

Date: 1 May 2009  
On behalf of: Carpathian PLC (“Carpathian”, the “Company” or the “Group”)

## **Carpathian PLC Preliminary results for the financial year ended 31 December 2008 and the conclusion of the Strategic Review**

Carpathian PLC (AIM: CPT), the retail commercial property investment company focused on Central and Eastern Europe, today announces its preliminary results for the financial year ended 31 December 2008 and the conclusion of the Strategic Review.

### Financial Highlights

- Adjusted profits after tax\* of £11.8 million (2007: £10.3 million)
- Negative earnings per share of 62.8 pence for the period (2007: positive earnings per share of 8.3 pence)
- Adjusted earnings per share of 5 pence (2007: 5.2 pence)
- Net Asset Value per share of 80.2 pence, a decrease of 35% from 123.9 pence as at 31 December 2007
- £46.7 million of property disposal proceeds realised in December 2008 generating a profit of £11.2 million over the original acquisition price and net cash proceeds after debt repayment of £10.8 million
- Gross rental income for the period rose 41% to £34.4 million (2007: £24.3 million)
- Property assets of £536.6 million, after revaluation, as at 31 December 2008 (2007: £564.5 million)
- Total cash of £62.2 million as at 31 December 2008 (2007: £62.1 million) and £54.3 million as at 27 March 2009
- The Company has no distributable reserves as at 31 December 2008, and as a result there is no final dividend declared for 2008

### Operational Highlights

- Appointment of Rory Macnamara as Non-Executive Chairman and Tim Walker as Non-Executive Director to the Board
- Conclusion of the Strategic Review, with the Board pursuing an independent future focused on shareholder value
- Continued focus on preservation of value until a return of liquidity and transaction activity enables value realisation to occur
- Strategy aims to maximise the distribution of cash proceeds from future disposals
- Ongoing constructive discussions with the Company’s lending banks continuing, with the Company planning to update the market in the near future; further details are set out in the Property Advisers Report
- As an outcome of the Strategic Review, as soon as feasible and in any event within the next 12 months, Carpathian intends to make special distributions in aggregate of not less than 8 pence per share in cash to shareholders, subject to satisfactory discussions with the Group’s lenders and shareholder approval to effect a capital reduction to create sufficient distributable reserves to allow dividend and other distributions to resume
- Discussions to be finalised shortly to realign shareholders’ and the real estate asset managers’ interests in conjunction with an operating cost reduction programme

*\*Adjusted profits after tax and adjusted EPS exclude fair value, deferred tax and foreign exchange adjustments*

**Rory Macnamara, Chairman of Carpathian**, said: "*The global macro-economic situation has made this a very challenging twelve months for the Group. The market dislocation has resulted in an unprecedented decline in underlying property values, caused principally by the unavailability of debt finance and investor liquidity and the subsequent macroeconomic challenges faced by countries in Central and Eastern Europe and elsewhere.*

*"Notwithstanding these factors, we retain a substantial and diversified portfolio of retail assets in Central and Eastern Europe. With a cautious approach to the use of our cash, stabilisation of the capital base, continued co-operative discussions with our lenders and a focus on achieving value for shareholders over the medium-term, we are well placed to benefit from any improvements in our markets.*

*"We will continue to position the Group for the future which should enable it to weather the current economic downturn. The Company will aim to maximise the operational performance of the business as well as to distribute excess cash to shareholders as and when it becomes appropriate to do so."*

#### **Enquiries:**

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#### **Notes to Editors:**

- Carpathian was created in 2005 for the purpose of investing in Central and Eastern European commercial real estate
- Carpathian's primary focus is on shopping centres, supermarkets and retail warehousing in several countries in Central and Eastern Europe being currently Croatia, the Czech Republic, Hungary, Poland, Romania, Lithuania and Latvia
- Carpathian listed on AIM in July 2005.
- Carpathian Asset Management Limited ("CAM") is the Property Investment Adviser to Carpathian. It is responsible for identifying acquisition targets, managing transactions and portfolios and development activity within Central and Eastern Europe. The Company holds a 50 per cent. interest in CAM, the remaining 50 per cent. is held by UK Real Estate Management Limited (a company wholly owned by Paul Rogers and Massimo Marcovecchio)

## **Chairman's statement**

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

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

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

## **Financial Results**

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

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

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

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

## **Board changes**

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

## **Strategic Review**

Since the announcement of the Strategic Review, the global credit environment and market sentiment have deteriorated. Despite this, Carpathian has received expressions of interest from a number of parties with various proposals. After carefully reviewing all of these indicative proposals and in consultation with certain of the Company's shareholders, the Board has concluded that none of the

current indicative proposals, including a sale of the entire Company, are at a level which is likely to maximise value for shareholders.

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

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

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

## **Dividends**

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

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

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

## **Management**

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

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

## **Central and Eastern European economy and retail market**

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

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

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

## **Other corporate matters**

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

## **Outlook and strategy**

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

**Rory Macnamara**

**Chairman**

30 April 2009

## **Property Adviser's Report for Year ended 31 December 2008**

### **Transactions during the period**

#### **Sales**

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

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

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

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

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

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

#### **Acquisitions**

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

#### **Debt financing**

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

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

During 2008, the Group's predominant focus has been on maintaining regular dialogue its lending banks, assessing performance of the properties relative to covenant testing ratios and where performance has been damaged, considering the prospects for recovery over the short, medium and long term. Carpathian has a clear strategy to protect only those investments where the potential of significant equity realisation exists and will continue to participate in debt restructurings where there are reasonable expectations of such recovery.

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

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

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

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

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

#### Hypo Real Estate facilities

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

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

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

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

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

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

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

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

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

#### Barclays facility

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

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

### MKB facilities

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

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

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

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

This facility is due to expire in June 2009.

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

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

### Anglo Irish Bank ('AIB') facilities

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

- (i) €58 million facility secured on the Interfruct portfolio in Hungary, in default as tenant is in liquidation*
- (ii) €11 million facility secured on the Ericsson office building in Hungary, which originally expired in November 2008*
- (iii) €6.7 million facility secured on the Marina Mokotow property in Poland with expiry in October 2012*

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

Agreement in principle has recently been reached with AIB in relation to the three facilities for Interfruct, Marina Mokotow and Ericsson. It is planned to consolidate these facilities into one facility with a maturity date of 31 January 2010. This facility has been split across a €41.9 million Term A facility provided by AIB, a €1.5 million Term B facility provided by Carpathian and a €28.3 million Term C facility provided by AIB. As part of the renegotiation of these facilities, AIB has agreed to minimal ISCR covenants with no LTV covenants. This loan is cross-secured across the Interfruct, Marina Mokotow and Ericsson properties.

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

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

#### Erste Bank facility

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

#### Nordea Bank facility

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

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

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

### **Property portfolio review**

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

As reported in the Interim Report for the 6 months ending 30 June 2008, the lease agreement with Interfruct was terminated due to non payment of rent from August 2008. In 2007, these properties contributed approximately £1.36 million of the Company's profit after tax.

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

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

The weighted average lease length of the investment portfolio at year end was around 4.3 years.

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

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

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

Throughout the portfolio, where any tenant pressure on rent arises, the Group takes a firm but considered stance; transparency is sought on turnover figures and all solutions are considered to mitigate impact on investment value. This may involve replacing tenants.

The operations of the Group also create exposure to some currency risk, potentially impacting the affordability of rents.

A large majority proportion of the portfolio income is contracted in Euro's or the tenant takes the risk of converting their local currency commitment into a Euro equivalent. Where substantial local changes take place this can have the effect of making the retailers Euro based rental less affordable if their local operational currency falls. Falls have been experienced of late and may therefore contribute to rental income pressures. However, these movements have been a relatively common feature in these markets and if recent falls are taken in the context of the last five years during which many tenants entered into their lease agreements they look considerably less alarming. Over that five year period, the local growth has often been substantially greater than the Euro based indexation applied to the annual rent.

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

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

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

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

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

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

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

## **Portfolio valuation**

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

In the view of the Company's Property Adviser it is exceptionally difficult for valuers to reflect such unprecedented market conditions as are currently being experienced. During the current disruptions,

transaction pricing of assets is potentially hugely affected by suspicions of distress and the identity of the vendor rather than by any real property investment fundamentals.

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

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

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

## Strategy

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

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

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

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

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

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

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

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

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

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

**Paul Rogers**  
Managing Director  
CAM Limited  
30 April 2009

## **REPORT OF THE INDEPENDENT AUDITORS, KPMG AUDIT LLC**

### **TO THE MEMBERS OF CARPATHIAN PLC**

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

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

### **RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS**

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

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

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

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

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

### **BASIS OF OPINION**

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

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

## **REPORT OF THE INDEPENDENT AUDITORS, KPMG AUDIT LLC (CONTINUED)**

### **OPINION**

In our opinion:

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

### **EMPHASIS OF MATTER**

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

- As disclosed in note 11 Investment and Development Property, within the Report and Valuation prepared by the appointed independent professional valuers, DTZ Debenham Tie Leung, there are a number of comments regarding current market conditions. In particular, there has been a marked reduction in the volume of transactions and there is a greater degree of uncertainty regarding property prices. Accordingly, it should be noted that the proceeds from an actual sale of any of the Group's properties may be significantly different to the value attributed by the appointed independent valuers as at 31 December 2008 and recorded in these financial statements.
- As disclosed in note 21 Interest-Bearing Loans and Borrowings, together with note 26 Events After the Balance Sheet date, a number of borrowing arrangements are in the course of re-negotiation with the Group's bankers, either due to existing borrowing facilities having expired or due to a breach of borrowing covenants. To the extent that any of the borrowing facilities are not ultimately satisfactorily re-negotiated then it is possible that the relevant bankers may be entitled to take control of property and other assets held as security, which assets would then cease to form part of the Group's Balance Sheet.
- As disclosed in the Basis of Preparation, the financial statements have been prepared on a going concern basis, taking into consideration the level of cash and cash equivalents presently held by the Company, the current status of the re-negotiation of borrowing facilities, as disclosed in note 26 Events After the Balance Sheet Date, and the decisions taken by the Board following the Group's strategic review, as disclosed in the Chairman's Statement. The Directors therefore have a reasonable expectation that the Group will have adequate resources for its continuing operational existence for the foreseeable future, and for these reasons, continue to adopt the going concern basis in preparing the 2008 financial statements.

KPMG AUDIT LLC  
CHARTERED ACCOUNTANTS  
HERITAGE COURT  
41 ATHOL STREET  
DOUGLAS  
ISLE OF MAN  
IM99 1HN

30 APRIL 2009

**CONSOLIDATED INCOME STATEMENT  
FOR THE YEAR ENDED 31 DECEMBER 2008**

	Note	2008 Revenue £'000	2008 Capital £'000	2008 Total £'000	2007 Revenue £'000	2007 Capital £'000	2007 Total £'000
Gross rental income	5	37,515	-	37,515	27,051	-	27,051
Service charge income		11,931	-	11,931	9,635	-	9,635
Service charge expense		(14,194)	-	(14,194)	(10,886)	-	(10,886)
Property operating expenses		(5,685)	-	(5,685)	(3,401)	-	(3,401)
Other property income	6	4,825	-	4,825	1,895	-	1,895
<b>Net rental and related income</b>		<b>34,392</b>	<b>-</b>	<b>34,392</b>	<b>24,294</b>	<b>-</b>	<b>24,294</b>
Changes in fair value of investment and development property	11	-	(163,338)	(163,338)	-	15,983	15,983
Loss on sale of investment properties		-	(1,061)	(1,061)	-	-	-
Impairment of goodwill	12	-	(25,693)	(25,693)	-	-	-
Changes in fair value of derivative assets and liabilities	19	-	6,933	6,933	-	1,409	1,409
Net foreign exchange loss		-	(3,176)	(3,176)	-	(6,971)	(6,971)
Administrative expenses	7	(6,535)	-	(6,535)	(4,685)	-	(4,685)
<b>Net operating (loss) / profit before net financing expense</b>		<b>27,857</b>	<b>(186,335)</b>	<b>(158,478)</b>	<b>19,609</b>	<b>10,421</b>	<b>30,030</b>
Financial income	8	5,426	-	5,426	6,496	-	6,496
Financial expenses	8	(20,707)	-	(20,707)	(15,528)	-	(15,528)
Changes in fair value of interest rate swaps	8 & 19	-	(8,718)	(8,718)	-	879	879
<b>Net financing expense</b>		<b>(15,281)</b>	<b>(8,718)</b>	<b>(23,999)</b>	<b>(9,032)</b>	<b>879</b>	<b>(8,153)</b>
<b>Net (loss) / profit before tax</b>		<b>12,576</b>	<b>(195,053)</b>	<b>(182,477)</b>	<b>10,577</b>	<b>11,300</b>	<b>21,877</b>
Tax credit / (expense)	9	(814)	34,722	33,908	(341)	(6,606)	(6,947)
<b>(LOSS) / PROFIT FOR THE YEAR</b>		<b>11,762</b>	<b>(160,331)</b>	<b>(148,569)</b>	<b>10,236</b>	<b>4,694</b>	<b>14,930</b>
<b>Attributable to:</b>							
Equity holders of the Company	10			(144,955)			16,202
Minority Interest	10			(3,614)			(1,272)
<b>Basic and diluted (loss) / earnings per share for (loss) / profit attributable to the equity holders of the Company during the year (expressed as pence per share)</b>							
Basic (loss) / earnings per share	10			(62.8) p			8.3 p
Diluted (loss) / earnings per share	10			(62.8) p			7.3 p

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

**STATEMENTS OF CHANGES IN EQUITY  
FOR THE YEAR ENDED 31 DECEMBER 2008**

<b>GROUP</b>	<b>Note</b>	<b>Share Capital £'000</b>	<b>Share Premium £'000</b>	<b>Minority Interest £'000</b>	<b>Translation Reserve £'000</b>	<b>Retained Earnings £'000</b>	<b>Total £'000</b>
Balance as at 1 January 2007		1,454	125,556	5,546	(3,467)	42,472	171,561
Profit for the year		-	-	-	-	14,930	14,930
Dividends paid	24	-	-	-	-	(18,342)	(18,342)
Purchase of minority shareholders' interest		-	-	(688)	-	-	(688)
Minority interest through acquisitions		-	-	87	-	-	87
Carried interest allocation to minority shareholders		-	-	(1,272)	-	1,272	-
Issue of share capital	20	833	99,167	-	-	-	100,000
Costs of issue	20	-	(3,315)	-	-	-	(3,315)
Exercise of share-based option	20	6	594	-	-	-	600
Share premium release	20	-	(44,891)	-	-	44,891	-
Translation into presentation currency		-	-	-	23,127	-	23,127
<b>Balance as at 31 December 2007</b>		<b>2,293</b>	<b>177,111</b>	<b>3,673</b>	<b>19,660</b>	<b>85,223</b>	<b>287,960</b>
Balance as at 1 January 2008		<b>2,293</b>	<b>177,111</b>	<b>3,673</b>	<b>19,660</b>	<b>85,223</b>	<b>287,960</b>
Loss for the year		-	-	-	-	(148,569)	(148,569)
Dividends paid and declared	24	-	-	-	-	(12,304)	(12,304)
Carried interest allocation to minority shareholders		-	-	(3,614)	-	3,614	-
Issue of share capital	20	<b>28</b>	<b>2,812</b>	-	-	-	<b>2,840</b>
Translation into presentation currency		-	-	-	55,784	-	55,784
<b>Balance as at 31 December 2008</b>		<b>2,321</b>	<b>179,923</b>	<b>59</b>	<b>75,444</b>	<b>(72,036)</b>	<b>185,711</b>

**BALANCE SHEETS**  
**AS AT 31 DECEMBER 2008**

	Note	2008 Group £'000	2007 Group as restated £'000
<b>ASSETS</b>			
<b>Non-current assets</b>			
Investment property	11	508,642	525,192
Development property	11	27,919	41,428
Goodwill	12	13,239	25,576
Intangible assets		-	13
Costs relating to future acquisitions		63	291
Investments in equity accounted investees	13	150	-
Other Investments	14	7,255	5,477
Loans receivable	15	24,510	14,846
Deferred tax assets	16	2,876	1,027
		<b>584,654</b>	<b>613,850</b>
<b>Current assets</b>			
Trade and other receivables	17	15,295	12,776
Loans receivable	15	7,983	20
Cash and cash equivalents	18	62,162	62,103
Derivative assets	19	7,817	4,762
		<b>93,257</b>	<b>79,661</b>
<b>TOTAL ASSETS</b>		<b>677,911</b>	<b>693,511</b>
<b>EQUITY</b>			
Issued capital	20	2,321	2,293
Share premium	20	179,923	177,111
Retained earnings		( 72,036)	85,223
Translation reserve		75,444	19,660
<b>Total equity attributable to equity holders of the parent</b>		<b>185,652</b>	<b>284,287</b>
Minority interest		59	3,673
<b>TOTAL EQUITY</b>		<b>185,711</b>	<b>287,960</b>
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Interest -bearing loans and borrowings	21	192,596	233,382
Other payables	22	27,300	6,142
Deferred income tax liabilities	16	26,106	56,333
		<b>246,002</b>	<b>295,857</b>
<b>Current liabilities</b>			
Trade and other payables	22	26,007	23,822
Interest -bearing loans and borrowings	21	213,497	77,055
Provisions	23	1,665	647
Dividends payable	24	-	7,638
Derivative liabilities	19	5,029	532
		<b>246,198</b>	<b>109,694</b>
<b>TOTAL LIABILITIES</b>		<b>492,200</b>	<b>405,551</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>677,911</b>	<b>693,511</b>

**CASH FLOW STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2008**

	Note	2008 Group £'000	2007 Group £'000
<b>Cash flows from operating activities</b>			
Cash generated from / (used in) from operations	25	<b>39,902</b>	(13,730)
Income taxes paid		<b>(896)</b>	(1,830)
Net cash generated from / (used in) operating activities		<b>39,006</b>	(15,560)
<b>Cash flows from investing activities</b>			
Capital expenditure on investment properties		<b>4,764</b>	(8,870)
Capital expenditure on development properties		<b>(14,181)</b>	(8,354)
Capital expenditure on incomplete acquisitions		-	(337)
Capital expenditure on intangible assets		<b>13</b>	(13)
Loan advances to unconsolidated entities		<b>(17,626)</b>	(14,866)
Cash received on disposal of investment property		<b>11,662</b>	-
Investment in unconsolidated entities		<b>(1,928)</b>	(5,419)
Interest received		<b>1,197</b>	5,733
Acquisition of subsidiaries		-	(41,987)
Acquisition of minority interest in subsidiaries		-	(1,035)
Net cash (used in) / generated from investing activities		<b>(16,099)</b>	(75,148)
<b>Cash flows from financing activities</b>			
Proceeds on issue of shares, net of share issuance costs	20	-	97,285
New bank loans raised		<b>50,924</b>	53,019
Interest paid		<b>(21,162)</b>	(13,796)
Repayments of borrowings		<b>(26,218)</b>	(50,219)
Dividends paid		<b>(19,942)</b>	(10,704)
Net cash (used in) / generated from financing activities		<b>(16,398)</b>	75,585
<b>Net increase / (decrease) in cash and cash equivalents</b>			
Cash and cash equivalents at the beginning of the year		<b>62,103</b>	75,131
Exchange (losses) / gains on cash and cash equivalents		<b>(6,450)</b>	2,095
<b>Cash and cash equivalents at the end of the year</b>	18	<b>62,162</b>	62,103

## **ABBREVIATED 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.

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

The financial information set out above does not constitute the Group's statutory accounts for the year ended 31 December 2008. The figures for the year ended 31 December 2008 are extracted from the audited Group financial statements ("the financial statements"). A copy of the financial statements, on which the auditors have issued an unqualified report, will be lodged with the Registrar of Companies. The results for the year ended 31 December 2008 have been prepared on the basis of the accounting policies set out in the financial statements.

### **2 Going concern**

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

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

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

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

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

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

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

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

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

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

### **3 Significant accounting policies**

The consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS). Details of accounting policies adopted by the Group can be found in the financial statements.

#### 4 Prior year adjustment

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

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

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

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

#### 5 Gross rental income

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

The Group leases out its investment property under operating leases. All operating leases are for terms of 1 - 15 years.

#### 6 Other property income

	<b>2008</b>	2007
	<b>£'000</b>	£'000
Parking revenue	14	30
Penalty interest	46	105
Penalties on early termination of lease agreements	185	81
Ice rink income	72	62
Other property income	91	251
Other corporate income	4,417	1,365
	<b>4,825</b>	1,894

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

#### 7 Administrative expenses

	<b>2008</b>	2007
	<b>Group</b>	Group
	<b>£'000</b>	£'000
Accounting fees	1,067	567
Legal fees	1,064	445
Audit fees	961	521
Abortive acquisition costs and irrecoverable debts	941	464
Other administrative expenses	721	1,564
Irrecoverable VAT	462	157
Portfolio management fees	288	156
Tax advisory fees	256	57
Consultancy fees	233	137
Non-executive Directors fees	204	138
Custody/trust fees	92	38
Public relation fees	92	49
Bank charges and fees	84	336
Nominated advisor fees	70	56
	<b>6,535</b>	4,685

Other administrative expenses include items of a general corporate nature.

**8 Net financing expense**

	<b>2008</b>	2007
	<b>Group</b>	Group
	<b>£'000</b>	£'000
Financial income:		
Interest income from financial institutions	2,110	5,907
Interest income from subsidiary	-	-
Interest income from related party	3,316	589
	<u>5,426</u>	<u>6,497</u>
Financial expenses:		
Net interest expenses on bank borrowings	( 20,138)	( 14,814)
Finance costs amortised	( 425)	( 116)
Unwinding of unrealised direct issue costs of borrowings	( 144)	( 598)
	<u>( 20,707)</u>	<u>( 15,528)</u>
Fair value adjustment of interest rate swaps	<u>( 8,718)</u>	879

**9 Tax**

	<b>2008</b>	2007
	<b>Group</b>	Group
	<b>£'000</b>	£'000
<b>Recognised in the Income Statement</b>		
<b>Current tax expense</b>		
Current year	795	508
Adjustment for prior years	19	( 168)
	<u>814</u>	<u>340</u>
<b>Deferred tax expense</b>		
Origination and reversal of temporary differences	( 34,722)	6,607
Total income tax expense in the Income Statement	<u>( 33,908)</u>	<u>6,947</u>

The tax rate applicable to the Company in the Isle of Man is 0%. The tax charge of £0.8 million (2007: £0.3 million) in respect of current year profits represents tax charges on rental income arising in other jurisdictions, that is subject to corporate income tax in those jurisdictions at rates in the range 16% to 24% and a Municipal Business tax at the rate of 7.5% in Luxembourg.

## 10 Earnings per share

### Basic earnings per share

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

	<b>2008</b>	2007
	<b>Group</b>	Group
	<b>£'000</b>	£'000
<b>(Loss) / Profit attributable to ordinary shareholders</b>		
(Loss) / Profit for the year	<b>( 148,569)</b>	14,930
Minority interest	<b>3,614</b>	1,272
(Loss) / Profit attributable to ordinary shareholders	<b>( 144,955)</b>	16,202
<b>Weighted average number of ordinary shares</b>		
	<b>2008</b>	2007
	<b>Group</b>	Group
Shares in issue at 1 January	<b>229,363,349</b>	145,430,015
Effect of shares issued on 23 February 2007	-	511,233
Effect of shares issued on 18 May 2007	-	50,228,311
Effect of shares issued on 16 July 2008	<b>1,278,281</b>	-
Weighted average number of ordinary shares	<b>230,641,630</b>	196,169,559
Basic earnings per share	<b>(62.8) p</b>	8.3 p

### Diluted earnings per share

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

	<b>2008</b>	2007
	<b>Group</b>	Group
	<b>£'000</b>	£'000
<b>Profit attributable to ordinary shareholders (diluted)</b>		
(Loss) / Profit for the year	<b>( 148,569)</b>	14,930
Minority interest	<b>3,614</b>	1,272
Share options dilutive effect	-	( 1,741)
(Loss) / Profit attributable to ordinary shareholders	<b>( 144,955)</b>	14,461
<b>Weighted average number of ordinary shares for the purposes of diluted earnings per share</b>		
	<b>2008</b>	2007
	<b>Group</b>	Group
Weighted average number of ordinary shares	<b>230,641,630</b>	196,169,559
Effect of dilutive potential ordinary shares: share options	-	1,536,294
Weighted average number of ordinary shares for the purposes of diluted earnings per share	<b>230,641,630</b>	197,705,853
Diluted earnings per share	<b>(62.8) p</b>	7.3 p

## 11 Investment property and development property

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

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

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

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

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

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

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

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

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

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

## 12 Goodwill

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

### Disposals

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

### Purchase price adjustments

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

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

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

Further details relating to the put and call option are provided in note 19.

### Impairment

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

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

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

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

<b>13 Investments in equity accounted investees</b>	<b>2008</b>	2007
	<b>Group</b>	Group
	<b>£'000</b>	£'000
Investment in Carpathian Asset Management Ltd	<b>150</b>	-

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

<b>14 Other investments</b>	<b>2008</b>	2007
	<b>Group</b>	Group
	<b>£'000</b>	£'000
Investment in SIA Patollo:		
Balance at 1 January	<b>5,477</b>	-
Additions	-	5,477
Foreign exchange effect	<b>1,778</b>	-
Balance at 31 December	<b>7,255</b>	5,477

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

The shares confer 50% of the shareholder voting rights, dividend rights and rights upon a winding up. The Group has appointed 2 of the 4 directors to SIA Patollo; certain key decisions require the consent of at least 75% of those directors.

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

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

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

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

<b>15 Loans receivable</b>	<b>2008</b>	2007
	<b>Group</b>	Group
	<b>£'000</b>	£'000
Non current assets		
Loans to SIA Patollo	<b>24,338</b>	14,846
Loans to Carpathian Asset Management Ltd	<b>172</b>	-
	<b>24,510</b>	14,846
Current assets		
Loans to SIA Bluebeech	<b>7,983</b>	20

Further details on the loans are set out in notes 13 and 148.

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

## 16 Deferred tax assets and liabilities

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

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

The movement in deferred tax in the year comprises:

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

## 17 Trade and other receivables

	<b>2008 Group £'000</b>	2007 Group £'000
Trade receivables	3,673	3,043
Other receivables	5,635	4,948
Tax receivable	-	622
Prepayments	640	1,675
Accrued interest on loans	4,994	764
Subsidiary purchase price adjustment receivable	353	1,724
	<b>15,295</b>	12,776

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

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

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

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

## 18 Cash and cash equivalents

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

## 19 Risk management

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

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

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

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

### Capital management

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

The capital structure of the Group consists of debt, which is included in the borrowings disclosed in note 21, and equity attributable to equity holders of the Company, comprising issued capital, reserves and any retained earnings as disclosed.

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

### Derivative assets and liabilities

Derivative assets and liabilities are made up of the following:

	2008 Group £'000	2007 Group £'000
Derivative assets:		
Put and call options	7,767	736
Interest rate swaps	-	3,792
Other financial assets	50	234
	<b>7,817</b>	<b>4,762</b>
Derivative liabilities:		
Interest rate swaps	5,029	-
Other financial liabilities	-	532
	<b>5,029</b>	<b>532</b>
The movement in the year in derivative assets and liabilities comprises:	<b>2008 Group £'000</b>	
Balance at 1 January	4,230	
Movements during the year	(694)	
(Decrease)/ increase in fair value (see below)	(1,785)	
Foreign exchange effect	1,037	
Balance at 31 December	<b>2,788</b>	
Per Income Statement		
Changes in fair value of derivative assets and liabilities	6,933	
Changes in fair value of interest rate swaps	<b>(8,718)</b>	
	<b>(1,785)</b>	

*Put and call options:*

As referred to in note 12, the Company has entered into a put and call option entitling and requiring Perriniana Limited to subscribe for new ordinary shares in the Company for an aggregate amount equal to the deferred consideration actually received by Perriniana Limited at an exercise price of 92.8 pence per share.

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

*Interest rate swaps:*

The Group uses interest rate swaps to manage its exposure to interest rate movements on its bank borrowings. Contracts with nominal values of £325.6 million (2007: £252.2 million) have fixed interest payments at an average rate of 3.88% (2007: 3.74%) for periods up until October 2011 and have floating interest receipts at Euribor. The 3 month Euribor rate at 31 December 2008 was 2.93% (2007: 4.68%).

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

**Interest rate risk**

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

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

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

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

<b>Group</b>	<b>Increase/ (decrease) in basis points</b>	<b>Group Effect on net profit before tax</b>
		<b>£'000</b>
<b>2008</b>		
Increase	100	( 3,516)
Decrease	( 100)	3,516
<b>2007</b>		
Increase	100	( 2,483)
Decrease	( 100)	2,483

### Currency risk

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

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

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

### Market risk

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

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

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

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

<b>Group</b>	<b>Increase/ (decrease) in percent</b>	<b>Group Effect on net profit before tax £'000</b>
<b>2008</b>		
Increase	10	53,656
Decrease	( 10)	(53,656)
<b>2007</b>		
Increase	10	56,662
Decrease	( 10)	(56,662)

## Credit risk

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

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

The Group's credit risk is primarily attributable to its trade receivables. The Group has no significant concentration of credit risk, with exposure spread over a large number of counterparties and customers. At December 2008, the Group had in excess of 900 tenants within its portfolio (2007: 975). The Group adopts a range of measures to secure its income stream, including obtaining bank and other guarantees, tenant' deposits (separately disclosed in note 22) and appropriate notice periods. Trade receivables are constantly monitored and reviewed and the Group has a number of options available to mitigate the impact of tenant's financial difficulties. The amounts presented in the Balance Sheets are net of allowances for doubtful receivables. An allowance for impairment is made where there is an identified loss event which, based on previous experience, is evidence of a reduction in the recoverability of the cash flows. Further details on the ageing and impairment of trade receivables are provided in note 17.

## Liquidity risk

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

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

All facilities are non-recourse to the Company with no cross-collateralisation, except for certain portfolios, where all properties in those portfolios were acquired at the same time. Financial ratios are constantly monitored and reported. The Group maintains a regular dialogue with its bankers and immediately any breaches to individual covenants are foreseen, it will initiate discussions with its bankers to explore all options to remedy the position. Additionally, some of the Group's borrowings have passed their original maturity dates and are subject regular extensions. Other borrowings are approaching their maturity dates within the next 12 months. The Group is in re-negotiations with many of its bankers and further details are provided in note 26. However, there remains the possibility that Group could be demanded to repay any of its borrowings, and if it fails to do so, its bankers may be entitled to take control of property and other assets held as security, which assets would then cease to form part of the Group's Balance Sheet.

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

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

## 20 Share capital and share premium

Authorised:	Number of Ordinary Shares of 1p each	£'000	
At 31 December 2008 and 31 December 2007	<b>350,000,000</b>	<b>3,500</b>	
Issued:	Number of Shares Issued and Fully Paid	Share Capital £'000	Share Premium £'000
Ordinary shares of 1p each			
Balance at 31 December 2006	145,430,015	1,454	125,556
23 February 2007 - share option exercised	600,000	6	594
18 May 2007 - issue for cash	83,333,334	833	99,167
18 May 2007 - placing cost	-	-	(3,315)
Transfer to distributable reserves	-	-	(44,891)
Balance at 31 December 2007	229,363,349	2,293	177,111
16 July 2008 - issue for cash	<b>2,784,826</b>	<b>28</b>	<b>2,812</b>
Balance at 31 December 2008	<b>232,148,175</b>	<b>2,321</b>	<b>179,923</b>

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

## 21 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 note 19.

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

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

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

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

**22 Trade and other payables**

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

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

	2008 Group £'000	2007 Group £'000
Less than 3 months	14,633	23,261
3 to 12 months	11,374	560
1-5 years	26,513	3,283
Greater than 5 years	787	2,859
	<b>53,307</b>	<b>29,964</b>

**23 Provisions**

	2008 Group £'000
Provisions at 1 January	647
Increase in provisions	1,018
Provisions as at 31 December	<b>1,665</b>

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

**24 Dividends**

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

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

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

## 25 Notes to the cash flow statement

		2008 Group £'000	2007 Group £'000
<b>Cash generated from / (used in) operations</b>	<b>Note</b>		
(Loss) / profit for the year		( 148,569)	14,930
Adjustments for:			
Decrease / (increase) in fair value of financial instruments		3,394	( 2,288)
Unwinding of unrealised direct issue costs of borrowings		144	598
Net other finance expenses / income		15,137	8,433
Decrease / (increase) in fair value of investment property	11	163,338	( 15,983)
Costs relating to future acquisitions written off		226	439
Reversal of investment in subsidiaries		-	30
Provisions		1,018	( 82)
Income tax expense	9	(33,908)	6,947
Impairment of goodwill		25,693	-
Loss on disposal of investment		1,973	-
Unrealised foreign exchange loss		3,176	6,971
<b>Operating cash flows before movements in working capital</b>		<b>31,622</b>	<b>19,995</b>
Decrease / (increase) in receivables		2,747	760
(Decrease) / increase in payables		5,533	( 34,485)
<b>Cash generated from / (used in) operations</b>		<b>39,902</b>	<b>( 13,730)</b>

## 26 Events after the Balance Sheet date

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

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

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

## 27 Financial Statements

Copies of the 2008 financial statements will be sent to all shareholders as soon as practical. These documents will be available to the public at the offices of the company: IOMA House, Hope Street, Douglas, Isle of Man, as well as on our website [www.carpathianplc.com](http://www.carpathianplc.com).