New Europe Property Investments Plc

Directors' report and consolidated financial statements

For the period

from 23 July 2007 (date of incorporation)

to 31 December 2007.

Table of Contents

Company information

New Europe Property Investments PLC

Falcon Cliff, Palace Road
Douglas
Isle of Man IM2 4LB

Company Secretary

Cornelius Eduard Cassell

Directors

The Directors of the company are listed on page 9.

Company subsidiaries

New Europe Property (BVI) Limited
Midocean Chambers,
Road Town, Tortola,
British Virgin Islands

New Europe Property N.V.
Pietermaai 123,
Curacao,
Netherlands Antilles

NE Property Cooperatief U.A.
Schipphol Boulevard 231 Toren B, 5de,
1118BH, Luchthaven Schiphol,
Amsterdam, Netherlands

NEPI Bucharest One SRL
4-8 Nicolae Titulescu St., America House,
3rd floor, District 1
Bucharest, Romania

NEPI Bucharest Two SRL
39 Grigore Mora,
District 1,
Bucharest, Romania

Investment Adviser
NEPI Investment Management Limited
Midocean Chambers
PO Box 805, Road Town,
Tortola, British Virgin Islands

Administrator and Registrar
Maitland Services Limited
Falcon Cliff, Palace Road
Douglas
Isle of Man IM2 4LB

Auditors and Reporting Accountants
KPMG Audit LLC
Heritage Court, 41 Athol Street
Douglas
Isle of Man IM99 1HN

Nominated Adviser and Broker
Smith & Williamson Corporate Finance Limited
25 Moorgate
London EC2R 6AY

Chairman’s report

New Europe Property Investments PLC was incorporated on July 23, 2007 and admitted to the AIM market of the London Stock Exchange on 22 August 2007.

The Company is managed by NEPI Investment Management Limited and invests primarily in the high quality office, retail and industrial property market initially in Romania, although in due course in other Central and Eastern European countries.

The Company’s objective is to enable shareholders to invest in a dividend paying, long term closed-ended fund that could serve as a vehicle for institutional investors seeking exposure to Central and Eastern European investment opportunities offering stable absolute returns and portfolio diversification.

During the short period to 31 December 2007 a number of potential investment opportunities have been identified and considered, and two initial investments were made. Over this period the Group achieved weighted average distributable earnings per share of 2.26 Euro cents equivalent to a 3.2% return on invested capital on an annualised basis. In the circumstances, and given the high level of cash balances, your Board considers this performance to be satisfactory and propose a dividend for the period of 1.24 Euro cents per share. Since the year end the Company has concluded two additional acquisitions. Further details of these transactions are set out in the Directors' report below.

Despite current general uncertainties in markets, your Board consider that the solid foundations that have now been laid, the management team that is in place and the ability to raise further capital should this be desirable have put the Company in a strong position to take advantage of attractive investment opportunities as they arise.

Directors' report

Property Acquisitions

Two investments were made during the four months of operation in the 2007 financial year.

The first acquisition, a portfolio of four properties located in Bucharest, Iasi, Bacau and Brasov, was concluded on October 19, 2007 for a total consideration of €11.8 million. The properties were acquired from Flamingo International SRL and Flanco International SRL at a composite yield of 8.6%. The tenants include US Food Network SA, Aura Gaming International SRL, Banca Comerciala Romana SA (BCR), Piraeus Bank Romania SA and Flanco International SRL. US Food Network SA is the local franchise operator of the KFC fast food chain, Aura Gaming International is a Russian casino operator, BCR is the largest Romanian bank by assets (currently owned by Erste Bank of Austria), Piraeus Bank is part of the Piraeus Bank Group of Greece and Flanco International, the seller of the portfolio, is a large household electronics retailer listed on the Bucharest stock exchange. The lease terms on the properties have a weighted average of 8 years (before break options). The acquisition was funded fully with equity.

The second acquisition, an industrial warehouse and office facility located in Rasnov, was concluded on December 13, 2007 for a total consideration of €15.7 million. The property was acquired from Hi-Lo Sisteme de Depozitare SRL at a composite yield of 7.75%. The tenants include PsiControl Mechatronics, a member of the Picanol Group listed on the Euronext Brussels stock exchange and Hi-Lo, the seller of the portfolio, which is a British local manufacturer of industrial and retail metallic storage systems. The lease term is a weighted average of 13 years (before break options). The acquisition was funded fully with equity.

Further acquisitions

The investment adviser had identified in excess of €100 million worth of additional potentially suitable acquisitions towards the end of the financial period. These acquisitions have been pursued in the first months of 2008 and as at the date of this report, two acquisitions have been completed.

On February 8, 2008 the Group concluded the acquisition of General Investment SRL and General Building Management SRL, together owning a portfolio of buildings in 18 cities in Romania from Oceanis International BV (part of the Avrig Group; Avrig is a shareholder in the Investment Manager) at a weighted yield of 7.6%. The acquisition for a maximum total consideration of €46 million was part funded with a €14 million seven year loan from Eurohypo AG. The portfolio is expected to generate €3.6 million in annual revenue when fully occupied. Raiffeisen Bank SA, the 3rd largest bank (by total assets) operating in Romania, is the main tenant of the portfolio and will account for approximately 55% of the rented area when the portfolio is fully let. The lease agreement with Raifffeisen Bank has 6 years remaining and the tenant has the option to vacate one of the locations by giving 12 months' notice. The remaining office and retail area of the portfolio is rented to various local and international businesses, including fund managers, banks and professional associations. The vendor has provided a 4 year rental guarantee in respect of the tenants other than Raiffeisen Bank.

On April 8, 2008 the Company concluded an agreement for the Group to partner with CIREF Europe Ltd (CIREF) in the acquisition of a portfolio consisting of 6 properties in Germany. CIREF is an investment and development fund, listed on the AIM market of the London Stock Exchange with its primary focus being the UK market, with emphasis on investments and developments in the retail sector. The German portfolio comprises mainly retail and office properties in Leipzig, Bruckmuehl, Eilenberg, Frankfurt, Moelln and Munich. The tenants of the portfolio include the Norma, Rewe and Plus supermarket chains, the Hagebau do-it-yourself store and various medical practitioners. The property in Moelln includes a number of high demand residential units which generate under 4% of the total portfolio's revenue. The properties have a weighted average remaining lease term of approximately 7 years. The total consideration to be paid by the Company for the 50% interest in the portfolio is approximately €16.9 million, of which €14 million will be funded by a seven year bank loan. The net annual rent for the Company's share of the portfolio is expected to be €2.4 million, representing a yield on purchase price of approximately 7.2%.

Results and transfers to reserves

The results and transfers to reserves are shown on pages 14 and 15.

Financial Performance

The Group achieved a weighted average distributable earnings per share of 2.26 Euro cents in respect of the 2007 financial period, representing an annualised return on invested capital of 3.2%. Earnings were diluted by relatively large cash balances held during 2007. However, the cash balances stood the Group in good stead to make the above acquisitions in the early part of the 2008 financial year.

Statutory Information

As at the admission date, the Company had issued 12,877,200 shares at €2 per share resulting in €25.7 million of capital less listing expenses. A further 13,917,800 of shares were issued on December 14, 2007 at €2 per share pursuant to the capital commitments made by the investors at admission date.

Dividend

The Board has decided to declare a dividend of 1.24 Euro cents per share in respect of the 2007 financial period. The declaration is subject to shareholder approval at the annual general meeting scheduled for 13 May 2008 and the dividend payment is expected to take place on 16 May 2008 to shareholders on the register at 2 May 2008.

Prospects

The Group has established a solid foundation, was debt free at year end and is well positioned to take advantage of what it considers to be an improved investor's environment in its markets in 2008.

Directors

The Directors who served during the period and to date were:

Director	Appointment date
Peter Francis Gray - *Non-executive Chairman*	August 14, 2007
Michael John Mills - *Non-executive Director*	August 13, 2007
Dewald Lambertus Joubert - *Non-executive Director*	July 23, 2007
Martin Johannes Christoffel Slabbert - *Non-executive Director*	August 14, 2007
Corneliu Dan Pascariu - *Non-executive Director*	November 26, 2007

Company Secretary

Cornelius Eduard Cassell – appointed July 23, 2007

Director's Interests

Mr. Martin Slabbert, non-executive director, has an indirect beneficial interest in the Company of 197,500 shares subscribed for by his wife, Madeleine Slabbert.

None of the other directors hold a beneficial interest in the Company.

Auditors

Subsequent to the year end, the Auditors, KPMG Audit LLC, were appointed and, being eligible, have expressed their willingness to continue in office.

On behalf of the Board,

Director

Statement of Directors Responsibilities in respect of the Directors' report and the financial statements

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

The financial statements are prepared so as to give a true and fair view of the state of affairs of the Group and Parent Company, and of the profit or loss of the Group for that period.

In preparing these financial statements, the Directors are required to:

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

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Parent Company and to enable them to ensure that the financial statements comply with the Isle of Man Companies Act 2006. They have general responsibility for taking such steps as are reasonable to safeguard the assets of the Group and Parent Company and to prevent and detect fraud and other irregularities.

Report of the Independent Auditors, KPMG Audit LLC, to the members of New Europe Property Investments PLC

We have audited the Group and Parent Company financial statements of New Europe Property Investments PLC for the period ended 31 December 2007 which comprise the Group Income Statement, the Group and Parent Company Balance Sheets, the Group and Parent Company Statements of Changes in Equity, the Group Cash Flow Statement 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. 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 International Financial Reporting Standards are set out in the Statement of Directors' Responsibilities on page 10.

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. 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.

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 2007 and of the Group's profit for the period then ended; and
- the information given in the Directors’ Report is consistent with the financial statements.

Chartered Accountants
Heritage Court
41 Athol Street, Douglas
Isle of Man
IM99 1HN

Balance Sheets

at 31 December 2007		Group	Company
		2007	2007
	Note	**€**	**€**
ASSETS			
Non-current assets		**21,718,364**	**52,777,774**
Investment property	*2.4, 5*	**21,718,364**	**-**
Investment in subsidiaries	*3*	**-**	*
Loans to subsidiaries	*3*	**-**	**52,777,774**
Current assets		**33,793,900**	**393,817**
Trade and other receivables	*4.1, 6*	**142,793**	**148,264**
Cash and cash equivalents	*2.6, 4.5*	**33,651,107**	**245,552**
Total assets		**55,512,264**	**53,171,591**
EQUITY AND LIABILITIES			
Total equity attributable to equity holders		**53,053,519**	**53,075,457**
Share capital	*7*	**267,950**	**267,950**
Share premium	*7*	**52,487,190**	**52,487,190**
Currency translation reserve		**22,633**	-
Retained earnings		**275,746**	**320,317**
Total liabilities		**2,458,745**	**96,134**
Non-current liabilities		**56,767**	**-**
Deferred tax	*10*	**56,767**	**-**
Current liabilities		**2,401,978**	**96,134**
Trade and other payables	*8*	**2,401,978**	**96,134**
Total equity and liabilities		**55,512,264**	**53,171,591**

* less than €1

The Company profit for the year was € 320,317.

The notes on pages 17 to 34 form an integral part of these financial statements.

These financial statements were approved by the Board of Directors on 18 April 2008 and were signed on their behalf by:

Director

Income Statement

for the period ended 31 December 2007

	Note	Group 2007 €
Net rental and related income		**322,017**
Recoveries and contractual rental income	*2.9*	**343,790**
Property operating expenses	*2.10*	**(21,773)**
Administrative expenses	*2.10*	**(243,635)**
Profit before net finance income		**78,382**
Net finance income		**255,362**
Finance income - interest from bank deposits		**255,362**
Earnings before tax	*9*	**333,744**
Tax expense	*10*	**(57,998)**
Earnings after tax		**275,746**
Basic weighted average earnings per share (cents)	*2.15, 11*	**1.88**
Diluted weighted average earnings per share (cents)	*2.15, 11*	**1.88**
Distributable earnings per share	*2.15, 11*	**1.24**

The Directors consider that all results derive from continuing activities.

The notes on pages 17 to 34 form an integral part of these financial statements

Statement of Changes in Equity

for the period ended 31 December 2007

Group

	Share capital €	Share premium €	Currency translation reserves €	Retained earnings €	Total €
Opening balance	-	-	-	-	-
Issue of shares	267,950	53,322,050	-	-	53,590,000
- Issue of 12 877 200 shares on 23 August 2007	128,772	25,625,628	-	-	25,754,400
- Issue of 13 917 800 shares on 14 December 2007	139,178	27,696,422	-	-	27,835,600
Foreign exchange gain	-	-	22,633	-	22,633
Total recognised income and expense	-	(834,860)	-	275,746	(559,113)
- issue costs recognised directly in equity	-	(834,860)	-	-	(834,860)
- profit for the year	-	-	-	275,746	275,746
Balance at 31 December 2007	267,950	52,487,190	22,633	275,746	53,053,519

Company

	Share capital €	Share premium €	Currency translation reserves €	Retained earnings €	Total €
Opening balance	-	-	-	-	-
Issue of shares	267,950	53,322,050	-	-	53,590,000
- Issue of 12 877 200 shares on 23 August 2007	128,772	25,625,628	-	-	25,754,400
- Issue of 13 917 800 shares on 14 December 2007	139,178	27,696,422	-	-	27,835,600
Foreign exchange gain	-	-	-	-	-
Total recognised income and expense	-	(834,860)	-	320,317	(514,543)
- issue costs recognised directly in equity	-	(834,860)	-	-	(834,860)
- profit for the year	-	-	-	320,317	320,317
Balance at 31 December 2007	267,950	52,487,190	-	320,317	53,075,457

The notes on pages 17 to 34 form an integral part of these financial statements

Cash Flow Statement

for the period ended 31 December 2007

	Note	Group 2007 €
Operating activities		
Cash generated from operations	*12*	**2,614,331**
Cash inflow from operating activities		**2,614,331**
Investing activities		
Acquisition of investment property		**(21,718,364)**
Cash outflow from investing activities		**(21,718,364)**
Financing activities		
Raising of capital		**52,755,140**
Cash inflow from financing activities		**52,755,140**
Increase in cash and cash equivalents		**33,651,107**
Cash and cash equivalents at beginning of period		**-**
Cash and cash equivalents at end of period		**33,651,107**
Cash and cash equivalents consist of:		
Current accounts		**33,651,107**

The notes on pages 17 to 34 form an integral part of these financial statements

Notes to the annual financial statements

For the period ended 31 December 2007

1 General

New Europe Property Investments PLC (the Company) is a company incorporated in the Isle of Man on 23 July 2007. The Group includes the Company and its wholly owned subsidiaries as set out under "Basis of consolidation" in note 2.3 below.

2 Accounting policies

The financial statements have been prepared in accordance with applicable Isle of Man law and International Financial Reporting Standards (IFRS). The following principal accounting policies have been applied:

2.1 Basis of preparation

The consolidated financial statements (financial statements) are prepared on the historical-cost basis, except for investment property, derivative financial instruments and financial instruments, designated as financial instruments at fair value through profit or loss, which are measured at fair value.

The financial statements are prepared on the going-concern basis and are presented in Euros (€) unless otherwise indicated.

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under circumstances, the results of which form the basis of making judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or the period of the revision and future periods if the revision affects both current and future periods.

2.2 Statement of compliance

The annual financial statements have been consistently prepared in accordance with IFRS and its interpretations adopted by the International Accounting Standards Board and the requirements of relevant Isle of Man company law.

2.3 Basis of consolidation

Subsidiaries

The Group financial statements incorporate the assets, liabilities, operating results and cash flows of the Company and its subsidiaries. The results of subsidiaries acquired, disposed of or incorporated during the period are included from the effective dates of acquisition or incorporation and up to the effective dates of disposal or the period end.

Subsidiaries are those entities over which the Group has the ability, either directly or indirectly, to govern the financial and operating policies so as to obtain benefits from their activities.
In assessing control, potential voting rights that are presently exercisable are taken into account.

The accounting policies of the subsidiaries are consistent with those of the holding Company.

In the Company's separate financial statements, investments in subsidiaries are stated at cost less accumulated impairment losses.

Transactions eliminated on consolidation

Intragroup balances and any unrealised gains and losses arising from intragroup transactions are eliminated in preparing the consolidated financial statements.

2.4 Investment property

Investment properties are those held either to earn rental income or for capital appreciation or both.

The cost of investment property comprises the purchase price and directly attributable expenditure. Subsequent expenditure relating to investment property is capitalised when it is probable that there will be future economic benefits from the use of the asset. All other subsequent expenditure is recognised as an expense in the period in which it is incurred.

After initial recognition investment properties are measured at fair value. Fair values are determined annually by external independent professional valuators with appropriate and recognised professional qualifications and recent experience in the location and category of property being valued. Valuations are done on the open market value basis and the valuators use either the discounted cash flow method or the capitalisation of net income method or a combination of the methods. Gains or losses arising from changes in the fair values are included in profit or loss for the period in which they arise. Unrealised gains, net of deferred tax, are transferred to a non-distributable reserve in the statement of changes in equity. Unrealised losses, net of deferred tax, are transferred to a non-distributable reserve to the extent that the decrease does not exceed the amount held in the non-distributable reserve.

2.5 Financial instruments

Financial instruments include cash and cash equivalents, investments in property, trade and other receivables, and trade and other payables.

2.5.1 Recognition

Financial instruments are initially measured at fair value, which, except for financial instruments measured at fair value through profit and loss and derivatives, include directly attributable transaction costs.

Subsequent to initial recognition, financial instruments are measured as follows:

Cash and cash equivalents	– Carried at fair value.
Investments	– Designated as available for sale and carried at fair value, being the quoted bid price at the balance sheet date, through profit and loss.
Trade and other receivables	– Stated at amortised cost using the effective interest rate method net of impairment losses.
Trade and other payables	– Carried at amortised cost using the effective interest rate method.
Financial liabilities	– Non-derivative financial liabilities, not at fair value through profit and loss, are measured at amortised cost using the effective interest rate method.

2.5.2 Derecognition

Financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a Group of similar financial assets) is derecognised where:

– the contractual rights to receive cash flows from the asset have expired;

– the Group or Company has transferred its rights to receive cash flows from the asset and either has transferred substantially all the risks and rewards of the asset, or has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. Where an existing liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in profit or loss.

2.5.3 Offset

Financial assets and financial liabilities are offset and the net amount reported in the balance sheet when the Group and/or Company has a legally enforceable right to set off the recognised amounts, and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

2.6 Cash and cash equivalents

Cash and cash equivalents include cash balances, call deposits and short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management, are included as a component of cash and cash equivalents for the purpose of the Cash Flow Statement.

2.7 Share capital and share premium

Ordinary shares are classified as equity. External costs directly attributable to the issue of new shares, are shown as a deduction in equity from the proceeds.

2.8 Other reserves

2.8.1 Currency translation reserves

The consolidated financial statements require translation of foreign operations figures. Exchange differences arising, if any, are classified as equity and transferred to the Group's currency translation reserve.

2.8.2 Retained earnings

The balance on the Income Statement is transferred to retained earnings at the end of each financial period.

2.9 Revenue

Revenue comprises rental income and recovery of expenses, excluding VAT. Rental income from investment property is recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives granted are recognised as an integral part of the total rental income over the lease period.

2.10 Expenses

Property operating expenses and administrative expenses are recognized on an accruals basis.

2.11 Dividend / distribution income

Dividend/distribution income is recognised in the Income Statement on the date the Group or Company's right to receive payment is established.

2.12 Taxation

Taxation on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in profit or loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the Balance Sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the Balance Sheet liability method, based on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the Balance Sheet date.

The following temporary differences are not provided for: goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

The tax expense incurred by the Group reflects income tax incurred on profits from operations in the subsidiary in the Netherlands Antilles and deferred tax accrued in the Romanian subsidiaries of the Group.

2.13 Segmental reporting

On a primary basis, the Group operates in the following geographical areas of Europe:

- Romania

No analysis related to segmented profit and loss information is disclosed, as the Directors are of the opinion that all of the Group's activities currently arise from investment property purchases in a single geographic area. All activities are subject to similar risks and returns.

2.14 Related parties

Related parties in the case of the Group include any shareholder who is able to exert a significant influence on the operating policies of the Group. Directors, their close family members and any employee who is able to exert a significant influence on the operating policies of the Group are also considered to be related parties.

2.15 Earnings per share

The Group presents basic and diluted earnings per share

Basic earnings per share are calculated by dividing profit for the year attributable to equity holders by the weighted average number of shares in issue during the year.

Diluted earnings per share are the same as basic earnings per share, as there are no dilutory instruments in issue.

Distributable earnings per share are calculated by dividing the distributable profit (earnings plus deferred tax) for the period by the number of shares in issue at the end of the period.

2.16 Foreign exchange

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are expressed in Euros using exchange rates prevailing on the Balance Sheet date. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuated significantly during the period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are classified as equity and transferred to the Group's currency translation reserve. Such translation differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

3 Investment in subsidiaries

The Company has an investment of €0.01 in New Europe Property (BVI) Limited, representing one share. The Company also has indirect holdings in the other companies listed in the table below.

	Incorporation	Principal activity	Effective interest 2007	Effective Investment 2007 €	Amount owing by subsidiary 2007 €
Subsidiaries (country of Incorporation)					
New Europe Property (BVI) Limited (British Virgin Islands)	Jul 2007	holding company	**100%**	*****	**52,777,774**
New Europe Property NV (Netherlands Antilles)	Sep 2007	holding company	**100%**	**2,000**	**-**
NE Property Cooperatief U.A. (Netherlands)	Oct 2007	holding company	**100%**	**10,000**	**-**
NEPI Bucharest One SRL (Romania)	Sep 2007	investment vehicle	**100%**	**3,844,554**	**-**
NEPI Bucharest Two SRL (Romania)	Dec 2007	investment vehicle	**100%**	**2,755,554**	**-**

* Less than €1

The amounts owing by subsidiaries are unsecured, bear interest at rates agreed from time to time and terms of repayment have not been determined.

4 Financial risk management and financial instruments

The Group has exposure to the following risks from its use of financial instruments:

- credit risk
- liquidity risk
- market risk
- currency risk

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital.

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The Board has delegated the responsibility for developing and monitoring the Group's risk management policies to the Audit Committee. The Committee reports to the Board of Directors on its activities. The Group Audit Committee 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 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.

4.1 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, and arises principally from the Group's receivables from tenants. As at year end a large cash balance was held on deposit with Banca Romaneasca due to a favorable deposit rate offered to the Group. Banca Romaneasca is the 12th largest bank by assets operating in Romania and is part of the National Bank of Greece group, the largest financial group in Greece, with a Fitch rating of BBB+. The deposit has been substantially repaid subsequent to the year end as the funds were required to make payment for acquisitions outlined elsewhere in this report.

Trade and other receivables
The Group's exposure to credit risk is influenced mainly by the individual characteristics of each tenant. The Group's wide-spread customer base reduces credit risk. The majority of rental income is derived from retail properties situated in Romania, but there is no concentration of credit risk.

Management has established a credit policy under which each new customer is analysed individually for creditworthiness before the Group's standard payment terms and conditions are offered. When available, the Group's review includes external ratings.

Trade and other receivables relate mainly to the Group's tenants and deposits with municipalities. In monitoring customer credit risk, customers are grouped according to their credit characteristics, including whether they are an individual or legal entity, industry, size of business and existence of previous financial difficulties.

The Group establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables and investments. The main components of this allowance are a specific loss component that relates to individually significant exposures.

Guarantees
The Group's policy is to provide financial guarantees to subsidiaries to the extent required in the normal cause of business.

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

	Group
	2007
	€
Trade and other receivables	142,793
Cash and cash equivalents	33,651,107
	33,793,900

The ageing of all trade receivables at the reporting date was less than 60 days and all are assessed as being low risk.

	Group
	2007
Aging of receivables / Past due but not impaired:	**€**
0-30 days	135,554
30-60 days	7,238
	142,793

The Group believes that no impairment allowance is necessary in respect of trade receivables as a comprehensive analysis of outstanding amounts is performed on a regular basis.

4.2 Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The Group receives rental income on a monthly basis. Typically the Group ensures that it has sufficient cash on demand to meet expected operational expenses; this excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters.

The contractual cash flows of financial liabilities are considered to be equal to the carrying amount. The Contractual maturities are all considered to be within 6 months or less.

4.3 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 holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

4.4 Currency risk

The Group is subject to currency risk on cash and other assets and liabilities that are denominated in foreign currencies as follows:

	GBP	RON
	€	€
Cash and cash equivalents	2,040	3,950
Trade and other receivables	-	110,374
Trade and other payables	44,159	374,226

Sensitivity analysis

A 10 percent strengthening of the Euro against the following currencies at 31 December would have increased / (decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant.

	Equity	**Profit or Loss**
31 December 2007	**€**	**€**
RON	7,199	7,199
GBP	5,728	5,728

A 10 percent weakening of the Euro against the above currencies would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

4.5 Interest rate risk

The Group is subject to interest rate risk on the cash balances held. At the reporting date, the interest rate profile of the Group's interest bearing financial instruments was:

	Group 2007 €	**Interest rate %**
Cash	951,107	0.00%
Deposit with Banca Romaneasca	32,700,000	4.89%
Total cash and cash equivalents	**33,651,107**	

Sensitivity analysis for interest bearing financial instruments

A change of 100 basis points in interest rates at the reporting date would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

	profit or loss 100bp inrease	**profit or loss 100bp decrease**	**equity 100bp inrease**	**equity 100bp decrease**
	€	**€**	**€**	**€**
Cash and cash equivalents	76,930	(76,930)	76,930	(76,930)

4.6 Capital management

The Board’s policy is to maintain a strong capital base of equity so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Board of Directors also monitors the level of distributions to shareholders. Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

4.7 Fair values

The fair values of all financial instruments are substantially the same as the carrying amounts reflected on the Balance Sheet.

5 Investment property

	Group 2007 €
Carrying value at beginning of period	-
Additions	21,152,231
Capitalised expenditure	566,133
Disposals	-
Revaluation adjustment	-
	21,718,364

No investment property is held by the Company.

Investment property is carried at fair value. As the properties were purchased close to the period end, the cost of these is deemed to be the fair value, with no requirement for an independent valuation so soon after purchase.

The Group's investment properties at the end of the reporting period included office, retail and industrial properties.

A register of investment property is available for inspection at the registered office of the Company.

There are no restrictions on the ability of the Group to realise its investment property.

6 Trade and other receivables

	Group 2007 €	Company 2007 €
Arrears and other receivables	142,793	-
Interest receivable	-	146,398
	142,793	**146,398**

7 Share capital and share premium

	Group 2007 €	Company 2007 €
Authorised		
150 000 000 ordinary shares of € 0.01 each	**1,500,000**	**1,500,000**
Issued		
26 795 000 ordinary shares at € 0.01 each	**267,950**	**267,950**
Share premium	**52,487,190**	**52,487,190**

The Ordinary Shares carry the right to vote at general meetings, the right to dividends, and the right to the surplus assets of the Company on a winding-up.

The Ordinary Shares carry pre-emption rights as well as transfer rights as indicated in the Company's Admission Document published at the time of admission to the AIM Market of the London Stock Exchange.

8 Trade and other payables

	Group 2007 €	Company 2007 €
Investment property (retentions from purchase price)	1,965,383	-
Investment property - acquisition related expenses	180,658	-
Prepaid rentals / deposits	73,410	-
Accrued management fees	33,804	-
Accrued recoverable property expenses	20,471	-
Accrued expenses	127,021	96,134
	2,401,978	**96,134**

9 Earnings before tax

	Group 2007 €
Operating lease income	**343,790**
Earnings before tax is stated after charging the following:	
Auditors' fee	**36,598**
Directors' remuneration	**36,407**
Investment adviser fees	**101,528**

10 Income tax expense

	Group 2007 €
- current tax current year	1,231
- deferred tax	56,767
	57,998

Reconciliation of tax rate

	Group 2007
Profit before tax	333,744
Isle of Man income tax at 0%	-
Effect of higher rates on overseas earnings	1,231
Total charge per income statement	1,231
Effective tax rate	**0.4%**

The tax expense incurred by the Group reflects income tax incurred on profits from operations in the subsidiary in the Netherlands Antilles and deferred tax accrued in the Romanian subsidiaries of the Group. A deferred tax liability of €56,767 has been recognised due to the temporary differences between the carrying amount of investment property recorded in these statements and the amount in the statutory accounts of the Romanian subsidiaries of the Group.

11 Earnings per share

The calculation of basic and diluted earnings per share at 31 December 2007 was based on the profit attributable to equity holders of € 275,746 and a weighted average number of ordinary shares outstanding of 14,686,514.

Diluted earnings per share are the same as basic earnings per share, as there are no dilutory instruments in issue.

The weighted average number of shares is based on the following information:

Date	Event	Number of shares	% of period	Weighted average
23/08/2007	share issue	12,877,200	87%	11,203,164
14/12/2007	share issue	26,795,000	13%	3,483,350
31/12/2007	period end			14,686,514

The calculations for weighted distributable earnings per share and distributable earnings per share are based on the profit distributable to equity holders plus deferred tax, as indicated below.

Earnings after tax	275,746
Deffered tax	56,767
Distributable earnings	332,514
Weighted average number of shares during the period	14,686,514
Weighted average distributable earnings per share (cents)	**2.26**
Number of shares in issue at end of period	26,795,000
Distributable earnings per share (cents)	**1.24**

12 Notes to the cash flow statement

Cash generated from operations

	Group 2007 €
Profit before income tax	**333,744**
Adjusted for:	
Currency gain on investment property	**22,633**
Corporate tax charge	**(1,231)**
	355,146
Changes in working capital	
Increase in trade and other receivables	**(142,793)**
Increase in trade and other payables	**2,401,978**
	2,614,331

13 Operating lease rentals

Contractual rental income from tenants can be analysed as follows:

	Group 2007 €
Within one year	2,119,063
Within two to five years	8,864,610
More than five years	12,040,281
	23,023,954

The figures presented above include contractual rental revenues up to the first break option of the tenants. For the lease contracts stipulating rent escalation according to the Euro Consumer Price Index, an estimate of 1.8% annually was used for the purposes of the calculation.

14 Subsequent events

Subsequent to year end the Company completed two further transactions, as detailed below.

Acquisition of two companies holding a portfolio of 18 properties in Romania

The Group has concluded a sale and purchase agreement to acquire two companies for a maximum consideration of approximately €46.3 million, namely General Investment SRL and General Building Management SRL ("the Property Companies"), which together own a portfolio of 18 properties, situated in various cities in Romania. The buildings comprise 47,379m2 of lettable space, of which 32,352m2 is currently subject to rental contracts, as well as 4,800m2 of space which is currently under refurbishment. The vendor is responsible for the costs of refurbishment and has granted extensive income and rental warrantees over 36 and 48 month periods respectively. Assuming vacant space and space currently under renovation is fully rented, the annual net operating income generated by the properties is expected to be approximately €3.6 million, the equivalent of a purchase yield of 7.78%.

For the year ended 31 December 2007, the Property Companies made a loss of approximately €0.7 million in accordance with statutory Romanian accounting standards and the aggregate net asset values of these companies under Romanian accounting principles as at 31 December 2007 was approximately €9.85 million.

The vendor of the companies was Central Eastern European Real Estate Shareholdings BV, part of the Avrig 35 Group ("Avrig"). Avrig is also a 20% shareholder in the Company's investment adviser and one of Avrig's directors is also a director of the Company's investment adviser. Only the independent directors of the Company's investment adviser advised the Company on the transaction. Dan Pascariu, one of the Company's directors, is also a minority shareholder in Avrig 35. Mr Pascariu did not participate in the Board discussions on the transaction and abstained from voting on the transaction.

The final purchase price payable is dependent on the net rental income generated by the properties. Of the total debt free purchase price of approximately €46.3, an amount of €42.3 million was payable on completion and the balance is payable on the satisfaction of certain conditions being met by the vendor. Of the consideration paid on completion, approximately €14 million was funded by a seven year loan from Eurohypo AG bank to General Investment SRL, and the balance of €28.3 million from the Company's existing cash resources. The deferred element of the consideration payable of approximately €4 million will be met using either the Company's own cash resources or bank finance which the Company is confident it will be able to obtain prior to such deferred consideration becoming due.

There is uncertainty as to the ownership status of the property in Constanta. The Company has a put option against the vendor to sell the Constanta property to the vendor should the ownership issue not be resolved by 31 December 2008.

The effective date of the transaction was 1 January 2008.

A 50% partnership in the acquisition of two companies holding a portfolio of 6 properties in Germany

The Company has concluded an agreement for the Group to acquire 50% of a portfolio comprising four retail centres, a medical office facility and a mixed use retail and residential property (the "Portfolio") for a total consideration of €16.9 million, net of acquisition costs and including €14.9 million of debt (of which approximately €0.9 million is vendor finance).

The retail centres are situated in Leipzig, Bruckmuehl, Eilenberg and Frankfurt (all in Germany). The shopping centre in Leipzig has a total site area of 12,712 sq m with a total lettable area of 5,864 sq m with 300 parking bays. The Bruckmuehl property has a total site area of 15,941 sq m and the building has a total lettable area of 5,899 sq m with 200 parking bays. The Eilenberg property has a total site area of 15,000 sq m and the building has a total lettable area of 3,727 sq m with 200 parking bays. The Frankfurt property has a total site area of 1,652 sq m and lettable area of 1,093 sq m. The medical centre is located in Munich in Germany - the six storey building has a total site area of 491 sq m with a total lettable area of 2,360 sq m. The mixed retail and residential property is located in Moelln and has a site area of 10,111 sq m, a lettable area of 5,510 sq m and 150 parking bays.

The vendor has agreed to provide an interest free loan by deferring payment of €1.7 million of the purchase price for 100% of the Portfolio (i.e. approximately €0.9 million of the price payable by the Company) for a period of five years. The balance of the price payable by the Company will be paid to the vendor in cash, funded in part by a seven year loan of €14 million from Nord LB, with the remainder of the consideration being paid from the Company's existing cash resources. The total net annual rent for the Portfolio is expected to be approximately €2.4 million (the Company's share therefore being €1.2 million), representing a yield on purchase price of approximately 7.22%.

The Directors are not aware of any other events subsequent to 31 December 2007, not arising in the normal course of business, which are likely to have a material effect on the financial information contained in this report, other than as disclosed herein.

15 Accounting estimates and judgements

The Company's management, represented by the Investment Adviser discusses with the Audit Committee the development, selection and disclosure of the Group's critical accounting policies and estimates and the application of these policies and estimates.

The impairment of tenant arrears requires judgement as to the recoverability of the arrears.

16 Related party transactions

Identity of related parties with whom material transactions have occurred

The subsidiaries and Directors are related parties. The subsidiaries of the Company are identified on page 5. The directors are set out on page 9.

Material related party transactions

Loans to subsidiaries are set out in note 3.

Remuneration paid to directors is set out in the table below.

Director	Payment for the Period €
Peter Francis Gray - *Non-executive Chairman*	13,037
Michael John Mills - *Non-executive Director*	10,665
Dewald Lambertus Joubert - *Non-executive Director*	10,665
Martin Johannes Christoffel Slabbert - *Non-executive Director*	0
Corneliu Dan Pascariu - *Non-executive Director*	2,040
	36,407

17 Ultimate controlling party

The Company is owned by 22 shareholders, the 9 most significant shareholders being detailed below.

Shareholder	**number of shares**	**% of total**
Diversified Properties 2 (Pty) Ltd	7,392,500	27.6%
Capital Property Fund	6,155,000	23.0%
The Suni Trust	1,725,000	6.4%
Optimprops 3 (Pty) Ltd	1,477,500	5.5%
Cobernet Properties (Pty) Ltd	1,477,500	5.5%
RCG Trade & Finance (Pty) Ltd	1,477,500	5.5%
Chataprop Holdings 50 (Pty) Ltd	1,477,500	5.5%
Total	**21,182,500**	**79.0%**

18 Standards and interpretations not yet effective

The relevant Standards and Interpretations that are not yet effective for December 2007 year-ends are identified in the table below, together with the dates on which these were issued by the IASB and the APB respectively:

	Standard/Interpretation	**Effective date**	**Applicable to NEPI Plc**
IAS 1	Presentation of Financial Statements	Annual periods commencing on or after 1 January 2009*	Yes
IAS 23	Borrowing Costs	Annual periods commencing on or after 1 January 2009*	No
IFRS 8	Operating Segments	Annual periods commencing	Yes

		on or after 1 January 2009*	
IFRIC 11	IFRS 2 – Group and Treasury Share Transactions	Annual periods commencing on or after 1 March 2007	No
IFRIC 12	Service Concession Arrangements	Annual periods commencing on or after 1 January 2008	No
IFRIC 13	Customer Loyalty Programmes	Annual periods commencing on or after 1 July 2008	No
IFRIC 14	IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction	Annual periods commencing on or after 1 January 2008	No
*All standards and interpretations will be adopted at their effective date			

The directors are of the opinion that the impact of the application of the Standards and Interpretations will be as follows:

IAS 1

The revised IAS 1 will be adopted by New Europe Property Investments Plc for the first time for its financial reporting period ending 31 December 2009.

The Group will present all non-owner changes in equity in a single statement of comprehensive income (which will include the current income statement) and owner changes in equity in the statement of changes in equity.

Reclassification adjustments and income tax relating to each component of other comprehensive income will be disclosed on the face of the statement of comprehensive income. Currently these components are investment revaluation reserve and the foreign currency translation reserve.

IFRS 8

IFRS 8 will be adopted by New Europe Property Investments Plc for the first time for its financial reporting period ending 31 December 2009.

In terms of this IFRS, segment reporting will be based on the information that management uses internally for evaluating segment performance and when deciding how to allocate resources to operating segments.

The operating segments of New Europe Property Investments Plc are the same as the current business segments based on IAS 14.

The accounting policies of these operating segments are the same as those described in the summary of significant accounting policies.