

## Taliesin Property Fund Limited (“Taliesin” or “the Company” or “the Group”)

### Unaudited results for the six months ended 30<sup>th</sup> June 2009

Taliesin, the AIM listed German property fund, is pleased to announce its unaudited results for the six months ended 30<sup>th</sup> June 2009.

#### Key financial and operational highlights

- Strong portfolio performance across key benchmarks – improved rents and collection rates and lower adjusted vacancies on a like for like basis
- Investments in refurbishment and upgrades expected to further improve rents and lower vacancy rates
- Operating expenses continue declining trend – providing significant leverage to a growing portfolio
- Adjusted NAV\* per share of Euro 10.36 compared to Euro 10.63 at the year ended 31 December 2008, largely due to mark to market losses on interest rate swaps
- Mark to market losses on interest rate swap contracts of Euro 0.95 per share in total are expected to be recouped as the contracts mature
- German buyers entering the market attracted by high yields relative to bank deposits and as an inflation hedge
- Financing conditions continue to normalise

\*The adjusted NAV is reached after taking the IFRS NAV and deducting goodwill and adding back deferred tax liabilities

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#### CHAIRMAN'S STATEMENT

##### Introduction

I am pleased to present our unaudited results for the six months ended 30<sup>th</sup> June 2009. The period was characterised by a robust operational performance. The adjusted NAV per share decreased to Euro 10.36 (from Euro 10.63 at year end 2008) largely as a result of mark to market losses on the interest rate swap contracts, which contributed Euro 0.32 to the loss for the period per share and now totals Euro 0.95 per share.

The first six months of the year saw a continuation of the encouraging trends experienced in 2008. Rents were higher on an absolute and like-for-like basis; vacancies declined on an adjusted basis and collections improved. As is consistent with our ongoing strategy to build a high quality portfolio, significant amounts were invested into both

refurbishment and apartment upgrades. Operating expenses continued to decline as the benefits of recent cost cutting initiatives continue.

The Berlin economy has remained resilient. Federal Government initiatives aimed at stemming a rise in unemployment have been particularly beneficial in Berlin. The marked contraction in headline economic output in Germany has been led by the decline in the international trade sector, to which Berlin has limited exposure. Capital markets activity has improved dramatically over the period and the mortgage market in particular is recovering strongly. Spreads on recent Pfandbrief issues have declined to close to historical levels, resulting in capital returning to the real estate market.

Whilst the past eighteen months have proved the robust nature of the Berlin residential market in the face of the global credit crisis, early evidence now points towards the potential for a recovery in capital values. The return of risk appetite to capital markets, the search for yield from local investors and an apparent rise in the demand for owning apartments in Berlin all bode well for future growth. German investor intentions appear to favour property over other asset classes at a time when private savings are at a record high.

## **2009 First Half Operating Results**

In presenting these results, the company is required to apply the revised International Accounting Standard 1 *Presentation of Financial Statements (2007)*, which became effective as of 1 January 2009 and this accounts for the changes in presentation in the attached financial statements.

The Company reported a loss for the period of Euro 1,153,454. Mark to market losses on the interest rate swaps contributed Euro 1,137,345 to this loss. Cumulative mark to market losses on the swap contracts now total Euro 3,403,558 (Euro 0.95 per share), which we expect to reverse over the next few years as the contracts mature.

Operating revenue (excluding service charge receipts) grew by 37.4% against the first half of 2008 and by 5.4% versus the second half 2008. Operating expenses continued to show significant improvement as a result of the recent cost cutting programme. Operating expenses (excluding service charge expenses) declined to 48% of operating revenue from 74% in the first half 2008 (excluding AIM listing fees) and 55% in the second half 2008. The full year operating expense line will benefit from the elimination of the Taliesin Deutschland asset management fee from May 2009 and further negotiated reductions in service provider fees. The Company continues to focus strongly on cost cutting opportunities. Most operating expense items experienced both year on year and sequential reductions with significant cuts achieved in administration costs, investment advisory fees, directors' fees as well as legal and other professional fees.

Interest expense was higher for the period reflecting an increase in total debt and swap expenses. We continue to explore the possibility of refinancing some of the Company's debt. Despite the large decrease in prevailing interest rates, bank margins have only recently started to moderate as the local mortgage backed debt market begins to function normally again.

During the period, the Company invested a total of Euro 932,388 in improvements to the portfolio. A large part of this was directed at the refurbishment project in Kavalierstrasse, whilst the remainder was mainly invested in apartment upgrades.

The existing properties have not been subject to a new valuation at the half year to 30 June 2009 and are carried in the accounts at their 31 December 2008 year end valuations with capital expenditures having been capitalised. A full valuation will take place at the 31 December 2009 year end for all properties.

## **Portfolio Performance**

The Company continued to experience improving operating metrics through the first half of 2009, reflecting the strength of the Berlin residential market and the performance of the Company's local investment advisor, Taliesin Deutschland GmbH and property management partner, Core Immobilien GmbH.

Rental income increased by 35.8% against the first half of 2008, reflecting a larger portfolio and by 5.2% versus the second half of 2008, driven primarily by rent increases as well as portfolio growth. Contractual rental income grew by 1.5% through the first half of 2009 on a like-for-like basis even as the overall vacancy rate increased from 5.9% to 6.7%. The increase in rents for the period has improved the net rental income yield to 7.3% in comparison to cost on a fully let basis for the portfolio. As summarised previously, the vacancy rate continues to be negatively effected by the refurbishment of one of the Company's larger properties (Kavalierstrasse) and the enforced vacancy of approximately 50% of the building whilst works are completed. This project is causing an increase in the overall vacancy rate of more than 1% and reducing the rental income by more than 1.5%. Adjusting for this project, we see rental growth through the period similar to last years overall growth rate of 6%. This rental growth through the period was driven principally by tenant turnover, which remained in line with the Berlin average at around 15% and higher rents for new tenants. The Company continues to invest significant amounts in apartment improvements as and when units become

available and continues to benefit from having bought properties in central Berlin locations that are experiencing well above average rent increases.

Residential rents proved particularly strong in the period. Average residential rents grew by over 2% in Berlin and Leipzig and over 5% in Dresden. Central Berlin locations again experienced a decline in vacancy rates after adjusting for the refurbishment project, reflecting the ongoing scarcity in the supply of quality apartments. Commercial lettings were somewhat weaker and vacancies remain higher than residential, reflecting a greater vulnerability to economic weakness.

Our collection rates have continued to improve, with outstanding rents representing just 2.3% of rental income at the end of the first half. The Company remains vigilant to any deterioration in this metric given the recent economic climate.

In summary, we are delighted that during a difficult economic period, the Berlin residential market has held up and the Company's portfolio has been able to show an improved performance across our most important operating benchmarks. The local operating presence and expertise has proved to be invaluable in achieving these improvements.

## **Market and Outlook**

The Berlin residential market has proved to be defensive in the face of the severe global economic turmoil experienced in recent times. Berlin entered the current economic crisis having experienced a major value destruction cycle of its own. As a result, Berlin did not experience the extensive reduction in value that was observed in other European Capital cities as the premiums were taken out of property prices. Limited capacity in central locations, driven by an almost complete lack of new build for the past decade, has meant that rental growth remains strong and has further protected capital values. Inflation in replacement costs has further highlighted the extraordinary value in the existing property stock in Berlin. Whilst the story of value and an improving operating environment has been well disseminated there do appear to be a number of catalysts in the market that could potentially transform the outlook for capital values.

Firstly, the emergence of local buyers of Berlin property. Whilst the past few years have been dominated by international buyers of property, the mix of buyers has become virtually all German in the past six months. To date, the buyers have been primarily wealthy individuals seeking investment property in the nation's capital and local home buyers. German private savings remain at elevated levels with consumption muted and returns on bank deposits close to zero. Investment in residential property at below replacement cost with a reasonable yield seems like a logical home for German savings but this case could have been made for the last few years. The real catalyst appears to be the complete collapse in bank deposit yields and the fear of future inflation driven by monetary policy responses to the global crisis. The traditional mortgage banks are also in a highly favourable funding position and have been growing their lending books.

The second and closely connected catalyst for capital growth is the increase in home ownership and the demand for properties that are suitable candidates for 'privatisation' – the process of converting a tenanted building into privately owned apartments. Anecdotal evidence points to a significant increase in the number of German buyers looking to acquire an apartment in Berlin. The Company has had a number of enquiries from potential buyers for properties that are particularly attractive for privatisation.

A further positive for the market is the return of bank financing to the institutional market. Banks that have traditionally relied on the Pfandbrief market to fund their mortgage lending can now borrow in the market at spreads close to historic norms. The larger mortgage banks are retrenching to their home markets and concentrating on existing client relationships. Financing requests below Euro 50 million appear to be the current sweet spot for the market.

The Company believes that capital values are beginning to improve following a period of sideways activity in central locations and weakness in lesser locations. A number of clear indicators for improvement have come to the fore, not least the emergence of German buyers of real estate as previously mentioned. The Company has significant operating leverage to a growing portfolio as evidenced by the recent trends in operating expenses and continues to look at ways to expand the portfolio.

TALIESIN PROPERTY FUND LIMITED

Condensed consolidated statement of comprehensive income for the 6 months to 30 June 2009

	Note	6 months to 30 June 2009 (unaudited) €	6 months to 30 June 2008 (unaudited) €	Year ended 31 December 2008 (audited) €
<b>Continuing operations</b>				
Rental income		2,841,611	2,091,988	4,791,889
Service charge receipts		928,234	504,700	1,585,993
Other operating income		83,784	37,243	53,713
<b>Total operating revenues</b>		<b>3,853,629</b>	2,633,931	6,431,595
Net change in fair value of investment properties	5	-	(357,626)	(2,851,889)
Net change in fair value of financial assets held at fair value through profit or loss	7	24,985	10,593	37,995
Operating expenses	12	(2,468,284)	(2,556,726)	(5,271,616)
<b>Results from operating activities</b>		<b>1,410,330</b>	(269,828)	(1,653,915)
Finance income		25,801	231,868	504,982
Finance costs		(1,680,745)	(1,232,169)	(2,874,936)
Interest rate swap instruments fair value adjustment	8	(1,137,345)	1,203,258	(2,677,360)
<b>Net (financing costs)/income from financing</b>		<b>(2,792,289)</b>	202,957	(5,047,314)
<b>Loss before income tax</b>		<b>(1,381,959)</b>	(66,871)	(6,701,229)
Income tax credit/(expense)	14	228,505	(56,002)	994,433
<b>Total comprehensive expense for the period/year</b>		<b>(1,153,454)</b>	(122,873)	(5,706,796)
<b>Total comprehensive expense attributable to:</b>				
Owners of the parent		(1,152,667)	(121,790)	(5,700,763)
Non-controlling interest		(787)	(1,083)	(6,033)
<b>Total comprehensive expense for the period/year</b>		<b>(1,153,454)</b>	(122,873)	(5,706,796)
<b>Basic earnings per Ordinary share (€)</b>	4	<b>(0.32)</b>	(0.03)	(1.60)
<b>Fully diluted earnings per Ordinary share (€)</b>	4	<b>(0.32)</b>	(0.03)	(1.60)

TALIESIN PROPERTY FUND LIMITED

Condensed consolidated statement of changes in equity

6 months to 30 June 2009 (unaudited)

	Stated Capital Account	Shares to be issued	Capital Reserve	Retained Earnings	Total	Non- Controlling Interest	Total Equity
	€	€	€	€	€	€	€
<b>Balances as at 31 December 2008</b>	<b>38,433,199</b>	-	-	<b>(2,312,695)</b>	<b>36,120,504</b>	<b>599,919</b>	<b>36,720,423</b>
<b>Total comprehensive expense for the period</b>							
Loss for the period	-	-	-	<b>(1,152,667)</b>	<b>(1,152,667)</b>	<b>(787)</b>	<b>(1,153,454)</b>
Total comprehensive expense for the period	-	-	-	<b>(1,152,667)</b>	<b>(1,152,667)</b>	<b>(787)</b>	<b>(1,153,454)</b>
<b>Transactions with owners, recorded directly in equity</b>							
<b>Contributions by and distributions to owners</b>							
Purchases of own share	<b>(69,332)</b>	-	-	-	<b>(69,332)</b>	-	<b>(69,332)</b>
Cancellation of shares	<b>(20)</b>	-	-	-	<b>(20)</b>	-	<b>(20)</b>
Total contributions by, and distributions to owners	<b>(69,352)</b>	-	-	-	<b>(69,352)</b>	-	<b>(69,352)</b>
<b>Changes in ownership interest in subsidiaries that do not result in a loss of control</b>							
Transfer of non-controlling interests	-	-	<b>55,780</b>	-	<b>55,870</b>	<b>(107,870)</b>	<b>(52,000)</b>
Changes in ownership interest in subsidiaries	-	-	<b>55,870</b>	-	<b>55,870</b>	<b>(107,870)</b>	<b>(52,000)</b>
Total transactions with owners	<b>(69,352)</b>	-	<b>55,870</b>	-	<b>(13,482)</b>	<b>(107,870)</b>	<b>(121,352)</b>
<b>Balances as at 30 June 2009</b>	<b>38,363,847</b>	-	<b>55,870</b>	<b>(3,465,362)</b>	<b>34,954,355</b>	<b>491,262</b>	<b>35,445,617</b>

6 months to 30 June 2008 (unaudited)	Stated Capital Account	Shares to be issued	Capital Reserve	Retained Earnings	Total	Non- Controlling Interest	Total Equity
	€	€	€	€	€	€	€
<b>Balances as at 31 December 2007</b>	37,876,942	556,257	-	3,388,068	41,821,267	605,952	42,427,219
<b>Total comprehensive expense for the period</b>							
Loss for the period	-	-	-	(121,790)	(121,790)	(1,083)	(122,873)
Total comprehensive expense for the period	-	-	-	(121,790)	(121,790)	(1,083)	(122,873)
<b>Balances as at 30 June 2008</b>	<b>37,876,942</b>	<b>556,257</b>	<b>-</b>	<b>3,266,278</b>	<b>41,699,477</b>	<b>604,869</b>	<b>42,304,346</b>
<b>Year ended 31 December 2008 (audited)</b>							
	€	€	€	€	€	€	€
<b>Balances as at 31 December 2007</b>	37,876,942	556,257	-	3,388,068	41,821,267	605,952	42,427,219
<b>Total comprehensive expense for the year</b>							
Loss for the year	-	-	-	(5,700,763)	(5,700,763)	(6,033)	(5,706,796)
Total comprehensive expense for the year	-	-	-	(5,700,763)	(5,700,763)	(6,033)	(5,706,796)
<b>Transaction with owners, recorded directly in equity</b>							
<b>Contributions by and distributions to owners</b>							
Share issues	556,257	(556,257)	-	-	-	-	-
Total transactions with owners	556,257	(556,257)	-	-	-	-	-
<b>Balances as at 31 December 2008</b>	<b>38,433,199</b>	<b>-</b>	<b>-</b>	<b>(2,312,695)</b>	<b>36,120,504</b>	<b>599,919</b>	<b>36,720,423</b>

**TALIESIN PROPERTY FUND LIMITED**

**Condensed consolidated statement of financial position  
as at 30 June 2009**

	Notes	As at 30 June 2009 (unaudited) €	As at 30 June 2008 (unaudited) €	As at 31 December 2008 (audited) €
<b>ASSETS</b>				
<b>Non-current assets</b>				
Investment properties	5	95,864,143	90,627,708	94,846,000
Property acquisitions and enhancements yet to complete	5	121,582	11,875	26,082
Goodwill	6	636,253	636,253	636,253
Deferred tax assets	14	2,242,959	1,069,438	2,013,342
Investments held at fair value through profit or loss	7	598,861	563,143	573,876
Derivative financial assets	8	-	1,614,405	-
<b>Total non-current assets</b>		<b>99,463,798</b>	94,522,822	98,095,553
<b>Current assets</b>				
Cash and cash equivalents		870,537	1,561,868	1,340,989
Trade and other receivables		3,077,251	3,330,295	2,321,619
<b>Total current assets</b>		<b>3,947,788</b>	4,892,163	3,662,608
<b>Total assets</b>		<b>103,411,586</b>	99,414,985	101,758,161
<b>SHAREHOLDERS' EQUITY AND LIABILITIES</b>				
<b>Equity</b>				
Stated capital account	9	38,363,847	37,876,942	38,433,199
Shares to be issued		-	556,257	-
Capital reserve	10	55,870	-	-
Retained earnings		(3,465,362)	3,266,278	(2,312,695)
<b>Equity attributable to equity holders of parent</b>		<b>34,954,355</b>	41,699,477	36,120,504
Non-controlling interest		491,262	604,869	599,919
<b>Total equity</b>		<b>35,445,617</b>	42,304,346	36,720,423
<b>Non-current liabilities</b>				
Financial liabilities	11	56,896,048	49,947,807	55,832,530
Financial liabilities at fair value through profit or loss	8	3,403,558	-	2,266,213
Deferred tax liabilities	14	2,777,510	2,885,463	2,777,438
<b>Total non-current liabilities</b>		<b>63,077,116</b>	52,833,270	60,876,181
<b>Current liabilities</b>				
Financial liabilities	11	1,287,902	729,807	1,457,528
Other liabilities and payables		3,600,951	3,547,562	2,704,029
<b>Total current liabilities</b>		<b>4,888,853</b>	4,277,369	4,161,557
<b>Total equity and liabilities</b>		<b>103,411,586</b>	99,414,985	101,758,161
<b>Net asset value per Ordinary share (€)</b>	4	<b>9.77</b>	11.79	10.07

The financial statements were approved by the Board of Directors on 28 September 2009

**TALIESIN PROPERTY FUND LIMITED**

**Condensed consolidated cash flow statement for the 6 months to 30 June 2009**

	<b>6 months to 30 June 2009 (unaudited) €</b>	6 months to 30 June 2008 (unaudited) €	Year ended 31 December 2008 (audited) €
<b>Results from operating activities</b>	<b>1,410,330</b>	(269,828)	(1,653,915)
Changes in working capital	<b>139,143</b>	(969,164)	(807,490)
Adjustment for non-cash items:			
Fair value adjustments	<b>(24,985)</b>	347,033	2,813,894
	<b>1,524,488</b>	(891,959)	352,489
Tax paid	-	-	(602)
<b>Net cash from/(used in) operating activities</b>	<b>1,524,488</b>	(891,959)	351,887
<b>Investing activities</b>			
Purchases and enhancements of investment properties	<b>(1,113,643)</b>	(26,841,225)	(33,567,987)
Purchase of holding from non-controlling interest	<b>(52,000)</b>	-	-
Redemption of investment held at fair value through profit or loss	-	245,049	245,049
Interest received	<b>26,001</b>	277,841	551,404
Investment income received	-	13,967	32,764
<b>Net cash used in investing activities</b>	<b>(1,139,642)</b>	(26,304,368)	(32,738,770)
<b>Financing activities</b>			
Proceeds of shares issued to minority interest	<b>887</b>	-	-
Proceeds from borrowings	<b>1,251,968</b>	15,429,711	22,109,494
Loan repayments	<b>(358,076)</b>	(213,344)	(280,683)
Interest paid	<b>(1,680,745)</b>	(1,232,169)	(2,874,936)
Purchases of own shares	<b>(69,332)</b>	-	-
<b>Net cash (used in)/from financing activities</b>	<b>(855,298)</b>	13,984,198	18,953,875
<b>Net decrease in cash and cash equivalents</b>	<b>(470,452)</b>	(13,212,129)	(13,433,008)
<b>Cash and cash equivalents at start of period/year</b>	<b>1,340,989</b>	14,773,997	14,773,997
<b>Cash and cash equivalents at end of period/year</b>	<b>870,537</b>	1,561,868	1,340,989

Notes to the condensed consolidated interim financial statements for the 6 months to 30 June 2009

**1. Reporting entity**

Taliesin Property Fund Limited (the "Company") is a company domiciled in Jersey and was incorporated on 17 November 2005. The condensed consolidated interim financial statements of the Company as at and for the 6 months ended 30 June 2009 comprise the Company and its subsidiaries (together referred to as the "Group"). The Group invests in primarily residential property in Berlin and the former German Democratic Republic.

The consolidated financial statements of the Group as at and for the year ended 31 December 2008 are available upon request from the Company's registered office at P.O. Box 1075, Elizabeth House, 9 Castle Street, St Helier, Jersey, JE4 2QP.

**2. Statement of compliance**

These condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard (IAS) 34 *Interim Financial Reporting*. They do not include all of the information required for full annual financial statements and should be read in conjunction with the consolidated financial statements of the Group as at and for the year ended 31 December 2008.

These condensed consolidated interim financial statements were approved by the Board of Directors on [ ] September 2009.

**3. Significant accounting policies**

Except as described below, the accounting policies applied by the Group in these condensed consolidated financial statements are the same as those applied by the Group in its consolidated financial statements as at and for the year ended 31 December 2008.

The Group applies revised IAS 1 *Presentation of Financial Statements (2007)*, which became effective as of 1 January 2009. As a result, the Group presents in the consolidated statement of changes in equity all owner changes in equity, whereas all non-owner changes in equity are presented in the consolidated statement of comprehensive income. This presentation has been applied in these condensed interim financial statements as of and for the 6 month period ended 30 June 2009.

Comparative information has been re-presented so that it also is in conformity with the revised standard. Since the change in accounting policy only impacts presentation aspects, there is no impact on earnings per share.

The financial information for the 6 months to 30 June 2008 and 30 June 2009 has been extracted from the accounting records of the Group. The balances as at 31 December 2008 and the results for the year then ended have been extracted from the audited financial statements. The auditors report on those financial statements was unqualified.

Notes to the condensed consolidated financial statements for the 6 months to 30 June 2009 (continued)

**4. Earnings per Ordinary share and net asset value per Ordinary share**

In order to present the earnings per Ordinary share and net asset value per Ordinary share figures in a uniform and consistent way, the following calculations have been adjusted where necessary so that they all reflect the 10-for-1 share split on 25 July 2008.

The calculation of basic earnings per Ordinary share for the 6 months to 30 June 2009 was based on the loss attributable to Ordinary shareholders of €1,152,667 and a weighted average number of Ordinary shares in issue of 3,585,206.

The calculation of basic earnings per Ordinary share for the 6 months to 30 June 2008 was based on the loss attributable to Ordinary shareholders of €121,790 and an adjusted weighted average number of Ordinary shares in issue of 3,537,850.

The calculation of basic earnings per Ordinary share for the year ended 31 December 2008 was based on the loss attributable to Ordinary shareholders of €5,700,763 and a weighted average number of Ordinary shares in issue of 3,555,427.

The calculation of fully diluted earnings per Ordinary share for the 6 months to 30 June 2008 was based on the loss attributable to Ordinary shareholders of €121,790 and an adjusted weight average number of Ordinary shares in issue of 3,586,280.

There was no dilution of earnings in the 6 months to 30 June 2009 or for the year ended 31 December 2008 because the conditions requiring to be satisfied did not exist.

The calculation of net asset value per Ordinary share as at 30 June 2009 was based on the net consolidated assets attributable to Ordinary shareholders of €34,954,355 and the 3,576,020 Ordinary shares in issue as at 30 June 2009.

The calculation of net asset value per Ordinary share as at 30 June 2008 was based on the net consolidated assets attributable to Ordinary shareholders of €41,699,477 and 3,537,850 Ordinary shares, being the adjusted number in issue as at 30 June 2008.

The calculation of net asset value per Ordinary share as at 31 December 2008 was based on the net consolidated assets attributable to Ordinary shareholders of €36,120,504 and the 3,586,220 Ordinary shares in issue as at 31 December 2008.

## Notes to the condensed consolidated financial statements for the 6 months to 30 June 2009 (continued)

## 5. Investing activities

<b>(a) Investment properties</b>	<b>6 months to 30 June 2009 (unaudited)</b>	6 months to 30 June 2008 (unaudited)	Year ended 31 December 2008 (audited)
	€	€	€
Book cost at start of period/year	<b>89,434,875</b>	55,374,986	55,374,986
Fair value adjustments brought forward	<b>5,411,125</b>	8,263,014	8,263,014
Valuation at start of period/year	<b>94,846,000</b>	63,638,000	63,638,000
Properties acquired during the period/year	<b>59,673</b>	26,471,724	32,383,262
Transferred from property acquisitions yet to complete	<b>26,082</b>	517,984	517,984
Capital expenditure on properties held	<b>932,388</b>	357,626	1,158,643
	<b>95,864,143</b>	90,985,334	97,697,889
Revaluation (fair value adjustments)	-	(357,626)	(2,851,889)
Valuation at end of period/year	<b>95,864,143</b>	90,627,708	94,846,000

Investment properties held at 31 December 2008 continue to be carried at valuations performed by an independent valuer, Jones Lang Lasalle, as at that date in accordance with s.153 art. 1 BauGB, the German Regulations on Determination of Value (WertV) and the German Valuation Guidelines (WertR06). Capital expenditure on properties during the period to 30 June 2009 is carried at cost.

According to s.194 BauGB, the fair value is defined as the value which would have been agreed between a willing buyer and a willing vendor as at the date of the valuation in the normal course of legally-conducted business, having regard to the location and condition of the property concerned. Fair value was therefore determined as the net values calculated in accordance with WertV sections 15 to 20, under the assumptions of remaining useful economic lives of between 40 and 60 years, and discount rates of between 4.4% and 8.5%.

Most of the investment properties have been financed by financial liabilities. In such cases, the property is pledged as security for the relevant financial liability (see note 13).

There have been no further property acquisitions in the period since 31 December 2008.

The amount of €59,673 shown in the above table for property acquisitions during the period to 30 June 2009 consists of acquisition costs relating to properties acquired before 31 December 2008.

**(b) Property acquisitions and enhancements yet to complete**

	<b>6 months to 30 June 2009 (unaudited)</b>	6 months to 30 June 2008 (unaudited)	Year ended 31 December 2008 (audited)
	€	€	€
Book cost at start of period/year	<b>26,082</b>	<b>517,984</b>	517,984
Properties in the course of acquisition by subsidiary undertakings	<b>121,582</b>	<b>11,875</b>	26,082
Transfer to investment properties	<b>(26,082)</b>	<b>(517,984)</b>	(517,984)
Book cost at end of period/year	<b>121,582</b>	<b>11,875</b>	26,082

The amount shown above as at 30 June 2009 consists of expenditure on enhancement of properties already held. This amount is stated at cost and there was no impairment as at 30 June 2009.

**TALIESIN PROPERTY FUND LIMITED**

**Notes to the condensed consolidated financial statements for the 6 months to 30 June 2009 (continued)**

**6. Goodwill**

	<b>6 months to 30 June 2009 (unaudited) €</b>	6 months to 30 June 2008 (unaudited) €	Year ended 31 December 2008 (audited) €
At start of period/year	<b>636,253</b>	636,253	636,253
Impairment recognised during the period/year	-	-	-
<b>At end of period/year</b>	<b>636,253</b>	636,253	636,253

The goodwill arose upon the purchase of Taliesin II GmbH by Taliesin I GmbH on 1 October 2006. The Directors carry out an impairment test at least once per year. For this impairment test, goodwill is allocated to the cash-generating units with which the goodwill was originally acquired. If the carrying value of the cash-generating unit exceeds the recoverable amount, the allocated goodwill is reduced by the difference and such impairment is immediately recognised in the consolidated income statement.

**7. Investments held at fair value through profit or loss**

	<b>6 months to 30 June 2009 (unaudited) €</b>	6 months to 30 June 2008 (unaudited) €	Year ended 31 December 2008 (audited) €
Opening fair value	<b>573,876</b>	813,694	813,694
Movement in fair value adjustment (revaluation)	<b>24,985</b>	(3,374)	7,359
Proceeds of redeeming investment	-	(245,049)	(245,049)
Loss on redemption of investment	-	(2,128)	(2,128)
<b>Closing fair value</b>	<b>598,861</b>	563,143	573,876

**Maturity of above investments:**

After more than one year	<b>598,861</b>	563,143	573,876
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**Analysis of revenue account charge:**

Movement in fair value adjustment (as above)	<b>24,985</b>	(3,374)	7,359
Loss on redemption of investment (as above)	-	(2,128)	(2,128)
Interest income	-	16,095	32,764
	<b>24,985</b>	10,593	37,995

These investments consist of debt securities held to maturity and are pledged as part of the security for a financial liability used to finance a property owned by Taliesin II GmbH.

TALIESIN PROPERTY FUND LIMITED

Notes to the condensed consolidated financial statements for the 6 months to 30 June 2009 (continued)

8. Derivative financial assets/(liabilities)

	6 months to 30 June 2009 (unaudited) €	6 months to 30 June 2008 (unaudited) €	Year ended 31 December 2008 (audited) €
(Liabilities)/Assets at valuation at start of period/year	(2,266,213)	411,147	411,147
Fair value adjustment taken to income statement	(1,137,345)	1,203,258	(2,677,360)
<b>(Liabilities)/Assets at valuation at end of period/year</b>	<b>(3,403,558)</b>	<b>1,614,405</b>	<b>(2,266,213)</b>

The above table represents the fair value of interest swap arrangements which the German subsidiaries entered into during the period with their bankers in order to manage their exposure to upward movements in interest rates. These arrangements were entered into along with the loan agreements with the banks detailed in note 13. They require that the Taliesin Group company pay interest on any loans drawn down at the contractual EURIBOR rate plus the contractual margin and to receive (or pay) the difference between this EURIBOR rate and the fixed interest swap rate specified in the swap agreement.

The fair values of these interest swap arrangements represent the price at which one party would assume the rights and obligations of the counterparty. The fair values were determined by discounting the anticipated future cash flows. For this purpose, the market interest rates applicable for the remaining term of the contract are used as a basis.

9. Stated capital account

Ordinary shares of no par value	6 months to 30 June 2009 (unaudited)		Year ended 31 December 2008 (audited)	
	Number	€	Number	€
<b>Issued and unpaid</b>				
At start of period/year	200	20	20	20
Shares cancelled	(200)	(20)	-	-
Increase in number of shares arising from share split	-	-	180	-
<b>At end of period/year</b>	<b>-</b>	<b>-</b>	<b>200</b>	<b>20</b>
<b>Issued and fully paid</b>				
At start of period/year	3,586,020	38,433,179	353,765	37,876,922
Shares purchased to be held in treasury	(10,000)	(69,332)	-	-
Increase in number of shares arising from share split	-	-	3,183,885	-
Issue of shares to investment advisor	-	-	48,370	556,257
<b>At end of period/year</b>	<b>3,576,020</b>	<b>38,363,847</b>	<b>3,586,020</b>	<b>38,433,179</b>
<b>Total at end of period/year</b>	<b>3,576,020</b>	<b>38,363,847</b>	<b>3,586,220</b>	<b>38,433,199</b>

On 24 April 2009, the Directors resolved to cancel the 200 unpaid Ordinary shares of the Company.

During June 2009, under the authority granted to the Company at the Annual General Meeting held on 25 July 2008, the Company purchased 10,000 of its own Ordinary shares to be held as treasury shares. The purchases were executed at prices between €6.825 and €7.00 per share.

The Company held 10,000 Ordinary shares in treasury as at 30 June 2009 (31 December 2008: nil).

Since 30 June 2009, the Company has made a further purchase of 4,000 of its own Ordinary shares, at a cost of €29,100, to hold in treasury.

**TALIESIN PROPERTY FUND LIMITED**

**Notes to the condensed consolidated financial statements for the 6 months to 30 June 2009 (continued)**

**10. Capital Reserve**

	<b>6 months to 30 June 2009 (unaudited)</b>	6 months to 30 June 2008 (unaudited)	Year ended 31 December 2008 (audited)
	€	€	€
At start of period/year	-	-	-
Recognised during the period/year	<b>55,870</b>	-	-
<b>At end of period/year</b>	<b>55,870</b>	-	-

The capital reserve represents negative goodwill arising upon the purchase of the whole of the non-controlling interest in Taliesin GbR by Taliesin II GmbH, its immediate holding company, for consideration of €52,000. As a result, the interest of the Group in Taliesin GbR has increased from 84.6% to 88.4%. In accordance with International Accounting Standard 27 "Consolidated and Separate Financial Statements" (revised 2008), this has been accounted for as an equity transaction.

**11. Financial liabilities**

	<b>As at 30 June 2009 (unaudited)</b>	As at 30 June 2008 (unaudited)	As at 31 December 2008 (audited)
	€	€	€
Due within one year	<b>1,287,902</b>	729,807	1,457,528
Due after more than one year	<b>56,896,048</b>	49,947,807	55,832,530
	<b>58,183,950</b>	50,677,614	57,290,058

The above financial liabilities represent loans from banks for the purpose of purchasing property for the Group and are secured on the properties which they financed, apart from one loan which is partly secured by the relevant property and partly by the investments held at fair value shown in note 7.

During the period to 30 June 2009, new loans totalling € 1,520,879 were drawn down from existing and new loan facilities.

**12. Operating expenses**

	<b>6 months to 30 June 2009 (unaudited)</b>	6 months to 30 June 2008 (unaudited)	Year ended 31 December 2008 (audited)
	€	€	€
Service charge expenses	<b>1,063,082</b>	592,851	1,700,621
Property maintenance costs	<b>553,585</b>	363,081	1,000,650
Administrative and other operating costs	<b>214,047</b>	437,707	557,839
Investment advisory and performance fees	<b>374,229</b>	442,684	827,897
Bank charges	<b>8,153</b>	14,811	16,522
Directors fees	<b>16,046</b>	25,465	39,506
Legal and professional fees	<b>66,186</b>	145,395	232,357
AIM fees	-	378,460	504,364
Provision for bad debts	<b>80,000</b>	113,037	210,668
Audit fees	<b>90,675</b>	45,359	183,293
Foreign exchange differences	<b>2,281</b>	(2,124)	(2,101)
	<b>2,468,284</b>	2,556,726	5,271,616

**13. Financial risk management**

The German subsidiaries enter into interest swap arrangements with its bankers to manage their exposure to upward movements in interest rates. They require that the Taliesin group company pay interest on any loans drawn down at the contractual EURIBOR rate plus the contracted margin and to receive (or pay) the difference between this EURIBOR rate and the fixed interest swap rate specified in the swap agreement.

The following table summarises the facilities in existence as at 30 June 2009.

Bank	Amount of facility	Amount drawn down as at 30 June 2009	Expiry date of loan agreement	Expiry date of interest swap agreement	Capped rate (when applicable)
Eurohypo	€ 11,128,000	€ 11,014,616	31 October 2016	2 April 2012	4.16%
Eurohypo	€ 4,936,000	€ 4,885,707	31 October 2016	2 April 2012	4.16%
Eurohypo	€ 8,256,000	€ 8,192,909	30 December 2016	30 December 2011	4.04%
Eurohypo	€ 10,500,000	€ 10,494,188	30 June 2017	31 January 2012	4.08%
Eurohypo	€ 5,200,000	€ 5,200,000	3 April 2018	1 July 2013	4.15%
Eurohypo	€ 2,300,000	€ 2,300,000	3 April 2018	1 July 2013	4.15%
Eurohypo	€1,665,000	€1,665,000	1 July 2013	1 July 2013	4.93%
Eurohypo	€3,200,000	€ 3,200,000	1 July 2013	1 July 2013	4.93%
DG Hyp	€ 9,300,000	€ 9,300,000	31 March 2013	31 March 2013	4.25%

**14. Income tax credit/(expense)**

	6 months to 30 June 2009 (unaudited) €	6 months to 30 June 2008 (unaudited) €	Year ended 31 December 2008 (audited) €
Current tax on profits	(1,040)	-	(922)
Prior year underprovision	-	-	(572)
Deferred tax	229,545	(56,002)	995,927
<b>Total income tax credit/(expense) for the period/year</b>	<b>228,505</b>	<b>(56,002)</b>	<b>994,433</b>

The net tax liability at the end of each period comprises:

Deferred tax asset	2,242,959	1,069,438	2,013,342
Deferred tax liability	(2,777,510)	(2,885,463)	(2,777,438)
Corporation tax payable	(1,962)	(606)	(922)
	<b>(536,513)</b>	<b>(1,816,631)</b>	<b>(765,018)</b>

Income tax expense is recognised based on management's best estimate of the weighted average annual income tax rate expected for the full financial year applied to the pre-tax income of the interim period. The Group's consolidated effective tax rate in respect of continuing operations during the period to 30 June 2009 was 16.53% per cent.

**15. Commitments and contingencies**

As at 30 June 2009, the Group had authorised capital investment of € 800,000 (31 December 2008: € nil) in the purchase and enhancement of properties in pursuance of its objectives.

**16. Related party transactions**

Nigel Le Quesne, Philip Burgin and Stephen Burnett are all shareholders and directors of JTC Group Limited of which JTC Management Limited and JTC Fund Services Limited are wholly-owned subsidiaries. JTC Management Limited is the Secretary of the Company and JTC Fund Services Limited is a provider of administration services to the Company and its subsidiaries. These two companies charged fees totalling €93,384 to the Group during the period to 30 June 2009 (year ended 31 December 2008: € 240,682), of which € nil was outstanding as at 30 June 2009 (31 December 2008: nil).

Mark Smith is a director and shareholder of Taliesin Management Limited (TML), the investment advisor and provider of management services to the Company, which charged fees totalling €373,383 to the Company during the period to 30 June 2009 (year ended 31 December 2008: € 827,897), of which €363,632 was outstanding as at 30 June 2009 (31 December 2008: € 355,223). Taliesin Deutschland GmbH, a wholly-owned subsidiary of TML, acts as property advisor to the German subsidiaries of the Group. Taliesin Deutschland GmbH charged fees totalling € 48,339 to the Group during the period to 30 June 2009 (year ended 31 December 2008: € 274,702), of which € nil was outstanding as at 30 June 2009 (31 December 2008: € nil).

**17. Events since the balance sheet date**

Since 30 June 2009, the Company has made a further purchase of 4,000 of its own Ordinary shares, at a cost of €29,100, to hold in treasury.