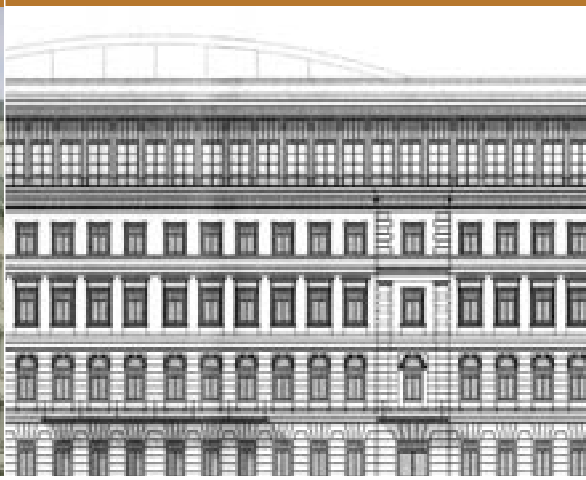
EASTERN PROPERTY HOLDINGS

# Semi-annual Review

*2004*





### Investment Environment

Behind front page articles in the Western press decrying the fate of Russia's formerly largest company, and its formerly (perhaps still) richest man, one of the world's strongest economies continues apace. GDP growth is once again on target to come in over 7% this year, with growth in the five basic sectors (industry, construction, agriculture, transport and retail) up 7.9% y-o-y in 1H04.

Though Yukos, Khodorkovsky, and Russia's fledgling banking system have created nervousness amongst portfolio investors, multinational retailers and service providers, and their domestic Russian counterparts continue to expand their businesses. Office take-up in Moscow is now higher than in the whole of Central Europe and continues to break records - as it has each year since 2000 - with 60% of current demand coming from fast growing Russian companies.

A.T. Kearney's 2004 Global Retail Development Index (GRDI) was released in June (see table below), and for the second year in a row ranked Russia the top target for retail investment among the 30 emerging markets in the study. Of emerging European countries, only Ukraine was seen to have a less saturated retail market than Russia.

Since 2000, annual growth in income levels has averaged between 10% and 15% per annum. Russia, especially a prosperous Russia with a growing middle class, is simply too big a market to ignore.



### Global Retail Development Index

| Country | Country risk economic & political 25% | Market attractiveness[1] 25% | Market saturation[2] 30% | Time pressure 20% | Score[3] |
|---|---|---|---|---|---|
| Russia | 56 | 56 | 77 | 100 | 100 |
| India | 62 | 34 | 92 | 72 | 86 |
| China | 71 | 42 | 62 | 90 | 86 |
| Turkey | 50 | 58 | 67 | 65 | 75 |
| Ukraine | 43 | 32 | 83 | 79 | 73 |
| Hungary | 74 | 52 | 39 | 75 | 70 |
| Poland | 68 | 63 | 34 | 54 | 60 |
| Czech Rep. | 46 | 35 | 75 | 32 | 49 |

(source A.T. Kearney)

key to consider    lower priority    on the radar screen

[1]Market attractivemness is weighted as follows : laws and regulations (5%) population (5%) and retail sales per capita (10%)
[2]Market saturation is weighted as follows : share of modern retailing (10%), modern retail sales area per inhabitant (5%), number of international retailers (10%) and market share of leading retailers (5%)
[3]Total weighted score has been recalculated based on maximum score of 71 for Russia to equal 100

## Semi-annual Review

### Office Market

In the first half of 2004, the supply of international quality office stock (Class A & B) in Moscow reached approximately 3.75 million sqm, of which around 415,000 sqm or 11% is new this year. An optimistic scenario projects international quality space reaching 3.9 million sqm by the end of 2004, out of which Class A space will make up about 24%, or approximately 930,000 sqm. The second reclassification of existing Class A buildings will be carried out by the Moscow Research Forum by the end of the year, so the amount could be even lower.

As we saw in 2003, the financial & investment, legal, and professional services companies have dominated take-up, followed by the energy sector and consumer goods companies. Low vacancy rates of roughly 6%, with just a quarter of that being Class A, have supported a high level of pre-leasing activity. The share of pre-leases in the first quarter of this year was up to 27% from 20% in the same period of 2003 – a reflection of limited quality relocation options.

Rental rates for Class A space in March of this year were up 5.5% from 2003. Considering the increasing construction pipeline, we see rates poised for stabilization or slight growth in the latter half of 2004. Rates for Class A space are currently $475 to $625 per meter per year with prime space costing $575 to $700. Class B rents are currently $300 to $475.

Office market yields are compressing from 13-15% to 12-14% for investment grade properties as the expectations of current owners increase. Yields should further compress to the 10% level over the next 3-5 years.

Other than EPH's acquisition of Berlin House, the market has seen just one other major investment transaction this year. A subsidiary of oil major Lukoil bought a 14-story, 24,500 sqm, Class A building which is still under construction, and includes an adjacent development site for an estimated price of as high as $76 million.
Moscow's high level of owner occupancy, and lack of quality investment products will continue to characterize the office market until at least the end of 2006-7 when a larger volume of quality Class A supply is due to enter the market.

**Retail Market**

As can be expected, no new high street retail is coming to market as there is little or no room for creation of additional space. Shopping centers, however, are being built quickly, and the quality of product is improving.

In the first quarter of 2004, five new shopping centers opened in Moscow, representing 54,900 sqm of Gross Leasable Area (GLA). By the end of this year, we expect another twelve centers to open, adding an additional 460,000 sqm. An optimistic scenario for year-end 2004 would put the total shopping center stock at 1.28 mln sqm GLA.

The average shopping center vacancy rate, in spite of the increased supply, has dropped from 2% in 2003 to levels as low as 0.3% in the early months of 2004. Considering retailer's current active expansion policies, the outlook for the rest of this year is an average vacancy rate at 0.5-1.5%.

Rental rates in shopping centers across Moscow stabilized in the first quarter of 2004, but behind that average, there were declines in rates outside the Garden Ring, and an increase in the Central Business District – where EPH 'S Berlin House is located. At the end of the first quarter, rates in the Central district were up to $1,768 per sqm per year.

## Semi-annual Review

**Berlin House**

EPH's first investment property is an ideal flagship holding: Berlin House's location on Petrovka Street, connecting two pedestrian shopping streets and neighboring the Bolshoi Theatre and Tsum department store, is undeniably prime retail and office space. The building's 7,666 sq.m. of total rentable area is divided between six floors of office space and two of retail. Two underground levels contain 68 parking spaces.

The office space is rented to Reuters and Alcatel, with leases lasting until the end of the decade. The retail tenants are a number of upmarket jewelry and fashion shops and now a Citibank branch.

EPH purchased Berlin House with an unleveraged 13% net operating yield. Along with the possibility of leveraging the property, a project is being explored which would increase net rentable space significantly.



## Semi-annual Review

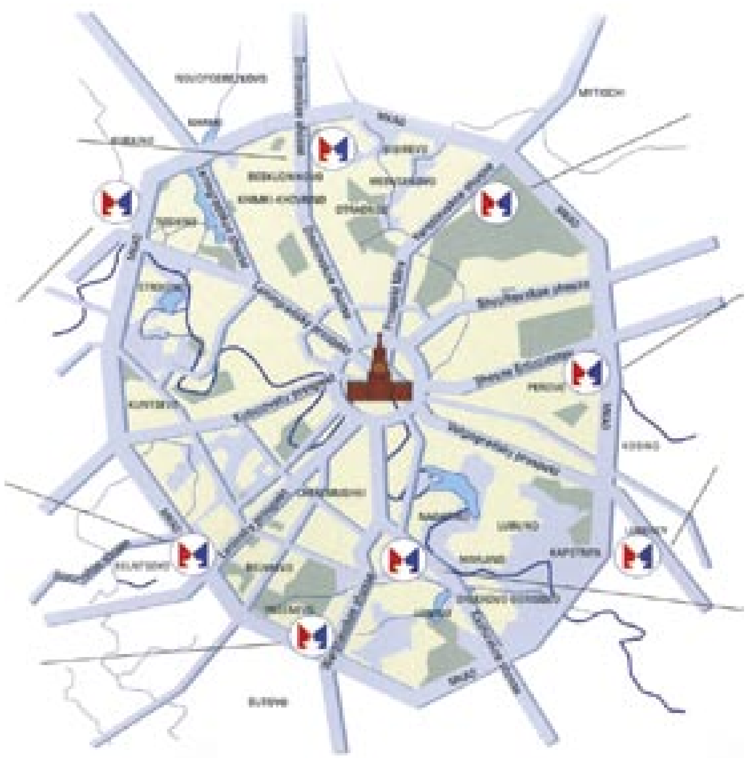
### Mosmart

EPH has taken a 10% stake in Russia's only domestically-owned hypermarket operator. The first Mosmart store opened in June of 2003 and has handily beaten volume and profitability projections. What makes the company uniquely attractive to EPH is that it holds roughly 40 hectares of land in eight sites which will be developed between now and 2006 (see map below). Each site is on a major artery from Moscow's center to the suburbs, and is either inside or near the city's MKAD beltway.

The next two stores to open are now being fitted out and will open in the third quarter. Two more are scheduled for completion in the first quarter of next year. With the eight Moscow stores open sales are projected at just under USD 300million a year. Additional expansion will be outside Moscow, with two pilot projects well into the due diligence process.



### Moscow Locations




МОСМАРТ
ГИПЕРМАРКЕТ

## Financial statements

### Consolidated balance sheet as of June 30, 2004

(with comparative figures as of December 30, 2003 / currency – US Dollars)

| | 30.06.2004 | 31.12.2003 |
|---|---|---|
| **Assets** | | |
| Advance payments for real estate investments (note 4) | 56'068'806 | - |
| Other current assets | 4'197 | - |
| Cash and cash equivalents | 4'765'160 | 32'861'454 |
| **Total Assets** | **60'838'163** | **32'861'454** |
| **Liabilities and shareholders' equity** | | |
| **Non-current liabilities** | | |
| Loan convertible into shares (note 5) | 23'152'260 | 242'624 |
| **Current liabilities** | | |
| Account payable | 217'922 | 242'624 |
| Bank facilities | 19'917 | |
| **Total current liabilities** | 237'839 | 242'624 |
| **Total liabilities** | **23'390'099** | **242'624** |
| **Shareholders'equity** | | |
| Share capital (note 3) | 43'242'207 | 43'242'207 |
| Share premium | 77'116'408 | 76'801'908 |
| Treasury shares (note 3) | (7'068'120) | (12'668'393) |
| Currency translation adjustment | (1'789'838) | (1'789'838) |
| Accumulated deficit | (72'967'054) | (75'045'106) |
| Net income / (loss) for the year | (1'085'539) | 2'078'052 |
| **Total shareholders'equity** | **37'448'064** | **32'618'830** |
| **Total liabilities and shareholders' equity** | **60'838'163** | **32'861'454** |
| Number of shares outstanding | 501'927 | 424'221 |
| **Net asset value per outstanding share** | **74.61** | **76.89** |

## Consolidated income statement for the half year ended June 30, 2004

(with comparative figures of preceding half year period / currency – US Dollars)

| | 1st half 2004 | 1st half 2003 |
|---|---|---|
| **Operating income** | | |
| Dividend / Interest income | 89’556 | 240 |
| Others income | 6’264 | 68’291 |
| **Total operating income** | **95’820** | **68’531** |
| | | |
| **Operating expenses** | | |
| Management fees | (414’068) | - |
| Professional fees | (36’500) | - |
| Bank charges and interest | (21’423) | (7’401) |
| Administrative expenses | (1’891) | (51’673) |
| **Total operating expenses** | **(473’882)** | **(59’074)** |
| **Net operating loss** | **(378’062)** | **9’457** |
| | | |
| **Investment income** | | |
| Net loss from investment in securities | - | - |
| Net loss from foreign currency translation | (707’477) | - |
| **Total investment income** | **(707’477)** | - |
| **Net income / (loss) for the year** | **(1’085’539)** | **9’457** |
| | | |
| Weighted average number of shares outstanding | 432’160 | 3’414 |
| **Earnings per share (note 4)** | | |
| **Basic** | **(2.51)** | **2.77** |
| **Diluted** | **(2.49)** | **-** |

EPH EASTERN PROPERTY HOLDINGS

# Financial statements

## Consolidated Cash flow for the half year ended June 30, 2004

(with comparative figures of preceding half year period / currency – US Dollars)

| | 1st half 2004 | 1st half 2003 |
|---|---|---|
| **Cash flow from operating activities** | | |
| Operating gain for the year | (378'062) | 9'457 |
| Dividend / Interest income | (89'556) | (240) |
| Changes in currents liabilities | (4'785) | (80'815) |
| Changes in currents assets | (4'197) | (627) |
| **Net cash flow from operating activities** | **(476'600)** | **(72'225)** |
| **Cash flow from investing activities** | | |
| Advance payment for real estate investments | (56'068'806) | - |
| Sale of financial investments | - | - |
| Dividend / Interest received | 89'556 | 240 |
| **Net cash flow from investing activities** | **(55'979'250)** | **240** |
| **Cash flow from financing activities** | | |
| Loan convertible into shares | 23'152'260 | - |
| Net sale of own shares | 5'912'873 | (265'385) |
| Net sale of warrants | 1'900 | - |
| **Net cash flow from financing activities** | **29'067'033** | **(265'385)** |
| **Increase in cash and cash equivalents** | **(27'388'817)** | **(337'370)** |
| Cash and cash equivalents, at beginning of the year | 32'861'454 | 521'872 |
| **Net gain from foreign currency translation** | (707'477) | 13'901 |
| **Cash and cash equivalents, as of June 30, 2004** | **4'765'160** | **198'403** |

## Consolidated statement of changes in shareholders' equity

(with comparative figures of preceding year / currency – US Dollars)

| | share capital | treasury shares | share premium | currency translation adjustment | accumulated deficit | shareholders' equity |
|---|---|---|---|---|---|---|
| **Balance 31.12.2000** | **7'207'207** | **(6'791'516)** | **76'849'828** | **(1'789'838)** | **(75'045'106)** | **430'575** |
| Repurchase of own shares/warrants | - | (29'373) | (238'231) | - | - | (267'604) |
| Net income for the year | - | - | - | - | 9'457 | 9'457 |
| **Balance 30.06.2003** | **7'207'207** | **(6'820'889)** | **76'611'597** | **(1'789'838)** | **(75'035'649)** | **172'428** |
| Net repurchase of own shares/warrants | - | (5'847'504) | 130'794 | - | - | (5'716'710) |
| Insuance during the year | 36'035'000 | - | 59'517 | - | - | 36'094'517 |
| Currency translation adjustment | - | - | - | - | 2'068'595 | 2'068'595 |
| **Balance 31.12.2003** | **43'242'207** | **(12'668'393)** | **76'801'908** | **(1'789'838)** | **(72'967'054)** | **32'618'830** |
| Net sale of own shares/warrants | - | 5'600'273 | 314'500 | - | - | 5'914'773 |
| Net loss for the half year | - | - | - | - | (1'085'539) | (1'085'539) |
| **Balance 30.06.2004** | **43'242'207** | **(7'068'120)** | **77'116'408** | **(1'789'838)** | **(74'052'593)** | **37'448'064** |



# Financial statements
## Notes to the consolidated financial statements

### 1. Accounting principles

These interim financial statements were prepared in accordance with International Financial Reporting Standards (IFRS) in compliance with IAS 34 and the additional rules for listing of real estate companies on the SWX Swiss Exchange using the same accounting policies and methods of computation and valuation as used in the financial statements for the year ended December 31, 2003.

### 2. Segment revenue

Currently, the company has only one segment of operation which is real estate and only one geographic segment which is Russia.

### 3. Share capital

**Authorised capital**
The extraordinary shareholders meeting held on June 29, 2004 has decided to change the Company's shares from registered shares with par value of Swiss Franc 100 per share to registered shares without par value. Furthermore, the currency of the company's authorised capital has been changed from Swiss Franc to the currency of the United States of America.



| Authorised capital | **30.06.2004** | **31.12.2003** |
|---|---|---|
| Number of shares | 200,000 | 200,000 |
| Par value per share | without par value | CHF 100 |
| Amount | USD 160,130,000 | CHF 200,000,000 |

**Transactions in treasury shares**

| **Month** | **# of shares purchased** | **Currency** | **Average Price** | **Amount purchased** |
|---|---|---|---|---|
| January | 280 | USD | 74.67 | 20'908 |
| February | 20 | USD | 76.70 | 1'534 |

| **Month** | **# of shares sold** | **Currency** | **Average price** | **Amount sold** |
|---|---|---|---|---|
| January | 1'600 | USD | 75.70 | 121'119 |
| February | 35 | USD | 77.70 | 2'720 |
| March | 2'350 | USD | 78.89 | 185'385 |
| April | 579 | USD | 77.16 | 44'679 |
| June | 73'442 | USD | 76.00 | 5'581'413 |


#### 4. Advance payments for real estate investments

On June 30, 2004, the Company has made a payment of USD 46 million for the purchase of 100% of the capital of Connecta GmbH&Co KG, which is the owner of “Berlin House”, a 14,366 sqm mixed retail and office property located on Petrovka ul, 5/5, Moscow, Russia. Following the payment, the Company took control over Connecta on 1st July 2004.

Furthermore, the Company has made an advance payment of USD 10 million for a participation of 10% in the parent company of of Mosmart LLC, which operates a domestic hypermarket chain in Moscow, and ZAO Hypercenter, which develops and owns commercial real estate. Closing of the investment took place on 1st July 2004.

#### 5. Loan convertible into shares

The Company has been granted a loan by ENR Russia Invest SA, Geneva of USD 23 million which is convertible into shares of EPH at the net asset value as of June 30, 2004.

#### 6. Subsequent events

On July 5th, 2004, the company issued 56,280 new registered shares through a private placement following a preferential subscription rights offering, thereby increasing the Company’s issued shares to 619,097 registered shares.

# Eastern Property Holdings Limited

## Board of directors

Gustav Stenbolt
Serge de Pahlen
Ruben Vardanian
Jan Eckert
Kay Reddy
Philipp LeibundGut

## Domicile

**Eastern Property Holdings Limited**
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Fax +352 2633 75 999
(since July 1st, 2003)

## Auditors

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(since March 2004)

## Real estate manager

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(since September 15th, 2003)

## Custodian

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## Security numbers

1673866 (shares)
1677540 (warrants)

## ISIN numbers

VGG290991014 (shares)
VGG290991196 (warrants)

## Ticker symbol

EPH (shares)
EPHO (warrants)

EASTERN PROPERTY HOLDINGS

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