THE OTTOMAN FUND LIMITED

Annual Report and Financial Statements

For the year ended 31 August 2011

THE OTTOMAN FUND LIMITED
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 AUGUST 2011

Directory

Chairman's Statement

Our net asset value as at 31 August 2011 was 74.7 pence per share as compared with 81.6 pence per share a year earlier. The primary drivers of this reduction in net asset value were write downs of our investments in Bodrum and Alanya. In Sterling terms we wrote down Bodrum by approximately £4.1 million in accordance with Savills's valuation and the loan to Mandalina, in relation to the Alanya apartments, by approximately £2.4 million. Each of our assets is independently valued by two valuation companies, and we traditionally rely on the Savills valuation for our financial statements. Our valuations as at 31 August 2011 in US dollars and as compared with the prior year are:

	Savills 31 August 2011 ($)	TSKB 31 August 2011 ($)	Average 31 August 2011 ($)	Average 31 August 2010 ($)
Riva	108,770,000	112,580,000	110,675,000	102,833,500
Bodrum	33,082,000	35,990,000	34,536,000	36,460,371
Kazikli	7,775,000	9,125,000	8,450,000	9,360,708
Alanya	10,057,000	8,322,000	9,189,500	10,523,464
TOTAL	**159,684,000**	**166,017,000**	**162,850,500**	**159,178,043**

We have made progress over the last year. In April, we entered into an agreement with our partner at Kazikli to sell that asset to him for $9.5 million. He paid us a twenty-five percent cash down payment with the remainder due in August. He had issues with paying the remainder as promised, so, by mutual agreement, we extended the time for payment to 31 December 2011. We are hopeful that the transaction will close on that date.

This has also been the best year since inception for sales at Alanya. In calendar year 2011 our advisor sold twenty-four units with fifty units remaining. Our advisor achieved this result by building relationships with local, rather than foreign, brokers and increasing broker commissions. Of the remaining fifty-one units, sixteen are duplexes that are damaged because of construction issues. Once repairs are completed this winter, we expect to discount them to encourage sale, either individually or to a bulk buyer. The increase in broker commissions, running costs of the Turkish holding company (primarily repairs and maintenance, taxes, utility fees and purchases of white goods), and the price reduction for the duplexes are the primary reasons for the board's write down of the Alanya asset.

With respect to both Riva and Bodrum, we have had a fair amount of interest, especially in the first half of the year, though once the European financial crisis hit, interest decreased. For Turkey, both Bodrum and Riva are very large assets that will appeal to a limited number of buyers. In Turkey, as elsewhere throughout the world, cash buyers for large plots of vacant land outside of the city center are few and far between. Because of this global risk aversion it is difficult to predict when these assets will be monetized. But there have been positive developments in connection with both assets. At Riva, one major Turkish developer has begun construction of a development that will comprise about 100 single family homes. And Bodrum remains the premium resort area in Turkey with an ever diminishing supply of large land plots.

Chairman's Statement (continued)

Political and Economic Development
Certainly compared with much of the rest of the world Turkey has enjoyed political stability and relative economic prosperity over the last year. The ruling AKP party's landslide victory in the recent election solidified its position and extended its power over the parliament, the executive branch, the media, business, and even the army. Many believe that AKP's success is due in large part to public satisfaction with Turkey's economic performance over the last decade, where under AKP leadership Turkey's GDP almost tripled.

Although by global standards Turkey has done relatively well since the start of the global financial crisis in 2008, Turkey has strong trading links with Europe and the troubles in the Euro zone certainly affect Turkey. Though counterbalancing the deterioration in European finances have been capital inflows from the Middle East and lately the Arab spring countries – which view Turkey as a safe haven in the region. This inflow of middle-eastern capital has partially insulated Turkey from the full effects of the current Euro zone crisis.

According to a recent OECD report, Turkey's strong growth in early 2011, driven by private consumption and investment, has been slowed by the Government's credit containment policies and deteriorating global conditions. As a result, the OECD projects that Turkey's real GDP growth will slow to 3% in 2012 and some commentators expect even lower growth. The OECD predicts, though, the recovery of GDP in 2013 as the external environment improves. The new Turkish Lira underwent a sharp exchange rate depreciation in 2011, depreciating approximately twenty per cent against a basket of currencies. This depreciation, the OECD believes, should gradually help rebalance domestic and external demand and narrow the large current account deficit, which by mid-2011 approached 10% of GDP. The OECD notes however that the depreciation of the Lira may also put upward pressure on inflation, which is now running on an annualized basis at around ten percent.

I look forward to reporting to you next when we release our mid-year results for the period ended 29 February 2012.

Respectfully yours,

John D. Chapman
Chairman
6 December 2011

Directors' Report

The Directors submit their Report and the audited financial statements of The Ottoman Fund Limited (the "Company") and its subsidiaries (together, the "Group") for the year ending 31 August 2011.

Principal Activity

The Company is a closed-ended, Jersey registered, investment company formed to access the Turkish property market and in particular new build residential developments in major cities and coastal destinations.

Listing

The Company is quoted on the AIM market of the London Stock Exchange.

Investment Policy

Upon Admission, the Company's strategy was to develop new-build residential developments in major cities and coastal locations in Turkey, aimed at both the local and tourist markets with an emphasis on off-plan sales. The Company now intends to make no new investments, to make additional investments in existing assets only if those investments are accretive to shareholder value, and to opportunistically dispose of assets at appropriate times as and when market conditions permit.

Results and Dividends

It is not intended in normal circumstances that the Company will pay dividends on the shares. The Directors do not recommend the payment of a dividend (2010: nil).

The income statement is set out on page 9 of this Annual Report and Financial Statements.

Life

The Company has a life of 10 years from the date of its admission to trading on the AIM market on 28 December 2005, plus up to 2 further years for the planned realisation of the portfolio. The life may be extended by special resolution of shareholders (requiring a two-thirds majority of those voting).

Administrator, Secretary and Registered Office

On 24 June 2011, Vistra Fund Services Limited acquired Herald Fund Services Limited, at which time, with the consent of the Board of Directors, the Administrator, Secretary and Registered Office changed to Vistra Fund Services Limited, 38 Esplanade, St Helier, Jersey, JE1 4TR.

Manager

Subsequent to the removal of Development Capital Management (Jersey) Limited as manager of the Company in the prior year, management has been internalised at the Board level.

Custodian

Subsequent to the termination of the custody agreement with BNP Paribas (Jersey branch) in the prior year, the Company has not appointed a replacement.

Board of Directors

The Directors of the Company are listed on page 30. John D Chapman (Executive Chairman), Antony Gardner-Hillman, Andrew Wignall and Eitan Milgram all served as Directors throughout the year. Angelo Moskov resigned on 11 August 2011.

Directors' Report (continued)

Shareholders' Interests (as at 31 August 2011)

Size of shareholding (in shares)	No. of shareholders
1 – 9,999	**30**
10,000 – 99,999	**12**
100,000 – 999,999	**9**
1,000,000 – 9,999,999	**6**
10m+	**4**

At 31 August 2011 the Company was aware of the following interests of 3% or more in the ordinary share capital of the Company:

	Number	% held
Weiss Asset Management LLC	40,132,000	29.78%
Toscafund Asset Management LLP	35,000,000	25.97%
QVT Financial LP	25,000,000	18.55%
QVT Financial LP CFD	18,335,000	13.61%

Otherwise, the Directors are not aware of interests of 3% or more in the Company's issued share capital.

Directors' Interests
The maximum aggregate amount of ordinary remuneration payable to the Directors permitted under the Articles is £150,000 per annum. The Directors received in aggregate £150,000 for the year ended 31 August 2011 (2010:£138,385). Commencing 13 March 2009 John D. Chapman has been employed under an executive service contract that provides for an annual fee of £75,000 and a discretionary bonus.

None of the directors have any interests in the Company's share capital. During the year, Angelo Moskov was a partner with QVT Financial LP and QVT Financial LP CFD which together own a shareholding of 32.16% in the Company. Eitan Milgram is an Executive Vice President of Weiss Asset Management LLC, which owns a shareholding of 29.78% in the Company at the end of this financial period.

Statement of Directors' Responsibilities
The Directors are responsible for preparing the financial statements in accordance with applicable law and International Financial Reporting Standards.

The Companies (Jersey) Law 1991 requires the Directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing those financial statements, the Directors are required to:

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

Directors' Report (continued)

Statement of Directors' Responsibilities (continued)
The Directors are responsible for keeping accounting records that disclose with reasonable accuracy, at any time, the financial position of the Company and enable them to ensure that the financial statements comply with the Companies (Jersey) Law 1991. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps to prevent and detect fraud and other irregularities.

The Directors confirm that they have complied with the above requirements.

So far as the Directors are aware, there is no relevant audit information of which the Company's auditors are unaware, and each Director has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

By Order of the Board
Vistra Fund Services Limited
Secretary
14 December 2011

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF THE OTTOMAN FUND LIMITED

Report on the financial statements

We have audited the accompanying consolidated financial statements (the "financial statements") of The Ottoman Fund Limited which comprise the consolidated statement of financial position as of 31 August 2011 and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended and a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the financial statements

The directors are responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards and with the requirements of Jersey law. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Group as of 31 August 2011, and of the financial performance and cash flows of the Group for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the requirements of the Companies (Jersey) Law 1991

Report on other legal and regulatory requirements

We read the other information contained in the Annual Report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. The other information comprises only the chairman's statement, the directors' report, the statement of directors' responsibilities and corporate information.

In our opinion the information given in the directors' report is consistent with the financial statements.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF THE OTTOMAN FUND LIMITED (Continued)

This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Article 113A of the Companies (Jersey) Law 1991 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Karl Hairon
For and on behalf of PricewaterhouseCoopers CI LLP
Chartered Accountants
Jersey, Channel Islands
14 December 2011

a) The maintenance and integrity of The Ottoman Fund Limited website is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

b) Legislation in Jersey governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Consolidated Statement of Comprehensive Income For the year ended 31 August 2011

	notes	Year ended 31 August 2011 £	Year ended 31 August 2010 £
Revenue			
Bank interest		153,089	152,141
Total revenue		153,089	152,141
Operating expenses			
Management/advisory fee	4	(311,890)	(600,621)
Other operating expenses	5	(917,995)	(1,734,182)
Inventory impairment	10	(4,144,485)	–
Loan impairment	11	(2,481,093)	–
Total operating expenses		(7,855,463)	(2,334,803)
Foreign exchange losses	12	(1,318,641)	(682,998)
Loss for the year		(9,021,015)	(2,865,660)
Other comprehensive income:			
Foreign exchange on subsidiary translation		(284,154)	258,424
Other comprehensive (loss)/income for the year		(284,154)	258,424
Total comprehensive loss for the year		**(9,305,169)**	**(2,607,236)**
Loss attributable to:			
Equity shareholders of the Company		(9,021,014)	(2,865,651)
Minority interests		(1)	(9)
		(9,021,015)	**(2,865,660)**
Total comprehensive loss attributable to:			
Equity shareholders of the Company		(9,305,157)	(2,607,248)
Minority interests		(12)	12
		(9,305,169)	**(2,607,236)**
Basic and diluted earnings per share (pence)	7	**(6.69)**	**(2.13)**

All items in the above statement derive from continuing operations.

The accompanying notes on pages 13 to 29 are an integral part of the financial statements.

Consolidated Statement of Financial Position
As at 31 August 2011

	notes	2011 £	2010 £
Assets			
Non-current assets			
Intangible assets	8	2,180	2,687
Plant and equipment	9	3,949	7,548
Inventories	10	89,500,205	92,474,333
Loans and receivables	11	4,800,000	7,470,112
		94,306,334	99,954,680
Current assets			
Other receivables	15	944,508	1,055,067
Cash and cash equivalents	20	7,180,340	9,249,402
		8,124,848	10,304,469
Total assets		102,431,182	110,259,149
Liabilities			
Current liabilities			
Advances received	24	(1,461,165)	–
Other payables	16	(351,100)	(335,052)
		(1,812,265)	(335,052)
Net assets		**100,618,917**	**109,924,097**
Equity			
Share capital	17	127,483,015	127,483,015
Retained earnings	18	(26,796,485)	(17,775,471)
Translation reserve		(67,646)	216,508
Equity attributable to owners of the parent		100,618,884	109,924,052
Minority interests' equity		33	45
Total equity		**100,618,917**	**109,924,097**
Net asset value per ordinary share (pence)	19	**74.7**	**81.6**

The accompanying notes on pages 13 to 29 are an integral part of the financial statements.

These financial statements were approved by the Board on 14 December 2011.

A.G. Gardner-Hillman   Andrew Wignall

Antony Gardner-Hillman   Andrew Wignall

Consolidated Statement of Changes in Equity

	Share capital £	Retained earnings £	Translation Reserve £	Minority interest £	Total £
For the year ended 31 August 2011					
As at 1 September 2010	127,483,015	(17,775,471)	216,508	45	109,924,097
Loss for the year	–	(9,021,014)	–	(1)	(9,021,015)
Foreign exchange on subsidiary translation	–	–	(284,154)	(11)	(284,165)
At 31 August 2011	**127,483,015**	**(26,796,485)**	**(67,646)**	**33**	**100,618,917**
For the year ended 31 August 2010					
As at 1 September 2009	135,483,052	(14,909,820)	(41,895)	33	120,531,370
Return of capital	(8,000,037	–	–	–	(8,000,037)
Loss for the year	–	(2,865,651)	–	(9)	(2,865,660)
Foreign exchange on subsidiary translation	–	–	258,403	21	258,424
At 31 August 2010	**127,483,015**	**(17,775,471)**	**216,508**	**45**	**109,924,097**

The accompanying notes on pages 13 to 29 are an integral part of the financial statements.

Consolidated Statement of Cash Flows

	Notes	Year ended 31 August 2011 £	Year ended 31 August 2010 £
Cash flow from operating activities			
Net loss		(9,021,015)	(2,865,660)
Adjustments for:			
Interest		(153,089)	(152,141)
Depreciation		3,599	7,274
Amortisation		507	1,455
Impairment of inventory	10	4,144,485	–
Impairment of loan	11	2,481,093	–
Previously capitalised expenses written off		–	342,134
		(2,544,420)	(2,666,938)
Net foreign exchange (gains)/losses		(506,904)	941,395
Decrease/(Increase) in other receivables		110,559	(68,992)
Increase/(Decrease) in payables		1,477,213	(18,288)
Net cash inflow/(outflow) from operating activities before interest, depreciation, amortisation and tax		**(1,463,552)**	**(1,812,823)**
Interest received		153,089	152,141
Net cash inflow/(outflow) from operating activities		**(1,310,463)**	**(1,660,682)**
Cash flow from investing activities			
Purchase of inventories	10	(1,170,357)	(321,495)
Purchase of plant and equipment		–	(412)
Sale of plant and equipment		–	5,638
Purchase of intangible assets		–	(916)
Repayment of loan	11	510,654	834,294
Net cash (outflow)/ inflow from investing activities		**(659,703)**	**517,109**
Cash flow from financing activities			
Return of Capital		–	(8,000,037)
Net cash outflow from financing activities		–	**(8,000,037)**
Net decrease in cash and cash equivalents		**(1,970,166)**	**(9,143,610)**
Cash and cash equivalents at start of the year		9,249,402	18,366,304
Effect of foreign exchange rates	12	(98,896)	26,708
Cash and cash equivalents at end of the year		**7,180,340**	**9,249,402**

The accompanying notes on pages 13 to 29 are an integral part of the financial statements.

Notes to the financial statements

1. General information

The Ottoman Fund Limited has invested in Turkish land and new build residential property in major cities and coastal destinations aimed at both the domestic and tourist markets.

The Company is a limited liability company domiciled in Jersey, Channel Islands.

The Company is quoted on the AIM market of the London Stock Exchange plc.

These consolidated financial statements have been approved by the Board on 14 December 2011.

2. Accounting policies

The consolidated financial statements of the Group for the year ended 31 August 2011 comprise the Company and its subsidiaries, listed in note 13, (together, the "Group") and have been prepared in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board (IASB) and interpretations issued by the International Financial Reporting Committee of the IASB (IFRIC).

The following published standards are mandatory and have been amended during the current accounting period and could be relevant to the Group, these amendments have had no significant impact on the financial statements (no new standards were issued which were relevant to the Group and applicable for the year under review):

IFRS 2, 'Share based payment'
IFRS 5, 'Non current assets held for sale and discontinued operations'
IFRS 8, 'Operating segments'
IAS 1, 'Presentation of financial statements'
IAS 7, 'Statement of cash flows'
IAS 17, 'Leases'
IAS 18, 'Revenue'
IAS 36, 'Impairment of assets'
IAS 38, 'Intangible assets'
IAS 39, 'Financial instruments: Recognition and measurement'
IFRIC 9, 'Reassessment of embedded derivatives'
IFRIC 16, 'Hedges of a net investment in foreign operation'

The following standards and amendments to published standards are mandatory for the current accounting period beginning on 1 September 2010 but are not relevant to the Group:

Amendment to IFRS 2, 'Share-based payments – Group cash-settled payment transactions'
Amendment to IFRS 1, 'First-time adoption', on 'Additional exemptions'
Amendments IAS 32, 'Financial instruments: Presentation', on 'Classification of rights issues'
Amendment to IFRS 1, 'First time adoption', on financial instrument disclosures

(a) Basis of preparation

The consolidated financial statements have been prepared on a historical cost basis.

Notes to the financial statements (continued)

2. Accounting policies (continued)

(b) Basis of consolidation

Subsidiaries
The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries) made up to 31 August each year. The consolidated financial statements are prepared using uniform accounting policies for like transactions. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The financial statements of the subsidiaries are included in the consolidated financial statements from the date that control commences up to the date that control ceases.

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

The Group applies a policy of treating transactions with minority interests as transactions with parties external to the Group. Minority interests represent the portion of profit and net assets not held by the Group. They are presented separately in the consolidated statement of comprehensive income and in the consolidated statement of financial position separately from the amounts attributable to the owners of the parent.

Joint ventures
A joint venture is a contractual arrangement whereby the Group and another party undertake an economic activity that is subject to joint control; that is, when the strategic financial and operating policy decisions relating to the activities require the unanimous consent of the parties sharing control.

The Group reports its interests in jointly controlled entities using proportionate consolidation. The Group's share of the assets, liabilities, income, expenses and cash flows of jointly controlled entities are combined with the equivalent items in the results on a line-by-line basis.

(c) Revenue recognition
Interest receivable on fixed interest securities is recognised using the effective interest method. Interest on short term deposits, expenses and interest payable are treated on an accruals basis. Revenue from sales of inventory is recognised when the significant risks and rewards of an asset have been transferred.

(d) Expenses
All expenses are charged through the income statement in the period in which the services or goods are provided to the Group except for expenses which are incidental to the disposal of an investment which are deducted from the disposal proceeds of the investment.

Notes to the financial statements (continued)

2. Accounting policies (continued)

(e) Non current assets

General
Assets are recognised and derecognised at the trade date on acquisition and disposal respectively. Proceeds will be measured at fair value which will be regarded as the proceeds of sale less any transaction costs.

Intangible assets
Intangible assets are stated at cost less any provisions for amortisation and impairments. They are amortised over their useful life of 6 years. The amortisation is based on the straight-line basis. At each balance sheet date, the Group reviews the carrying amount of its intangible assets to determine whether there is any indication that those assets have suffered an impairment loss.

Plant & Equipment
Plant and equipment is stated at cost less accumulated depreciation and any recognised impairment loss. Depreciation is charged so as to write off the cost of assets over their estimated useful lives, using the straight line method on the following basis:

Leasehold improvements	3 years
Furniture and fittings	5 years

The gain or loss on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the income statement.

Inventories
Inventories are stated at the lower of cost and net realisable value. Land inventory is recognised at the time a liability is recognised – generally after the exchange of unconditional contracts.

Net realisable value will be determined by the Board as the estimated selling price in the ordinary course of business less costs to complete and selling costs. In determining the net realisable value, the directors take into account the valuations received from the independent appraisers, market conditions at and (where relevant and appropriate) after the balance sheet date, and offers received from third parties by the Company.

The valuations of the properties performed by the independent appraisers are based on estimate and subjective judgements that may vary from the actual values and sales prices realised by the Company upon ultimate disposal.

Impairment is recognised through the income statement at the time that the Board believes the net realisable value is lower than cost and will remain so for the foreseeable future.

Loans and receivables
Loans and receivables are recognised on an amortised cost basis. Where they are denominated in a foreign currency they are translated at the prevailing balance sheet exchange rate. Any foreign exchange difference is recognised through the income statement.

Loans are reviewed for impairment by the Board on a semi-annual basis; any impairment is recognised through the income statement.

2. Accounting policies (continued)

(f) Cash and cash equivalents
Cash and cash equivalents comprise current and short term fixed deposits with banks.

(g) Taxation
Throughout the year under the Jersey "Zero/Ten" regime the Company was zero rated for Jersey taxation purposes. Profits arising in the Company for the 2011 year of assessment and future periods will be subject to tax at the rate of 0%. However, withholding tax may be payable on repatriation of assets and income to the Company in Jersey. The Company pays an International Services Entity fee and neither charges or pays Goods and Services Tax, this fee is currently £200 (2010: £100) per annum for each Jersey registered company within the Group.

The subsidiaries will be liable for Turkish corporation tax at a rate of 20%. Additionally, a land sale and purchase fee may arise when land is sold or purchased.

Deferred tax is recognised in respect of all temporary differences that have originated but not reversed at the balance sheet date, where transactions or events that result in an obligation to pay more tax in the future or right to pay less tax in the future have occurred at the balance sheet date. This is subject to deferred tax assets only being recognised if it is considered more likely than not that there will be suitable profits from which the future reversal of the temporary differences can be deducted.

(h) Foreign currency
In these financial statements, the results and financial position of the Group are expressed in Pound Sterling, which is the Group's presentation currency. The functional currency of the Company and Jersey subsidiaries is Pound Sterling; the functional currency for the Turkish subsidiaries is Turkish Lira.

The results and financial position of the entities based in Jersey are recorded in Pound Sterling, which is the functional currency of these entities. In these entities, transactions in currencies other than sterling are recorded at the rates of exchange prevailing on the dates of the transactions. Monetary balances (including loans) and non-monetary balances that are denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date.

The results and financial position of the entities based in Turkey are recorded in Turkish Lira, which is the functional currency of these entities. In order to translate the results and financial position of these entities into the presentation currency (Pounds Sterling):

- non-monetary assets (including inventory) are translated at the rates of exchange prevailing on the dates of the transactions
- monetary balances (including loans) are translated at the rates prevailing on the balance sheet date and
- items to be included in the income statement are translated at the average exchange rates for the year unless the average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions.

Foreign exchange gains or losses are recorded in either the income statement or in equity depending on their nature.

2. Accounting policies (continued)

(i) Share capital

Ordinary shares are classified as equity. External costs directly attributable to the issue of new shares are shown as a deduction to reserves. Any redemption in shares is deducted from ordinary share capital with any transaction costs taken to the income statement.

(j) Critical accounting estimates and assumptions

The Board makes estimates and assumptions concerning the future in the preparation of the financial statements. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates, assumptions and judgements that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are outlined below.

Principal assumptions underlying management's estimation of net realisable value

In reflection of the economic environment and market conditions during the prior year which continued throughout to the financial year end, the frequency of transactions similar to the inventory and apartments on an arms length basis decreased compared to prior periods.

The Board have reviewed the independent valuations that have been provided and believe impairment is necessary to the inventory and the loan receivable. Please refer to notes 10 and 11 for further details.

Critical judgements in applying the Group's accounting policies

The Group did not make any critical accounting judgements during the current financial year.

(k) New standards and interpretations not applied

At the date of the authorisation of these consolidated financial statements, the following statements, standards and interpretations were in issue but not yet effective:

IFRS 9, 'Financial instruments' – classification and measurement' (effective 1 January 2013)
IFRS 10, 'Consolidated financial statements' (effective 1 January 2013)
IFRS 11, 'Joint arrangements' (effective 1 January 2013)
IFRS 12, 'Disclosures of interests in other entities' (effective 1 January 2013)
IFRS 13, 'Fair value measurement' (effective 1 January 2013)
IAS 28 (revised 2011), 'Associates and joint ventures' (effective 1 January 2013)

The Directors anticipate that the adoption of these standards and interpretations in future periods will have no material impact on the financial statements of the Group.

3. Segment reporting

The chief operating decision maker (the "CODM") in relation to the Group is considered to be the Board itself. The factor used to identify the Group's reportable segments is geographical area.
Based on the above and a review of information provided to the Board, it has been concluded that the Group is currently organised into one reportable segment: Turkey.

There are two types of real estate projects within the above segment; these are development land and new build residential property. There are three individual projects held within the development land type and one project in new build residential property. The CODM considers on a quarterly basis the results of the aggregated position of both property types as a whole as part of their ongoing performance review.

Notes to the financial statements (continued)

3. Segment reporting (continued)

The CODM receives regular reports on the Company's assets by the Investment Advisors, Civitas Property Partners S.A. During this financial year Civitas have provided detailed reviews as requested of the Turkish economy and real estate market and also their strategic advice regarding the individual properties listed in the table on page 2. In addition the year end valuations provided by Savills and TSKB are reviewed and reported on by the investment advisor to the Board of Directors.

Other than cash and cash equivalent assets and related interest and charges, the results of the Group are deemed to be generated in Turkey.

4. Management/Advisory fee

	2011	2010
	£	£
Management fee	**311,890**	**600,621**

Civitas Property Partners S.A. ("Civitas") were appointed as Investment Advisors to the Group on 2 December 2009. The advisory fee structure is incentive-based with an annual fixed component of €212,500 as of 1 January 2011, previously €425,000, and an incentive component based on a percentage of realisation value. Civitas were paid £311,890 (2010: £285,683) during the period.

5. Other operating expenses

	2011	2010
	£	£
Legal and professional fees	143,054	96,596
Advisory and consultancy fees	174,471	162,414
Marketing	280	578,445
Travel and subsistence	48,274	70,590
Directors' remuneration	150,000	138,385
Administration fees	80,068	122,099
Audit services	51,200	53,764
Depreciation	3,599	7,247
Amortisation	507	1,455
Other operating expenses	266,542	503,187
	917,995	**1,734,182**

The Group has no employees.

6. Tax

	2011	2010
	£	£
Irrecoverable overseas tax	13,227	-
	13,227	-

This tax represents irrecoverable withholding tax on bank interest. Subsidiary taxation has been included in other operating expenses.

Notes to the financial statements (continued)

7. Earnings per share

(a) Basic
Basic earnings per share is calculated by dividing the loss attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year.

	2011	**2010**
Loss attributable to equity holders of the Company	**(9,021,014)**	**(£2,865,651)**
Weighted average number of ordinary shares in issue	**134,764,709**	**134,764,709**

(b) Diluted
The diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. As the options expired without exercise (see Note 17), the basic and diluted earnings per share are the same.

Both the basic and diluted earnings/(loss) per share are calculated as (6.69) pence (2010: (2.13) pence).

8. Intangible assets

Cost	**£**
At 1 September 2010 and 31 August 2011	10,132
Amortisation	
At 1 September 2010	(7,445)
Charge for the year	(507)
At 31 August 2011	(7,952)
Net book value at 31 August 2011	**2,180**
Net book value at 31 August 2010	**2,687**

The intangible asset relates to computer software, with a useful life of 6 years. There has been no impairment during the year.

9. Plant and equipment

	Furniture and fittings	**Leasehold improvements**	**Total**
	£	**£**	**£**
Cost			
At 1 September 2010 and 31 August 2011	18,246	46,501	64,747
Depreciation			
At 1 September 2010	(12,294)	(44,905)	(57,199)
Charge for the year	(3,399)	(200)	(3,599)
At 31 August 2011	(15,693)	(45,105)	(60,798)
Net book value at 31 August 2011	**2,553**	**1,396**	**3,949**
Net book value at 31 August 2010	**5,952**	**1,596**	**7,548**

Notes to the financial statements (continued)

10. Inventories

	2011	2010
	£	£
Opening book cost	92,474,333	92,494,972
Purchases at cost	1,170,357	321,495
Previously capitalised expenses written off	-	(342,134)
Impairment of inventory	(4,144,485)	-
Closing net realisable value/book cost	**89,500,205**	**92,474,333**

This represents 149,550 square metres of development land on the Bodrum peninsula, 931,739 square metres on the Riva coastline and 209,853 square metres, of which the Group has a 50% share, in the Kazikli village, in the district of Milas. See note 24 regarding the subsequent sale of Kazikli village.

In accordance with the accounting policy in note 2, inventories are stated at the lower of cost and net realisable value. Inventories were valued at the year end by Savills on the basis of market value. On this basis, a total market value of £91.5 million (2010:£91.6 million) has been determined for inventories held by the Group at the balance sheet date. In accordance with the Group's accounting policy, unrealised gains or losses as a result of this valuation have not been recognised in the consolidated income statement.

The impairment above relates to Bodrum. The Directors believe the net realisable value (£20,231,164) at the year end was lower than cost and have therefore impaired the asset accordingly.

11. Loans and receivables

	2011	2010
	£	£
Opening balance	7,470,112	9,014,112
Repayment of loan	(510,654)	(834,294)
Impairment of loan	(2,481,093)	-
Exchange gain/(loss) on revaluation of loans	321,635	(709,706)
Closing balance	**4,800,000**	**7,470,112**

Previously, the third party loan in respect of the investment in the Riverside Resort in Alanya had been made to the developer, Okyapı İnşaat ve Mühendislik ve Özel Eğitim Hizmetleri Sanayi ve Ticaret Limited Şirketi ("Okyapı").

On 3 December 2010, as a means of achieving improved economic benefit for the Group, a fiduciary agreement and a settlement agreement were signed by all relevant parties which resulted in the loan due to the Group (€8,193,091 at the time of signing the agreement) and the titles of the apartments being assigned to Mandalina Yapı Turizm Sanayi ve Ticaret A.Ş. ("Mandalina") for the ultimate benefit of the Group. Mandalina is not a part of the Group (see Note 22 for details relating to the shareholders). In order to further protect the Group's interest in the Alanya apartments, the Group holds signed share transfer letters from the shareholders of Mandalina which may be executed at any time at the discretion of the Directors and would transfer ownership of the shares in the Mandalina from the existing shareholders to the Group.

Notes to the financial statements (continued)

11. Loans and receivables (continued)

The loan has been impaired to reflect the anticipated amount to be received based on the value of the Alanya apartments and future running costs of Mandalina which are deducted from the sales proceeds of the Alanya apartments before being remitted to the Group.

The valuation of the Alanya apartments used by the Directors in the assessment of the recoverability of the loan is based on estimate and subjective judgements that may vary from the actual values and sales prices realised upon ultimate disposal.

12. Foreign currency losses

	2011	2010
	£	£
Translation of cash balances	(98,896)	26,708
Other foreign currency loss	(1,219,745)	(709,706)
Net currency losses	**(1,318,641)**	**(682,998)**

Subsidiary cash balance translations are recognised in the translation reserve. The Company has no accounts in any currency other than Pound Sterling.

13. Investment in subsidiaries – Company

Name	Country of incorporation	Authorised share capital	Issued share capital	Ownership %
Ottoman Finance Company I Limited	Jersey	£10,000	£1	100
Ottoman Finance Company II Limited	Jersey	£10,000	£1	100
Ottoman Finance Company III Limited	Jersey	£10,000	£1	100
Ottoman Finance Company IV Limited	Jersey	£10,000	£1	100
Ottoman Finance Company V Limited	Jersey	£10,000	£1	100
Osmanli Yapi 1	Turkey	YTL 46,146,312	YTL 46,146,312	99.99
Osmanli Yapi 2	Turkey	YTL 188,284,941	YTL 188,284,941	99.99
Osmanli Yapi 3	Turkey	YTL 5,249,584	YTL 5,249,584	99.99
Osmanli Yapi 4	Turkey	YTL 11,249,104	YTL 11,249,104	99.99
Osmanli Yapi 5	Turkey	YTL 14,390,000	YTL 14,390,000	99.99

All of the above companies have been incorporated into the Group accounts.