

STIRLING MORTIMER PROPERTY FUND  
PCC LIMITED

MAJESTIC VILLAGE No 2 FUND

INTERIM REPORT AND UNAUDITED  
FINANCIAL STATEMENTS

FOR THE PERIOD ENDED 31 DECEMBER 2008

# STIRLING MORTIMER PROPERTY FUND PCC LIMITED

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# STIRLING MORTIMER PROPERTY FUND PCC LIMITED

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# STIRLING MORTIMER PROPERTY FUND PCC LIMITED

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## CHAIRMAN'S STATEMENT

I am pleased to present the interim report and unaudited financial statements of Stirling Mortimer Property Fund PCC Limited (the "Company") for the period ending 31 December 2008. This report covers the Company's cell Majestic Village No 2 Fund (the "Fund") relating to the developments at El Mirador de la Heredia and Majestic Village Casares.

### HIGHLIGHTS

- Net assets as at 31 December 2008 €16.90 million (30 June 2008: €17.05 million), down 0.89% in the period;
- Loss for the period ended 31 December 2008 €(0.15) million (30 June 2008 €(0.42) million);
- Significant downturn in Spanish property markets. Independent valuation of underlying properties down by 27% but Investments protected by Developer guarantees in place;
- Developments on schedule for 2010 Completion. However, as a result of the development timeframes now in place, the life of the Fund has been extended to 31 December 2010.

### ECONOMIC ENVIRONMENT

The past few months have continued to be challenging for the Spanish Property market. The "credit crunch" has continued to deliver poor global economic conditions which continue to make the re-sale of the Fund's "right to purchase" (RTP) contracts difficult. This is further hindered by the weakening of Sterling against the Euro that currently has the effect of making Spanish properties more expensive to UK buyers.

The Board visited the developments in February 2009 to check on progress and meet with the sales team responsible for disposing of the RTPs. There is no question that the sites into which the Fund has invested are well located and are not only being constructed to a high quality but are different to the vast majority of developments in the area increasing, their appeal. The Board took the opportunity to visit comparable sites to check our own pricing structure against our competition. We found that our sites are not only competitively priced but also appear to offer better value for money. Our site at Dona Julia overlooks the Finca Cortesin Golf Club that will stage the Volvo World Matchplay Golf Tournament for the next three years and we hope that this will increase the profile of the area and in turn lead to more property sales. We compared the prices at Finca Cortesin which is a development of villas and townhouses and provides an opportunity to purchase hotel suites. As a comparison, a one bedroom hotel suite is currently being marketed for €800,000 as opposed to Dona Julia where the two and three bedroom townhouses start at €550,000 and arguably have a better view.

The show home for our sites has now been completed and this has enabled the Property Manager to increase the marketing of the RTP contracts. The majority of buyers need to be able to see a finished property before they will purchase and therefore the show home is an essential ingredient in this re-sale process and we are hopeful that this will trigger sales.

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The Board has recently held meetings with Savills with a view to instructing them to complete the valuation of the sites in June this year. We hope that this appointment will enable the accounts to be produced and distributed in a timely fashion this year.

The Board is conscious that the only communication to the investors comes in the form of the annual report and financial statements and these interim accounts. We are currently looking at ways of providing a greater level of detail about the progress of the sites and hope that this will include supplying DVDs that will show the developments.

Whilst the aim of the Fund remains that of re-selling the RTP contracts for profit during the construction process, the Board would like to point out that there are increasing difficulties in meeting that objective, however, we are cautiously optimistic that the markets will improve towards the end of 2009.

## **RESULTS**

The interim financial statements of the Fund for the period to 31 December 2008 show the net asset value of the Fund at €16.90 million.

**Catharine Walter**

29 April 2009

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## DIRECTORS' REPORT

The Directors submit their report and the unaudited interim financial statements for the period to 31 December 2008.

### **STRUCTURE OF COMPANY**

Stirling Mortimer Property Fund PCC Limited (the "Company") was incorporated on 7 April 2006 as a closed-ended investment company with limited liability under the Companies (Guernsey) Law, 1994 and as a protected cell company under The Protected Cell Companies Ordinance, 1997 to 1998 (as amended). Consent under the Control of Borrowing (Bailiwick of Guernsey) Ordinances 1959 to 1989 was granted on 19 April 2006 for the establishment of the Company as a closed-ended investment fund. The Company is a Qualifying Investor Company as defined in the Guidance Document issued by the Guernsey Financial Services Commission dated February 2005 and updated on 3 April 2006.

### **ACTIVITIES**

The principal activity of the Company is that of a closed-ended investment fund with limited liability.

### **RESULTS**

The results for the year are shown in the income statement on Page 23.

### **DIVIDENDS**

The Directors do not recommend the payment of a dividend, to the ordinary shareholders, from the results of unaudited interim financial statement for the period ended 31 December 2008.

### **DIRECTORS**

The Directors of the Company during the year were as stated on Page 3.

### **DIRECTORS' RESPONSIBILITIES**

The Directors are required by the Companies (Guernsey) Law, 1994 to prepare financial statements for each financial period 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 and are in accordance with applicable laws. In preparing these financial statements, the Directors are required to:

- Select suitable accounting policies and then apply them consistently on a cellular basis;
- Make judgements and estimates that are reasonable and prudent;
- State whether applicable accounting standards have been followed subject to any material departures disclosed and explained in the financial statements; and
- Prepare the financial statements on an on-going concern basis, unless it is inappropriate to presume that the Company will continue in business.

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The Directors are responsible for keeping proper accounting records which disclose, with reasonable accuracy, at any time, the financial position of the Company and to enable them to ensure that the financial statements comply with The Protected Cell Companies Ordinance, 1997 to 1998 (as amended) and the Companies (Guernsey) Law, 1994. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud, error and non-compliance with laws or regulations.

The Directors confirm that they have complied with the above requirements in preparing the interim financial statements.

## **AUDITORS**

A resolution to re-appoint BDO Novus Limited as auditors of the Company was passed at the Annual General Meeting in 2009. BDO Novus have confirmed their willingness to continue in office.

### **Catharine Walter**

DIRECTOR

Date: 29 April 2009

Heritage Hall

Le Marchant Street

St Peter Port

Guernsey

### **Mark N. Huntley**

DIRECTOR

# STIRLING MORTIMER PROPERTY FUND PCC LIMITED

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## PROPERTY MANAGER'S REPORT

### **Overview**

Cell 2 of the Stirling Mortimer Property Fund PCC Limited has invested in "right to purchase" (RTP) contracts on the Majestic Village Casares and El Mirador de la Heredia projects.

Global property markets suffered during 2008 and the Spanish market has been particularly hard hit. The property market in Southern Spain is experiencing oversupply and a re-adjustment of pricing levels, though the impact of increased levels of tourism and demand for holiday rental properties should have a positive effect on the property market in the medium to longer term.

Tightening of lending requirements and heightened restrictions on property valuations have led to an impact from the global "credit crunch" in Spain. This was reflected in the valuations carried out on the Cell's portfolios which show the property portfolio to have lost value overall. The above factors combined have made re-sales incredibly difficult. It is hoped that the extensions of the Cell's lifespan will mean that the effects of the difficult market will be negated over time.

The Spanish government has actively responded with policies to address both the downturn in the economy and housing sector in Spain, however, as with all policies a noted effect will take time to filter through to the wider economy.

Whilst imminent growth in the housing market is not expected, market stabilisation is envisaged to occur in the second half of 2009. Spain entered a housing downturn in advance of a number of other key European countries. It is the Property Manager's opinion that recovery will thus start occurring over 2009, particularly within the niche sectors of the marketplace.

Ultimately, the reasons that Spain became one of the most popular tourist destinations in the World still exist and it is hoped that these reasons, combined with the nature of the properties invested into by the Cell, will enable its outcome to be more positive than that which the current situation would reflect.

On Monday 9 February 2009 members of the Board visited a number of sites in the Casares area of the Costa del Sol. They visited the sites into which the Cell invested, in addition to a number of comparable projects.

The expansion of marketing activity to focus on a number of Northern European and International markets will not only broaden the potential target audience but generate interest from a number of different countries and related economies, with the intention of benefitting from extended levels of credit conditions. In addition, the pending opening of local sales and marketing suites on the relevant projects is forecast to dramatically strengthen the potential for sales.

### **1. The Economy**

Cited as already officially being in recession in early 2009 (its first since 1992-93), Spain is likely to experience a significant rise in unemployment from its current base of 14% or three million. Spain's government has countered earlier claims of inaction with a flurry of initiatives.

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Government policy underwent a marked shift in focus at the end of 2008, in response to the escalating global credit crisis and increasing evidence that the Spanish economy is heading further into recession. This shift coincides with the decision of the Prime Minister, José Luis Rodríguez Zapatero, to assume more direct control of economic policy and to abandon the characteristically cautious approach of the Finance Minister, Pedro Solbes.

The government has announced a flurry of new initiatives aimed at reviving credit flows to the economy and boosting demand via increased public sector spending. Even so, the severe economic downturn is expected to continue through at least most of 2009, with economic policy remaining in crisis management mode for the foreseeable future.

Following the creation of a bank stabilisation programme in October 2008 at a potential cost of €150bn (15% of GDP), the Spanish Socialist Workers' Party (PSOE) government has announced three separate emergency economic packages. These have included measures aimed at easing the economic impact of the negative performing housing market and rising unemployment, with a two-year moratorium on 50% of mortgage payments for those made unemployed and an extended tax exemption period for reinvested capital gains on house sales.

In November 2008, the government also announced that the Official Credit Institute (OCI) will use a new credit facility of €10bn to meet the short term financial needs of "solvent and viable" small and medium-sized businesses, which are suffering shortages of working capital as a result of the credit squeeze. The main business confederation, the Confederación Española de Organizaciones Empresariales (CEOE), has identified this lack of access to capital as the most serious problem affecting the Spanish economy at present (similar concerns are being increasingly voiced in the UK).

The third stimulus measure - a fiscal package worth €11bn - sees the creation of a €8bn fund to support local government investment schemes, with a further €3bn earmarked in aid for specific industrial sectors and projects. This includes €800m for the automotive industry, €500m for environmental projects, €500m for research and development, and €400m to upgrade police and civil guard stations. The central government has also loosened its fiscal framework by allowing local governments to increase their permitted budget deficits from 0.05% of GDP to 0.5% of GDP, thus facilitating the injection of a further €5.8bn into the economy.

The recent stimulus measures follow on from an already expansionary 2009 budget, which provides for a rise in spending on public infrastructure investment, public sector wages, unemployment benefit payments and housing subsidies. According to the Economist Intelligence Unit's latest forecast, this will lead the general government deficit doubling to more than 7% of GDP next year, as revenue is eroded as a result of the cyclical downturn. However, on a European comparison, Spanish public debt still stands at a relatively favourable level.

The latest forecasts from the Economist Intelligence Unit have Spain's real GDP contracting by 1.7% in 2009. Already slowing rapidly, private consumption will decline in 2009, as highly indebted households are forced to retrench. Factors that will negatively impact on purchasing power and sentiment include rising unemployment, the negative wealth effect of declining house prices and equity values, and concerns about the banking system.

Fixed investment will fall back sharply over the next two years, as house building activity drops in the face of a large surplus of unsold homes, providing some comfort in limiting the levels of short to medium term supply and allowing absorption of the excess surplus.

<sup>1</sup> From the Economist Intelligence Unit ViewsWire, 18 December 2008

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## 2. Infrastructure

Malaga has also been nominated for European Culture Capital, a campaign which is being supported by every sector of the economy, and has resulted in increased levels of investment in infrastructure and services. Fortunately, Malaga has a wide variety of features to support its aspirations including the now completed new cruise ship terminal in the heart of the city.

Expansion of Malaga airport is underway with the construction of a new terminal, enabling it to handle 9,000 passengers every hour, and more than 20 million passengers a year at the end of 2008<sup>2</sup>. This action included construction of a new train station, bus station and a new road network. In addition, the new Viala Maria Zambrano train station for AVE high speed trains to Madrid has opened, shortening travel time to just over two hours and is now in full use.

The station, which opened during Quarter 3 2007, includes various amenities and shopping facilities. The popularity of the AVE train service is massively increasing, with passenger numbers in December 2008 increasing 246% on the previous year.

The Spanish government aims to have 10,000km (6,200 miles) of high-speed track in Spain by 2020, and has planned that 90% of the population will be no more than 30 miles from a station through which the train passes, helping improve the accessibility of coastal resorts for domestic tourism<sup>3</sup>.

The construction of a new motorway from the Costa del Sol to Seville is planned and the San Pedro underpass is under construction during 2009, this 1km underpass will alleviate a historical bottleneck of traffic between Marbella and Estepona. Upon completion, this project will have a beneficial impact on access to the municipalities of Estepona and Casares.

Unfortunately, whilst efforts to improve the infrastructure in the area continue, it has yet to counter the downturn in the market. It is hoped, however, that the efforts that have been put in by the Spanish authorities to date will help the market to recover faster than it would have otherwise.

## 3. Tourism

The number of passengers arriving in Malaga has increased in the period between 2007 and 2008 by flights, trains and cruise ships.

The comparison figures for December 2007 and December 2008 showed an overall passenger increase of 8.86%, with an increase of 17,146 foreign travellers arriving to Malaga airport. Passengers from the EU increased by 11.49%, while Spanish passenger numbers increased by 4.14%, and international passenger numbers increased by 2.31%.

Passengers arriving in Malaga on other forms of transport also increased, with a dramatic rise in train passengers due to the opening of the AVE high speed connection. The number of train passengers arriving in Malaga increased by 245.8% between December 2007 and December 2008.

Cruise ship passenger numbers to Malaga also increased from the 2007 figures by a total of 20.92%, and the number of cruise ships to Malaga port also increased by 11.67%.

<sup>2</sup> [www.aena.es](http://www.aena.es) - Airport Expansion Promotional Document, 2008

<sup>3</sup> <http://www.guardian.co.uk/world/2008/feb/02/spain.railtravel> - 2 February 2008

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Increasing numbers of visitors to Malaga are opting to stay in privately rented apartments, with an increase in figures from visitors staying in this type of accommodation between December 2007 and December 2008 with an increase of 1,788 visitors for that month alone.

## **4. Real Estate Marketplace**

Standard & Poor's has said it expects house prices in Spain to fall 30% from peak to trough and may not hit bottom until 2010. However, house price adjustment in the Spanish marketplace began relatively earlier than in a variety of European markets.

In contrast to the last downturn during the 1993-95 recession, the stock of unsold new homes could touch a daunting 1.5 million by the end of 2009, surveyors Tinsa estimate. Spanish banks are returning to property ownership to avoid loading more bad loans on to their balance sheets but the strategy is risky and unlikely to be as profitable as their real estate buying spree 15 years ago. Spain's eight biggest banks formed or resurrected property wings in 2008 that have bought up €7.8bn (£6.9bn) worth of property from struggling home-owners and developers.

The main threat to Spanish banks has come not from the toxic U. S. mortgage debt that has poisoned American and British institutions, but a rapidly deepening recession propelling their bad loan rate to an expected 7% this year and 9% in 2010 from 2.8% last October, according to the Bank of Spain.

Banks owned large chunks of the industry after the 1993-95 recession before making up to seven times their original investment by selling them on in the 1997-2007 property bubble according to Robert Tornabell, banking professor and former Dean of Barcelona's ESADE business school.

A key issue is therefore the extent to which banks have enough financial leeway to tuck assets away until the market returns. While the double digit profit growth seen at Spanish banks over recent years is likely to be sharply eroded by increased provisioning needs in 2009 and 2010, the main banks' capital base is solid and government intervention on the scale seen in other European countries is ruled out.

Keen to strengthen banks, the Spanish government has tabled legislation, firstly to give banks greater guarantees when borrowers go into administration and secondly to introduce real estate investment trusts (REITs) into the financial system. To attract private capital and increase liquidity in the sector, it appears that Spain's REITs would receive tax breaks and in exchange be required to distribute 90% of profits to shareholders. Analysts say that for Spanish banks, REITs offer an important vehicle to off-load billions of the assets that are likely to continue mounting for some time to come.

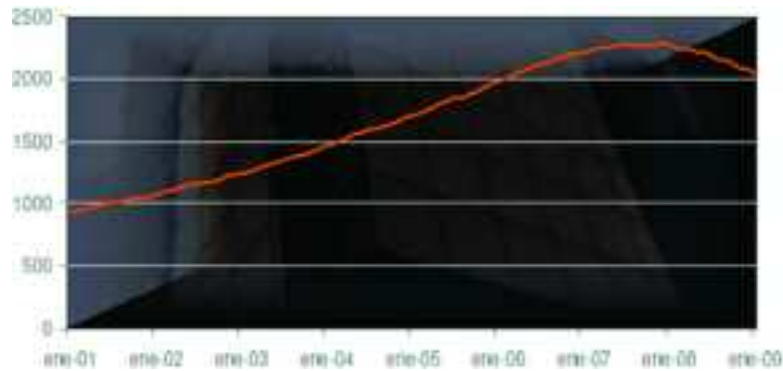
Some of the key factors that have affected the Mediterranean Coastline in difference to the rest of Spain can be seen as:

### **a. Pricing**

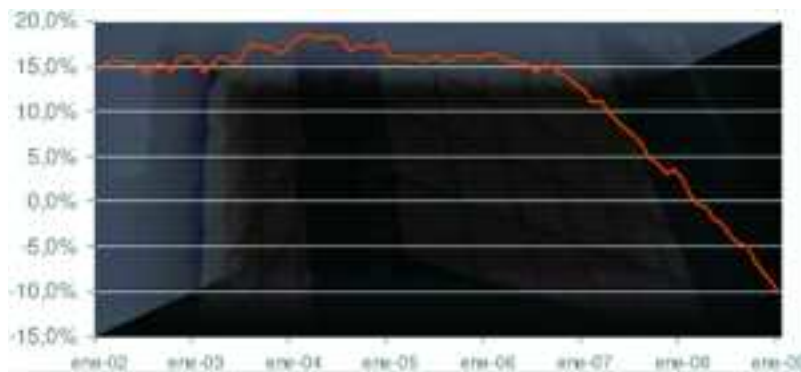
Tinsa, one of Spain's largest real estate valuation companies, shows that its index of property prices increased steadily until the end of 2007, since then, its index has dipped with its January 2009 index similar in value to that of January 2006.

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In terms of percentage change in the index, year-on-year, it is possible to note that between 2002 and the middle of 2006, property prices increased by around 15% annually.



In the middle of 2006, the increase in property prices slowed down, so that by the end of 2007, property prices were increasing by less than 5% year-on-year. At the end of 2008, property prices fell by 10% overall.

In keeping with global experiences, some of the highest growth areas in Spain have seen the sharpest declines. The Mediterranean coastline, for example, has seen overall adjustments in the region of 15% year-on-year to Quarter 4 2008, 5% above the national average.

## **b. Strength of Euro**

Particularly prevalent to the non-domestic sector of potential homebuyers, the strength of the Euro continues to impact on demand for overseas property. Strengthening of Sterling has been forecast by analysts towards the end of 2009. It is hoped that any beneficial movement in currency exchange may positively impact on the local market. Whilst currency exchange is not the sole reason for a downturn in demand, as high levels of buyers on the Spanish coastline are from other key European destinations, the impact from the UK sector of the market has been marked.

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## **c. Planning Restrictions and Licensing**

Whilst there have been numerous press articles regarding corruption of local officials in Marbella and land grab issues in Valencia, in reality the impact on the Marbella region has now been realised. Apart from a small number of developments where construction or completion is on hold whilst the necessary paperwork is still under investigation from the local authority, the majority of problems have been resolved.

## **d. Availability of Credit**

Not only are there domestic restrictions on credit, but due to the nature of the potential buyer, global credit restrictions have impacted on coastal resorts and holiday destinations.

Whilst all key indicators are showing a further weakened housing sector some positive factors have been identified. It is predicted, and indeed some Spanish banks have indicated, that during the second and third quarters of 2009 borrowing requirements will become more relaxed. Outside of the governmental aid to the housing market (mainly aimed at the domestic market), additional positive impacts of lower interest rates are waiting to be realised in the international market.

At present interest rates stand at 2.9% (0.40 points above the official interest rate of 2.5%) but all indications show that they could drop even further. The Euribor has gone from 5.24% in October 2008 to 4.35% in November and 3.45% in December 2008. In January it was 3.025% and it currently stands at 2.920%

Furthermore, it is felt by the Property Manager that Spain will undergo something of a renaissance moving forward. Ultimately, the reasons for visiting Spain still exist and therefore the reasons for owning property there still exist also. Niche developments towards the higher end of the market will be the first to attempt a recovery.

Properties are starting to change hands on a reasonable scale once again though initially, at this stage, on a “distressed” level. The Cell is currently competing with this distressed market which makes repossessed property available via the banks for what is outstanding on the relevant mortgage. This market relies upon purchasers having cash to purchase the property at the distressed price. Therefore once the distressed market starts to be absorbed, those purchasers will turn to other markets such as the high-end niche market in which the Cell has invested.

As previously stated, Spanish banks are returning to property ownership to avoid loading more bad loans on to their balance sheets with Spain’s eight biggest banks buying up €7.8bn (£6.9bn) worth of property from struggling home-owners and developers. This continued strategy will dramatically reduce levels of distressed property in the marketplace and consequentially aide with the reduction of the current levels of oversupply.

## **5. Development Updates**

### **a. USP of Developments**

The developments held within the Cell’s portfolio are high quality projects based on the Costa del Sol in Andalucía. They were selected on the criteria to only work with the finest designers and architectural studios in Spain, including renowned architects like Antonio Martin whose impressive portfolio includes the prestigious developments of La Perla de La Bahia and La Heredia.

The developments are distinguished by their close attention to detail and finishing touches. The developments are surrounded by landscaped gardens with spectacular views, additional facilities that allow for a higher quality of living include individual hand painted tiles, traditional and unique Moorish architecture, under floor heating, security systems, full individual heating and air-conditioning.

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The areas have been selected based on both historic appeal and potential future demand, with criteria based on proximity to popular amenities such as golf, major towns and historic Pueblos.

In keeping with global conditions, the province of Malaga has seen a dramatic downturn in the housing sector with levels of oversupply restricting the market in general. However, the nature of the developments held within the Cell's portfolio appeals to the higher end niche sector of the market. Marbella and its surrounding areas appeal to a wide variety of markets and offer a far wider potential audience than traditional Spanish coastal areas. It is the Property Manager's opinion that these factors alone will provide for more favourable market conditions and opportunities for disposal of asset as the market stabilises through 2009.

Comparable developments in the surrounding areas have been included to illustrate current local market pricing levels:

Finca Cortesin – Villas from over €2m and hotel rooms with guaranteed rentals of 5% of invested amount for first two years only. Cost of hotel rooms – one bedroom €800,000 and two bedroom €1.4m.

Mirador Los Flamigos – small development on Los Flamigos Golf Course: three blocks of small, very average apartments from €500,000 upwards.

Monte Mayor – Very similar development to El Mirador De La Heredia in design, lay-out and amenities though further from the coast: townhouses start at €550,000, however, availability is from €650,000.

## **b. Building Licences and Construction Completion Dates**

The intention of the Cell is to invest in “right to purchase” (RTPs) contracts as a tradable commodity and hence they were always regarded as such. The focus of the Cell has therefore been based upon the sale-ability of the RTPs with less focus on the completion date as this was only relevant to the end user. At the point at which the 2007 valuations were presented, the market in Spain was still reasonably buoyant. Construction was starting on the projects and it was expected that once construction was substantially underway that by January 2008 the re-sale of the RTPs would have started in earnest. The environment in which the Cell finds itself today is very different. The market has experienced a landslide decrease which has since been followed by the global “credit crunch”. It should be noted that in the opinion of the Property Manager, this slowdown in sales has occurred as a result of the market as a whole, not because of any perceived change or delay in the obtaining of the licence and completion date.

There were a number of issues in obtaining the licences for the projects in Spain, the largest influence has been that of corruption in the Municipality of Marbella. Whilst there was no apparent implication on the local jurisdictions in which the RTPs that were invested into by the Cell are located, these jurisdictions did feel some knock-on effects. This meant that many other local authorities around the Marbella region and indeed the Junta de Andalucía (similar to the “County Council” of Andalucía) as a whole became far more cautious in giving final licences to projects. In a similar way to that in which the credit markets have changed, there is more documentation and higher levels of signing authority required in order to clear a project for development. At the time of the 2007 accounts, the licence and completion dates were not as relevant to the position to the Cell as sales were expected to gather pace towards the beginning of 2008, unfortunately the turn in the market disrupted this.

An extension to the Cell's redemption date has now been exercised to allow for both extended construction timeframes and to grant room for active disposal of asset and allow for market recovery in terms of pricing. Revised dates are indicated in Section 7 of this report.

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## **c. Construction Updates**

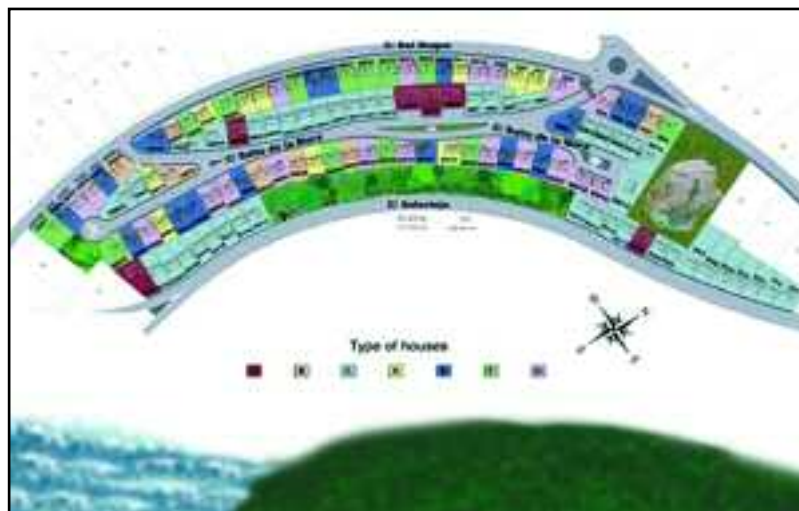
The imminent opening of the show house at Majestic Village is scheduled for March 2009. Once open this will be the focal point for sales on both Majestic Village Casares, offering a fully furnished marketing suite. (It is the Property Manager's experience that the availability of a marketing suite dramatically impacts on sales potential, where potential homebuyers can actually see, touch and feel the qualities and finishes of the property.) It is also deemed that this is essential for the higher end niche market in which this project sits.

In addition, the club house at El Mirador de La Heredia is now being utilised as a regional sales office for all the Spanish developments and will also serve as a sales suite for the La Heredia project, displaying a selection of samples of finishings including, tiles, sanitary ware and appliances.

## **Majestic Village Casares**

The club house and infrastructure are all complete on the Majestic Casares site with previous construction phases having been handed over to their owners who are now residing on the site. Majestic Village Casares is the final phase of construction and upon completion will be situated within an established development. The main access routes are now in place on the Majestic Village plot and the perimeter walls and foundations are almost complete with structures and roofs under construction.

Detailed construction time frames are indicated in Annex 1 of this report.



Site plan.

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## Show House Images

Tiling and interior painting is complete.



Main outstanding works are carpentry as well as the internal doors.



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## On Site Progress

The exterior rendering of the front row of townhouses is almost complete.



The central units to the rear of Calle Salavieja are now rendered and ready for painting, with their elevated positions now visible behind the expansive retaining wall.



Units to the north east of Calle Salavieja are progressing well with external rendering now underway, showing the scale of the development from the rear of the site.



## El Mirador de la Heredia

Construction of surrounding infrastructure commenced in July 2007, and is now complete, with initial stages of land clearance of the site commenced in April 2008. The club house is now complete and being utilised as a marketing and sales office. Additional land movement on the El Mirador site being undertaken and the terracing of the plots and building of the perimeter wall is currently in progress. The surrounding environment of high quality established communities and golf courses will enhance the appeal of this development upon completion.

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Detailed construction timeframes are indicated in Annex 1 of this report.



Site plan.

## **Club House**

Whilst complete, the club house has experienced minor damp problems through the winter period due to heavy rainfall, the developer has reported that this is due to the aluminium carpentry in one of the large windows on the top floor and in the dome, and also through the bottom of the main entrance door due to wind and rain. The carpentry will be dismantled and sealed again. At the main door, drainage will be placed at the entrance to prevent the water from entering with the wind.

In both cases, there is damp coming out on the ceiling of the lower floor. Once the leaks have been repaired, the ceiling will be painted again.



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Extraction and foundation work is now underway at the rear of the site.



The foundations of apartment blocks and supporting structures are advancing well.



With the perimeter walls adjacent to the club house showing the true elevation of the site.



## 6. Valuations

### a. Historic Valuations

The valuations carried out in June 2008 on the RTPs held by Cell 2 have indicated a significant drop in the market. In the table below are the valuations, as at 30 June 2008, that were provided by Tinsa, which indicate a drop in the value of current assets, held within Cell 2 from the point at which they were invested into.

Cell	Paid	Current Valuation	Percentage Loss
2	€46,536,974.95	€32,478,144.50	30

# STIRLING MORTIMER PROPERTY FUND PCC LIMITED

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These valuations are not expected to display any marked improvement in the imminent future, due to local market conditions. Medium term improvement in the market place along with absorption of any oversupply in the area should result in positive improvement in local market valuations.

## **b. Future Date for Valuation**

Renewed valuations are due to be carried out in June 2009. A meeting scheduled on 26 March 2009 between representatives of the Board and representatives from Savills (L&P) Limited (Savills) to confirm that the Board is comfortable for Savills to undertake these valuations. The valuation agreement was signed on 3 April 2009

## **7. Extension of Cell**

As was announced through the Channel Islands Stock Exchange and in light of the factors detailed above, the Board of Stirling Mortimer Property Fund PCC Limited has taken the decision to further extend the Cell until 31 December 2010.

The Property Manager feels that with the expected improvement in the markets towards the end of 2009 that the extension will be sufficient.

Whilst completion risk still exists, an improvement in market conditions should ensure that this extension will be sufficient to ensure that the Fund's investment is realised.

## **8. Disposal of Asset**

### **a. Current Activity**

Whilst all attempts are being made to realise the re-sale of "right to purchase" contracts held by the Cell, the current downturn in demand and the real estate market in general, has had an effect on the recent success of marketing attempts.

As stated in the Real Estate marketplace section of this report, we predict the market to stabilise during 2009 and hope to see increasing demand over that period and a positive adjustment in pricing conditions.

Historically, asset disposal has been concentrated on the tourist market for overseas property, with particular emphasis on the UK market due to their affiliation with the Spanish coastal regions.

### **b. Proposed Strategy**

To satisfy our sales targets, we have recently embarked upon launching a far wider net, encompassing all of Europe and Russia.

Our telemarketing team handles enquiries on a daily basis, generated by means of the internet, property magazine advertising and property sections in mainstream national newspapers in UK. We are currently setting up exhibitions in Scandinavia and more in Russia to help the lead flow of sales prospects.

We anticipate a great increase in lead flow as we go into the tourist season, where targeting of visitors to the area will commence by the ground force sales teams and introductions provided by our local and international referral networks.

# STIRLING MORTIMER PROPERTY FUND PCC LIMITED

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The focus for the local marketing initiative for Spain is aimed at the five star hotels and exclusive golf courses, as these locations have a good foot fall of qualified sales prospects in keeping with the target audience.

Incentives to attend sales presentations will be provided in terms of a range of complimentary offerings including meals, green fees, car hire, entrance to shows, special events and a range of popular activities based on the Costa Del Sol.

## **c. Sales To Date**

To date re-sale activity has been limited due to the current situation in the Spanish real estate market.

One property has been sold for Cell 2. The sale, which was made to meet ongoing operational expenses, was such that the proceeds produced a gross return to the Cell at a small profit. This sale is not necessarily representative of the expected return but emphasises the reason why the Board has determined to lengthen the investment period to maximise the potential investment return.

## **9. Projected Performance of Cell**

As indicated in the previous section on the Real Estate Marketplace, Spain's market has fallen. The strength of the Euro and the current "credit crunch" has had a massive impact on the real estate market in Spain. Spanish banks have tightened their lending criteria and requiring higher deposits from potential purchasers and indeed have withdrawn certain mortgages from the market completely.

This is not expected to continue indefinitely, however, and as already stated it is expected that the banks will relax their criteria for lending during 2009. Spain is already beginning to see an increase in interest for property. Although this interest is currently in distressed property it will transfer into other areas with time, in particular those areas which were least affected by the downturn in the first place including the high-end niche markets such as that invested into by Cell 2.

It should also be noted that the Spanish property market is expected to recover sooner than others partly as a result of the higher levels of regulation that the banking industry there experienced. For example, the average percentage loan-to-value was much lower than in other countries such as the UK where loan-to-value was regularly in excess of 100%.

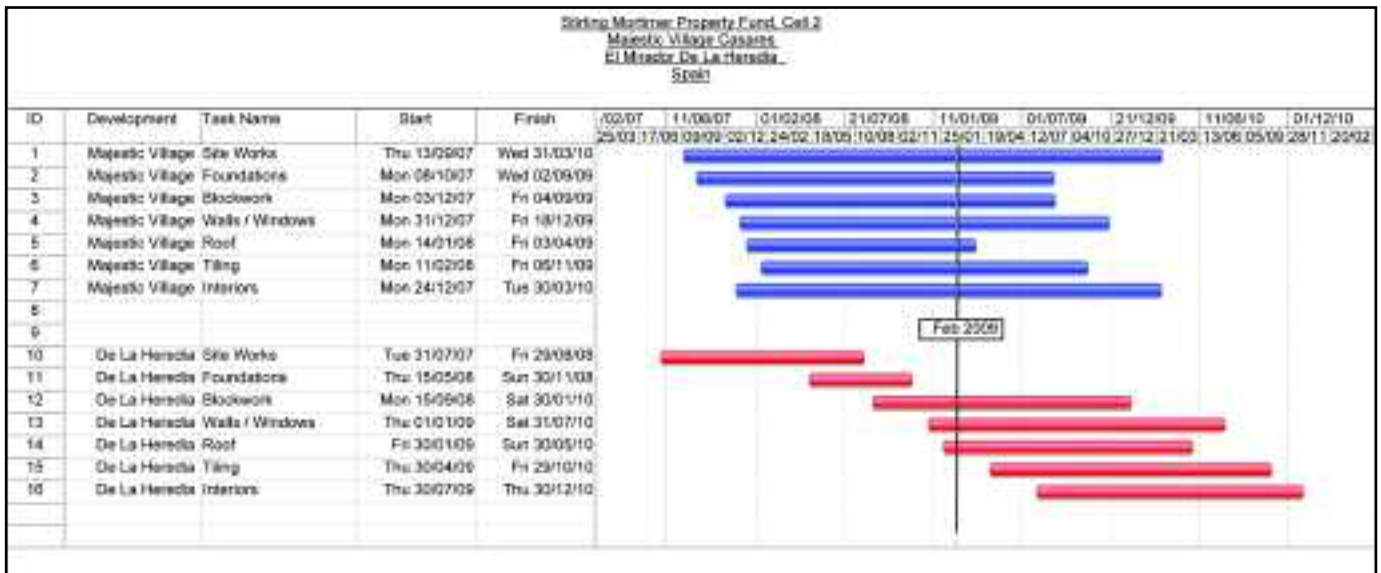
The expansion of marketing activity to focus on a number of Northern European and international markets will not only broaden the potential target audience but generate interest from a number of different countries and, with the intension of benefitting from extended levels of credit conditions. In addition, the pending opening of local sales and marketing suites is forecast to dramatically strengthen the potential for sales.

The imminent opening of the show house at Majestic Village, offering a fully furnished marketing suite will dramatically enhance sales potential, where potential homebuyers can actually see, touch and feel the qualities and finishes of the property. This is particularly relevant for the higher end niche market in which these projects sit.

# STIRLING MORTIMER PROPERTY FUND PCC LIMITED

The club house at El Mirador de La Heredia is now being utilised as a regional sales office for the Spanish developments and will also serve as a sales suite for the La Heredia project, displaying a selection of samples of finishings including, tiles, sanitary ware and appliances.

## Annex 1



# STIRLING MORTIMER PROPERTY FUND PCC LIMITED

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## INCOME STATEMENT

FOR THE PERIOD ENDED 31 DECEMBER 2008

	Notes	No 2 Fund Dec-08 €	No 2 Fund Jun-08 €
Sales of RTP contracts	3	-	167,286
Cost of sales	4	-	162,974
<b>Gross profit</b>		-	<b>4,312</b>
<b>Expenses</b>			
Administrative expenses	5	(171,347)	(399,294)
<b>Operating loss</b>		<b>(171,347)</b>	<b>(394,982)</b>
<b>Finance income and expenses</b>	6		
Finance income		21,089	12,360
Finance expenses		(1,865)	(35,053)
<b>Loss for the period</b>		<b>(152,123)</b>	<b>(417,675)</b>
<b>Loss attributable to:</b>			
Equity holders of the Cell		<b>(152,123)</b>	<b>(417,675)</b>
<b>Earning Per Share</b>			
		€	
	<b>31 December 2008</b>	(0.85)	
	30 June 2008	(2.35)	

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The accompanying notes on Pages 27 to 41 form an integral part of these financial statements.

# STIRLING MORTIMER PROPERTY FUND PCC LIMITED

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## BALANCE SHEET

FOR THE PERIOD ENDED 31 DECEMBER 2008

	Notes	No 2 Fund Dec-08 €	No 2 Fund Jun-08 €
<b>Assets</b>			
<b>Current assets</b>			
Inventories	7	14,718,655	14,718,655
Trade and other receivables	8	16,273	2,318,841
Cash and cash equivalents	1	2,209,458	116,445
<b>Total Assets</b>		<b>16,944,386</b>	<b>17,153,941</b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade and other payables	9	41,807	99,239
<b>Total current liabilities</b>		<b>41,807</b>	<b>99,239</b>
<b>Total Net Assets</b>		<b>16,902,579</b>	<b>99,239</b>
<b>Capital and Reserves</b>			
Share capital	10	17,799,317	17,799,317
Retained earnings	11	(896,738)	(744,615)
Total equity	12	16,902,579	17,054,702
<b>Total Liabilities and Equity</b>		<b>16,944,386</b>	<b>17,153,941</b>

The financial statements on Pages 23 to 41 were approved by the Directors on 29 April 2009.

**Catharine Walter**  
DIRECTOR  
Date: 29 April 2009

**Mark N. Huntley**  
DIRECTOR

The accompanying notes on Pages 27 to 41 form an integral part of these financial statements.

# STIRLING MORTIMER PROPERTY FUND PCC LIMITED

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## STATEMENT OF CASH FLOW

FOR THE PERIOD ENDED 31 DECEMBER 2008

	Notes	No 2 Fund Dec-08 €	No 2 Fund Jun-08 €
<b>Net cash used in operating activities</b>	14	2,093,013	(358,091)
<b>Cash flow from financing activities</b>			
Proceeds from issue of shares:			
Preference shares	10	-	-
<b>Net increase in cash and cash equivalents</b>		2,093,013	(358,091)
Opening cash balances		116,445	474,536
<b>Cash and cash equivalents as at 31 December 2008</b>		<b>2,209,458</b>	<b>116,445</b>

The accompanying notes on Pages 27 to 41 form an integral part of these financial statements.

# STIRLING MORTIMER PROPERTY FUND PCC LIMITED

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## STATEMENT OF CHANGES IN EQUITY

FOR THE PERIOD ENDED 31 DECEMBER 2008

	Notes	No 2 Fund Jun-08 €	No 2 Fund Jun-07 €
<b>Balance at beginning of period/year</b>		17,054,702	17,472,377
Issue of shares:			
Redeemable preference shares	10	-	-
Retained earnings	11	(152,123)	(417,675)
<b>Balance as at the end of the period/year</b>		<b>16,902,579</b>	<b>17,054,702</b>

The accompanying notes on Pages 27 to 41 form an integral part of these financial statements.

# STIRLING MORTIMER PROPERTY FUND PCC LIMITED

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## NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2008

### **GENERAL INFORMATION**

Stirling Mortimer Property Fund PCC Limited (the “Company”) is a closed-ended investment company with limited liability under the Companies (Guernsey) Law, 1994 and a protected cell company under The Protected Cell Companies Ordinance, 1997 to 1998 (as amended) on 7 April 2006. The registered office of the Company is shown on Page 3. Cell 2 of the Company is Majestic Village No 2 Fund (the “Fund”).

Under Guernsey law, a protected cell company such as the Company may form several cells with each cell having its own unique investment objectives and presenting a distinct portfolio of assets. As a matter of Guernsey law, provided that the conditions laid down in The Protected Cell Companies Ordinance, 1997 to 1998 (as amended) are complied with; the cell structure permits the segregation and protection of assets of each cell from other liabilities of the Company and any other cells.

The Fund’s investment activities are managed by Majestic Investments Consulting SL (the “Property Manager”). The Company’s Board of Directors (the “Board”) has delegated the Fund’s administration to Heritage International Fund Managers Limited.

### **1. SIGNIFICANT ACCOUNTING POLICIES**

A summary of significant accounting policies all of which have been applied consistently through the period in the preparation of the statements are set out below.

#### **Basis of preparation**

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and International Financial Reporting Interpretations Committee (IFRIC) interpretations as endorsed and adopted by the European Union (EU) and with the Companies (Guernsey) Law, 1994.

# STIRLING MORTIMER PROPERTY FUND PCC LIMITED

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## MAJESTIC VILLAGE NO 2 FUND NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2008

### **1. SIGNIFICANT ACCOUNTING POLICIES (continued)**

The interim financial statements have been prepared in accordance with the International Accounting Standard (IAS) 34, Interim Financial Reporting. The same accounting policies and methods of computation are followed in the interim financial statements as in the annual financial statements. The presentation of the interim financial statements is consistent with the annual financial statements. The interim financial statements do not include all the information and disclosures required in the annual financial statements and should be read in conjunction with the Company's annual financial statements for the year to 30 June 2008

The financial statements have been prepared in Euro (EUR), which is the presentational currency of the Fund, and under the historical cost convention, as modified by the revaluation of financial assets and liabilities at fair value through profit and loss.

The Fund maintains a separate cell account for each class of participating redeemable preference shares, to which the proceeds of issue and the income arising from the investment of these proceeds are credited, and against which the expenses allocated are charged. Under redemptions, shareholders are only entitled to their proportion of the net assets held in the cell account relating to their particular shares.

To prepare these financial statements, IFRS requires management to make estimates, assumptions and to exercise judgement in the process of applying the Funds accounting policies. The Directors believe that the estimates used in preparing the financial statements are reasonable and prudent. However, actual results could differ from these estimates.

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

# STIRLING MORTIMER PROPERTY FUND PCC LIMITED

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## MAJESTIC VILLAGE NO 2 FUND NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2008

### 1. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### **Adoption of new and revised standards**

In the current period, the Fund adopted all new and revised IFRS that are relevant to its operations and are effective for accounting periods beginning on or before 1 July 2007.

The Fund has adopted IFRS 7 “Financial Instrument Disclosures” (IFRS 7), which is effective for annual reporting periods beginning on or after 1 January 2007, and the related amendments to IAS 1 “Presentation of Financial Statements” (IAS 1). The impact of the adoption of IFRS 7 and the changes to IAS 1 has been to expand the disclosures provided in these financial statements regarding the Fund’s financial instruments and management of capital. At the date of authorisation of these financial statements, the management believes that other pronouncements which are in issue but not yet operative or adopted by the Fund will not have material impact on the financial statements of the Fund. The following standards listed below will become effective in the near term.

#### **Standards that become effective for years ending 31 December 2008**

- IFRIC Interpretation 11 “IFRS 2 Group and Treasury Share Transactions” (effective for annual periods beginning on or after 1 March 2007).
- IFRIC Interpretation 12 “IFRS Service Concession Arrangements” (effective for annual periods beginning on or after 1 January 2008).
- IFRIC Interpretation 14 “IAS 19 The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction” (effective for annual periods beginning on or after 1 January 2008).

# STIRLING MORTIMER PROPERTY FUND PCC LIMITED

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## MAJESTIC VILLAGE NO 2 FUND NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2008

### 1. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### **Standards that will become effective for years ending 30 June 2009**

- IFRS 8 “Operating Segments” (effective for annual periods beginning on or after 1 January 2009).
- IAS 23 (Amendment) “Borrowing Costs” (effective for annual periods beginning on or after 1 January 2009).
- IAS 1 (Revised 2007) “Presentation of Financial Statements” (effective for annual periods beginning on or after 1 January 2009).
- IFRS 2 “Share-based payment (Amendment 2008: Vesting Conditions and Cancellations)” (effective for annual periods beginning on or after 1 January 2009).
- IAS 32 “Financial Instruments: Presentation” and IAS 1 “Presentation of Financial Statements” (Amendment 2008: Puttable Financial Instruments and Obligations Arising on Liquidation) (effective for annual periods beginning on or after 1 January 2009).

#### **Standards that will become effective for years ending 30 June 2010**

- IFRS 3 (Revised 2008) “Business Combinations” (effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2009).
- IAS 27 (Revised 2008) “Consolidated and Separate Financial Statements” (effective for annual periods beginning on or after 1 January 2009).

The management anticipates that the adoption of these standards in future periods will have no material impact on the financial statements of the Fund.

# STIRLING MORTIMER PROPERTY FUND PCC LIMITED

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## MAJESTIC VILLAGE NO 2 FUND NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2008

### 1. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### a) Segment reporting

The Fund recognises that a business segment is exposed to unique risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and return that are different from those segments operating in other economic environments. The management is of the opinion that the Fund is engaged in a single business segment of real estate acquisition and development spread in two geographical areas.

#### b) Foreign currency translation.

Transactions in currencies other than the functional currency of the Fund undertaking concerned are recorded at the rates of exchange prevailing on the dates of transactions. At the balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are translated at the closing exchange rate. Gains and losses arising on translation of monetary assets and liabilities are included in the income statement. Income and expense items are translated at the weighted average exchange rate for the period. Exchange differences arising are classified as equity and transferred to the Fund's translation reserve.

- Functional and presentation currency

Items included in the financial statements of the Fund are measured using the currency of the primary economic environment in which the Fund operates (functional currency). The financial statements are presented in Euros (EUR) which is the Fund's functional and presentation currency.

- Transactions and balances

In accordance with IFRS, books and records of the Fund are maintained in EUR. IAS 21 requires foreign currency assets and liabilities to be translated into EUR at the rate of exchange prevailing at the statement of assets and liabilities date. Transactions in currencies other than EUR are translated at the rate of exchange ruling at the date of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from translations at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

# STIRLING MORTIMER PROPERTY FUND PCC LIMITED

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## MAJESTIC VILLAGE NO 2 FUND NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2008

### 1. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### c) Inventories

The “right to purchase” (RTP) contracts, which give the right and an obligation to purchase the underlying property under construction and land that are being held or developed for future sales, are classified as inventories at their deemed cost. They are carried at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business less cost to complete redevelopment and selling expenses. Deemed cost is the acquisition cost together with subsequent capital expenditure incurred in the developments, including capitalised interest where relevant.

#### d) Re-sale guarantees

Re-sale guarantees received as part of an inventory acquisition (RTP) are shown as debtors from the date of acquisition of the relevant inventory and are excluded from the acquisition cost. Income received in relation to the guarantees is credited against the debtor.

#### e) Impairment of assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that have definite life that are subject to depreciation or amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Impairment of assets is calculated as the difference between the carrying value of the asset and its recoverable amount, if lower. Recoverable amount is defined as the higher of fair value less costs to sell and estimated value in use at the date the impairment review is undertaken. Value in use represents the present value of expected future cash flows, discounted at a rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted. An impairment loss is recognised for the amount by which the asset’s carrying amount exceeds its recoverable amount.

# STIRLING MORTIMER PROPERTY FUND PCC LIMITED

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## MAJESTIC VILLAGE NO 2 FUND NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2008

### 1. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### **f) Revenue and expense recognition**

Revenue is measured at the fair value of the consideration received or receivable. Financial asset interest income is accrued on a time basis by reference to the principal outstanding and the effective interest rate applicable. This equals the estimated future cash receipt through the expected life of the financial asset. Expenses are accounted for on an accrual basis and are charged through the Income Statement in the period in which they are incurred.

#### **g) Trade receivables**

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Fund will not collect the full amount due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial re-organisation, and or delinquency in payments are considered indicators that the trade receivable is impaired. In line with the IAS 36 requirement for extensive disclosure of any impairment by segment, the Fund has no reason to believe that there will be any impairment of trade receivables in any part of the Fund's business segment.

#### **h) Cash and cash equivalents**

Cash comprises current deposits with banks. Cash equivalents are short term, highly liquid investments that are readily convertible to known amounts of cash, are subject to insignificant risk of changes in value, and are held for the purpose of meeting short term cash commitments rather than for investment or other purposes.

#### **i) Share capital**

Ordinary shares are classified as equity. Participating redeemable preference shares (preference shares) are part of the Total Equity. All the preference shares issued by the Fund provide the investors with the right to require redemption for cash at the value proportionate to the investors' share in the relevant Fund's net assets at the redemption date.

# STIRLING MORTIMER PROPERTY FUND PCC LIMITED

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## MAJESTIC VILLAGE NO 2 FUND NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2008

### 1. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### j) Taxation

The Company is exempt from taxation in Guernsey under the provisions of the Income Tax (Exempt Bodies) (Guernsey) Ordinances, 1989 to 1992, and is charged an annual exemption fee of £600. In response to the review carried out by the European Union Code of Conduct Group, the States of Guernsey has abolished exempt status for the majority of companies with effect from January 2008 and introduced a zero rate of tax for companies carrying on all but a few specified types of regulated business. Because collective investment schemes, including closed-ended investment vehicles such as the Company, were not one of the regimes classified as being harmful, they continue to be able to apply for exempt status for Guernsey tax purposes after 31 December 2007.

### 2. CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

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

Net realisable value is based on the current market valuation as at 30 June 2008 provided by Tinsa Tasaciones Inmobiliarias, S.A. (Tinsa), an independent property valuer. Tinsa are required to make assumptions on establishing the current market valuation.

# STIRLING MORTIMER PROPERTY FUND PCC LIMITED

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MAJESTIC VILLAGE NO 2 FUND  
NOTES TO THE INTERIM FINANCIAL STATEMENTS  
FOR THE PERIOD ENDED 31 DECEMBER 2008

### 3. SALES OF RTP CONTRACTS

	No 2 Fund Dec-08 €	No 2 Fund Jun-08 €
Original price	-	490,000
Paid at contract	-	157,290
Additional return	-	9,996
	-	<b>167,286</b>

### 4. COST OF SALES

	No 2 Fund Dec-08 €	No 2 Fund Jun-08 €
30% deposit	-	147,000
7% IVA	-	10,290
Legal fees	-	5,684
	-	<b>162,974</b>

### 5. ADMINISTRATIVE EXPENSES

	No 2 Fund Dec-08 €	No 2 Fund Jun-08 €
Property advisors' fees	97,571	260,644
Administration fees	29,724	66,160
Directors' fees	11,278	25,898
Insurance premiums	2,996	5,068
Valuation fees	15,408	19,877
Audit fees	6,692	6,928
Listing fees	2,778	4,968
Professional fees	2,589	5,982
Sundry expenses	2,311	3,769
	<b>171,347</b>	<b>399,294</b>

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# STIRLING MORTIMER PROPERTY FUND PCC LIMITED

MAJESTIC VILLAGE NO 2 FUND  
 NOTES TO THE INTERIM FINANCIAL STATEMENTS  
 FOR THE PERIOD ENDED 31 DECEMBER 2008

## 6. FINANCE INCOME AND EXPENSES

	No 2 Fund Dec-08 €	No 2 Fund Jun-08 €
Bank interest income	21,089	12,360
Foreign exchange gain	-	-
<b>Finance income</b>	<b>21,089</b>	<b>12,360</b>
Foreign exchange loss	1,865	35,053
<b>Finance costs</b>	<b>1,865</b>	<b>35,053</b>

## 7. INVENTORIES

	No 2 Fund Dec-08 €	No 2 Fund Jun-08 €
<b>“Right to purchase” contracts</b>		
Cost brought forward	14,718,655	14,718,655
Additions	-	-
Disposals	-	(140,924)
<b>Net book value</b>	<b>14,718,655</b>	<b>14,577,731</b>

The RTPs have been recorded at lower of cost and net realisable value. Each RTP contains a right and obligation to purchase a property from the developer once it is completed. The initial cost of the RTP (or deposit) is between 30% and 40% of the “off-plan” price of the same property. Each RTP also contains a bank guarantee against the insolvency of the relevant developer. Included within the cost of the RTPs is IVA at 7%, €795,501 for the Fund, which is recoverable when the RTPs are sold.

## 8. TRADE AND OTHER RECEIVABLES

	No 2 Fund Dec-08 €	No 2 Fund Jun-08 €
Prepayments	4,210	7,076
Re-sale guarantees	12,063	2,311,765
<b>Total</b>	<b>16,273</b>	<b>2,318,841</b>

# STIRLING MORTIMER PROPERTY FUND PCC LIMITED

MAJESTIC VILLAGE NO 2 FUND  
NOTES TO THE INTERIM FINANCIAL STATEMENTS  
FOR THE PERIOD ENDED 31 DECEMBER 2008

## 9. TRADE AND OTHER PAYABLES

	No 2 Fund Dec-08 €	No 2 Fund Jun-08 €
Administration fees payable	12,840	15,800
Audit fees payable	5,059	5,688
Directors' fees payable	5,136	6,320
Property advisors' fee payable	-	64,000
Valuation fee payable	15,408	5,377
Sundry expenses payable	3,364	2,054
	<b>41,807</b>	<b>99,239</b>

## 10. SHARE CAPITAL

	No 2 Fund Dec-08 €	No 2 Fund Jun-08 €
<b>Authorised:</b>		
2 Ordinary Shares of nil par value	-	-
Unlimited Preference Shares at nil par value	-	-
<b>Allotted and called up:</b>		
2 Ordinary Shares of nil par value	-	-
Unlimited Preference Shares of nil par value, fully paid up:		
Opening shares	177,993.1673	177,993.1673
<b>Closing Shares</b>	<b>177,993.1673</b>	<b>177,993.1673</b>
Opening capital	17,799,317	17,799,317
<b>Closing capital</b>	<b>17,799,317</b>	<b>17,799,317</b>

## 11. RETAINED EARNINGS

	No 2 Fund Dec-08 €	No 2 Fund Jun-08 €
Opening retained earnings	(744,615)	(326,940)
Loss for the period/year	(152,123)	(417,675)
<b>Closing earnings</b>	<b>(896,738)</b>	<b>(744,615)</b>

# STIRLING MORTIMER PROPERTY FUND PCC LIMITED

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MAJESTIC VILLAGE NO 2 FUND  
NOTES TO THE INTERIM FINANCIAL STATEMENTS  
FOR THE PERIOD ENDED 31 DECEMBER 2008

## 12. TOTAL EQUITY

	<b>No 2 Fund Dec-08 €</b>	<b>No 2 Fund Jun-08 €</b>
Opening equity	17,054,702	17,472,377
Loss for the period/year	(152,123)	(417,675)
<b>Closing equity</b>	<b>16,902,579</b>	<b>17,054,702</b>

## 13. NET ASSET RECONCILIATION

	<b>No 2 Fund Dec-08 €</b>	<b>No 2 Fund Jun-087 €</b>
Net assets attributable to participating redeemable preference shareholders	16,902,579	17,054,702
Unamortised formation expenses	713	15,491
<b>Net asset value as at 31 December 2008</b>	<b>16,903,292</b>	<b>17,070,193</b>

## 14. NET CASH USED IN OPERATING ACTIVITIES

	<b>No 2 Fund Dec-08 €</b>	<b>No 2 Fund Jun-08 €</b>
Operating loss from continuing operations	(171,347)	(394,982)
Finance income/(expenses) for the period	19,224	(22,693)
Changes in working capital:		
Decrease in inventories	-	2,462,685
Increase in trade and other receivables	2,302,568	(102,205)
(Increase) in trade and other payables	(57,432)	(2,300,896)
<b>Net cash used in operating activities</b>	<b>2,093,013</b>	<b>2,093,013</b>

# STIRLING MORTIMER PROPERTY FUND PCC LIMITED

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## MAJESTIC VILLAGE NO 2 FUND NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2008

### 15. CONTINGENT FINANCIAL COMMITMENTS

The respective inventories invested in by the Fund consist of RTP contracts. In the event that either Majestic Investment Consulting S.L. (the “Property Manager”) or the Fund are unable to sell on the “right to purchase” contracts to a purchaser the Fund will complete on the purchase of the underlying property through borrowing. The borrowing would initially be funded from the re-sale guarantee payments paid by the Property Manager.

Capital expenditure contracted for at the balance sheet date but not yet incurred is as follows:

	<b>No 2 Fund Dec-08 €</b>	<b>No 2 Fund Jun-08 €</b>
Amounts payable on completion of property	31,125,209	31,125,209

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### 16. BANK GUARANTEES

Within the Spanish RTPs, the property is to be delivered within agreed timeframes. Substantial and unacceptable delays during construction can result in a Purchaser having the right to demand a full refund of all monies paid at contract plus legal interest. In such case, the Fund will claim a refund via various routes:

- I. According to Spanish Law (57/68 of 27.06.1968) and as recognised by the Developer in the RTP, a Developer has the obligation to issue a Bank Guarantee for every off-plan property sold. The signed Private Purchase Contract for each unit represents sufficient protection under Spanish Law to claim any funds through the developer and/or its bank (the issuer of the Bank Guarantees) in case of the product not being delivered as agreed in the Private Purchase Contract.
- II. A delay in delivery of the product also results in a Purchaser’s right to cancel the RTP with full refund of funds paid. The release of funds from the banks at sign-off of agreed construction phases ensures delivery of the product.
- III. Further guarantees provided under Spanish Law for any off-plan purchase ensure that in case of breach of contract, the Developer is liable to compensate a Purchaser for the default. In such case, both the property being purchased (with the attributed value according to construction stage and current market value) and all other assets of the Developer will be used to compensate the purchaser providing the delay is caused by the Developer and/or Constructor.

# STIRLING MORTIMER PROPERTY FUND PCC LIMITED

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## MAJESTIC VILLAGE NO 2 FUND NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2008

### 17. EVENTS AFTER THE BALANCE SHEET DATE

The Board has agreed to replace the existing valuer, Tinsa Tasaciones Inmobiliarias, S.A., for 30 June 2009. To this end an agreement with Savills (L&P) Limited was signed on 3 April 2009.

### 18. RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. The Directors are responsible for the overall control, management and supervision of the Company's affairs and are responsible for the overall implementation of the investment objective and policy of the Company.

At the period end, the Company has five non-executive Directors, all independent of the Administrator other than Mr Mark Huntley, who is a Director of the Administrator, Heritage International Fund Managers Limited and the Property Advisor, Stirling Mortimer (Guernsey) Limited. Mr Huntley is also a Director of the Channel Islands Stock Exchange.

Mr Philip Bowman is a shareholder and Director of the Promoter, Stirling Mortimer Limited. Mr Timothy Clink is a shareholder and Director of the Promoter, Stirling Mortimer Limited and a Director of the Property Advisor, Stirling Mortimer (Guernsey) Limited. Mr Richard Roberts is a Director of the Property Manager, Majestic Investments Consulting SL, and a Director of the Property Advisor, Stirling Mortimer (Guernsey) Limited.

The Directors are entitled to receive an annual fee of up to £20,000 per annum. Messrs Bowman, Clink and Roberts have elected to forego Directors' fees. Total Directors' fees for the period, including outstanding Directors' fees due to Directors at the end of the period, are detailed below.

	<b>No 2 Fund Dec-08 €</b>	<b>No 2 Fund Jun-08 €</b>
Directors' fees for the period	11,278	25,898
Payable at the end of the period	5,136	6,320

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# STIRLING MORTIMER PROPERTY FUND PCC LIMITED

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MAJESTIC VILLAGE NO 2 FUND  
NOTES TO THE INTERIM FINANCIAL STATEMENTS  
FOR THE PERIOD ENDED 31 DECEMBER 2008

**18. RELATED PARTY TRANSACTIONS (continued)**

Stirling Mortimer (Guernsey) Limited, the Property Advisor, is entitled to receive a Property Advisory Fee of 1.5% of the Majestic Village No. 2 Fund's Net Asset Value. With effect from 1 July 2008, the Board has agreed a reduced fee payable to the Property Advisor to reflect the extension of the Fund's life. The current fee of 1.5% has been reduced by 25% to 1.125%