Carpathian PLC
Annual Report 2008

Carpathian plc


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Contents

Chairman's Statement

Carpathian's preliminary results for the financial year ended 31 December 2008 reflect what has been the most challenging period in the property industry for many years and for the Group specifically since its inception in late 2005.

The deterioration in the global credit markets has resulted in curtailed banking liquidity, which in turn has led to substantially fewer property transactions in Central Eastern Europe ("CEE") and elsewhere. The past six months have seen declining consumer spending, leading to weaker trading for many tenants. Tenant expansion has also been adversely impacted as a result of the lack of available credit and adverse currency movements.

As a result of these issues and following approaches to Carpathian Asset Management Ltd ("CAM") and the Company from a number of third party potential purchasers, on 22 October 2008 the Board announced a Strategic review to assess ways to maximise value for shareholders and appointed Hawkpoint Partners Limited to work in conjunction with CAM to consider all available options. The Company also appointed Collins Stewart Europe Limited as its new nominated adviser and broker.

Financial results

The net rental and related income has grown approximately 41% to £34.4 million (2007: £24.3 million). This mainly reflects the full year and first time contribution from properties acquired in 2007 and 2008 and includes a contribution from the Interfruct bank rent guarantee of £3.7 million.

Operating profit excluding any fair value, goodwill and foreign exchange movements, for the year increased 15% to £11.8 million (2007: £10.3 million). The consolidated net loss for the year is £148.6 million against a profit of £14.9 million in 2007. The unrealised fair value adjustment of the investment and development portfolio of £163.3 million is the biggest contributor to these results.

This loss generates negative earnings per share of 62.8 pence (2007: positive earnings per share of 8.3 pence). Operating profit generated adjusted earnings of approximately 5 pence per share (2007: 5.2 pence per share).

Cash balances as at 31 December 2008 were £62.2 million of which £47.9 million was held at holding company level. As at 27 March 2009, the Group had cash balances of £54.3 million as anticipated, following creditor payments made after the year end in the ordinary course of business. Of the £54.3 million of cash balances as at 27 March 2009, £3.1 million accounts for tenant deposits, service charges and security accounts and £6.8 million has been identified as future creditor requirements. In addition, as part of the arrangements being documented with Anglo Irish Bank ("AIB"), £2.8 million has been estimated as an additional funding requirement to release approximately £7.5 million of cash proceeds relating to the sale of Varyada Shopping Centre in December 2008 and provide funding for the assets financed by AIB until January 2010. As a result, the Group estimates that its uncommitted cash position, as at 27 March 2009, is approximately £41.6 million which equates to 17.9 pence per share. Further details of discussions with the Group's lending banks are contained in the Property Adviser's Report.

Board changes

In November 2008, I joined the Board as Non-executive Chairman and Tim Walker joined as Non-executive Director. Bill Hamilton Turner stepped down from the Board, and we wish him well in his future endeavours and thank him for his considerable contribution to Carpathian since its floatation in 2005. Rupert Cottrell stepped down as Chairman, but continues to contribute to the Board in his capacity as a Non-executive Director.

Strategic review

Since the announcement of the Strategic review, the global credit environment and market sentiment have deteriorated. Despite this, Carpathian has received expressions of interest from a number of parties with various proposals. After carefully reviewing all of these indicative proposals and in consultation with certain of the Company's shareholders, the Board has concluded that none of the current indicative proposals, including a sale of the entire Company, is at a level which is likely to maximise value for shareholders.

As a result, the Board confirms Carpathian has terminated discussions with third parties in relation to a possible offer for the Group. The Board has asked these parties to clarify that as a result they are no longer considering making an offer for Carpathian. Once the position of all such parties has been clarified, the Board will make a further announcement.

The Board has therefore decided to continue its trading strategy over the medium-term, while returning any excess cash arising from property sales to shareholders.

An essential element of the successful implementation of Carpathian's strategy is obtaining appropriate extensions and modifications to the Group's current bank facilities and adjusting financial covenants where necessary. The restructuring of the debt facilities will continue to be focused on investments where there is substantial equity value to protect on a prudent basis.

An update on the current situation with all principal lenders is set out in the Property Adviser's Report.

Dividends

The Company does not have sufficient levels of distributable reserves as at 31 December 2008 due to the fair value impairment of its investments in its subsidiaries. Therefore there is no final dividend declared for 2008.

The Company will commence the process of seeking approval from shareholders to reduce its share premium account to enable future dividends and other distributions to be paid as soon as is practicable.

As an outcome of the Strategic review, as soon as feasible and in any event within the next 12 months, Carpathian intends to make special distributions in aggregate of not less than 8 pence per share in cash to shareholders, subject to satisfactory discussions with the Group's lenders, and following the completion of the capital restructuring as described above.

Management

The collapse of the Dawnay, Day Group led to the Company and the Property Adviser acting quickly to form a new company, Carpathian Asset Management Ltd, to buy out the investment management business from the Dawnay, Day administrator together with the Warsaw, Budapest and Bucharest based businesses. As a part of this separation from the Dawnay, Day Group the Company also changed its name. CAM is 50% owned by the Company and 50% owned indirectly by Paul Rogers and Massimo Marcovecchio.

Following the decision to continue with the Group's trading strategy, Carpathian has entered into discussions with CAM with a view to renegotiating management incentive arrangements to ensure that the interests of CAM remain aligned with those of shareholders including new performance targets and substantial operational cost savings.

Chairman's Statement continued

Central and Eastern European economy and retail market

As detailed previously, the global economic situation over the past 12 months has raised a number of challenges for the retail sector in certain CEE countries and, consequently, for Carpathian.

There are, however, signs that the Group's portfolio might be less affected than many as a result of its weighting towards non-discretionary spending. Nonetheless, it is clear that amongst CEE countries there are substantial discrepancies in economic performance and outlook.

This remains a period of uncertainty, and there are widely varying views from equity and debt investors concerning the potential for, and speed of, recovery and the position of CEE relative to the risks facing Western Europe. The potential remains, however, for the economies of CEE to revert in time to achieve growth rates outperforming those of most Western economies.

Other corporate matters

At the time of its interim results announcement on 29 September 2008, the Company indicated an intention to seek a listing on the Official List of the London Stock Exchange and to change its presentational currency by redenominating its share capital into Euros. Each process would have been subject to shareholder approval. As the year progressed and the financial and property markets all declined, the Board has concluded, as previously announced, that the professional and other fees and expenses involved in seeking application to the Official List make it uneconomic at this time. However, the Company intends to proceed with the redenomination of the share capital into Euros. A suitable resolution will be put before the Annual General Meeting for shareholders to consider.

Outlook and strategy

We retain a substantial and diversified portfolio of retail assets across the CEE region. With a very cautious approach to the use of our cash resources and stabilisation of the capital base, we are positioning the Group in a way which we hope will enable it to weather the current economic turbulence and maximise value for shareholders over the medium-term.

Rory Macnamara
Non-executive Chairman
30 April 2009

Poland

Promenada

Promenada is a prime asset in central Warsaw. The major shopping, entertainment and office complex includes a multiplex cinema and ice rink.

Approximate GLA: 50.706 m²

Anchor tenants: Alma Market; H&M; Reserved; Electroworld; Zara; Super Pharm; Royal Collection; Cinema City.

Blue Knight Portfolio

A portfolio of four shopping centres in Gdansk, Łódź, Sosnowiec and Toruń offering a mix of convenience, service and mid-range retailer stores.

Approximate GLA: 26,901 m²

Anchor tenants: Euro RTV AGD; Go Sport; Abra furniture; Deichmann Obuwie; Sephora; CCC; Venezia; Orsay; Cubus; Reserved; McDonalds; Domar Bydgoszcz.

Biedronka Supermarket

The Biedronka property is a supermarket with retail units located in Słupsk.

Approximate GLA: 1,220 m²

Anchor tenant: Biedronka

Marina Mokotow

Situated in the old Mokotow area in the heart of Warsaw, this portfolio of four retail service arcades comprises 31 units located within a high-end residential complex. Tenants include a bank, food and produce shops, florists, dry cleaners, veterinarians, cafés and bakeries, beauty and hair salons, pharmacies, restaurants and newsagents.

Approximate GLA: 2,554 m²

Property Adviser's Report

Transactions during the period

Sales

The Company's style of operation was, from inception, to trade investments actively, realising profits and distributing them to shareholders. Having completed the substantial phase of investment from 2005 to 2007, 2008 was previously planned as a year for investment sales.

During the first half of the year, when preparations were in hand for investment sales, the CEE market was still performing well relative to Western Europe and was widely regarded as less exposed to global credit issues. The second half of 2008 saw the further escalation of difficulties spreading to major lenders from Lehman Brothers to British and European banks while leading economies were turning into recession. The consequences of this within CEE have become increasingly apparent.

The first two of the properties identified for sale were regarded as still showing potential for profit realisation notwithstanding the market problems.

In December 2008, the Company completed the sale of the Varyada Shopping Centre, in the Czech Republic, generating total proceeds of £46.7 million and a pre-tax realised profit of £11.2 million over the original purchase price. The sale generated an internal rate of return of 63.75%, a substantial achievement in these challenging conditions.

The Babilonas Centre, Panevėžys, Lithuania was also marketed but with the economic problems of the Baltic States widening and the further reduction of debt funding, no credible purchasers were identified at that time.

Since the year end, proposals have been received on a number of other properties, some of which have been dismissed, whilst others are being actively discussed.

Acquisitions

Full investment or commitment had already been established by the start of 2008, therefore no new investment purchases were intended for the year.

Debt financing

As a result of the described market changes, Carpathian's debt financing position came under increasing pressure in conjunction with the majority of other leveraged property companies in Europe.

As disclosed previously, all of the Group's debt facilities are non-recourse with no cross-collateralisation (other than acquisitions of portfolios, such as Plaza, MID, Blue Knight) or parent company guarantees. Therefore, in the event of a default of any covenants of a debt facility, only the relevant asset-owning company holding the ring-fenced asset(s) would be affected.

During 2008, the Group's predominant focus has been on maintaining regular dialogue with its lending banks, assessing performance of the properties relative to covenant testing ratios and where performance has been damaged, considering the prospects for recovery over the short, medium and long-term.

Carpathian has a clear strategy to protect only those investments where the potential of significant equity realisation exists and will continue to participate in debt restructurings where there are reasonable expectations of such recovery.

As at 31 December 2008, the Group's total borrowings amounted to £406.2 million, all of which are secured on properties owned by the Group, compared to £310.4 million as at 31 December 2007. This increase is principally due to the full year or first time participation of loans in the annual financial statements.

The Group has facilities with Hypo Real Estate, Barclays, Anglo Irish Bank, MKB, Nordea and Erste Bank.

The current average blended interest rate across these facilities is 6.08% inclusive of margin. Finance costs for the period amounted to £20.7 million, which include £0.6 million of amortised bank fees and other financing charges. In 2007, the finance costs were £15.5 million, of which £0.7 million related to amortisation.

The financial covenants within the Group's secured debt facilities fall into two main categories: annual LTV tests and interest (and debt) service cover ratios ("ISCR" or "DSCR") on a projected 12 month basis. Breach of any of these constitutes an event of default under the relevant facilities.

The Group and its advisers continue their detailed discussions with its senior debt providers. In the Company's view, the dialogue shows the willingness of each of the parties to co-operate and identify solutions that serve the interests of both sides. The current status of each of these discussions is detailed below. All of the debt facilities below are expressed in Euro:

Hypo Real Estate facilities

A number of the Group's most sizeable assets are subject to loans from Hypo Real Estate ("HRE").

(i) €108 million facility secured on the Promenada shopping centre in Poland

The objective is to extend this facility (which is currently set to expire at the end of May 2009) and reset the covenants for the new term of the facility. As part of these discussions, it is likely that HRE will require Carpathian to repay an element of the principal outstanding on this loan in the form of cash and/or increase its collateral.

(ii) €45.1 million facility secured on the Blue Knight portfolio in Poland

This facility is due to expire in October 2010. The properties are performing well and the facility is not expected to breach any covenant for the remainder of the term.

(iii) €57.3 million facility secured on the MID portfolio in Hungary and the Czech Republic

This facility is due to expire in August 2010. However, while these properties have performed well and benefit from long leases, the fall in property prices across the CEE region has caused the facility to be in technical breach of its LTV covenants. Carpathian and HRE are seeking to agree a refinancing that maximises the bank's opportunity for medium-term recovery whilst minimising (a) the requirement for Carpathian to invest further capital in these properties and (b) its exposure to fluctuations in independent valuations.

(iv) €23.5 million loan facility secured on the Babilonas asset in Lithuania

This facility is due to expire in October 2009. While the facility is not currently in breach of its covenants, further pressure on tenants' income due to the worsening economic situation specific to the Baltic States could cause covenants to be breached in the current financial year. Similar to the MID portfolio, Carpathian and HRE are seeking to reach a compromise solution for the longer term.

Barclays facility

In July 2008, Carpathian entered into discussions with Barclays to renegotiate the €12 million loan facility secured on its Antana property in Hungary. The original facility expired in October 2008; however, Barclays has confirmed, on a monthly basis, an extension of this facility, which now expires at the end of May 2009.

As anticipated, a major tenant has not renewed its lease upon its contractual expiry in January (which accounted for 40% of the property's rental income). The Group agreed outline terms with Barclays for a continuation of the loan at the same figure with a new covenant testing structure, which suits both parties. Meanwhile, the Group proposes to invest up to €1.5 million in enhancement works to the property, thereby facilitating re-leasing of the recently vacated space.

MKB facilities

MKB finances three properties owned by the subsidiaries of the Group. Carpathian and MKB are currently in discussions in relation to each of these facilities with a view to agreeing a comprehensive refinancing across the three facilities.

(i) €42.7 million facility secured on the Plaza portfolio in Hungary

This facility does not expire until March 2015; however, the fall in property values and pressure on rental income have put the facility in technical breach of its LTV and DSCR covenants.

(ii) €8.5 million land facility secured on the Cluj development site in Romania

This facility is due to expire in June 2009.

Lithuania

Babilonas Shopping Centre

Babilonas remains the only significant retail centre within the Panevėžys region. The centre is a single level double mall with supermarket anchor and 120 retail, restaurant and leisure units.

Approximate GLA: 21,458 m^2

Anchor tenants: Hyper Norfa (supermarket); Electromarkt; Deichman; Jysk; Topo Centras; Danbalt International (brand names: Vero Moda, Danija and Fam Club); Apranga.

Czech Republic

Point Portfolio: Hradec Králové and Znojmo

This portfolio comprises a shopping centre in Hradec Králové and the Znojmo Hypermarket, as well as two further properties in Hungary.

Approximate GLA: 29,700 m^2

Anchor tenants: Interspar; Baumax; Sportisimo; Alltoys.

Latvia

Galleria Riga

Galleria Riga is a prime shopping centre development in the commercial heart of Riga. The seven storey mall will comprise 220 units and two levels of underground parking. The sophisticated and elegant design will offer a diverse range of shopping facilities and aims to be the leading centre for fashion retailing. Construction is well under way.

Approximate GLA: 36,700 m^2

Anchor tenants: Rimi; Stockholm Lighting Company; Marc O'Polo; Body Shop; Diesel; Jules; Esprit; Sonia Rykel; Daniel Hechter; Patricia Pepe; Intimissimi; Danza; Celine B; Escada Children.

(iii) €59 million construction facility secured on the Arad development in Romania

This facility expires in March 2010. To date approximately €15 million has been drawn from this facility. As per the loan documentation, agreed pre-letting targets must be met to allow a full drawdown of this facility. Pre-letting targets to date have been met in line with Board expectations.

Anglo Irish Bank ("AIB") facilities

Particular difficulty has been experienced with the assets subject to loans from AIB. The three facilities are listed below:

(i) €58 million facility secured on the Interfruct portfolio in Hungary, in default as tenant is in liquidation

(ii) €11 million facility secured on the Ericsson office building in Hungary, which originally expired in November 2008

(iii) €6.7 million facility secured on the Marina Mokotow property in Poland

This facility is due to expire in October 2012.

As was announced in August 2008, the Interfruct cash and carry tenant in Hungary failed, leading to vacancy of that portfolio of 23 stores. Whilst regaining possession from a tenant's Administrator in this jurisdiction can often take 24 months or so, the Group has been successful in achieving this substantially within six months, as we had anticipated. The Group had fully drawn a bank guarantee of €6.4 million during the last quarter of 2008 to recover part of its investment. This amount has been transferred to AIB in full. In the meantime, a variety of interests have been received in the properties, for both leasing and purchase. Until recently, the failure to agree terms and an alignment of interest with AIB has inhibited negotiations with new occupiers.

Agreement in principle has recently been reached with AIB in relation to the three facilities for Interfruct, Marina Mokotow and Ericsson. It is planned to consolidate these facilities into one facility with a maturity date of January 2010. This facility has been split across a €41.9 million Term A facility provided by AIB, a €1.5 million Term B facility provided by Carpathian and a €28.3 million Term C facility provided by AIB. As part of the renegotiation of these facilities, AIB has agreed to minimal ISCR covenants with no LTV covenants. This loan is cross-secured across the Interfruct, Marina Mokotow and Ericsson properties.

In addition, to avoid the risk of AIB withholding the release of its loan security over the Varyada Shopping Centre, which the Group sold in December 2008, it was agreed that the surplus proceeds in excess of €12 million (before acquisition costs) would be held jointly pending agreement to restructure the other loans. As agreement in principle has now been reached to utilise €1.5 million for debt reduction (as noted above) and a further €1.5 million as new equity investment into the relevant SPV borrowers of the cross-collateralised loans for Interfruct, Marina Mokotow and Ericsson, the remaining funds in excess of €8 million will be released for use by the Company after completion of the debt restructuring.

In order to facilitate this agreement, CAM has agreed to the bank's own instruction of its asset manager and will assist and monitor its activity on behalf of the Company.

Erste Bank facility

Carpathian's €40.5 million facility with Erste Bank is secured on the portfolio in Croatia. The facility expires in March 2011 and is currently operating within its covenants. As per the loan agreement, no covenant testing by Erste Bank can take place during 2009. Carpathian is currently evaluating a proposal from Erste Bank to increase the interest rate paid by Carpathian in relation to this facility in return for easing future covenants to avoid possible future covenant breaches.

Nordea Bank facility

A €64 million construction facility with Nordea (of which €25 million is currently drawn) is secured on the Galleria Riga joint venture development and adjacent buildings in Latvia. As the Group has no controlling stake in the joint venture, this facility is not included in the consolidated balance sheet of the Group as at 31 December 2008. The facility expires in June 2017. As per the loan agreement, an agreed pre-letting target must be met to allow full drawdown of the facility. Pre-letting targets to date have been met in line with Board expectations. After completion of the development, the loan will convert into a yielding asset facility with normal covenant conditions and is not anticipated to require re-negotiation on current income projections.

Mindful of the rapidly changing circumstances within some markets, the Group has sought to preserve cash and reserve any loan restructuring until good visibility exists for the prospects of each asset.

In all, new capital expenditure of approximately £20 million from the Group's cash resources has been budgeted to deal with selected debt reductions and capital investment into properties as part of agreed facility terms with lenders. Where such terms are being agreed, ongoing covenant testing is being removed or reduced as a part of the agreement.

Property portfolio review

The investment portfolio's net rental and related income was delivering results in line with overall expectations excluding the default of Interfruct.

As reported in the interim period for the six months ending 30 June 2008, the lease agreement with Interfruct was terminated due to non-payment of rent from August 2008. In 2007, these properties contributed approximately £1.36 million of the Company's profit after tax.

With the above exception, the rest of the investment portfolio performed well with rent collections at 98% for the whole year and vacancy rates were around 6.2% of the Gross Lettable Area ("GLA") including strategic voids.

The Group will continue its emphasis on proactive rent collections in 2009 to maintain our good track record here during the current more difficult market.

The weighted average lease length of the investment portfolio at year end was approximately four years and four months.

The main property level objective of the investment portfolio is to maximise the income for the Group and to manage a prudent and modest capital expenditure plan which protects the positions of the assets within their markets while minimising cash outlay during these turbulent times. The same principle is applied to the development portfolio, where additional investment will only be considered if there are sufficient internal resources combined with external financing and high tenant demand.

On a country level, rental income has been substantially hit within Hungary with the failure of the Interfruct tenant and the difficulties previously experienced within the Plaza portfolio. Also in Lithuania, retailer turnover has fallen.

Elsewhere, some downward pressures are being observed but at this stage no portfolio-wide trend is apparent. In Poland and the Czech Republic, retail activity remains generally robust. In particular, the Promenada Centre continues to perform well and is significantly below rental levels in comparable projects in Warsaw with rent/turnover ratios indicating a substantial reversionary potential.

Throughout the portfolio, where any tenant pressure on rent arises, the Group takes a firm but considered stance; transparency is sought on turnover figures and all solutions are considered to mitigate impact on investment value. This may involve replacing tenants. The operations of the Group also create exposure to some currency risk, potentially impacting the affordability of rents.

A majority proportion of the portfolio income is contracted in Euros or tenants take the risk of converting their local currency commitment into a Euro equivalent. Where substantial local changes take place this can have the effect of making the retailer's Euro-based rental less affordable if their local operational currency falls. Falls have been experienced of late and may therefore contribute to rental income pressures. However, these movements have been a relatively common feature in these markets, and if recent falls are taken in the context of the last five years during which many tenants entered into their lease agreements, they look considerably less alarming.

Hungary

Plaza Portfolio

The Plaza portfolio includes four well-located mixed use retail and leisure malls in Veszprém, Pécs, Sopron and Szombathely.

Approximate GLA: 47,559 m^2

Anchor tenants: Csemege Match; Pecsi Direct (Alexandra Books); CBA; Jeans Club; Deichman; Magyar Cinema; Merkur Star.

Antana Logistics Park

Conveniently located to benefit from superb motorway transport links, the Antana property comprises seven buildings for light industrial, warehouse and office use.

Approximate GLA: 36,997 m^2

Anchor tenants: Rab Kaarcher; Coty Hungary.

Point Portfolio: Gyula & Ózd

The Hypermarket in Gyula and a Family Centre in Ózd represent the Hungarian assets of the Point Portfolio.

Approximate GLA: 19,375 m^2

Anchor tenant: Interspar; Takko; Deichman; DM.

Ericsson

The property consists of eight detached office buildings set in well landscaped surroundings and is currently leased to one single tenant.

Approximate GLA: 8,972 m^2

Interfruct

Interfruct is a portfolio of 23 well-located retail and warehouse units in Budapest and other major cities across Hungary. This portfolio is available for lease and/or purchase.

Approximate GLA: 94,668 m^2

Over that five year period, the local growth has often been substantially greater than the Euro-based indexation applied to the annual rent.

Initiatives to undertake works and improvements within the portfolio have been suspended as part of the strategy to preserve the Group's cash resources. The investment return of all such capital investment has to be reconsidered in the current market circumstances, which include the lack of debt funding normally available to facilitate construction.

Whilst defensive capital investment may be necessary to ensure operational performance at asset level, the combination of the capital payback prospect in this market and the necessity to preserve cash and to focus on the preservation of performing assets has to take precedence.

The Riga development project is continuing, with completion due in the first half of 2010. On completion, Carpathian's shareholding is anticipated to reach in excess of 55% on current income projections. The scheme is currently 56% pre-let, further negotiations are ongoing and pre-letting of 65% will release the entire remainder of the debt facility that is in place with Nordea Bank. After cost of debt funding the net rental income is anticipated to be in excess of €1 million per annum.

The Romanian development projects are proceeding at varying pace. The scheme in Arad is now approximately 55% pre-let with completion due in the second quarter of 2010. This project has benefited from a number of competing schemes in the city having been put on hold or delayed and tenant interest therefore transferring to the Company's "Atrium" project.

The Atrium scheme in Cluj Napoca is 50% pre-let with construction yet to start. The projects in Satu Mare and Baia Mare are yet to commence.

Challenges for the Group are the constraints on capital for completion of the four projects and the refinancing of the construction and land loans on Arad and Cluj.

Interest has been shown to purchase the Atrium business which functions as a development company for the Romanian projects, and proposals are being considered by the Board.

Portfolio valuation

The portfolio was valued by DTZ as at 31 December 2008 in accordance with RICS guidelines and reflecting the market at that time.

In the view of the Company's Property Adviser it is exceptionally difficult for valuers to reflect such unprecedented market conditions as are currently being experienced. During the current disruptions, transaction pricing of assets is potentially hugely affected by suspicions of distress and the identity of the vendor rather than by any real property investment fundamentals.

The Group's functional currency is the Euro, and has consistently chosen the Pound Sterling as presentational currency since the publication of its first results. During 2008, there have been material fluctuations between these currencies, with the Euro gaining more than 15% on average rates against the Pound Sterling.

As the property portfolio is valued in Euro, we have included below the valuation summary in both currencies to provide an indication of underlying changes in valuation excluding foreign exchange effects.

	Value YE 2008	Value YE 2007	Value YE 2008	Value YE 2007
DTZ Valuations	(£m)	(£m)	(€m)	(€m)
Investment properties	508.6	525.2	522.5	714.6
Investment properties excl. Varyada	508.6	486.9	522.5	662.5
Development properties – Romania	27.6	41.4	28.7	56.4

Strategy

The degree to which global liquidity will have an ongoing direct impact on the financing of all commercial operations, or how the secondary impact of reduced finance may force economies to contract, is still not yet understood.

As a geared property investment vehicle, Carpathian is heavily exposed to these factors.

In the medium-term, lending banks are committing themselves to continued operations in the CEE region, particularly the more central and established countries. Some equity investors currently holding off from new investment activity believe the region still possesses greater and speedier growth potential within any period of recovery than Western Europe in general.

During the next two years, the Company must focus upon its operational efficiencies, maintain income streams and manage relations with its lenders, with a view to a recovery in market conditions and particularly to some liquidity returning to the property sector.

The way property markets operate will change, with fewer senior lenders at lower leverage, new mezzanine lenders and equity funds replacing the previous behaviour. Any new investment will eventually be looking at the future income sustainability and growth prospects within CEE countries relative to other markets. It will also have to consider true rental levels which may compare favourably against those markets that have become inflated and which may require a significant period to substantiate such levels once again and demonstrate rental growth.

A key consideration for existing property assets is whether those assets can be sustained throughout the current period of disruption, and if so, whether longer-term macro economic factors are likely to generate recovery and growth or whether an enduring downturn will undermine value.

In the view of CAM and the Board, the Company's portfolio retains significant enduring equity value. A number of assets are subject to sustainable loan facilities and the Group has cash reserves that may be used prudently to maintain the asset base.

There is insufficient market depth at present to consider selling assets in any substantial volume. Such a sales programme would be unlikely to secure attractive valuation levels if undertaken en masse and any attempt to do so would be regarded as a sign of distress.

Therefore, whilst reviewing limited opportunities for one-off sales, the main activity is to maintain and where possible improve the Company's sustainability as regards its debt facilities, income, occupancy and running costs.

The Company will review market opportunities for growth which may include attracting co-investment by third parties into the Company's existing projects, or via the Company's shareholding in CAM, the management of defaulting loans for banks throughout the region, or the purchase of distressed assets or corporate entities.

Paul Rogers
Managing Director
Carpathian Asset Management Ltd
30 April 2009

Croatia

Supermarket Portfolio

Six large, modern supermarket stores in Zagreb, Slavonski Brod and Kutina are all let to Croatia's largest retailer.

Approximate GLA: 30,221 m^2

Anchor tenant: Konzum

Romania

Atrium Centers Portfolio

The Atrium Centers portfolio includes four development sites in Arad, Cluj, Baia Mare and Satu Mare. The construction of a mixed use retail and entertainment complex in Arad is well under way.

Approximate GLA: 29,000 m^2

Anchor tenants: Billa; Cinema City; Leonardo; Deichman; Reserved.

MacroMall Shopping Centre

MacroMall is a two storey retail complex with 65 units in Brasov.

Approximate GLA: 7,489 m^2

Anchor tenants: Domo

Directors, Officers and Advisers

Rory Macnamara
Non-executive Chairman
Rory Macnamara qualified as a chartered accountant with PricewaterhouseCoopers LLP and worked at Morgan Grenfell for 17 years. He was a Director in corporate finance, head of mergers and acquisitions and Vice Chairman of Morgan Grenfell & Co. Ltd. In 1999, he joined Lehman Brothers, where he was a Managing Director in UK investment banking until 2001. He currently acts as a corporate consultant and is Chairman of Izodia PLC and Essenden PLC, and a Director of Private Equity Investor PLC, Dunedin Income Growth Investment Trust PLC and Augean PLC.

Rupert Cottrell
Non-executive Director
Rupert Cottrell is a resident of the Isle of Man and former Chairman of the Supervisory Board of A.S. Magnum Medical (a pan-Baltic pharmaceutical group). He was also a Director of New European Investments Ltd (a closed private investment fund targeting Eastern European companies). As a consequence, Rupert has developed extensive relationships within CEE which are of benefit to the Company. He is a former Director of the AIM quoted PFI Infrastructure Company PLC recently taken over by 2i. Currently he is Chairman of the main market listed Infrastructure India PLC and a Director of a modest number of private property and infrastructure related companies.

Philip Scales
Non-executive Director and Company Secretary
Philip Scales is Managing Director of IOMA Fund and Investment Management Ltd ("IOMAFIM"), part of the Isle of Man Assurance Group. IOMAFIM specialises in the provision of third party fund administration and investment management services. Prior to this, Philip spent nearly 18 years as Managing Director of Northern Trust International Fund Administration Services (Isle of Man) Ltd (formerly Barings (Isle of Man) Ltd). He has over 30 years' experience of working offshore, primarily in corporate and mutual fund administration, and currently holds a number of directorships of listed companies. Philip is a Fellow of the Institute of Chartered Secretaries and Administrators.

Tim Walker
Non-executive Director
Tim Walker is a chartered accountant and an Isle of Man resident. He is the former Finance Director of Swallow/Vaux Group PLC, Strix Group and Burtonwood Brewery PLC. Tim is currently a Non-executive Director of Ishaan Real Estate PLC, Clean Energy Brazil PLC, Infrastructure India PLC and a number of private companies in the leisure and property industries.

Directors
Rory Patrick Macnamara
(Non-executive Chairman)
Patrick Rupert Cottrell
(Non-executive Director)
Philip Peter Scales
(Non-executive Director)
Timothy Graham Walker
(Non-executive Director)

Company Secretary
Philip Peter Scales

Registered Office
IOMA House
Hope Street
Douglas
Isle of Man IM1 1AP

Auditors
KPMG Audit LLC
Heritage Court
41 Athol Street
Douglas
Isle of Man IM99 1HN

UK Solicitors
Olswang
90 High Holborn
London WC1V 6XX

Property Valuers
DTZ Debenham Tie
Leung Ltd
European Valuations
1 Curzon Street
London W1A 5PZ

Property Adviser
Carpathian Asset
Management Ltd
8 Grafton Street
London W1S 4EL

Nominated Adviser and Broker
Collins Stewart Europe Ltd
88 Wood Street
London EC2V 7QR

Isle of Man Advocates
Cains Advocates Ltd
15-19 Athol Street
Douglas
Isle of Man IM1 1LB

Tax Advisers
PricewaterhouseCoopers LLP
1 Embankment Place
London WC2N 6HR

Directors' Report

The Directors present herewith their report and audited financial statements for the year ended 31 December 2008.

Principal activities

The principal activity of the Group is the investment in and development of retail property in Central and Eastern Europe.

Change of name

On 28 August 2008 the Company changed its name from Dawnay, Day Carpathian PLC to Carpathian PLC.

Results for the year

The loss for the year ended 31 December 2008 amounted to £148.6 million (2007: £14.9 million profit). The results for the year and their appropriation are set out in the Income Statement on page 31.

Dividend

The Company has declared and paid an interim dividend of 2 pence per share, for the year ended 31 December 2008 (2007: 6.66 pence per share).

The Company does not have distributable reserves as at 31 December 2008 due to the fair value impairment of its investments in its subsidiaries. Therefore there is no final dividend declared for 2008 (2007: 3.34 pence per share).

Going concern

Since the announcement of the Strategic review (described in the Chairman's Statement), the global credit environment and market sentiment have deteriorated. Despite this, the Company has received expressions of interest from a number of parties with various proposals. After carefully reviewing all of these indicative proposals, the Board has concluded that none of the indicative proposals, including a sale of the entire company, is at a level which is likely to maximise value for shareholders.

The Board has therefore decided to continue its trading strategy over the medium-term, while returning any excess cash arising from property sales to shareholders.

An essential element of the successful implementation of the strategy is obtaining appropriate extensions and modifications to the Group's current bank facilities and adjusting financial covenants where necessary. The restructuring of the debt facilities will continue to be focused on investments where there is substantial equity value to protect on a prudent basis. An update on the current situation with all principal lenders is set out in the Property Adviser's Report.

Mindful of the rapidly changing circumstances within some markets, the Group has sought to preserve cash and reserve any loan restructuring until good visibility exists for the prospects of each asset. The Board has reviewed a detailed cash flow and underlying assumptions for the period until the end of 2011, which projects that the Group and Company have adequate resources for that period.

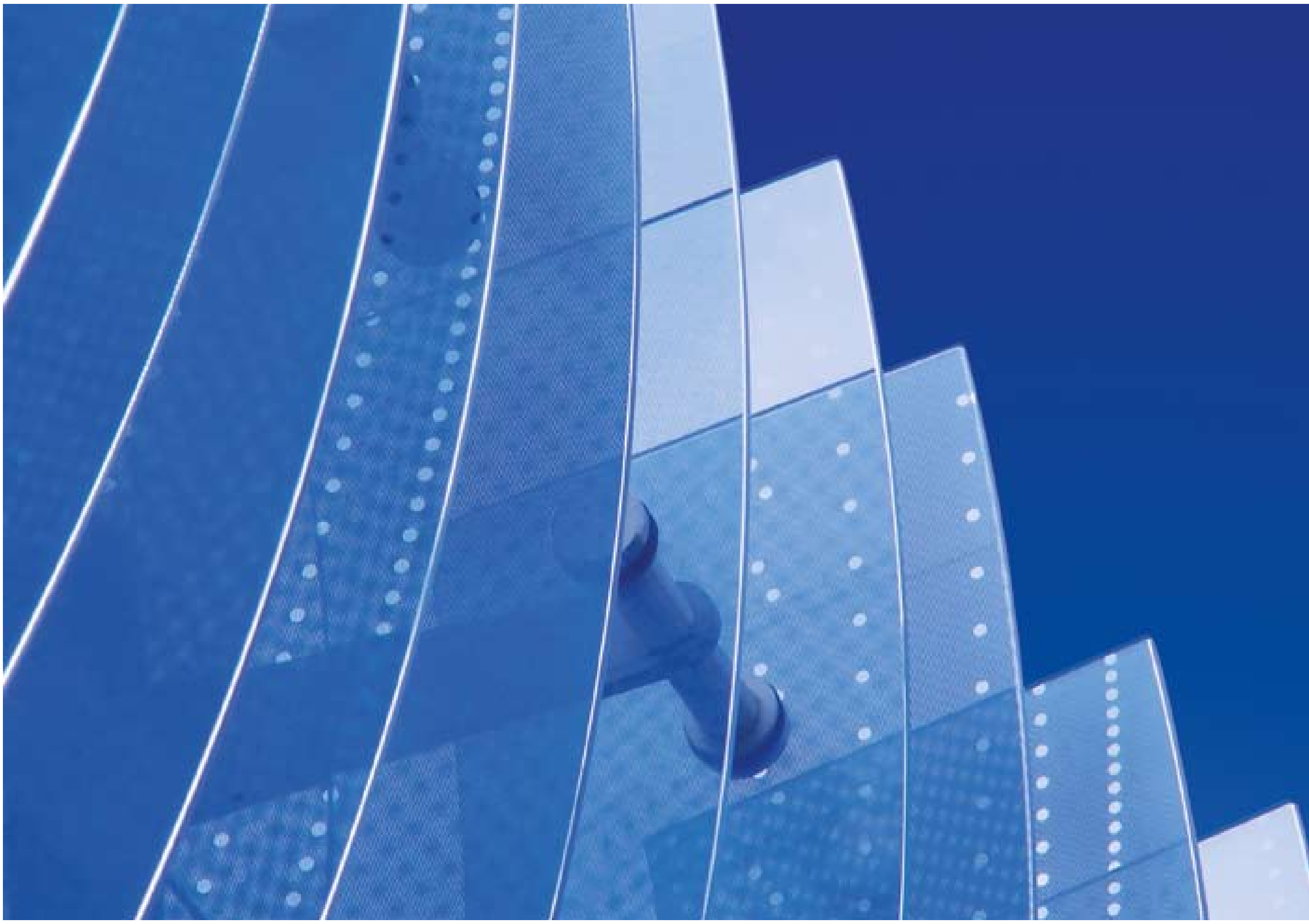
During the next two years the Company must focus upon its operational efficiencies, maintain income streams and manage relations with its lenders with a view to a recovery in market conditions and particularly to some liquidity returning to the property sector.

In the view of the Board and its Property Adviser, the Company's portfolio retains significant enduring equity value. A number of assets are subject to sustainable loan facilities and the Group has cash reserves that may be used prudently to maintain the asset base.

The Group is also exposed to a number of risks, including interest rate risk, currency risk, market risk, credit risk and liquidity risk.

The Board has overall responsibility for establishment and oversight of the Group's risk management framework. It oversees how management monitors compliance with the Group's risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced by the Group.

The Group's risk management policies are established, in conjunction with the Property Adviser, to identify and analyse the risks faced



by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities.

The Directors recognise that these circumstances represent an uncertainty that casts doubt upon the Group's and Company's ability to continue as a going concern. However after making suitable enquiries and based upon the factors described above and in particular the position reached in various discussions with banks lending to the Group as described in the review of debt financing contained in the Property Adviser's Report, the Directors have a reasonable expectation that the Group and Company have adequate resources to continue their operations for at least the next 18 months. For these reasons, the Directors continue to adopt the going concern basis in preparing the Annual Report and accounts.

Directors

The Directors who served during the year were as follows:

R.P. Macnamara (Non-executive Chairman)
Appointed 17 November 2008

P. R. Cottrell (Non-executive Director)

P. P. Scales (Non-executive Director)

T.G. Walker (Non-executive Director)
Appointed 17 November 2008

P. R. Klimt (Non-executive Director)
Resigned 23 July 2008

W.A. Hamilton-Turner (Non-executive Director)
Resigned 17 November 2008

Directors' Report continued

Auditors

Following the resignation of Deloitte & Touche, KPMG Audit LLC were appointed during the year by the Directors of the Company as the Group's Auditors. KPMG Audit LLC, being eligible, have expressed their willingness to continue in office in accordance with section 12(2) of the Isle of Man Companies Act 1982 and a resolution to re-appoint them will be proposed at the forthcoming Annual General Meeting.

Directors' interests

The Directors who held office at 31 December 2008 had the following interests in the share capital of the Company:

P.R. Cottrell's interests in the Company were as follows:

	Number of Ordinary Shares held	
	31 December 2008	31 December 2007
Registered holder		
P.R. Cottrell	-	30,000
IOMAFIM Client Account	100,000	-
	100,000	30,000

This represents an aggregate interest of 0.04% (2007: 0.01%) of the issued share capital of the Company.

W. A. Hamilton-Turner		
MW Pension Trustees (Isle of Man) Ltd	-	10,000
P.R. Klimt		
Petalang Ltd	-	3,514,029

In addition, P.R. Klimt had an interest in 12,074,105 non-voting contracts for differences at 31 December 2007.

None of the other Directors had any interest in the share capital at 31 December 2008.

By order of the Board

Philip Scales
Company Secretary
30 April 2009

Corporate Governance Report

The Board of Directors is committed to a high standard of corporate governance. The Directors believe that good governance requires the Company to have the correct processes and structures in place to ensure sound stewardship and accountability.

The Board of Directors is responsible for the overall stewardship of the Group. The Directors continue to take steps towards adopting the recommendations on corporate governance issued by the Quoted Companies Alliance ("QCA"). The QCA's Corporate Governance Guidelines, which set out a code of best practice for companies listed on the AIM, state that "the purpose of good corporate governance is to ensure that the company is managed in an efficient, effective and entrepreneurial manner for the benefit of all shareholders over the longer term".

The Board is making progress towards ensuring the Company complies with the Combined Code, which is generally adopted by companies admitted to the Official List (companies listed on the London Stock Exchange's main market). The Isle of Man, the Company's jurisdiction of incorporation, has no specific corporate governance regime.

The Board holds at least four meetings annually and also has an Audit Committee. The Board does not intend to establish other committees given the current composition of the Board and nature of the Company's operations.

Audit Committee

The Audit Committee is responsible for ensuring that the financial performance of the Company is properly monitored, controlled and reported on. It reviews reports from the auditors relating to the financial statements and internal control systems.

Statement of Directors' Responsibilities

The Directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year, which meet the requirements of Isle of Man company law. In addition, the Directors have elected to prepare the Group and Parent Company financial statements in accordance with International Financial Reporting Standards.

The Group and Parent Company financial statements are required by law to give a true and fair view of the state of affairs of the Group and the Parent Company and of the profit or loss for that period.

In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable International Financial Reporting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and Parent Company will continue in business.

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Parent Company and to enable them to ensure that the financial statements comply with the Isle of Man Companies Acts 1931 to 2004. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Report of the Independent Auditors, KPMG Audit LLC

To the Members of Carpathian PLC

We have audited the Group and Parent Company financial statements ("the financial statements") of Carpathian PLC for the year ended 31 December 2008 which comprise the Group and Parent Company Income Statements, the Group and Parent Company Statement of Changes in Equity, the Group and Parent Company Balance Sheets, the Group and Parent Company Cash Flow Statements and the related notes. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the Company's members, as a body, in accordance with section 15 of the Companies Act 1982. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and auditors

The Directors' responsibilities for preparing the financial statements in accordance with applicable Isle of Man company law and International Financial Reporting Standards are set out in the Statement of Directors' Responsibilities on page 27.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with Isle of Man Companies Acts 1931 to 2004. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

In addition we report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' transactions with the Company is not disclosed.

We read the Directors' Report and any other information accompanying the financial statements and consider the implications for our report if we become aware of any apparent misstatements or inconsistencies within it.

Basis of opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the UK Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's and Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Report of the Independent Auditors, KPMG Audit LLC continued

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with International Financial Reporting Standards, of the state of the Group's and Parent Company's affairs as at 31 December 2008 and of the Group's and Parent Company's loss for the year then ended;
- the financial statements have been properly prepared in accordance with the Isle of Man Companies Acts 1931 to 2004; and
- the information given in the Directors' Report is consistent with the financial statements.

Emphasis of matter

Without qualifying our opinion, we draw your attention to the following matters:

- As disclosed in note 14 Investment property and development property, within the Report and Valuation prepared by the appointed independent professional valuers, DTZ Debenham Tie Leung, there are a number of comments regarding current market conditions. In particular, there has been a marked reduction in the volume of transactions and there is a greater degree of uncertainty regarding property prices. Accordingly, it should be noted that the proceeds from an actual sale of any of the Group's properties may be significantly different to the value attributed by the appointed independent valuers as at 31 December 2008 and recorded in these financial statements.
- As disclosed in note 25 Interest-bearing loans and borrowings, together with note 34 Events after the Balance Sheet date, a number of borrowing arrangements are in the course of renegotiation with the Group's bankers, either due to existing borrowing facilities having expired or due to a breach of borrowing covenants. To the extent that any of the borrowing facilities are not ultimately satisfactorily renegotiated then it is possible that the relevant bankers may be entitled to take control of property and other assets held as security, which assets would then cease to form part of the Group's Balance Sheet.
- As disclosed in note 2(c) Basis of preparation, the financial statements have been prepared on a going concern basis, taking into consideration the level of cash and cash equivalents presently held by the Company, the current status of the renegotiation of borrowing facilities, as disclosed in note 34 Events after the Balance Sheet date, and the decisions taken by the Board following the Group's Strategic review, as disclosed in the Chairman's Statement. The Directors therefore have a reasonable expectation that the Group will have adequate resources for its continuing operational existence for the foreseeable future, and, for these reasons, continue to adopt the going concern basis in preparing the 2008 financial statements.

KPMG Audit LLC

Chartered Accountants
Heritage Court
41 Athol Street
Douglas
Isle of Man IM99 1HN
30 April 2009

Financial Statements

Consolidated Income Statement

for the year ended 31 December 2008

	Note	2008 Revenue £'000	2008 Capital £'000	2008 Total £'000	2007 Revenue £'000	2007 Capital £'000	2007 Total £'000
Gross rental income	6	**37,515**	**-**	**37,515**	27,051	-	27,051
Service charge income	8	**11,931**	**-**	**11,931**	9,635	-	9,635
Service charge expense	8	**(14,194)**	**-**	**(14,194)**	(10,886)	-	(10,886)
Property operating expenses	8	**(5,685)**	**-**	**(5,685)**	(3,401)	-	(3,401)
Other property income	9	**4,825**	**-**	**4,825**	1,895	-	1,895
Net rental and related income		**34,392**	**-**	**34,392**	24,294	-	24,294
Changes in fair value of investment and development property	14	**-**	**(163,338)**	**(163,338)**	-	15,983	15,983
Loss on sale of investment properties		**-**	**(1,061)**	**(1,061)**	-	-	-
Impairment of goodwill	16	**-**	**(25,693)**	**(25,693)**	-	-	-
Changes in fair value of derivative assets and liabilities	23	**-**	**6,933**	**6,933**	-	1,409	1,409
Net foreign exchange loss		**-**	**(3,176)**	**(3,176)**	-	(6,971)	(6,971)
Administrative expenses	10	**(6,535)**	**-**	**(6,535)**	(4,685)	-	(4,685)
Net operating (loss)/profit before net financing expense		**27,857**	**(186,335)**	**(158,478)**	19,609	10,421	30,030
Financial income	11	**5,426**	**-**	**5,426**	6,496	-	6,496
Financial expenses	11	**(20,707)**	**-**	**(20,707)**	(15,528)	-	(15,528)
Changes in fair value of interest rate swaps	11 & 23	**-**	**(8,718)**	**(8,718)**	-	879	879
Net financing expense		**(15,281)**	**(8,718)**	**(23,999)**	(9,032)	879	(8,153)
Net (loss)/profit before tax		**12,576**	**(195,053)**	**(182,477)**	10,577	11,300	21,877
Tax credit/(expense)	12	**(814)**	**34,722**	**33,908**	(341)	(6,606)	(6,947)
(Loss)/profit for the year		**11,762**	**(160,331)**	**(148,569)**	10,236	4,694	14,930
Attributable to:							
Equity holders of the Company	13			**(144,955)**			16,202
Minority interest	13			**(3,614)**			(1,272)

Basic and diluted (loss)/earnings per share for (loss)/profit attributable to the equity holders of the Company during the year (expressed as pence per share)

	Note	2008	2007
Basic (loss)/earnings per share	13	**(62.8)p**	8.3p
Diluted (loss)/earnings per share	13	**(62.8)p**	7.3p

The total column of this statement represents the Group's Income Statement, prepared in accordance with IFRS. The revenue and capital columns are both supplied as supplementary information permitted by IFRS. All items in the above statement derive from continuing operations.

The notes on pages 38 to 65 form part of these financial statements.

Company Income Statement

for the year ended 31 December 2008

	Note	2008 £'000	2007 £'000
Revenue		**-**	-
Changes in fair value of derivative assets and liabilities	23	**7,031**	1,246
Impairment of investment in subsidiaries	15	**(153,391)**	-
Net foreign exchange loss		**(3,270)**	(5,620)
Administrative expenses	10	**(1,582)**	(750)
Net operating loss before net financing income		**(151,212)**	(5,124)
Financial income	11	**18,896**	14,253
Financial expenses	11	**-**	(1,019)
Net financing income		**18,896**	13,234
Net (loss)/profit before tax		**(132,316)**	8,110
Tax expense	12	**-**	-
(Loss)/profit for the year		**(132,316)**	8,110

All items in the above statement derive from continuing operations.

The notes on pages 38 to 65 form part of these financial statements.

Statements of Changes in Equity

for the year ended 31 December 2008

Group	Note	Share capital £'000	Share premium £'000	Minority interest £'000	Translation reserve £'000	Retained earnings £'000	Total £'000
Balance as at 1 January 2007		1,454	125,556	5,546	(3,467)	42,472	171,561
Profit for the year		-	-	-	-	14,930	14,930
Dividends paid	28	-	-	-	-	(18,342)	(18,342)
Purchase of minority shareholders' interest		-	-	(688)	-	-	(688)
Minority interest through acquisitions		-	-	87	-	-	87
Carried interest allocation to minority shareholders		-	-	(1,272)	-	1,272	-
Issue of share capital	24	833	99,167	-	-	-	100,000
Costs of issue	24	-	(3,315)	-	-	-	(3,315)
Exercise of share-based option	24	6	594	-	-	-	600
Share premium release	24	-	(44,891)	-	-	44,891	-
Translation into presentation currency		-	-	-	23,127	-	23,127
Balance as at 31 December 2007		2,293	177,111	3,673	19,660	85,223	287,960
Balance as at 1 January 2008		**2,293**	**177,111**	**3,673**	**19,660**	**85,223**	**287,960**
Loss for the year		**-**	**-**	**-**	**-**	**(148,569)**	**(148,569)**
Dividends paid and declared	28	**-**	**-**	**-**	**-**	**(12,304)**	**(12,304)**
Carried interest allocation to minority shareholders	31	**-**	**-**	**(3,614)**	**-**	**3,614**	**-**
Issue of share capital	24	**28**	**2,812**	**-**	**-**	**-**	**2,840**
Translation into presentation currency		**-**	**-**	**-**	**55,784**	**-**	**55,784**
Balance as at 31 December 2008		**2,321**	**179,923**	**59**	**75,444**	**(72,036)**	**185,711**

The notes on pages 38 to 65 form part of these financial statements.

Company	Note	Share capital £'000	Share premium £'000	Minority interest £'000	Translation reserve £'000	Retained earnings £'000	Total £'000
Balance as at 1 January 2007		1,454	125,556	-	-	14,399	141,409
Profit for the year		-	-	-	-	8,110	8,110
Dividend paid	28	-	-	-	-	(18,342)	(18,342)
Issue of share capital	24	833	99,167	-	-	-	100,000
Costs of issue	24	-	(3,315)	-	-	-	(3,315)
Exercise of share-based option	24	6	594	-	-	-	600
Share premium release	24	-	(44,891)	-	-	44,891	-
Translation into presentation currency		-	-	-	19,931	-	19,931
Balance as at 31 December 2007		2,293	177,111	-	19,931	49,058	248,393
Balance as at 1 January 2008		**2,293**	**177,111**	**-**	**19,931**	**49,058**	**248,393**
Loss for the year		**-**	**-**	**-**	**-**	**(132,316)**	**(132,316)**
Dividends paid and declared	28	**-**	**-**	**-**	**-**	**(12,304)**	**(12,304)**
Issue of share capital		**28**	**2,812**	**-**	**-**	**-**	**2,840**
Translation into presentation currency		**-**	**-**	**-**	**46,602**	**-**	**46,602**
Balance as at 31 December 2008		**2,321**	**179,923**	**-**	**66,533**	**(95,562)**	**153,215**

The notes on pages 38 to 65 form part of these financial statements.

Balance Sheets

as at 31 December 2008

	Note	2008 Group £'000	2008 Company £'000	2007 Group as restated £'000	2007 Company £'000
Assets					
Non-current assets					
Investment property	14	**508,642**	**-**	525,192	-
Development property	14	**27,919**	**-**	41,428	-
Investment in subsidiaries	15	**-**	**-**	-	9
Loan to subsidiary	15	**-**	**78,684**	-	202,645
Goodwill	16	**13,239**	**-**	25,576	-
Intangible assets		**-**	**-**	13	-
Costs relating to future acquisitions		**63**	**-**	291	-
Investments in equity accounted investees	17	**150**	**150**	-	-
Other Investments	18	**7,255**	**-**	5,477	-
Loans receivable	19	**24,510**	**172**	14,846	-
Deferred tax assets	20	**2,876**	**-**	1,027	-
		584,654	**79,006**	613,850	202,654
Current assets					
Trade and other receivables	21	**15,295**	**21,079**	12,776	15,854
Loans receivable	19	**7,983**	**-**	20	-
Cash and cash equivalents	22	**62,162**	**45,658**	62,103	40,387
Derivative assets	23	**7,817**	**7,767**	4,762	736
		93,257	**74,504**	79,661	56,977
Total assets		**677,911**	**153,510**	693,511	259,631

The notes on pages 38 to 65 form part of these financial statements.

	Note	2008 Group £'000	2008 Company £'000	2007 Group as restated £'000	2007 Company £'000
Equity					
Issued capital	24	**2,321**	**2,321**	2,293	2,293
Share premium	24	**179,923**	**179,923**	177,111	177,111
Retained earnings		**(72,036)**	**(95,562)**	85,223	49,058
Translation reserve		**75,444**	**66,533**	19,660	19,931
Total equity attributable to equity holders of the parent		**185,652**	**153,215**	284,287	248,393
Minority interest		**59**	**-**	3,673	-
Total equity		**185,711**	**153,215**	287,960	248,393
Liabilities					
Non-current liabilities					
Interest-bearing loans and borrowings	25	**192,596**	**-**	233,382	-
Other payables	26	**27,300**	**-**	6,142	-
Deferred income tax liabilities	20	**26,106**	**-**	56,333	-
		246,002	**-**	295,857	-
Current liabilities					
Trade and other payables	26	**26,007**	**295**	23,822	3,068
Interest-bearing loans and borrowings	25	**213,497**	**-**	77,055	-
Provisions	27	**1,665**	**-**	647	-
Dividends payable	28	**-**	**-**	7,638	7,638
Derivative liabilities	23	**5,029**	**-**	532	532
		246,198	**295**	109,694	11,238
Total liabilities		**492,200**	**295**	405,551	11,238
Total equity and liabilities		**677,911**	**153,510**	693,511	259,631

The notes on pages 38 to 65 form part of these financial statements.

These financial statements were approved by the Board of Directors and authorised for use on 30 April 2009.
Signed on behalf of the Board of Directors by:

Rupert Cottrell
Non-executive Director

Philip Scales
Non-executive Director

Cash Flow Statements

for the year ended 31 December 2008

	Note	2008 Group £'000	2008 Company £'000	2007 Group £'000	2007 Company £'000
Cash flows from operating activities					
Cash generated from/(used in) operations	29	**39,902**	**(159,351)**	(13,730)	2,100
Income taxes paid		**(896)**	**-**	(1,830)	-
Net cash generated from/(used in) operating activities		**39,006**	**(159,351)**	(15,560)	2,100
Cash flows from investing activities					
Capital expenditure on investment properties		**4,764**	**-**	(8,870)	-
Capital expenditure on development properties		**(14,181)**	**-**	(8,354)	-
Capital expenditure on incomplete acquisitions		**-**	**-**	(337)	-
Capital expenditure on intangible assets		**13**	**-**	(13)	-
Loan advances to unconsolidated entities		**(17,626)**	**-**	(14,866)	-
Cash received on disposal of investment property		**11,662**	**-**	-	-
Investment in unconsolidated entities		**(1,928)**	**(150)**	(5,419)	-
Interest received		**1,197**	**18,896**	5,733	4,854
Acquisition of subsidiaries		**-**	**-**	(41,987)	-
Acquisition of minority interest in subsidiaries		**-**	**-**	(1,035)	-
Loans advanced to subsidiaries before acquisition		**-**	**-**	-	-
Loan to subsidiary		**-**	**192,584**	-	(87,424)
Net cash (used in)/generated from investing activities		**(16,099)**	**211,330**	(75,148)	(82,570)
Cash flows from financing activities					
Proceeds on issue of shares, net of share issuance costs	24	**-**	**-**	97,285	97,285
New bank loans raised		**50,924**	**-**	53,019	-
Interest paid		**(21,162)**	**-**	(13,796)	(1,020)
Repayments of borrowings		**(26,218)**	**(172)**	(50,219)	(24,200)
Dividends paid		**(19,942)**	**(19,942)**	(10,704)	(10,704)
Net cash (used in)/generated from financing activities		**(16,398)**	**(20,114)**	75,585	61,361
Net increase/(decrease) in cash and cash equivalents		**6,509**	**31,865**	(15,122)	(19,109)
Cash and cash equivalents at the beginning of the year		**62,103**	**40,387**	75,131	59,174
Exchange (losses)/gains on cash and cash equivalents		**(6,450)**	**(26,594)**	2,095	322
Cash and cash equivalents at the end of the year	22	**62,162**	**45,658**	62,103	40,387

The notes on pages 38 to 65 form part of these financial statements.

Notes to the Financial Statements

1 General information

Carpathian PLC (the "Company") is a company domiciled and incorporated in the Isle of Man on 2 June 2005 for the purpose of the investment in and development of retail property in Central and Eastern Europe.

The consolidated financial statements for Carpathian PLC and its subsidiaries (the "Group") and financial statements for the Company have been prepared for the year ended 31 December 2008.

The Company's registered address is IOMA House, Hope Street, Douglas, Isle of Man IM1 1AP.

The Company was admitted to the AIM of the London Stock Exchange and commenced trading its shares on 26 July 2005. The Company raised approximately £140 million at listing and a further £100 million in May 2007 (before admission costs).

The functional currency of the consolidated financial statements is the Euro as it is the currency of the primary economic environment in which the Group operates. The consolidated financial statements are presented in Pounds Sterling (presentation currency) for the convenience of readers. The translation between the functional and presentation currency is in accordance with the policies set out in the note 2(j).

2 Significant accounting policies

(a) Statement of compliance

The Group and Company financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union.

(b) New standards and interpretations

As of the date of authorisation of these financial statements, the following standards and interpretations, which have not been applied in these financial statements, were in issue but not yet effective:

IFRS 8: Operating segments
Amendments to IAS 1: Presentation of financial statements – a revised presentation
Amendments to IAS 23: Borrowing costs
IFRIC 11: IFRS 2: Group and treasury share transactions
IFRIC 12: Service concession arrangements
IFRIC 13: Customer loyalty programmes
IFRIC 14: IAS 19; IFRIC 19 The limit on a defined benefit asset, minimum funding requirements and their interaction
IFRIC 17: Distributions of non-cash assets to owners
IFRIC 18: Transfers of assets from customers
IAS 1: Presentation of financial statements – capital disclosures
Amended IFRS 1 and IAS 27: Cost of an investment in a subsidiary, jointly controlled entity or associate
IFRIC 15: Agreements for the construction of real estate
IFRIC 16: Hedges of a net investment in a foreign operation

The Directors anticipate that the adoption of these standards and interpretations in future periods will have no material impact on the financial statements of the Group, except for additional disclosures regarding capital and financial instruments. The relevant standards come into effect for periods commencing on or after 1 January 2009.

2 Significant accounting policies (continued)

(c) Basis of preparation

The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of certain assets including the revaluation of investment and development property and financial instruments, and in accordance with applicable Isle of Man Law. The accounting policies have been consistently applied to the results, gains and losses, assets, liabilities and cash flows of all entities included in the consolidated financial statements.

The preparation of financial statements in conformity with IFRS requires the Directors to make judgements, estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses. These estimates and associated assumptions are based on historical experience and various other factors which are believed to be reasonable under the circumstances, and are reviewed on an ongoing basis; they may have a significant impact on the financial statements, and actual results may differ from these estimates. Revisions to accounting estimates are recognised in the year in which the estimate is revised if the revision affects only that year, or in the year of the revision and future years if the revision affects both current and future years.

The activities of the Group are subject to a number of risk factors. The global financial crisis and the deteriorating economic environment in the jurisdictions within which the Group operates have increased the intensity of these risk factors. The Directors, who are advised by professionally qualified external valuers, consider that the future economic outlook presents specific challenges, in terms of the significant reduction in the volume of property transactions in the jurisdictions within which the Group operates, the significant reduction in the availability of loan finance for property transactions in those jurisdictions and the consequent impact on the valuations of the properties held by the Group. Collectively, these factors have adversely impacted the compliance of the entities controlled by the Company with their borrowing covenants and, as more fully described in note 25, a number of the related loan facilities are currently under renegotiation.

The financial statements have been prepared on a going concern basis, taking into consideration the level of cash and cash equivalents presently held by the Company and the current status of progress in relation to the renegotiation of borrowing facilities. The Directors therefore have a reasonable expectation that the Company will have adequate resources for its continuing operational existence for the foreseeable future, and for these reasons continue to adopt the going concern basis in preparing the 2008 financial statements.

(d) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries) to 31 December each year. Control is achieved where the Company has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities.

Minority interests in the net assets of consolidated subsidiaries are identified separately from the Group's equity therein. Minority interests consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

The results of subsidiaries acquired or disposed of during the year are included in the Consolidated Income Statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to ensure uniformity with the accounting policies adopted by the Group.

All intra-Group transactions, balances, income and expenses are eliminated on consolidation.

(e) Business combinations

The acquisition of subsidiaries is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 are recognised provisionally at the best estimate of their fair value at the acquisition date, except for non-current assets (or disposal groups) that are classified as held for resale in accordance with IFRS 5. Non-current assets held for sale and discontinued operations are recognised and measured at fair value less costs to sell.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised.

The interest of minority shareholders in the acquiree is initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

The revenue and profit of the subsidiaries in relation to all business combinations effected during the year has not been disclosed as the information is not readily available.

(f) Jointly controlled entities

A jointly controlled entity is a joint venture that involves the establishment of a corporation, partnership or other entity in which each venturer has an interest, and contractual arrangements between the venturers establishes joint control over the economic activity of the entity.

Jointly controlled entities are accounted for using the equity method. They are recognised initially at cost and adjusted thereafter for the post acquisition change in the Group's share of net assets of the joint controlled entity. The Group Income Statement includes the Group's share of the profit or loss of the jointly controlled entity from the date that joint control commences until the date that joint control ceases. When the Group's share of losses exceeds its interest in a jointly controlled entity, the carrying amount of that interest (including any long-term investments) is reduced to nil and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the jointly controlled entity.

(g) Goodwill

Goodwill is allocated as described in note 16. After initial recognition, goodwill is measured at cost less any accumulated impairment losses. This impairment review is performed at least annually. Any impairment is recognised immediately in the Income Statement and is not subsequently reversed. Since goodwill is calculated and attributed to the purchase of property portfolios rather than individual companies, negative goodwill is not credited to the Income Statement, but offset against positive goodwill generated by the purchase of the portfolio as a whole.

(h) Revenue recognition

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts over the expected life of the financial asset to that asset's net carrying amount.

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established.

2 Significant accounting policies (continued)

(i) Leases

Leases are classified as finance leases whenever the terms of the lease substantially transfer the risks and rewards of ownership to the lessee. All other leases are classified as operating leases. The Group only has operating leases where it is the lessor (note 2(h)). Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

(j) Foreign currencies

The functional currency of the Group and the Company is considered to be the Euro. It is the currency of the primary economic environment in which it operates. For the purpose of the financial statements, the results and financial position of the Company and Group are presented in Pounds Sterling as the Company is listed on the London AIM and its share price is quoted in Pounds Sterling.

In preparing the financial statements of the individual companies, transactions (other than those in the functional currency) are recorded in foreign currency. The functional currency equivalent is also recorded where the underlying transaction is not denominated in functional currency. At each Balance Sheet date, all monetary assets and liabilities denominated in foreign currency are translated to functional currency at the rate prevailing on the Balance Sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated. Income and expense items are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during that year, in which case the exchange rates at the date of transactions are used.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are included in the Income Statement for the year. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in the Income Statement for the year except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity. For such non-monetary items, any exchange component of that gain or loss is also recognised directly in equity.

In order to hedge its exposure to certain foreign exchange risks, the Group reviews its position to enter into forward contracts and options (see note 2(n) for details of the Group's accounting policies in respect of such derivative financial instruments).

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's operations are translated at exchange rates prevailing on the Balance Sheet date. Income and expense items are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during that year, in which case the exchange rates at the date of transactions are used. Exchange differences arising, if any, are classified as equity and transferred to the Group's translation reserve. Such translation differences are recognised as income or as expenses in the year in which the operation is disposed of.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

(k) Tax

The tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the Income Statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the Balance Sheet date.

Deferred tax represents the tax expected to be payable or recoverable arising on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the Balance Sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the accounting profit nor the tax profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each Balance Sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the Income Statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off, when they relate to income taxes levied by the same taxation authority and the Group intends to settle its tax on a net basis.

(l) Investment property

Investment properties are properties held for long-term rental income or for capital appreciation or both.

Acquisitions through direct asset purchases are initially stated at cost, including related transaction costs. Acquisitions through business combinations are stated at fair value at the date of acquisition. Additions to investment properties consist of costs of a capital nature.

Acquisitions through long-term leases which substantially transfer the risks and rewards of ownership to the lessee are treated as finance leases, and are initially stated at the lower of fair value or the present value of minimum lease payments. Where finance lease payments are subsequently adjusted, the present value of the minimum lease payments are adjusted accordingly.

After initial recognition at cost, investment properties are independently valued by professionally qualified external valuers at market value at the Balance Sheet date.

Gains or losses arising from changes in the fair value of investment properties are included in the Income Statement in the year in which they arise.

(m) Development property

Properties acquired with the intention of redevelopment are classified as development properties and stated at cost. Cost includes all costs directly associated with the purchase and construction of development properties and attributable interest. Interest is calculated by reference to specific borrowings where relevant and otherwise on the weighted average rate applicable to the Group, excluding any borrowings related to specific assets. When development properties are completed, they are reclassified as investment properties.

2 Significant accounting policies (continued)

(n) Financial instruments

Financial assets and financial liabilities are recognised in the Balance Sheet when the Group becomes a party to the contractual provisions of the instrument.

Trade receivables

Trade receivables are classified under the loans and receivable category and are measured at initial recognition at fair value. Subsequently, they are measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in the Income Statement when there is objective evidence that the asset is impaired. The allowance recognised is measured as the difference between the carrying amount of the asset and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

Investments

Investments are classified as available for sale financial assets and recognised and derecognised on a trade date where a purchase or sale of an investment is under a contract, the terms of which require delivery of the investment within the time frame established by the market concerned, and are initially measured at cost, including transaction costs.

Loans to subsidiaries

Loans are initially measured at fair value. After initial recognition, loans are measured net of any accumulated impairment losses. This impairment review is performed at least annually. Any impairment is recognised immediately in the Income Statement.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, demand deposits and other short-term, highly liquid investments that are readily convertible to a known amount of cash and which are subject to an insignificant risk of changes in value.

Financial liabilities and equity

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities, except for borrowing costs incurred in respect of development projects which are capitalised as per note 2(m).

Bank borrowings

Interest-bearing bank loans and overdrafts are recorded as the proceeds received, net of direct issue costs which is considered to be its fair value. Finance charges, except for borrowing costs incurred in respect of development projects which are capitalised as per note 2(m), including premiums payable on settlement or redemption and direct issue costs, are accounted for in the Income Statement at amortised cost using the effective interest rate method and are added to the carrying amount of the instrument to the extent that they are not settled in the year in which they arise.

Trade payables

Trade payables are initially measured at fair value, and are subsequently measured at amortised cost using the effective interest method.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs, which is considered to be its fair value.

Derivative financial instruments

The Group uses interest rate swap contracts to hedge all the interest on its external debt, and classifies these under the financial instruments at fair value through profit and loss on initial recognition.

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of host contracts and the host contracts are not carried at fair value. Derivatives are measured at initial recognition at fair value excluding transaction costs, and are subsequently measured at fair value. Fair value is the estimated amount that the Group would receive or pay to terminate the derivative at the Balance Sheet date, taking account of current interest rates. Gains or losses on the revaluation of derivatives are reported in the Income Statement.

(o) Provisions

Provisions are recognised when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation. Provisions are measured at the Directors' best estimate of the expenditure required to settle the obligation at the Balance Sheet date, and are discounted to present value where the effect is material.

(p) Share-based payments

The Group has applied the requirements of IFRS 2: Share-based payment.

Equity-settled share-based payments are measured at fair value at the date of grant. The fair value of equity-settled share-based payments attributable to the issue of equity instruments is charged against equity. Fair value is measured using the Black-Scholes model.

No equity share-based payments were made in 2008 or 2007.

3 Critical accounting judgements and key sources of estimation uncertainty

Critical judgements in applying the Group's accounting policies

In the process of applying the Group's accounting policies, which are described in note 2, the Directors have made the following judgements that have the most significant effect on the amounts recognised in the financial statements.

Investment and loan to subsidiary

Following a detailed review of the financial positions of the Company's subsidiaries, the Directors are satisfied that the carrying amount of investments and loans to subsidiaries, net of the impairment loss for the year, is justified. More details are available in note 15.

Impairment of goodwill

Following a detailed review of the business combinations acquired, the Directors are satisfied that the carrying amount of the goodwill, net of the impairment loss for the year, is justified. More details on goodwill are available in note 16.

3 Critical accounting judgements and key sources of estimation uncertainty (continued)

Valuation of investment and development property

The fair value of the Group's investment and development property was determined by independent valuers. The valuation, which conforms to the appropriate sections of both the current Practice Statement and United Kingdom Practice Statements contained within the RICS Valuations Standards, 6th Edition (the "Red Book"), was arrived at by reference to market evidence of transaction prices for similar properties. Further details on investment and development property are available at note 14.

4 Prior year adjustment

The Group Balance Sheet for 2007 has been restated to include the finance lease obligations in respect of certain properties which are held under long-term lease arrangements.

Investment properties were previously recorded at £523.1 million and are now restated at £525.2 million, an increase of £2.1 million.

Finance leases, which were previously nil, have also been restated as £1.9 million for non-current liabilities and £0.2 million for current liabilities.

There is no effect on the Income Statement for the year or total equity at 31 December 2007.

There is no impact on the Company.

5 Segment reporting

The Group's primary reporting format is its business segments to reflect the Group's participation in both investment and development property. The secondary reporting format is its geographical segments.

The Group comprises the following business segments:

- Investment properties
- Development properties

The Group has one geographical segment, Eastern European countries. During 2006 the Group reported that it had two reporting segments: European Union member countries and non-European Union member countries. This has changed during 2007 as the distinction is not considered to have a meaningful benefit on the reporting of the results. The target area for acquisitions of the Group is specified as Eastern Europe rather than distinguishing between European Union member countries and non-European Union member countries.

The Group currently holds investment property in the Czech Republic, Hungary, Latvia, Lithuania, Poland and Croatia and holds investment and development property in Romania, all of which fall into the first geographical segment.

The developments do not generate income and most of the costs in the companies are being capitalised to the development property.

The split between investment and development property assets is shown in note 14. There are no other material assets in the development companies.

The total liabilities for the Group are £492.2 million. This is split between £475.6 million attributable to the investment properties and £16.6 million for the development properties.

6 Gross rental income

	2008 Group £'000	2007 Group £'000
Gross lease payments collected/accrued	**37,515**	27,051

The Group leases out its investment property under operating leases. All operating leases are for terms of one to 15 years.

7 Operating leases

Group as lessor

All properties let by the Group are under operating leases and the future minimum lease payments receivable under non-cancellable leases are as follows:

	2008 Group £'000	2007 Group £'000
Less than 1 year	**23,827**	23,627
Between 1 and 5 years	**69,943**	64,217
More than 5 years	**122,810**	104,959
	216,580	192,803

8 Net service charge income and property operating expenses

Net service charge income	2008 Vacant £'000	2008 Rented out £'000	2008 Total £'000
Service charge income	**(4)**	**11,935**	**11,931**
Service charge expenses	**(1,151)**	**(13,043)**	**(14,194)**
	(1,155)	**(1,108)**	**(2,263)**

Net service charge income	2007 Vacant £'000	2007 Rented out £'000	2007 Total £'000
Service charge income	-	9,635	9,635
Service charge expenses	(419)	(10,467)	(10,886)
	(419)	(832)	(1,251)

Property operating expenses	2008 £'000	2007 £'000
Portfolio management fees	**2,838**	1,468
Property taxes and fees	**515**	418
Bad debts written off/(recovered)	**495**	(83)
Management agents' fees	**813**	557
Leasing fees	**395**	214
Valuation fees	**31**	215
Marketing Fees	**130**	354
Other property operating expenses	**468**	258
	5,685	3,401

Other property operating expenses comprise items such as building maintenance and agency commissions.

Tabulated below are the amounts of property operating expenses arising from investment property that generated income and did not generate income during the year:

	2008 £'000	2007 £'000
Generated rental income	**3,897**	2,342
Did not generate rental income	**1,788**	1,059
	5,685	3,401

9 Other property income

	2008 £'000	2007 £'000
Parking revenue	**14**	31
Penalty interest	**46**	105
Penalties on early termination of lease agreements	**185**	81
Ice rink income	**72**	62
Other property income	**91**	251
Other corporate income	**4,417**	1,365
	4,825	1,895

Other corporate income includes £3.65 million of bank guarantee income. This income became receivable upon the corporate failure of a main tenant. The funds were used to pay down the loan facility on the property.

10 Administrative expenses

	2008 Group £'000	2008 Company £'000	2007 Group £'000	2007 Company £'000
Accounting fees	**1,067**	**18**	567	-
Legal fees	**1,064**	**567**	445	-
Audit fees	**961**	**260**	521	218
Abortive acquisition costs and irrecoverable debts	**941**	**-**	464	-
Other administrative expenses	**721**	**109**	1,564	172
Irrecoverable VAT	**462**	**-**	157	-
Portfolio management fees	**288**	**287**	156	149
Tax advisory fees	**256**	**-**	57	-
Consultancy fees	**233**	**-**	137	-
Non-executive Directors' fees	**204**	**117**	138	66
Custody/trust fees	**92**	**57**	38	38
Public relation fees	**92**	**92**	49	49
Bank charges and fees	**84**	**5**	336	2
Nominated adviser fees	**70**	**70**	56	56
	6,535	**1,582**	4,685	750

Other administrative expenses include items of a general corporate nature.

11 Net financing expense

Financial income	2008 Group £'000	2008 Company £'000	2007 Group £'000	2007 Company £'000
Interest income from financial institutions	**2,110**	**1,753**	5,907	4,854
Interest income from subsidiary	**-**	**17,133**	-	9,399
Interest income from related party	**3,316**	**10**	589	-
	5,426	**18,896**	6,496	14,253
Financial expenses				
Net interest expenses on bank borrowings	**(20,138)**	**-**	(14,814)	(1,019)
Finance costs amortised	**(425)**	**-**	(116)	-
Unwinding of unrealised direct issue costs of borrowings	**(144)**	**-**	(598)	-
	(20,707)	**-**	(15,528)	(1,019)
Fair value adjustment of interest rate swaps	**(8,718)**	**-**	879	-

12 Tax

Recognised in the Income Statement	2008 Group £'000	2007 Group £'000
Current tax expense		
Current year	**795**	509
Adjustment for prior years	**19**	(168)
	814	340
Deferred tax expense		
Origination and reversal of temporary differences	**(34,722)**	6,606
Total income tax expense in the Income Statement	**(33,908)**	6,947

The tax rate applicable to the Company in the Isle of Man is 0%. The tax charge of £0.8 million (2007: £0.3 million) in respect of current year profits represents tax charges on rental income arising in other jurisdictions, that is, subject to corporate income tax in those jurisdictions at rates in the range 16% to 24% and a municipal business tax at the rate of 7.5% in Luxembourg. As all current year tax charges arise in jurisdictions outside the Isle of Man, a full tax rate reconciliation of the relationship between the tax expense and accounting profit has not been included within these financial statements.

13 Earnings per share

Basic earnings per share

The calculation of basic earnings per share for the year ended 31 December 2008 was based on the loss attributable to Ordinary Shareholders of £145.0 million (2007: £16.2 million profit) and a weighted average number of Ordinary Shares in issue of 230,461,630 (2007: 196,169,559), calculated as follows:

(Loss)/Profit attributable to Ordinary Shareholders	2008 Group £'000	2007 Group £'000
(Loss)/Profit for the year	**(148,569)**	14,930
Minority interest	**3,614**	1,272
(Loss)/Profit attributable to Ordinary Shareholders	**(144,955)**	16,202

Weighted average number of Ordinary Shares	2008 Group	2007 Group
Shares in issue at 1 January	**229,363,349**	145,430,015
Effect of shares issued on 23 February 2007	**-**	511,233
Effect of shares issued on 18 May 2007	**-**	50,228,311
Effect of shares issued on 16 July 2008	**1,278,281**	-
Weighted average number of Ordinary Shares	**230,641,630**	196,169,559
Basic earnings per share	**(62.8)p**	8.3p

Diluted earnings per share

The calculation of diluted earnings per share for the year ended 31 December 2008 was based on the diluted loss attributable to Ordinary Shareholders of £145.0 million (2007: £14.5 million profit) and a weighted average number of Ordinary Shares outstanding during the year ended 31 December 2008 of 230,641,630 (2007: 197,705,853), calculated as follows:

Profit attributable to Ordinary Shareholders (diluted)	2008 Group £'000	2007 Group £'000
(Loss)/Profit for the year	**(148,569)**	14,930
Minority interest	**3,614**	1,272
Share options dilutive effect	**-**	(1,741)
(Loss)/Profit attributable to Ordinary Shareholders	**(144,955)**	14,461

13 Earnings per share (continued)

Weighted average number of Ordinary Shares for the purposes of diluted earnings per share	2008 Group	2007 Group
Weighted average number of Ordinary Shares	**230,641,630**	196,169,559
Effect of dilutive potential Ordinary Shares: share options	**-**	1,536,294
Weighted average number of Ordinary Shares for the purposes of diluted earnings per share	**230,641,630**	197,705,853
Diluted earnings per share	**(62.8)p**	7.3p

14 Investment property and development property

	2008 Investment property Group £'000	2008 Development property Group £'000	2008 Total Group £'000	2007 Investment property Group as restated £'000	2007 Development property Group as restated £'000	2007 Total Group £'000
Balance at 1 January	**525,192**	**41,428**	**566,620**	368,692	-	368,692
Acquisitions through business combinations	**-**	**-**	**-**	90,280	30,525	120,805
Acquisitions through direct asset purchases	**-**	**14,181**	**14,181**	7,607	6,814	14,421
Additions	**4,743**	**-**	**4,743**	1,264	1,540	2,804
Disposals	**(50,722)**	**-**	**(50,722)**	-	-	-
Finance lease obligations	**14,584**	**-**	**14,584**	2,080	-	2,080
(Decrease)/increase in fair value	**(127,185)**	**(36,153)**	**(163,338)**	15,983	-	15,983
Foreign exchange effect	**142,030**	**8,463**	**150,493**	39,286	2,549	41,835
Balance at 31 December	**508,642**	**27,919**	**536,561**	525,192	41,428	566,620

The fair value of the Group's investment and development property at 31 December 2008 has been arrived at on the basis of a valuation carried out at that date by DTZ Debenham Tie Leung Ltd, qualified independent valuers with recent experience in the location and category of investment property being valued. Fair value represents the amount at which the assets could be exchanged between a knowledgeable, willing buyer and a knowledgeable, willing seller in an arm's length transaction after proper marketing at the date of the valuation.

The Group has pledged its investment properties and two of its development properties to secure related interest-bearing debt facilities granted to the purchasing entities of such properties.

Development properties include capitalised interest amounting to £0.9 million at 31 December 2008 (31 December 2007: £nil).

The valuation of the Promenada investment property has been adjusted to avoid the double-counting of assets and liabilities:

	2008 £'000	2007 £'000
Valuation per independent valuer	**113,512**	155,750
Finance lease obligations	**16,664**	2,080
	130,176	157,830

Investment properties at an aggregate value of £128.0 million at 31 December 2008 (2007: £134.0 million) are held under long-term lease arrangements which expire at varying dates between 2080 and 2097.

Over recent months, financial markets have seen significant turbulence, resulting in severe liquidity shortages. The turmoil in the credit markets has had an immediate effect on the real estate investment market, resulting in some transactions failing and all prices being negotiated downwards. This has caused a marked reduction in the volume of transactions, with activity below the levels of recent years. Generally, there is a greater degree of uncertainty than that which exists in a more active and stronger market, and this has impacted the formation of an opinion by the Company's appointed independent professional valuers in relation to the realisation prices of property assets.

In this context, valuers must use their market knowledge and professional judgement and not only rely upon historic market sentiment based on historic transactional comparables. In the market conditions which currently prevail, there is likely to be a greater than usual degree of uncertainty in respect of valuations, and until the number and consistency of comparable transactions increase, this situation is likely to remain.

The appointed independent professional valuers have advised that the circumstances described above are particularly acute in respect of properties with a value in excess of £100 million and for development of properties: the former category, because of the severe shortage of debt at these levels associated with the difficulty or inability to syndicate or securitise loans, and the latter category due to the adverse impact of current market conditions on the feasibility of many developments, and the increasing risk premiums required by providers of finance for all properties and in particular those impacted by the uncertainty of the development process.

15 Investment and loan to subsidiary

The Company has lent £268.4 million (2007: £202.6 million) to Carpathian Holdings S.à.r.l. at 31 December 2008. The loan matures on 31 December 2015. The loan carries interest at 1% per annum plus 100% of Carpathian Holdings S.à.r.l. adjusted accounting profits for the relevant accounting period. Interest has been accrued at 31 December 2008, and has been accounted for within trade and other receivables within the Company financial statements.

	2008 Investments £'000	**2008 Loans £'000**	2007 Investments £'000	2007 Loans £'000
Balance at 1 January	**9**	**202,645**	8	102,502
Advances	**-**	**-**	-	90,831
Impairment losses	**(9)**	**(153,391)**	-	-
Effect of movements in exchange rates	**-**	**29,430**	1	9,312
Balance at 31 December	**-**	**78,684**	9	202,645

The Company has reduced the carrying value of its investments and loans, to equate to the underlying net asset value of its subsidiary.

16 Goodwill

	2008 Group £'000	2007 Group £'000
Cost		
Balance at 1 January	**25,576**	16,578
Acquisitions through business combinations	**-**	4,490
Addition through merger of companies	**-**	347
Disposals	**(748)**	-
Purchase price adjustments	**11,630**	2,407
Effect of movements in exchange rates	**8,301**	1,754
Balance at 31 December	**44,759**	25,576
Impairment losses		
Balance at 1 January	**-**	-
Impairment loss	**(25,693)**	-
Effect of movements in exchange rates	**(5,827)**	-
Balance at 31 December	**(31,520)**	-
Carrying amounts		
At 1 January	**25,576**	16,578
At 31 December	**13,239**	25,576

Disposals
The Group disposed of its subsidiary, Variada Karlovy Vary s.r.o, in December 2008.

Purchase price adjustments
On 31 May 2006, the Group acquired 100% of the issued share capital of Sycamore S.à.r.l.. As part of the consideration arrangements, the Group is liable to pay deferred consideration of up to £7.5 million, together with accrued interest at LIBOR plus 2%, which would ordinarily be reinvested in the Company by way of subscription for Ordinary Shares in the Company. The vendor, Perriniana Ltd, has agreed to defer this element of the consideration to allow all or part of it to be offset against certain identified potential liabilities which may be incurred by Sycamore S.à.r.l. or its subsidiaries.

16 Goodwill (continued)

In the event that such liabilities do not crystallise, the deferred consideration will become due via a put and call option entitling and requiring the vendor to subscribe for new Ordinary Shares in the Company for an aggregate amount equal to the deferred consideration actually receivable by Perriniana Ltd at an exercise price of 92.8 pence per share, being the average closing mid-market price of Ordinary Shares in the Company for the five days immediately preceding the transaction date.

The full amount of the deferred consideration of £7.5 million, together with accrued interest up to 31 December 2008 amounting to £2.1 million, has now been included as part of the purchase price adjustment for the year. In prior years, the deferred consideration had been treated as contingent.

Further details relating to the put and call option are provided in note 23.

Impairment

At acquisition, the purchase price payable in respect of each subsidiary is determined on a basis which usually excludes the amount of deferred tax liabilities relevant to that subsidiary. The determination of deferred tax liabilities is an IFRS requirement, which is not usually obligatory in accordance with accounting standards under which the subsidiary prepares its accounts. The net assets acquired are expected to be higher than the equivalent net assets calculated in accordance with IFRS, adjusted for the deferred tax liability. This difference is classified as goodwill.

The deferred tax liabilities of that subsidiary are expected to be ultimately recoverable by the Group upon disposal of the subsidiary.

The carrying values of the Group's goodwill are reassessed at least annually or whenever events or changes in circumstances indicate that the carrying values may not be recoverable. For each subsidiary, the amount of goodwill is compared to the relevant deferred tax liabilities. Full provision for impairment is made in cases where the goodwill exceeds the amount of recoverable deferred tax liabilities. No provision is made where goodwill is equal to, or less than the deferred tax liabilities.

The impairment loss for the year amounts to £25.7 million (2007: £nil), which reflects the significant decrease in deferred tax liabilities during the year, primarily arising from the fall in value of investment properties.

17 Investments in equity accounted investees

	2008 Group £'000	**2008 Company £'000**	2007 Group £'000	2007 Company £'000
Investment in Carpathian Asset Management Ltd	**150**	**150**	-	-

In July 2008, the Company acquired a 50% investment in Carpathian Asset Management Ltd at a cost of £0.15 million. The investee is incorporated in England and acts as the Group's property adviser.

The Group's share of the profit in jointly controlled entities for the year was £nil (2007: £nil). Summary financial information for jointly controlled entities, not adjusted for the percentage held by the Group, is as below:

	2008 Group £'000	2007 Group £'000
Current assets	**338**	-
Non-current assets	**945**	-
Total assets	**1,283**	-
Current liabilities	**(1,131)**	-
Non-current liabilities	**(152)**	-
Total liabilities	**(1,283)**	-
Revenues	**2,883**	-
Expenses	**(2,883)**	-
Result	**-**	-

The Company has made available to the investee a loan facility in an amount up to £0.5 million. The loan bears interest at 10% p.a., is secured by a charge over the investee's business and assets and is repayable in July 2011.

At 31 December 2008 the loan amounted to £161,871 and interest receivable for the year amounted to £10,222.

18 Other investments

	2008 Group £'000	2007 Group £'000
Investment in SIA Patollo:		
Balance at 1 January	**5,477**	-
Additions	**-**	5,477
Foreign exchange effect	**1,778**	-
Balance at 31 December	**7,255**	5,477

In April 2007 the Group acquired 17.95% of the issued share capital of SIA Patollo. SIA Patollo is undertaking the development of the Galleria Shopping Centre in Riga, Latvia which is expected to complete in mid 2010.

The shares confer 50% of the shareholder voting rights, dividend rights and rights upon a winding up. The Group has appointed two of the four Directors to SIA Patollo; certain key decisions require the consent of at least 75% of those Directors.

The Group has also made convertible loans to SIA Patollo amounting to £32.3 million at 31 December 2008 (December 2007: £14.9 million). See note 19 for further details.

The investment and loans both bear interest at 10% p.a. and a return of 15% p.a..

Upon opening of the Centre, the loans will either convert into shares in or be repaid by SIA Patollo. If repaid, the proceeds will be used by the Group to subscribe for further shares. After issue of the additional shares, the Group will own 50% of the share capital of SIA Patollo.

Approximately four months after opening, the Group shall acquire a further 5%, resulting in ownership of 55% of the total issued share capital of SIA Patollo. At that time, the Group is also required to make a further settlement payment to SIA Patollo, should the aggregate of the Group's investment, loans and any other amounts owed to it, be less than its 55% share of the value of Galleria Centre, calculated on the basis of net operating income at a yield of 8%.

19 Loans receivable

	2008 Group £'000	2008 Company £'000	2007 Group £'000	2007 Company £'000
Non-current assets				
Loans to SIA Patollo	**24,338**	**-**	14,846	-
Loans to Carpathian Asset Management Ltd	**172**	**172**	-	-
	24,510	**172**	14,846	-
Current assets				
Loans to SIA Bluebeech	**7,983**	**-**	20	-

Further details on the loans are set out in notes 17 and 18.

The loans to SIA Bluebeech bear interest at 25% p.a. and are repayable by 1 April 2009. In March 2009, the repayment date was extended to 5 February 2010. The loans are secured by a first legal charge over that company's property and its shares and are further subject to a guarantee provided by SIA Patollo (secured by a third legal charge over that company's properties).

20 Deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following items:

	2008 Group assets £'000	2008 Group liabilities £'000	2007 Group assets £'000	2007 Group liabilities £'000
Investment property valuation	**-**	**25,832**	-	55,186
Interest rate swap valuation	**589**	**-**	-	516
Accrued interest payable	**-**	**235**	37	-
Tax losses carried forward	**2,285**	**-**	990	-
Capital allowances	**2**	**-**	-	-
Other temporary differences	**-**	**39**	-	631
	2,876	**26,106**	1,027	56,333

20 Deferred tax assets and liabilities (continued)

The movement in deferred tax in the year comprises:

	Note	2008 Group £'000	2007 Group £'000
Net balance at 1 January		**55,306**	34,372
Origination and reversal of temporary differences	12	**(34,722)**	6,606
Additions through business combinations		**-**	9,757
Foreign exchange effect		**2,645**	4,572
Net balance at 31 December		**23,229**	55,306

21 Trade and other receivables

	2008 Group £'000	2008 Company £'000	2007 Group £'000	2007 Company £'000
Trade receivables	**3,673**	**-**	3,043	-
Other receivables	**5,635**	**9**	4,948	-
Tax receivable	**-**	**-**	622	-
Prepayments	**640**	**52**	1,675	20
Accrued interest on loans	**4,994**	**21,018**	764	15,834
Subsidiary purchase price adjustment receivable	**353**	**-**	1,724	-
	15,295	**21,079**	12,776	15,854

As at 31 December 2008, trade receivables at a nominal value of £3.1 million (2007: £2.6 million) were impaired and fully provided for. Movements in the provision for impairment of receivables were as follows:

	2008 Group £'000	2008 Company £'000	2007 Group £'000	2007 Company £'000
Balance at 1 January	**2,572**	**-**	2,480	-
Amounts written off during the year	**(273)**	**-**	(591)	-
Amounts recovered	**(3)**	**-**	(14)	-
Increase in allowance recognised in Income Statement	**265**	**-**	438	-
Foreign exchange effect	**586**		259	
Balance at 31 December	**3,147**	**-**	2,572	-

At 31 December 2008 and 31 December 2007 the ageing analysis of trade receivables is as follows:

	2008 Group £'000	2008 Company £'000	2007 Group £'000	2007 Company £'000
Less than 30 days	**2,159**	**-**	2,009	-
30-60 days	**286**	**-**	123	-
60-90 days	**171**	**-**	77	-
90-120 days	**64**	**-**	15	-
Greater than 120 days	**993**	**-**	819	-
	3,673	**-**	3,043	-

22 Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and other short-term highly liquid investments with a maturity of three months or less. Cash includes an amount of £11.6 million held in an escrow account which is under joint control with one of the Group's bankers.

23 Risk management

The Board of Directors has overall responsibility for establishment and oversight of the Group's risk management framework. It oversees how management monitors compliance with the Group's risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced by the Group.

The Group's risk management policies are established, in conjunction with the Property Adviser, to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities.

The Group is exposed to the following risks: interest rate risk, currency risk, market risk, credit risk and liquidity risk. The Group uses derivative financial instruments to hedge its exposure to certain risks, or for capital management purposes, but does not use them for speculative purposes.

The fair values of all financial instruments are substantially the same as their carrying amounts.

Capital management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to the shareholders through the optimisation of the debt and equity balance.

The capital structure of the Group consists of debt, which is included in the borrowings disclosed in note 25, and equity attributable to equity holders of the Company, comprising issued capital, reserves and any retained earnings as disclosed.

The Group manages its capital structure and makes adjustments to it, in light of economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares and seek approval to release the Company's share premium account. No changes were made in the objectives, policies or processes during the years ended 31 December 2008 and 31 December 2007.

Derivative assets and liabilities

Derivative assets and liabilities are made up of the following:	**2008 Group £'000**	**2008 Company £'000**	2007 Group £'000	2007 Company £'000
Derivative assets:				
Put and call options	**7,767**	**7,767**	736	736
Interest rate swaps	**-**	**-**	3,792	-
Other financial assets	**50**	**-**	234	-
	7,817	**7,767**	4,762	736
Derivative liabilities:				
Interest rate swaps	**5,029**	**-**	-	-
Other financial liabilities	**-**	**-**	532	532
	5,029	**-**	532	532

The movement in the year in derivative assets and liabilities comprises:

	2008 Group £'000	**2008 Company £'000**
Balance at 1 January	**4,230**	**204**
Movements during the year	**(694)**	**482**
(Decrease)/increase in fair value (see below)	**(1,785)**	**7,031**
Foreign exchange effect	**1,037**	**50**
Balance at 31 December	**2,788**	**7,767**
Per Income Statement		
Changes in fair value of derivative assets and liabilities	**6,933**	**7,031**
Changes in fair value of interest rate swaps	**(8,718)**	**-**
	(1,785)	**7,031**

23 Risk management (continued)

Put and call options:
As referred to in note 16, the Company has entered into a put and call option entitling and requiring Perriniana Ltd to subscribe for new Ordinary Shares in the Company for an aggregate amount equal to the deferred consideration actually received by Perriniana Ltd at an exercise price of 92.8 pence per share.

It is estimated that the deferred consideration payable, including interest, amounts to £9.2 million (December 2007: £7.1 million), which would result in the issue of 9,888,421 (2007: 7,709,075) new Ordinary Shares at the exercise price of 92.8 pence per share. The mark to market adjustment relative to the market price of the Company's shares at 31 December 2008 and the exercise price of 92.8 pence per share amounts to £7.8 million (2007: £0.7 million), which is disclosed as a financial asset. The increase for the year amounting to £7.1 million had been recognised in the Income Statement.

Interest rate swaps:
The Group uses interest rate swaps to manage its exposure to interest rate movements on its bank borrowings. Contracts with nominal values of £325.6 million (2007: £252.2 million) have fixed interest payments at an average rate of 3.88% (2007: 3.74%) for periods up until October 2011 and have floating interest receipts at Euribor. The three-month Euribor rate at 31 December 2008 was 2.93% (2007: 4.68%).

The fair value of swaps entered into at 31 December 2008 is estimated at a liability of £4.9 million (2007: £4.0 million asset). These amounts are based on market values of equivalent instruments at the Balance Sheet date.

Interest rate risk
Exposure to interest rate risk arises in the normal course of the Group's business. The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long-term debt obligations with floating interest rates. Additionally, in the current market environment, some of the Group's bankers are seeking to increase the margins paid on the market interest rates. Derivative financial instruments are used to reduce exposure to fluctuations in interest rates. Such derivatives are initially valued at cost and are remeasured to fair value at subsequent reporting dates. Changes in fair value of derivative financial instruments are recognised in the Income Statement.

Hedging activities are evaluated regularly to align with interest rate views and defined risk appetite; ensuring optimal hedging strategies are applied, by either positioning the Balance Sheet or protecting interest expense through different interest rate cycles.

The Group's exposures to interest rates on financial assets and financial liabilities are detailed in the liquidity risk management section of this note.

The following table demonstrates the sensitivity to a possible change in interest rates, with all other variables held constant, on the Group's net profit before tax (through the impact on floating rate borrowings).

	Increase/ (decrease) in basis points	Group effect on net profit before tax £'000	Company effect on net profit before tax £'000
2008			
Increase	**100**	**(3,516)**	**457**
Decrease	**(100)**	**3,516**	**(457)**
2007			
Increase	100	(2,483)	404
Decrease	(100)	2,483	(404)

Currency risk

The Group's activities expose it to currency risk, in the form of assets and liabilities denominated in currencies other than the functional currency, and changes between the functional currency (Euro) and the presentational currency (Pounds Sterling). The Group has a policy to review its foreign currency exposure half-yearly. The review evaluates the cost/benefit ratio of introducing foreign currency hedges or options to minimise the perceived risk.

The following table demonstrates the sensitivity of the presented net profit before tax to a possible change in currency rates, with all other variables held constant, through the impact on currency rate changes between the Euro and Pounds Sterling on the Group's cash.

	Increase/(decrease) in value of Pounds Sterling (pence)	Group effect on net profit before tax £'000	Company effect on net profit before tax £'000
2008			
Increase	**10p**	**3,943**	**3,943**
Decrease	**(10p)**	**(4,794)**	**(4,794)**
2007			
Increase	10p	2,454	2,454
Decrease	(10p)	(2,820)	(2,820)

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates, property prices and equity price will affect the Group's income or the value of its net assets. The objective of market risk management is to manage and control market risk exposures while optimising returns.

As referred to in note 14, over recent months financial markets have seen significant turbulence, resulting in severe liquidity shortages. The turmoil in the credit markets has had an immediate effect on the real estate investment market, resulting in some transactions failing and all prices being negotiated downwards. This has caused a marked reduction in the volume of transactions, with activity below the levels of recent years. Generally, there is a greater degree of uncertainty than that which exists in a more active and stronger market.

The Group seeks to maintain a diversified portfolio, weighted towards non-discretionary spending. The economies and their investment and occupational markets for all countries in which it operates are continually evaluated, enabling the strategy towards asset transactions and management to be constantly amended in line with market conditions.

The following table demonstrates the sensitivity to a possible change in property prices, with all other variables held constant, on the Group's net profit before tax.

	Increase/ (decrease) in percent	Group effect on net profit before tax £'000	Company effect on net profit before tax £'000
2008			
Increase	**10**	**53,656**	**-**
Decrease	**(10)**	**(53,656)**	**-**
2007			
Increase	10	56,662	-
Decrease	(10)	(56,662)	-

23 Risk management (continued)

Credit risk
Credit risk is the risk of financial loss to the Group if a tenant or counterparty to a financial instrument fails to meet its contractual obligations. The Group's credit risk principally arises from the Group's bank balances and cash, loans receivable, trade and other receivables and interest derivative financial instruments.

The credit risk on liquid funds and derivative financial instruments is limited as the counterparties are banks which have been partly or wholly nationalised or have reasonable credit-ratings assigned by international credit-rating agencies.

The Group's credit risk is primarily attributable to its trade receivables. The Group has no significant concentration of credit risk, with exposure spread over a large number of counterparties and customers. At December 2008, the Group had in excess of 900 tenants within its portfolio (2007: 975). The Group adopts a range of measures to secure its income stream, including obtaining bank and other guarantees, tenants' deposits (separately disclosed in note 26) and appropriate notice periods. Trade receivables are constantly monitored and reviewed and the Group has a number of options available to mitigate the impact of tenants' financial difficulties. The amounts presented in the Balance Sheets are net of allowances for doubtful receivables. An allowance for impairment is made where there is an identified loss event which, based on previous experience, is evidence of a reduction in the recoverability of the cash flows. Further details on the ageing and impairment of trade receivables are provided in note 21.

Liquidity risk
Liquidity risk is the risk that the Group will not be able to meet its financial obligations as and when they fall due. The Group's principal financial liabilities comprise bank loans, trade and other payables and derivative liabilities. Ultimate responsibility for liquidity risk management rests with the Board of Directors, which has built an appropriate liquidity management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements. The Group manages liquidity by maintaining adequate reserves, banking facilities and reserve borrowing facilities by continuously monitoring forecast and actual cash flows.

The Group raises finance on its properties in line with the individual strategies for those properties. The Group is at risk of failure to comply with covenants in its financing agreements, principally arising from falls in property values and reductions to income arising from slower occupational demand, with the potential for increased void levels and tenant defaults.

All facilities are non-recourse to the Company with no cross-collateralisation, except for certain portfolios, where all properties in those portfolios were acquired at the same time. Financial ratios are constantly monitored and reported. The Group maintains a regular dialogue with its bankers and immediately any breaches to individual covenants are foreseen, it will initiate discussions with its bankers to explore all options to remedy the position. Additionally, some of the Group's borrowings have passed their original maturity dates and are subject regular extensions. Other borrowings are approaching their maturity dates within the next 12 months. The Group is in renegotiations with many of its bankers and further details are provided in note 34. However, there remains the possibility that the Group could be demanded to repay any of its borrowings, and if it fails to do so, its bankers may be entitled to take control of property and other assets held as security, which assets would then cease to form part of the Group's Balance Sheet.

The following table details the Company's and Group's remaining contractual maturity for its non-derivative financial liabilities. The table below has been drawn up based on the undiscounted contractual maturities of the financial liabilities including interest that will accrue to those liabilities except where the Company and/or the Group is entitled and intends to repay the liability before its maturity. The discount column represents the possible future cash flows included in the maturity analysis, such as future interest or potential payment under the financial guarantee contract that have not been included in the carrying amount of the financial liability.

Group	Less than one month	1 to 3 months	3 to 12 months	1 to 5 years	Greater than 6 years	Discount	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
2008							
Interest-bearing loans and borrowings	**-**	**-**	**231,345**	**122,411**	**91,556**	**(39,219)**	**406,093**
Other liabilities	**-**	**-**	**-**	**26,513**	**787**	**-**	**27,300**
Trade and other payables	**-**	**14,633**	**11,374**	**-**	**-**	**-**	**26,007**
Other financial liabilities	**-**	**5,029**	**-**	**-**	**-**	**-**	**5,029**
	-	**19,662**	**242,719**	**148,924**	**92,343**	**(39,219)**	**464,429**
2007							
Interest-bearing loans and borrowings	2,369	4,569	88,027	249,086	-	(33,614)	310,437
Other liabilities	7,638	-	-	3,283	2,859	-	13,780
Trade and other payables	-	23,262	560	-	-	-	23,822
Other financial liabilities	-	532	-	-	-	-	532
	10,007	28,363	88,587	252,369	2,859	(33,614)	348,571

Company

2008							
Interest-bearing loans and borrowings	-	-	-	-	-	-	-
Other liabilities	-	-	-	-	-	-	-
Trade and other payables	-	**295**	-	-	-	-	**295**
Forward exchange contract	-	-	-	-	-	-	-
Other financial liabilities	-	-	-	-	-	-	-
	-	**295**	-	-	-	-	**295**
2007							
Interest-bearing loans and borrowings	-	-	-	-	-	-	-
Other liabilities	7,638	-	-	-	-	-	7,638
Trade and other payables	-	3,068	-	-	-	-	3,068
Forward exchange contract	-	-	-	-	-	-	-
Other financial liabilities	-	532	-	-	-	-	532
	7,638	3,600	-	-	-	-	11,238

24 Share capital and share premium

Authorised:	Number of Ordinary Shares of 1p each	£'000
At 31 December 2008 and 31 December 2007	**350,000,000**	**3,500**

Issued:	Number of shares issued and fully paid	Share capital £'000	Share premium £'000
Ordinary Shares of 1p each			
Balance at 31 December 2006	145,430,015	1,454	125,556
23 February 2007 – share option exercised	600,000	6	594
18 May 2007 – issue for cash	83,333,334	833	99,167
18 May 2007 – placing cost	-	-	(3,315)
Transfer to distributable reserves	-	-	(44,891)
Balance at 31 December 2007	229,363,349	2,293	177,111
16 July 2008 – issue for cash	**2,784,826**	**28**	**2,812**
Balance at 31 December 2008	**232,148,175**	**2,321**	**179,923**

On 16 July 2008, the Company issued 2,784,826 Ordinary Shares at £1.02 per share.

25 Interest-bearing loans and borrowings

This note provides information about the contractual terms of the Group's interest-bearing loans and borrowings. For more information about the Group's exposure to interest and currency risk, see notes 2(n) and 23.

	2008 Group £'000	**2008 Company £'000**	2007 Group £'000	2007 Company £'000
Bank loans – non-current	**192,596**	-	233,382	-
Bank loans – current	**213,497**	-	77,055	-
	406,093	-	310,437	-
The borrowings are repayable as follows:				
On demand or within 1 year	**213,497**	-	77,055	-
In the second year	**32,573**	-	79,963	-
In the third to fifth years inclusive	**68,467**	-	122,593	-
After 5 years	**91,556**	-	32,205	-
	406,093	-	311,816	-
Unrealised direct issue cost of borrowings	-	-	(1,379)	-
	406,093	-	310,437	-
Less: Amount due for settlement within 12 months (shown under current liabilities)	**(213,497)**	-	(77,055)	-
Amount due for settlement after 12 months	**192,596**	-	233,382	-

The Group has pledged each of its investment properties and two of its development properties and its shares in the special purpose vehicles holding the investment properties to secure related interest-bearing debt facilities granted to the Group for the purchase of such investment properties. The loans are subject to a mixture of loan to value covenants, interest securities cover covenants, and various general covenants.

The weighted average cost of debt of the year was 6.05% (2007: 5.52%).

As more fully described in note 2(c), the global financial crisis and the deteriorating economic environment within the jurisdictions in which the Group operates have resulted in significant pressure being placed on the valuations of properties held by the Group, through entities controlled by the Company. A number of the borrowing arrangements in respect of these properties are in the course of renegotiation with the Group's bankers either due to the term of the original borrowing arrangements having expired, or due to a breach of borrowing covenants having taken place. This renegotiation of borrowing arrangements is ongoing, and in the meantime all loans continue to be serviced in accordance with the terms agreed at inception.

26 Trade and other payables

	Note	2008 Group £'000	2008 Company £'000	2007 Group as restated £'000	2007 Company £'000
Trade payables		**12,054**	**83**	18,531	3,068
Tenant deposits		**2,526**	**-**	2,285	-
Accrued interest		**3,811**	**-**	2,425	-
Deferred consideration		**7,510**	**-**	-	-
Related party payables	31	**7,588**	**-**	869	-
Finance lease	4	**16,664**	**-**	2,080	-
Tax payable		**89**	**-**	-	-
Accrued expenses		**1,667**	**212**	2,833	-
Income received in advance		**1,398**	**-**	647	-
Subsidiary purchase price adjustment payable		**-**	**-**	294	-
		53,307	**295**	29,964	3,068

At 31 December 2008 and 31 December 2007 the ageing analysis of trade payables was as follows:

	2008 Group £'000	2008 Company £'000	2007 Group as restated £'000	2007 Company £'000
Less than 3 months	**14,633**	**295**	23,261	3,068
3 to 12 months	**11,374**	**-**	560	-
1-5 years	**26,513**	**-**	3,283	-
Greater than 5 years	**787**	**-**	2,859	-
	53,307	**295**	29,964	3,068

27 Provisions

	2008 Group £'000
Provisions at 1 January	**647**
Increase in provisions	**1,018**
Provisions as at 31 December	**1,665**

Provisions include an amount of £0.8 million (December 2007: £0.6 million) relating to perpetual usufruct charges payable by a Group subsidiary, Elas Business Development Sp. z o.o. to the Polish State Treasury. This amount is in accordance with a final and legally valid court decision dated June 2007. The remainder represents a provision in respect of claims made by a contractor, relating to the construction of the property in 2006, which is currently subject to legal proceedings. The amount provided for is the amount expected to be paid to the claimant.

Provisions are made on the best estimates of the Directors at the time and are expected to be released within 12 months.

28 Dividends

	2008 £'000	2007 £'000
First interim dividend (declared and paid in 2007)	-	4,868
Second interim dividend (declared in 2007 and paid in 2008)	-	7,638
Final dividend (declared and paid during 2007)	-	5,836
First interim dividend (declared and paid in 2008)	**7,661**	-
Final dividend (declared and paid during 2008)	**4,643**	-
	12,304	18,342

The Board has declared and paid an interim dividend of 2 pence per share, for the year ended 31 December 2008. The Company does not have sufficient levels of distributable reserves as at 31 December 2008 due to the fair value impairment of its investments in its subsidiaries. Therefore there is no final dividend declared for 2008.

During 2007 two interim dividend declarations of 3.33 pence per share and a final dividend declaration of 3.34 pence per share were made The second interim dividend and final dividends were paid in 2008. As required by IFRS this dividend is not recognised in the financial statements until appropriately authorised.

29 Notes to the Cash Flow Statement

Cash generated from/(used in) operations	**Note**	**2008 Group £'000**	**2008 Company £'000**	2007 Group £'000	2007 Company £'000
(Loss)/profit for the year		**(148,569)**	**(132,316)**	14,930	8,110
Adjustments for:					
Decrease/(increase) in fair value of financial instruments		**3,394**	**(7,563)**	(2,288)	(1,246)
Unwinding of unrealised direct issue costs of borrowings		**144**	**-**	598	-
Net other finance expenses/income		**15,137**	**(18,896)**	8,433	(13,234)
Decrease/(increase) in fair value of investment property	14	**163,338**	**-**	(15,983)	-
Costs relating to future acquisitions written off		**226**	**-**	439	-
Reversal of investment in subsidiaries		**-**	**-**	30	-
Provisions		**1,018**	**-**	(82)	-
Income tax expense	12	**(33,908)**	**-**	6,947	-
Impairment of goodwill		**25,693**	**-**	-	-
Loss on disposal of investment		**1,973**	**-**	-	-
Unrealised foreign exchange loss		**3,176**	**3,270**	6,971	5,620
Operating cash flows before movements in working capital		**31,622**	**(155,505)**	19,995	(750)
Decrease/(increase) in receivables		**2,747**	**(80)**	760	-
(Decrease)/increase in payables		**5,533**	**(3,766)**	(34,485)	2,850
Cash generated from/(used in) operations		**39,902**	**(159,351)**	(13,730)	2,100

30 Group entities

Significant subsidiaries	**Country of incorporation**	**Ownership Interest**
Carpathian Holdings S.à r.l.	Luxembourg	100%
Carpathian Properties S.à r.l.	Luxembourg	75%
Acacia S.à r.l.	Luxembourg	100%
Gumtree S.à r.l.	Luxembourg	100%
Investpol S.A.	Luxembourg	100%
Sycamore S.à r.l.	Luxembourg	100%
Willow S.à r.l.	Luxembourg	100%
Euroviba Spansko d.o.o	Croatia	100%
Poplar d.o.o	Croatia	100%
Tehnika Centar Samobor d.o.o	Croatia	100%
Tehnika Nekretnin d.o.o	Croatia	100%
Tehnika Sopot d.o.o	Croatia	100%
Framsden Holdings Ltd	Cyprus	100%
DDC Hradec Kralove s.r.o	Czech Republic	100%
DDC Znaim s.r.o	Czech Republic	100%
Carpathian Hradec Kralove s.r.o.	Czech Republic	100%
Carpathian Znaim s.r.o	Czech Republic	100%

Significant subsidiaries	Country of incorporation	Ownership Interest
A-Invest Kft	Hungary	100%
Balaton Properties Kft	Hungary	100%
DDC Eta Kft	Hungary	100%
DDC Gamma Kft	Hungary	100%
Carpathian ETA Kft	Hungary	100%
ELEF Property Kft	Hungary	100%
Ironbark Holding Kft	Hungary	100%
JarrahPec Properties Kft	Hungary	100%
Larchsilver Kft	Hungary	100%
Carpathian GAMMA Kft	Hungary	100%
Mallee Holding Kft	Hungary	100%
Market-Estate Kft	Hungary	100%
Pecs 2002 Kft	Hungary	100%
Silver Estate Kft	Hungary	100%
Sopplaza Properties Kft	Hungary	100%
Sopron Plaza Kft	Hungary	100%
Szombat Properties Kft	Hungary	100%
Szombathely Plaza Kft	Hungary	100%
Veszprém Plaza Kft	Hungary	100%
Zalaegerszeg 2002 Kft	Hungary	100%
Stringybark SIA	Latvia	100%
Mulga UAB	Lithuania	100%
Chesnut Holdings S.à r.l.	Luxembourg	100%
Carpathian and Dutch Holdings Cooperative	Netherlands	75%
Carpathian Dutch Holdings BV	Netherlands	75%
Poplar Holdings BV	Netherlands	100%
Carpathian Mastweight Holdings BV	Netherlands	100%
Darena Investments Sp. z o.o.	Poland	100%
Elas Business Development Sp. z o.o.	Poland	100%
Grand Investments Sp. z o.o.	Poland	100%
Magnor Investments Sp. z o.o.	Poland	100%
Maine Investments Sp. z o.o.	Poland	100%
Marise Investments Sp. z o.o.	Poland	100%
Ninette Investments Sp. z o.o.	Poland	100%
Savana Investments Sp. z o.o	Poland	100%
Tiburon Investments Sp. z o.o.	Poland	100%
Valora Investments Sp. z o.o.	Poland	100%
Atrium Center Satu Mare Srl	Romania	76.25%
Lanobis S.R.L.	Romania	100%
Mastweight Srl	Romania	77.50%
Redwood Investments Srl	Romania	75.25%
S.C.A.W.G. Macro S.R.L.	Romania	100%
SC Atrium Center BM Srl	Romania	76.25%
SC Atrium Centers Deva srl (Romania)	Romania	76.25%
SC Atrium Centers Oradea srl (Romania)	Romania	76.25%
SC Cluj Atrium Center SA	Romania	74.25%

During the year, the mergers of Ironbark Holding Kft with HRPP Hungarian Real Property Partners Kft and that of Larchsilver Kft with Antana Kft were completed.

The Group disposed of it 100% interest in Variada Karlovy Vary s.r.o. on 29 December 2008.

31 Related parties

The Group has related party relationships with its subsidiaries (see note 30), companies it has an investment in, with one of the four Non-executive Directors of the Board, and transactions with companies that have common management. Transactions between the Company and its subsidiaries have been eliminated on consolidation and are not disclosed in this note.

During the year, Group companies entered into the following transactions with related parties having certain common Directors and management:

	2008 Payables £'000	**2008 Expenses £'000**	2007 Payables £'000	2007 Expenses £'000
Trading transactions				
Portfolio and development management fee charged by Dawnay, Day Europe Ltd	**-**	**1,425**	-	1,625
Unpaid portfolio and development management fee charged by Dawnay, Day Europe Ltd at 31 December	**-**	**-**	514	-
Dawnay, Day Europe Ltd. acted as property adviser for the portfolio until July 2008, and the above amount represents its fee as defined by the Portfolio and Development Management Agreements.				
Portfolio and development management fee charged by Carpathian Asset Management Ltd	**-**	**3,006**	-	-
Carpathian Asset Management Ltd was appointed as property adviser for the portfolio in July 2008 and the above amount represents its fee as defined by the Portfolio and Development Management Agreements.				
Accounting and administration fee charged by IOMA Fund and Investment Management Ltd	**13**	**56**	-	35
IOMA Fund and Investment Management Ltd acts as Secretary of the Company and delegates one Non-executive Director to the Board.				
Loans				
Loan from Antana1 Ltd at 31 December	**12**	**-**	9	-
Interest expense on loan from Antana1 Ltd	**-**	**-**	-	9
Loan from Antana2 Ltd at 31 December	**12**	**-**	9	-
Interest expense on loan from Antana2 Ltd	**-**	**-**	-	9
Loan from Sanary Romanian Holdings BV	**-**	**-**	69	-
The loans relate to acquisitions of subsidiaries, where not all loans from the vendor were fully repaid.				
Loan from SIA Patollo	**7,346**	**-**	-	-
Interest expense on loan from SIA Patollo	**205**	**205**	-	-
The loan relates to the financing of Blaumana 12 investment property.				
Management payables				
Loan from Atrium Centers Management SRL	**-**	**-**	235	-
Loan from Michael Israeli	**-**	**-**	33	-
The loans relate to costs incurred on behalf of the Group				
	7,588	**4,692**	869	1,678

Loans receivable	**2008 Receivable £'000**	**2008 Income £'000**	2007 Receivable £'000	2007 Income £'000
Loan to SIA Bluebeech	**7,983**	**-**	6,026	-
Interest income on loan to SIA Bluebeech	**2,489**	**1,631**	368	343
Loans to SIA Patollo	**24,338**	**-**	8,840	-
Interest income on loan to SIA Patollo	**2,429**	**1,694**	265	246
Loans relate to the purchase of a 55% interest of a development. The loans are included in non-current and current assets and interest is included within trade and other receivables.				
Loan to Carpathian Asset Management Ltd	**172**	**-**	-	-
Interest income on the loan to Carpathian Asset Management Ltd	**10**	**10**	-	-
The loan has been made to the jointly controlled entity. The loan is included in non-current assets and interest is included within trade and other receivables.				
Loan to Sanary Romanian Holdings BV	**353**	**-**	485	-
The loan relates to subsidiary purchase price adjustments receivable from the vendor and is included within trade and other receivables.	**-**	**-**	**-**	**-**
Total related party receivable and income at 31 December	**37,774**	**3,335**	15,984	589

Acquisitions

In April 2007 the Group agreed to the purchase of a 55% interest in SIA Patollo, on completion of the development of Galleria Patollo shopping centre in Riga, Latvia. Under the agreement, the Group is committed to making staged, conditional payments via debt and equity to partially fund the project. The eventual cost of the acquisition of the investment in SIA Patollo is dependent upon the value of the shopping centre on completion of the development.

As at 31 December 2008, the funding committed to the project comprised of £7.3 million (31 December 2007: £5.5 million) paid for 17.95% of the shares in SIA Patollo and loans of £24.3 million (31 December 2007: £14.8 million) to SIA Patollo and £8.0 million (31 December 2007: nil) to SIA Bluebeech, both bearing interest of 25% per annum.

Carried interest

Sanary Investments S.à.r.l. has the right to a carried interest. In any year Sanary Investments S.à.r.l. is not entitled to any carried interest until a rate of return of 8% per annum (cumulative) has been achieved by the Group. The rate of return is based on cash paid up to Carpathian PLC and distributed to its shareholders.

If the hurdle is achieved then Sanary Investments S.à.r.l. will be entitled to a 25% carried interest on the cumulative rate of return between 8% per annum and 20% per annum. If a cumulative rate of return is achieved by the Group in excess of 20% per annum then Sanary Investments S.à.r.l. will be entitled to a 40% carried interest on the cumulative rate of return above 20% per annum.

If in any one year the return is less than 8% then the gap between the actual return achieved and 8% will be made up in subsequent years before Sanary Investments S.à.r.l. will be entitled to any further carried interest.

As at 31 December 2008 the cumulative accounting results of the Group do not entitle Sanary Investments S.à.r.l. to a carried interest (31 December 2007: £3.6 million).

Bogol Management Ltd has the right to participate in the profits of certain of the Group's development properties, after certain rates of return have been achieved by the Group. As at 31 December 2008 the rates of return had not been reached and Bogol Management Ltd was not entitled to any participation.

32 Capital commitments

The Group has entered into contracts for professional services amounting to £28.6 million (2007: £33.8 million).

33 Share-based payments

As part of the costs directly attributable to the issue of shares in 2005, Numis Securities Ltd was partly compensated by way of granting to Numis Securities Ltd the right to subscribe for 1,750,125 Ordinary Shares of 1 pence each at a subscription price of £1 per share. To 31 December 2008, Numis had subscribed for 600,000 Ordinary Shares.

34 Events after the Balance Sheet date

During 2009, the Group has continued discussions with its senior debt providers. A detailed update on each facility is included in the Property Adviser's Report on pages 9 to 18.

Whilst there is no certainty of the outcome of these discussions, the Directors believe that there is a willingness of all parties to co-operate and identify solutions which serve the interests of all concerned.

To the extent that any of the borrowing facilities are not ultimately satisfactorily renegotiated then it is possible that the relevant bankers may be entitled to take control of property and other assets held as security, which assets would then cease to form part of the Group's Balance Sheet.

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