THE SIX MONTHS ENDED 30 JUNE 2012

	Notes	**6 months to 30 June 2012 £'000**	6 months to 30 June 2011 £'000	12 months to 31 December 2011 £'000
Net cash inflow from operating activities	22	5,059	15,420	25,937
Cash flows from investing activities				
Payments to enhance properties		(201)	(1,122)	(1,230)
Cash proceeds from sale of properties		38,939	-	-
Net cash inflow/ (outflow) from investing activities		38,738	(1,122)	(1,230)
Cash flows from financing activities				
Bank loans repaid		(29,652)	-	(1,483)
Bank interest received		16	9	45
Finance costs paid		(5,339)	(6,137)	(11,728)
Return of capital		(3,460)	-	(3,599)
Dividends paid		-	(1,798)	(3,595)
Repayment of interest rate swap contracts		(928)	-	-
Repayment of foreign exchange derivative contract		(2,413)	(4,051)	(6,000)
Net cash outflow from financing activities		(41,776)	(11,977)	(26,360)
Net increase (decrease) in cash and cash equivalents		2,021	2,321	(1,653)
Opening cash and cash equivalents		12,380	16,879	16,879
Effects of exchange rate changes on cash and cash equivalents		(1,070)	(802)	(2,846)
Closing cash and cash equivalents		13,331	18,398	12,380

NOTES TO THE FINANCIAL STATEMENTS

1. General information

Matrix European Real Estate Investment Trust Limited (''MEREIT'') is a company incorporated and registered in Guernsey. The consolidated condensed Financial Statements of the Company for the six months ended 30 June 2012 comprise the Company and its subsidiaries (together referred to as the "Group").

These consolidated condensed Financial Statements were approved for issue on 22 August 2012.

These consolidated condensed financial results are unaudited and do not comprise statutory accounts within the meaning of section 245 of the Companies (Guernsey) Law, 2008. Statutory audited accounts for the year ended 31 December 2011 were approved by the Board of Directors on 30 March 2012. 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 condensed financial information for the six months ended 30 June 2012 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 2011, which have been prepared in accordance with IFRSs as adopted by the European Union.

3. Going Concern

Following the Extraordinary General Meeting in August 2011, the Group's investment policy was revised to effect an orderly disposal programme and return surplus capital to shareholders. The Board aims to complete the sale of all the Group's assets by the end of 2013.

As the Directors intend to return all capital to shareholders of the Company they have not prepared the Financial Statements on a going concern basis. This has not had any impact on the carrying value of the Group's assets or liabilities.

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 2011, 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 2011, 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 2012 but are currently not relevant to the Group's operations:

- 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).

(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 2013 or later periods and which the Group has decided not to adopt early. These are:

- IFRS 9 Financial Instruments (effective for periods beginning on or after 1 January 2015 – still to be endorsed).
- IFRS 10 Consolidated Financial Statements (effective for periods beginning on or after 1 January 2013 - still to be endorsed).
- IFRS 11 Joint Arrangements (effective for periods beginning on or after 1 January 2013 - still to be endorsed).
- IFRS 12 Disclosure of Interests in Other Entities (effective for periods beginning on or after 1 January 2013 - still to be endorsed).
- IFRS 13 Fair Value Measurement (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. 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 2012, the Group's borrowings were 102% hedged (December 2011: 97% hedged; June 2011: 96% 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 £3.4m (December 2011: £3.2m; June 2011: £1.0m). Conversely should the Euribor fall by 1% the Group's interest rate swap liability would increase to £6.8m (December 2011: £10.1m; June 2011: £8.2m) from a closing value at reporting date of £5.7m (December 2011: £6.8m; June 2011: £3.5m).

(b) Currency risk

Whilst the Group's investments will typically be made in currencies other than sterling and generate non-sterling revenue, any distributions 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 of £3.7m per quarter and a capital hedge of approximately 95% (December 2011: 90%; June 2011: 85%) of its Net Asset Value against euro/sterling fluctuations.

There is no guarantee that the proportion of income 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 income 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 income 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.

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

Exchange €:£				Period end closing rate		
	1.09	1.14	1.19	1.2362	1.29	1.34
	£'000	£'000	£'000	£'000	£'000	£'000
Periodic	7,539	5,893	4,384	2,938	1,719	535
Final	25,670	21,566	17,806	14,350	11,162	8,317
Exchange rate derivative liability	33,209	27,459	22,190	17,288	12,881	8,852

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

Final - refers to the value of the €101m foreign exchange swap due in 2014

The Group's policy is for group entities to settle liabilities denominated in their functional currency with the cash generated from their own operations in that currency. Where group entities have liabilities in a currency other than their functional currency (and have insufficient reserves of that currency to settle them), cash already in that currency will, where possible, be transferred from elsewhere within the Group.

NOTES TO THE FINANCIAL STATEMENTS

The functional currency of all entities in the Group is the euro. The table below details the Group's exposure to different currencies at the end of each reporting period:

	30 June 2012 £'000	30 June 2011 £'000	31 December 2011 £'000
Net assets			
Euros	62,319	92,991	77,224
Sterling	6,363	7,232	5,006
	68,682	100,223	82,230

The table below shows the effect on the net assets of the Group at 30 June 2012 if the euro had strengthened or weakened against sterling by various amounts, with all other variables held constant.

	£'000 Net assets
Sterling to euro exchange rate	
Exchange rate: £1:€1.09	65,035
Exchange rate: £1:€1.14	66,380
Exchange rate: £1:€1.19	67,612
Year-end closing rate: £1:€1.236	68,682
Exchange rate: £1:€1.29	69,789
Exchange rate: £1:€1.34	70,652

(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 each reporting period.

Bank	**Ratings at 30 June 2012**	**Balance at 30 June 2012 £'000**	**Ratings at 30 June 2011**	**Balance at 30 June 2011 £'000**	**Ratings at 31 December 2011**	**Balance at 31 December 2011 £'000**
Barclays Bank	A	10,565	AA-	10,749	A	10,267
Banque Internationale Luxembourg (formerly Dexia)	A-	2,378	A+	7,134	A+	1,242
ABN Amro	A+	388	A+	515	A+	871
		13,331		18,398		12,380

Source: 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 80% 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 12 annual rent £'000**	**Proportion of annual contracted rent %**	**30 June 12 debtor balance £'000**
1. Casino	St Etienne	5,514	22.9%	-
2. IBM	Nice	3,163	13.1%	-
3. Panrico	Spain	2,990	12.4%	-
4. NH Hoteles	Düsseldorf	2,337	9.7%	-
5. Schenker Deutschland AG	Frankfurt	2,100	8.7%	-
6. LSG Lufthansa	Frankfurt	834	3.5%	-
7. Peek & Cloppenburg	Kaiserslautern	730	3.0%	-
8. Hennes & Mauritz	Kaiserslautern	644	2.7%	-
9. Federal Express Europe Inc.	Frankfurt	578	2.4%	-
10. APCOA Carparking GmbH	Kaiserslautern	465	1.9%	-

(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 2012 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 2012	0% £'000	5% £'000	10% £'000	15% £'000	20% £'000	25% £'000
Required amount of LBG debt to be repaid due to breach of covenants on fall of LTV	-	-	485	9,543	18,601	27,660

The FX financial covenant requires the Net Asset Value (as defined under the FX contract) of the Group to remain above €75.0m (reducing proportionately as the contract is reduced), 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 2012	Less than 1 year £'000	Between 1 and 2 years £'000	Between 2 and 5 years £'000	Over 5 years £'000
Borrowings (including interest to maturity)	9,101	168,265	-	-
Derivative financial instruments*	4,960	17,996	-	-
Trade and other payables	2,628	-	-	-

At 30 June 2011	Less than 1 year £'000	Between 1 and 2 years £'000	Between 2 and 5 years £'000	Over 5 years £'000
Borrowings (including interest to maturity)	11,423	11,392	219,938	-
Derivative financial instruments	5,317	4,612	29,200	-
Trade and other payables	4,162	-	-	-

At 31 December 2011	Less than 1 year £'000	Between 1 and 2 years £'000	Between 2 and 5 years £'000	Over 5 years £'000
Borrowings (including interest to maturity)	11,061	11,030	198,334	-
Derivative financial instruments	4,726	5,279	22,458	-
Trade and other payables	3,173	-	-	-

* The Group had an aggregate mark-to-market liability in respect of FX hedging contracts of £17.3m (December 2011: £25.6m; June 2011: £35.7m). This becomes payable should any of the FX covenants detailed above be breached.

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

	Fitch Ratings at 30/06/12	**30 June 2012 £'000**	30 June 2011 £'000	31 December 2011 £'000
Lloyds Banking Group	AA-	163,303	213,727	197,850

(e) Capital risk management

In prior periods the Group's underlying objective was to provide Shareholders with an attractive level of income return, together with the potential for income and capital growth, through investment in European property.

At an EGM held on 5 August 2011, shareholders approved a change in investment policy to enable the Group to effect an orderly disposal programme and return surplus capital to shareholders.

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 gearing ratios at the end of each reporting period were as follows:

	30 June 2012 £'000	30 June 2011 £'000	31 December 2011 £'000
Loans and other borrowings	163,303	213,727	197,850
Less: cash and cash equivalents	(13,331)	(18,398)	(12,380)
Net debt	149,972	195,329	185,470
Total equity	68,682	100,223	82,230
Total capital	218,654	295,552	267,700
Gearing ratio (%)	68.6%	66.1%	69.3%

The Gearing ratio differs from the LTV ratio quoted in the Chairman's Statement and Manager's Report as the LTV ratio is just the outstanding third party bank debt divided by the Group's Property Value.

6. Segmental reporting

IFRS 8, Operating Segments, requires operating segments to be identified on the basis of internal financial reports about components of the group that are regularly reviewed by the chief operating decision maker (which in the Group's case is the Board of Directors) in order to allocate resources to the segments and to assess their performance.

The internal financial reports received by the Board of Directors contain financial information at a Group level and there are no reconciling items between the results contained in these reports and the amounts reported in the Financial Statements.

The Group's investment property portfolio is comprised of properties in Germany, France and other European countries. In prior periods, information was provided to the Board of Directors showing gross rental income and investment property valuation by individual property. For the purposes of IFRS 8, each individual property was considered to be a separate operating segment in that its performance was monitored individually. The Board of Directors considered it appropriate to aggregate these individual operating segments into geographical reportable segments, as properties within each of these geographical segments demonstrated similar long-term financial performance and economic characteristics.

NOTES TO THE FINANCIAL STATEMENTS

However, at the Extraordinary General Meeting, the Group's investment policy was revised to effect an orderly disposal programme. As a result of this decision, the Group's internal reporting is more focused on the progress of the disposal programme and the returning of funds to shareholders as opposed to individual property valuation and rental income as was the case in the prior periods. As a consequence, the Board of Directors consider that the Group now has a single operating segment.

Disclosure regarding the Group's major customers is given in note 5 (c). Three (December 2011 and June 2011: three) customers individually contributed more than ten percent to the Group's revenue.

7. Employee costs

The Group has no employees (December 2011 and June 2011: nil)

8. Other income

Other income in the prior period includes £2.7 million relating to a settlement with a former shareholder, the terms of which are confidential.

9. Administrative expenses

	6 months to 30 June 2012 £'000	6 months to 30 June 2011 £'000	12 months to 31 December 2011 £'000
Management fee	751	921	1,846
Legal, consultancy and tax services	1,286	1,128	1,718
Accountancy and administration	568	541	1,072
Audit fees	89	60	159
Other	302	436	661
	2,996	3,086	5,456

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

NOTES TO THE FINANCIAL STATEMENTS

10. Net finance costs

	6 months to 30 June 2012 £'000	6 months to 30 June 2011 £'000	12 months to 31 December 2011 £'000
Finance income:			
Short-term deposits	16	9	45
Finance expense:			
Bank borrowings	(5,216)	(5,780)	(11,545)
Loan fee amortisation	(1,028)	(804)	(1,605)
Bank loan deferred arrangement fee	(269)	(391)	(781)
	(6,513)	(6,975)	(13,931)
Movement in fair value of derivative contracts:			
Interest-rate swaps	35	3,233	(526)
Exchange-rate derivative contracts	5,179	(1,059)	4,602
	5,214	2,174	4,076
Net finance costs	(1,283)	(4,792)	(9,810)

11. Income tax expense

Tax is charged at 22.24% for the six months ended 30 June 2012 (31 December 2011 23.36%; 30 June 2011 32.27%) 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.

12. Dividends

	6 months to 30 June 2012 £'000	6 months to 30 June 2011 £'000	12 months to 31 December 2011 £'000
February 2011 - 5 pence per share	-	1,798	1,798
August 2011 - 5 pence per share	-	-	1,797
	-	1,798	3,595

13. Loss per share

	6 months to 30 June 2012	6 months to 30 June 2011	12 months to 31 December 2011
Loss per share – Basic and diluted (pence)	(22.1)	(8.2)	(23.0)
Loss for the period attributable to owners of the parent (£'000)	(7,489)	(2,933)	(8,389)
Weighted average number of shares in issue	33,962,671	35,953,833	35,703,588

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

14. Net assets per share

	30 June 2012	30 June 2011	31 December 2011
Net assets per share (pence)	206	278	238
Net assets attributable to owners of the parent (£'000)	68,401	99,939	81,949
Number of shares in issue	33,163,276	35,953,833	34,569,903

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 2010	326,662	-	326,662
Capital expenditure	1,122	-	1,122
Movements on revaluation of properties			
- recognised in the statement of comprehensive income	(11,370)	-	(11,370)
Exchange differences on translation of foreign currencies	15,263	-	15,263
Book value at 30 June 2011	331,677	-	331,677
Capital expenditure	108	-	108
Movements on revaluation of properties			
- recognised in the statement of comprehensive income	(9,395)	-	(9,395)
Exchange differences on translation of foreign currencies	(24,149)	-	(24,149)
Transfer to properties held for sale	(94,980)	94,980	-
Book value at 31 December 2011	203,261	94,980	298,241
Capital expenditure	201	-	201
Disposals	-	(37,746)	(37,746)
Movements on revaluation of properties			
- recognised in the statement of comprehensive income	(11,452)	(822)	(12,274)
Exchange differences on translation of foreign currencies	(6,666)	(2,649)	(9,315)
Transfer to properties held for sale	(94,647)	94,647	-
Book value at 30 June 2012	90,697	148,410	239,107

Property portfolio analysis

	Leasehold £'000	**Freehold £'000**	**Total £'000**
At 30 June 2012	23,702	215,405	239,107
At 31 December 2011	24,880	273,361	298,241
At 30 June 2011	24,385	307,292	331,677

The fair value of the Group's investment properties at 30 June 2012 has been arrived at on the basis of valuations carried out by CBRE Limited, external valuers. The valuation basis has been by "Fair Value" in accordance with the Royal Institution of Chartered Surveyors ("RICS") Appraisal and Valuation Standards. The historic cost of the property portfolio translated at the reporting date exchange rate is £360.9m (December 2011: £426.0m; June 2011: £458.3m).

The property portfolio total is shown net of tenant incentives of £2.4m (December 2011: £4.9m; June 2011: £nil).

16. Goodwill

	30 June 2012 £'000	30 June 2011 £'000	31 December 2011 £'000
At the beginning of the period	1,625	2,347	2,347
Impairment	(230)	(379)	(678)
Exchange differences on translation of foreign currencies	(51)	97	(44)
At the period end	1,344	2,065	1,625
Goodwill is attributable to the following cash generating unit			
Duren	1,344	2,065	1,625

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

The impairment of goodwill has been determined by comparing the Group's cost of acquisition of Stadt Center Düren Verwaltungs GmbH with the fair value less costs to sell of the assets and liabilities of Stadt Center Düren Verwaltungs GmbH and its subsidiaries.

17. Trade and other receivables

	30 June 2012 £'000	30 June 2011 £'000	31 December 2011 £'000
Rent receivable	1,564	4,343	3,757
Tenant lease incentives	2,449	3,529	4,934
Monies held by property managers	1,437	1,349	1,290
VAT recoverable	876	502	608
Amounts held in escrow	889	198	-
Other	460	3,106	491
	7,675	13,027	11,080

The table below shows the trade and other receivables past due but not impaired:

	30 June 2012 £'000	30 June 2011 £'000	31 December 2011 £'000
Rent receivable	130	738	343
Monies held by property managers	1,437	1,349	1,290
VAT recoverable	876	502	608
Other	249	2,881	257
	2,692	5,470	2,498

The Group's trade and other receivables are denominated in euros.

There is no significant difference between the fair value and carrying value of liabilities at the Statement of Financial Position date.

Trade and other receivables are reviewed for recoverability on an on-going basis. The Manager also regularly monitors reports prepared by an independent credit rating agent, or other sources, to assess the credit quality of the Group's tenants.

18. Derivative financial instruments

	30 June 2012 £'000	30 June 2011 £'000	31 December 2011 £'000
Interest-rate derivative contracts			
- Current liabilities	(3,628)	(1,912)	(3,015)
- Non-current liabilities	(2,040)	(1,562)	(3,830)
Exchange-rate derivative contracts			
- Current liabilities	(1,332)	(3,405)	(1,711)
- Non-current liabilities	(15,956)	(32,250)	(23,907)
	(22,956)	(39,129)	(32,463)

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 an expiration date of 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 €5.0m are exchanged for £3.7m on a quarterly basis until June 2014. The second element is a fair-value hedge for €101.0 m, to be exchanged for £68.2m (December 2011: €116.3m to be exchanged for £78.5m; 30 June 2011: €127.0m to be exchanged for £85.8m). This element of the hedge becomes due in 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 £17.3m. 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 2012 £'000	30 June 2011 £'000	31 December 2011 £'000
Trade payables	573	802	295
Amounts due to related parties	84	476	71
Accruals	306	369	318
Interest payable	38	36	165
Rent received in advance	1,000	3,014	3,661
VAT payable	313	725	415
Income tax	345	983	1,083
Other payables	969	771	826
	3,628	7,176	6,834

The Group's trade and other payables are denominated in euros and sterling.

There is no significant difference between the fair value and carrying value of liabilities at the Statement of Financial Position date.

20. Borrowings

	30 June 2012 £'000	30 June 2011 £'000	31 December 2011 £'000
At the beginning of the period	197,850	202,754	202,754
Repayment of borrowings	(29,652)	-	(1,483)
Amortisation of finance costs	1,028	804	1,605
Bank loan deferred arrangement fee	269	391	781
Exchange differences on translation of foreign currencies	(6,192)	9,778	(5,807)
At the period end	163,303	213,727	197,850

There is no significant difference between the fair value and the book value of the Group's borrowings. All of the Group's borrowings are in euros and all have floating interest rates. The maturity profile of the Group's borrowings at each reporting date is as follows:

	30 June 2012 £'000	30 June 2011 £'000	31 December 2011 £'000
In the second year	163,303	-	-
In the third year	-	213,727	197,850
	163,303	213,727	197,850

NOTES TO THE FINANCIAL STATEMENTS

21. Share capital and reserves

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 2012		30 June 2011		31 December 2011	
	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	-
Issued and fully paid						
Management shares						
Opening and closing balance	2	2	2	2	2	2

	30 June 2012	30 June 2011	31 December 2011
	No.	No.	No.
Issued and fully paid Participating shares			
At the beginning of the period	34,569,903	35,953,833	35,953,833
Redemption of shares	(1,406,627)	-	(1,383,930)
At the period end	33,163,276	35,953,833	34,569,903

On 26 October 2011 the Group returned capital of £3.6m to shareholders via the redemption of 1,383,930 of the Company's issued shares.

On 13 April 2012 the Group returned capital of £3.5m to shareholders via the redemption of 1,406,627 of the Company's issued shares.

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.

22. Cash flow from operating activities

	6 months to 30 June 2012 £'000	6 months to 30 June 2011 £'000	12 months to 31 December 2011 £'000
Loss for the period / year	(7,489)	(2,931)	(8,390)
Income tax charge/ (credit)	535	(1,454)	(1,502)
Loss before tax	(6,954)	(4,385)	(9,892)
Movement in the fair value of interest rate derivative contracts	(35)	(3,233)	526
Movement in the fair value of foreign exchange derivative contracts	(5,179)	1,059	(4,602)
Finance expense	6,513	6,975	13,931
Finance income	(16)	(9)	(45)
Operating (loss)/ profit	(5,671)	407	(82)
Loss on disposal of properties	1,163	-	-
Exchange rate differences	621	1,482	2,252
Adjustments for:			
Impairment of goodwill	230	379	678
Depreciation	13	-	41
Net deficit on revaluation of property portfolio	12,274	11,370	20,765
Tenant incentives and rental guarantees	259	(846)	(2,757)
Changes in working capital:			
Decrease in trade and other receivables	549	1,850	4,791
(Decrease)/ increase in trade and other payables	(2,188)	774	647
	7,250	15,416	26,335
Tax (paid)/ received	(2,191)	4	(398)
Net cash inflow from operating activities	5,059	15,420	25,937

23. Related party transactions

The Group is managed by Matrix Property Fund Management (Guernsey) Limited (the “Manager”), an investment management company incorporated in Guernsey. Under the terms of a Management and Investment Advisory Agreement, the Manager is responsible for advising the Group on the overall management of the Group’s investments and for managing those investments in accordance with the Group’s investment objective and policy, subject to the overall supervision of the Directors.

The Manager is entitled to a base fee, acquisition fee and a performance fee together with all reasonable expenses incurred in the performance of its duties. The base fee, which is paid and calculated quarterly, is equal to 0.6% of the Group’s Net Asset Value plus any borrowings of the Group.

The Manager will also be entitled to receive an acquisition fee, should the company or a relevant subsidiary purchase a property. The fee payable will be equal to 1% of the purchase price of the property.

The Manager is also entitled to receive an annual performance fee, where Total Shareholder Return exceeds an annual rate of 10% (the “hurdle”). Where the hurdle is met, a performance fee will be payable in an amount equal to 20% of any aggregate Total Shareholder Return over and above the Hurdle. If a performance fee is paid in respect of a performance period, the Hurdle in subsequent periods shall be calculated using the highest market price and capitalisation at the end of the performance period which generated the last performance fee.

The Management and Investment Advisory Agreement can be terminated by the Company serving 36 month’s written notice on the Manager. The Manager may terminate the agreement on serving 12 month’s written notice on the Company. In January 2011, the Board gave notice to the Manager. Subsequently, in October 2011, the Manager gave notice to the Board and the current contract is therefore due to expire in October 2012.

On 15 June 2012 the Board announced that, on expiry of the current contract with Matrix Property Fund Management (Guernsey) Limited, Schroder Property Investment Management Limited (“Schroders”) will manage the Group.

In accordance with the Heads of Terms the agreed arrangements with Schroders are as follows:

Schroders will be entitled to a base management fee of €1m in the initial twelve month period following their appointment, €0.6m for the second year and 1% of Net Asset Value per annum for any subsequent periods.

Schroders will also be entitled to a performance fee based on sales of properties and Shareholders’ returns achieved. On completion of each property disposal, Schroders will be entitled to a fee of 0.25% of the gross sales value. An additional fee of 0.40% of the gross sales value of each property disposal prior to the second anniversary of Schroders’ appointment will be payable if Shareholders returns from 25 October 2011 exceeds a hurdle rate of 160 pence per Share (this being £57.5m of capital, combining cash and remaining NAV). This hurdle rate increases at a rate of 5% per annum.

NOTES TO THE FINANCIAL STATEMENTS

The table below show the related party transactions with the Manager at each reporting date.

	6 months to 30 June 2012 £'000	6 months to 30 June 2011 £'000	12 months to 31 December 2011 £'000
Statement of comprehensive income			
Insurance commissions	-	-	78
Management fee	(751)	(921)	(1,846)
Expense reimbursements	(6)	(17)	(35)
	(757)	(938)	(1,803)

	30 June 2012 £'000	30 June 2011 £'000	31 December 2011 £'000
Statement of financial position			
Management fee	48	467	-
Other	9	9	42
	57	476	42

In October 2011 the Group engaged Klockensteijn B.V, a company of which the director J van der Vlist is the beneficial owner, to provide consultancy services. Under the terms of the engagement of Klockensteijn, the Group has agreed to pay an annual consultancy fee of €405,000 together with a performance fee equal to 7.5% of the amount by which cash returned to Shareholders from 25 October 2011 exceeds a hurdle rate of 160 pence per Share (this being £57.5m of capital). This hurdle rate increases at a rate of 5% per annum.

During the period the Group paid Klockensteijn £166,502 (December 2011: £24,987; June 2011: £nil) and at the period-end the Group owed Klockensteijn £27,301 (December 2011: £28,793; June 2011: £nil).

Any performance fee payable at the 7.5% rate will be capped at £1m. In the event that an aggregate of £1m of performance fees have been earned by Klockensteijn, the performance fee shall reduce to 3.75% of Shareholder returns in excess of the hurdle rate.

NOTES TO THE FINANCIAL STATEMENTS

During the period the directors received the following dividends and capital redemptions:

	6 months to 30 June 2012 £'000	6 months to 30 June 2011 £'000	12 months to 31 December 2011 £'000
Dividends			
C Collins	-	1	3
S Coe	-	-	1
J van der Vlist	-	1	3
W Hamman	-	-	-
R Phillips	-	-	-
	-	2	7
Capital redemptions			
C Collins	3	-	3
S Coe	1	-	1
J van der Vlist	3	-	3
W Hamman	-	-	-
R Phillips	-	-	-
	7	-	7

24. Properties held for sale

Properties held for sale are those which, at the reporting date, were available for immediate sale, being actively marketed and expected to sell within twelve months.

	30 June 2012 £'000	30 June 2011 £'000	31 December 2011 £'000
Properties held for sale	148,410	-	94,980

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 2012 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 25. As described in note 3, they have not been prepared on a going concern basis. 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 2012 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
22 August 2012

MATRIX EUROPEAN REAL ESTATE INVESTMENT TRUST LIMITED

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Wessel Hamman
Roger Phillips

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INFORMATION FOR SHAREHOLDERS

Financial calendar	
Second Interim Management statement	November 2012
Annual Report and Financial Statements	March 2013
Annual General Meeting	April 2013
First Interim Management statement	May 2013
Share price	
Share price at 30 June 2012	128p
High during the 6 months ended 30 June 2012 (5 March 2012)	173p
Low during the 6 months ended 30 June 2012 (30 June 2012)	128p
Other (€:£)	
Average exchange rate for the period	1.2162
Closing exchange rate for the period	1.2362

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:

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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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