

THE OTTOMAN FUND LIMITED

Annual Report and Financial Statements

For the year ended 31 August 2012

THE OTTOMAN FUND LIMITED
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 AUGUST 2012

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Chairman's Statement

Dear Shareholders:

Our net asset value per share as at 31 August 2012 was 63.9 pence as compared with 70.6 pence as at 29 February 2012. The primary reason for the reduction in NAV is the distribution of £7.48 million over the period, primarily the proceeds of the Kazikli sale. The 31 August net asset value also reflects write-downs in the carrying values of Riva and Bodrum. As I have explained previously, for each valuation period we retain two appraisers, BNP Paribas (formerly Savills) and TSKB, to each independently appraise the value of our properties. We have historically relied on the Savills valuations for the disclosure in our financial statements and the TSKB valuation as a check on the Savills one. Historically both valuation companies have tended to reach similar conclusions. Over the last two valuation periods, however, the valuations have diverged substantially so we have used an average of the two. We and our local advisors believe that the average of the two valuations most closely approximates what we would expect to realize upon sale or development.

	BNP Paribas 31 August 2012 (\$)	TSKB 31 August 2012 (\$)	Average 31 August 2012 (\$)	Average 31 August 2011 (\$)
Riva	77,500,000	111,050,000	94,275,000	110,675,000
Bodrum	28,800,000	34,640,000	31,720,000	34,536,000
Alanya	6,032,000	6,553,000	6,292,500	9,189,500
TOTAL	112,332,000	152,243,000	132,287,500	154,400,500

An issue we have faced in valuing Riva and Bodrum has been a lack of comparable transactions. For example, until recently the last sale of a substantial plot of Riva land was the Ottoman purchase in 2006. Following the balance sheet date, we have received information that a single buyer purchased several plots totalling 60,000 m² of land approximately 2.5 km from our southern parcel. The transactions were completed at different prices but averaged \$275 m². By contrast, we value our Riva land at \$101 m². Although this land is not entirely comparable with our Riva asset the observable differences do not seem to explain the wide variance. We will see how the valuers take this transaction into account when they complete our February 2013 valuation.

We are well along in negotiations with one of the leading Turkish developers to develop the Riva asset and share in the revenues. Because of language and other issues, the contract negotiation has taken longer than expected. We continue to have serious expressions of interest for the Bodrum asset. Reputable developers and investors in the region have put resources into evaluating the asset but have ultimately backed away for various reasons. Since I wrote you last, we have closed the sale of our interest in Kazikli and received the \$9.5 million we were promised. We also continue to sell units at Alanya, and during calendar year 2012 have sold eleven units with thirty-nine available for sale. Alanya sales were slower this year than last primarily because of issues regarding Turkish legislation, which have now been rectified, and market conditions in Russia.

Demand in Turkey for property assets remains robust. I expect that we will eventually receive fair value for our assets.

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Chairman's Statement (continued)

I look forward to writing again when we release our semi-annual report for the period ended 28 February 2013.

Respectfully yours,
John D. Chapman
Chairman
25 February 2013

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Directors' Report

The Directors submit their Report and the audited consolidated financial statements of The Ottoman Fund Limited (the "Company") and its subsidiaries (together, the "Group") for the year ending 31 August 2012.

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 (2011: nil).

The consolidated statement of comprehensive income is set out on page 8 of this Annual Report and Financial Statements.

On 3 July 2012 the Board announced the return of £4.29 million of capital, approximately 3.18p per share, to shareholders via a capital distribution. On 24 July 2012 the Board announced a further return of £3.19 million of capital, approximately 2.37p per share, to shareholders via a capital distribution (note 17).

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).

Manager

Subsequent to the removal of Development Capital Management (Jersey) Limited as manager of the Company in 2010, management has been internalised at the Board level.

Custodian

Subsequent to the termination of the custody agreement with BNP Paribas (Jersey branch) in 2010, 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.

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Directors' Report (continued)

Shareholders' Interests (as at 31 August 2012)

Size of shareholding (in shares) No. of shareholders

1 – 9,999	24
10,000 – 99,999	12
100,000 – 999,999	10
1,000,000 – 9,999,999	7
10m+	7

At 31 August 2012 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%
QVT Financial LP	25,000,000	18.55%
Toscafund Asset Management LLP	22,551,098	16.73%
QVT Financial LP CFD	18,335,000	13.61%
Lars Bader	10,625,000	7.88%

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 2012 (2011:£150,000). 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 performance fee.

None of the directors have any interests in the Company's share capital. 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.

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Statement of Directors' Responsibilities

The Directors are responsible for preparing the consolidated financial statements in accordance with applicable law and regulations 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 Group and of the profit or loss of the Group 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 Group 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.

The Directors are responsible for keeping accounting records that disclose with reasonable accuracy, at any time, the financial position of the Group 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 Group 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 Secretaries Limited
Secretary
26 February 2013

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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 2012 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 2012, 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.

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

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

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.



Christopher Stuart
For and on behalf of PricewaterhouseCoopers CI LLP
Chartered Accountants
Jersey, Channel Islands
26 February 2013

Notes

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.

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

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Consolidated Statement of Comprehensive Income
For the year ended 31 August 2012

	notes	Year ended 31 August 2012 £	Year ended 31 August 2011 £
Revenue			
Finance income		194,446	153,089
Profit on sale of inventory	10	274,426	-
Profit on sale of joint venture	14	386,897	-
Total revenue		855,769	153,089
Operating expenses			
Management/advisory fee	4	(217,635)	(311,890)
Other operating expenses	5	(755,211)	(904,768)
Inventory impairment	10	(5,817,026)	(4,144,485)
Loan impairment	11	(426,055)	(2,481,093)
Total operating expenses		(7,215,927)	(7,842,236)
Foreign exchange losses	12	(551,657)	(1,318,641)
Loss before tax		(6,911,815)	(9,007,788)
Tax charge	6	(131,022)	(13,227)
Loss for the year		(7,042,837)	(9,021,015)
Other comprehensive income:			
Foreign exchange on subsidiary translation		56,106	(284,154)
Other comprehensive income/(loss) for the year		56,106	(284,154)
Total comprehensive loss for the year		(6,986,731)	(9,305,169)
Loss attributable to:			
Equity shareholders of the Company		(7,042,815)	(9,021,014)
Minority interests		(22)	(1)
		(7,042,837)	(9,021,015)
Total comprehensive loss attributable to :			
Equity shareholders of the Company		(6,986,732)	(9,305,157)
Minority interests		1	(12)
		(6,986,731)	(9,305,169)
Basic and diluted earnings per share (pence)	7	(5.23)	(6.69)

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.

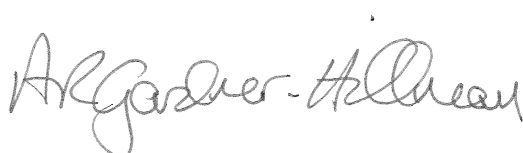
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Consolidated Statement of Financial Position
As at 31 August 2012

	notes	2012 £	2011 £
Assets			
Non-current assets			
Intangible assets	8	1,438	2,180
Plant and equipment	9	2,863	3,949
Inventories	10	78,635,982	89,500,205
Loans and receivables	11	3,870,603	4,800,000
		<hr/>	<hr/>
		82,510,886	94,306,334
Current assets			
Other receivables	15	649,558	944,508
Cash and cash equivalents	20	3,069,128	7,180,340
		<hr/>	<hr/>
		3,718,686	8,124,848
Total assets			
		<hr/>	<hr/>
		86,229,572	102,431,182
Liabilities			
Current liabilities			
Advances received		-	(1,461,165)
Other payables	16	(77,393)	(351,100)
		<hr/>	<hr/>
		(77,393)	(1,812,265)
Net assets			
		<hr/>	<hr/>
		86,152,179	100,618,917
Equity			
Share capital	17	120,003,007	127,483,015
Retained earnings	18	(33,839,300)	(26,796,485)
Translation reserve		(11,540)	(67,646)
		<hr/>	<hr/>
Equity attributable to owners of the parent		86,152,167	100,618,884
Minority interests' equity		12	33
		<hr/>	<hr/>
Total equity		86,152,179	100,618,917
Net asset value per ordinary share (pence)			
	19	63.9	74.7

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 26 February 2013.



Antony Gardner-Hillman



Andrew Wignall

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Consolidated Statement of Changes in Equity

	Share capital £	Retained earnings £	Translation reserve £	Minority interest £	Total £
For the year ended 31 August 2012					
As at 1 September 2011	127,483,015	(26,796,485)	(67,646)	33	100,618,917
Return of capital	(7,480,008)	–	–	–	(7,480,008)
Loss for the year	–	(7,042,815)	–	(22)	(7,042,837)
Foreign exchange on subsidiary translation	–	–	56,106	1	56,107
At 31 August 2012	120,003,007	(33,839,300)	(11,540)	12	86,152,179
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

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

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Consolidated Statement of Cash Flows

	Notes	Year ended 31 August 2012 £	Year ended 31 August 2011 £
Cash flow from operating activities			
Net loss		(7,042,837)	(9,021,015)
Adjustments for:			
Interest		(194,446)	(153,089)
Tax		131,022	–
Depreciation	9	2,092	3,599
Amortisation	8	742	507
Impairment of inventory	10	5,817,026	4,144,485
Impairment of loan	11	426,055	2,481,093
Profit on sale of inventory	10	(274,426)	–
Profit on sale of joint venture	14	(386,897)	–
		<u>(1,521,669)</u>	<u>(2,544,420)</u>
Net foreign exchange losses /(gains)		290,103	(506,904)
Decrease in other receivables		294,950	110,559
(Decrease)/increase in payables		<u>(273,707)</u>	<u>16,048</u>
Net cash outflow from operating activities before interest, depreciation, amortisation and tax		(1,210,323)	(2,924,717)
Finance income received		194,446	153,089
Tax paid		<u>(131,022)</u>	<u>–</u>
Net cash outflow from operating activities		(1,146,899)	(2,771,628)
Cash flow from investing activities			
Advances on sale received		–	1,461,165
Purchase of inventories	10	(7,432)	(1,170,357)
Proceeds on sale of inventories		4,548,240	–
Purchase of plant and equipment		(1,006)	–
Repayment of loan	11	–	510,654
Net cash inflow from investing activities		4,539,802	801,462
Cash flow from financing activities			
Return of Capital	17	<u>(7,480,008)</u>	<u>–</u>
Net cash outflow from financing activities		(7,480,008)	–
Net decrease in cash and cash equivalents		(4,087,105)	(1,970,166)
Cash and cash equivalents at start of the year		7,180,340	9,249,402
Effect of foreign exchange rates	12	<u>(24,107)</u>	<u>(98,896)</u>
Cash and cash equivalents at end of the year		<u>3,069,128</u>	<u>7,180,340</u>

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