Carpathian PLC

Annual Report 2011

Contents

Chairman's Statement

I am pleased to announce that the Strategic Review's key objectives set out in January 2010 have been successfully achieved.

During the period of the Strategic Review from November 2008 to April 2009, the weighted average share price was approximately 16.2 euro cents. Since then, the Board has been able to announce three distributions totalling 41.5 euro cents per share (4.5 cents on 17 December 2009, 25 cents on 21 September 2011 and 12 cents on 15 December 2011).

This is the result of successful sales and delivering operational costs targets within the agreed timescale.

FINANCIAL RESULTS

As a consequence of the substantial disposals during 2011 and the going concern note below, the Company has presented its Consolidated Statement of Comprehensive Income in accordance with International Financial Reporting Standard 5 ("IFRS 5"), with all operations now classified as discontinuing.

The loss after tax for the year is €3.5 million, while the Group generated a profit of €15.0 million during 2010. Losses per share are 1.4 euro cents (2010: earnings per share of 6.5 euro cents). All expected liquidation costs and other expenses expected to be incurred post year end and up to the completion of the liquidation have been provided for in the Consolidated Balance Sheet as at 31 December 2011 – the total amount accrued is some €2.0 million.

During 2011, the Group's net rental and related income was €8.9 million (2010: €22.2 million). The decrease is the direct result of the property sales completed.

Administrative expenses for the year were €6.8 million (2010: €6.0 million). As mentioned above, administrative expenses for the year include liquidation costs and one-off items relating to the sold assets as well as corporate restructuring costs of approximately €0.8 million. The restructuring of various Group companies has delivered reductions in corporate income tax liabilities of approximately €21.6 million from the sales of the core property portfolio as shown in the movement of the net deferred tax liabilities (described below).

On a cumulative basis, the operational expenses relating to the Property Investment Adviser are €0.6 million below the maximum amount set out in the Property Management Agreement signed in February 2010. This expense is allocated substantially within property operating expenses in the Consolidated Statement of Comprehensive Income. The distributed capital payout of €10.5 million, based on performance measures set out in the Strategic Review, payable to the Property Investment Adviser, has been fully accrued for as at 31 December 2011 and paid in 2012.

The Group's net asset value per share is 0.6 euro cents as at 31 December 2011 (as at 31 December 2010: 39.1 euro cents) based on the latest independent property valuations as at 31 December 2011.

Total Group cash as at 31 December 2011 was €49.9 million (as at 31 December 2010: €26.8 million) and €5.4 million as at 29 February 2012 post the payment of dividends and the distributed capital payout.

As at 31 December 2011, the Group had approximately €47.5 million cash at holding company level including its entities in the Isle of Man and Luxembourg and €4.0 million as at 29 February 2012.

The Group has reclassified all of its long-term assets to current assets as they are held for sale during 2012. The Group has no long-term liabilities.

During the year the Group took the decision to derecognise the non-core MID portfolio with effect from 1 October 2011 as all the risks and rewards of ownership are no longer retained by the Group. The overall accounting profit on derecognition was €3.4 million.

The Group has no assets and liabilities relating to non-core assets recognised in the financial statements as at 31 December 2011.

The Group had no consolidated debt position as at 31 December 2011, compared to €221.3 million as at 31 December 2010. All outstanding bank facilities have either been repaid from sales or, in the case of the non-core MID portfolio, derecognised.

The Group had no deferred tax liabilities as at 31 December 2011 (as at 31 December 2010: €21.6 million).

The Group also had no goodwill as at 31 December 2011 (as at 31 December 2010: €6.6 million).

KEY OPERATIONAL MATTERS FOR THE PERIOD

The Promenada shopping centre in Warsaw, Poland was sold for a gross consideration of €169.5 million as announced on 6 May 2011. This price was subject to a net deduction of €1.0 million arising principally from payments for warranty insurance and modification of the trademark licence. An escrow account was established of €0.6 million, all of which has been released. Carpathian also received an additional consideration of €1.5 million in August 2011 when the purchaser reclaimed the relevant VAT. Total bank debt and related fees payable to Deutsche Pfandbriefbank (DPB) were approximately €108.1 million, which included a loan repayment of approximately €1.0 million against the Gdansk property, an additional €2.1 million against the Babilonas shopping centre in Lithuania and a further €0.2 million repayment in relation to the corporate restructuring. The initial net closing payment was €59.8 million, while the net equity realised from the sale after transaction costs was approximately €59.5 million.

As announced on 9 March 2011, three out of the four properties in the Blue Knight portfolio of assets in Poland were sold for a gross consideration of €40.2 million. The initial net equity amount realised from the partial Blue Knight sale was approximately €7.6 million. The financing bank, DPB, retained approximately €9.4 million in addition to the allocated loan amount of approximately €22.0 million to cover an additional loan repayment against the fourth property in Gdansk of €7.9 million and the Babilonas shopping centre of €0.9 million, as originally agreed during the DPB debt restructuring in June 2009. A further loan repayment of €0.6 million has also been agreed in connection with obtaining DPB's consent for the corporate restructuring which has delivered substantial tax benefits to the Group.

On 18 May 2011, the sale of the fourth and last remaining asset in the Blue Knight portfolio – Osowa shopping centre in Gdansk – was completed for a consideration of €34.5 million in cash. The sale price included a €3.0 million retention to be released to the Company if questions relating to the occupancy permit were resolved before the end of 2011. As these questions have not yet been resolved, the retention has now decreased to €1.5 million with a final deadline of 30 June 2012 after which, if there is no resolution, the retention will reduce to nil. At this stage, realisation of this retention is uncertain. The initial net equity released after transaction costs was approximately €9.8 million. Further to this, DPB released retained funds of €8.9 million previously held from the sale of

Chairman's Statement continued

the first three assets in the Blue Knight portfolio and Promenada.

The single tenanted property in Slupsk, Poland was sold for a consideration of €0.7 million on 18 April 2011, delivering net equity proceeds of approximately €0.7 million.

In Lithuania, the local holding company of the Babilonas shopping centre in Panevezys was sold for a gross sales price of €24.1 million on 7 December 2011. The net equity released from the transaction was approximately €5.0 million.

In Romania, the Company sold two assets in November 2011. The Macromall shopping centre in Brasov was sold for €1.3 million and the Satu Mare development land plot was sold for €1.1 million; both were received as equity proceeds.

On 20 March 2012, the Group disposed of its various interests held in the Galleria shopping centre in Riga, Latvia for a cash consideration of €2.3 million.

The only remaining core property asset of the Company is the Baia Mare development land plot in Romania that is also in a preliminary stage of a sales process.

Carpathian transferred its ownership of the non-core Plaza property portfolio in Hungary to the financing bank in Hungary for a nominal sum on 19 April 2011. This portfolio was derecognised from our Balance Sheet in 2010.

In December 2011, the Group entered into a Settlement Deed and Release, which dealt with all outstanding profit reinvestment obligations of various members and affiliates of Dawnay, Day Group. These arrangements completed in January 2012 and included a net cash payment by the Company of €4.4 million, the transfer to the Company of 1,190,202 Ordinary Shares, which were subsequently cancelled for a nominal sum, the acquisition by the Group of a loan note in respect of deferred consideration payable and the novation of a put and call option to the Group. These arrangements were fully provided for at 31 December 2011.

New arrangements have now been entered into with the existing Property Investment Adviser, Carpathian Asset Management Ltd, for the provision of corporate and asset management services in 2012 and for the amendment of certain provisions of the existing Portfolio Management Agreement.

NOTE ON GOING CONCERN AND OUTLOOK

The financial statements of the Group and Company have been prepared under the historical cost convention. The Company intends to seek shareholders' approval to de-list its shares from the Alternative Investment Market of the London Stock Exchange and to implement a members' voluntary liquidation. The Directors will provide further detail on these proposals in due course. Adequate cash reserves will be retained for all applicable actual and contingent liabilities. Any net surplus from sales and other recoveries in 2012 and cash released as a result of unrealised liabilities will be distributed to shareholders.

As explained in the Directors' Report, the Directors therefore do not consider the Company to be a going concern and have prepared the financial statements on a break up basis. There has been no financial impairment of the Group's and Company's assets as a result of a break up basis of valuation, as remaining assets held for sale are carried at fair value less expected sales costs. All expected liquidation costs and expenses expected to be incurred post year end until eventual liquidation have been accrued for, in line with management's best estimates.

Rory Macnamara
Chairman

24 April 2012

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 Investors 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 AS 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 was a former director of the AIM-quoted PFI Infrastructure Company PLC recently taken over by 2i. Currently he is deputy chairman of the AIM-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.

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

Tim Walker

Non-executive Director and Chairman of the Audit Committee

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 chairman of Squarestone Brasil plc, a developer of shopping malls in Brazil and a non-executive director and audit committee chairman of Clean Energy Brazil plc, Ishaan Real Estate plc and Infrastructure India plc.

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Directors' Report

The Directors present herewith their report and audited financial statements for the year ended 31 December 2011.

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

RESULTS FOR THE YEAR
The loss for the year ended 31 December 2011 amounted to €3.5 million (2010: €15.0 million profit). The results for the year and their appropriation are set out in the Consolidated Statement of Comprehensive Income on page 14.

RETURN OF CASH TO SHAREHOLDERS
In September 2011, the Company announced a return of cash to shareholders of 25 euro cents per share, amounting in total to €58.0 million. Following elections by shareholders, the Company paid a cash dividend of €23.1 million and a capital repayment of €34.9 million in October 2011.

In December 2011, the Company announced a further return of cash to shareholders of 12 euro cents per share, amounting in total to €27.9 million. Following elections by shareholders, the Company paid a cash dividend of €13.8 million and a capital repayment of €14.1 million in January 2012.

GOING CONCERN AND OUTLOOK
The financial statements of the Group and Company have been prepared under the historical cost convention. The Company intends to seek shareholders' approval to de-list the Company from the Alternative Investment Market of the London Stock Exchange and to commence and implement a members' voluntary liquidation. The Directors will provide further detail on the progress made towards de-listing in due course. Adequate cash reserves will be retained for all applicable actual and contingent liabilities. Any surplus from sales in 2012 and cash released as a result of unrealised liabilities will be distributed to shareholders.

The Directors therefore do not consider the Company to be a going concern and have prepared the financial statements on a break up basis. There has been no financial impairment of the Group's and Company's assets as a result of a break up basis of valuation, as remaining assets held for sale are carried at fair value less expected sales costs.
All expected liquidation costs and expenses expected to be incurred post year end until eventual liquidation have been accrued for, in line with management's best estimates.

DIRECTORS
The Directors who served during the year and to date were as follows:

R. P. Macnamara
Non-executive Chairman

P. R. Cottrell
Non-executive Director

P. P. Scales
Non-executive Director

T. G. Walker
Non-executive Director

AUDITORS
Our Auditors, KPMG Audit LLC, being eligible, have expressed their willingness to continue in office.

DIRECTORS' INTERESTS

The Directors who held office at 31 December 2011 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 2011	31 December 2010
Registered holder		
Securities Services Nominees Ltd	100,000	100,000

This represents an aggregate interest of 0.04% (2010: 0.04%) of the issued share capital of the Company.

T. G. Walker's interests in the Company were as follows:

	Number of Ordinary Shares held	
	31 December 2011	31 December 2010
Registered holder		
Capital International Ltd for pension scheme of T. G. Walker	100,000	100,000

This represents an aggregate interest of 0.04% (2010: 0.04%) of the issued share capital of the Company.
None of the other Directors had any interest in the share capital at 31 December 2011.

On behalf of the Board

Philip Scales
Secretary

24 April 2012

Corporate Governance Statement

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 and is committed to 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 (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 in respect of the Directors' Report and Financial Statements

The Directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations. In addition, the Directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards.

The financial statements are required to give a true and fair view of the state of affairs of the Group and Parent Company and of the profit or loss of the Company 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 they have been prepared in accordance with International Financial Reporting Standards; 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 are sufficient to show and explain the Parent Company's transactions and disclose with reasonable accuracy at any time its financial position. 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.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation governing the preparation and dissemination of financial statements may differ from one jurisdiction to another.

Report of the Independent Auditors, KPMG Audit LLC, to the members of Carpathian PLC

We have audited the financial statements of Carpathian PLC for the year ended 31 December 2011 which comprise the Group and Company Statements of Comprehensive Income, the Group and Company Statements of Financial Position, the Group and Company Statements of Cash Flows and the Group and Company Statements of Changes in Equity and the related notes. The financial reporting framework that has been applied in their preparation is in accordance with applicable law and International Financial Reporting Standards (IFRSs).

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

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITOR

As explained more fully in the Directors' Responsibilities Statement set out on page 11, the Directors are responsible for the preparation of financial statements that give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

SCOPE OF THE AUDIT OF THE FINANCIAL STATEMENTS

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements.

OPINION ON THE FINANCIAL STATEMENTS

In our opinion the financial statements:

- give a true and fair view of the state of the Group's and Parent Company's affairs as at 31 December 2011 and of the Group's loss for the year then ended; and
- have been properly prepared in accordance with IFRSs.

EMPHASIS OF MATTER

Without qualifying our opinion, we draw attention to note 2(c) in the consolidated financial statements which describes that the going concern basis of preparing the financial statements has not been used because the Company intends to seek shareholders' approval to de-list the Company from the Alternative Investment Market of the London Stock Exchange and to commence and implement a members' voluntary liquidation.

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

24 April 2012

Financial Statements

Consolidated Statement of Comprehensive Income

for the year ended 31 December 2011

	Note	**2011 Discontinuing €'000**	2010 Continuing €'000	2010 Discontinued €'000	2010 Total €'000
Gross rental income	5	**12,470**	26,768	3,891	30,659
Service charge income	7	**4,267**	10,942	345	11,287
Service charge expense	7	**(5,208)**	(13,619)	(69)	(13,688)
Property operating expenses	7	**(3,809)**	(6,136)	(346)	(6,482)
Other property income	8	**1,217**	420	–	420
Net rental and related income		**8,937**	18,375	3,821	22,196
Changes in fair value of investment property	14	**(2,960)**	7,872	–	7,872
Profit on derecognition of investment properties	14	**3,421**	–	5,296	5,296
Profit on disposal of investment properties	14	**6,396**	–	21,574	21,574
Legal settlement	33	**3,382**	–	–	–
Distributed capital payout	31	**(10,507)**	–	–	–
Impairment of goodwill	16	**60**	1,011	–	1,011
Impairment of other investments	17	**–**	(11,372)	–	(11,372)
Impairment of loans receivable	18	**(150)**	(2,000)	–	(2,000)
Changes in fair value of derivative assets and liabilities	23	**(566)**	(3,877)	(19)	(3,896)
Net foreign exchange gain/(loss)		**136**	2,884	(1,331)	1,553
Administrative expenses	9	**(6,835)**	(5,550)	(424)	(5,974)
Net operating profit before net financing expense		**1,314**	7,343	28,917	36,260
Financial income	11	**840**	323	2	325
Financial expense	11	**(7,673)**	(13,409)	(2,554)	(15,963)
Changes in fair value of interest rate swaps	11	**2,977**	(104)	751	647
Net financing expense		**(3,856)**	(13,190)	(1,801)	(14,991)
Net (loss)/profit before tax		**(2,542)**	(5,847)	27,116	21,269
Tax expense	12	**(1,000)**	(5,245)	(1,003)	(6,248)
(Loss)/profit for the year and total comprehensive income for the year		**(3,542)**	(11,092)	26,113	15,021
Attributable to:					
Equity holders of the Company	13	**(3,542)**			15,032
Non-controlling interest	13	**–**			(11)

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

	Note	2011			2010
Basic (loss)/earnings per share	13	**(1.4) c**			6.5 c
Diluted (loss)/earnings per share	13	**(1.4) c**			6.5 c

The notes on pages 20 to 50 form part of these financial statements.

Company Statement of Comprehensive Income

for the year ended 31 December 2011

	Note	2011 €'000	2010 €'000
Revenue		**–**	–
Changes in fair value of derivative assets and liabilities	23	**–**	(4,003)
Legal settlement	33	**(8,211)**	–
Impairment of loans to subsidiary	15	**(42,945)**	94,930
Impairment of interest receivable from subsidiary		**(22,024)**	–
Loss on disposal of investments		**–**	(28,958)
Net foreign exchange gain		**242**	431
Administrative expenses	9	**(3,373)**	(1,938)
Net operating (loss)/profit before net financing income		**(76,311)**	60,462
Financial income	11	**21,134**	21,566
Net (loss)/profit before tax		**(55,177)**	82,028
Tax expense	12	**–**	–
(Loss)/profit for the year and total comprehensive income for the year		**(55,177)**	82,028

The notes on pages 20 to 50 form part of these financial statements.

Consolidated Statement of Changes in Equity

for the year ended 31 December 2011

Group	Note	Share capital €'000	Share premium €'000	Non-controlling interest €'000	Retained earnings €'000	Total €'000
Balance as at 1 January 2010		2,321	91,477	11	(18,091)	75,718
Total comprehensive income for the year						
Profit for the year		–	–	–	15,021	15,021
Transactions with owners recorded directly to equity						
Profit allocation to non-controlling interest		–	–	(11)	11	–
Balance as at 31 December 2010		2,321	91,477	–	(3,059)	90,739
Balance as at 1 January 2011		**2,321**	**91,477**	**–**	**(3,059)**	**90,739**
Total comprehensive income for the year						
Loss for the year		**–**	**–**	**–**	**(3,542)**	**(3,542)**
Transactions with owners recorded directly to equity						
Dividends declared	24	**–**	**–**	**–**	**(36,928)**	**(36,928)**
Issue of shares	24	**46**	**(46)**	**–**	**–**	**–**
Repurchase of shares	24	**(58)**	**(48,909)**	**–**	**–**	**(48,967)**
Balance as at 31 December 2011		**2,309**	**42,522**	**–**	**(43,529)**	**1,302**

The notes on pages 20 to 50 form part of these financial statements.

Company Statement of Changes in Equity

for the year ended 31 December 2011

Company	Note	Share capital €'000	Share premium €'000	Retained earnings €'000	Total €'000
Balance as at 1 January 2010		2,321	91,477	(21,397)	72,401
Total comprehensive income for the year					
Profit for the year		–	–	82,028	82,028
Balance as at 31 December 2010		2,321	91,477	60,631	154,429
Balance as at 1 January 2011		**2,321**	**91,477**	**60,631**	**154,429**
Total comprehensive income for the year					
Loss for the year		**–**	**–**	**(55,177)**	**(55,177)**
Transactions with owners recorded directly to equity					
Dividends declared	24	**–**	**–**	**(36,928)**	**(36,928)**
Issue of shares	24	**46**	**(46)**	**–**	**–**
Repurchase of shares	24	**(58)**	**(48,909)**	**–**	**(48,967)**
Balance as at 31 December 2011		**2,309**	**42,522**	**(31,474)**	**13,357**

The notes on pages 20 to 50 form part of these financial statements.

Statements of Financial Position

as at 31 December 2011

	Note	2011 Group €'000	2011 Company €'000	2010 Group €'000	2010 Company €'000
ASSETS					
Non-current assets					
Investment property	14	**–**	**–**	89,250	–
Loan to subsidiary	15	**–**	**–**	–	118,700
Goodwill	16	**–**	**–**	6,564	–
Deferred tax assets	19	**–**	**–**	618	–
		–	**–**	96,432	118,700
Current assets					
Loan to subsidiary	15	**–**	**2,950**	–	–
Trade and other receivables	20	**6,995**	**395**	7,126	17,795
Assets held for sale	21	**2,790**	**–**	237,900	–
Cash and cash equivalents	22	**49,948**	**44,656**	26,773	14,391
Financial assets	23	**–**	**–**	3,823	3,820
		59,733	**48,001**	275,622	36,006
Total assets		**59,733**	**48,001**	372,054	154,706
EQUITY					
Issued capital	24	**2,309**	**2,309**	2,321	2,321
Share premium	24	**42,522**	**42,522**	91,477	91,477
Retained earnings		**(43,529)**	**(31,474)**	(3,059)	60,631
Total equity		**1,302**	**13,357**	90,739	154,429
LIABILITIES					
Non-current liabilities					
Other payables	26	**–**	**–**	19,160	–
Deferred tax liabilities	19	**–**	**–**	21,647	–
		–	**–**	40,807	–
Current liabilities					
Trade and other payables	26	**30,510**	**6,786**	14,812	277
Bank loans	25	**–**	**–**	221,308	–
Provisions	27	**63**	**–**	997	–
Dividends payable	28	**13,793**	**13,793**	–	–
Repurchase of shares	24	**14,065**	**14,065**	–	–
Financial liabilities	23	**–**	**–**	3,391	–
		58,431	**34,644**	240,508	277
Total liabilities		**58,431**	**34,644**	281,315	277
Total equity and liabilities		**59,733**	**48,001**	372,054	154,706

The notes on pages 20 to 50 form part of these financial statements.

These financial statements were approved by the Board of Directors and authorised for use on 24 April 2012.
Signed on behalf of the Board of Directors by:

Rory Macnamara — Non-executive Director

Rupert Cottrell — Non-executive Director

Statements of Cash Flows

for the year ended 31 December 2011

	Note	2011 Group €'000	2011 Company €'000	2010 Group €'000	2010 Company €'000
Cash flows from operating activities					
Cash (used in)/generated from operations	29	**(15,239)**	**15,228**	18,273	(30,511)
Income taxes paid		**(818)**	**–**	(1,014)	–
Net cash (used in)/generated from operating activities		**(16,057)**	**15,228**	17,259	(30,511)
Cash flows from investing activities					
Capital expenditure on investment properties		**–**	**–**	(178)	–
Cash received on disposal of investment property		**274,024**	**–**	2,924	–
Cash conceded on derecognition		**(367)**	**–**	(2,866)	–
Interest received		**840**	**269**	283	3,873
Loans to unconsolidated entities		**(150)**	**–**	–	–
Loan repayment from subsidiary		**–**	**72,805**	–	22,985
Net cash generated from investing activities		**274,347**	**73,074**	163	26,858
Cash flows from financing activities					
Interest paid		**(7,673)**	**–**	(16,884)	–
Repayments of borrowings		**(169,405)**	**–**	(3,263)	–
Repurchase of share capital		**(34,901)**	**(34,901)**	–	–
Dividends paid		**(23,136)**	**(23,136)**	(10,446)	(10,446)
Net cash used in financing activities		**(235,115)**	**(58,037)**	(30,593)	(10,446)
Net decrease in cash and cash equivalents		**23,175**	**30,265**	(13,171)	(14,099)
Cash and cash equivalents at the beginning of the year		**26,773**	**14,391**	39,944	28,490
Cash and cash equivalents at the end of the year	22	**49,948**	**44,656**	26,773	14,391

The notes on pages 20 to 50 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 investing in the retail property market in Central and Eastern Europe. On 24 July 2009 the Company re-registered as a company governed by the Isle of Man Companies Act 2006 and redenominated the par value of its Ordinary Shares from Pounds Sterling 0.01 to Euros 0.01.

The consolidated financial statements include the share capital of the Company denominated in Euros. As from 24 July 2009 the share capital was converted from Pounds Sterling, based on the exchange rate prevailing on that date.

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 £140.0 million at listing and a further £100.0 million in May 2007 (before admission costs).

2 Significant accounting policies

(a) Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") and its interpretations adopted by the International Accounting Standards Board ("IASB").

The consolidated financial statements were authorised for issue by the Board on 24 April 2012.

(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:

IAS 1 Presentation of Financial Statements – amendments to revise the way other comprehensive income is reported
IAS 12 Income Taxes – limited scope amendment
IAS 19 Employee Benefits – amendment resulting from Post Employment Benefits and Termination Benefits projects
IAS 27 Consolidated and Separate Financial Statements
IAS 28 Investments in Associates
IAS 32 Financial Instruments Presentation – amendments to the offsetting of financial assets and liabilities
IFRS 7 Financial Instruments – disclosures
IFRS 9 Financial Instruments – classification and measurement and derecognition of financial liabilities
IFRS 10 Consolidated Financial Instruments
IFRS 11 Joint Arrangements
IFRS 12 Disclosure of Interests in Other Entities
IFRS 13 Fair Value Measurement

IFRIC Interpretation

IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine

The Directors do not expect the adoption of the standards and interpretations to have a material impact on the Group's financial statements in the period of initial application.

(c) Basis of preparation

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 Group applies revised IAS 1 Presentation of Financial Statements (2007), which became effective as of 1 January 2009. As a result, the Group presents in the Consolidated Statement of Changes in Equity all owner changes in equity, whereas non-owner changes in equity are presented in the Consolidated Statement of Comprehensive Income.

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 property and financial instruments. 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 financial statements of the Group and Company have been prepared under the historical cost convention. The Company intends to seek shareholders' approval to de-list the Company from the Alternative Investment Market of the London Stock Exchange and in due course thereafter to commence and implement an orderly members' voluntary liquidation. As explained in the Directors' Report, the Directors therefore do not consider the Company to be a going concern and have prepared the financial statements on a break up basis and therefore all operations are presented as discontinuing operations. There has been no financial impairment of the Group's and Company's assets as a result of a break up basis of valuation, as remaining assets held for sale are carried at fair value less expected sales costs. All expected liquidation costs and expenses expected to be incurred post year end until eventual liquidation have been accrued for, in line with management's best estimates.

(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.

Non-controlling interests in the net assets of consolidated subsidiaries are identified separately from the Group's equity therein. Non-controlling 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 non-controlling 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 Statement of Comprehensive Income 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.

The Company does not continue to consolidate entities where effective control over the Company's assets has been asserted by another party. The Company will recognise the deconsolidation on the date at which control and any rights to significant risk and reward are transferred to the superseding party. The results of subsidiaries deconsolidated during the year are included in the Consolidated Statement of Comprehensive Income up to the effective date of disposal.

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

Notes to the Financial Statements continued

2 Significant accounting policies (continued)

(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. Goodwill is subject to an impairment review by the Directors at a minimum of an annual basis.

The non-controlling interest in the acquiree is initially measured at the non-controlling interest'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 establish 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 Company Statement of Comprehensive Income 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 Consolidated Statement of Comprehensive Income 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 Statement of Comprehensive Income, 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.

(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 Euros as the Company is listed on the London Stock Exchange and its share price is quoted in Euros.

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 Statement of Financial Position date, all monetary assets and liabilities denominated in foreign currency are translated to functional currency at the rate prevailing on the Statement of Financial Position 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 Statement of Comprehensive Income for the year. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in the Statement of Comprehensive Income 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(m) 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. 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.

Notes to the Financial Statements continued

2 Significant accounting policies (continued)

(k) Taxation

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 Statement of Comprehensive Income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the 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 Statements of Financial Position 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 Statement of Comprehensive Income, 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 is adjusted accordingly.

The Group applies revised IAS 40 Investment Property (2008), which became effective as of 1 January 2009. As a result, the Group's development properties are now classified as investment property and are recognised initially at cost and subsequently at fair value. Cost includes all costs directly associated with the purchase and construction of development properties and attributable interest. Fair value is independently determined by professionally qualified valuers at market value at the Statement of Financial Position date. Gains or losses arising from changes in fair value of investment properties are included in the Statement of Comprehensive Income in the year in which they arise. This presentation has been applied in these financial statements as of and for the year ended 31 December 2009 onwards.

Borrowing costs relating to development properties are capitalised to the asset on which they are incurred.

(m) Financial instruments

Financial assets and financial liabilities are recognised in the Statements of Financial Position when the Group becomes a party to the contractual provisions of the instrument in accordance with IAS 39 Financial Instruments Recognition and Measurement.

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 Statements of Financial Position 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 which terms 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 Statement of Comprehensive Income.

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(l).

Bank borrowings

Interest-bearing bank loans and overdrafts are recorded at the proceeds received, net of direct issue costs, which are considered to be their fair value. Finance charges, except for borrowing costs incurred in respect of development projects which are capitalised as per note 2(l), including premiums payable on settlement or redemption and direct issue costs, are accounted for in the Statements of Financial Position 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 rate method.

Equity instruments

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

Notes to the Financial Statements continued

2 Significant accounting policies (continued)

(m) Financial instruments (continued)

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 though 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 Statements of Financial Position date, taking account of current interest rates. Gains or losses on the revaluation of derivatives are reported in the Statement of Comprehensive Income.

(n) 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 Statements of Financial Position date, and are discounted to present value where the effect is material.

(o) Determination and presentation of operating segments

The Group determines and presents operating segments based on the information that internally is provided to the Board of Directors.

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. An operating segment's operating results are reviewed regularly by the Board to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

Segment results that are reported to the Board of Directors include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly income and expenditure associated with the various holding companies within the Group.

The operating segments frequently transact between themselves. The transactions include intra-group loans, associated interest and recharged expenses. Loan interest is charged at market rates and expenses are recharged at cost.

(p) Assets held for sale

A non-current asset is classified as held for sale if the Group has entered into a sale transaction with an expected date of completion within 12 months of the year end and if such asset meets the full criteria laid down in IFRS 5, Non-current Assets Held for Sale and Discontinued Operations. A non-current asset classified as held for sale is measured at the value prescribed by the sales agreement to which it pertains less future costs to sell.

Non-current assets held for sale are shown separately on the face of the Statements of Financial Position.

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 consolidated 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 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.

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 in note 14.

Notes to the Financial Statements continued

4 Operating segments

The Group has three reportable segments, as described below, which are the Group's business units. The business units are managed separately because they represent the varying strategic objectives of the Group. For each of these strategic business units, the Board reviews internal management accounts on at least a quarterly basis.

The Fund segment comprises the holding companies in the Isle of Man and Luxembourg.

Core assets are those which are considered to retain significant enduring equity value, to protect on a prudent basis. All other assets are classified as non-core.

Consolidated Statement of Comprehensive Income	**2011 Fund €'000**	**2011 Core €'000**	**2011 Non-core €'000**	**2011 Total €'000**
Gross rental income	–	8,810	3,660	12,470
Service charge income	–	3,611	656	4,267
Service charge expense	–	(4,470)	(738)	(5,208)
Property operating expenses	(2,548)	(994)	(267)	(3,809)
Other property income	379	750	88	1,217
Net rental and related income	(2,169)	7,707	3,399	8,937
Changes in fair value of investment property	–	(2,960)	–	(2,960)
Profit on derecognition of investment properties	–	–	3,421	3,421
Profit on disposal of investment properties	–	9,787	(9)	9,778
Distributed capital payout	(10,507)	–	–	(10,507)
Impairment of goodwill	–	60	–	60
Impairment of loans receivable	–	–	(150)	(150)
Changes in fair value of derivative assets and liabilities	–	(566)	–	(566)
Net foreign exchange gain	(135)	498	(227)	136
Administrative expenses	(4,559)	(1,821)	(455)	(6,835)
Net operating (loss)/profit before net financing expense	(17,370)	12,705	5,979	1,314
Financial income	305	534	1	840
Financial expenses	(373)	(4,534)	(2,766)	(7,673)
Changes in fair value of interest rate swaps	–	1,311	1,666	2,977
Net financing expenses	(68)	(2,689)	(1,099)	(3,856)
Net (loss)/profit before tax	(17,438)	10,016	4,880	(2,542)
Current tax	(279)	(534)	(5)	(818)
Deferred tax	–	355	(537)	(182)
(Loss)/profit for the year and total comprehensive income for the year	(17,717)	9,837	4,338	(3,542)

Information for 2010 is not shown as it does not provide any meaningful comparison due to the current position of the Company as stated in note 1. This information is available on the Company website.

Consolidated Statement of Financial Position

	2011 Fund €'000	2011 Core €'000	2011 Non-core €'000	2011 Total €'000
ASSETS				
Current assets				
Trade and other receivables	2,046	4,949	–	6,995
Assets held for sale	–	2,790	–	2,790
Cash and cash equivalents	47,491	2,457	–	49,948
	49,537	10,196	–	59,733
Total assets	49,537	10,196	–	59,733
LIABILITIES				
Current liabilities				
Trade and other payables	20,034	10,476	–	30,510
Provisions	–	63	–	63
Dividends payable	27,858	–	–	27,858
	47,892	10,539	–	58,431
Total liabilities	47,892	10,539	–	58,431
Net assets	1,645	(343)	–	1,302
EQUITY				
Issued capital				2,309
Share premium				42,522
Retained earnings				(43,529)
Total equity				1,302

Geographical segments

The Company is incorporated in the Isle of Man but operates in several jurisdictions in mainland Europe. In presenting information on geographical segments, revenue is based on geographical location of property. Segment assets are based on the geographical location of the assets.

	Isle of Man €'000	Poland €'000	Hungary €'000	Czech Republic €'000	Other jurisdictions €'000	Total €'000
Revenue (all discontinuing)						
Gross rental income	–	6,105	1,468	2,193	2,704	12,470
Service charge income	–	2,641	110	546	970	4,267
Other property income	379	729	72	15	22	1,217
Total	379	9,475	1,650	2,754	3,696	17,954

The Group has no non-current assets.

5 Gross rental income

	2011 Group €'000	2010 Group €'000
Gross lease payments collected/accrued	12,470	30,659

During 2011 and 2010 the Group leased out its investment property under operating leases, all for terms of – one to 15 years. The assets held for sale at 31 December 2011 do not generate significant income.

Notes to the Financial Statements continued

6 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:

	2011 Group €'000	2010 Group €'000
Less than one year	**–**	13,046
Between one and five years	**–**	40,660
More than five years	**–**	52,794
	–	106,500

7 Net service charge income and property operating expenses

Net service charge income

	2011 Vacant €'000	**2011 Rented out €'000**	**2011 Total €'000**
Service charge income	**–**	**4,267**	**4,267**
Service charge expenses	**(945)**	**(4,263)**	**(5,208)**
	(945)	**4**	**(941)**

	2010 Vacant €'000	2010 Rented out €'000	2010 Total €'000
Service charge income	4	11,283	11,287
Service charge expenses	(1,888)	(11,800)	(13,688)
	(1,884)	(517)	(2,401)

Property operating expenses

	2011 €'000	2010 €'000
Portfolio management fees	**2,548**	3,464
Property taxes and fees	**70**	106
Bad debts (recovered)/written off	**(21)**	1,642
Property maintenance and improvements	**146**	141
Management agent fees	**416**	296
Legal proceedings	**235**	252
Leasing fees	**80**	314
Valuation fees	**62**	28
Marketing fees	**1**	96
Other property operating expenses	**272**	143
	3,809	6,482

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:

	2011	2010
	€'000	€'000
Generated rental income	**3,747**	5,321
Did not generate income	**62**	1,161
	3,809	6,482

8 Other property income

	2011	2010
	€'000	€'000
Parking revenue	**9**	37
Penalty interest	**65**	44
Penalties on early termination of lease agreements	**21**	238
Ice rink income	**27**	64
Other property income	**239**	117
Other corporate income	**856**	(80)
	1,217	420

9 Administrative expenses

	2011	**2011**	2010	2010
	Group	**Company**	Group	Company
	€'000	**€'000**	€'000	€'000
Accounting fees	**824**	**–**	1,122	–
Legal fees	**532**	**279**	765	334
Audit fees	**437**	**281**	482	211
Non-audit services	**34**	**8**	14	14
Abortive acquisition costs and irrecoverable debts	**–**	**–**	(45)	–
Other administrative expenses	**522**	**89**	751	77
Irrecoverable VAT	**376**	**–**	679	–
Portfolio management fees	**530**	**530**	577	576
Tax advisory fees	**34**	**–**	157	–
Consultancy fees	**193**	**–**	803	272
Non-executive Directors' fees	**902**	**842**	391	319
Liquidation costs	**2,109**	**1,070**	–	–
Custody/Trust fees	**174**	**157**	82	62
Public relation fees	**–**	**–**	5	–
Bank charges and fees	**55**	**4**	110	4
Nominated adviser fees	**113**	**113**	81	69
	6,835	**3,373**	5,974	1,938

Liquidation costs include all expected costs and expenses expected to be incurred post year end until eventual liquidation, in line with management's best estimates.

Other administrative expenses include items of a general corporate nature.

Notes to the Financial Statements continued

10 Directors' remunerations

Details of Directors' remunerations are as follows:

	Fees €'000	Bonus €'000	Other €'000	Total €'000
Year to 31 December 2011				
R. P. Macnamara	**98**	**390**	**–**	**488**
P. R. Cottrell	**62**	**120**	**–**	**182**
P. P. Scales	**–**	**–**	**–**	**–**
T. G. Walker	**52**	**120**	**–**	**172**
	212	**630**	**–**	**842**
Year to 31 December 2010				
R. P. Macnamara	196	–	–	196
P. R. Cottrell	62	–	–	62
P. P. Scales	–	–	–	–
T. G. Walker	52	–	–	52
A. M. Shepherd	9	–	–	9
	319	–	–	319

11 Net financing income and expenditure

	2011 Group €'000	2011 Company €'000	2010 Group €'000	2010 Company €'000
Financing income				
Interest income from financial institutions	**840**	**269**	325	139
Interest income from subsidiary	**–**	**20,865**	–	21,427
	840	**21,134**	325	21,566
Financing expenditure				
Net interest expenses on bank and other borrowings	**(6,778)**	**–**	(14,690)	–
Finance costs amortised	**(496)**	**–**	(1,098)	–
Unwinding of unrealised direct issue costs of borrowings	**(399)**	**–**	(175)	–
	(7,673)	**–**	(15,963)	–
Fair value adjustment of interest rate swaps	**2,977**	**–**	647	–

12 Taxation

Recognised in the Statement of Comprehensive Income

	2011 Group €'000	2010 Group €'000
Current tax expense		
Current year	**617**	766
Adjustment for prior years	**–**	8
Irrecoverable withholding tax	**201**	–
	818	774
Deferred tax expense		
Origination of temporary differences	**182**	5,474
Total tax expense in the Statement of Comprehensive Income	**1,000**	6,248

The current year tax expense arises in:

	2011 Group €'000	2010 Group €'000
Croatia (20%)	**–**	534
Cyprus (10%)	**–**	39
Latvia (2011 and 2010: 15%)	**355**	–
Luxembourg (2011 and 2010: 29%)	**128**	78
Poland (2011 and 2010: 19%)	**134**	115
	617	766

The tax rate applicable to the Company in the Isle of Man is 0%. The tax expense of €0.6 million (2010: €0.8 million) in respect of current profits and adjustments for prior years represents tax charges on net profits arising in other jurisdictions, as shown, that are subject to corporate income tax in those jurisdictions at rates in the range 15% to 24% and a municipal business tax at the rate of 6.75% 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.

Notes to the Financial Statements continued

13 Earnings per share

Basic earnings per share

The calculation of basic earnings per share for the year ended 31 December 2011 was based on the loss attributable to Ordinary Shareholders of €3.5 million (2010: profit €15.0 million) and a weighted average number of Ordinary Shares in issue of 248,048,735 (2010: 232,148,175), calculated as follows:

(Loss)/profit attributable to Ordinary Shareholders

	2011 Group €'000	2010 Group €'000
(Loss)/profit for the year	**(3,542)**	15,021
Non-controlling interest	**–**	11
(Loss)/profit attributable to Ordinary Shareholders	**(3,542)**	15,032

Weighted average number of Ordinary Shares

	2011	2010
Shares in issue at 1 January	**232,148,175**	232,148,175
Weighted average number of Ordinary Shares	**248,048,735**	232,148,175
Basic (loss)/earnings per share	**(1.4) €,c**	6.5 €,c

Diluted earnings per share

The calculation of diluted earnings per share for the year ended 31 December 2011 was based on the diluted loss attributable to Ordinary Shareholders of €3.5 million (2010: profit €15.0 million) and a weighted average number of Ordinary Shares outstanding during the year ended 31 December 2011 of 248,048,735 (2010: 232,148,175), calculated as follows:

(Loss)/profit attributed to Ordinary Shareholders (diluted)

	2011 Group €'000	2010 Group €'000
(Loss)/profit for the year	**(3,542)**	15,021
Non-controlling interest	**–**	11
(Loss)/profit attributable to Ordinary Shareholders	**(3,542)**	15,032

Weighted average number of Ordinary Shares for the purposes of diluted earnings per share

	2011	2010
Weighted average number of Ordinary Shares for the purposes of diluted earnings per share	**248,048,735**	232,148,175
Diluted (loss)/earnings per share	**(1.4) €,c**	6.5 €,c

14 Investment property and development property

	2011 Investment property Group €'000	2011 Development property Group €'000	2011 Total Group €'000	2010 Investment property Group €'000	2010 Development property Group €'000	2010 Total Group €'000
Balance at 1 January	**84,150**	**5,100**	**89,250**	89,250	31,350	453,227
Additions	**–**	**–**	**–**	–	177	177
Disposals	**(28,250)**	**(2,100)**	**(30,350)**	(46,000)	(27,300)	(73,300)
Derecognition of assets	**(53,150)**	**–**	**(53,150)**	(46,950)	–	(46,950)
Finance lease obligations	**–**	**–**	**–**	817	–	817
Movement in fair value	**(50)**	**(2,910)**	**(2,960)**	6,999	873	7,872
Assets transferred to held for sale	**(2,700)**	**(90)**	**(2,790)**	(252,593)	–	(252,593)
Balance at 31 December	**–**	**–**	**–**	84,150	5,100	89,250

On 18 November 2011, the Company disposed of its investment in and loans receivable from Atrium Center Satu Mare Srl. The company owned the Group's development property at Satu Mare in Romania. The overall accounting loss on disposal was €1.1 million.

On 7 December 2011, the Company disposed of its investment in and loans receivable from Mulga UAB. This company owned the Group's investment property at Babilonas in Lithuania. The overall accounting loss on disposal was €1.4 million.

The net assets disposed of are detailed below:

	Satu Mare €'000	Babilonas €'000	Total €'000
Assets			
Investment property	**–**	**25,000**	**25,000**
Development property	**2,100**	**–**	**2,100**
Trade and other receivables	**15**	**390**	**405**
Cash and cash equivalents	**–**	**1,311**	**1,311**
Total assets	**2,115**	**26,701**	**28,816**
Liabilities			
Trade and other payables	**75**	**550**	**625**
Bank loans	**–**	**18,319**	**18,319**
Deferred tax liabilities	**–**	**781**	**781**
Total liabilities	**75**	**19,650**	**19,725**
Net assets	**2,040**	**7,051**	**9,091**

Notes to the Financial Statements continued

14 Investment property and development property (continued)

During the year, the Group took the decision to derecognise the MID portfolio with effect from 1 October 2011 as all the risks and rewards of ownership were no longer retained by the Group. The overall accounting profit on derecognition was €3.4 million.

The individual statements of financial position of the derecognised entities, at the date of derecognition, are detailed below:

	DDC Eta Kft €'000	Carpathian Eta Kft €'000	DDC Gamma Kft €'000	Carpathian Gamma Kft €'000	DDC Znaim s.r.o €'000
Assets					
Investment property	–	11,000	–	9,900	–
Trade and other receivables	38	4	23		13
Cash and cash equivalents	1	119	2	76	3
Investments in subsidiaries	5,294	–	3,746	–	1,680
Inter-company loans receivable	–	173	–	94	544
Deferred tax assets	–	–	–	9	–
Total assets	**5,333**	**11,296**	**3,771**	**10,079**	**2,240**
Liabilities					
Bank loans	1,800	10,596	800	9,283	–
Trade and other payables	6	209	6	151	18
Inter-company loans payable	178	–	222	66	2,943
Deferred tax liabilities	–	249	–	–	–
Total liabilities	**1,984**	**11,054**	**1,028**	**9,500**	**2,961**
Net assets/(liabilities)	**3,349**	**242**	**2,743**	**579**	**(721)**

	Carpathian Znaim s.r.o €'000	DDC Hradec Kralove s.r.o €'000	Carpathian Hradec Kralove s.r.o €'000	Total €'000
Assets				
Investment property	8,250	–	24,000	53,150
Trade and other receivables	35	69	104	286
Cash and cash equivalents	17	2	147	367
Investments in subsidiaries	–	3,076	–	13,796
Inter-company loans receivable	21	2,018	275	3,125
Deferred tax assets	–	–	–	9
Total assets	**8,323**	**5,165**	**24,526**	**70,733**
Liabilities				
Bank loans	7,613	–	22,788	52,880
Trade and other payables	59	5	469	923
Inter-company loans payable	622	6,304	1,996	12,331
Deferred tax liabilities	398	–	1,354	2,001
Total liabilities	**8,692**	**6,309**	**26,607**	**68,135**
Net assets/(liabilities)	**(369)**	**(1,144)**	**(2,081)**	**2,598**

The profit on disposal, after all accounting adjustments, was:

	2011 €'000
Loss on disposal	**(6,198)**
Release of deferred tax	**19,218**
Release of goodwill (note 16)	**(6,624)**
Profit on disposal	**6,396**

Further details on disposals during the year are provided in the Chairman's Statement.

15 Investment and loan to subsidiary

The Company has lent €236.4 million (2010: €269.0 million) to Carpathian Holdings S.à. r.l at 31 December 2011. The loans mature on 31 December 2015. The loans carry interest at 1% per annum plus 100% of Carpathian Holdings S.à.r.l adjusted accounting profits for the relevant accounting period, which has been accrued at 31 December 2011 and has been accounted for within trade and other receivables within the Company financial statements. The Company owns 1,641 shares in Carpathian Holdings S.à. r.l, representing 100% of the share capital.

	2011 Loans €'000	2010 Loans €'000
Balance at 1 January	**118,700**	46,755
Additions	**3,312**	5,020
Write-off due to disposals	**–**	(25,205)
Repayments	**(76,117)**	(2,800)
Impairment (loss)/gain	**(42,945)**	94,930
Balance at 31 December	**2,950**	118,700

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

Following the annual review, a further impairment provision of €42.9 million was made during the year.

16 Goodwill

	2011 Group €'000	2010 Group €'000
Cost		
Balance at 1 January	**28,109**	44,091
Acquisitions through business combinations	**–**	5
Write-off of disposals	**(21,610)**	(4,706)
Write-off of derecognised	**(6,543)**	(11,281)
Write-off of remaining	**44**	–
Balance at 31 December	**–**	28,109
Impairment losses		
Balance at 1 January	**(21,545)**	(36,194)
Write-off of disposals	**14,986**	3,368
Write-off of derecognised	**6,543**	11,281
Write-off of remaining	**16**	–
Balance at 31 December	**–**	(21,545)
Carrying amounts		
At 1 January	**6,564**	7,897
At 31 December	**–**	6,564

Notes to the Financial Statements continued

16 Goodwill (continued)

Disposals

Net goodwill amounting to €6.6 million relating to assets disposed of during the year has been written off.

Derecognition

In October 2011, the Group took the decision to derecognise the MID portfolio as all the risks and rewards of ownership are no longer retained by the Group.

The net effect on goodwill of this derecognition was €nil as the goodwill on these non-core assets was fully provided against at 31 December 2010.

17 Other investments

	2011 Group €'000	2010 Group €'000
Investment in SIA Patollo:		
Balance at 1 January	–	7,452
Recapitalisation of loan to cost of investment	–	3,920
Impairment of investment	–	(11,372)
Balance at 31 December	–	–

In April 2007, the Group acquired 17.95% of the issued share capital of SIA Patollo. In May 2010 a new shareholders' agreement was signed to convert loans made to SIA Patollo to share capital and increase the Company's shareholding to 80%. SIA Patollo undertook the development of the Galleria Shopping Centre in Riga, Latvia which was completed in October 2010.

The shares continue to 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 investment bears a return of 15% p.a.

The investment property held by SIA Patollo was valued at 31 December 2011 at €40.0 million (2010: €40.0 million). Bank financing on the asset at 31 December 2011 amounts to €56.8 million (2010: €55.8 million). The loans receivable from SIA Patollo have been impaired in full to ensure that the carrying value of the investment in and loans to SIA Patollo do not exceed the equity in the property.

On 20 March 2012, the Group disposed of its investment in SIA Patollo, as part of the disposal of its various interests held in the Galleria shopping centre in Riga, Latvia. Further details are set out in note 33.

18 Loans receivable

	2011 Group €'000	**2011 Company €'000**	2010 Group €'000	2010 Company €'000
Non-current assets				
Loans to SIA Patollo	–	–	–	–
Current assets				
Loans to SIA Bluebeech	–	–	–	–

The loans to SIA Bluebeech bear interest at 25% p.a. and were repayable by 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). As of 31 December 2011, the loan had been impaired in full.

Loans to SIA Patollo

	2011 Group €'000	2010 Group €'000
Balance at 1 January	**–**	3,920
Advances	**150**	–
Impairment	**(150)**	–
Recapitalised to cost of investment	**–**	(3,290)
Balance at 31 December	**–**	–

Loans to SIA Bluebeech

	2011 Group €'000	2010 Group €'000
Balance at 1 January	**–**	2,000
Impairment loss	**–**	(2,000)
Balance at 31 December	**–**	–

The development asset held by SIA Bluebeech was valued at 31 December 2011 at €1.6 million (2010: €1.6 million). The loans receivable from SIA Patollo have been impaired in to ensure that the carrying value of the loans to SIA Bluebeech does not exceed the equity in the property and due to doubts over the recoverability of the loan.

On 20 March 2012, the Group disposed of its loans to SIA Patollo and SIA Bluebeech as part of the disposal of its various interests held in the Galleria shopping centre in Riga, Latvia. Further details are set out in note 33.

19 Deferred tax assets and liabilities

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

	2011 Group assets €'000	2011 Company liabilities €'000	2010 Group assets €'000	2010 Company liabilities €'000
Investment property valuation	**–**	**–**	–	21,194
Interest rate swap valuation	**–**	**–**	227	–
Accrued interest payable	**–**	**–**	389	–
Tax losses carried forward	**–**	**–**	2	–
Other temporary differences	**–**	**–**	–	453
	–	**–**	618	21,647

The movement in deferred tax in the year comprises:

	2011 Group €'000	2010 Group €'000
Net balance at 1 January	**21,029**	20,832
Origination of temporary differences	**182**	5,474
Disposals	**(19,218)**	(2,680)
Derecognitions	**(1,993)**	(2,597)
Net balance at 31 December	**–**	21,029

Notes to the Financial Statements continued

20 Trade and other receivables

	2011 Group €'000	2011 Company €'000	2010 Group €'000	2010 Company €'000
Trade receivables	**105**	**–**	1,307	–
Other receivables	**6,797**	**379**	5,362	–
Prepayments	**93**	**16**	371	104
Accrued interest on loans	**–**	**–**	86	17,691
	6,995	**395**	7,126	17,795

As at 31 December 2011, trade receivables at a nominal value of €3.3 million (2010: €3.9 million) were impaired and fully provided for. Movements in the provision for impairment of receivables were as follows:

	2011 Group €'000	2011 Company €'000	2010 Group €'000	2010 Company €'000
Balance at 1 January	**3,906**	**–**	3,761	–
Amounts written off during the year	**(304)**	**–**	(72)	–
Amounts recovered	**–**	**–**	(284)	–
(Decrease)/increase in allowance recognised in Statement of Comprehensive Income	**(21)**	**–**	1,282	–
Written off on disposal	**(247)**	**–**	(781)	–
Balance at 31 December	**3,334**	**–**	3,906	–

At 31 December 2011 and 31 December 2010, the ageing analysis of trade receivables is as follows:

	2011 Group €'000	2011 Company €'000	2010 Group €'000	2010 Company €'000
Less than 30 days	**3**	**–**	620	–
30-60 days	**96**	**–**	212	–
60-90 days	**–**	**–**	72	–
90-120 days	**–**	**–**	102	–
Greater than 120 days	**6**	**–**	301	–
	105	**–**	1,307	–

21 Assets held for sale

	2011 Group €'000	2010 Group €'000
Investment property	**2,700**	237,900
Development property	**90**	–
	2,790	237,900

The fair value of the Group's assets held for sale at 31 December 2011 has been arrived at on the basis of a valuation carried out at that date by Colliers International UK PLC, qualified independent valuers with recent experience in the location and category of 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.

On 20 March 2012, the Group disposed of its investment property, as part of the disposal of its various interests held in the Galleria shopping centre in Riga, Latvia. Further details are set out in note 33.

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.

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.

Capital management

The Group manages its capital to maximise the return to the shareholders through the optimisation of the debt and equity balance.

The capital structure of the Group at 31 December 2011 consists of equity attributable to equity holders of the Company, comprising issued capital, reserves and retained earnings as disclosed.

The Group manages its capital structure and makes adjustments to it, in light of economic conditions and the strategy approved by shareholders. 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 release the Company's share premium account. No changes were made in the objectives, policies or processes during the years ended 31 December 2011 and 31 December 2010.

Derivative assets and liabilities

The Group and Company have no derivative assets and liabilities at 31 December 2011

	2011 Group €'000	**2011 Company €'000**	2010 Group €'000	2010 Company €'000
Derivative assets:				
Put and call options	–	–	3,821	3,820
Other financial assets	–	–	2	–
	–	–	3,823	3,820
Derivative liabilities:				
Interest rate swaps	–	–	(3,391)	–

Notes to the Financial Statements continued

23 Risk management (continued)

Fair value hierarchy

The table below analyses derivative assets and liabilities carried at fair value, by valuation method. The different levels have been defined as follows:

- Level 1: Inputs that are observable for the assets or liabilities, either directly or indirectly; and
- Level 2: Inputs for the assets or liabilities that are not based on observable market data.

	Level 1 €'000	Level 2 €'000	Total €'000
31 December 2011			
Interest rate swaps used for hedging	–	–	–
Put and call options	–	–	–
Other financial assets	–	–	–
	–	–	–
31 December 2010			
Interest rate swaps used for hedging	(3,391)	–	(3,391)
Put and call options	–	3,821	3,821
Other financial assets	–	2	2
	(3,391)	3,823	432

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

	2011 Group €'000	2011 Company €'000
Balance at 1 January	**432**	**3,820**
Movements during the year	**(2,843)**	**(3,820)**
Fair value adjustments	**2,411**	**–**
Balance at 31 December	**–**	**–**
Per Statement of Comprehensive Income		
Changes in fair value of derivative assets and liabilities	**(566)**	**–**
Changes in fair value of interest rate swaps	**2,977**	**–**
	2,411	**–**

Put and call options

The Company had entered into a put and call option entitling and requiring Petalang Ltd to subscribe for new Ordinary Shares in the Company for an aggregate amount equal to the deferred consideration actually receivable by Perriniana Ltd, less an amount for its corporation tax as certified to be owed as a result of its disposal to the Group, at an effective exercise price of €1.04 per share.

At 31 December 2010, it was estimated that the net deferred consideration payable amounted to €5.4 million, which would result in the issue of 5,036,904 new Ordinary Shares at the exercise price of €1.04 per share. The mark to market adjustment relative to the market price of the Company's shares at 31 December 2010 and the exercise price of €1.04 per share amounted to €3.8 million, which was disclosed as a financial asset.

In December 2011, the Company entered into arrangements, which completed in January 2012, under which these reinvestment obligations were cancelled; further details are set out in note 33.

Interest rate risk

At 31 December 2011, the Group had no borrowings. The interest rate risk is the risk that changes in interest rates will result in a decrease in the income receivable from cash deposits by the Company and Group.

The Group's exposure to interest rates on financial assets is 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 loss before tax (through the impact on floating rate deposits), taking into account the dividend of €27.9 million paid in January 2012.

	Increase/ (decrease) in basis points	Group effect on net loss before tax €'000	Company effect on net loss before tax €'000
2011			
Increase	**100**	**22**	**17**
Decrease	**(100)**	**(22)**	**(17)**
2010			
Increase	100	(2,058)	144
Decrease	(100)	2,058	(144)

Currency risk

Currency risk is the risk that changes in the exchange rate will negatively affect the net assets of the Company and Group when translating the value of assets and liabilities not accounted for in the functional currency, namely cash, trade and other receivables and trade and other payables.

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 currencies. 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 loss 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 Company's cash.

	Increase/ decrease in currency	Group effect on net profit before tax €'000	Company effect on net profit before tax €'000
2011			
Increase	**10c**	**770**	**770**
Decrease	**(10c)**	**(770)**	**(770)**
2010			
Increase	10c	230	230
Decrease	(10c)	(230)	(230)

Notes to the Financial Statements continued

23 Risk management (continued)

Currency risk (continued)

The table below shows the Euro equivalent of material balances held in foreign currencies that are deemed subject to currency risk.

	Pounds Sterling €'000	Polish Zloty €'000	Latvian Lats €'000	Romanian New Lei €'000
Cash and cash equivalents	9,164	1,741	2	340
Trade and other receivables	–	4,742	10	159
Trade and other payables	(6,786)	(301)	(8,676)	(507)

Market risk

As referred to in note 33, the Group disposed of its last remaining significant property asset in March 2012. Therefore market risk is no longer significant to the Group's income or the value of its net assets.

Credit risk

The credit risk on liquid funds 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 other receivables. The amounts presented in the Statements of Financial Position 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 other receivables are provided in note 20.

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 trade and other payables. 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-term funding and liquidity management requirements. The Group is highly liquid with 84% of total assets represented by cash, which is available on demand.

24 Share capital and share premium

	Number of Ordinary Shares of 1 euro cent each	Number of Unclassified Shares of 0.01 euro cent each	€'000
Authorised			
At 1 January 2010	350,000,000	–	3,500
Increase on 6 August 2010	–	750,000,000	75
At 1 January 2011	350,000,000	750,000,000	3,575
Repurchase and cancellation (see below)	–	(464,296,350)	(46)
At 31 December 2011	**350,000,000**	**285,703,650**	**3,529**

	Number of shares issued and fully paid	Share capital €'000	Share premium €'000
Issued			
At 1 January and 31 December 2010	**232,148,175**	**2,321**	**91,477**
Issue of B shares	**232,148,175**	**23**	**(23)**
Repurchase and cancellation of B shares (see below)	**(232,148,175)**	**(23)**	**(34,878)**
Issue of C shares	**232,148,175**	**23**	**(23)**
Repurchase and cancellation of C shares (see below)	**(232,148,175)**	**(23)**	**(14,043)**
Repurchase of Ordinary Shares (see below)	**(1,190,202)**	**(12)**	**12**
At 31 December 2011	**230,957,973**	**2,309**	**42,522**

A resolution was passed at the 2010 Annual General Meeting approving changes to the Articles of Association on 6 August 2010. In accordance with the Articles, the authorised share capital of the Company amounts to €3,575,000.0, comprising 350,000,000 Ordinary Shares of 1 euro cent each and 750,000,000 Unclassified Shares of 0.01 euro cent each.

The Board may, subject to satisfaction of the statutory solvency test, resolve to capitalise any sums standing to the credit of the share premium reserve and appropriate such sums to be capitalised to pay up in full Unclassified Shares, at a price equal to the aggregate par value of such shares, and allot and issue the Unclassified Shares as "B", "C" or "D" Shares in proportion to the existing holdings of Ordinary Shares of the relevant shareholders of the Company. The Board may make up to three separate issues of shares.

On 5 October 2011, the Company issued 232,148,175 "B" Ordinary Shares by way of a bonus issue and capitalised €23,215.0 standing to the credit of the share premium account.

On 26 October 2011, the Company repurchased and cancelled 139,605,026 "B" Ordinary Shares at a price of 25 euro cents per share, amounting in total to €34.9 million. Holders of the remaining 92,543,149 "B" Ordinary Shares elected to receive a cash dividend of 25 euro cents per share, amounting in total to €23.1 million, following which their "B" Ordinary Shares were automatically converted to 92,543,149 Deferred Shares and on 16 November repurchased and cancelled in full by the Company for an aggregate consideration of 1 euro cent.

On 29 December 2011, the Company issued 232,148,175 "C" Ordinary Shares by way of a bonus issue and capitalised €23,215.0 standing to the credit of the share premium account.

On 19 January 2012, the Company repurchased and cancelled 117,210,611 "C" Ordinary Shares at a price of 12 euro cents per share, amounting in total to €14.1 million. Holders of the remaining 114,937,564 "C" Ordinary Shares elected to receive a cash dividend of 12 euro cents per share, amounting in total to €13.8 million, following which their "C" Ordinary Shares were automatically converted to 114,937,564 Deferred Shares and on 20 January 2012 repurchased and cancelled in full by the Company for an aggregate consideration of 1 euro cent.

A further 1,190,202 Ordinary Shares were cancelled as part of the settlement arrangements with Dawnay, Day Group, as set out in note 33.

Holders of the Ordinary Shares are entitled to receive dividends and other distributions and to attend and vote at any general meeting.

Holders of all other shares are entitled to receive dividends and other distributions declared on those shares, but are not entitled to any further right of participation in the profits of the Company and are not entitled to attend and vote at any general meeting unless the business of the meeting includes the consideration of a resolution for the winding-up of the Company.

Notes to the Financial Statements continued

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 (m) and 23.

	2011 Group €'000	**2011 Company €'000**	2010 Group €'000	2010 Company €'000
Bank loans due within one year	**–**	**–**	221,308	–
The borrowings are repayable as follows:				
On demand within one year	**–**	**–**	221,308	–
Less amount due for settlement within 12 months (shown under current liabilities)	**–**	**–**	(221,308)	–
Amount due for settlement after 12 months	**–**	**–**	–	–

The weighted average cost of debt for the year was 5.81% (2010: 5.49%).

26 Trade and other payables

	2011 Group €'000	**2011 Company €'000**	2010 Group €'000	2010 Company €'000
Trade payables	**1,127**	**115**	5,219	106
Tenant deposits	**101**	**–**	2,295	–
Accrued interest	**–**	**–**	902	–
Distributed capital payout (note 31)	**10,507**	**–**	–	–
Settlement of reinvestment obligations (note 33)	**4,770**	**4,770**	–	–
Deferred consideration (note 33)	–	–	11,264	–
Related party payables (note 33)	**8,676**	**–**	8,369	–
Finance lease	**–**	**–**	3,151	–
Taxes payable	**1,464**	**–**	451	–
Accrued expenses	**3,865**	**1,901**	1,930	171
Income received in advance	**–**	**–**	391	–
	30,510	**6,786**	33,972	277
Less amount due for settlement within 12 months (shown under current liabilities)	**(30,510)**	**(6,786)**	(14,812)	(277)
Amount due for settlement after 12 months	**–**	**–**	19,160	–

The related party payables is repayable by 31 December 2013, is unsecured and bears interest at a rate of three-month Euribor plus a margin of 1.95%.

At 31 December 2011 and 31 December 2010, the ageing analysis of trade payables was as follows:

	2011 Group €'000	**2011 Company €'000**	2010 Group €'000	2010 Company €'000
Less than three months	**17,414**	**6,676**	13,101	277
Three to 12 months	**13,096**	**110**	1,711	–
One to five years	**–**	**–**	7,345	–
Greater than five years	**–**	**–**	11,815	–
	30,510	**6,786**	33,972	277

27 Provisions

	2011 Group €'000	2010 Group €'000
Provisions at 1 January	**997**	2,398
Increase in perpetual usufruct provision	**–**	99
Decrease in other provisions	**(934)**	(1,500)
Provisions as at 31 December	**63**	997

Provisions comprise an amount of €0.06 million (December 2010: €1.0 million) relating to the potential excess payable over amounts held on escrow on claims made by a contractor, which is subject to a legal dispute. The decrease during the year arises from a reclassification to a provision against trade receivables (note 20).

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

28 Dividends

	2011 €'000	2010 €'000
Interim dividend, paid 2011	**23,135**	–
Interim dividend, paid January 2012	**13,793**	–
	36,928	–

Further details are set out in note 24.

29 Notes to the cash-flow statement

	Note	2011 Group €'000	2011 Company €'000	2010 Group €'000	2010 Company €'000
Cash (used in)/generated from operations					
(Loss)/profit for the year		**(3,542)**	**(55,177)**	15,021	82,028
Adjustments for:					
(Decrease)/increase in fair value of financial instruments		**(2,411)**	**–**	2,773	4,003
Unwinding of unrealised direct issue costs of borrowings		**–**	**–**	1,215	–
Net other finance income		**6,833**	**(21,134)**	15,463	(21,566)
Decrease/(increase) in fair value of investment property	14	**2,960**	**–**	(7,872)	–
Provisions		**–**	**–**	203	–
Income tax	12	**1,000**	**–**	6,428	–
Impairment of investments and loans receivable		**150**	**64,969**	13,372	(94,930)
Legal settlement	33	**(3,382)**	**8,590**	–	–
Impairment of goodwill		**(60)**	**–**	–	–
Profit on disposal and derecognition of investment properties		**(9,817)**	**–**	(28,688)	–
Operating cash flows before movements in working capital		**(8,269)**	**(2,752)**	17,915	(30,465)
(Increase)/decrease in receivables		**(155)**	**16,241**	216	(90)
(Decrease)/increase in payables		**(6,815)**	**1,739**	142	44
Cash (used in)/generated from operations		**(15,239)**	**15,228**	18,273	(30,511)

Notes to the Financial Statements continued

30 Group entities

	Business unit	Country of incorporation	Ownership interest
Significant subsidiaries			
Carpathian Holdings S.à r.l.	Fund	Luxembourg	100%
Carpathian Properties S.à r.l.	Fund	Luxembourg	100%
Acacia S.à r.l.	Core	Luxembourg	100%
Investpol S.A.	Core	Luxembourg	100%
Sycamore S.à r.l.	Core	Luxembourg	100%
Chesnut Holdings S.a.r.l	Non-core	Luxembourg	100%
Framsden Holdings Ltd	Core	Cyprus	100%
Carpathian Properties Poland Ltd	Core	Cyprus	100%
Carpathian Properties Poland II Ltd	Core	Cyprus	100%
Elas Torrido Investments S.K.A.	Core	Poland	100%
Forum XXXI Investment Fund	Core	Poland	100%
Savana Torrido Investments S.K.A	Core	Poland	100%
Torrido Investments Sp. z o.o.	Core	Poland	100%
Lanobis S.R.L.	Core	Romania	100%
SC Atrium Centers BM Srl	Core	Romania	76.25%
Disposed in 2012**			
Vilium Investments Sp. z o.o.	Core	Poland	100%
Stringybark SIA	Core	Latvia	100%
In liquidation			
Carpathian and Dutch Holdings Cooperative	Core	Netherlands	75%
Carpathian Dutch Holdings BV	Core	Netherlands	75%
Poplar Holdings BV	Core	Netherlands	100%
S.C.A.W.G. Macro S.R.L.	Core	Romania	100%
Held on trust**			
Darena Vilium Investments S.K.A.	Core	Poland	100%
Magnor Vilium Investments S.K.A.	Core	Poland	100%
Maine Vilium Investments S.K.A.	Core	Poland	100%
Valora Vilium Investments S.K.A	Core	Poland	100%
Poldrim Torrido Investment S.K.A	Core	Poland	100%
Derecognised			
DDC Hradec Kralove s.r.o	Non-core	Czech Republic	100%*
DDC Znaim s.r.o	Non-core	Czech Republic	100%*
Carpathian Hradec Kralove s.r.o.	Non-core	Czech Republic	100%*
Carpathian Znaim s.r.o	Non-core	Czech Republic	100%*
A-Invest Kft	Non-core	Hungary	100%*
DDC Eta Kft	Non-core	Hungary	100%*
DDC Gamma Kft	Non-core	Hungary	100%*
Carpathian ETA Kft	Non-core	Hungary	100%*
ELEF Property Kft	Non-core	Hungary	100%*
Ironbark Holding Kft	Non-core	Hungary	100%*
Carpathian Gamma Kft	Non-core	Hungary	100%*
Mallee Holding Kft	Non-core	Hungary	100%*
Market-Estate Kft	Non-core	Hungary	100%*
Marise Investments Sp. z o.o	Non-core	Hungary	100%*

* These subsidiaries, although owned by the Company at 31 December 2011, have been derecognised in the financial statements. The relevant financing bank bears the significant risks and rewards of ownership of the assets and asserts significant control over the entities.

** Further details regarding subsidiaries are set out in note 33.

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 Non-executive Directors 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:

	2011 Payables €'000	**2011 Expenses €'000**	2010 Payables €'000	2010 Expenses €'000
Trading transactions				
Accounting and administration fee charged by IOMA Fund and Investment Management Ltd	**111**	**160**	–	62
IOMA Fund and Investment Management Ltd acts as Secretary of the Company and delegates one Non-executive Director to the Board				
Loans payable				
Loan from SIA Patollo (note 26)	**8,676**	**–**	8,369	–
Interest expense on loan from SIA Patollo (note 26)	**–**	**272**	–	498
The loans relate to the financing of Blaumana 12 investment property				
	8,787	**432**	8,369	560

Carried interest

The Company has acquired from Sanary Investments S.à.r.l. its right to a carried interest for a nominal consideration as part of the Dawnay, Day settlement (note 33).

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 2011, the rates of return had not been reached and Bogol Management Ltd was not entitled to any participation (31 December 2010: €nil).

Carpathian Asset Management Ltd replaced CPT LLP as the Company's Property Investment Adviser ("adviser") on 30 December 2011. The adviser is entitled to a sales fee of 0.5% of the gross property sale value (including debt but as reduced by certain retentions and indemnity or warranty claims) for each asset within the core portfolio that is sold, rising to a maximum of 1.0% if no other brokers or agents are engaged on the sale. The sales fee is conditional on equity value being released for the benefit of the Company as part of any disposal, and cash received on disposals being made available for distribution to shareholders. Additionally, any payment of the sales fee is pro rata to cash available for return to shareholders arising from the sale on a 50:50 basis until the entire sales fee has been paid in full. The total sales fee paid for the year amounted to €1.5 million (2010: €0.4 million).

The sales fee payable upon the sale of the Group's remaining investment property in March 2012 (note 33) amounts to €0.3 million. In the event that the Group's remaining development property is disposed of at its value included in the Statements of Financial Position at 31 December 2011 without any material tax becoming payable, the total sales fee payable is estimated to be insignificant.

Notes to the Financial Statements continued

31 Related Parties (continued)

The adviser is also entitled to receive a distributed capital payout, based upon actual cash available for return to shareholders. The adviser will receive 10% of any return above a distribution available to shareholders in excess of a hurdle of 17.25 euro cents per share and 25% of any returns available to shareholders above a hurdle of 34.5 euro cents per share. However, to avoid the distributed capital payout reducing the 34.5 euro cents hurdle below this level following payment, the effective hurdle is set at 36.4 euro cents in order to accommodate any distributed capital payout. The total distributed capital payout for the year amounted to €10.5 million and has been paid to CPT LLP in 2012. A reduced payout will apply to any sale in 2012 of the remaining assets, calculated using the net distributable reserves generated on disposal.

The distributed capital payout payable upon the sale of the Group's remaining investment property in March 2012 (note 33) amounts to €0.5 million. In the event that the Group's remaining development property is disposed of at its value included in the Statement of Financial Position at 31 December 2011 without any material tax becoming payable, the total sales fee payable is estimated to be insignificant.

32 Capital Commitments

The Group had no capital commitments at 31 December 2011 (2010: €nil).

33 Events after the balance sheet date

On 19 January 2012, the Group disposed of its subsidiary Vilium Investments Sp. z o.o. for nominal consideration. As part of this disposal, the purchaser also holds on trust the shares in Darena Vilium Investments S.K.A., Magnor Vilium Investments S.K.A., Maine Vilium Investments S.K.A., Valora Vilium Investments S.K.A. and Poldrim Torrido Investment S.K.A.

On 19 January 2012, the Company repurchased and cancelled 117,210,611 "C" Ordinary Shares at a price of 12 euro cents per share, amounting in total to €14.1 million. Holders of the remaining 114,937,564 "C" Ordinary Shares elected to receive a cash dividend of 12 euro cents per share, amounting in total to €13.8 million, following which their "C" Ordinary Shares were automatically converted to 114,937,564 Deferred Shares and on 20 January 2012 repurchased and cancelled in full by the Company for an aggregate consideration of 1 euro cent.

In December 2011, the Group entered into a Settlement Deed and Release which dealt with all outstanding profit reinvestment obligations of various members and affiliates of Dawnay, Day Group. These arrangements completed in January 2012 and included a net cash payment by the Company of €4.4 million (note 26), the transfer to the Company of 1,190,202 Ordinary Shares (note 24), which were subsequently cancelled for a nominal sum, the acquisition by the Group of a loan note in respect of deferred consideration payable (note 26) and the novation of the associated put and call option to the Group (note 23).These arrangements were fully provided for at 31 December 2011 as set out in relevant notes.

During 2012, several of the Group's subsidiaries have commenced liquidation proceedings as set out in note 30.

On 20 March 2012, the Group disposed of its various interests held in the Galleria shopping centre in Riga, Latvia for an aggregate consideration of €2.3 million; sales costs are estimated to be €0.8 million (note 31). The significant interests included in the Statements of Financial Position were other investments (note 17: €nil), loans receivable (note 18: €nil), assets held for sale (note 21: €2.7 million) and related party payables (note 26: €8.7 million). The Group's subsidiary, Stringybark SIA, was also included in the disposal. The overall impact of the disposal is an increase in the Group net asset value of approximately €7.5 million.

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