

**SPITFIRE ARABIAN PROPERTY RECOVERY FUND**

**ANNUAL REPORT AND AUDITED FINANCIAL STATEMENTS FOR THE PERIOD FROM 1  
OCTOBER 2009 (DATE OF THE COMMENCEMENT OF OPERATIONS) TO 31 DECEMBER 2010**

**SPITFIRE ARABIAN PROPERTY RECOVERY FUND**

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## SPITFIRE ARABIAN PROPERTY RECOVERY FUND

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### General Information

#### Fund Registered Office

20 Reid Street  
3rd Floor, Williams House  
P.O. Box 2460 HMJX  
Hamilton HM11  
Bermuda

#### Investment Manager

Spitfire Asset Managers (Bermuda) Ltd  
Clarendon House  
2 Church Street  
Hamilton  
HM 12  
Bermuda

#### Directors

Alan Tennant Johnson  
Philip Peter Scales  
Peter Hughes

#### Listing and On-going Sponsor

Apex Fund Services Ltd  
20 Reid Street  
3rd Floor, Williams House  
P.O. Box 2460 HMJX  
Hamilton HM11  
Bermuda

#### Administrator

Apex Fund Services Ltd  
20 Reid Street  
3rd Floor, Williams House  
P.O. Box 2460 HMJX  
Hamilton HM11  
Bermuda

#### Auditor

Deloitte LLP  
The Old Courthouse  
Athol Street  
Douglas  
Isle of Man IM 99 1XJ

#### Custodian

Kleinwort Benson Trustees (Isle of Man) Ltd  
(Formerly Close Trustees (Isle of Man) Ltd)  
St. George's Court  
Upper Church Street  
Douglas  
Isle of Man IM1 1JE

#### Currency Hedge / Investment Advisor

Canaccord Genuity Wealth (International) Ltd  
(Formerly Collins Stewart Wealth Management Ltd)  
(Formerly Corazon Capital Ltd)  
PO Box 45,  
The Grange, St. Peter Port,  
Guernsey, GY1 4AX

#### Legal Advisors

Conyers Dill & Pearman  
Clarendon House  
2 Church Street  
Hamilton, HM 11  
Bermuda

## SPITFIRE ARABIAN PROPERTY RECOVERY FUND

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### **Directors' Report for the period from 1 October 2009 (Date of the commencement of operations) to 31 December 2010**

The directors present herewith their report and audited financial statements for the period from 1 October 2009 (Date of the commencement of operations) to 31 December 2010.

#### **Date of incorporation**

Spitfire Funds (Bermuda) Ltd (the "Company"), a Bermuda Exempted Mutual Fund Segregated Account Company number 42429, was incorporated in Bermuda on the 19 September 2008 under the Segregated Accounts Companies Act 2000.

The Spitfire Arabian Property Recovery Fund (the "Fund") is a segregated account of the Company, under the Bermuda Companies Act 1981 which commenced operations on 1 October 2009.

#### **Principal activity**

The Company is an exempted company and was incorporated on 19 September 2008 as an open-ended investment company with limited liability in Bermuda and has been authorised as a standard Fund under the Investment Funds Act 2006 ("IFA") and, as such, has power to issue and redeem shares. The Fund invests in open ended property Funds, listed closed end property companies, global quoted property stocks, Real Estate Investments Trusts (REITS), and any other suitable Arabian property related investments, including ETF's (Exchange Traded Funds). The actual allocations across these securities types are actively managed to exploit the opportunities available and may vary over time to seek higher returns. The non-voting redeemable shares "Spitfire Arabian Property Recovery Fund Class A Shares" issued by the Fund were admitted on 8 December 2009 to the Official List of the Bermuda Stock Exchange ("BSX"), but were delisted on 28 December 2011 following the decision to liquidate the Fund. The Funds investment portfolio is in compliance with the Section IV of the BSX listing rules. The Fund was classified as open marketing under Section IV of the BSX listing rules.

The Fund can issue Spitfire Arabian Property Recovery Class A USD Shares, Spitfire Arabian Property Recovery Class A Euro Shares and Spitfire Arabian Property Recovery Class A Sterling Shares (collectively the "Shares"). Other classes of shares may be created and issued at the discretion of the directors of the Company. See Note 6 of the financial statements for further disclosures regarding these share classes.

#### **Investment policy**

It should be noted that the investment policy of the Fund, which includes investment in underlying funds, will result in multiple layers of fees or a duplication of certain costs that will be charged to the underlying funds by their service providers, as well as to the Fund by the service providers of the Fund. Such costs will include, but are not limited to, formation expenses, custodian, domiciliary, management fees, audit expenses and other associated costs.

In investing in the Fund, which in turn may invest through underlying funds, a shareholder, in effect, incurs the cost of the management fee, performance fees and any commissions paid to the Investment Managers as well as the advisory fees, incentive fees and other fees paid to the investment advisors of an underlying fund.

By investing in an underlying fund, the Fund incurs its proportionate share of the operating costs and expenses of the underlying fund, including, but not limited to, custody and brokerage commissions, interest charges, legal and accounting fees and disbursements, in addition to the operating costs and expenses detailed in the relevant offering Memorandum. As a result, the operating expenses of the Fund may constitute a higher percentage of the Net Asset Value of the Fund than would be found in other investment schemes. Also, the purchase of an investment in an underlying fund may involve payment by the Fund of substantial subscription fees or premiums.

#### **Accounting Standards**

The directors have elected to prepare the financial statements in accordance with the United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The significant accounting policies adopted have been mentioned in Note 2 of the financial statements.

## SPITFIRE ARABIAN PROPERTY RECOVERY FUND

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### **Directors' Report for the period from 1 October 2009 (Date of the commencement of operations) to 31 December 2010 (continued)**

#### **Result for the period**

The loss for the period is set out in the profit and loss account on page 10 of the financial statements.

#### **Going concern**

Post year end, on 2 November 2011, the directors agreed that the Fund would not remain economically viable and should enter liquidation on completion of the 31 October 2011 Net Asset Value calculation, and therefore made an offer to shareholders to redeem their holdings in full. As required by IFRS 18, the financial statements have been prepared on the basis that the entity is no longer a going concern. The financial statements do not include any provision for the future costs of terminating the business of the entity except to the extent that such costs were committed at the end of the reporting period. No material adjustments arose as a result of ceasing to apply the going concern basis.

#### **List of Investments**

As of 31 December 2010, the Fund held no investments.

#### **Dividend**

No dividend was proposed or paid during the period.

#### **Directors**

The directors of Company holding office during the period and through to the date of this report are:

Alan Tennant Johnson appointed on 28 October 2008.

Philip Peter Scales appointed on 28 October 2008.

Peter Hughes appointed on 28 October 2008.

#### **Directors' Interest**

The directors receive fees from the Fund which are set out in the Profit and Loss account of the financial statements. Related party transactions where directors are involved are detailed in Note 11 of the financial statements. None of the directors own shares in the Fund.

#### **Secretary**

The secretary of the Company holding office during the period and through to the date of this report was Sharon Ward who was appointed on 28 October 2008.

#### **Auditor**

Deloitte LLP were appointed as independent auditor to the Fund on 9 November 2009 and, being eligible, have indicated their willingness to continue in office in accordance with Section 89(1) of the Companies Act 1981.

#### **Subsidiaries**

The Fund has no subsidiaries.

#### **Ownership of shares**

The directors, the investment manager and the investment advisors do not own participating shares and have no right to receive distributions from the Fund. The investment manager owns the management share and is entitled to exercise voting rights in connection with this share as disclosed in Note 6 of the financial statements. The participating shares have no voting rights and are redeemable.

**SPITFIRE ARABIAN PROPERTY RECOVERY FUND**

**Directors' Report for the period from 1 October 2009 (Date of the commencement of operations) to 31 December 2010 (continued)**

**Fees**

The Fund incurred charges of USD 27,394 for investment management fees in favour of the investment manager for the period from 1 October 2009 to 31 December 2010. The director fees amounted to USD 11,159 for the same period.

In addition to these fees, the Fund paid a commission of USD 64,216 to the introducers of subscribers to the Fund, who was the investment manager, The Spitfire Asset manager (Bermuda) Limited.

The fee rebates receivable from the Investment Manager by the Fund were USD 16,301 for the period 1 October 2009 to 31 December 2010 to cover the operating expenses of the Fund. The rebate remains receivable as at 31 December 2010.

**Net Asset Value as per the Financial Statements and the Published Net Asset Value**

The Net Asset Value ("NAV") as per the financial statements differed from the published NAV for the following reason:

- The NAV published is calculated based on the Fund supplement. As per the supplement, the organisational cost and the deferred sale charges are amortised over a period of 5 years. In the financial statements, these expenses were fully expensed in the first accounting period in accordance with the requirements of United Kingdom Generally Accepted Accounting Practice. The net difference in the financial statement is a loss of USD (65,938) and a reduction in Net Asset Value of the same amount.
- The published NAV per share and the NAV per share per the financial statements are as follows

Share Class	Published NAV per Share		NAV per Share per the Financial Statements	
	FCY	USD	FCY	USD
EUR Class A	89.41	119.60	83.56	111.78
GBP Class A	90.60	141.33	85.05	132.66

**Results and assets and liabilities of the Fund**

	2010 USD
<b>Assets</b>	
Debtors	16,301
Cash and cash equivalents	1,017,025
<b>Total assets</b>	<b>1,033,326</b>
Creditors: amounts falling due within one year	55,534
<b>Total liabilities:</b> (excluding net assets attributable to holders of redeemable shares)	<b>55,534</b>
<b>Net assets attributable to holders of redeemable shares</b>	<b>977,792</b>
<b>Loss for the period</b>	<b>(244,728)</b>

**SPITFIRE ARABIAN PROPERTY RECOVERY FUND**

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**Directors' Report for the period from 1 October 2009 (Date of the commencement of operations) to 31 December 2010 (continued)**

**Liquidation**

After the reporting period, the board of director's through a resolution dated 2 November 2011 agreed to close the Fund as at 31 October 2011. The decision was taken due to the diminutive size of the Fund which made it uneconomical to operate and maintain. The letter informing the shareholders was issued on 25 October 2011. The final redemption payment was paid in cash 19 April 2012 to the investors.

	GBP Class		EUR Class	
	GBP	USD	EUR	USD
Grange Nominees Ltd	306,086	492,401	304,361	421,753

**SPITFIRE ARABIAN PROPERTY RECOVERY FUND**

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**Directors' responsibilities statement**

The directors are responsible for preparing the financial statements in accordance with applicable law and regulations.

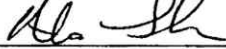
The Companies Act 1981 requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they present fairly, in all material aspects, the state of affairs of the Fund and of the profit or loss of the Fund for that period.

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

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

The directors are responsible for keeping proper records of account that are sufficient to show and explain the Fund's transactions and disclose with reasonable accuracy at any time the financial position of the Fund and enable them to ensure that the financial statements comply with the Companies Act 1981. They are also responsible for safeguarding the assets of the Fund and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Fund's website. Legislation in Bermuda governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

  
\_\_\_\_\_  
20/12 2013



## SPITFIRE ARABIAN PROPERTY RECOVERY FUND

### **Independent Auditor's Report to the Members of Spitfire Arabian Property Recovery Fund**

We have audited the financial statements of Spitfire Arabian Property Recovery Fund ("the Fund") for the period from 1 October 2009 (Date of the commencement of operations) to 31 December 2010 which comprise the Profit and loss account, the Balance sheet, the Cash flow statement with related notes a) and b) and the related notes 1 to 14. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the Fund's members, as a body, in accordance with Section 90(2) of the Companies Act 1981. Our audit work has been undertaken so that we might state to the Fund's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the 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 directors and auditor**

As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they present fairly, in all material aspects, the state of affairs of the Fund and of the profit or loss of the Fund for that period. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

#### **Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

#### **Opinion on financial statements**

In our opinion the financial statements:

- Present fairly, in all material aspects, the state of the Fund's affairs as at 31 December 2010 and of its loss for the period then ended; and
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice.

#### **Emphasis of matter – Financial statements prepared other than on a going concern basis**

In forming our opinion on the financial statements, which is not modified, we have considered the adequacy of the disclosure made in note 2 to the financial statements, which explains that the financial statements have been prepared on a basis other than that of a going concern.

Deloitte LLP

Deloitte LLP  
Chartered Accountants  
Isle of Man

31st December 2013

SPITFIRE ARABIAN PROPERTY RECOVERY FUND

**Profit and loss account for the period from 1 October 2009 (Date of the commencement of operations) to 31 December 2010**

	Note	<u>From the date of commencement of operations 1 October 2009 to 31 December 2010</u> <u>USD</u>
<b>Income from continuing operations</b>		
Other Income		16,301
<b>Total Income</b>		<b>16,301</b>
<b>Expenses</b>		
Administrator's fees	12	1,405
Audit fees		18,502
Bank and broker charges		2,201
Custodian fees	12	1,875
Directors' fees		11,159
Investment advisory fees	12	4,553
Management fees	12	27,394
Deferred Sales Charge	12	64,216
Sundry expenses		45,585
<b>Total expenses</b>		<b>176,890</b>
Net loss before exchange gains/(losses)		(160,589)
Net gains on exchange differences	13	519
Net loss on foreign exchange forwards		(84,658)
<b>Retained loss for the period before and after taxation attributable to holders of redeemable shares</b>		<b>(244,728)</b>

The Fund has no recognised gains or losses other than those included in the profit and loss account above and therefore no separate statement of total recognised gains and losses has been presented.

All transactions are derived from continuing operations.

**The notes on pages 13 to 23 form an integral part of these audited financial statements**

**SPITFIRE ARABIAN PROPERTY RECOVERY FUND**

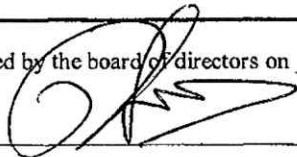
**Balance Sheet as at 31 December 2010**

	Note	31 December 2010 USD
<b>Assets</b>		
Debtors	4	16,301
Cash and cash equivalents		1,017,025
<b>Total assets</b>		<b>1,033,326</b>
<hr/>		
Creditors: amounts falling due within one year	5	55,534
<b>Liabilities: (excluding net assets attributable to holders of redeemable shares)</b>		
		<b>55,534</b>
<hr/>		
<b>Net assets attributable to holders of redeemable shares</b>	8	<b>977,792</b>

The financial statements on page 10 to 23 were approved by the board of directors on 30/11/13 and signed on its behalf by:

  
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**Director**

  
\_\_\_\_\_

**Director**

**The notes on pages 13 to 23 form an integral part of these audited financial statements.**

SPITFIRE ARABIAN PROPERTY RECOVERY FUND

**Cash flow statement for the period from 1 October 2009 (Date of the commencement of operations) to 31 December 2010**

	<b>Note</b>	<b><u>From the date of commencement of operations</u> <u>1 October 2009 to 31 December 2010</u></b>
		<b><u>USD</u></b>
Net cash outflow from operating activities	(b)	(121,353)
<b>Financial investments</b>		
Forward currency contract settlement		(84,142)
<b>Financing</b>		
Issue of redeemable shares		1,222,520
<b>Increase in cash</b>	<b>(a)</b>	<b>1,017,025</b>

**Notes to the cash flow statement**

**(a) Analysis of changes in cash during the period**

		<b>2010</b>
		<b><u>USD</u></b>
Balance at 1 October 2009		-
Net cash inflow		1,017,025
<b>Balance at 31 December 2010</b>		<b>1,017,025</b>

**(b) Reconciliation of operating loss to net cash outflow from operating activities**

		<b><u>From the date of commencement of operations</u> <u>1 October 2009 to 31 December 2010</u></b>
		<b><u>USD</u></b>
Operating loss		(244,728)
Increase in debtors		(16,301)
Increase in creditors		55,018
Net (gain)/ loss on foreign exchange forwards		84,658
<b>Net cash outflow from operating activities</b>		<b>(121,353)</b>

The notes on pages 13 to 23 form an integral part of these audited financial statements.

## SPITFIRE ARABIAN PROPERTY RECOVERY FUND

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### Notes to the Financial Statements from 1 October 2009 (Date of the commencement of operations) to 31 December 2010

#### 1. Organization

The Spitfire Arabian Property Recovery Fund (the "Fund") is a segregated account of the Spitfire Funds (Bermuda) Ltd (the "Company"), a company incorporated under the laws of Bermuda on 19 September 2008 as a Segregated Accounts Company. The Fund commenced operations on 1 October 2009.

The investment objective of the Fund is to seek to exploit recovery themes and select a range of property related investment opportunities offering the potential for investment returns derived from the Arabian property market.

The base currency of the Fund is US Dollars. The Shares are offered in US dollars in respect of Class A USD Shares, in Euros in respect of Class A Euro Shares and Sterling in respect of Class A Sterling Shares.

#### 2. Significant Accounting Policies

The financial statements are prepared in accordance with applicable law and United Kingdom Accounting Standards using the historical cost convention modified by the revaluation of investments and derivatives. The significant accounting policies adopted by the Fund are as follows:

##### Going concern

Post year end, on 2 November 2011 the directors agreed that the Fund was no longer economically viable and should enter liquidation on completion of the 31 October 2011 Net Asset Value ("NAV") calculation, and therefore made an offer to shareholders the opportunity to redeem their holdings in full. As required by FRS 18, the financial statements have been prepared on the basis that the entity is no longer a going concern. The financial statements do not include any provision for the future costs of terminating the business of the entity except to the extent that such costs were committed at the end of the reporting period. No material adjustments arose as a result of ceasing to apply the going concern basis.

##### Redeemable shares

In accordance with Financial Reporting Standard 25, Financial Instruments: Disclosure and presentation, non management share classes and accordingly the total value of shareholders' Funds, are deemed to be in the nature of non-equity interests and are therefore classified as financial liabilities.

Note 6 and 7 discloses the amount of share capital and share premium arising in relation to the redeemable shares. As the shares are financial liabilities rather than equity, these balances are revalued at the year end exchange rate with exchange gains/losses arising.

##### Classification

The Fund designates its financial assets and liabilities into the categories below in accordance with Financial Reporting Standard 26 Financial instruments: Recognition and measurement.

##### *(i) Financial assets and liabilities at fair value through profit or loss*

The Fund holds positions in other investment Funds which are financial assets designated at fair value through profit or loss upon initial recognition. These financial instruments are designated on the basis that their fair value can be reliably measured and their performance has been evaluated on a fair value basis in accordance with the risk management and/or investment strategy as set out in the Fund's offering document.

##### *(ii) Initial Measurement*

Purchases and sales of financial instruments are accounted for at trade date.

Financial instruments categorised at fair value through profit or loss, are measured initially at fair value, with transaction costs for such instruments being recognised directly in the profit and loss account.

## SPITFIRE ARABIAN PROPERTY RECOVERY FUND

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### Notes to the Financial Statements from 1 October 2009 (Date of the commencement of operations) to 31 December 2010

#### 2. Significant Accounting Policies (continued)

##### *(iii) Subsequent measurement*

After initial measurement, the Fund measures financial instruments, which are classified as at fair value, through profit or loss at their fair values. Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Investments in other investment Funds are subsequently re-measured at market value, which is the price notified by the administrator of each respective underlying fund. In the opinion of the directors this represents the fair value of each investment. Subsequent changes in the fair value of financial instruments are recognised in the profit and loss account.

##### **Functional currency**

The functional currency of the Fund i.e. the currency of the primary economic environment in which the entity operates is US Dollars (USD). The presentation currency of the Fund is also US Dollars.

##### **Foreign currency translation**

Transactions denominated in other currencies which occurred during the period have been translated at the rate of exchange prevailing at the date of the transaction. Assets and liabilities in other currencies are translated to US Dollars at the rates of exchange prevailing at the balance sheet date. The resulting profits or losses are reflected in the profit and loss account.

##### **Forward foreign currency exchange contracts**

The Fund may enter into forward foreign currency exchange contracts for the purchase or sale of a specific foreign currency at a fixed price on a future date. Risks may arise upon entering these contracts from the potential inability of counterparties to meet the terms of the contracts and from unanticipated movements in the value of the underlying assets. The Fund may enter into such contracts for hedging purposes as well as speculative purposes. The values of the contracts are adjusted daily in accordance with movements in the value of each underlying asset or liability and any appreciation or depreciation is recorded periodically for financial statement purposes as unrealised until the contract settlement date. Realised and unrealised gains and losses are included in the profit and loss account.

##### **Income**

Bank interest income is recognised on a time-proportionate basis using the effective interest method. Dividend income is recognised on an accruals basis.

##### **Cash and cash equivalents**

Cash and cash equivalents comprise of cash in hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months.

##### **Loans and Receivables**

Interest bearing loans, overdrafts and receivables are initially measured at fair value (which is equal to net proceeds at inception), and are subsequently measured at amortised cost, using the effective interest rate method less any allowance for estimated impairments. A provision is established for impairments when there is objective evidence that the Company will not be able to collect all amounts due under the original terms of the loan. Interest income, together with losses when the loans are impaired are recognised on an effective interest basis in the profit and loss account.

**SPITFIRE ARABIAN PROPERTY RECOVERY FUND**

**Notes to the Financial Statements from 1 October 2009 (Date of the commencement of operations) to 31 December 2010**

**3. Financial assets at fair value through profit or loss**

At 31 December 2010, the Fund solely held open forward contracts as investments.

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into level 1 to 3 based on the degree to which fair value is observable as at 31 December 2010.

*Level 1 Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities;*

*Level 2 Quoted prices in markets that are not active or financial instruments for which all significant inputs are observable, either directly or indirectly;*

*Level 3 Prices or valuations that require input that is both significant to the fair value measurement and unobservable.*

**Fair value hierarchy table**

2010	Level 1 USD	Level 2 USD	Level 3 USD	Total USD
<b>Investments</b>				
Open Forwards Contracts	-	(516)	-	(516)
<b>Total Investments</b>	-	<b>(516)</b>	-	<b>(516)</b>

No financial instruments were classified as level 3 at 31 December 2010.

**4. Debtors: amounts receivable within one year**

	2010 USD
Rebates receivable from Fund Manager	<b>16,301</b>

**5. Creditors: amounts falling due within one year**

	Note	2010 USD
Unrealised forward currency contracts	9	516
Investment Management Fee		21,531
Administration fees		452
Custodian fees		1,078
Audit Fees		18,502
Investment advisory fees		1,755
Other creditors & accruals		11,700
		<b>55,534</b>

**SPITFIRE ARABIAN PROPERTY RECOVERY FUND**

**Notes to the Financial Statements from 1 October 2009 (Date of the commencement of operations) to 31 December 2010**

**6. Share Capital**

The Spitfire Funds (Bermuda) Ltd (“the Company”) has been authorized to issue 1 manager share of par value US\$1.00 and up to 11,999,000 redeemable shares of par value US\$0.001 each. The Fund can issue Spitfire Arabian Property Recovery Class A USD Shares, Spitfire Arabian Property Recovery Class A Euro Shares and Spitfire Arabian Property Recovery Class A Sterling Shares (collectively the “Shares”). Other classes of shares may be created and issued at the discretion of the directors of the Company. The Manager shareholder shall be entitled to vote and is not entitled to any dividends. The Class A shares are non-voting redeemable shares, and are redeemable at the option of the holder of the shares.

**Class Funds**

Each share class in the Fund has a Class Fund established in accordance with the offering memorandum. The Fund currently has Class Funds established as follows:

- Class A Euro redeemable shares
- Class A Sterling redeemable shares
- There were no Class A USD redeemable shares issued during the period.
- The proceeds from the allotment and issue of each class of shares are applied to the relevant share class. Investment gains and losses on assets allocated to each Class Fund are applied to the relevant class. In the case of any asset, liability, income or expense which the directors do not consider attributable to a particular Class Fund, the directors have the discretion to determine the basis on which the asset, liability income or expense is allocated between the Class Funds. The directors have based such allocations on the proportion of the Net Asset Value of the Fund each Class Fund comprises.
- Investors in the EUR and GBP share classes are exposed to currency risk through the denomination of the share classes in a currency other than the reporting currency of the Fund. In accordance with the offering memorandum the directors have appointed an investment advisor to neutralise, to the extent possible, the impact of currency fluctuations for investors in the EUR and GBP share classes by taking out monthly forward foreign currency contracts which mirror the value of the non-base currency assets thus mitigating the risk from currency movements. The costs of hedging currency fluctuations in this manner, including gains and losses on forward foreign currency contracts, are allocated to the relevant Class Fund.

<b>Issued and fully paid:</b>	<b>No. of Shares</b>	<b>USD</b>
<b>Participating shares of EUR0.001 each</b>		
At 1 October 2009	-	-
Issued during the period	4,000	6
Redeemed during the period	-	-
Exchange loss during the period	-	(1)
<b>At 31 December 2010</b>	<b>4,000</b>	<b>5</b>
<b>Participating shares of GBP0.001 each</b>		
At 1 October 2009	-	-
Issued during the period	4,000	6
Redeemed during the period	-	-
Exchange loss during the period	-	-
<b>At 31 December 2010</b>	<b>4,000</b>	<b>6</b>



SPITFIRE ARABIAN PROPERTY RECOVERY FUND

**Notes to the Financial Statements from 1 October 2009 (Date of the commencement of operations) to 31 December 2010**

**7. Share Premium Account**

USD

**Participating shares of EUR0.001 each**

At 1 October 2009	-
Issued during the period	582,714
Redeemed during the period	-
Exchange loss during the period	(57,919)
<b>At 31 December 2010</b>	<b>524,795</b>

**Participating shares of GBP0.001 each**

At 1 October 2009	-
Issued during the period	639,794
Redeemed during the period	-
Exchange loss during the period	(22,560)
<b>At 31 December 2010</b>	<b>617,234</b>

**8. Net assets attributable to holders of participating redeemable shares**

	Share Capital USD	Share Premium USD	Retained Earnings USD	Total USD
Balance at 1 October 2009	-	-	-	-
Gain on ordinary activities			(244,728)	(244,728)
Issue of EUR0.001 shares	6	582,714	-	582,720
Redemption of EUR0.001 shares	-	-	-	-
Exchange loss on EUR0.001 shares	(1)	(57,919)	57,920	-
Issue of GBP0.001 shares	6	639,794	-	639,800
Redemption of GBP0.001 shares	-	-	-	-
Exchange loss on GBP0.001 shares	-	(22,560)	22,560	-
<b>Balance at 31 December 2010</b>	<b>11</b>	<b>1,142,029</b>	<b>(164,248)</b>	<b>977,792</b>

**Net assets by each share class**

Share Class	2010			
	FCY		USD	
	NAV/Share	NAV	NAV/Share	NAV
EUR Class	83.56	334,240	111.78	447,134
GBP Class	85.05	340,200	132.66	530,658
				<b>977,792</b>

**SPITFIRE ARABIAN PROPERTY RECOVERY FUND**

**Notes to the Financial Statements from 1 October 2009 (Date of the commencement of operations) to 31 December 2010**

**9. Forward currency contracts**

The amount of the contracts represents the extent of the Fund's participation in these financial instruments. Market risks associated with forward contracts arise due to the possible movements in foreign exchange rates underlying these instruments.

At 31 December 2010, the Fund held open forward contracts as set out below:

Buy	Amount	Sell	Amount	Contract Rate	Date	FX Rate - 31 December 2010	Unrealised (Loss) - USD
EUR	367,900	USD	483,016	1.3129	30-Jan-11	1.312	(331)
GBP	369,200	USD	569,897	1.5436	30-Jan-11	1.5431	(185)
<b>Total</b>							<b>(516)</b>

**10. Taxation**

The Fund is incorporated in Bermuda, a jurisdiction with no corporate taxes. Accordingly, no provision for liability to income tax has been included in these financial statements. The Fund may be subject to foreign withholding taxes on certain interest, dividends and capital gains.

**11. Related party transactions**

Alan Tennant Johnson is the Chairman of The Spitfire Funds (Bermuda) Ltd.

Alan Tennant Johnson, Philip Peter Scales and Peter Hughes are the directors of The Spitfire Funds (Bermuda) Ltd, the Fund, and are directors of the Frontier Global Real Estate Fund Plc and The Frontier Commercial Property Fund Plc.

Peter Hughes is a director and principal owner of the Administrator. Details of the fees payable to the Administrator are shown in note 12.

During the year/period, the Fund carried out various transactions with the Frontier Global Real Estate Fund Plc and The Frontier Commercial Property Fund Plc at the prevailing market prices as follows:

2010					
The Frontier Global Real Estate Fund Plc					
Date	Trade	Security	CCY	No of shares	Price
01/10/2009	Subscription	Spitfire Arabian Property Recovery Fund	EUR	4,000	100.00
The Frontier Commercial Property Fund Plc					
Date	Trade	Security	CCY	No of shares	Price
01/10/2009	Subscription	Spitfire Arabian Property Recovery Fund	GBP	4,000	100.00

## SPITFIRE ARABIAN PROPERTY RECOVERY FUND

### Notes to the Financial Statements from 1 October 2009 (Date of the commencement of operations) to 31 December 2010

#### 11. Related party transactions (continued)

Spitfire Asset Managers (Bermuda) Ltd is the Fund's Investment Manager of which Alan Tennant Johnson is a director. For the period 1 October 2009 to 31 December 2010, the fees charged by the Investment Manager were:

	<b>2010</b>
	<b>USD</b>
Investment management fees	27,394
Deferred sales charge	64,216
	<b>91,610</b>

For the period 1 October 2009 to 31 December 2010, the management fee incurred by the investment manager was USD 27,394. The Investment Manager settled certain expenses on behalf of the Fund during the period and as such provided a rebate of USD 16,301.

Further details of fees incurred are also included in note 12.

No Director of the Fund held a beneficial interest in any of the participating shares of the Fund during the period.

The Spitfire Asset Managers (Bermuda) Ltd is the owner of the manager share in the Company.

#### 12. Fees and expenses

##### Basis of calculating fees

All agreements with service providers/third parties are entered into and records of the agreement are in place with the relevant parties.

##### Administrator

The Administrator charges a fee of 0.1% of the monthly Net Asset Value, which accrues monthly and is payable quarterly in arrears. The Administrator charges USD 15 per shareholder transaction and an additional corporate secretarial service at USD 5,000 per annum (pro-rated amongst segregated accounts of the Company).

During the period a charge of USD 1,405 was incurred in relation to the administration fees and USD 1,042 for the corporate secretarial fees. USD 452 and USD 347 for administration services and corporate secretarial services respectively were payable as at 31 December 2010.

##### Custodian fees

The Custodian is paid a fee of 0.05% of the Net Asset Value subject to a minimum aggregate NAV annual fee of GBP 6,000 which accrues monthly and is payable monthly in arrears on the last Business Day of each month. Additionally, the Custodian is paid a transaction fee of GBP 100 per trade plus full recovery of all counter-party charges and reimbursement of all out of pocket expenses. During the period a charge of USD 1,875 was charged by the Custodian and USD 1,078 was payable as at 31 December 2010.

##### Investment management fees

The Investment Manager is paid a minimum fee equal to the aggregate of 1.95% per annum of the Net Asset Value which is paid monthly in arrears on the last Business Day of each month. During the period USD 27,394 management fees were charged by the Investment Manager and USD 21,531 was payable as at 31 December 2010.

## SPITFIRE ARABIAN PROPERTY RECOVERY FUND

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### Notes to the Financial Statements from 1 October 2009 (Date of the commencement of operations) to 31 December 2010

#### 12. Fees and expenses (continued)

##### Performance fees

The Investment Manager is paid a performance fee equal to 20% per annum of the appreciation in the net asset value per share, above the appreciation had the assets been invested in the market at the 3-month LIBOR rate as quoted on the first day of each calendar quarter, in the net asset value per share above the base net asset value per share. The base net asset value per share represents the highest net asset value per share achieved. The performance fee is paid quarterly in arrears on the last Business Day of each calendar quarter. During the period there was no performance fee incurred and none payable as of 31 December 2010.

##### Deferred sales charge

The Fund reserves the right to pay an initial fee to introducers by way of commission. Such costs of acquiring and procuring subscriptions are limited to a maximum of 5% of the amount subscribed and these costs are expensed as they are incurred. During the period USD 64,216 was paid as a deferred sales charge and nil was payable as at 31 December 2010.

##### Early redemption fees

Redemptions are subject to an early redemption fee of a percentage of the value of the redemption between 5% and nil, calculated on a pro rata basis over a period of 50 months from the date of subscription subject to the Directors discretion. In the period, no redemption fees were charged to investors and no income recognised.

##### Investment Advisor Fees

The Investment Advisor is paid a fee equal to 0.324% of the Net Asset Value up to USD 200 million, 0.20% for the next USD 200 million and 0.1% thereafter. Fees are based on the monthly NAVs and are calculated monthly and payable quarterly. During the period USD 4,553 was charged as investment advisory fees and USD 1,755 was payable to the Investment Advisor as at 31 December 2010.

##### Rebates

The Fund received rebates of USD 16,301 recognised as other income in the Profit and Loss account from the investment manager for the period ending 31 December 2010. USD 16,301 was receivable as of 31 December 2010.

All fees and charges are consistent with the articles of the Company and offering memorandum of the relevant Company and Fund.

#### 13. Risk associated with financial instruments

The Fund is exposed to capital risk management, market risk, interest rate risk, credit risk and liquidity risk arising from the financial instruments it holds. The nature and extent of the financial instruments outstanding at the reporting date and the risk management policies employed by the Fund to manage these risks are discussed below.

##### Capital risk management

Capital is represented by the net assets attributable to the holders of redeemable shares.

Capital is managed in line with the investment parameters of the Fund seeking to generate returns for shareholders whilst seeking to minimize risk.

The Fund was incorporated as an open-ended Investment Fund in Bermuda to seek opportunities for capital growth resulting from investing in the Commercial Property Market and the listed shares of property related companies, by investing in a range of underlying Funds.

**SPITFIRE ARABIAN PROPERTY RECOVERY FUND**

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**Notes to the Financial Statements from 1 October 2009 (Date of the commencement of operations) to 31 December 2010**

**13. Risks associated with financial instruments (continued)**

**Strategy in using financial instruments**

The Fund's activities expose it to a variety of financial risks: market risk (including currency risk, interest rate risk and price risk), credit risk and liquidity risk. The Fund's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Fund's financial performance.

**Market price risk**

Market price risk is the potential for losses to be made due to investment in financial assets which suffer a diminution in value over the period that they are invested in. The Fund is not exposed to market price risk since there are no investments in the portfolio as at 31 December 2010.

**Credit risk**

The Fund takes on exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. It is the Fund's policy only to enter into financial instruments with reputable counterparties. Therefore, the Fund does not expect to incur material credit losses on its financial instruments.

The Fund is also exposed to risk from default by brokers who carry out trading in financial assets. The Fund mitigates this risk by employing reputable custodians and trading in low to medium risk markets and countries.

As at 31 December 2010, the value of assets subject to credit risk was as follows:

	<b>USD</b>
Cash and cash equivalents	1,017,025

**Interest rate risk**

The majority of the Fund's financial assets are non interest bearing. As a result, the Fund is not subject to significant risk due to fluctuations in the prevailing levels of market interest rates. As such a sensitivity analysis of the effect has not been prepared.

The underlying investment assets of the Fund may be exposed to interest rate risk, however it is not possible to quantify this indirect interest rate risk of the Fund.

The table below summarises the Funds exposure to interest rate risk:

**SPITFIRE ARABIAN PROPERTY RECOVERY FUND**

**Notes to the Financial Statements from 1 October 2009 (Date of the commencement of operations) to 31 December 2010**

**13. Risks associated with financial instruments (continued)**

At 31 December 2010	Fixed	Less than one month	Non-interest bearing	Total USD
<b>Assets</b>				
Debtors	-	-	16,301	16,301
Cash and cash equivalents:	-	1,017,025	-	1,017,025
<b>Total assets</b>	-	1,017,025	16,301	1,033,326
<b>Liabilities</b>				
Creditors	-	-	55,534	55,534
Net assets attributable to holders of redeemable participating preference shares	-	-	977,792	977,792
<b>Total liabilities</b>	-	-	1,033,326	1,033,326

**Liquidity risk**

It is the Fund's policy to invest into an investment portfolio of regulated schemes which deal on a regular basis and are considered generally readily realisable. The Fund's liquidity risk is managed through diversification of the investment portfolios and by maintaining a portion of its assets as cash. During the period, no investments were done and all assets were kept in cash.

In accordance with the Fund's policy, the Investment Manager monitors the Fund's liquidity position on a daily basis, and the Board of Directors reviews it on a regular basis.

All amounts included in creditors at the balance sheet date are payable within three months.

As described in note 6 to the financial statements, the Fund's redeemable shares are redeemable at the shareholder's option for cash equal to a proportionate share of the Fund's net asset value. The Fund is therefore potentially exposed monthly redemptions by its shareholders.

The number of shares of the Fund which can be redeemed in any month is limited to 5% of the total net asset value of the Fund.

**Currency risk**

The Fund is exposed to currency risk through allowing investment via currency classes which are not denominated in the functional currency of the Fund. The Fund is also permitted to invest in underlying assets which may be denominated in currencies which are different from the functional currency of the Fund.

The underlying investment assets of the Fund may be exposed to currency risk; however it is not possible to quantify this indirect currency risk exposure of the Fund.

In order to mitigate currency risk the directors have appointed an Investment Advisor who ensures that the currency classes and any non-base currency assets are fully hedged on a monthly basis. This is achieved by the taking out of monthly forward foreign currency contracts which mirror the value of the non-base currency assets thus mitigating the risk from currency movements.

**SPITFIRE ARABIAN PROPERTY RECOVERY FUND**

**Notes to the Financial Statements from 1 October 2009 (Date of the commencement of operations) to 31 December 2010**

**13. Risks associated with financial instruments (continued)**

**Currency risk (continued)**

Open forward currency contracts in place at the balance sheet date are shown in note 9.

The Fund does not hold foreign currency denominated assets and liabilities at the reporting date.

The foreign exchange gain on revaluation of assets and liabilities (other than investments at fair value through profit or loss) during the period is USD 519.

**14. Subsequent Events**

After the reporting period, the board of director's through a resolution dated 2 November 2011 agreed to close the Fund as at 31 October 2011. The decision was taken due to the diminutive size of the Fund which made it uneconomical to operate and maintain. The letter informing the shareholders was issued on 25 October 2011. The final redemption payment was paid in cash on 19 April 2012 to the investors.

	GBP Class		EUR Class	
	GBP	USD	EUR	USD
Grange Nominees Ltd	306,086	492,401	304,361	421,753

The published Net Asset Value per share as of 31 October 2011 was as follows:

Share Class	31 October 2011	
	FCY	USD
EUR Class	97.08	127.84
GBP Class	97.44	151.34

Following the decision to liquidate the Fund, on 9 December 2011, the Fund requested the delisting of its shares from the Official List of the BSX. This request was granted with effective date 28 December 2011.