

MAJESTIC VILLAGE No 1 FUND  
A CELL OF:  
STIRLING MORTIMER PROPERTY FUND  
PCC LIMITED

ANNUAL REPORT AND  
FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2009

(COMPANY REGISTRATION NUMBER 44655)

# MAJESTIC VILLAGE NO 1 FUND, A CELL OF STIRLING MORTIMER PROPERTY FUND PCC LIMITED

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## DIRECTORS AND FUND INFORMATION

**DIRECTORS:**

Catharine Walter  
Philip Bowman  
Timothy Clink  
Mark N. Huntley  
Richard Roberts  
(all non-executive)

**PROMOTER:**

Stirling Mortimer Limited  
6 Manor Park Business Centre  
Mackenzie Way  
Cheltenham  
United Kingdom  
GL51 9TX

**PROPERTY MANAGER:**

Majestic Investments Consulting SL  
UR Majestic Parcela 105  
29690 Casares  
Spain

**PROPERTY ADVISOR:**

Stirling Mortimer (Guernsey) Limited  
Heritage Hall  
Le Marchant Street  
St Peter Port  
Guernsey  
Channel Islands  
GY1 4HY

**ADMINISTRATOR, REGISTRAR  
& SECRETARY:**

Heritage International Fund Managers Limited  
Heritage Hall  
Le Marchant Street  
St Peter Port  
Guernsey  
Channel Islands  
GY1 4HY

**LISTING AGENT:**

Heritage Corporate Services Limited  
Heritage Hall  
Le Marchant Street  
St Peter Port  
Guernsey  
Channel Islands  
GY1 4HY

**AUDITORS:**

BDO Novus Limited  
Chartered Accountants  
Place du Pré  
Rue du Pré  
St Peter Port  
Guernsey  
Channel Islands  
GY1 3LL

**INDEPENDENT PROPERTY VALUER  
& AGENT:**

Savills (L&P) Limited (subsequent to 3 April 2009)  
Wytham Court  
11 West Way  
Oxford  
United Kingdom  
OX2 0QL

TINSA Tasaciones Inmobiliarias, S.A. (up to 3  
April 2009)  
9, Parque Empresarial  
2830 Las Rozas  
Madrid

**PRINCIPAL BANKER:**

Royal Bank of Scotland(Guernsey) International Ltd  
1 Gategny Esplanade  
St Peter Port  
Guernsey  
GY1 4BQ

**REGISTERED OFFICE:**

Heritage Hall  
Le Marchant Street  
St Peter Port  
Guernsey  
Channel Islands  
GY1 4HY

# MAJESTIC VILLAGE NO 1 FUND, A CELL OF STIRLING MORTIMER PROPERTY FUND PCC LIMITED

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## CHAIRMAN'S STATEMENT

I am pleased to present the annual report and financial statements of Majestic Village No 1 Fund, a cell of Stirling Mortimer Property Fund PCC Limited, (the "Fund") for the year ended 30 June 2009. This report covers the Fund's cell Majestic Village No 1 Fund (the "Fund") relating to the development at the Majestic Village Dona Julia.

### **HIGHLIGHTS**

- Net assets as at 30 June 2009 €12.36 million (30 June 2008: €12.39 million), down 0.24% in the year;
- Loss for the year ended 30 June 2009 €0.03 million (30 June 2008: €0.35 million);
- Significant recovery in Spanish property markets. Independent valuation of underlying properties up by 30% from the 30 June 2008 valuation (now 0.94% down compared to cost);
- Developments on schedule for Quarter two, 2010 completion. The life of the Fund has already been extended to 30 April 2010.

### **ECONOMIC ENVIRONMENT**

The past few months have continued to be challenging for the Spanish property market. 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.

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 effect of the credit squeeze is that the Fund's RTP contracts are no longer easily tradable prior to the completion of the properties. Our Property Manager has not been able to re-sell the properties within the timeframe that we have anticipated in the prospectus with the result that no RTPs have been sold in the current year.

The opening of the show house at Majestic Village has been delayed awaiting the fitting of kitchen appliances and is now scheduled for the third quarter of 2009. Once open this will be the focal point for sales on Majestic Village Dona Julia, offering a fully furnished marketing suite. In addition, the club house at El Mirador de la Heredia is now being utilised as a regional sales office for all Spanish developments.

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## **CHAIRMAN'S STATEMENT (continued)**

The Board visited the developments in February 2009 to check on progress and meet with the sales team responsible for disposing of the RTPs. Valuation appraisals were carried out in June 2009 by Savills (see highlights above). The valuations have seen a positive increase from 2008 figures. This is mainly due to the specific area in which the Cell has invested as well as the fact that the Spanish government has actively responded to the Spanish recession with policies to address both the downturn in the economy and housing sector in Spain.

The Board is conscious that the only communication to the investors comes in the form of the annual report and financial statements and the 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 showing the developments.

## **VALUATION OF INVENTORIES**

Further to Note 2, the Board has decided to value the inventories in association with the accounting policy (and in accordance with accounting standards, specifically International Accounting Standard No 2), to the lower of Cost and Net Realisable Value (NRV). The inventories are valued at Cost as a result of the guaranteed initial investment return in place in the Fund. 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. Where sales of the RTPs are made, any gains will be recognised in the period the sale is made.

The Board is currently in negotiations to ensure that every route possible is explored so that the investors will at least receive their initial investment, plus 15%. These steps include widening the sales agents available to the projects, considering syndication and fractional ownership and having a more hands on approach to the sales process. However, the Board is cautiously optimistic that the markets will improve towards the end of 2009 and, as such, create a strong demand for fractional ownership given the quality of the properties involved.

## **RESULTS**

The financial statements of the Fund for the year to 30 June 2009 show the net asset value of the Fund at €12.36 million (2008: €12.39 million).

**Catharine Walter**

October 2009

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## DIRECTORS' REPORT

The Directors submit their report and the audited financial statements of Majestic Village No 1 Fund, a cell of Stirling Mortimer Property Fund PCC Limited, for the year ended 30 June 2009.

### **STRUCTURE OF FUND**

Stirling Mortimer Property Fund PCC Limited (the "Company") was incorporated on 7 April 2006 as a closed-ended investment fund with limited liability under The Companies (Guernsey) Law, 1994 and as a protected cell fund 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 Fund 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.

On 1 July 2008, the Companies (Guernsey) Law, 2008 came into force. This new law consolidated numerous laws including The Companies (Guernsey) Law, 1994 and The Protected Cell Companies Ordinance, 1997 to 1998 (as amended).

The Majestic Village No 1 Fund is a cell of the Company and was launched on 7 April 2006.

### **ACTIVITIES**

The principal activity of the Fund is that of a closed-ended investment fund with limited liability. The Fund invests in RTP contracts on the Majestic Village Dona Julia, Majestic Village Casares and El Mirador de la Heredia projects.

### **RESULTS**

The results for the year are shown in the income statement on Page 22.

### **DIVIDENDS**

The Directors do not recommend the payment of dividends to the shareholders for the year ended 30 June 2009 (2008: €Nil).

### **DIRECTORS**

The Directors of the Fund during the year and to date were as stated on Page 3.

# MAJESTIC VILLAGE NO 1 FUND, A CELL OF STIRLING MORTIMER PROPERTY FUND PCC LIMITED

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## **DIRECTORS' REPORT (continued)**

### **DIRECTORS' RESPONSIBILITIES**

The Directors are required by the Companies (Guernsey) Law, 2008 to prepare financial statements for each financial period which give a true and fair view of the state of affairs of the Fund and of the profit or loss of the Fund 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 Fund will continue in business.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Fund and to enable them to ensure that the financial statements comply with the Companies (Guernsey) Law, 2008. They are also responsible for safeguarding the assets of the Fund 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 financial statements.

The Directors confirm that so far as they are aware, there is no information relevant to the audit of which the Fund's auditors are unaware. The Directors also confirm that they have taken all steps they ought to have taken as directors to make themselves aware of any information relevant to the audit and to establish that the Fund's auditors are aware of that information.

### **AUDITORS**

A resolution for the re-appointment of BDO Novus Limited as auditors of the Company and Fund is to be proposed at the forthcoming annual general meeting.

#### **Catharine Walter**

Director

Date: 30 October 2009

#### **Richard Roberts**

Director

Date: 30 October 2009

Heritage Hall  
Le Marchant Street  
St Peter Port  
Guernsey

# MAJESTIC VILLAGE NO 1 FUND, A CELL OF STIRLING MORTIMER PROPERTY FUND PCC LIMITED

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## PROPERTY MANAGER'S REPORT

### OVERVIEW

The Majestic Village No 1 Fund, a cell of Stirling Mortimer Property Fund PCC Limited, has invested in RTP contracts on the Majestic Village Dona Julia project.

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.

The Spanish recession has deepened more than initially forecast in the first quarter of 2009, however, the Spanish government has actively responded with policies to address both the downturn in the economy and housing sector in Spain. 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 hoped 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 during this time, 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 Fund, will enable its outcome to be more positive than that which the current situation would reflect.

A number of improvements to the local infrastructure and events to encourage tourism are underway with the objective of raising the profile of the area, which the Property Manager feels will only be beneficial to the local real estate sector.

In addition, the re-launch of local sales and marketing offices has generated interest from a number of local and international real estate agents. Acting as a local sales hub, the sales office provides the ability to promote and present the developments in a far more professional and desirable manner to prospective clients and agents.

Recent valuations reported in June 2009 and carried out by Savills have seen a positive increase from 2008 figures. The valuations indicate a drop in the value of assets held within the Fund of 0.94% from the point at which they were invested into.

Whilst this positive increase in valuations shows a distinct benefit from the position in 2008 in relation to the value of the properties invested into by the Fund, the Property Manager feels that it is important to indicate that the current market conditions have resulted in the majority of purchases currently occurring in the distressed property sector, in particular from banks and building societies that are offering re-possession property for a fraction of the true value in an attempt to simply recuperate the value of debt on the property. These market conditions are making the marketing of property at its true market value difficult and the Property Manager feels that conditions will stabilise towards the end of 2009 with the absorption of distressed property and a return to true market value property being accepted.

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## PROPERTY MANAGER'S REPORT (continued)

### 1. The Economy

The Bank of Spain has recently reported that the Spanish recession deepened in the first quarter of 2009, with overall economic growth contracting at a pace unseen in nearly 40 years. In its monthly report published in April 2009, the Central Bank noted that Spain's economy shrank by 1.8% between the last quarter of 2008 and the first quarter of 2009, when GDP declined 1.0%. Year-on-year, the economy contracted 2.9% in Quarter 1, surpassing Quarter 4's 0.7% slide. Both of these quarterly and annual rates are the most pronounced since 1970<sup>1</sup>.

Prior to the global recession, Spain was one of the dominant forces in the EU economy but the nation has been hit hard, contracting at its fastest rate in 40 years following the collapse of the construction industry and the onset of a recession.

Spain's economic problems began with the construction industry and spread to its service industry during the first quarter of 2009 as the Bank of Spain said that the first quarter was an intensification of the trends and problems experienced in the economy at the end of 2008.

Spanish unemployment soared above four million during the first quarter of 2009, with the country's unemployment rate rising to 17.4% at the end of March. Spain's unemployment is now running at more than double the European Union average, with more than 800,000 people registering for unemployment benefit in Madrid, Barcelona and Cadiz alone in the first three months of the year. This increase was the biggest quarterly increase since the country's National Statistics Institute started recording unemployment figures in 1976.

Prime Minister Jose Luis Rodriguez Zapatero's administration has sought to shore up Spain's ailing economy with more than €50bn of reflationary measures. Mr Zapatero has also replaced his former finance minister, Pedro Solbes, who argued that Spain could not afford the package of stimuli, which includes proposed increases in unemployment benefits<sup>2</sup>.

The government has announced initiatives aimed at reviving credit flows to the economy and boosting demand via increased public sector spending. 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 re-invested capital gains on house sales.

In November 2008, the government also announced that the Official Credit Institute (ICO) 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 an €8bn fund to support local government investment schemes, with a further €3bn earmarked in aid for specific

<sup>1</sup> CEP Newswires - CEP News © 2009. www.economicnews.ca

<sup>2</sup> The Independent, 25 April 2009

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## **PROPERTY MANAGER'S REPORT (continued)**

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.

Fixed investment will fall back sharply in 2009, 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.

Whilst the economic conditions within Spain are worse than first estimated, the assets held by the Cell sit in a sector that is by no means purely reliant on the domestic property market, subsequent impacts on tourism and the ability and willingness to buy property from a number of international markets are more pertinent to the disposal of assets, which is discussed further under the appropriate sections of this report.

## **2. Infrastructure**

Malaga has been nominated for European Culture Capital in 2016, a campaign which is being supported by every sector of the economy, and has resulted in increased levels of investment in infrastructure and services. The decisions of the EU Council of Ministers will be provided at the end of 2011<sup>3</sup>. Malaga has a wide variety of features to support its aspirations including the now completed cruise ship terminal in the heart of the city.

Expansion of Malaga airport is almost complete with the construction of a new terminal, enabling it to handle 9,000 passengers every hour, and more than 20 million passengers a year by the end of 2009<sup>4</sup>. This action includes construction of a new airport terminal and runway, a train station, bus station and a new road network. Malaga is already Spain's fourth busiest airport and is connected to over 120 European and Spanish cities, in addition it now has twice weekly direct flights to Moscow and weekly flights to New York<sup>5</sup>.

The 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 the third quarter of 2007, includes various amenities and shopping facilities. The popularity of the AVE train service is rapidly increasing, with passenger numbers in February 2009 growing by 18.4% on the previous year.

The Spanish government aims to have 10,000km (6,200 miles) of high-speed track throughout 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>6</sup>.

<sup>3</sup> <http://www.krakowpost.com/article/1236>

<sup>4</sup> <http://www.towncrier.es/malaga/38-tourism/49-malaga-airport-nears-completion>

<sup>5</sup> Obelisk International, March 2009

<sup>6</sup> <http://www.guardian.co.uk/world/2008/feb/02/spain.railtravel> - 2 February 2008

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## PROPERTY MANAGER'S REPORT (continued)

An underpass is under construction at San Pedro de Alcantara 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, they have 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 otherwise would have.

### 3. Tourism

The global economic crisis is starting to show its full impact on tourism with overall arrivals to Spain reported to have dropped by 7% in March 2009<sup>7</sup>. However, despite the slowdown, the Costa del Sol has just experienced record tourist figures for the Easter period, proving that the area remains one of Europe's preferred holiday spots<sup>8</sup>.

According to the Costa del Sol Tourist Board, average hotel occupancy reached 75% along the coast, almost eight points higher than 2008. Along with high hotel occupancy, bars and restaurants reported a significant increase (around 15%<sup>9</sup>) in their takings compared to the previous year. The combination of high occupancy and spending has been widely welcomed by the area's tourist industry, particularly after a slow start to the year. Figures for Malaga city were more improved with hotels in the capital of the Costa del Sol registering occupancy levels of 82%, a record Easter for the city. Malaga also received 11,700 cruise passengers during Easter week, an increase of almost 60% on 2008.

The Costa del Sol's best Easter ever demonstrates that in spite of the recession, international and domestic tourists still flock to the area's beaches and attractions.

The Costa del Sol tourist board reports that as a result of visitors from the UK having dropped significantly at the beginning of the year, they are increasing activity in other European and international markets to promote the area as a holiday destination, including Russia, Scandinavia, Germany and Ireland.

Particular emphasis is being placed on the domestic Spanish market which accounts for 32% of visitors to the Costa del Sol. This is set to increase in line with the ongoing growth in visitors arriving on the AVE high speed train from Madrid which showed a 18.43% increase in February 2009 on the previous year.

Additional tourist pull factors to the area include the appointment of Marbella as the European City of Sports for 2009<sup>10</sup>, and the PGA European Tour "Volvo World Match Play Golf Championship" (formerly Volvo Masters) at Finca Cortesin in Casares from 27 to 29 September. Marbella will also be the host for the Davis Cup Quarter Finals and will see the German and Spanish tennis teams play against each other between 10 and 12 July at the Plaza de Toros (bullring) in Puerto Banus<sup>11</sup>.

After several years of political uncertainty, Marbella is well into its second year of new local government whose main aim has been to put the city back on the tourist map. Attracting major sporting events to Marbella is part of the municipality's objective to bring international acclaim to the Costa del Sol and raise the area's profile. The appointment of Finca Cortesin as the new venue for the "Volvo Match Play Championships" will have major benefits in raising the profile of Bahia de Casares, which the Property Manager hopes will also be reflected in increased demand for the area's real estate.

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<sup>7</sup> The News, Costa del Sol - 29 April 2009

<sup>8</sup> <http://www.prlog.org/10218521-easter-good-news-for-costa-del-sol-property-investment.html>

<sup>9</sup> Costa Del Sol Tourist Board

<sup>10</sup> <http://www.marbella.es>

<sup>11</sup> <http://www.marbellaguide.com/blog/davis-cup-quarter-finals-marbella/>

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## PROPERTY MANAGER'S REPORT (continued)

### 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 early compared to many European markets.

Recent statistics show that the ongoing decline in pricing has continued into 2009 with Tinsa reporting a significant drop in pricing levels of property on the Mediterranean coastline during the first quarter of 2009.

#### Year on year evolution - last 12 months<sup>12</sup>

	Capital & large cities	Metropolitan area	Mediterranean coast	Balearic & Canary Islands	Other municipalities	General
Sept-08	-6.50%	-7.10%	-5.30%	-4.40%	-1.70%	-4.90%
Oct-08	-7.70%	-7.60%	-8.90%	-5.40%	-5.30%	-6.50%
Nov-08	-8.40%	-8.50%	-8.50%	-8.40%	-6.30%	-7.80%
Dec-08	-8.10%	-10.20%	-14.30%	-9.00%	-6.60%	-8.80%
Jan-09	-9.60%	-10.90%	-12.60%	-8.20%	-10.00%	-10.10%
Feb-09	-8.80%	-11.10%	-10.70%	-7.60%	-7.90%	-9.00%
Mar-09	-10.20%	-9.60%	-11.60%	-8.30%	-8.90%	-9.70%

Whilst these figures relate to the entire Mediterranean coastline, figures from a second source of real estate valuations in Spain, "Sociedad de Tasacion"<sup>13</sup>, seems to show the Marbella region actually stabilising in the last half of 2008, with percentage decreases in average pricing slowing when compared with Malaga, Andalucia and the country as a whole.

AREA	YEAR	MONTH	6-Month Increment	12-Month Increment
MARBELLA	2008	December	-2,90	-5,70
MALAGA	2008	December	-4,40	-5,00
ANDALUCIA	2008	December	-4,80	-5,70
SPAIN	2008	December	-5,50	-6,60

Overall demand in Spanish real estate seems to be gradually returning, however, the current situation has resulted in high numbers of clients looking for distressed sales or dramatically reduced pricing, which is to a degree being fuelled by the banks' current activities of disposing of re-possessed properties at a fraction of their true value in an attempt to simply recuperate the value of debt on the property.

Whilst the impact of ongoing issues such as the strength of the Euro, availability of credit are still prominent factors affecting demand for real estate in Marbella and surrounding areas, more positive issues relating to positive tourism and a contraction in the construction sector should allow for the absorption of oversupply. It is the Property Manager's opinion that demand will increase in line with increases in tourism from the international sector and enhanced opportunities for disposal of asset.

<sup>12</sup> [www.tinsa.com/](http://www.tinsa.com/)

<sup>13</sup> <http://web.st-tasacion.es/html/menu6.php>

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## **PROPERTY MANAGER'S REPORT (continued)**

### **5. Development updates**

#### **a. USP of developments**

The development held within the Fund's portfolio is a high quality project based on the Costa del Sol in Andalucía. It was selected using criteria which included working 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 Perla de la Heredia.

The development is distinguished by its close attention to detail and finishing touches. The project is surrounded by landscaped gardens with spectacular views, additional facilities that allow for a higher quality of living include traditional and unique Moorish architecture, under floor heating, security systems and full heating and air-conditioning systems.

The areas of investment were 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 development held within the Fund'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 combined with the recent improvements in infrastructure and tourism incentives will provide for more favorable market conditions and opportunities for disposal of asset as the market stabilises through 2009.

#### **b. Building licences and construction completion dates**

The intention of the Fund has been to invest in RTP contracts as a tradable commodity and hence they were always regarded as such. The focus of the Fund has therefore been based upon the saleability 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, a slowdown in sales has occurred as a result of both the market as a whole and the delays that have occurred in construction and completion timeframes.

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

The recent subrogation of contracts between Stirling Mortimer Property Fund Limited and the Spanish developer for construction of Majestic Village Casares, Majestic Village Dona Julia and El Mirador de la Heredia, means that the Funds now have a direct relationship with the constructor of these developments. The specific benefits of the subrogation of contracts are detailed below:

# MAJESTIC VILLAGE NO 1 FUND, A CELL OF STIRLING MORTIMER PROPERTY FUND PCC LIMITED

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## **PROPERTY MANAGER'S REPORT (continued)**

- Ability to negotiate a delay of completion dates with both the developer and financing bank. Whilst it is the contractual obligation of the developer to deliver the properties according to the timeframes agreed, they also understand that it is in the interest of the Funds to delay completion to allow additional time to dispose of the properties. Due to their close relationship to the financing banks they have indicated to us, that they would be able and willing to assist us in negotiations with the bank to achieve a delay in completion and/or repayment of the mortgage.
- Ability to negotiate discounts – direct communication with the developer enhances the ability to negotiate discounts on the current completion amounts. As with delays in completion dates, the developer understands that disposal of assets in the current marketplace is proving extremely difficult and that pricing incentives may be necessary to effectively do so.

In summary, the subrogation of contracts now enables direct communication regarding completion dates and potential discounts with the developer, which will ultimately enhance the opportunities for disposal of assets.

### **c. Construction updates**

The opening of the show house at Majestic Village has been delayed awaiting the fitting of kitchen appliances and is now scheduled for the fourth quarter of 2009. Once open this will be the focal point for sales on Majestic Village Dona Julia, 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). In addition, the club house at El Mirador de la Heredia is now being utilised as a regional sales office for all Spanish developments.

### **Majestic Village Dona Julia**

The main entrance to the Majestic Village Dona Julia site is now complete with a variety of additional amenities currently under construction. Upon completion the resort will offer access to the three 18-hole golf courses and a nine-hole practice area, luxury hotels (including the Park Hyatt Casares), commercial and leisure facilities which will include tennis, squash courts, swimming pools, spas and a horse riding centre.

From its vantage point at the main pinnacle overseeing the completed 18-hole Dona Julia Golf course, El Cortesin Golf Course and the coastline, Majestic Village Dona Julia is well positioned with views to the golf and the sea. The main access routes from the coast and the Casares road are now complete.

The perimeter walls to the plot are complete with the townhouse structures now at an advanced stage, with exterior painting underway on a number of units. A detailed breakdown of construction timeframes is provided in Annex 1.

# MAJESTIC VILLAGE NO 1 FUND, A CELL OF STIRLING MORTIMER PROPERTY FUND PCC LIMITED

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## PROPERTY MANAGER'S REPORT (continued)

### Construction photos

*The ongoing progress of the development is now evident from the surrounding golf courses.*



### Villas

Completion of painting, rendering and interiors of the villas will coincide with the undertaking of these activities on the rest of the site. Those villas that are at a more advanced stage of completion are now securely enclosed and awaiting outstanding completion works which are planned to be undertaken once the marketplace demonstrates some sort of recovery. It has also been confirmed that any quality issues that are apparent will be rectified as part of the completion works including re-fitting windows and doors if appropriate.



*Secured villas.*

# MAJESTIC VILLAGE NO 1 FUND, A CELL OF STIRLING MORTIMER PROPERTY FUND PCC LIMITED

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## PROPERTY MANAGER'S REPORT (continued)

### 6. Valuations

Recent valuations reported in June 2009 and carried out by Savills have seen a positive increase from 2008 figures. The valuations indicate a drop in the value of assets held within the Fund of 0.94% from the point at which they were invested into.

Cell	Off-plan price	Current valuation	Difference	% Loss
1	€37,881,000	€37,525,736	€355,264	0.94

This is a positive movement in the market value of assets, which the Property Manager feels is as a result of the specific area (Marbella and surrounding areas are reported to have seen a degree of stabilisation in pricing in the last half of 2008) but more importantly due to the uniqueness and quality associated with the portfolio, which was one of the key considerations prior to initial investment.

However, due to current market conditions and the trend for buyers seeking distressed or discounted property, marketing attempts of property at its full market value are proving difficult. The Property Manager feels that this situation will resolve itself in line with the absorption of distressed and bank re-possession properties and a return to true market value towards the end of the year.

### 7. Extension of cell

As was announced through the Channel Islands Stock Exchange and in light of the factors detailed above, the Board of the Company has taken the decision to further extend the Fund as follows:

CELL	Development	Extension date	Original completion date	New forecast completion/ settlement date	Additional delay
1	Majestic Village Casares Dona Julia	30/04/2010	01/02/2010	01/07/2010	Potentially with bank's agreement

The Property Manager hopes that with the expected improvement in the market towards the end of 2009 and the restructured sales and marketing strategies that this extension will be sufficient. Whilst a completion risk still exists, an improvement in market conditions should ensure that this extension will be sufficient to ensure that the Fund's investments are realised (see Notes 2 and 13 to the financial statements).

### 8. Disposal of asset

#### a, Current activity

Whilst all attempts are being made to realise the re-sale of RTP contracts held by the Fund, the current downturn in both demand and the real estate market in general, has had an effect on the success of marketing attempts. The Property Manager hopes that the market will stabilise during the second half of 2009 and expects to see increasing demand over that period.

Historically, asset disposal has been concentrated on the tourist market for overseas property, with particular emphasis on the UK market due to its affiliation with the Spanish coastal regions. The recent restructuring of sales and marketing attempts has resulted in a focus on markets outside of the UK, encompassing the domestic market for second homes in Spain, and a variety of key tourist markets.

# MAJESTIC VILLAGE NO 1 FUND, A CELL OF STIRLING MORTIMER PROPERTY FUND PCC LIMITED

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## **PROPERTY MANAGER'S REPORT (continued)**

Current operations are based in Mijas-Costa on the Costa del Sol from the main sales centre which consists of a 20 strong telemarketing team, in-house marketing and research functions and four sales representatives.

The opening of the sales office based at the El Mirador de la Heredia development on the Ronda Road in Benahavis is focussed on the promotion of all sites held in the Spanish portfolio and acts as a central hub for clients and agents. A full range of marketing presentations, brochures and promotional material is now permanently available onsite.

A launch event was held during April where a wide range of local media and real estate agents were invited to a sales presentation, as a result of the launch event and the active use of multi-listing services (MLS) with a variety of local real estate agents, the Dona Julia development is now listed by over 97 agents through the MLS network.

Our telemarketing team handles enquiries on a daily basis, generated by means of the internet and property magazine advertising.

### **b. 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 the Fund in 2008. The sale produced a gross return to the Fund 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 as the market stabilises through 2009.

## **9. Projected performance of Fund**

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 are requiring higher deposits from potential purchasers and indeed have withdrawn certain mortgages from the market completely.

A number of improvements to the local infrastructure and tourism incentives are underway with the objective of raising the profile of the area, which the Property Manager feels will only be beneficial to the local real estate sector.

In addition, the opening of the local sales office is acting as a central sales hub for both local real estate agents and potential clients. The provision of a full range of sales and marketing material based on site is in place to aid with the presentation of the portfolio and a number of local agents have already signed up to promote Majestic Village Dona Julia to their client base. On-site and road side marketing banners and promotional material are in place to attract passing trade, which is envisaged to dramatically increase during the coming peak tourist season.

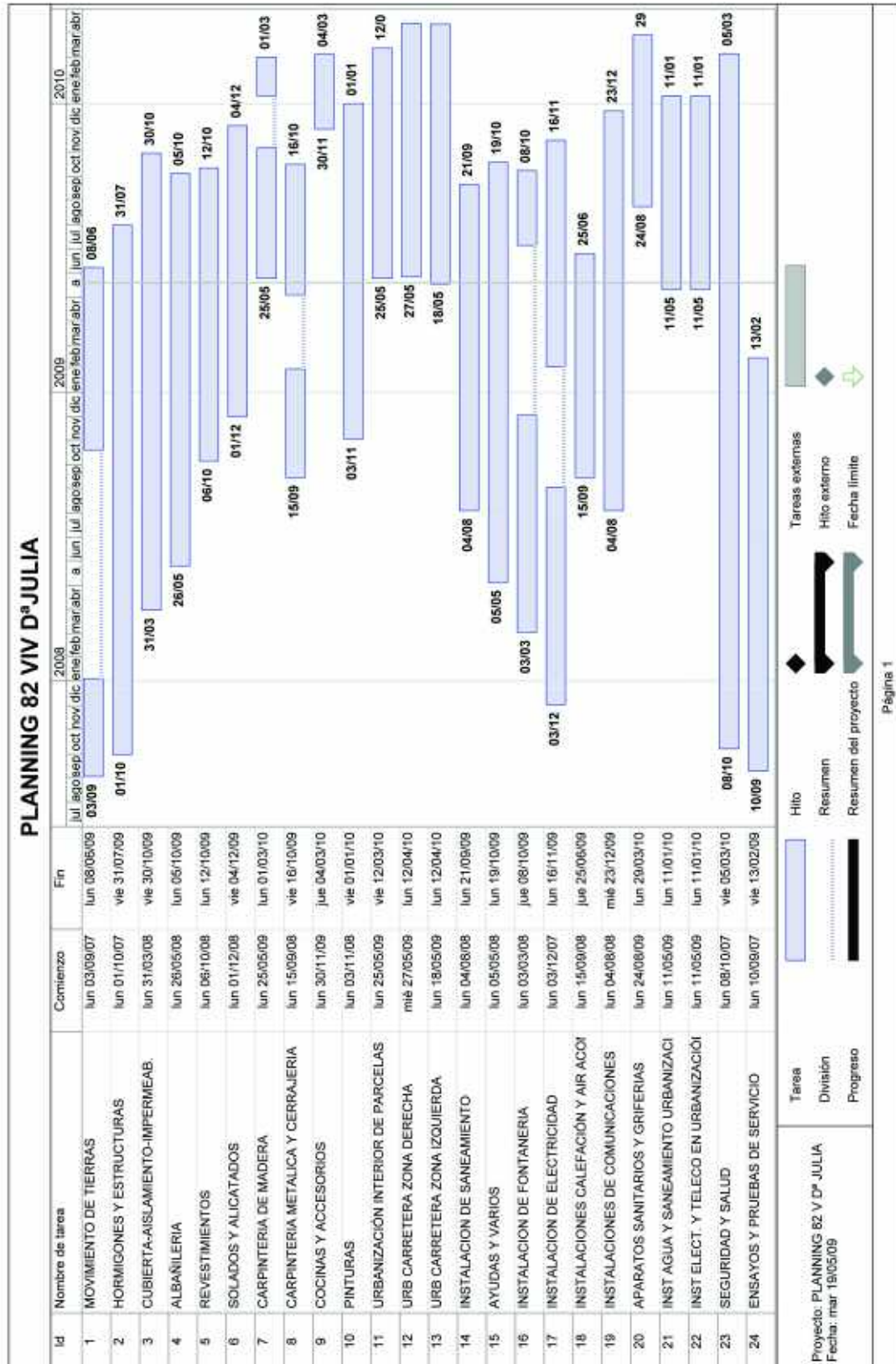
The Property Manager believes that the forecast improvements in market conditions towards the second half of 2009 combined with the restructured marketing and sales activities should provide far greater levels of disposal of asset.

**Majestic Investments Consulting SL**  
**24 September 2009**

# MAJESTIC VILLAGE NO 1 FUND, A CELL OF STIRLING MORTIMER PROPERTY FUND PCC LIMITED

## PROPERTY MANAGER'S REPORT (continued)

Annex 1 – Gantt chart



# MAJESTIC VILLAGE No 1 FUND, A CELL OF STIRLING MORTIMER PROPERTY FUND PCC LIMITED

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## **PROPERTY MANAGER'S REPORT (continued)**

Annex 1a – Gantt chart Translation

Planning 82 Viv Da Julia

ID	Name of task
1	MOVEMENT OF GROUNDS
2	CONCRETES AND STRUCTURES
3	COVERED IMPERMEABLE ISOLATION
4	BUILDING
5	REVETMENTS
6	SOLDIERS AND TILED
7	CARPENTRY OF MADEIRA
8	METALLIC CARPENTRY AND LOCKSMITH
9	KITCHENS AND ACCESSORIES
10	PAINTINGS
11	INTERIOR URBAN DEVELOPMENT OF PLOTS
12	URB HIGHWAY RIGHT ZONE
13	URB HIGHWAY LEFT ZONE
14	INSTALLATION OF SANITATION
15	HELPS AND SEVERAL
16	INSTALLATION OF PLUMBING
17	INSTALLATION OF ELECTRICITY
18	INSTALLATION HEATING AND AIR CONDITION
19	COMMUNICATION FACILITIES
20	SANITARY DEVICES AND BATHROOM FITTINGS
21	INSTALLATION OF WATERS DOWN AND SANITATION URBAN DEVELOPMENT
22	INSTALLATION OF ELECTRICITY AND TELEPHONE IN URBAN DEVELOPMENT
23	SECURITY AND HEALTH
24	ESSAYS AND TESTS OF SERVICE

# MAJESTIC VILLAGE NO 1 FUND, A CELL OF STIRLING MORTIMER PROPERTY FUND PCC LIMITED

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## INDEPENDENT AUDITORS' REPORT

To the members of Majestic Village No 1 Fund, a cell of  
Stirling Mortimer Property Fund PCC Limited

We have audited the financial statements of Majestic Village No 1 Fund (the "Fund"), a cell of Stirling Mortimer Property Fund PCC Limited, (the "Company") for the year ended 30 June 2009 which comprise the Balance Sheet, Income Statement, Statement of Cash Flows and Statement of Changes in Equity and the related Notes 1 to 18. These financial statements have been prepared under the International Financial Reporting Standards (IFRS) and in accordance with the accounting policies set out on Pages 26 to 33.

This report is made solely to the Fund's members, as a body, in accordance with Section 262 of the Companies (Guernsey) Law, 2008. Our audit work is undertaken so that we might state to the Fund's members those matters we are required to state to them in an auditors' 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 Fund and the Fund's members as a body, for our audit work, for this report, or for the opinions we have formed.

### **Respective responsibilities of the Directors and Auditors**

As described in the Directors' Responsibilities Statement within the Directors' Report, the Directors are responsible for the preparation of the financial statements in accordance with applicable Guernsey law and IFRS.

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 in accordance with the Companies (Guernsey) Law, 2008. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the Company or Fund 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 is not disclosed.

We read the other information in the Annual Report and consider whether it is consistent with the audited financial statements. This other information comprises only the Chairman's Statement, Director's Report and the Property Manager's Report. We consider the implications for our report if we become aware of any apparent mis-statements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

### **Basis of opinion**

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the 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 Fund's circumstances, consistently applied and adequately disclosed.

# MAJESTIC VILLAGE NO 1 FUND, A CELL OF STIRLING MORTIMER PROPERTY FUND PCC LIMITED

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## **INDEPENDENT AUDITORS' REPORT (continued)**

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 mis-statement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the 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 IFRS, of the state of the Fund's affairs as at 30 June 2009 and of its results for the year ended 30 June 2009; and
- have been properly prepared in accordance with the provisions of the Companies (Guernsey) Law, 2008 and the principal documents.

### **Emphasis of matter**

In forming our opinion on the financial statements, which is not qualified, we draw your attention to the disclosures made in Note 2 to the financial statements concerning the significant judgments made and the uncertainties around the valuation of the Fund's inventory. As disclosed in Note 1c) to the financial statements, the RTPs are classified as inventory and measured at the lower of cost and net realisable value. Given the facts disclosed in Note 2, there is an uncertainty regarding the inventory's carrying value of €10,894,576. The financial statements do not include the adjustments that would be necessary should any losses not be reimbursed under the guarantees in place or should the anticipated sales not arise during the guarantee period.

In addition to this, we draw your attention to the disclosures made in Note 13 to the financial statements concerning the Fund's contingent financial commitments. As disclosed in Note 13 to the financial statements, the Fund will require further financing should the Fund need to complete the property purchases under the RTPs. The Fund's Directors are reviewing the various financing options available to the Fund should this become necessary. However, as at the date of this report, no plans have been finalised. The Directors have prepared the financial statements on a going concern basis on the presumption that financing will be available to the Fund, to enable the completion of the RTPs, should it become necessary.

### **BDO NOVUS LIMITED**

Chartered Accountants

Place du Pré

Rue du Pré

St Peter Port

Guernsey

30 October 2009

MAJESTIC VILLAGE NO 1 FUND, A CELL OF  
STIRLING MORTIMER PROPERTY FUND PCC LIMITED

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**INCOME STATEMENT**

FOR THE YEAR ENDED 30 JUNE 2009

	Notes	Jun-09 €	Jun-08 €
Revenue	3	-	113,850
Cost of sales	4	-	(109,758)
<b>Gross profit</b>		<b>-</b>	<b>4,092</b>
Other income		227,286	-
<b>Expenses</b>			
Administrative expenses	5	(289,101)	(350,815)
<b>Operating loss</b>		<b>(61,815)</b>	<b>(346,723)</b>
<b>Finance income and expenses</b>	6		
Finance income		34,979	1,406
Finance expenses		(82)	(141)
<b>Loss for the year</b>	11	<b>(26,918)</b>	<b>(345,458)</b>
<b>Earnings per share</b>	18		
		€	
	<b>30 June 2009</b>	(0.20)	
	30 June 2008	(2.62)	

All items in the above derive from continuing activities. The accompanying notes form an integral part of these financial statements.

MAJESTIC VILLAGE NO 1 FUND, A CELL OF  
STIRLING MORTIMER PROPERTY FUND PCC LIMITED

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**BALANCE SHEET**

AS AT 30 JUNE 2009

	Notes	Jun-09 €	Jun-08 €
<b>Assets</b>			
<b>Current assets</b>			
Inventories	7	10,894,576	10,894,576
Trade and other receivables	8	237,256	1,713,439
Cash and cash equivalents		1,318,097	26,788
<b>Total Assets</b>		<b>12,449,929</b>	<b>12,634,803</b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade and other payables	9	90,600	248,556
<b>Total current liabilities</b>		<b>90,600</b>	<b>248,556</b>
<b>Total Net Assets</b>		<b>12,359,329</b>	<b>12,386,247</b>
<b>Capital and Reserves</b>			
Share capital	10	13,209,908	13,209,908
Retained earnings	11	(850,579)	(823,661)
<b>Total equity</b>		<b>12,359,329</b>	<b>12,386,247</b>
<b>Total Liabilities and Equity</b>		<b>12,449,929</b>	<b>12,634,803</b>
<b>Net Asset Value per share</b>	18	€	
	<b>30 June 2009</b>	93.56	
	30 June 2008	93.76	

The financial statements on Pages 22 to 46 were approved and authorised for issue by the Directors on 30 October 2009.

**Catharine Walter**  
DIRECTOR

**Richard Roberts**  
DIRECTOR

Date: 30 October 2009

The accompanying notes form an integral part of these financial statements.

MAJESTIC VILLAGE NO 1 FUND, A CELL OF  
STIRLING MORTIMER PROPERTY FUND PCC LIMITED

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STATEMENT OF CASH FLOW

FOR THE YEAR ENDED 30 JUNE 2009

	Notes	Jun-09 €	Jun-08 €
<b>Net cash used in</b>			
<b>Operating activities</b>	12	1,291,309	(75,631)
<hr/>			
<b>Net movement in cash and cash equivalents</b>		1,291,309	(75,631)
Opening cash and cash equivalents		26,788	102,419
<b>Cash and cash equivalents as at 30 June</b>		<b>1,318,097</b>	<b>26,788</b>

The accompanying notes form an integral part of these financial statements.

MAJESTIC VILLAGE NO 1 FUND, A CELL OF  
STIRLING MORTIMER PROPERTY FUND PCC LIMITED

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STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2009

	Notes	Jun-09 €	Jun-08 €
Total equity at beginning of year		12,386,247	12,731,705
Loss for the year	11	(26,918)	(345,458)
<b>Total equity as at the end of the year</b>		<b>12,359,329</b>	<b>12,386,247</b>

The accompanying notes form an integral part of these financial statements.

# MAJESTIC VILLAGE NO 1 FUND, A CELL OF STIRLING MORTIMER PROPERTY FUND PCC LIMITED

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## GENERAL INFORMATION

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2009

These financial statements are for the Majestic Village No 1 Fund (the “Fund”), a cell of Stirling Mortimer Property Fund PCC Limited (the “Company”). The Company is a closed-ended investment company with limited liability incorporated 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 Fund is shown on Page 3.

On 1 July 2008, the Companies (Guernsey) Law, 2008 came into force. This new law consolidated numerous laws including The Companies (Guernsey) Law, 1994 and The Protected Cell Companies Ordinance, 1997 to 1998 (as amended).

Under Guernsey law, a protected cell fund such as the Fund 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, the cell structure permits the segregation and protection of assets of each cell from other liabilities of the Fund 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, 2008.

The financial statements have been prepared in Euro (EUR), which is the presentational currency of the Fund, and under the historical cost convention.

# MAJESTIC VILLAGE NO 1 FUND, A CELL OF STIRLING MORTIMER PROPERTY FUND PCC LIMITED

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## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2009

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

The Company maintains a separate cell account for each class of preference shares (fund), 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 Fund 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 Fund's accounting policies. The areas involving a high degree of judgement or complexity or areas where assumptions and estimates are significant to the financial statements, are disclosed in Note 2.

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

Two interpretations issued by the International Financial reporting Interpretations Committee are effective for the current year. These were: IFRIC 11: IFRS 2: Group and treasury share transactions and IFRIC 14: IAS 19: The limit on a defined benefit asset, minimum funding requirements and their interaction.

The adoption of these interpretations has not led to any changes in the Fund's accounting policies.

#### *Standards and Interpretations in issue and not yet effective*

At the date of authorisation of these financial statements, the following standards and interpretations, which have not been applied in these financial statements, were issued but not yet effective:

# MAJESTIC VILLAGE NO 1 FUND, A CELL OF STIRLING MORTIMER PROPERTY FUND PCC LIMITED

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## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2009

### 1. SIGNIFICANT ACCOUNTING POLICIES (continued)

<b>New standards</b>		<b>Effective for periods beginning on or after</b>
IFRS 8	Operating segments	1 January 2009
 <b>Revised and amended standards</b>		
IFRS 2	Share-based payments	1 January 2009
IFRS 3	Business combinations	1 July 2009
IFRS 5	Non-current assets held for sale and discontinued operations	1 July 2009
IFRS 7	Financial instrument disclosures – amendments enhancing disclosures about fair value and liquidity risk	1 January 2009
IAS 1	Presentation of financial statements	1 January 2009
IAS 16	Property, Plant and Equipment	1 January 2009
IAS 19	Employee Benefits	1 January 2009
IAS 20	Government Grants	1 January 2009
IAS 23	Borrowing costs – amendments resulting from annual improvements to IFRS	1 January 2009
IAS 23	Borrowing costs – comprehensive revision to prohibit immediate expensing	1 January 2009
IAS 27	Consolidated and separate financial statements – first time adoption and annual improvements	1 January 2009
IAS 27	Consolidated and separate financial statements – consequential amendments arising from amendments to IFRS3	1 July 2009
IAS 28	Investments in associates – annual amendments	1 January 2009
IAS 28	Investments in associates - consequential amendments arising from amendments to IFRS3	1 July 2009
IAS 29	Financial reporting in hyperinflationary economies	1 January 2009
IAS 31	Interest in joint ventures – annual amendments	1 January 2009
IAS 31	Interest in joint ventures - consequential amendments arising from amendments to IFRS3	1 January 2009

# MAJESTIC VILLAGE NO 1 FUND, A CELL OF STIRLING MORTIMER PROPERTY FUND PCC LIMITED

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## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2009

### 1. SIGNIFICANT ACCOUNTING POLICIES (continued)

IAS 32	Financial instruments: Presentation	1 January 2009
IAS 36	Impairment of assets	1 January 2009
IAS 38	Intangible assets	1 January 2009
IAS 39	Financial instruments: recognition and measurement	1 January 2009
IAS 39	Financial instruments: recognition and measurement – amendments for eligible hedged items	1 July 2009
IAS 40	Investment property	1 January 2009
IAS 41	Agriculture	1 January 2009
<b>Interpretations</b>		
IFRIC 15	Agreements for the construction of real estate	1 January 2009
IFRIC 16	Hedges of a net investment in a foreign operation	1 October 2008
IFRIC 17	Distributions of non-cash assets to owners	1 July 2009
IFRIC 18	Transfers of assets from owners	1 July 2009

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

#### 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 one geographical area being Spain.

#### b) Foreign currency translation

Transactions in currencies other than the functional currency of the Fund 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.

# MAJESTIC VILLAGE NO 1 FUND, A CELL OF STIRLING MORTIMER PROPERTY FUND PCC LIMITED

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## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2009

### 1. SIGNIFICANT ACCOUNTING POLICIES (continued)

- **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 monetary 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.

#### **c) Inventories**

The 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. 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 costs to complete the development and selling expenses (see Note 2).

#### **d) Revenue and expense recognition**

Revenue comprises the proceeds from the sale of RTPs. Revenue is recognised in the income statement when significant risks and rewards of ownership have been transferred to the buyer on the date of unconditional exchange or for conditional exchange when all conditions have been satisfied. Revenue is measured at the fair value of the consideration received or receivable.

Expenses are accounted for on an accrual basis and are charged through the income statement in the period in which they are incurred. Expenses which are incidental to the acquisition of the RTPs are included within the cost of inventory.

# MAJESTIC VILLAGE NO 1 FUND, A CELL OF STIRLING MORTIMER PROPERTY FUND PCC LIMITED

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## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2009

### 1. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### e) Other income

Other income comprises the proceeds from penalties earned on the non re-sale of RTPs and are recognised on an accrual basis.

#### f) Operating loss

Operating loss includes gross profit from the sale of inventory together with other operating income and as reduced by administrative expenses and excludes finance costs and finance income.

#### g) Financial instruments

Financial assets and financial liabilities are recognised on the Fund's balance sheet when the Fund becomes a party to the contractual provisions of the instrument. The Fund shall offset financial assets and financial liabilities if the Fund has a legally enforceable right to set off the recognised amounts and interests and intends to settle on a net basis.

#### Financial assets

The Fund's financial assets consist of loans and receivables. The Fund has not classified any of its financial assets as held to maturity, financial assets at fair value through profit or loss or as available for sale. Unless otherwise indicated, the carrying amounts of the Fund's financial assets are a reasonable approximation of their fair value.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They comprise principally of re-sale guarantees and cash and cash equivalents. They are initially recognised at fair value plus transaction costs that are directly attributable to the acquisition or issue and subsequently carried at amortised cost using the effective interest rate method, less provision for impairment.

The effect of discounting on these financial instruments is not considered to be material.

A provision for impairment 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 receivable, probability that the receivable will enter bankruptcy, financial re-organisation and/or delinquency in payments are considered indicators that the receivable is impaired.

# MAJESTIC VILLAGE NO 1 FUND, A CELL OF STIRLING MORTIMER PROPERTY FUND PCC LIMITED

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## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2009

### 1. SIGNIFICANT ACCOUNTING POLICIES (continued)

Re-sale guarantees received as part of an inventory acquisition (RTP) are shown as a separate receivable 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 receivable. If the RTP is sold, then the re-sale guarantee is not recoverable and recognised in profit and loss.

Cash and cash equivalents comprise 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.

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.

#### **De-recognition of financial assets**

A financial asset (in whole or in part) is de-recognised either:

- when the Fund has transferred substantially all the risks and rewards of ownership; or
- when it has transferred or retained substantially all the risks and rewards and when it no longer has control over the asset or a portion of the asset; or
- when the contractual right to receive cash flow has expired.

#### **Financial liabilities**

The Fund classifies its financial liabilities into financial liabilities measured at amortised cost. Unless otherwise indicated, the carrying amounts of the Fund's financial liabilities are a reasonable approximation of their fair values.

# MAJESTIC VILLAGE NO 1 FUND, A CELL OF STIRLING MORTIMER PROPERTY FUND PCC LIMITED

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## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2009

### 1. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities include the following items:

- Trade payables and other short-term monetary liabilities, which are initially recognised at fair value and subsequently carried at amortised cost using the effective interest method. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset or liability, or, where appropriate, a shorter period.

#### **De-recognition of financial liabilities**

A financial liability (in whole or in part) is de-recognised when the Fund has extinguished its contractual obligations, it expires or is cancelled. Any gain or loss on de-recognition is taken to the income statement. The effective interest method is a method of calculating the amortised cost of a financial asset or liability and of allocating interest income or expense over the relevant period.

#### **h) Share capital**

Financial instruments issued by the Fund are treated as equity only to the extent that they do not meet the definition requirements of a financial liability. Ordinary shares and preference shares are classified as equity.

#### **i) Taxation**

The Company, and hence the Fund, is exempt from taxation in Guernsey under the provisions of the Income Tax (Exempt Bodies) (Guernsey) Ordinances, 1989 to 1992, and the Company is charged an annual exemption fee of £600. The various Spanish tax implications are as outlined on the supplemental offering memorandum.

No liability to Spanish taxation arises on the results for the period.

### 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 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 in the period of revision and future periods if the revision affects both current and future periods.

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.

# MAJESTIC VILLAGE NO 1 FUND, A CELL OF STIRLING MORTIMER PROPERTY FUND PCC LIMITED

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## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2009

### 2. CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS (continued)

In relation to the Fund's inventory, the Directors have relied upon the external valuations performed by professionally qualified valuers Savills (L&P) Limited at 30 June 2009. They are required to make assumptions on establishing the current market valuation of the completed property.

The valuations are largely based on estimates using property appraisal techniques and other valuation methods as outlined below. Such estimates are inherently subjective and actual values can only be determined in a sales transaction.

The valuation has been prepared in accordance with the Royal Institution of Chartered Surveyors (the "RICS Red Book") published in November 2007, effective from 1 January 2008, amended from 1 March 2009 in particular in accordance with the requirements of Practice Statements PS6 entitled Valuation Reports and UKPS3 entitled Valuation for Loan Facilities.

Their valuation was based on the RICS definition of "worth" subject to and with the benefit of vacant possession with the special assumptions that:

- All marketing, legal and agency fees have been paid as part of the initial acquisition cost and no further costs in these respects, whatever, will become payable by the Fund.
- No funding costs apply.
- The full development and all construction, infrastructure, professional, fit out and all related costs will be met by the developer and no costs in these respect, whatever, will become payable by the Fund.
- All leisure, commercial and retail elements will be completed and in operation and available to purchasers of the residential units upon completion of construction.

Worth is the value of the property to a particular owner, investor, or class of investors for identified investments or operational objectives.

Where estimating the net realisable value (NRV) of inventories, the purpose for which the inventories are held is taken into consideration. As a consequence, the NRV as at 30 June 2009 can be based on the following scenarios:

<b>Scenario</b>	<b>€</b>
i) Fund re-sells the RTPs before completion of the underlying property	9,372,100
ii) Fund completes on the purchase of the underlying property	7,313,000

The intention of the Fund remains that of re-selling the RTP contracts and not to complete on the purchase of the underlying property.

Simultaneously and in addition to RTPs, the Fund entered into investment agreements for each RTP purchased. The investment agreement confirms that the appointed property manager will to the best of their endeavours sell the RTPs prior to the expiration of the investment term. The investment agreement further includes guarantee provisions under which the original seller or its appointed agent, guarantees to compensate the Fund for any losses that may arise on the sales of the RTPs within two years from the original envisaged date for delivery of the property (see Page 16).

# MAJESTIC VILLAGE NO 1 FUND, A CELL OF STIRLING MORTIMER PROPERTY FUND PCC LIMITED

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## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2009

### 2. CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS (continued)

As a result of the investment strategy of the Fund, and considering the re-sale guarantees which are in place, the Directors have decided to measure the RTP contracts at cost.

In current circumstances, significant uncertainty exists regarding the ability of the relevant parties to refund all the losses in the event that the RTPs are sold at their net realisable values as at 30 June 2009.

However, the Directors consider the above scenario to be unlikely and they have further based their decision to measure the RTPs at cost because:-

- Sales in progress at a profit subsequent to year end; and
- Sales mandate of sales agent broadened to increase sales; and
- Subrogation Agreements which were entered into post year end (see Note 15) means that the Fund will have a direct relationship with the constructor of these developments which enhances the ability of the Fund to negotiate possible discounts of the final off-plan price of the completed properties; and
- The Directors are cautiously optimistic the markets will improve toward the end of 2009 and as such will stimulate sales.

Should the guarantees not be reimbursed the inventories would be written down to their NRV's with the following impairment losses recognised in the income statement:

	€
Amounts written down to NRV as at 30 June 2009	(1,522,476)

The Directors will continue to review the value of inventories on an ongoing basis.

### 3. REVENUE

	Jun-09 €	Jun-08 €
Original price	-	330,000
Paid at contract	-	99,000
7% IVA	-	6,930
Additional return	-	7,920
<b>Total</b>	<b>-</b>	<b>113,850</b>

# MAJESTIC VILLAGE NO 1 FUND, A CELL OF STIRLING MORTIMER PROPERTY FUND PCC LIMITED

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## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2009

### 4. COST OF SALES

	<b>Jun-09</b>	<b>Jun-08</b>
	€	€
30% deposit	-	99,000
7% IVA	-	6,930
Legal fees	-	3,828
<b>Total</b>	<b>-</b>	<b>109,758</b>

### 5. ADMINISTRATIVE EXPENSES

	<b>Jun-09</b>	<b>Jun-08</b>
	€	€
Property Advisor's fees	112,927	215,179
Administration fees	69,236	64,203
Directors' fees	23,917	25,507
Insurance premiums	5,270	5,197
Valuation fees	38,133	16,135
Audit fees	11,601	7,057
Listing fees	5,874	6,338
Professional fees	9,517	7,653
Directors' expenses	1,155	-
Sundry expenses	11,471	3,546
	<b>289,101</b>	<b>350,815</b>

The Fund has no employees.

### 6. FINANCE INCOME AND EXPENSES

	<b>Jun-09</b>	<b>Jun-08</b>
	€	€
Bank interest income	34,979	1,406
<b>Finance income</b>	<b>34,979</b>	<b>1,406</b>
Foreign exchange loss	82	141
<b>Finance expenses</b>	<b>82</b>	<b>141</b>

# MAJESTIC VILLAGE NO 1 FUND, A CELL OF STIRLING MORTIMER PROPERTY FUND PCC LIMITED

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## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2009

### 6. FINANCE INCOME AND EXPENSES (continued)

The above interest income arises from financial assets classified as loans and receivables and has been calculated using the effective interest rate method. There are no other gains and losses on loans and receivables. The above interest income represents the total interest income on financial assets not at fair value through profit or loss.

The above finance expenses arise on financial liabilities measured at amortised cost. There are no other gains and losses on financial liabilities measured at amortised cost.

### 7. INVENTORIES

	<b>Jun-09</b>	<b>Jun-08</b>
	<b>€</b>	<b>€</b>
<b>“Right to purchase” contracts</b>		
Cost brought forward	10,894,576	10,989,484
Disposals (net of re-sale guarantees)	-	(94,908)
<b>Net book value</b>	<b>10,894,576</b>	<b>10,894,576</b>

The RTPs have been recorded at lower of cost and net realisable value (NRV). 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 (2008: €795,501) for the Fund.

Significant judgement and estimates are used when considering the RTPs’ NRV (see Note 2).

### 8. TRADE AND OTHER RECEIVABLES

Re-sale guarantees are contractual agreements specifically referred to in the relevant right to purchase agreements under which the vendor provides a guarantee (by way of an escrowed or segregated bank account deposit) for 15% profit on the sum invested by the Fund. If the RTPs remain unsold after a period of two years, the re-sale guarantees are repaid in full to the Fund. Further penalty payments equal to 2% of the investment amount will be due at the third and fourth years if the RTPs remain unsold. The Directors have considered the financial position of the guarantee provider and consider them to be of sufficient standing to rely on in order to account for the re-sale guarantees as receivables.

	<b>Jun-09</b>	<b>Jun-08</b>
	<b>€</b>	<b>€</b>
Penalty payments - 2%	227,286	-
Pre-payments	9,970	8,794
Re-sale guarantee - 15%	-	1,704,645
<b>Total</b>	<b>237,256</b>	<b>1,713,439</b>

# MAJESTIC VILLAGE NO 1 FUND, A CELL OF STIRLING MORTIMER PROPERTY FUND PCC LIMITED

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## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2009

### 9. TRADE AND OTHER PAYABLES

	<b>Jun-09</b>	<b>Jun-08</b>
	€	€
Administration fees payable	14,700	15,800
Audit fees payable	7,820	5,688
Directors' fees payable	2,940	6,320
Property Advisor's fee payable	34,585	215,179
Valuation fee payable	29,526	2,378
Sundry expenses payable	1,029	3,191
	<b>90,600</b>	<b>248,556</b>

The Fund has financial risk management policies in place to ensure that all payables are paid within the credit time frame.

### 10. SHARE CAPITAL

	<b>Jun-09</b>	<b>Jun-08</b>
	€	€
<b>Authorised share capital of the Company:</b>		
2 Ordinary Shares of nil par value	-	-
Unlimited Preference Shares of nil par value	-	-
<b>Allotted and called up share capital of the Fund:</b>		
Unlimited Preference Shares of nil par value, fully paid up:		
Opening shares	132,099.0831	132,099.0831
<b>Closing shares</b>	<b>132,099.0831</b>	<b>132,099.0831</b>
Opening capital (€)	13,209,908	13,209,908
<b>Closing capital (€)</b>	<b>13,209,908</b>	<b>13,209,908</b>

The Fund's objectives and policies for managing its obligations to redeem these instruments are included in Note 18 on capital risk management.

The Preference Shares do not confer on their holders the right to attend and vote at a general meeting of the Company except in respect of any change that varies the rights attaching to that class of share, or under limited circumstances set out in the Articles.

The holders of Preference Shares are entitled to participate, to the exclusion of the holders of Ordinary Shares, in the Cellular profits and losses of the Fund and to receive any dividends which may be declared by the Company in respect of the Fund. The holders of Preference Shares are also entitled, upon the winding-up of the Fund, to the full amount of the Cellular assets of the Fund available for distribution.

# MAJESTIC VILLAGE NO 1 FUND, A CELL OF STIRLING MORTIMER PROPERTY FUND PCC LIMITED

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## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2009

### 11. RETAINED EARNINGS

	<b>Jun-09</b>	<b>Jun-08</b>
	€	€
Opening retained earnings	(823,661)	(478,203)
Loss for the year	(26,918)	(345,458)
<b>Closing retained earnings</b>	<b>(850,579)</b>	<b>(823,661)</b>

Any surplus/deficit arising from the profit/loss for that year is taken to retained earnings.

### 12. NET CASH USED IN OPERATING ACTIVITIES

	<b>Jun-09</b>	<b>Jun-08</b>
	€	€
Operating loss from continuing operations	(61,815)	(346,723)
Finance income for the year	34,897	1,265
Changes in working capital:		
Movement in inventories	-	1,814,403
Movement in trade and other receivables	1,476,183	(1,702,256)
Movement in trade and other payables	(157,956)	157,680
<b>Net cash used in operating activities</b>	<b>1,291,309</b>	<b>(75,631)</b>

### 13. CONTINGENT FINANCIAL COMMITMENTS

The inventories invested in by the Fund consist of RTP contracts (see Note 7). In the event that either Majestic Investment Consulting S.L. (the “Property Manager”) or the Fund are unable to sell on the RTP contracts to a purchaser, the Fund will be required to 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 (See Note 8).

# MAJESTIC VILLAGE NO 1 FUND, A CELL OF STIRLING MORTIMER PROPERTY FUND PCC LIMITED

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## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2009

### 13. CONTINGENT FINANCIAL COMMITMENTS (continued)

As a result, the capital expenditure contracted for at the balance sheet date but not yet incurred is as follows:

	Jun-09 €	Jun-08 €
1 - 6 months	-	-
6 - 12 months	-	-
1 - 2 years	28,372,869	-
2 - 5 years	-	28,372,869
<b>Amounts payable on completion of property</b>	<b>28,372,869</b>	<b>28,372,869</b>

The above amounts exclude any costs of acquisition such as legal fees or transfer fees. Completion of the properties and the redemption date of the Fund are disclosed on Page 16 and in the Chairman's Statement. However, given the difficulty involved in the re-sale of the RTP contracts, the Fund may potentially have to complete on the full purchase of the properties. The Directors believe that should this occur, suitable finance will be obtained so as to enable the Fund to complete the purchases.

Therefore the Directors have a reasonable expectation that the Fund has adequate resources to continue in operational existence for the foreseeable future.

### 14. 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.

# MAJESTIC VILLAGE NO 1 FUND, A CELL OF STIRLING MORTIMER PROPERTY FUND PCC LIMITED

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## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2009

### **14. BANK GUARANTEES (continued)**

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.

### **15. EVENTS AFTER THE BALANCE SHEET DATE**

The recent subrogation of contracts between the Fund and the Spanish developers (Geprolar Promociones Inmobiliarias S. A.) for construction of Majestic Village Dona Julia means that the Fund will have a direct relationship with the constructor of these developments (see Pages 13 and 14).

There are no other material post balance sheet events.

### **16. 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 Fund's affairs and are responsible for the overall implementation of the investment objective and policy of the Fund.

At the year 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 shareholder of the Property Manager, Majestic Investments Consulting SL, and a Director of the Property Advisor, Stirling Mortimer (Guernsey) Limited. Messrs Clink and Bowman are also directors of XPR (UK) Limited (the PR and copywriting company for the Company).

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 year, including outstanding Directors' fees due to Directors at the end of the year, are detailed below.

# MAJESTIC VILLAGE NO 1 FUND, A CELL OF STIRLING MORTIMER PROPERTY FUND PCC LIMITED

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## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2009

### 16. RELATED PARTY TRANSACTIONS (continued)

	Jun-09 €	Jun-08 €
Directors' fees for the year	23,917	25,507
Payable at the end of the year	2,940	6,320

Stirling Mortimer (Guernsey) Limited, the Property Advisor, is entitled to receive a Property Advisory Fee of 1.125% of the Majestic Village No 1 Fund's Net Asset Value. Notes 5 and 9 disclose the amounts recognised as an expense in the year and also the amount outstanding at year end.

Heritage International Fund Managers Limited, the Administrator, receives a fee of 0.15% of the Fund's net asset value, subject to a minimum annual fee, paid quarterly in arrears of £50,000 per annum. Notes 5 and 9 disclose the amounts recognised as an expense in the year and also the amount outstanding at year end.

### 17. FINANCIAL INSTRUMENTS - RISK MANAGEMENT

The Fund's activities expose it to a number of risk and uncertainties which could have a material impact on the Fund's long term performance and could cause actual results to differ materially from expected and historic results. The main risks include Market Risk (currency risk, and interest rate risk), Credit Risk and Liquidity Risk. This note describes the Fund's policy, its objectives and processes for managing those risks and the methods used to measure them.

The following table analyses the carrying amounts of the financial assets and liabilities by category as defined by IAS39.

# MAJESTIC VILLAGE NO 1 FUND, A CELL OF STIRLING MORTIMER PROPERTY FUND PCC LIMITED

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## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2009

### 17. FINANCIAL INSTRUMENTS - RISK MANAGEMENT (continued)

	Jun-09 €	Jun-08 €
<b>Loans and Receivables:</b>		
Trade and other receivables (excluding pre-payments)	227,286	1,704,645
Cash and cash equivalents	1,318,097	26,788
<b>Total current assets</b>	<b>1,545,383</b>	<b>1,731,433</b>
<b>Financial liabilities measured at amortised cost:</b>		
Trade and other payables	90,600	248,556
<b>Total current liabilities</b>	<b>90,600</b>	<b>248,556</b>
<b>Net current assets</b>	<b>1,454,783</b>	<b>1,482,877</b>

#### Principal financial instruments

The principal financial instruments used by the Fund, from which financial instrument risk arises, are as follows:

- Trade and other receivables;
- Cash and cash equivalents; and,
- Trade and other payables.

#### General objectives, policies and processes

The overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Fund's financial performance. The Board has overall responsibility for the determination of the Fund's risk management and sets policy towards that. Whilst the Board retains ultimate responsibility for all risk management centrally, certain risks are peculiar to local areas and managed locally following guidelines communicated from the centre. The policy and processes for measuring and mitigating each of the main risks are described below.

#### a) Market Risk

The Fund is exposed through its operations to market risk which encompasses foreign currency risk and interest rate risk.

# MAJESTIC VILLAGE NO 1 FUND, A CELL OF STIRLING MORTIMER PROPERTY FUND PCC LIMITED

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## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2009

### 17. FINANCIAL INSTRUMENTS - RISK MANAGEMENT (continued)

#### i) Foreign currency risk

Foreign currency risk is the risk that the value of financial instruments may fluctuate due to changes in foreign exchange rates. Currency risk arises when future commercial transactions and recognised assets and liabilities are denominated in a currency that is not the Fund's functional currency.

#### Exposure

The table below illustrates the Fund's exposure to foreign currency risk at 30 June 2009:

<b>Pound Sterling (GBP)</b>	<b>Jun-09</b> €	<b>Jun-08</b> €
Cash and cash equivalents	65	-
<b>Total assets</b>	<b>65</b>	<b>-</b>
Trade and other payables	(56,015)	(33,377)
<b>Total liabilities</b>	<b>(56,015)</b>	<b>(33,377)</b>
<b>Total net liabilities</b>	<b>(55,950)</b>	<b>(33,377)</b>

The Fund does not use forward exchange contracts or derivatives hedging strategy to mitigate the risk of exposure currency risk, but management ensures that the Fund continually monitors the movement in exchange rates of currencies of interest. Significant parts of the Fund's financial instruments are denominated in EUR. As a consequence, the Fund does not have a material exposure to currency risk.

A 5% gain or loss in the exchange rate of EUR against GBP will have minimal impact on the net asset value of the Fund as the functional and presentation currency of the Fund is EUR.

#### ii) Interest rate risk

Interest rate risk is the risk that the value of financial instruments will fluctuate due to changes in market interest rates. The Fund's exposure to interest rate risk relates to the Fund's cash and cash equivalents which are at variable interest rates.

# MAJESTIC VILLAGE NO 1 FUND, A CELL OF STIRLING MORTIMER PROPERTY FUND PCC LIMITED

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## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2009

### 17. FINANCIAL INSTRUMENTS - RISK MANAGEMENT (continued)

The Fund has no other interest-bearing assets and liabilities as at balance sheet date, however, the Fund may be required to borrow funds to complete on the underlying RTP contracts. As a consequence, the Fund is only exposed to variable interest rate risk. As a consequence, the Fund is only exposed to variable interest rate risk. An increase or decrease of 100 base points would result in an insignificant impact on the net asset value of the Fund.

#### b) Credit Risk

Credit risk is the risk that the Fund will experience financial loss due to a counterparty failing to discharge an obligation. Credit risk principally arises from trade and other receivables and cash equivalents.

The Fund's maximum exposure to credit risk by class of financial instrument is as shown below:

	Jun-09 €	Jun-08 €
Trade and other receivables (excluding pre-payments)	227,286	1,704,645
Cash and cash equivalents	1,318,097	26,788
<b>Total financial assets</b>	<b>1,545,383</b>	<b>1,731,433</b>

Trade and other receivables refer to penalty payments of €227,286 (2008: €1,704,645) of expenses (see Note 8). Cash and cash equivalent refer to bank balances held with the Fund's principal banker in Guernsey with a credit rating of A+.

The Fund mitigates its credit risk exposure by the exercise of due diligence on all counterparties supported by legal agreements implemented through the Fund's lawyers, European Legal Solutions (see Note 14).

#### c) Liquidity Risk

Liquidity risk is the risk that the Fund will encounter difficulty in meeting its obligations arising from financial liabilities. The Fund monitors its liquidity requirements by the use of both short term and long term cash flow forecasts. The cash flow forecasts are used to demonstrate funding adequacy for scheduled payments and cash-outflows due in day-to-day transactions. Liquidity needs are monitored in various time bands, on a week-to-week basis, and for the medium to long term liquidity needs of 90-day to 180-days, a monthly review is undertaken. Liquidity requirements in the event the Fund completes on the purchase of the properties are discussed in Note 13.

# MAJESTIC VILLAGE NO 1 FUND, A CELL OF STIRLING MORTIMER PROPERTY FUND PCC LIMITED

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## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2009

### 17. FINANCIAL INSTRUMENTS - RISK MANAGEMENT (continued)

The table on Page 43 illustrates the ratio of current assets (excluding pre-payments) to current liabilities. As at 30 June 2009, the Fund has a ratio of 17:1 (2008: 7:1) which is a very clear indication of the ability to meet short term cash requirements.

#### Capital risk management

The Fund's objectives when managing capital are to safeguard the Fund's ability to continue as a going concern in order to provide returns for shareholders and benefits for other shareholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Fund may adjust the amount of dividends paid to shareholders of the Fund, return capital to shareholders of the Fund, issue new shares or sell assets to reduce debt.

The capital of the Fund consists of the proceeds from the issue of preference shares. The Directors manage the capital of the Fund in accordance with the Fund's investment objectives and policies. In order to meet the Fund's investment objectives and policies, the Board of the Company has taken the decision to extend the Fund as per Page 16. For further details regarding the Fund's future financial commitments refer to Note 13. The Fund had no borrowings as at 30 June 2009 (30 June 2008: €Nil).

### 18. EARNINGS PER SHARE AND NET ASSET VALUE PER SHARE

#### a) Earnings per Share

The earnings per share (EPS) for the Fund is based on the loss for the year and on the weighted average number of shares in issue for the year.

	Jun-09 €	Jun-08 €
Loss for the year	(26,918)	(345,458)
Weighted average number of shares	132,099	132,099
<b>EPS</b>	<b>(0.20)</b>	<b>(2.62)</b>

#### b) Net Asset Value per Share

The net asset value for the Fund is arrived at by dividing the total net assets of the Fund as at the balance sheet date, by the number of preference shares of the Fund at the balance sheet date.