

# THE OTTOMAN FUND LIMITED

12 February 2015

Dear Shareholders,

I would like to take this opportunity to address the background to BDO LLP's forensic investigation as well as the primary drivers affecting the Company's ability to complete the return of sale proceeds to shareholders.

On 11 December I received a phone call from Turkey informing me that our local statutory accountants had raised questions about a large invoice our former Chief Financial Officer in Turkey had presented for payment in connection with the sale of the Riva asset and asking whether he was entitled to this payment (he wasn't). The following day I received further information from Turkey that suggested that this invoice was not an isolated event, but the tip of an iceberg. I flew out to Turkey that weekend with my colleague Andrew Wignall, the Chartered Accountant on our board. Andrew and I met with our lawyers, the Turkish affiliate of White & Case, the international law firm, as well as our local accountants, local investment advisor Civitas Property Partners, and Garanti Bank, where both our local subsidiaries and the former Chief Financial Officer had accounts. We also met with the former Chief Financial Officer, who admitted he had taken money but believed he was entitled to it – for reasons that he could not enunciate. While in Turkey and acting with the assistance of our local lawyers and property advisor we located over US\$1 million of embezzled funds in an account our former Chief Financial Officer maintained at Garanti Bank and obtained the return of that money to Ottoman bank accounts.

In late December we retained the forensic division of BDO LLP in London and through them their forensic accounting partner in Turkey to review the books and records of our Turkish subsidiaries to determine amounts taken by our former Chief Financial Officer or paid to legal entities he controlled. BDO determined that a net amount of the Turkish Lira equivalent of US\$1.35 million (at today's exchange rates) had been paid out.

By way of background, our Chief Financial Officer had been introduced to us by our largest shareholder, who had used him on other projects in Turkey. He is experienced in both Turkey and the west and is a fluent English speaker. He is a CPA licensed in the State of New York as well as Turkey. He had been affiliated with one of the large international accounting firms, was a partner at the Turkish office of another international accounting network, and had been a lecturer in accounting at one of the major Turkish universities. In short, he appeared to be the ideal person to run Ottoman's financial operations in Turkey – he was introduced and vouched for by a shareholder with a large stake in the Company; he had first rate credentials and experience; and he had complete fluency in both Turkish and English.

He occupied a position of trust in that he was our Chief Financial Officer on the ground in Turkey, and, in accordance with requirements of the Turkish Commercial Code when he was appointed, as a Turkish

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resident he was a director and shareholder of our Turkish subsidiaries. He abused that position of trust by embezzling – the exact amount is now uncertain because a small portion may have been legitimate business expenses. According to BDO, he took the money by obtaining cash advances using internet banking; these cash advances were matched in the companies' books and records by invoices in respect of services supposedly provided by the former Chief Financial Officer. He also used a credit card in the name of one of the Company's subsidiaries for personal expenses such as international travel and gifts.

The Company had multiple layers of accounting controls, including a local bookkeeper, a local accounting firm – the well-respected Arkan & Ergin JPA International, a Jersey based auditor (PWC Jersey who conducted their audit in conjunction with the Istanbul office of PricewaterhouseCoopers), and our Jersey based administration company. How our former Chief Financial Officer managed to circumvent these controls is now unclear but will likely be uncovered in due course.

## **The Company's Response to the Embezzlement**

We are taking all possible steps to force the return of the Group's money unlawfully taken. Immediately after learning of the embezzlement, we instructed our lawyers in Jersey and London to go to the Royal Court of Jersey and obtain a worldwide freezing order over the wrongdoer's assets. Our lawyers and I worked round the clock to prepare the papers ahead of the Jersey court's closure for Christmas and on 24 December, Christmas Eve, we obtained the freezing order.

Following the Christmas and New Year period, Andrew Wignall, our London corporate counsel, our Jersey administrator and I returned to Turkey. We met again with the former Chief Financial Officer but were unable to reach agreement as to his returning all of the money he had unlawfully taken. We also met with our Turkish civil lawyers, accountants at both Arkan & Ergin and PWC and retained a criminal lawyer to commence criminal proceedings against the former Chief Financial Officer. They are now doing the necessary preparatory work to commence legal proceedings in Turkey to recover money unlawfully taken and prosecute all available criminal sanctions in connection with the matter.

We still have cash in Turkey that we will need to upstream to Jersey so we can dividend it out to shareholders. We are aware that shareholders would like to know exactly what they will likely receive but at this point such questions are premature. We need to restructure our local legal entities to remove the former Chief Financial Officer and to ensure that no one else will have the authority to do what he did. There are complex Turkish tax and legal issues that will need to be resolved before further funds can be upstreamed and paid out as dividends. We and our legal and financial advisors are working on resolving these issues as a matter of urgency but the Turkish legal system and local business practices have many complexities that are unusually time consuming to resolve. I will update you as matters progress and am hopeful that we can publish an updated NAV in connection with the release of our accounts later this month.

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It is unfortunate that the actions of one unscrupulous individual have marred what we as a board have accomplished. Ottoman is one of the few relative success stories in the AIM overseas property sector. In the period I have been Company Chairman, we have realized virtually all of the Company's assets at sensible prices. We have cut expenses by over two thirds as compared with the structure we inherited. Shareholders who bought in the offering, prior to the global financial crisis, will have lost less than if they had invested in many similar companies. Those who bought in following the board changes that installed me as the Company Chairman will have made quite a nice return on their investment. The embezzlement is extremely disturbing but, in financial terms, its impact will likely be limited. We are hopeful that in due course all of the embezzled money that can be recovered will be recovered, the Group's cash will be upstreamed and distributed, and that the wrongdoer will be punished.

I will keep you apprised of our progress.

Very truly yours,



John D. Chapman

Chairman

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