

**EREDENE CAPITAL PLC**

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INTERIM REPORT 2006

# DIRECTORS AND ADVISERS

## Directors

Christopher Crosthwaite NON-EXECUTIVE CHAIRMAN

Alastair King CHIEF EXECUTIVE

Gary Varley EXECUTIVE DIRECTOR

Sir Christopher Benson NON-EXECUTIVE DIRECTOR

Charles Cayzer NON-EXECUTIVE DIRECTOR

## Advisers

Nominated adviser

Seymour Pierce Limited

Auditors

BDO Stoy Hayward LLP

Solicitors

Faegre & Benson LLP

Ashurst LLP

Registrars

Neville Registrars Limited

## Eredene Capital PLC

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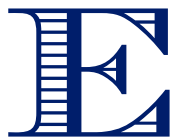
Website: [www.eredene.com](http://www.eredene.com)

## Registered Office

7 Pilgrim Street

London EC4V 7LB

## HIGHLIGHTS



EREDENE CAPITAL PLC (Symbol: ERE), the AIM quoted property company developing Indian real estate, is pleased to announce its interim results for the six month period ended 30 June 2006.

### Highlights

- Announcement in April 2006 of focus on the development of Indian Real Estate.
- Placing raised £57 million to pursue new strategy.
- Saffron Group appointed as adviser.
- Sir Christopher Benson joined Board as Non-Executive Director.
- Loss for the period of £1 million (including a one-off establishment fee paid to Saffron of US\$969,400).
- Cash balance of £57 million as at 30 June 2006.
- Net asset value of £58 million as at 30 June 2006.

### Post period end

- First investment announced in September of £4.23 million for a 50% stake in a project to develop an 800,000 square foot shopping mall complex in Nashik.
- Charles Cayzer appointed as Non-Executive Director.

## CHAIRMAN'S STATEMENT



THE SIX MONTH PERIOD to 30 June 2006 has been one of great importance to the growth and development of Eredene.

During the period, Eredene made a loss of £1.077 million representing 1.34 pence per share (including a one-off establishment fee paid to Saffron of US\$969,400). As at 30 June 2006, Eredene had cash balances of £57.683 million, representing 23.6 pence per share and a net asset value of approximately £58.338 million, representing 23.8 pence per share.

### **Real Estate in India**

On 10 April 2006, Eredene announced it proposed to focus on the development of Real Estate in India. Eredene later announced that it had completed a placing of 228,428,000 shares at 25 pence per share raising £57,107,000 (approximately US\$100,000,000 before expenses) for this purpose.

Your Board was pleased to see a number of high quality institutional investors joining the shareholder register of Eredene or adding to their existing holdings. These investors included GLG Partners LP, Caledonia Investments plc, Henderson Global Investors and the Cayzer Trust.

In line with the strategy, Eredene announced the appointment of the Saffron Group as an adviser. The management of Saffron is respected and experienced in real estate investment and development, with a demonstrated track record in India since the mid-1990s. Although being advised by Saffron, your Board continues to make all Eredene's investment decisions.

### **Macroeconomic outlook for Indian Real Estate**

Eredene has focused on opportunities expected to deliver capital appreciation and which offer a clear exit strategy. Particular attention has been paid to projects in the Tier II and Tier III cities in India, where your Board perceives valuations to be more advantageous for investors than in the larger cities.

Your Board views this strategy as presenting a favourable opportunity to benefit from the current dynamism of the Indian economy, particularly following the liberalisation in 2005 of the Foreign Direct Investment regulations in the Indian real estate sector.

India is the second most populated country in the world and its largest democracy. It is the fourth largest economy in the world on the basis of purchasing power parity, behind the United States, China and Japan. Economic reforms have been one of the key factors in driving India's recent growth. The Indian real estate market remains highly fragmented and your Board continues to believe there are substantial opportunities and scope for further development in the Indian real estate market.

# CHAIRMAN'S STATEMENT

CONTINUED

## **Directors' purchases**

The Chief Executive, Alastair King, and I took the opportunity to add to our already substantial respective holdings in Eredene by participating in the April 2006 capital raising. Together with Sir Christopher Benson, we subscribed for a total of 800,000 shares having in aggregate a value of £200,000.

Further, two of the senior officers of Saffron, Ajoy Kapoor and Rohin Shah and their families participated in the capital raising and subscribed for a total of 1,400,000 shares having in aggregate a value of £350,000.

## **Strengthened team**

During the period, the team at Eredene has been strengthened considerably. With effect from 10 May 2006, Sir Christopher Benson joined the Board. Sir Christopher has been involved in real estate investment and development throughout his career. He gained significant development experience when with Arndale, which was followed by his appointment as Managing Director of Metropolitan Estates and Property Company (MEPC). In addition, he has been Chairman of MEPC, Royal and Sun Alliance, Boots the Chemist, Costain and Albright & Wilson. He has also served as Chairman of the London Docklands Development Corporation.

We are also pleased that Ranveer Sharma has joined our team as a Senior Associate. Ranveer was previously with Citibank and ING Vysya Bank in India and holds an MBA from the London Business School.

## **Post balance sheet events**

Two important events have occurred in relation to Eredene following the end of the period in June.

### **First investment**

On 11 September 2006, Eredene announced that it had invested £4.23 million (Indian Rupees 372 million) for a 50% stake in an SPV (Special Purpose Vehicle) developing an 800,000 square foot shopping mall complex at a prime site in Nashik. This is Eredene's first investment into an Indian real estate project.

Nashik is a growing Tier II city and commercial centre in Maharashtra State, India. Letters of Intent/Memoranda of Understanding have already been received for approximately 39% of the available space to let. Many of these have been entered into with leading Indian retailers, including with anchor tenants.

## CHAIRMAN'S STATEMENT

CONTINUED

Eredene's joint venture partner in the SPV is a well established business family with considerable experience in real estate development in Nashik.

This investment was referred to as a potential project in Eredene's Admission Document dated 10 April 2006. The project will be the first international standard shopping mall complex in Nashik and is due for completion in 2008.

### *Additional Director*

We are delighted to report that Charles Cayzer has agreed to join the board of Eredene with immediate effect. Charles Cayzer is an Executive Director of Caledonia Investments plc ("Caledonia"), one of the largest investment trusts listed on the London Stock Exchange. Having gained experience of merchant banking, commercial banking and corporate and project finance with Baring Brothers, Cayzer Irvine & Co and Cayzer Ltd, Charles was appointed a director of Caledonia in 1985, where he has responsibility for Caledonia's real estate investments.

### **Conclusion**

With the new strategy, a strong advisory team, continuing dynamic economic fundamentals in India, a strengthened Eredene team and with the work of building our portfolio starting to show results, your board looks forward to the remainder of the financial year with confidence.

Christopher Crosthwaite

NON-EXECUTIVE CHAIRMAN

## GROUP PROFIT AND LOSS ACCOUNT

FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2006

	Note	Six months ended 30 Jun 2006 (unaudited) £000	Period from 12 Jan 2005 to 30 Jun 2005 (unaudited and restated) £000	Period from 12 Jan 2005 to 31 Dec 2005 (audited and restated) £000
Turnover		-	-	-
Cost of sales		-	-	-
Gross profit		-	-	-
Administrative expenses		<b>(1,482)</b>	(165)	(450)
<b>Operating loss</b>		<b>(1,482)</b>	(165)	(450)
Interest receivable		<b>405</b>	42	121
<b>Loss on ordinary activities before taxation</b>		<b>(1,077)</b>	(123)	(329)
Taxation	2	-	-	-
<b>Loss on ordinary activities after taxation</b>		<b>(1,077)</b>	(123)	(329)
Loss per share – basic and diluted	3	<b>(1.34)p</b>	(0.91)p	(2.20)p

All amounts relate to continuing activities.

For details of prior period restatement, relating to FRS 20 Share based payments, see Note 7.

# GROUP BALANCE SHEET

AS AT 30 JUNE 2006

	Note	At 30 Jun 2006 (unaudited) £000	At 30 Jun 2005 (unaudited and restated) £000	At 31 Dec 2005 (audited and restated) £000
<b>Current assets</b>				
Debtors: Due within one year		<b>488</b>	14	11
Debtors: Due after more than one year		<b>274</b>	–	–
Cash at bank		<b>57,683</b>	3,845	3,724
		<b>58,445</b>	3,859	3,735
<b>Current liabilities</b>				
Creditors: Amounts falling due within one year		<b>(107)</b>	(60)	(104)
<b>Net assets</b>		<b>58,338</b>	3,799	3,631
<b>Capital and reserves</b>				
Called up share capital	4	<b>24,473</b>	1,630	1,630
Share premium account		<b>35,111</b>	2,265	2,268
Profit and loss reserve		<b>(1,246)</b>	(96)	(267)
<b>Shareholders' funds</b>	5	<b>58,338</b>	3,799	3,631

## GROUP CASH FLOW STATEMENT

FROM 1 JANUARY 2006 TO 30 JUNE 2006

	Note	Period from 1 Jan 2006 to 30 Jun 2006 (unaudited) £000	Period from 12 Jan 2005 to 30 Jun 2005 (unaudited and restated) £000	Period from 12 Jan 2005 to 31 Dec 2005 (audited and restated) £000
Net cash outflow from operating activities	6	<b>(2,132)</b>	(92)	(295)
Returns on investments and servicing of finance:				
Interest received		<b>405</b>	42	121
Net cash inflow from returns on investments and servicing of finance		<b>405</b>	42	121
Financing:				
Issue of shares		<b>57,107</b>	4,000	4,000
Cost of issue of shares		<b>(1,421)</b>	(105)	(102)
Net cash inflow from financing		<b>55,686</b>	3,895	3,898
<b>Increase in cash</b>		<b>53,959</b>	3,845	3,724

**STATEMENT OF TOTAL  
RECOGNISED GAINS AND LOSSES**

FROM 1 JANUARY 2006 TO 30 JUNE 2006

	Period from 1 Jan 2006 to 30 Jun 2006 (unaudited) £000	Period from 12 Jan 2005 to 30 Jun 2005 (unaudited and restated) £000	Period from 12 Jan 2005 to 31 Dec 2005 (audited and restated) £000
Loss for the period	<b>(1,077)</b>	(123)	(329)
Share option expenses under FRS 20 credited to profit and loss reserve	<b>98</b>	27	62
Total recognised gains and losses for the period	<b>(979)</b>	(96)	(267)

## NOTES TO THE INTERIM REPORT

### **1. Basis of preparation**

The interim accounts for the period ended 30 June 2006 are unaudited and do not constitute statutory accounts in accordance with section 240 of the Companies Act 1985.

The interim accounts have been prepared in accordance with applicable accounting standards and under the historical cost convention. The interim accounts have been prepared on the basis of the accounting policies set out in the Company's 2005 Financial Statements with the exception of the policy on Share Option Plans. Financial Reporting Standard ("FRS") 20 "Share-based payment" has been adopted with effect from 1 January 2006, as required by the Standard. For further details see note 7.

### **2. Taxation**

There is no tax charge for the period due to the loss arising. Deferred tax assets are only recognised when it is more likely than not that they will be recovered.

### **3. Loss per share**

The calculation of the basic and diluted loss per share is based on the loss for the period of £1,077,000 and the weighted average number of shares in issue during the period of 80,663,691. The effect of all potential ordinary shares under option is anti-dilutive.

# NOTES TO THE INTERIM REPORT

## CONTINUED

### 4. Called up share capital

	At 30 Jun 2006 (unaudited) £000	At 30 Jun 2005 (unaudited) £000	At 31 Dec 2005 (audited) £000
Authorised			
Ordinary shares of 10p each	40,000	3,500	3,500
Allotted, called up and fully paid			
Ordinary shares of 10p each	24,473	1,630	1,630

The Company was incorporated on 12 January 2005 with an authorised share capital of £100,000 divided into 100,000 ordinary shares of £1 each of which two shares were issued at par nil paid. On 21 January 2005 both subscriber shares were fully paid up.

On 21 January 2005 the share capital of the Company, issued and unissued, was sub-divided and increased so as to comprise 35,000,000 ordinary shares of 10 pence each.

On 28 January 2005, 499,980 ordinary shares of 10 pence each were issued at par.

On 10 February 2005, 15,800,000 ordinary shares of 10 pence each were issued at 25 pence each.

On 4 May 2006, the share capital of the Company, issued and unissued, was increased so as to comprise 400,000,000 ordinary shares of 10 pence each.

On 10 May 2006, 228,428,000 ordinary shares of 10 pence each were issued at 25 pence each.

# NOTES TO THE INTERIM REPORT

CONTINUED

## 5. Reconciliation of movements in equity shareholders' funds

	Period from 1 Jan 2006 to 30 Jun 2006 (unaudited) £000	Period from 12 Jan 2005 to 30 Jun 2005 (unaudited and restated) £000	Period from 12 Jan 2005 to 31 Dec 2005 (audited and restated) £000
Opening shareholders' funds	<b>3,631</b>	–	–
Shares issued (net of flotation expenses)	<b>55,686</b>	3,895	3,898
Share option expenses under FRS 20 credited to profit and loss reserve	<b>98</b>	27	62
Loss for period	<b>(1,077)</b>	(123)	(329)
Closing shareholders' funds	<b>58,338</b>	3,799	3,631

## 6. Reconciliation of operating loss to net cash outflow from operating activities

	Period from 1 Jan 2006 to 30 Jun 2006 (unaudited) £000	Period from 12 Jan 2005 to 30 Jun 2005 (unaudited and restated) £000	Period from 12 Jan 2005 to 31 Dec 2005 (audited and restated) £000
Operating loss	<b>(1,482)</b>	(165)	(450)
Increase in debtors	<b>(751)</b>	(14)	(11)
Increase in creditors	<b>3</b>	60	104
Increase in FRS 20 share option expenses	<b>98</b>	27	62
Net cash outflow from operating activities	<b>(2,132)</b>	(92)	(295)

# NOTES TO THE INTERIM REPORT

CONTINUED

## **7. FRS 20 Share based payments**

Financial Reporting Standard (“FRS”) 20 “Share-based payments” has been adopted with effect from 1 January 2006, as required by the Standard.

FRS 20 requires that the fair value of equity-settled share-based payments, such as share option awards, is determined at the date of grant and is expensed on a straight-line basis over the vesting period based on the Company’s estimate of the options that will eventually vest. In the case of options granted, fair value is measured by a Black-Scholes pricing model.

Prior to 1 January 2006, the Company accounted for Share Options under the provisions of UITF Abstract 17 which required that a charge be made to the profit and loss account based on the difference between the market value of the Company’s shares at the date of grant and the option exercise price.

The effect of applying FRS 20 in the six months ended 30 June 2006 was to increase the loss for the period by £98,000. The effect on cash balances, net assets and retained reserves was nil as the credit entry is charged to the profit and loss reserve.

Comparative figures for the period ended 30 June 2005 and the period ended 31 December 2005 have been restated to reflect the adoption of FRS 20. This has the effect of increasing administrative expenses by £27,000 and £62,000 respectively. There is no effect on cash balances, net assets and retained reserves as the credit entry was charged to the profit and loss reserve.

## **8. Interim report**

Copies of this interim report will be sent to shareholders. Further copies are available from the Company’s registered office at 7 Pilgrim Street, London EC4V 6LB.



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